

COUNTY OF SANTA CLARA

Single Audit Reports

Basic Financial Statements with
Federal Compliance Section

For the Fiscal Year Ended June 30, 2012



Certified Public Accountants.

COUNTY OF SANTA CLARA
Single Audit Reports
For the Fiscal Year Ended June 30, 2012

Table of Contents

	<i>Page</i>
FINANCIAL SECTION:	
Independent Auditor's Report.....	1
Management's Discussion and Analysis (Required Supplementary Information – Unaudited).....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	21
Statement of Activities.....	22
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	24
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Assets – Governmental Activities.....	25
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-wide Statement of Activities – Governmental Activities.....	27
Proprietary Funds:	
Statement of Fund Net Assets.....	28
Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	29
Statement of Cash Flows.....	30
Fiduciary Funds:	
Statement of Fiduciary Net Assets.....	32
Statement of Changes in Fiduciary Net Assets.....	33
Notes to the Basic Financial Statements.....	35
Required Supplementary Information (Other than Management's Discussion and Analysis - Unaudited):	
Schedule of Funding Progress.....	105
Budgetary Comparison Schedule - General Fund - Budgetary Basis.....	107
Notes to Required Supplementary Information.....	118

COUNTY OF SANTA CLARA
Single Audit Reports
For the Fiscal Year Ended June 30, 2012

Table of Contents (Continued)

	<i>Page</i>
FEDERAL COMPLIANCE SECTION:	
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 <i>Government Auditing Standards</i>	119
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.....	121
Schedule of Expenditures of Federal Awards.....	123
Notes to the Schedule of Expenditures of Federal Awards	129
Schedule of Findings and Questioned Costs	135
Summary Schedule of Prior Audit Findings.....	141

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

Independent Auditor's 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, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Housing Authority of the County of Santa Clara; 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/fund balances and revenues/additions of the following opinion units as of and for the fiscal year ended June 30, 2012:

Opinion Unit	Assets and Deferred Outflows	Net Assets/ Fund Balances	Revenues/ Additions
Governmental activities	2.9%	9.2%	4.2%
Business-type activities	0.6%	1.4%	0.2%
Aggregate discretely presented component units	100.0%	100.0%	100.0%
Aggregate remaining fund information	1.6%	1.6%	0.9%

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 aggregate remaining fund information of the County as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2013 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 and other auditors 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 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. 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

 Macias Gini & Connell LLP

Walnut Creek, California

January 25, 2013, except for our report on the schedule of expenditures of federal awards for which the date is March 27, 2013

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, 2012. 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 \$1.60 billion (*net assets*) at June 30, 2012. Of this amount, \$176.6 million (*unrestricted net assets*) may be used to meet the County's ongoing obligations to its citizens and creditors and \$429.8 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 \$999.0 million. (See further detail in Table 1 on page 6).

The County's total net assets decreased by \$26.7 million for the year. (See further detail in Table 2 on page 10).

At June 30, 2012, the County governmental funds reported combined fund balances of \$723.1 million, an increase of \$25.4 million from the prior year. Approximately 40.1 percent of the combined fund balances, \$289.8 million, is available to meet the County's current and future needs.

The County's investments in capital assets increased by \$130.1 million or 7.1 percent. (See further detail in Table 5 on page 18).

The County's total long-term debt, net of retirements of \$61.1 million and additions of \$18.3 million for the year, decreased by \$42.8 million or 2.5 percent during the current fiscal year. (See further detail in Table 6 on page 19).

At June 30, 2012, the County's unassigned fund balance for the General Fund was \$201.7 million, 11.1 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 25 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, 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 – 103 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 105 - 118 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 119 - 181 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The County's assets exceeded its liabilities by \$1.60 billion (*net assets*) at June 30, 2012. 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	
	2011	2012	2011	2012	2011	2012	Dollar Change	Percent Change
Current and other assets	\$ 1,992,097	\$ 1,990,384	\$ 521,356	\$ 332,666	\$ 2,513,453	\$ 2,323,050	\$ (190,403)	-7.6%
Capital assets	1,070,707	1,095,740	764,721	869,772	1,835,428	1,965,512	130,084	7.1%
Total assets	3,062,804	3,086,124	1,286,077	1,202,438	4,348,881	4,288,562	(60,319)	-1.4%
Deferred outflows on derivative instrument	-	-	12,679	26,832	12,679	26,832	14,153	111.6%
Total assets and deferred outflows on derivative instruments	3,062,804	3,086,124	1,298,756	1,229,270	4,361,560	4,315,394	(46,166)	-1.1%
Current and other liabilities	397,238	335,706	157,362	124,411	554,600	460,117	(94,483)	-17.0%
Long-term liabilities	1,557,191	1,635,948	604,868	586,956	2,162,059	2,222,904	60,845	2.8%
Noncurrent derivative instrument liabilities	-	-	12,679	26,832	12,679	26,832	14,153	111.6%
Total liabilities	1,954,429	1,971,654	774,909	738,199	2,729,338	2,709,853	(19,485)	-0.7%
Net assets:								
Invested in capital assets, net of related debt	851,562	875,610	279,321	401,591	960,230	999,051	38,821	4.0%
Restricted net assets	396,644	428,846	267,510	141,681	397,877	429,847	31,970	8.0%
Unrestricted net assets	(139,831)	(189,986)	(22,984)	(52,201)	274,115	176,643	(97,472)	-35.6%
Total net assets	\$ 1,108,375	\$ 1,114,470	\$ 523,847	\$ 491,071	\$ 1,632,222	\$ 1,605,541	\$ (26,681)	-1.6%

In accordance with GASB guidance, the County reclassified \$140.7 million of the primary government's total net assets amounts from restricted to unrestricted and \$278.1 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 84 of this report.

Assets

The County's total assets and deferred outflows on derivative instruments decreased \$46.2 million or 1.1 percent primarily due to the following:

Governmental activities. Total assets for the governmental activities increased by \$23.3 million or 0.8 percent mainly because of increases of \$28.9 million in cash and investments, \$26.2 million in due from other governmental agencies and \$26.3 million in nondepreciable assets. These were offset by decreases of \$33.4 million in securities lending, \$7.1 million in net receivables and \$20.0 million in restricted cash.

The increase in unrestricted cash resulted from improvements in the cash positions of numerous County programs, including \$15.4 million in additional housing permit fees revenues and of \$10.5 million from the execution of a park trail agreement negotiated between the County and Stanford University.

The increase in due from other governmental agencies is due to increases in the amount \$11.4 million due to extended collection periods on Medi-Cal and Medi-Care health care billings, \$5.3 million for public safety sales tax due to an improved economy, and \$3.2 million due to net increase in the estimated receivable payments on the previous land sale to the Milpitas Redevelopment Agency as discussed in Note 4. Also, the County had a \$2.8 million increase for Superior Court security cost receivable and a \$1.4 million increase for Mental Health program receivable because the State through its 2011 State Realignment changed the funding source of these programs from being funded through a direct charge for service to being funded by the State program funds.

Capital assets increased \$25.0 million or 2.3 percent. Non-depreciable capital assets increased by \$26.3 million; whereas, depreciable capital assets decreased by \$1.3 million. Changes in capital assets will be discussed in the Capital Assets section on page 17 and Note 6 on page 62.

The County did not have a securities lending balance at June 30, 2012, unlike the prior year, due to investment timing.

The decrease in net receivables is because of a decrease in property tax receivable of \$12.6 million which was due primarily to improved collection activity from an improving economy net of an increase of \$7.5 million for housing permit fee receivables.

The decrease in restricted cash is mainly due to the use of prior years' accumulated property taxes to make \$18.1 million in debt service payments on the County's general obligation bonds. In FY2012, the County decreased its estimated property tax rate for current fiscal year collection to 0.47 percent from 0.95 percent in the prior year.

Business-type activities. Total assets and deferred outflows for the business-type activities increased by \$69.5 million or 5.3 percent. Current and other assets decreased \$188.7 million, capital assets increased \$105.1 million, and deferred outflows on derivative instruments increased \$14.2 million.

The decrease in current and other assets was mainly due to reductions in restricted cash and investments of \$129.9 million, net receivables of \$33.0 million, and due from other governmental agencies of \$19.9 million.

Restricted cash and investments decreased by \$129.9 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 \$33.0 million due to lower volume and a less favorable payor mix. Due from other governmental agencies decreased by \$19.9 million is due to 1115 Waiver adjustments made after the State concluding the FY 2006 to FY 2009 audits and the California Association of Public Hospitals and Health Systems guidance to public hospitals to review its receivables based on the State's audit results.

Changes in capital assets will be discussed in the Capital Assets section on page 17 and Note 6 on page 62.

Liabilities

The County's total liabilities decreased by \$19.5 million or 0.7 percent mainly due to the following:

Governmental activities. Total liabilities for the governmental activities increased by \$17.2 million or 0.9 percent due to an increase of noncurrent liabilities of \$78.8 million offset by a decrease in current and other liabilities of \$61.5 million.

The increase in noncurrent liabilities results primarily from an addition of \$88.3 million in the County's Other Post Employment Benefits (OPEB) liability because the County's contribution was less than the annual required contribution. Additionally, the County issued qualified energy conservation bonds in the amount of \$3.6 million.

The decrease in current and other liabilities mainly occurred in the following account balances: a decrease of \$42.8 million in accrued salaries and benefits, \$33.4 million in securities lending as discussed earlier, \$10.1 million in accrued liabilities, and \$10.5 million in short term debt. These were offset by increases of \$13.7 million in accounts payable and \$13.3 million in unearned revenue.

The decrease in accrued salaries and benefits was because the timing of the payroll calendar resulted in the number of days accrued decreasing by 12 days in FY2012 compared to FY2011.

The decrease in other accrued liabilities is due to a reduction in amounts because of the timing of payments to mental health contractors of \$7.4 million and a \$1.3 million decrease in interest owed the County's commingled pool participants.

The decrease in short term debt is from a decrease in the property tax loan payable (Teeter Financing) which is a loan against taxes receivable. This decrease correlates with the decrease in the corresponding taxes receivable balance.

The increase in accounts payable is mainly due to a reduction in the amounts owed to vendors due to the accelerated timing of payments compared to the prior year.

The increase in unearned revenue is due to increases of \$5.9 million related to property tax, \$1.0 million related to redevelopment agencies' wind down residual amounts pending State review and concurrence and \$2.0 million for software license related funding received which applies to future periods.

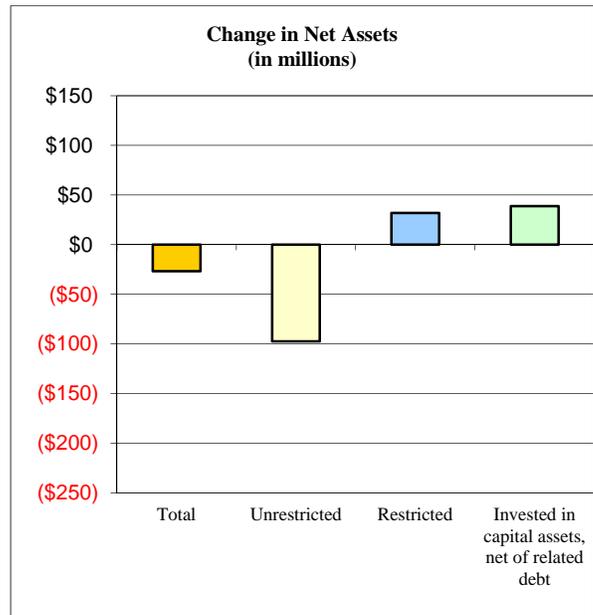
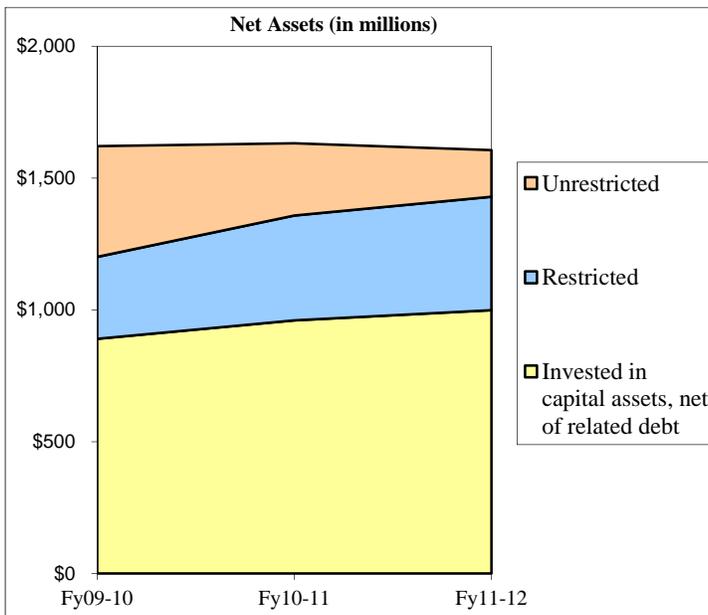
Business-type activities. Total liabilities for the business-type activities decreased by \$36.7 million or 4.7 percent. Long term liabilities decreased by \$17.9 million mainly because of scheduled debt service payments. Current and other liabilities also decreased of \$33.0 million due mainly to the timing of construction project accruals. In the prior year SCVMC accrued over \$24.8 million for bond funded projects including the Seismic Safety Project for the Replacement Bed Building 1 whereas in FY 2012, the bond funded project accruals totaled \$4.6 million.

Net Assets

The County's unrestricted net assets of \$176.6 million (11.0 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 \$999.1 million (62.2 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 \$429.8 million (26.8 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 \$189.9 million and \$52.2 million in unrestricted net asset category of its governmental and business-type activities, respectively. The negative unrestricted net assets balances were offset on the County-wide level through reclassifications of \$140.7 million from restricted and \$278.1 million from invested in capital assets net of related debt.

The County's net assets decreased by \$26.7 million (1.6 percent) for the year. This change in net assets is explained below in the context of the County's governmental and business-type activities.

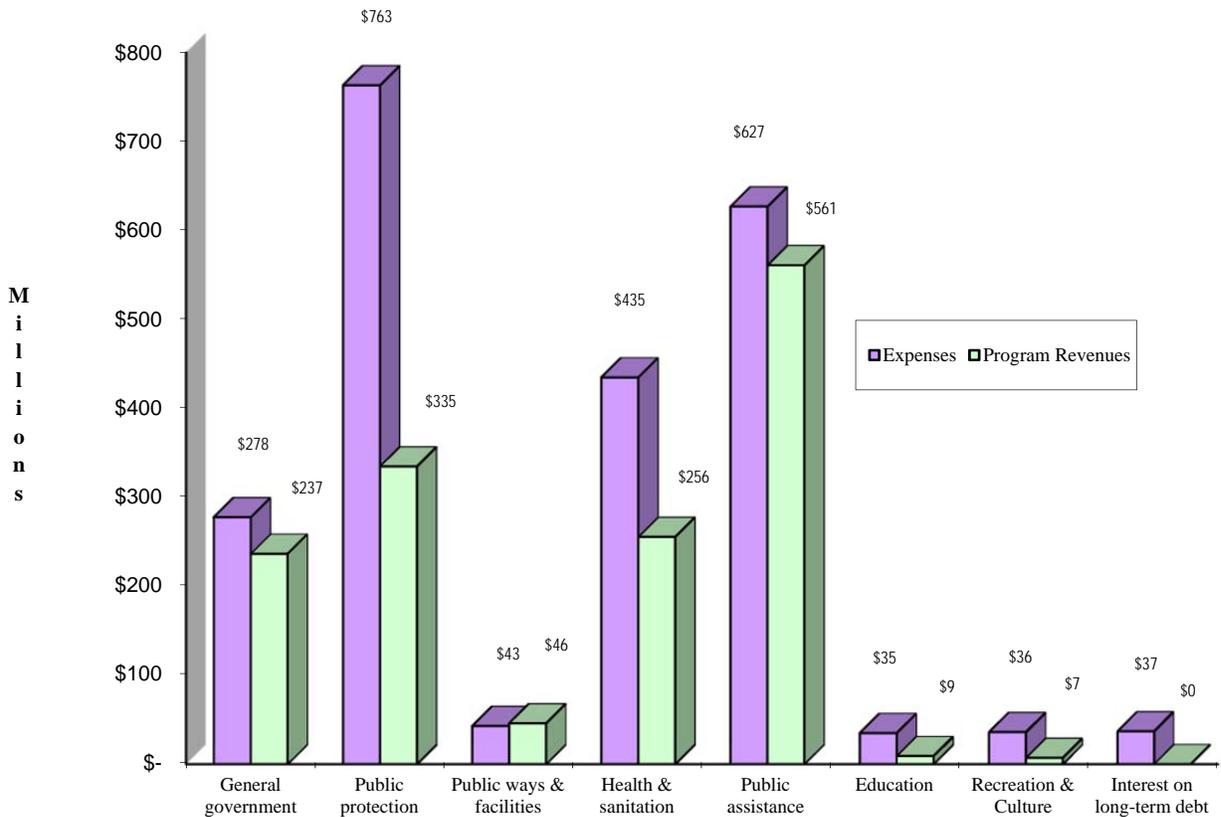


Governmental activities

The governmental activities increased the County’s net assets by \$6.1 million. Revenues exceeded expenses by \$129.4 million. In addition, net transfers of \$123.3 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 Activities		Business-type Activities		Total		Total	
	2011	2012	2011	2012	2011	2012	Dollar Change	Percent Change
	Revenues:							
Program revenues:								
Charges for services	\$ 284,299	\$ 266,010	\$ 831,290	\$ 780,736	\$ 1,115,589	\$ 1,046,746	\$ (68,843)	(6.2%)
Operating grants and contributions	1,197,334	1,178,881	113,466	112,007	1,310,800	1,290,888	(19,912)	(1.5%)
Capital grants and contributions	7,722	5,860	7,503	7,589	15,225	13,449	(1,776)	(11.7%)
General revenues:								
Property taxes	774,406	775,768	-	-	774,406	775,768	1,362	0.2%
Sales and use taxes	4,911	5,284	8,692	8,692	13,603	13,976	373	2.7%
Other taxes	49,683	38,163	-	-	49,683	38,163	(11,520)	(23.2%)
Unrestricted grants & contributions	28,787	23,260	-	-	28,787	23,260	(5,527)	(19.2%)
Unrestricted investment income	15,840	21,411	2,166	1,456	18,006	22,867	4,861	27.0%
Securities lending activities	12	9	-	-	12	9	(3)	(25.0%)
Gain on sale of capital assets	1,785	3,361	-	-	1,785	3,361	1,576	88.3%
Other revenue	68,877	63,889	-	-	68,877	63,889	(4,988)	(7.2%)
Total revenues	2,433,656	2,381,896	963,117	910,480	3,396,773	3,292,376	(104,397)	(3.1%)
Program expenses:								
General government	289,001	278,128	-	-	289,001	278,128	(10,873)	(3.8%)
Public protection	783,309	763,368	-	-	783,309	763,368	(19,941)	(2.5%)
Public ways and facilities	52,860	42,508	-	-	52,860	42,508	(10,352)	(19.6%)
Health and sanitation	427,805	434,700	-	-	427,805	434,700	6,895	1.6%
Public assistance	688,475	626,696	-	-	688,475	626,696	(61,779)	(9.0%)
Education	33,283	34,455	-	-	33,283	34,455	1,172	3.5%
Recreation and culture	34,860	35,462	-	-	34,860	35,462	602	1.7%
Interest on long-term liabilities	41,198	37,176	-	-	41,198	37,176	(4,022)	(9.8%)
SCVMC	-	-	1,028,854	1,061,127	1,028,854	1,061,127	32,273	3.1%
Airport	-	-	3,516	3,351	3,516	3,351	(165)	(4.7%)
Sanitation District	-	-	2,577	2,086	2,577	2,086	(491)	(19.1%)
Total expenses	2,350,791	2,252,493	1,034,947	1,066,564	3,385,738	3,319,057	(66,681)	(2.0%)
Excess (deficiency) before transfers	82,865	129,403	(71,830)	(156,084)	11,035	(26,681)	(37,716)	(341.8%)
Transfers	(89,638)	(123,308)	89,638	123,308	-	-	-	
Change in net assets	(6,773)	6,095	17,808	(32,776)	11,035	(26,681)	(37,716)	(341.8%)
Net assets, beginning of year	1,115,148	1,108,375	506,039	523,847	1,621,187	1,632,222	11,035	0.7%
Net assets, end of year	\$ 1,108,375	\$ 1,114,470	\$ 523,847	\$ 491,071	\$ 1,632,222	\$ 1,605,541	\$ (26,681)	(1.6%)

Revenues

The County's governmental activities' revenues decreased \$51.8 million or 2.1 percent to \$2.4 billion. The program revenues decreased by \$38.6 million or 2.6 percent, while general revenues decreased by \$13.2 million or 1.4 percent. Over the past three years, the County's program revenues from its governmental activities have contributed about 62.7 percent of the cost of running those governmental programs. The general revenues support the programs by covering the remaining 37.3 percent 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 81.7 percent of the County's program revenues and about 50.8 percent of its total revenues. For the year, revenues from grants and contributions decreased by \$20.3 million or 1.7 percent. The grant and contribution amounts decreased \$18.4 million in operating grants and \$1.9 million in capital grants. The reasons for these changes will be discussed in the governmental funds area.

Revenues from charges for services decreased \$18.3 million or 1.2 percent, mainly due to the 2011 realignment of revenues by the State. In lieu of the Court's reimbursement of its security costs as a charge for services revenue category, the State changed the revenue source of these reimbursements to a grant from the State. This decrease was offset by increases of \$2.5 million for property tax administration fee charges to cities and other taxing jurisdictions for its allocation of reimbursement towards the County's new property tax system and of \$1.6 million for hazardous materials permits fees as the County received a full year of fees in the current year. Additional information on these changes will be discussed in the governmental funds area.

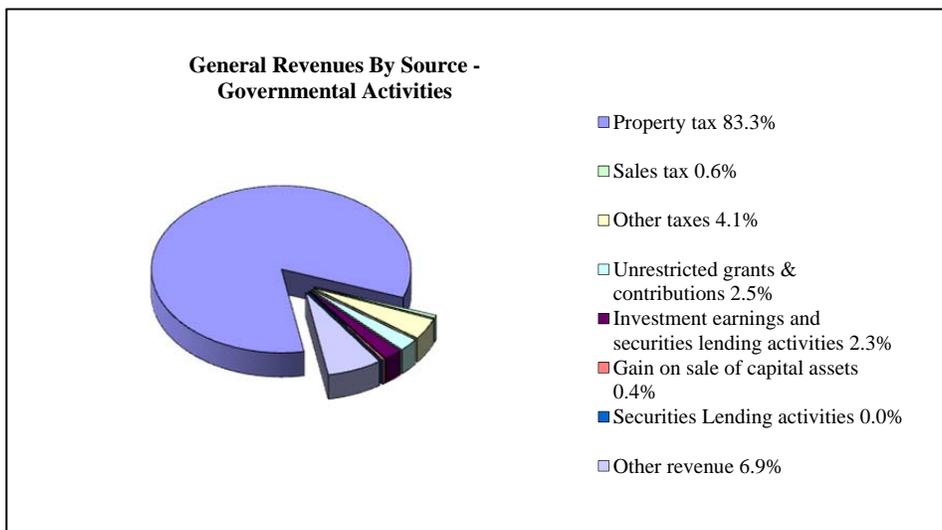
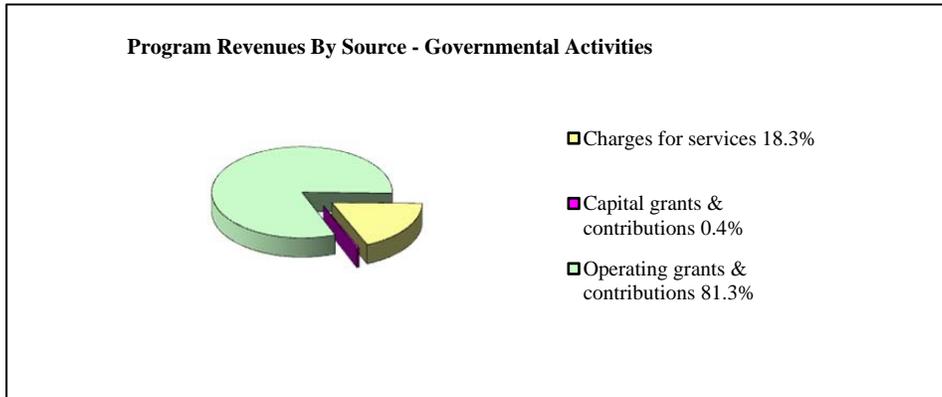
The County's governmental activities' general revenues decreased by \$13.2 million or 1.4 percent. General revenues are not directly related to governmental programs and include: taxes (property, business, and sales),

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 \$819.2 million in tax revenues (property tax, sales and use tax, and other taxes) for the current year. This is approximately 88.0 percent of the general revenues and 34.4 percent of the total revenues. These general revenues provide the Board of Supervisors (the Board) with most of its discretionary spending ability. The reasons for these changes will be discussed in the governmental funds area.

The County’s general revenues decreased mainly due to:

- A decrease of \$11.5 million in other taxes because of a change from the State’s Realignment of funding. The motor vehicle in lieu of taxes is now recorded under operating grants and contributions instead of general revenue.
- A decrease of \$5.5 million in unrestricted grants and contributions. This was mainly due to the absence of \$13.8 million in prior year’s one-time revenue received from the City of San Jose redevelopment agency related to a settlement agreement on pass-through property taxes. This decrease was offset by an increase of \$10.4 million of contributions earned in the current year pursuant to the County-Stanford Trail Agreement to be used to mitigate the loss of recreational activities caused by construction at the Stanford University.
- An increase of \$5.6 million from investment earnings mainly due to improved cash positions in many of the County funds.
- A decrease of \$4.9 million in other revenues mainly due to a decrease of \$8.3 million in delinquent property tax penalties from a reduction in properties on default and an increase in other miscellaneous revenues of \$3.0 million.

These topics will be discussed in Financial Analysis of the County’s Funds section on page 14.



Expenses and Transfers

Expenses for governmental activities decreased by \$98.3 million or 4.2 percent. All categories experienced lower costs than in the prior year except health and sanitation, education, and recreation and culture. The primary reasons for the changes are explained below:

General government decreased \$10.9 million due to a decrease of \$23.2 million in the General Fund. See further discussion of the General Fund in the section below. The decreases were offset by an increase in expenses of other programs, mainly due to increased retiree healthcare expenses.

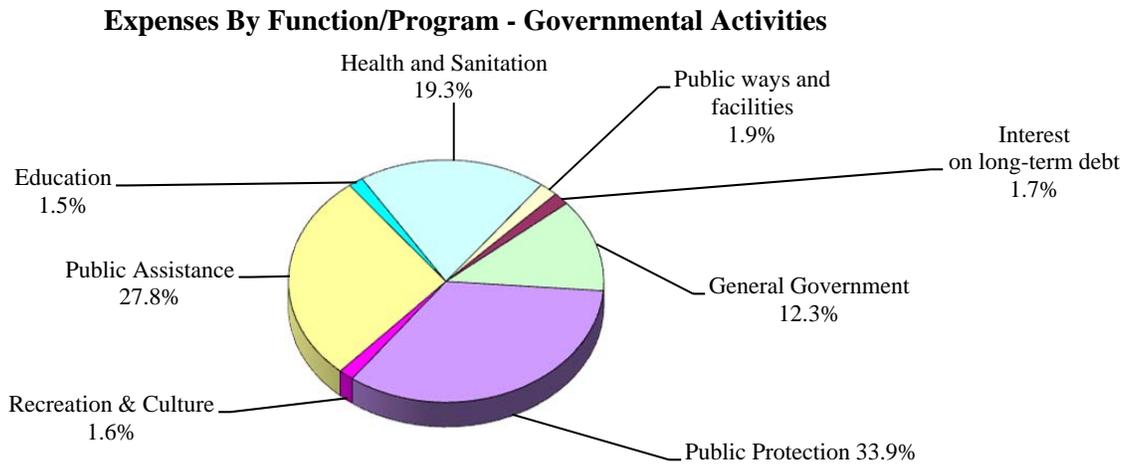
Public protection decreased \$19.9 million mainly due to reductions of approximately 175 positions.

Public ways and facilities decreased \$10.4 million, due to decreased maintenance and operation expenses.

Public assistance decreased \$61.8 million, mainly due to a decrease of \$64.3 million in the General Fund. See further discussion of the General Fund in the section below.

Transfers out to the County’s business-type activities increased by \$33.7 million primarily due to the County’s General Fund operating subsidy to SCVMC to cover the operation’s increase in its net operating loss for the year.

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



Business-type activities

Business-type activities decreased the County’s net assets by \$32.8 million. The business-type activities had a net loss before transfers of \$156.1 million, which was partially offset by net transfers of \$123.3 million.

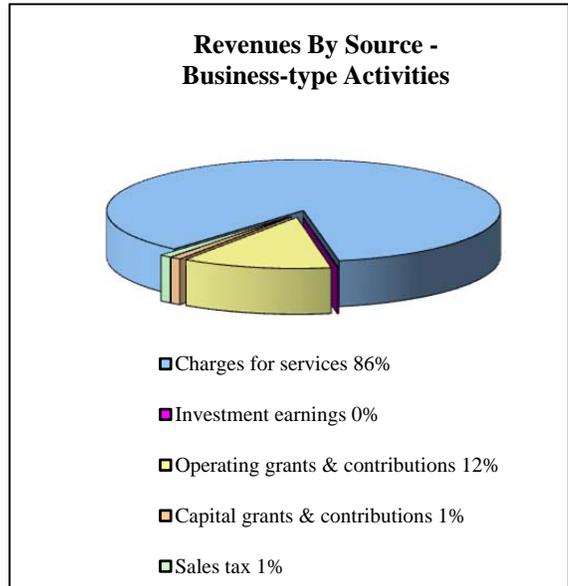
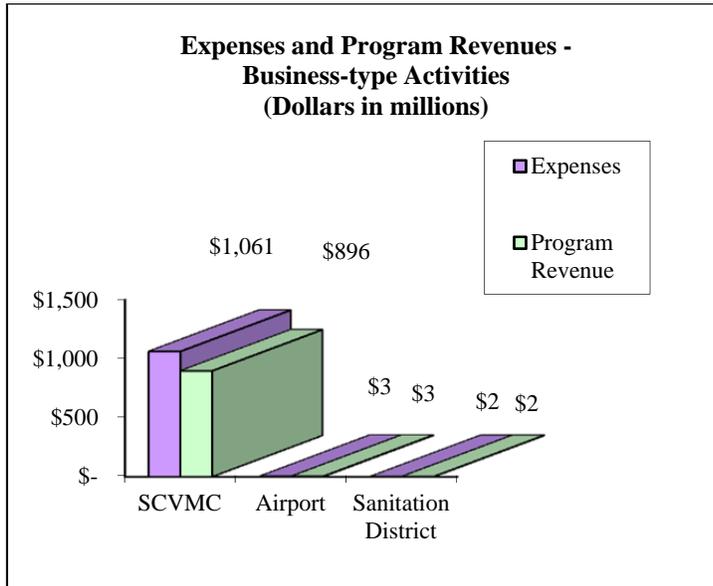
The largest of the County’s business-type activities, SCVMC, had \$1.0 billion in expenses and \$895.6 million in program revenues for the year. This is about 99.5 percent of the program revenues of all business-type activities.

SCVMC’s program revenues decreased by \$51.3 million or 5.7 percent which was mainly the result of decreases in net patient revenues of \$50.0 million. This decrease is reflective of SCVMC’s average daily census which was approximately 8.3 percent below last year. In addition, patient days decreased in all areas of SCVMC’s operations compared to the prior year including: routine care; newborn; special care; and transitional care.

SCVMC’s program expenses increased by \$32.3 million or 3.1 percent due to increased purchased medical services of \$19.9 million and depreciation of \$9.8 million. The increase of purchased medical services was due to increased utilization of medical service provided by outside providers. Depreciation expenses increased due to the completion of construction projects during 2011 and 2012.

Also transfers in increased by \$33.7 million primarily due to the increase of operating subsidy received.

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, 2012, the County's governmental funds reported total fund balances of \$723.1 million, an increase of \$25.4 million or 3.6 percent from the prior year. Approximately 40.1 percent of the combined fund balances, \$289.8 million, constitutes fund balance that is available to meet the County's current and future needs (committed, assigned and unassigned). The remainder of the fund balance totaling \$433.3 million is either in nonspendable form or restricted for specific spending. This includes \$19.6 million of items that are not expected to be converted to cash (for example: inventories, prepaid amounts, and long-term notes receivable) and \$413.7 million restricted for programs or other purposes.

For its governmental funds, the County's total revenues for the current fiscal year were \$2.3 billion—a decrease of \$80.0 million or 3.3 percent from the last year. Total governmental fund expenditures decreased by \$99.9 million or 4.4 percent to \$2.2 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 \$201.7 million, at June 30, 2012, while its total fund balance was \$274.8 million, a \$28.1 million increase from the prior year. This was mainly due to an excess of revenues over expenditures of \$113.3 million for the fiscal year, which was offset by \$85.1 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 11.1 percent and 15.1 percent of the total General Fund expenditures at June 30, 2012, respectively. This is an improvement compared to the prior year's results where the unassigned fund balance and the total fund balance represent 8.2 percent and 12.6 percent of the total General Fund expenditures at June 30, 2011, respectively.

The nonspendable and restricted portions of the General Fund's fund balance were \$17.3 million and \$33.4 million, respectively. The remaining fund balance constitutes the spendable portion, which was \$224.2 million. Of this amount, \$201.7 million was unassigned fund balance. The remaining portions of spendable fund balance included \$15.4 million of committed fund balance and \$7.0 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. 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 \$1.93 billion and \$1.82 billion, respectively. While its revenues decreased by \$40.7 million or 2.1 percent for the year, its expenditures decreased by \$138.3 million or 7.1 percent. The General 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 2011		FY 2012		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
Taxes	\$ 625,516	31.8%	\$ 641,051	33.3%	\$ 15,535	2.5%
Licenses and permits	12,025	0.6%	12,223	0.6%	198	1.6%
Fines, forfeitures and penalties	64,259	3.3%	55,074	2.9%	(9,185)	(14.3%)
Interest and investment income	8,658	0.4%	10,341	0.5%	1,683	19.4%
Security lending activities	-	0.0%	3	0.0%	3	100.0%
Intergovernmental revenues	1,097,449	55.6%	1,075,939	55.7%	(21,510)	(2.0%)
Charges for services	143,783	7.3%	109,598	5.7%	(34,185)	(23.8%)
Other revenue	20,475	1.0%	27,244	1.4%	6,769	33.1%
Total	\$ 1,972,165	100.0%	\$ 1,931,473	100.0%	\$ (40,692)	(2.1%)

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

Expenditures by function	FY 2011		FY 2012		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
General government	\$ 197,469	10.2%	\$ 174,276	9.6%	\$ (23,193)	(11.7%)
Public protection	662,072	33.8%	603,063	33.2%	(59,009)	(8.9%)
Public ways and facilities	1,472	0.1%	3,445	0.2%	1,973	134.0%
Health and sanitation	396,090	20.2%	401,916	22.1%	5,826	1.5%
Public assistance	672,098	34.4%	607,735	33.4%	(64,363)	(9.6%)
Capital outlay	2,845	0.1%	1,027	0.1%	(1,818)	(63.9%)
Debt service:						
Principal retirement	11,557	0.5%	12,175	0.6%	618	5.3%
Interest and fiscal charges	12,924	0.7%	14,577	0.8%	1,653	12.8%
Totals	\$ 1,956,527	100.0%	\$ 1,818,214	100.0%	\$ (138,313)	(7.1%)

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 83.0 percent and 82.9 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.

Tax revenues increased by \$15.5 million or 2.5 percent. This was mainly due to an approximately 0.9 percent increase in total property assessed values, including a 0.6 percent increase in secured assessed value. Additionally, property taxes increased \$2.2 million due to residual payments received from the wind down of redevelopment agencies located in the County pursuant to the Redevelopment Dissolution Act. Furthermore, supplemental property tax collections increased by \$4.9 million because collections and apportionments returned to a normal schedule compared to the significant reductions encountered in the prior year. Also, transfer taxes increased by \$1.9 million as the number of real estate transactions increased reflecting confidence in the economy. These increases were offset by a decrease of \$2.3 million from assessment adjustments to the business property tax rolls.

Fines, forfeitures, and penalties revenue decreased \$9.2 million or 14.3 percent mainly because of:

- A decrease of \$8.5 million in penalties on delinquent property taxes due mainly less properties entered into default due to an improved housing market.
- A decrease of \$1.1 million in judgments and damages due to a non-recurring legal settlement entered in the prior year.
- An offsetting increase of \$1.0 million because of changes in the penalty structure with a new ambulance services contractor effective in FY 2012.

Interest and investment income revenues increased \$1.7 million or 19.4 percent mainly due to improved average daily cash balance.

Intergovernmental revenues decreased by \$21.5 million or 2.0 percent mainly due to:

- A decrease of \$26.5 million from a settlement agreement entered into the prior year with the San Jose Redevelopment Agency.
- A decrease of \$18.9 million because of less administration costs was claimed for reimbursement from the State by the County's Social Services Agency reflecting a reduction in payroll costs from salary concessions negotiated with County labor organizations.
- A decrease of \$14.4 million because of the conclusion of the American Recovery and Reinvestment Act (ARRA) for Temporary Assistance to Needy Families grants.
- A decrease of \$17.8 million, \$13.2 million in State funding and \$4.6 million in Federal funding due to changes in state law in effect on July 1, 2011, the California Work Opportunity and Responsibility to Kids, reducing the maximum client eligibility period for CalWORKS from 60 months to 48 months.
- A decrease of \$5.0 million because due to the conclusion of two federal grants provided to the County's Office of Emergency Services.
- A decrease of \$4.0 million due to a one-time reimbursement from the State for a statewide special election held in May 2009 to decide on propositions aimed at improving the State's finances.
- A decrease of \$4.2 million due to the end of the Enhanced Federal Medical Assistance Program on June 30, 2011.
- A \$3.1 million decrease in the amount paid by the Superior Court for its share of pension obligation bonds debt service expenditures because the prior year reimbursement included an amount owed three years in arrears whereas the current year only included the normal annual reimbursement.

Decreases to intergovernmental revenues were mainly offset by:

- An increase of \$36.3 million due to increased sales tax collection reflecting from overall economic improvement.
- An increase of \$30.0 million because of the State's realignment of revenues to counties resulting in funding for the Superior Court's security cost being received from the State instead of a charge for service from the Superior Court. As such, the funding is now included in intergovernmental revenues instead of charges for services.
- An increase of \$14.0 million due to increased funding for local community corrections programs from the State revenue realignment pursuant to adjusting responsibility for public safety services to the County.

Charges for services decreased by \$34.2 million or 23.8 percent mainly because of:

- A decrease of \$30.0 million because of State realignment as discussed above.
- A decrease of \$4.0 million for the Registrar of Voters as election activity decreased in FY 2011. As in all odd-numbered years, the volume of activity for local elections is not as high as years with statewide and presidential elections.

Expenditures for general government decreased \$23.2 million or 11.7 percent for a variety of reasons including:

- Personnel reductions resulting in approximately a \$3.6 million decrease in expenditures in the Facilities and Fleet department.
- Contract and grant payment reductions, including \$7.0 million in the County Executive's Department mainly because of one time transactions
- Capitalization of software development costs of approximately \$3.0 million, including the new property tax collection system.

Public protection costs decreased \$59.0 million or 8.9 percent mainly because of:

- A change in the fund that recorded child support expenditures. In the current year, \$37.4 million was recorded in a nonmajor governmental instead of these expenditures recorded in the General Fund as in prior years.
- A decrease of \$28.0 million in personnel expenditures due to the elimination of approximately 160 positions in public protection departments including: Sheriff, Probation, Department of Correction and District Attorney and decreases in payroll costs due to changes in labor agreements.
- A decrease of \$2.7 million because of the termination of three programs in the District Attorney's Office: Welfare Fraud, Parent Project, and In Home Support Services.

Public Assistance expenditures decreased \$64.4 million, or 9.6 percent, due to:

- A decrease of \$29.0 million because of a 7.0 percent reduction in staff positions at the Social Services Agency and a decrease in the average staff costs due to labor negotiated changes.
- A decrease of \$27.6 million because of the conclusion of the Federal ARRA programs and a reduction in State funding in many programs such as child care and transportation.
- A decrease of \$21.0 million because the change maximum eligibility period for CalWORKS as discussed above.
- An offsetting increase of \$13.1 million in County expenditures to continue funding the In Home Support Services program when State and federal funding was reduced.

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.

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, 2012, the County's net assets in its enterprise funds were \$566.8 million. The investment in capital assets net of depreciation and related debt was \$401.6 million. The restricted net assets of the enterprise funds were \$141.7 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, 2012 were \$23.5 million.

The net assets of the County's enterprise funds decreased by \$15.2 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 99.5 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 decreased by \$14.5 million. Operating revenues decreased by \$51.4 million or 5.5 percent and operating expenses increased by \$26.7 million or 2.7 percent. The net capital contributions and transfers were \$130.9 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 \$545.0 million with unrestricted net assets of \$16.3 million. The restricted net assets of SCVMC were \$141.4 million and the net assets invested in capital assets, net of related debt were \$387.3 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 2012 were \$2.2 billion, which was \$105.7 million or 4.9 percent higher than the original budget adopted by the Board. Occasionally, unexpected events may cause the County to commit its one-time reserves or use ongoing resources to pay for those unplanned events. 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 \$243.8 million or 10.9 percent. All revenue sources, except for Taxes, License and Permits, Fines Forfeitures & Penalties and Interest & Investment Income came in lower than estimates. Final budgetary appropriations exceeded actual expenditures by \$294.1 million or 13.0 percent for the year. These cost savings resulted from unspent appropriations of: a) \$20.2 million in salaries and benefits costs due to eliminating or not filling vacant positions; b) \$136 million in services and supplies costs for government programs – general government, health and sanitation, public assistance, public protection, and Measure B programs; c) \$1.4 million debt service payments; d) \$0.6 million in capital assets; e) \$5.5 million from Special Program amounts designated for the Healthy Kids program and cash reserve approved by Board of Supervisors and \$7.9 million in inter-fund transfers set aside related to transportation projects to be determined by County Roads and Airports Department, Board of Supervisors, and Santa Clara Valley Transportation Authority; f) \$121.9 million in contingency reserves.

The General Fund budgetary comparison schedule starts on page 108 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, 2012 was \$1.97 billion.

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

	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	Change	Change
Land	\$ 251,328	\$ 250,406	\$ 6,310	\$ 6,310	\$ 257,638	\$ 256,716	\$ (922)	(0.4%)
Construction in progress	108,966	136,184	252,827	352,668	361,793	488,852	127,059	35.1%
Infrastructure	176,181	179,999	-	-	176,181	179,999	3,818	2.2%
Buildings & improvements	480,448	478,112	473,876	479,904	954,324	958,016	3,692	0.4%
Equipment and vehicles	53,784	51,039	31,138	30,424	84,922	81,463	(3,459)	(4.1%)
Leasehold improvements	-	-	570	466	570	466	(104)	(18.2%)
Total	\$ 1,070,707	\$ 1,095,740	\$ 764,721	\$ 869,772	\$ 1,835,428	\$ 1,965,512	\$ 130,084	7.1%

The County’s net capital assets increased \$130.1 million or 7.1 percent for the year. Net capital assets for the governmental activities increased by 2.3 percent while the business-type activities’ net capital assets increased by 13.7 percent. Changes in capital assets by activity type were as follows:

Governmental activities

The County's capital assets for its governmental activities rose by \$25.0 million mainly due to:

- Land decreased by \$0.9 million due to the sale of the Work Furlough Center parcel.
- Construction in progress increased by \$27.2 million. This included Qualified Energy Conservation Bonds projects of \$11 million, Assessor Reengineering Project of \$4.8 million, other financial systems projects of \$3.4 million, Anderson Visitor Center improvements of \$3.2 million and bridge rehabilitation and replacement of \$2.6 million.
- Infrastructure increased by \$3.8 million due to the completion of the Coyote Lake-Harvey Bear Ranch phase II of \$1.7 million, Santa Teresa Ranch House of \$1.3 million and other improvements made to Roads & Airports and Parks properties.
- Buildings and improvements decreased by \$2.3 million due to the sale of the Work Furlough Center and Court House. This decrease was offset by the transfers in of completed capital projects such as the Elmwood Barracks renovation.
- Equipment decreased by \$2.7 million mainly due to the retirement of \$2.1 million in the County's fleet vehicles.

Business-type activities

Net capital assets for business-type activities increased by \$105.1 million for the year. This increase was mainly due to current year additions of \$150.5 million in construction costs for seismic compliance for SCVMC buildings. This was offset by the current year depreciation of \$48.2 million and \$50.9 million of completed projects that were transferred from construction in progress to other capital asset categories.

Commitment of Resources for Construction Work in Progress

At June 30, 2012, the County had committed \$19.9 million of its net assets from the governmental activities and \$31.6 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 62 of this report.

Long-term debt

The County's long-term outstanding debt as of June 30, 2012 was \$1.7 billion as shown in Table 6 below:

TABLE 6-Outstanding Debt (in thousands)

	Governmental		Business-type		Total		Total	
	Activities		Activities		Total		Dollar	Percent
	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	Change	Change
Taxable pension funding bonds	\$ 409,221	\$ 412,963	\$ -	\$ -	\$ 409,221	\$ 412,963	\$ 3,742	0.9%
General obligation bonds	346,235	327,717	-	-	346,235	327,717	(18,518)	(5.3%)
Lease revenue bonds	264,537	250,177	539,440	518,143	803,977	768,320	(35,657)	(4.4%)
Capital appreciation bonds	132,029	139,931	-	-	132,029	139,931	7,902	6.0%
Certificates of participation	3,936	3,758	-	-	3,936	3,758	(178)	(4.5%)
Capital lease obligations	459	323	-	-	459	323	(136)	(29.6%)
Total	\$ 1,156,417	\$ 1,134,869	\$ 539,440	\$ 518,143	\$ 1,695,857	\$ 1,653,012	\$ (42,845)	(2.5%)

The County's long-term debt for governmental activities decreased by \$21.5 million due to reductions of \$18.5 million in General Obligation bonds and \$14.4 million in lease revenue bonds. These were offset by an increase of \$7.9 million in capital appreciation bonds and, because of accreted interest, a net increase of \$3.7 million in Taxable Pension funding bonds. For business-type activities, lease revenue bonds decreased \$21.3 million because of scheduled debt service payments. Additional information on the County's long-term debt can be found in Note 9 on page 68 of this report.

For its outstanding debt, the County's rating from Standard & Poor's (S&P) and Moody's Investors Service were downgraded during summer 2012. Additional information on the County's ratings changes on its long-term debt can be found in Note 16 on page 103 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. This is indicative of the County's budget for the upcoming year, which does not include reductions after eleven years of cutbacks. However, the economic downturn remains resilient and has created uncertainty and complexity for our organization. The following economic factors were considered in the County's 2013 budget:

- The County's unemployment rate continues to improve as the rate for June 2012 was 8.7 percent. This is an improvement from June 2011 when the unemployment rate was 10.3 percent. In comparison, the statewide unemployment rate for June 2012 was 10.7 percent, a decrease of 1.4 percent from the prior year.
- The real per capita income (a measure of wealth creation) as of June 2010 (most current available data) increased from \$55,781 to \$58,018. The real per capita income on a national level was \$41,524, an increase of \$1,859 from the prior year. These increases are signs of an improving economy.
- After several years of declining valuations, the housing market in Santa Clara County has reversed itself and prices are increasing. This was fueled by home sales, which increased during the last six months of the fiscal year, and a sharp reduction in foreclosures from a year ago. Also the median price for single family homes increased to \$640,000, a 7.0 percent increase from a year ago.
- Venture capital investment, a leading indicator of innovation and long-term development, rose 17.0 percent over the previous year, reaching nearly \$7.6 billion. This Silicon Valley region accounted for 27.0 percent of the national total and 52.0 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, showed improved results compared to the past year. The vacancy rate for R&D space was 13.7 percent in June 2012 versus 15.2 percent a year ago. The office space vacancy rate was 13.1 percent in June 2012 compared to 14.9 percent in June 2011. The vacancy rate for warehouse space decreased from 12.8 percent in 2011 to 12.7 percent in June 2012.
- Assessed values for real property, which increased by 0.6 percent, contributed to an increase of \$3.1 million in current secured property tax revenue. The unsecured personal property value increased by 5.3 percent with a tax increase of \$5.5 million. The property tax delinquencies on secured property decreased from 1.7 percent in FY 2011 to 1.2 percent in FY 2012. Property tax transfer tax revenues increased by \$1.7 million due to an increase in real estate transactions. Supplemental tax revenues increased by \$4.9 million due to a reduction in negative supplemental tax adjustments that occurred last year. The FY 2012 budget assumes a 4.6 percent increase in secured property assessed values, which corresponds to an increase of \$28.2 million in property tax revenue.

The FY 2013 Countywide budget of \$4.1 billion included a 3.6 percent increase in comparison to the prior year's budget. This increase was mainly due to addressing critical needs to the County's physical and financial infrastructure and included funding for retiree health insurance, information technology, and capital needs.

The FY 2013 budget sets aside \$96.7 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, 2012

(In thousands)

	Primary Government			Component Units
	Governmental Activities	Business- type Activities	Total	
Assets and Deferred Outflows:				
Assets:				
Cash and investments	\$ 942,223	\$ 14,419	\$ 956,642	\$ 111,312
Receivables, net of allowance for uncollectibles	174,573	78,729	253,302	4,367
Internal balances	56,231	(56,231)	-	-
Due from other governmental agencies	334,625	79,862	414,487	5,078
Due from related parties	-	-	-	56,879
Receivable from component unit	7,940	-	7,940	-
Inventories	3,633	16,311	19,944	-
Net pension asset	371,166	-	371,166	17,784
Other assets	27,120	7,933	35,053	7,748
Restricted cash and investments	72,873	191,643	264,516	36,014
Capital assets:				
Nondepreciable	386,590	358,978	745,568	56,978
Depreciable, net of accumulated depreciation	709,150	510,794	1,219,944	351,922
Total assets	3,086,124	1,202,438	4,288,562	648,082
Deferred outflows on derivative instruments	-	26,832	26,832	-
Total assets and deferred outflows	3,086,124	1,229,270	4,315,394	648,082
Liabilities:				
Accounts payable	86,738	45,986	132,724	12,230
Accrued salaries and benefits	24,436	13,486	37,922	116
Short-term debt payable	109,285	-	109,285	1,025
Accrued liabilities	66,685	20,047	86,732	4,766
Estimated third-party payer settlements	-	25,015	25,015	-
Due to related parties	-	-	-	29,837
Due to other governmental agencies	12,870	15,961	28,831	-
Unearned revenue	35,692	3,916	39,608	2,953
Payable to primary government	-	-	-	7,940
Noncurrent liabilities:				
Due within one year	67,338	32,771	100,109	31,549
Due in more than one year	1,568,610	554,185	2,122,795	283,746
Derivative instruments liabilities	-	26,832	26,832	-
Total liabilities	1,971,654	738,199	2,709,853	374,162
Net assets (see Note 11(a)):				
Invested in capital assets, net of related debt	875,610	401,591	999,051	118,712
Restricted for:				
Capital facilities	-	140,680	-	-
Debt service	22,328	1,001	23,329	-
Parks	82,589	-	82,589	-
Housing programs	69,888	-	69,888	-
Roads	55,944	-	55,944	-
Mental health	99,986	-	99,986	-
Other purposes	98,111	-	98,111	33,518
Unrestricted	(189,986)	(52,201)	176,643	121,690
Total net assets	\$ 1,114,470	\$ 491,071	\$ 1,605,541	\$ 273,920

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, 2012

(In thousands)

Function/program activities:	Program Revenues				
	Expenses	Indirect Expenses Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:					
Governmental activities:					
General government	\$ 321,149	\$ (43,021)	\$ 100,760	\$ 136,899	\$ -
Public protection	759,884	3,484	104,945	230,189	-
Public ways and facilities	41,133	1,375	1,863	38,012	5,860
Health and sanitation	421,065	13,635	41,676	214,260	-
Public assistance	621,884	4,812	4,808	556,389	-
Education	33,523	932	6,692	1,857	-
Recreation and culture	34,223	1,239	5,266	1,275	-
Interest on long-term liabilities	37,176	-	-	-	-
Total governmental activities	<u>2,270,037</u>	<u>(17,544)</u>	<u>266,010</u>	<u>1,178,881</u>	<u>5,860</u>
Business-type activities:					
SCVMC	1,043,584	17,543	776,036	112,007	7,589
Airport	3,350	1	3,035	-	-
Sanitation District	2,086	-	1,665	-	-
Total business-type activities	<u>1,049,020</u>	<u>17,544</u>	<u>780,736</u>	<u>112,007</u>	<u>7,589</u>
Total primary government	<u>\$ 3,319,057</u>	<u>\$ -</u>	<u>\$ 1,046,746</u>	<u>\$ 1,290,888</u>	<u>\$ 13,449</u>
Component units	<u>\$ 346,392</u>		<u>\$ 304,666</u>	<u>\$ 60,518</u>	<u>\$ 832</u>

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
- 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:
\$ (40,469)	\$ -	\$ (40,469)	\$ -
(428,234)	-	(428,234)	-
3,227	-	3,227	-
(178,764)	-	(178,764)	-
(65,499)	-	(65,499)	-
(25,906)	-	(25,906)	-
(28,921)	-	(28,921)	-
(37,176)	-	(37,176)	-
(801,742)	-	(801,742)	-
			Total governmental activities
			Business-type activities:
-	(165,495)	(165,495)	-
-	(316)	(316)	-
-	(421)	(421)	-
-	(166,232)	(166,232)	-
(801,742)	(166,232)	(967,974)	-
-	-	-	19,624
			Component units
			General revenues:
775,768	-	775,768	-
5,284	8,692	13,976	-
371	-	371	-
37,792	-	37,792	-
23,260	-	23,260	-
21,411	1,456	22,867	4,563
			Investment income
22	-	22	-
(13)	-	(13)	-
3,361	-	3,361	-
			Securities lending activities:
			Securities lending income
			Securities lending expenses
			Gain on sale of capital assets
			Other:
34,750	-	34,750	-
15,834	-	15,834	-
13,305	-	13,305	1,118
(123,308)	123,308	-	-
807,837	133,456	941,293	5,681
6,095	(32,776)	(26,681)	25,305
1,108,375	523,847	1,632,222	248,615
\$ 1,114,470	\$ 491,071	\$ 1,605,541	\$ 273,920
			Transfers
			Total general revenues and transfers
			Change in net assets
			Net assets, beginning of year
			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, 2012
(In thousands)

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Assets:			
Cash and investments:			
Unrestricted	\$ 248,111	\$ 419,161	\$ 667,272
Restricted with fiscal agents	29	16,483	16,512
Other restricted	31	41,903	41,934
Receivables:			
Property taxes	101,663	-	101,663
Other, net of allowance for uncollectibles	16,813	51,090	67,903
Due from other funds	3,044	2,074	5,118
Due from other governmental agencies	314,899	19,160	334,059
Inventories	1,625	858	2,483
Other assets	15,641	-	15,641
Total assets	<u>\$ 701,856</u>	<u>\$ 550,729</u>	<u>\$ 1,252,585</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 71,860	\$ 9,369	\$ 81,229
Accrued salaries and benefits	18,875	4,979	23,854
Short-term debt payable	109,285	-	109,285
Other accrued liabilities	37,629	13,201	50,830
Due to other funds	17,171	7,292	24,463
Due to other governmental agencies	12,641	229	12,870
Advances from other funds	-	11,040	11,040
Deferred revenue	159,605	56,329	215,934
Total liabilities	<u>427,066</u>	<u>102,439</u>	<u>529,505</u>
Fund balances:			
Nonspendable	17,266	2,286	19,552
Restricted	33,372	380,324	413,696
Committed	15,437	46,379	61,816
Assigned	6,966	19,301	26,267
Unassigned	201,749	-	201,749
Total fund balances	<u>274,790</u>	<u>448,290</u>	<u>723,080</u>
Total liabilities and fund balances	<u>\$ 701,856</u>	<u>\$ 550,729</u>	<u>\$ 1,252,585</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, 2012
(In thousands)

Fund balances - total governmental funds (page 24) \$ 723,080

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. 1,089,694

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. 5,858

Other long-term receivables are not available to pay for current period
expenditures and therefore are deferred in the funds. 182,228

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. 7,940

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. 8,149

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)	\$ (721,583)	
Accrued vacation and sick leave	(134,591)	
Capital lease obligations	(323)	
Accrued interest payable	(8,500)	
Net OPEB obligations - Santa Clara Central Fire Protection District	(34,982)	
Accrued litigation liability	(2,500)	(902,479)

Net assets - governmental activities (page 21) \$ 1,114,470

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, 2012

(In thousands)

	General Fund	Other Governmental Funds	Total
Revenues:			
Taxes	\$ 641,051	\$ 149,850	\$ 790,901
Licenses and permits	12,223	22,655	34,878
Fines, forfeitures, and penalties	55,074	10,384	65,458
Interest and investment income	10,341	5,244	15,585
Securities lending activities:			
Securities lending income	12	6	18
Securities lending expenditures	(9)	(2)	(11)
Intergovernmental revenues	1,075,939	136,714	1,212,653
Charges for services	109,598	39,610	149,208
Other revenue	27,244	32,367	59,611
	<hr/>	<hr/>	<hr/>
Total revenues	1,931,473	396,828	2,328,301
	<hr/>	<hr/>	<hr/>
Expenditures:			
Current:			
General government	174,276	219	174,495
Public protection	603,063	138,314	741,377
Public ways and facilities	3,445	52,417	55,862
Health and sanitation	401,916	26,599	428,515
Public assistance	607,735	7,542	615,277
Education	-	32,537	32,537
Recreation and culture	-	33,250	33,250
Capital outlay	1,027	43,493	44,520
Debt service:			
Principal retirement	12,174	23,770	35,944
Interest and fiscal charges	14,578	17,875	32,453
Cost of issuance	-	143	143
	<hr/>	<hr/>	<hr/>
Total expenditures	1,818,214	376,159	2,194,373
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over (under) expenditures	113,259	20,669	133,928
	<hr/>	<hr/>	<hr/>
Other financing sources (uses):			
Proceeds from sale of capital assets	9,943	1,237	11,180
Bonds issuance	-	3,639	3,639
Transfers in	59,076	39,287	98,363
Transfers out	(154,132)	(67,539)	(221,671)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(85,113)	(23,376)	(108,489)
	<hr/>	<hr/>	<hr/>
Net change in fund balances	28,146	(2,707)	25,439
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	246,644	450,997	697,641
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	\$ 274,790	\$ 448,290	\$ 723,080
	<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, 2012
(In thousands)

Net change in fund balances - total governmental funds (page 26)		\$ 25,439
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	\$ 69,608	
Net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, donations)	(3,819)	
Less current year depreciation	<u>(38,084)</u>	27,705
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	143	
Amortization of bond issuance costs	<u>(305)</u>	(162)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		14,613
Revenues recognized in the governmental funds that were earned and recognized in previous years and are reported as beginning net assets in the statement of activities.		(4,000)
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.		(3,639)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		36,080
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	751	
Change in accrued interest payable	2,256	
Change in accreted interest - Tobacco Settlement Asset-Backed Bonds	(7,902)	
Change in arbitrage liabilities	172	
Change in net OPEB obligations - Santa Clara Central Fire Protection District	(411)	
Change in long-term compensated absences	<u>(9,611)</u>	(14,745)
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>(75,196)</u>
Change in net assets of governmental activities (page 23)		<u>\$ 6,095</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, 2012

(In thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	SCVMC	Other	Total	Internal Service Funds
Assets and Deferred Outflows:				
Assets:				
Current assets:				
Cash and investments:				
Unrestricted	\$ 6,379	\$ 8,040	\$ 14,419	\$ 274,951
Restricted with fiscal agent	-	743	743	14,001
Other restricted	190,900	-	190,900	426
Receivables:				
Patient accounts receivable, net of estimated uncollectables	77,334	-	77,334	-
Other	1,292	103	1,395	5,007
Due from other funds	20,696	-	20,696	-
Due from other governmental agencies	79,742	120	79,862	566
Inventories	16,311	-	16,311	1,150
Prepaid rent/insurance	4,533	-	4,533	3,251
Total current assets	<u>397,187</u>	<u>9,006</u>	<u>406,193</u>	<u>299,352</u>
Noncurrent assets:				
Advances to other funds	-	-	-	11,040
Net pension asset	-	-	-	371,166
Other assets	3,234	166	3,400	2,370
Capital assets:				
Nondepreciable	354,491	4,487	358,978	1,295
Depreciable, net of accumulated depreciation	496,519	14,275	510,794	4,751
Total noncurrent assets	<u>854,244</u>	<u>18,928</u>	<u>873,172</u>	<u>390,622</u>
Total assets	<u>1,251,431</u>	<u>27,934</u>	<u>1,279,365</u>	<u>689,974</u>
Deferred outflows on derivative instruments	26,832	-	26,832	-
Total assets and deferred outflows	<u>1,278,263</u>	<u>27,934</u>	<u>1,306,197</u>	<u>689,974</u>
Liabilities:				
Current liabilities:				
Accounts payable	45,172	814	45,986	5,509
Accrued salaries and benefits	13,467	19	13,486	582
Accrued liabilities	19,875	172	20,047	7,355
Due to other funds	1,221	-	1,221	130
Due to third-party payers	25,015	-	25,015	-
Due to other governmental agencies	15,961	-	15,961	-
Unearned revenue	3,837	79	3,916	1,986
Current portion of insurance claims	-	-	-	34,117
Current portion of accrued vacation and sick leave	10,995	10	11,005	254
Current portion of bonds payable	21,587	179	21,766	4,040
Total current liabilities	<u>157,130</u>	<u>1,273</u>	<u>158,403</u>	<u>53,973</u>
Noncurrent liabilities:				
Noncurrent portion of insurance claims	-	-	-	82,604
Noncurrent portion of accrued vacation and sick leave	57,702	106	57,808	3,870
Noncurrent portion of bonds payable	491,607	4,770	496,377	408,923
Net OPEB obligation	-	-	-	208,161
Total noncurrent liabilities	<u>549,309</u>	<u>4,876</u>	<u>554,185</u>	<u>703,558</u>
Derivative instruments liabilities:	26,832	-	26,832	-
Total liabilities	<u>733,271</u>	<u>6,149</u>	<u>739,420</u>	<u>757,531</u>
Net assets:				
Invested in capital assets, net of related debt	387,338	14,253	401,591	6,046
Restricted:				
Capital facilities	140,680	-	140,680	-
Debt service	698	303	1,001	-
Unrestricted	16,276	7,229	23,505	(73,603)
Total net assets	<u>\$ 544,992</u>	<u>\$ 21,785</u>	<u>566,777</u>	<u>\$ (67,557)</u>
Adjustment to reflect the consolidation of internal service fund activities to enterprise funds			(75,706)	
Net assets of business-type activities			<u>\$ 491,071</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, 2012
(In thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	SCVMC	Other	Total	Internal Service Funds
Operating revenues:				
Charges for services	\$ 776,036	\$ 4,700	\$ 780,736	\$ 208,066
Other program revenues	112,007	-	112,007	-
Net operating revenues	<u>888,043</u>	<u>4,700</u>	<u>892,743</u>	<u>208,066</u>
Operating expenses:				
Salaries and benefits	678,652	1,195	679,847	194,074
Services and supplies	96,350	1,028	97,378	21,514
General and administrative	-	-	-	5,348
Professional services	153,755	768	154,523	1,205
Depreciation	47,133	1,021	48,154	3,067
Amortization of net pension asset	-	-	-	(4,519)
Leases and rentals	6,823	-	6,823	43
Utilities	10,056	-	10,056	-
Insurance claims and premiums	8,342	29	8,371	68,778
Other	3,957	1,223	5,180	-
Total operating expenses	<u>1,005,068</u>	<u>5,264</u>	<u>1,010,332</u>	<u>289,510</u>
Operating loss	<u>(117,025)</u>	<u>(564)</u>	<u>(117,589)</u>	<u>(81,444)</u>
Nonoperating revenues (expenses):				
Taxes	8,692	-	8,692	-
Investment income	1,402	54	1,456	12,813
Interest expense	(21,257)	(242)	(21,499)	(24,586)
Securities lending activities:				
Securities lending income	-	-	-	4
Securities lending expenses	-	-	-	(2)
Gain (loss) on disposal of capital assets	(277)	-	(277)	240
Other, net	(16,963)	120	(16,843)	166
Total nonoperating revenues (expenses), net	<u>(28,403)</u>	<u>(68)</u>	<u>(28,471)</u>	<u>(11,365)</u>
Loss before capital contributions and transfers	<u>(145,428)</u>	<u>(632)</u>	<u>(146,060)</u>	<u>(92,809)</u>
Capital contributions	7,589	-	7,589	-
Transfers in	128,813	11	128,824	-
Transfers out	(5,516)	-	(5,516)	-
Change in net assets	<u>(14,542)</u>	<u>(621)</u>	<u>(15,163)</u>	<u>(92,809)</u>
Net assets, beginning of year	559,534	22,406	581,940	25,252
Net assets, end of year	<u>\$ 544,992</u>	<u>\$ 21,785</u>	<u>\$ 566,777</u>	<u>\$ (67,557)</u>
Change in net assets of enterprise funds			\$ (15,163)	
Adjustment to reflect the consolidation of internal service funds to enterprise funds.			<u>(17,613)</u>	
Change in net assets of business-type activities			<u>\$ (32,776)</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, 2012

(In thousands)

	Business-type Activities - Enterprise Funds			Governmental
	SCVMC	Other	Total	Internal Service Funds
Cash flows from operating activities:				
Cash receipts from customers and users	\$ 933,241	\$ 4,563	\$ 937,804	\$ 212,920
Cash payment to suppliers for goods and services	(267,623)	(2,717)	(270,340)	(28,982)
Cash payment to employees for services	(698,054)	(1,217)	(699,271)	(31,143)
Cash payment for retirement benefits	-	-	-	(75,175)
Cash payment for judgments and claims	-	-	-	(68,280)
Other payments	(16,963)	-	(16,963)	-
Other receipts	-	120	120	166
Net cash provided by (used in) operating activities	(49,399)	749	(48,650)	9,506
Cash flows from noncapital financing activities:				
Cash receipts from state grants - taxes realignment	9,004	-	9,004	-
Cash receipts from short term borrowings to other funds	-	-	-	4,915
Cash payments to other funds	(17,910)	-	(17,910)	(952)
Principal paid on pension obligation bonds	-	-	-	(2,990)
Interest paid on pension obligation bonds	-	-	-	(17,811)
Transfers in	128,813	11	128,824	-
Transfers out	(5,516)	-	(5,516)	-
Net cash provided by (used in) noncapital financing activities	114,391	11	114,402	(16,838)
Cash flows from capital and related financing activities:				
Principal paid on bonds	(22,196)	(170)	(22,366)	-
Interest paid	(20,213)	(240)	(20,453)	(4)
Acquisition of capital assets	(170,094)	(270)	(170,364)	(433)
Proceeds from sale of capital assets	-	-	-	278
Capital contributions received	16,102	-	16,102	-
Net cash used in capital and related financing activities	(196,401)	(680)	(197,081)	(159)
Cash flows from investing activities:				
Purchases of investments	-	-	-	(3,343)
Investment income received	1,529	54	1,583	7,436
Investment expenses paid	-	-	-	(45)
Net cash provided by investing activities	1,529	54	1,583	4,048
Net change in cash and cash equivalents	(129,880)	134	(129,746)	(3,443)
Cash and cash equivalents, beginning of year	327,159	8,649	335,808	138,471
Cash and cash equivalents, end of year	\$ 197,279	\$ 8,783	\$ 206,062	\$ 135,028
Cash and cash equivalents:				
Cash and investments:				
Unrestricted	\$ 6,379	\$ 8,040	\$ 14,419	\$ 274,951
Restricted with fiscal agents	-	743	743	14,001
Other restricted	190,900	-	190,900	426
Less deposits and investments not meeting the definition of cash and cash equivalents	-	-	-	(154,350)
Total cash and cash equivalents	\$ 197,279	\$ 8,783	\$ 206,062	\$ 135,028

(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, 2012
(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	\$ (117,025)	\$ (564)	\$ (117,589)	\$ (81,444)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	47,133	1,021	48,154	3,067
Amortization of net pension asset	-	-	-	(4,519)
Provision for bad debts	67,104	-	67,104	-
Miscellaneous nonoperating revenues (expenses), net	(16,963)	120	(16,843)	166
Decrease (increase) in assets:				
Receivables	(34,231)	(7)	(34,238)	2,939
Due from other governmental agencies	12,812	(120)	12,692	(71)
Inventories	(732)	-	(732)	(14)
Prepaid rent/insurance	(1,726)	-	(1,726)	-
Other assets	-	3	3	(1,786)
Increase (decrease) in liabilities:				
Accounts payable	6,224	319	6,543	3
Accrued salaries and benefits	-	(41)	(41)	-
Accrued liabilities	(11,508)	9	(11,499)	(1,103)
Due to third-party payers	(646)	-	(646)	-
Accrued vacation and sick leave	-	19	19	533
Insurance claims	-	-	-	1,398
Due to other governmental agencies	-	-	-	(1)
Unearned revenue	159	(10)	149	1,986
Net OPEB obligation	-	-	-	88,352
Net cash provided by (used in) operating activities	<u>\$ (49,399)</u>	<u>\$ 749</u>	<u>\$ (48,650)</u>	<u>\$ 9,506</u>
Supplemental disclosure of noncash investing, capital and related financing activities:				
Noncash capital and related financing activities:				
Acquisition of capital assets through accounts payable	\$ 9,835	\$ -	\$ 9,835	\$ -
Amortization of discounts, premiums and deferred loss on refunding	1,068	-	1,068	-
Amortization of deferred charges	242	-	242	-
Decrease in rebatable arbitrage	161	-	161	-
Noncash investing activities:				
Net change in fair value of investments not considered cash and cash equivalents	-	-	-	5,424
Noncash noncapital financing activities:				
Accretion of interest on capital appreciation bonds	-	-	-	6,732

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, 2012

(In thousands)

	<u>Investment Trust Funds</u>	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
Assets:			
Cash and investments:			
Unrestricted	\$ 2,748,106	\$ 37,240	\$ 188,602
Other restricted	5	486	103
Receivables:			
Property taxes	-	-	6,120
Interest	15,753	291	8,099
Other	-	85	1,132
Due from other agency funds	-	-	7,633
Due from other governmental agencies	-	-	659
Other assets	-	45,973	2,467
Total assets	<u>2,763,864</u>	<u>84,075</u>	<u>\$ 214,815</u>
Liabilities:			
Accounts payable	-	36,427	\$ -
Other accrued liabilities	-	950	-
Due to other agency funds	-	-	7,633
Due to other governmental agencies	-	185	2
Deposits from others	-	46,065	-
Fiduciary liabilities	-	-	207,180
Total liabilities	<u>-</u>	<u>83,627</u>	<u>\$ 214,815</u>
Net assets:			
Net assets held in trust for investment pool participants/private-purpose trust	<u>\$ 2,763,864</u>	<u>\$ 448</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, 2012
(In thousands)

	Investment Trust Funds	Private-Purpose Trust Fund
Additions:		
Contributions to pooled investments	\$ 11,054,448	\$ -
Interest and investment income	18,856	45
Securities lending activities:		
Securities lending income	45	1
Securities lending expenses	(26)	-
Total additions	11,073,323	46
Deductions:		
Distributions and administrative expenses	11,077,993	15,440
Change in net assets	(4,670)	(15,394)
Net assets held in trust, beginning of year	2,768,534	15,842
Net assets held in trust, end of year	\$ 2,763,864	\$ 448

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

This page intentionally left blank.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements
June 30, 2012
(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 services, 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, 2012
(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 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. 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 Housing 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

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 non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

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

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

Fund Financial Statements

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the County's enterprise and internal service funds are charges for customer services including: medical center charges for services, sanitation and airport fees, insurance charges, employee 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

The County reports the following major governmental and enterprise funds:

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

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 financing 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 recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2012

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

Governmental funds are reported using the current financial measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when “susceptible to accrual” (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means that revenues are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenues are recognized in the current year if they are collected within 60 days of year-end. For all other revenues, the County considers revenues to be available if they are collected within 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 non-operating 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.

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 64% of the pool.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

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, 2012, 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 non-major 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.

(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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

(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 non-spendable 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 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

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. No interest was capitalized during the year ended June 30, 2012.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2012
 (Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

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

The State’s Constitution, Article XIII A provides that the combined maximum ad valorem 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 of 1979 and subsequent legislation, defined the methodology for distributing the 1% tax levy and collections among the County, cities, schools, and other local jurisdictions such as districts providing water, fire and library services.

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.

(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 or 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

(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. Bond premiums and discounts in the government-wide statements and in proprietary fund types are presented as an increase or 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 government-wide statement of net assets, respectively. For proprietary fund types, the assets and related capital lease obligations are recorded in the appropriate proprietary fund.

(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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

(o) *Effects of New Pronouncements*

During the year ended June 30, 2012, the County implemented the following GASB Statements:

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment of GASB Statement No. 53*. 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. This implementation of this standard did not have a significant impact 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 November 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 ("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 – An Amendment of GASB Statements No. 14 and 34*. 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. This statement 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 pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Application of this statement is effective for the County's fiscal year ending June 30, 2013.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

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. Application of this statement is effective for the County’s fiscal year ending June 30, 2013.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is intended to clarify the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The statement also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Application of this statement is effective for the County’s fiscal year ending June 30, 2014.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 - An Amendment of GASB Statements No. 10 and No. 62*, to resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This statement amends Statement No. 10, *Codification of Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state and local government’s risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current servicing fee rate. Application of this statement is effective for the County’s fiscal year ending June 30, 2014.

In June 2012, the GASB issued two new standards, GASB Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* to improve the guidance for accounting and reporting on the pensions that governments provide to their employees.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

Key changes for GASB Statements No. 67 and No.68 include:

- Separating how the accounting and financial reporting is determined from how pensions are funded.
- Employers with defined benefit pension plans will recognize a net pension liability, as defined by the standard, in their government-wide, proprietary and fiduciary fund financial statements.
- Incorporating ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes into projections of benefit payments, if an employer's past practice and future expectations of granting them indicate they are essentially automatic.
- Using a discount rate that applies (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments, and (b) the yield or index rate on tax-exempt 20-year general obligation municipal bonds with an average rating of AA/Aa or higher to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.
- Adopting a single actuarial cost allocation method – entry age normal – rather than the current choice among six actuarial cost methods.
- Requiring more extensive note disclosures and required supplementary information.

The statements relate to accounting and financial reporting and do not apply to how governments approach the funding of their pension plans. At present, there generally is a close connection between the ways many governments fund pensions and how they account for and report information about them in financial statements. The statements would separate how the accounting and financial reporting is determined from how pensions are funded. Application of Statement 67 is effective for financial statements for the County's fiscal year ending June 30, 2014. Application of Statement 68 is effective for the County's fiscal year ending June 30, 2015.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is intended to improve accounting and financial reporting for U.S. state and local governments' combinations and disposals of government operations. This statement provides guidance determining whether a specific government combination is a government merger, a government acquisition, or a transfer of operations; using carrying values (generally, the amounts recognized in the pre-combination financial statements of the combining governments or operations) to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources combined in a government merger or transfer of operations; measuring acquired assets, deferred outflows of resources, liabilities, and deferred inflows of resources based upon their acquisition values in a government acquisition; and reporting the disposal of government operations that have been transferred or sold. Application of this statement is effective for the County's fiscal year ending June 30, 2015.

(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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(2) Stewardship, Compliance and Accountability

Deficit Net Assets

At June 30, 2012, the Workers' Compensation, Retiree Health Care, and Pension Obligation Internal Service Funds have deficit net assets of \$35,420, \$33,407, and \$46,349, respectively. The deficit for the Workers' Compensation Internal Service Fund is expected to be eliminated through rate increases starting fiscal year 2013-14. The County is currently evaluating scenarios on how to reduce its deficit in the Retiree Health Care Internal Service Fund. The deficit for the Pension Obligation Internal Service Fund is expected to be eliminated through rate increases for repayment of the 2007 Taxable Pension Funding Bonds.

(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 certain independent local governmental agencies. In addition, investments are held separately by the Treasurer for other County funds, including: County Parks, 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 and statement of net assets as "cash and investments – unrestricted" and "cash and investments – other restricted."

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

(b) *Investment Policies*

The objectives of the County's investment policy, in order of priority, are safety of principal to ensure preservation of capital in the overall portfolio, maintenance of liquidity sufficient to meet anticipated operating requirements, and 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**.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2012
 (Dollars in thousands)

(3) Cash and Investments (Continued)

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer	Credit Ratings Minimum (2 Ratings)
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 - Taxable	N/A	20%	10%	Aaa/AAA/AAA
Money Market Funds - Tax-Exempt	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

** Minimum of one credit rating required for Tax-Exempt Money Market Funds

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, 2012
 (Dollars in thousands)

(3) Cash and Investments (Continued)

(c) Summary of Cash and Investments

Total County cash and investments are reported as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Primary Government	\$ 956,642	\$ 264,516	\$ 1,221,158
Component Units	111,312	36,014	147,326
Investment Trust Funds	2,748,106	5	2,748,111
Private-Purpose Trust Fund	37,240	486	37,726
Agency Funds	<u>188,602</u>	<u>103</u>	<u>188,705</u>
Total cash and investments	<u>\$ 4,041,902</u>	<u>\$ 301,124</u>	<u>\$ 4,343,026</u>

The County's cash and investments are as follows:

Cash and deposits:		
Cash on hand		\$ 99
Deposits of the County		21,520
Restricted deposits		1,738
Deposits with component units:		
Housing Authority		55,964
FIRST 5		<u>4,738</u>
Total cash and deposits		<u>84,059</u>
Investments:		
With Treasurer		4,141,079
With fiscal agents		31,264
With Housing Authority		18,323
With FIRST 5		<u>68,301</u>
Total investments		<u>4,258,967</u>
Total cash, deposits and investments		<u>\$ 4,343,026</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, 2012
(Dollars in thousands)

(3) Cash and Investments (Continued)

(e) Investment Composition

As of June 30, 2012, the major classes of the County's 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	0.63%	\$ 40,000	\$ 40,116	\$ 40,116	\$ -	\$ -	\$ -	\$ -
U.S. Agencies - Coupon	0.20% - 5.05%	2,198,970	2,225,895	764,560	1,235,520	225,815	-	-
U.S. Agencies - Discount	0.21%	20,000	19,957	19,957	-	-	-	-
Medium-term corporate notes	0.67% - 6.95%	552,413	557,199	300,763	236,030	20,406	-	-
Asset Backed Securities	0.64% - 4.43%	154,514	155,308	6,504	134,525	14,279	-	-
Municipal Bonds	0.89% - 8.3%	70,750	75,570	-	53,322	22,248	-	-
Repurchase Agreements	0.13%	125,000	125,000	125,000	-	-	-	-
Commercial paper	0.08% - 0.68%	443,000	442,608	442,608	-	-	-	-
Negotiable Certificates of Deposit	1.10%	25,000	25,014	-	25,014	-	-	-
Money Market Mutual Funds	0.08%	140,386	140,386	140,386	-	-	-	-
State Local Agency Investment Fund	0.36%	40,000	40,049	40,049	-	-	-	-
Less with FIRST 5		(1,917)	(1,917)	(1,917)	-	-	-	-
Subtotal commingled pool		3,808,116	3,845,185	1,878,026	1,684,411	282,748	-	-
Separate investments:								
U.S. Treasury Notes		69,977	74,484	-	50,244	8,059	7,083	9,098
U.S. Agencies - Coupon		8,800	10,757	-	2,006	2,378	-	6,373
U.S. Agencies - Mortgage backed securities		38,432	41,886	-	-	-	3,927	37,959
Medium-term corporate notes		36,022	37,994	1,031	7,351	7,772	16,239	5,601
Municipal bonds		42,770	44,520	19,704	16,861	7,955	-	-
Money market mutual funds		74,100	74,100	74,100	-	-	-	-
Stock mutual funds:								
Vanguard 500 Index Fund		11,465	12,153	12,153	-	-	-	-
Subtotal separate investments		281,566	295,894	106,988	76,462	26,164	27,249	59,031
Subtotal with Treasurer		4,089,682	4,141,079	1,985,014	1,760,873	308,912	27,249	59,031
With fiscal agents:								
U.S. Treasury Notes		3,190	3,263	650	557	2,056	-	-
U.S. Agencies - Coupon		8,075	8,344	1,283	4,049	3,012	-	-
Commercial paper		270	269	269	-	-	-	-
Medium-term corporate notes		1,945	2,017	368	1,011	638	-	-
Money market mutual funds		17,371	17,371	17,371	-	-	-	-
Subtotal with fiscal agents		30,851	31,264	19,941	5,617	5,706	-	-
With Housing Authority:								
U.S. Agencies		8,100	8,103	-	8,103	-	-	-
Money market mutual funds		206	206	206	-	-	-	-
State Local Agency Investment Fund		9,875	10,014	10,014	-	-	-	-
Subtotal with Housing Authority		18,181	18,323	10,220	8,103	-	-	-
With FIRST 5:								
U.S. Treasury Notes		10,985	11,285	-	754	10,531	-	-
U.S. Agencies - Coupon		36,860	38,059	11,143	6,788	20,128	-	-
Medium-term corporate notes		15,210	15,854	3,084	10,159	2,611	-	-
Money market funds		439	439	439	-	-	-	-
Commercial paper		750	747	747	-	-	-	-
In commingled pool		1,917	1,917	1,917	-	-	-	-
Subtotal with FIRST 5		66,161	68,301	17,330	17,701	33,270	-	-
Total investments		\$ 4,204,875	\$ 4,258,967	\$ 2,032,505	\$ 1,792,294	\$ 347,888	\$ 27,249	\$ 59,031

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2012

(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 policy 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, 2012, the County's weighted average maturity of its commingled pool is 472 days. The County invested in callable Federal Agency (\$512,601 of the County's U.S. Agencies coupon position of \$2,225,895) and Corporate Bonds (\$10,047 of the County's Corporate Bonds position of \$557,199) 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2012
 (Dollars in thousands)

(3) Cash and Investments (Continued)

Credit Risk

Credit risk is the risk that a debt issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the 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 with credit exposure as a percentage of investments with Treasury (Commingled Pool and Separate), fiscal agent, Housing Authority and FIRST 5 as rated by Moody's Investors Service:

Investment	Moody's Rating	% of Commingled Pool investments with the Treasury	% of Separate investments with the Treasury	% of investments with fiscal agents	% of investments with Housing Authority	% of investments with FIRST 5
U.S. Treasury	Aaa	1.0%	25.3%	10.4%	0.0%	17.0%
U.S. Agencies- Discount	Aaa	0.5%	0.0%	0.0%	0.0%	0.0%
U.S. Agencies	Aaa	57.9%	3.6%	26.7%	44.2%	57.3%
Asset Backed Securities	Aaa	2.5%	14.1%	0.0%	0.0%	0.0%
Asset Backed Securities	Not rated	1.5%	0.0%	0.0%	0.0%	0.0%
Municipal bonds	Aaa	0.2%	0.5%	0.0%	0.0%	0.0%
Municipal bonds	Aa1	0.5%	3.9%	0.0%	0.0%	0.0%
Municipal bonds	Aa2	0.0%	1.6%	0.0%	0.0%	0.0%
Municipal bonds	Aa3	0.3%	0.9%	0.0%	0.0%	0.0%
Municipal bonds	A1	0.7%	0.8%	0.0%	0.0%	0.0%
Municipal bonds	A2	0.2%	0.0%	0.0%	0.0%	0.0%
Municipal bonds	P-1	0.0%	0.7%	0.0%	0.0%	0.0%
Municipal bonds	Not rated	0.0%	6.6%	0.0%	0.0%	0.0%
Medium-term corporate notes	Aaa	6.6%	0.3%	2.6%	0.0%	0.0%
Medium-term corporate notes	Aa1	0.2%	0.0%	0.8%	0.0%	0.0%
Medium-term corporate notes	Aa2	1.0%	0.8%	1.9%	0.0%	1.3%
Medium-term corporate notes	Aa3	4.7%	2.7%	1.1%	0.0%	9.0%
Medium-term corporate notes	A1	1.4%	1.6%	0.0%	0.0%	3.2%
Medium-term corporate notes	A2	0.5%	3.8%	0.0%	0.0%	5.7%
Medium-term corporate notes	A3	0.0%	1.4%	0.0%	0.0%	4.8%
Medium-term corporate notes	Baa1	0.0%	1.0%	0.0%	0.0%	0.0%
Medium-term corporate notes	Baa2	0.0%	0.4%	0.0%	0.0%	0.0%
Medium-term corporate notes	Not rated	0.0%	0.9%	0.0%	0.0%	0.0%
Commercial paper	P-1	9.6%	0.0%	0.9%	0.0%	0.0%
Commercial paper	AAA	0.0%	0.0%	0.0%	0.0%	1.1%
Commercial paper	Not rated	2.0%	0.0%	0.0%	0.0%	0.0%
Negotiable Certificate of Deposits	Aa3	0.7%	0.0%	0.0%	0.0%	0.0%
Repurchase Agreement	Aaa	3.3%	0.0%	0.0%	0.0%	0.0%
Money market funds	Aaa	3.7%	25.0%	55.6%	1.1%	0.6%
State Local Agency Investment Fund	Not rated	1.0%	0.0%	0.0%	54.7%	0.0%
Stock Mutual Fund	Not applicable	0.0%	4.1%	0.0%	0.0%	0.0%
Total Investments		100.0%	100.0%	100.0%	100.0%	100.0%

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(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, 2012, was approximately \$21.9 billion. LAIF is part of the State's Pooled Money Investment Account (PMIA). PMIA has a total of approximately \$60.5 billion and of that amount, 96.53% was invested in non-derivative financial products and 3.47% 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.

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. Investments in U.S. Treasury, Agency securities explicitly guaranteed by the U.S. government, mutual funds and LAIF are not subject to this credit risk disclosure.

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 21.4%, 16.9%, and 16.4%, 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 Home Loan Mortgage Corporation and Federal Home Loan Bank, which represent 14.2% and 30.0%, 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, Federal Home Loan Bank, and Federal Farm Credit Bank which represent 16.7%, 18.1%, 13.9%, and 8.6%, respectively, of the First 5's investments.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(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 and 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 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 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 County authorizes 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. The County does not match the maturities of investments made with cash collateral with the securities on loan. As of June 30, 2012, there were no underlying securities loaned by the County's investment pool.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2012
 (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, 2012:

Assets:	
U.S. Treasury Notes	\$ 114,600
U.S. Agencies - Coupon	2,236,652
U.S. Agencies - Discount	19,957
U.S. Agencies - Mortgage backed securities	41,886
Medium-term corporate notes	595,193
Asset Backed Securities	155,308
Municipal bonds	120,090
Commercial paper	442,608
Negotiable Certificates of Deposit	25,014
Repurchase Agreements	125,000
Money market mutual fund	214,486
State Local Agency Investment Fund	40,049
Stock mutual funds	<u>12,153</u>
Total investments	4,142,996
Other assets (interest receivable)	<u>15,753</u>
Total assets	<u><u>\$ 4,158,749</u></u>
Net Assets:	
Equity of internal pool participants	\$ 1,394,885
Equity of individual investment accounts	115,065
Equity of external pool participants	<u>2,648,799</u>
Total net assets	<u><u>\$ 4,158,749</u></u>
Statement of Changes in Net Assets	
Net assets at July 1, 2011	\$ 4,262,613
Net change in investments by pool participants	<u>(103,864)</u>
Net assets at June 30, 2012	<u><u>\$ 4,158,749</u></u>
Net assets composition of the equity of external pool participants is as follows:	
Participants units outstanding (\$1 par)	\$ 2,650,671
Undistributed and unrealized loss	<u>(1,872)</u>
Net assets at June 30, 2012	<u><u>\$ 2,648,799</u></u>
Participants net asset value at fair value price per share (\$2,648,799 divided by 2,650,671 units)	
	<u><u>\$ 0.9993</u></u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2012
 (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	\$ 101,663	\$ -	\$ -	\$ 101,663
Loans receivable	-	48,880	-	48,880
Other	164,971	2,504	5,007	172,482
Gross receivables	266,634	51,384	5,007	323,025
Less: allowance for uncollectibles	(148,158)	(294)	-	(148,452)
Total receivables, net	<u>\$ 118,476</u>	<u>\$ 51,090</u>	<u>\$ 5,007</u>	<u>\$ 174,573</u>

Receivables - Business-type Activities	SCVMC	Nonmajor Enterprise Funds	Total Business-type Activities
Patient accounts receivable	\$ 754,410	\$ -	\$ 754,410
Other	1,292	103	1,395
Gross receivables	755,702	103	755,805
Less allowance for uncollectibles	(677,076)	-	(677,076)
Total receivables, net	<u>\$ 78,626</u>	<u>\$ 103</u>	<u>\$ 78,729</u>

Net loan receivables from housing programs in the amount of \$48,586 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, 2012, the components of deferred revenue reported, separated into unavailable revenue and unearned revenue, were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Governmental Activities:		
General Fund:		
Due from other governmental agencies	\$ 125,518	\$ -
Other receivables	1,697	7,534
Other miscellaneous assets including cash deposits	-	24,855
Nonmajor governmental funds:		
Due from other governmental agencies	6,360	82
Other receivables	48,653	67
Other miscellaneous assets including cash deposits	-	1,168
Internal Service Funds	-	1,986
Total governmental activities	<u>\$ 182,228</u>	<u>\$ 35,692</u>
Business-type activities:		
SCVMC	\$ -	\$ 3,837
Nonmajor enterprise funds	-	79
Total business-type activities	<u>\$ -</u>	<u>\$ 3,916</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2012
 (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 land 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) 10 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.

On June 28, 2011, Assembly Bill X1 26 (AB X1 26) was enacted. This legislation is referred to herein as the Redevelopment Dissolution Law. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26 and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. As such the obligation of MRDA transferred to the Successor Agency to the Milpitas Redevelopment Agency and the enforceable obligation was approved by its Oversight Board and updated to increase the additional payments by another 2 years through 2033. 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	
From fiscal year 2011 and prior	\$ 57,750	\$ 419	\$ 52,000	\$ -	\$ 110,169
2012	-	-	4,000	-	4,000
2013	-	-	4,000	-	4,000
2014	-	-	5,000	-	5,000
2015	-	-	5,000	-	5,000
2016	-	-	5,000	-	5,000
2017	-	-	5,000	-	5,000
2018-2022	-	-	29,000	-	29,000
2023-2027	-	-	6,000	14,000	20,000
2028-2032	-	-	-	17,500	17,500
2033	-	-	-	3,500	3,500
Total	57,750	419	115,000	35,000	208,169
Less amount received prior to June 30, 2011	(57,750)	(419)	(52,000)	-	(110,169)
Receivable at June 30, 2011	-	-	63,000	35,000	98,000
Less amount received during current year	-	-	(4,000)	-	(4,000)
Receivable at June 30, 2012	\$ -	\$ -	\$ 59,000	\$ 35,000	\$ 94,000

At June 30, 2012, the County’s General Fund receivable balance of \$94,000 represents the remaining estimated future cash flow related to the sale of the Elmwood surplus lands. During the year ended June 30, 2012, the County recognized proceeds from the sale in the amount of \$4,000 as revenue in its General Fund. At June 30, 2012, the deferred revenue balance related to this balance is \$94,000.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(4) Receivables (Continued)

San Jose Redevelopment Agency

In 1983, the County and the San Jose Redevelopment Agency (SJRD) entered into a tax sharing agreement under which the SJRD 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 SJRD, 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 SJRD approved an Amended and Restated Agreement (Amended Agreement).

In September 2009, the SJRD informed the County that due to the State's Supplemental Educational Revenue Augmentation Funds requirement and insufficient tax increment revenues, it did not have sufficient unrestricted funds to make the fiscal year 2009-10 County Pass-Through Payment. The SJRD further informed the County that it has held funds for the fiscal year 2008-09 County Pass-Through Payments pending negotiations regarding the payment. At June 30, 2010, the County recorded a receivable from the Agency in the amount of \$45.2 million, which included the fiscal years 2008-09 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, SJRD, City of San Jose and its related party in which the SJRD: (1) paid the County \$26.5 million during fiscal year 2010-11; (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. Upon dissolution of the SJRD, the enforceable obligation was transferred to the Successor Agency to the Redevelopment of the City of San Jose and subsequently approved by its Oversight Board. 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 included two repayment options. The first option involved the establishment of a joint powers authority, which issued bonds and used the proceeds to provide governments with funds to replace the borrowed property taxes. The State agreed to pay for bond issuance and an interest of up to 8%. The second option was 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, 2012
 (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, 2012, 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	\$ 969
General Fund	Internal Service Funds	130
General Fund	Nonmajor Governmental Funds	1,945
Nonmajor Governmental Funds	General Fund	1,435
Nonmajor Governmental Funds	Nonmajor Governmental Funds	387
Nonmajor Governmental Funds	SCVMC	252
SCVMC	General Fund	15,736
SCVMC	Nonmajor Governmental Funds	4,960
Agency	Agency	7,633
Total		<u>\$ 33,447</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2012

(Dollars in thousands)

(5) Interfund Transactions (Continued)

The SCVMC is due \$15,736 from General Fund for unpaid operating subsidy and reimbursement of costs incurred for mental health services. In addition, the SCVMC is due \$4,960 from the Nonmajor Governmental Funds for debt service payment reimbursements.

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, 2012, the General Capital Improvement Fund repaid \$5,000 on this advance and as of June 30, 2012, the loan balance is \$11,040.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(5) Interfund Transactions (Continued)

Transfer in/out between funds:

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	\$ 126,702	Transfer funds for operating subsidy.
General Fund	SCVMC	2,100	Transfer funds to pay for Supplemental Benefit Plan costs.
General Fund	Nonmajor Enterprise Funds	11	Transfer funds to cover rent costs for the Animal Rescue Clinic.
SCVMC	General Fund	1,000	Transfer funds to reimburse for services rendered by Community Health Service.
SCVMC	General Fund	2,490	Transfer funds to allocate the Mental Health Department's share of revenues for services provided at the clinics.
SCVMC	General Fund	37	Transfer of donations received which are restricted for use by the Mental Health Department and the Department of Alcohol and Drug Services.
SCVMC	Nonmajor Governmental funds	1,989	Transfer bond proceeds to the General Capital Improvement fund for Valley Specialty Center and Valley Health Center projects.
Nonmajor Governmental Funds	SCVMC	11	Transfer funds for 2010 Series N interest expense.
Subtotal Between Governmental and Business-type Activities:		<u>134,340</u>	

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

General Fund	Nonmajor Governmental funds	8,926	Transfer funds to the Roads fund for Measure B transportation projects.
		112	Transfer funds to the Roads fund for school crossing guard program.
		51	Transfer funds to the County Library fund toward the annual contribution per Joint Power Authority agreement.
		34	Transfer funds for the Integrated Waste Management Program.
		940	Transfer to pay debt service for the Hospital Facilities Authority Bonds.
		15,143	Transfer funds for Facilities and Fleet Department capital projects.
		<u>113</u>	Transfer funds for Tobacco Securitization Corporation operations.
		<u>25,319</u>	
Nonmajor Governmental funds	General Fund	144	Transfer from the Vital Statistic fund for specified ongoing operations.
		297	Transfer funds to pay contract services for a 10 year plan to address chronic homelessness.
		51,764	Transfer from the Proposition 63 fund for planning, administrative and program costs for the mental health services programs.
		149	Transfer for County operations.
		38	Transfer for 2010 Series N interest expense.
		3,100	Transfer for various debt service.
		<u>57</u>	Transfer from Proposition 36 fund for substance abuse prevention program.
		<u>55,549</u>	
Nonmajor Governmental funds	Nonmajor Governmental funds	894	Transfer to the Parks Department for capital projects.
		106	Transfer to the Vector Control Department for building modifications.
		10,890	Transfer bond proceeds for capital improvement projects.
		<u>89</u>	Transfer for bond issuance costs.
		<u>11,979</u>	
Total Between Funds within Governmental or Business-type Activities:		<u>92,847</u>	
Total Transfers:		<u>\$ 227,187</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, 2012
(Dollars in thousands)

(6) Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance, July 1, 2011	Additions	Reductions/ Adjustments	Transfers	Balance, June 30, 2012
Governmental activities					
<i>Capital assets, not being depreciated:</i>					
Land	\$ 251,328	\$ -	\$ (942)	\$ 20	\$ 250,406
Construction in progress	108,966	63,957	-	(36,739)	136,184
Total capital assets, not being depreciated	<u>360,294</u>	<u>63,957</u>	<u>(942)</u>	<u>(36,719)</u>	<u>386,590</u>
<i>Capital assets, being depreciated:</i>					
Infrastructure	271,744	-	-	14,796	286,540
Buildings and improvements	888,620	53	(5,161)	14,208	897,720
Equipment, software and vehicles	183,474	6,031	(6,613)	7,715	190,607
Total capital assets, being depreciated	<u>1,343,838</u>	<u>6,084</u>	<u>(11,774)</u>	<u>36,719</u>	<u>1,374,867</u>
<i>Less accumulated depreciation for:</i>					
Infrastructure	(95,563)	(10,978)	-	-	(106,541)
Buildings and improvements	(408,172)	(13,808)	2,372	-	(419,608)
Equipment, software and vehicles	(129,690)	(16,365)	6,487	-	(139,568)
Total accumulated depreciation	<u>(633,425)</u>	<u>(41,151)</u>	<u>8,859</u>	<u>-</u>	<u>(665,717)</u>
Total capital assets, being depreciated, net	<u>710,413</u>	<u>(35,067)</u>	<u>(2,915)</u>	<u>36,719</u>	<u>709,150</u>
Governmental activities, capital assets, net	<u>\$ 1,070,707</u>	<u>\$ 28,890</u>	<u>\$ (3,857)</u>	<u>\$ -</u>	<u>\$ 1,095,740</u>
Business-type activities					
<i>Capital assets, not being depreciated:</i>					
Land	\$ 6,310	\$ -	\$ -	\$ -	\$ 6,310
Construction in progress	252,827	150,723	-	(50,882)	352,668
Total capital assets, not being depreciated	<u>259,137</u>	<u>150,723</u>	<u>-</u>	<u>(50,882)</u>	<u>358,978</u>
<i>Capital assets, being depreciated:</i>					
Buildings and improvements	760,956	75	-	45,522	806,553
Equipment and vehicles	95,057	2,684	(2,049)	5,360	101,052
Leasehold improvements	2,073	-	-	-	2,073
Total capital assets, being depreciated	<u>858,086</u>	<u>2,759</u>	<u>(2,049)</u>	<u>50,882</u>	<u>909,678</u>
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	(287,080)	(39,569)	-	-	(326,649)
Equipment and vehicles	(63,919)	(8,481)	1,772	-	(70,628)
Leasehold improvements	(1,503)	(104)	-	-	(1,607)
Total accumulated depreciation	<u>(352,502)</u>	<u>(48,154)</u>	<u>1,772</u>	<u>-</u>	<u>(398,884)</u>
Total capital assets, being depreciated, net	<u>505,584</u>	<u>(45,395)</u>	<u>(277)</u>	<u>50,882</u>	<u>510,794</u>
Business-type activities, capital assets, net	<u>\$ 764,721</u>	<u>\$ 105,328</u>	<u>\$ (277)</u>	<u>\$ -</u>	<u>\$ 869,772</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2012
 (Dollars in thousands)

(6) Capital Assets (Continued)

Capital asset activity for the Housing Authority for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance, July 1, 2011</u>	<u>Additions</u>	<u>Reductions/ Adjustments</u>	<u>Balance, June 30, 2012</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 17,229	\$ -	\$ -	\$ 17,229
Construction in progress	<u>1,708</u>	<u>299</u>	<u>(1,351)</u>	<u>656</u>
Total capital assets, not being depreciated	<u>18,937</u>	<u>299</u>	<u>(1,351)</u>	<u>17,885</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	15,636	16	956	16,608
Furniture and equipment	<u>3,183</u>	<u>296</u>	<u>-</u>	<u>3,479</u>
Total capital assets, being depreciated	<u>18,819</u>	<u>312</u>	<u>956</u>	<u>20,087</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(4,749)	(815)	-	(5,564)
Furniture and equipment	<u>(2,961)</u>	<u>(118)</u>	<u>-</u>	<u>(3,079)</u>
Total accumulated depreciation	<u>(7,710)</u>	<u>(933)</u>	<u>-</u>	<u>(8,643)</u>
Total capital assets, being depreciated, net	<u>11,109</u>	<u>(621)</u>	<u>956</u>	<u>11,444</u>
Housing Authority's business-type activity	30,046	<u>\$ (322)</u>	<u>\$ (395)</u>	29,329
Housing Authority's discrete component units' capital assets, as of December 31, 2011, except for Poco Way Associates which is as of May 31, 2012	<u>351,738</u>			<u>374,412</u>
Housing Authority capital assets, net	<u>\$ 381,784</u>			<u>\$ 403,741</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, 2012, was as follows:

	<u>Balance, July 1, 2011</u>	<u>Additions</u>	<u>Reductions/ Adjustments</u>	<u>Balance, June 30, 2012</u>
<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	<u>277</u>	<u>-</u>	<u>-</u>	<u>277</u>
Total capital assets, being depreciated	<u>4,542</u>	<u>-</u>	<u>-</u>	<u>4,542</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(1,260)	(214)	-	(1,474)
Furniture and equipment	<u>(266)</u>	<u>(1)</u>	<u>-</u>	<u>(267)</u>
Total accumulated depreciation	<u>(1,526)</u>	<u>(215)</u>	<u>-</u>	<u>(1,741)</u>
Total capital assets, being depreciated, net	<u>3,016</u>	<u>(215)</u>	<u>-</u>	<u>2,801</u>
FIRST 5 capital assets, net	<u>\$ 5,374</u>	<u>\$ (215)</u>	<u>\$ -</u>	<u>\$ 5,159</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2012
 (Dollars in thousands)

(6) Capital Assets (Continued)

Depreciation

Depreciation expense was charged to governmental functions for the year ended June 30, 2012, as follows:

General government	\$ 20,332
Public protection	4,024
Public ways	10,430
Health and sanitation	525
Public assistance	847
Education	816
Recreation	1,110
Amount reported in the internal service funds	<u>3,067</u>
Total depreciation expense - governmental functions	<u><u>\$ 41,151</u></u>

Depreciation expense was charged to the business-type functions for the year ended June 30, 2012 as follows:

SCVMC	\$ 47,133
Airport	963
Sanitation District	58
Total depreciation expense - business-type functions	<u><u>\$ 48,154</u></u>

Capital Projects Commitments

As of June 30, 2012, the SCVMC and the Airport have active construction projects that include construction of the seismic compliance for SCVMC buildings 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, 2012, are as follows:

Projects	<u>Expended to June 30, 2012</u>	<u>Committed as of June 30, 2012</u>
Hospital Projects	\$ 351,592	\$ 31,539
Airport Projects	<u>1,076</u>	<u>36</u>
Total	<u><u>\$ 352,668</u></u>	<u><u>\$ 31,575</u></u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2012
 (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, 2012. They are as follows:

- Road projects include rehabilitation and replacement; pedestrian and bicycle routes improvements; signal synchronization programs; pavement management of Measure B projects; and the continued comprehensive study, planning, and improvement of the County’s expressways and bridges.
- Parks projects include Almaden Quicksilver toxic mitigation; Anderson visitor center; Anderson Live Oak Bridge; Martial Cottle Master Plan phase I; Spring Valley pond trail reconstruction; and improvement of park facilities.
- General Capital projects include Solar Photovoltaic Project; Malech Road water supply; Court Seismic Upgrade Program; continued renovation and improvement of Juvenile Hall housing detention buildings and jail facilities; repair and replacement of County’s facilities; and demolition and abatement of the former San Jose Medical Clinic in downtown area.

The County’s governmental activities commitments at June 30, 2012, are as follows:

<u>Projects</u>	<u>Expended to June 30, 2012</u>	<u>Committed as of June 30, 2012</u>
Road projects	\$ 30,036	\$ 12,329
Park projects	17,681	2,732
General capital projects	<u>88,467</u>	<u>4,882</u>
Total	<u>\$ 136,184</u>	<u>\$ 19,943</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2012
 (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 fiscal year 2016. As of June 30, 2012, the governmental activities' capital assets and accumulated depreciation under capital leases are:

Description		
Equipment and vehicles	\$	727
Less accumulated depreciation		(100)
Net capital assets	\$	<u>627</u>

The future minimum lease payments under governmental activities capital leases are:

<u>Fiscal year ending June 30,</u>		
2013	\$	149
2014		149
2015		37
2016		<u>2</u>
Total		337
Amount representing interest at rates from 0.08% to 8.36%		<u>(14)</u>
Present value of future minimum lease payments	\$	<u>323</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 June 23, 2011, the County issued \$119,820 in Teeter Plan Obligation Commercial Paper Notes Series A with initial maturity dates ranging from October 3, 2011 through December 7, 2011 and interest rates from 0.17% to 0.21%. These notes were rolled over with final maturity dates of June 25, 2012 and interest rates from 0.13% to 0.22%. On June 25, 2012, the County issued \$109,285 in Teeter Plan Obligation Commercial Paper Notes Series A with initial maturity dates ranging from July 6, 2012 through October 9, 2012, and interest rates from 0.18% to 0.20%.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2012
 (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 N. A. 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 as defined in the Second Supplemental Trust Agreement between the County and U.S. Bank National Association, as Trustee, dated as of June 1, 2012 to the payment of these notes; however, all payments on these notes will be made by draws on the Letter of Credit. Series A Taxes include taxes from the fiscal year ended June 30, 2012 and have the following meaning: (i) the right to collect any uncollected tax-defaulted secured roll property taxes and assessments due to the County and the revenue special districts for all fiscal years through the fiscal year ended June 30, 2012 and such other fiscal years, if any, as may be specified in a Supplemental Trust Agreement, (ii) all amounts received by the County upon the sale of property to recover such property taxes or assessments, and (iii) all amounts received by the County upon the redemption of properties for sale or previously sold to recover such property taxes or assessments. 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) Tax and Revenue Anticipation Notes (TRANS)

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

(c) 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, 2012, which is payable monthly.

(d) Short-Term Debt Activity

	Primary Government	Component Units
Balance, beginning of year	\$ 119,820	\$ 1,659
Additions	234,285	-
Reductions	(244,820)	(634)
Balance, end of year	\$ 109,285	\$ 1,025

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(9) Long-Term Liabilities

As of June 30, 2012, 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, 2012
Governmental activities:					
2007 Taxable Pension Funding Bonds	8/1/12 - 8/1/36	5.56% - 6.11%	\$4,040 - \$51,560	\$ 389,485	\$ 383,035
2009 Series A General Obligation Bonds	8/1/12 - 8/1/39	3.00% - 5.00%	\$1,000 - \$32,500	350,000	316,800
El Camino Hospital District Hospital Facilities Authority:					
1985 Series A & B ACES Lease Revenue Bonds	8/1/12 - 8/1/15	(1)	\$940 - \$8,000	19,205	11,650
Financing Authority:					
1994 Series B Lease Revenue Bonds	11/15/23 - 11/15/25	(2)	\$233 - \$262	742	742
1997 Series A Lease Revenue Bonds	11/15/12 - 11/15/13	5.75% - 6.00%	\$1,513 - \$1,632	16,649	3,145
2003 Series C Lease Revenue Bonds	5/15/13 - 5/15/23	4.00% - 5.00%	\$1,050 - \$1,645	20,025	14,450
2006 Series I Lease Revenue Bonds	5/15/13 - 5/15/31	4.00% - 5.00%	\$2,728 - \$5,927	87,575	78,110
2007 Series K Lease Revenue Bonds	5/15/13 - 5/15/37	4.00% - 5.00%	\$485 - \$1,460	22,655	21,745
2008 Series A Lease Revenue Bonds	11/15/12 - 11/15/22	4.00% - 5.00%	\$161 - \$1,364	5,579	1,777
2008 Series L Lease Revenue Bonds	5/15/13 - 5/15/36	4.00% - 5.25%	\$1,070 - \$4,445	59,800	55,690
2010 Series N Lease Revenue Bonds	5/15/13 - 5/15/17	4.00% - 5.00%	\$5,135 - 5,915	47,188	27,915
2011 Series A Lease Revenue Bonds	8/1/12-2/1/26	5.90%	\$871 - \$2,153	20,368	20,368
2011 Series B Lease Revenue Bonds	8/1/12-2/1/26	4.91%	\$229- \$282	3,639	3,639
Housing Authority:					
2004 Series A Lease Revenue Bonds	9/1/12 - 9/1/29	(3)	\$95 - \$255	3,550	3,020
2006 Series A Lease Revenue Bonds	9/1/12 - 9/1/38	5.00%	\$50 - \$510	5,125	4,920
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 Series TT Vector Control COP	6/1/13 - 6/1/27	3.63% - 5.00%	\$175- \$330	4,495	3,630
Total governmental activities				<u>\$ 1,158,110</u>	<u>\$ 1,052,666</u>
Business-type activities					
SCVMC:					
El Camino Hospital District Hospital Facilities Authority:					
1985 Series A & B ACES Lease Revenue Bonds	8/1/12 - 8/1/15	(1)	\$4,960 - \$5,525	\$ 55,795	\$ 15,950
Financing Authority:					
1994 Series B Lease Revenue Bonds	11/15/23 - 11/15/25	(2)	\$15,687 - \$17,938	50,758	50,758
1997 Series A Lease Revenue Bonds	11/15/12 - 11/15/13	5.75% - 6.00%	\$10,057 - \$10,633	171,756	20,690
2006 Series I Lease Revenue Bonds	5/15/13 - 5/15/31	4.00% - 5.00%	\$1,912 - \$4,153	62,165	54,730
2007 Series K Lease Revenue Bonds	5/15/13 - 5/15/37	4.00% - 5.00%	\$1,510 - \$4,565	70,885	68,040
2008 Series A Lease Revenue Bonds	11/15/14 - 11/15/22	4.00% - 5.00%	\$10,674- \$15,656	120,831	117,503
2008 Series L Lease Revenue Bonds	5/15/13 - 5/15/36	4.00% - 5.25%	\$9,530 - \$11,750	53,040	53,040
2008 Series M Lease Revenue Bonds	5/15/13 - 5/15/35	(4)	\$4,150 - \$8,300	143,105	138,100
Total SCVMC				<u>728,335</u>	<u>518,811</u>
Airport:					
ABAG Series 2002-1 Lease Revenue Bonds	7/1/12 - 7/1/32	4.00% - 5.00%	\$180 - \$355	6,780	4,965
Total business-type activities				<u>\$ 735,115</u>	<u>\$ 523,776</u>

(1) Variable rate, 0.16% effective as of June 30, 2012.

(2) Variable rate 0.17% effective as of June 30, 2012.

(3) Variable rate, 0.17% effective as of June 30, 2012.

(4) Variable rate, 0.29% effective as of June 30, 2012.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(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, 2012:

	Balance, July 1, 2011	Additions	Retirements	Balance, June 30, 2012	Amounts Due Within One Year
Governmental activities:					
Lease Revenue Bonds	\$ 261,206	\$ 3,639	\$ (17,674)	\$ 247,171	\$ 15,141
Unamortized premium	6,140	-	(696)	5,444	696
Unamortized deferred loss on refunding	(2,809)	-	371	(2,438)	(371)
Tobacco Settlement Asset-Backed Bonds	102,030	-	-	102,030	-
Accreted interest on capital appreciation bonds	29,999	7,902	-	37,901	-
Taxable Pension Funding Bonds	386,025	-	(2,990)	383,035	4,040
Current Interest Bonds	-	-	-	-	-
Accreted interest on capital appreciation bonds	23,196	6,732	-	29,928	-
Certificates of Participation	3,800	-	(170)	3,630	175
Unamortized premium	136	-	(8)	128	8
General Obligation Bonds	334,900	-	(18,100)	316,800	1,000
Unamortized premium	11,335	-	(418)	10,917	418
Subtotal governmental bonds	<u>1,155,958</u>	<u>18,273</u>	<u>(39,685)</u>	<u>1,134,546</u>	<u>21,107</u>
Capital Lease Obligations (Note 7)	459	-	(136)	323	141
Accrued litigation liability	2,500	-	-	2,500	-
Insurance claims (Note 13)	115,323	69,678	(68,280)	116,721	34,117
Net OPEB Obligation (Notes 12(e) and 12(f))	154,380	88,763	-	243,143	-
Accrued vacation & sick leave	128,571	97,398	(87,254)	138,715	11,973
Total governmental activities	<u>\$ 1,557,191</u>	<u>\$ 274,112</u>	<u>\$ (195,355)</u>	<u>\$ 1,635,948</u>	<u>\$ 67,338</u>
Business-type activities:					
SCVMC Lease Revenue Bonds	\$ 541,007	\$ -	\$ (22,196)	\$ 518,811	\$ 22,589
Unamortized discount	(215)	-	109	(106)	(77)
Unamortized premium	11,302	-	(893)	10,409	808
Unamortized deferred loss on refunding	(17,772)	-	1,852	(15,920)	(1,733)
Subtotal SCVMC bonds	<u>534,322</u>	<u>-</u>	<u>(21,128)</u>	<u>513,194</u>	<u>21,587</u>
Airport Lease Revenue Bonds	5,135	-	(170)	4,965	180
Unamortized discount	(17)	-	1	(16)	(1)
Subtotal Airport bonds	<u>5,118</u>	<u>-</u>	<u>(169)</u>	<u>4,949</u>	<u>179</u>
Accrued vacation & sick leave	65,428	60,915	(57,530)	68,813	11,005
Total business-type activities	<u>\$ 604,868</u>	<u>\$ 60,915</u>	<u>\$ (78,827)</u>	<u>\$ 586,956</u>	<u>\$ 32,771</u>
Component Units:					
Housing Authority:					
Notes payable	\$ 1,403	\$ -	\$ (3)	\$ 1,400	\$ 23
Payment in lieu of taxes	1,836	7	(1,754)	89	7
Accrued vacation & sick leave	988	1,082	(989)	1,081	82
Long-term interest payable	532	23	-	555	-
Housing Authority's business type activity	<u>4,759</u>	<u>\$ 1,112</u>	<u>\$ (2,746)</u>	<u>3,125</u>	<u>112</u>
Housing Authority's discrete component units' long-term obligations as of December 31, 2011, except for Poco Way Associates which is as of May 31, 2012					
Notes, loans, and bonds payable	241,267			289,780	31,437
Long-term interest payable	18,535			22,252	-
Housing Authority's discrete component units	<u>259,802</u>			<u>312,032</u>	<u>31,437</u>
Total Housing Authority	<u>\$ 264,561</u>			<u>\$ 315,157</u>	<u>\$ 31,549</u>
<i>FIRST 5:</i>					
Accrued vacation & sick leave	<u>\$ 187</u>	<u>\$ -</u>	<u>\$ (5)</u>	<u>\$ 182</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, 2012
(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 5.56% 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 Series A General Obligation Bonds Series

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 Series A General Obligation Bonds in the amount of \$350,000. The bonds bear fixed interest rates ranging from 3.00% to 5.00% which are payable semi-annually commencing February 1, 2010 and have a final maturity of August 1, 2039.

Santa Clara County - El Camino 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 Santa Clara Valley Medical Center (SCVMC). The El Camino facilities were completed in 1982 and the SCVMC facilities were substantially completed in 1990.

The 1985 Series A and B 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, 2012
(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, 2012, 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, 2012, was \$28,099.

Financing Authority

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.

2003 Series C Lease Revenue Bonds – 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 Series N Lease Revenue Bonds – 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 bonds bear fixed interest rates ranging from 4.00% to 5.00% and have a final maturity date of May 15, 2017. The SCVMC portion of this debt matured on May 15, 2012.

2011 Series A & B Qualified Energy Conservation Bonds – On February 10, 2011 the County through the Financing Authority, issued the taxable 2011 Series A Lease Revenue Bonds, Qualified Energy Conservation Bonds (QECCB), in the amount of \$20,368 pursuant to an allocation to the County by the California Debt Limit Allocation Committee. On October 27, 2011, the Financing Authority issued another series of QECCB, 2011 Series B Lease Revenue Bonds, in the amount of \$3,639 on behalf of the County. Series A was to finance acquisition, installation, implementation and construction of solar electric generation system on four County sites, cost of issuance and related fees and expenses. Series B was to fund lighting upgrades and lighting controls with energy efficient systems. Both series will mature on February 1, 2026.

QECCBs are a form of taxable lease revenue bonds which receive a direct subsidy payment from the Federal government to help offset the cost of the borrowing. The subsidy is intended to promote qualified energy projects. The federal subsidy equates to approximately 70% of the interest cost of the financing.

The debt is an obligation of the General Fund. The actual savings will depend on the actual reduction in future utility costs as a result of the solar panel and energy efficient system projects.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

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, 2012, the letter of credit was set to expire on September 1, 2015. 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, 2015. The County is required to pay U.S. Bank N.A. an annual commitment fee of 1.50% based on the outstanding principal amount of the bonds supported by the credit facility. For the year ended June 30, 2012, the Housing Authority paid an annual commitment fee in the amount of \$47.

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.

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

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

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.

2006 Series TT Vector Control Certificates of Participation

During November 2006, the County issued 2006 Series TT Certificates of Participation in the amount of \$4,495 through the California Special Districts Association Finance Corporation to finance the acquisition of an office building. The Certificates bear fixed interest rates ranging from 3.625% to 5.00% and have a final maturity date of June 1, 2027.

(b) *Business-type Activities*

SCVMC

Santa Clara - El Camino Hospital Facilities Authority

The 1985 Series A & B 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

1994 Series A & B Lease Revenue Bonds - On December 15, 1994, the Financing Authority issued the 1994 Series A and B Lease Revenue Bonds. 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 Series A Lease Revenue Bonds. The series matured on November 15, 2011.

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

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

November 1, 2000. 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. At June 30, 2012, the irrevocable letter of credit amount was \$52,126. 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, 2013. The Financing Authority is required to pay JP Morgan Chase Bank N.A. an annual commitment fee of 0.85% based on the outstanding principal amount of the bonds supported by the credit facility and for the year ended June 30, 2012, paid an annual commitment fee in the amount of \$449.

1997 Series A Lease Revenue Bonds and 2008 Series A Lease Revenue Bonds - The Financing Authority's 1997 Series A Lease Revenue Bonds, issued for \$188,405 on October 1, 1997, advance refunded \$146,975 of the 1994 Series A Lease Revenue Bonds and all \$16,405 of outstanding debt for the Public Facilities Corporation 1988 COPs. Debt payments on the 1997 Series A Lease Revenue Bonds 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. The 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 Lease Revenue Bonds. The 1997 Series A Lease Revenue 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 Series A Lease Revenue Bonds bear fixed interest rates ranging from 3.00% to 5.00% and have a final maturity date of November 15, 2022.

2006 Series I Lease Revenue Bonds - On March 2, 2006, the County through the Financing Authority issued 2006 Series I Lease Revenue Bonds 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 in Gilroy; and seismic retrofitting costs of Santa Clara Courthouse. The bonds bear fixed interest rates ranging from 4.00% to 5.00% and have a final maturity date of May 15, 2031.

2007 Series K Lease Revenue Bonds - 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 the Hall of Justice – West. The bonds bear fixed interest rates ranging from 4.00% to 5.00% and have a final maturity date of May 15, 2037.

2008 Series L Lease Revenue Bonds - 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 bond, and SCVMC's outstanding 2006 Series J Lease Revenue Bonds. The 2008 Series L Lease Revenue Bonds bear fixed interest rates ranging from 4.00% to 5.25% and have a final maturity date of May 15, 2036.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

2008 Series M Lease Revenue Bonds - 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 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.

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. elected 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, 2012, paid an annual commitment fee in the amount of \$1,594. On September 18, 2012, the Financing Authority extended the letter of credit with Bank of America N.A. and the new expiration date is October 31, 2015.

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

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 was fully paid on fiscal year 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 matches the \$142,050 principal amount of the 2008 Series M variable rate bonds. The swaps were entered into at the same time the 2005 Series F and G bonds were issued in May 2005. Starting fiscal year 2012, the notional value of the swaps declines as the principal amount of the associated debt begins to be repaid. Under the swaps, the 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, 2012

(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

Fair Value. The swaps had a combined aggregate negative fair value of \$26,832 as of June 30, 2012. 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, 2012. 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 swaps. At June 30, 2012, the Financing Authority was not exposed to credit risk because the swaps had a negative fair value of \$26,832. 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, 2012, Citibank's ratings were A3 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, 2012, were 3.007%.

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, 2012
(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, 2012, 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
2013	\$ 4,150	\$ 399	\$ 3,738	\$ 4,137
2014	4,300	387	3,626	4,013
2015	4,450	375	3,513	3,888
2016	4,600	362	3,392	3,754
2017	4,700	349	3,270	3,619
2018 - 2022	25,950	1,528	14,316	15,844
2023 - 2027	30,300	1,127	10,559	11,686
2028 - 2032	35,500	657	6,155	6,812
2033 - 2035	24,150	136	1,274	1,410
	<u>\$ 138,100</u>	<u>\$ 5,320</u>	<u>\$ 49,843</u>	<u>\$ 55,163</u>

(1) Variable interest on the 2008 Series M is estimated using interest rate at June 30, 2012, of 0.29%.

(2) Net swap interest on the 2008 Series M is estimated using USD-LIBOR-BBA rate at June 30, 2012, of 0.244%. Net swap interest at June 30, 2012, is calculated as follows: 3.185% minus (0.244% * 56.5% + 0.33%) equals to 2.717%.

Impact on Financial Statements. The impact of the interest rate swaps on the financial statements for the year ended June 30, 2012, is as follows:

	Deferred outflows on derivative instrument	Derivative instrument liabilities
Balance at July 1, 2011	\$ 12,679	\$ 12,679
Change in fair value	14,153	14,153
Balance at June 30, 2012	<u>\$ 26,832</u>	<u>\$ 26,832</u>

Derivative instrument liabilities of \$26,832 as of June 30, 2012, represent the fair value of the interest rate swap agreements and deferred outflows on derivative instrument of \$26,832 as of June 30, 2012, 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, 2012
(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%

Airport

On July 1, 2003, the Association of Bay Area Governments (ABAG) issued Series 2002-1 Lease Revenue Bonds, 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, 2012, the debt service requirements to maturity and the fund types from which principal payments will be made are as follows, excluding capital lease obligations, accrued litigation liability, insurance claims liabilities and accrued vacation and sick leave.

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
2013	\$ 15,141	\$ 11,388	\$ -	\$ -	\$ 175	\$ 173	\$ 4,040	\$ 17,617	\$ 1,000	\$ 15,671
2014	15,888	10,638	-	-	180	167	3,577	18,969	1,100	15,640
2015	15,565	9,782	-	-	190	160	3,975	19,479	1,100	15,606
2016	22,441	9,156	-	-	195	152	4,325	20,074	1,100	15,573
2017	14,857	8,473	-	-	205	144	4,647	20,727	1,500	15,534
2018-2022	43,489	34,992	-	-	1,180	559	26,832	115,809	14,100	76,209
2023-2027	52,389	23,789	-	-	1,505	233	30,350	141,872	30,800	70,870
2028-2032	49,016	11,426	-	-	-	-	92,199	114,718	63,100	59,423
2033-2037	17,390	2,338	43,604	178,571	-	-	213,090	34,556	110,200	38,100
2038-2042	995	50	11,339	66,321	-	-	-	-	92,800	7,120
2043-2047	-	-	18,025	158,675	-	-	-	-	-	-
2048-2052	-	-	-	-	-	-	-	-	-	-
2053-2056	-	-	29,062	648,788	-	-	-	-	-	-
Total	<u>\$ 247,171</u>	<u>\$ 122,032</u>	<u>\$ 102,030</u>	<u>\$ 1,052,355</u>	<u>\$ 3,630</u>	<u>\$ 1,588</u>	<u>\$ 383,035</u>	<u>\$ 503,821</u>	<u>\$ 316,800</u>	<u>\$ 329,746</u>

(1) Variable interest on the 1985 ACES Lease Revenue Bonds, the 1994 Series B Lease Revenue Bonds, the 2004 Series A Lease Revenue Bonds, and the 2008 Series M Lease Revenue Bonds are estimated using interest rate at June 30, 2012, of 0.16%, 0.17%, 0.17%, and 0.29%, respectively.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2012
 (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. Capital Lease Obligations are serviced by Santa Clara County Central Fire Protection District and South Santa Clara County Fire District. Accrued litigation liability, insurance claims payable and accrued vacation and sick leave 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
2013	\$ 22,589	\$ 15,447	\$ 180	\$ 239
2014	23,954	14,699	185	231
2015	24,357	14,196	220	222
2016	19,661	13,477	155	213
2017	20,474	12,729	165	206
2018-2022	117,027	50,994	950	901
2023-2027	125,450	32,596	1,210	632
2028-2032	76,874	24,077	1,545	289
2033-2037	88,425	9,211	355	9
Total	<u>\$ 518,811</u>	<u>\$ 187,426</u>	<u>\$ 4,965</u>	<u>\$ 2,942</u>

(1) Variable interest on the 1985 ACES Lease Revenue Bonds, the 1994 Series B Lease Revenue Bonds, and the 2008 Series M Lease Revenue Bonds are estimated using interest rate at June 30, 2012, of 0.16%, 0.17%, and 0.29%, 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 \$1,075,439 payable through May 15, 2037. For the fiscal year ended June 30, 2012, the total lease payments made by the County and SCVMC and total debt service payments paid by the Financing Authorities totaled to \$71,716.

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, 2012.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2012

(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

The County's Series 2009 General Obligation 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 \$646,546. For the fiscal year ended June 30, 2012, the County collected \$15,866 in ad valorem property taxes and made total debt service payments in the amount of \$34,006.

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 \$7,907. For the fiscal year ended June 30, 2012, the total principal and interest payment made by the Airport totaled to \$410.

(e) *Legal Debt Margin*

As of June 30, 2012, the County's legal debt limit (1.25% of the total assessed valuation) was \$3.74 billion. At June 30, 2012, the County has debt in the amount of \$316.8 million applicable to the limit outstanding and the legal debt margin was \$3.42 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, 2012, no amounts for arbitrage rebate payable have been accrued in the government-wide statements – governmental activities under the "Due to other governmental agencies" financial statement caption, while \$616 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, 2012
(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, 2012</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	2
City of San Jose (Morrone Gardens)	9/23/2024	4.00%	(1)	973	973
Subtotal business-type activity				<u>\$ 1,448</u>	<u>1,400</u>
Component units (as of December 31, 2011):					
AE Associates, Ltd.					4,678
Rincon Gardens Associates, L.P.					16,513
Julian Street Partners, L.P.					67,784
HACSC/Choices Senior Associates					11,502
HACSC/Choices Family Associates					16,103
Blossom River Associates					16,330
Thunderbird Associates					2,864
Bascom HACSC Associates					13,161
Opportunity Center Associates					12,143
Helzer Associates					22,276
Willow/HACSC Associates					4,827
Fairground Luxury Family Apartments, L.P.					40,803
Fairground Senior Apartments, L.P.					22,958
Morrone Gardens Associates					4,120
Huff Avenue Associates					4,678
S.P.G. Housing, Inc. and subsidiaries					11,124
Villa Garcia, Inc.					1,816
Villa San Pedro HDC, Inc.					5,660
					<u>279,340</u>
Component unit (as of May 31, 2012):					
Poco Way Associates					10,440
Subtotal component units					<u>289,780</u>
Total Housing Authority					<u>\$ 291,180</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</u>	<u>Principal</u>	<u>Interest</u>
<u>June 30:</u>		
2013	\$ 23	\$ 43
2014	-	43
2015	-	43
2016	-	43
2017	-	44
2018-2022	425	216
2023-2026	953	83
Total	<u>\$ 1,401</u>	<u>\$ 515</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, 2012
(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 year ended June 30, 2012, as follows:

Patient service revenues	\$ 2,730,697
Contractual allowances	(1,887,557)
Bad debts provision	<u>(67,104)</u>
Net patient service revenues	<u>\$ 776,036</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 52% of net patient service revenue (excluding the effects of bad debts provision) for the year ended June 30, 2012. Revenue from the Medicare program represents approximately 18% of net patient service revenue (excluding the effects of bad debts provision) for the fiscal year ended June 30, 2012. Reimbursement for services provided under these programs is currently based on various contractual arrangements (see Note 14(c)).

(b) Other Program Revenues

Effective November 1, 2010, Centers for Medicare and Medicaid Services (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 is managed by the County and augments the California Medical Services Program (CMSP) for the medically indigent.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(10) Hospital Program Revenues (Continued)

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 recognized revenues of \$55,000 in fiscal year 2012.

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 (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, 2012, SCVMC recognized revenues of \$3,755 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 for the year ended June 30, 2012 were \$7,589.

(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 amount of such charity care provided by the SCVMC for the fiscal year ended June 30, 2012, based on the cost incurred to perform these services, is as follows:

Charity care, at cost	\$	214,356
Percentage of operating expenses		23%

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, 2012
(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 assets 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 \$140.7 million of the primary government's total net assets amounts from restricted to unrestricted and \$278.1 million from 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, 2012, fund balances for government funds are made up of the following:

Nonspendable Fund Balance – This category represents amounts 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, 2012

(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, ordinances or resolutions passed by 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, (b) standing committees of the Board of Supervisors; or (c) Director of Finance 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, 2012
 (Dollars in thousands)

(11) Net Assets/Fund Balances (Continued)

Fund balances for the governmental funds as of June 30, 2012, were distributed as follows:

	General Fund	Nonmajor Funds	Total
Nonspendable:			
Inventory	\$ 1,625	\$ 858	\$ 2,483
Long-term receivable	195	1,428	1,623
Prepaid items	15,446	-	15,446
Subtotal	<u>17,266</u>	<u>2,286</u>	<u>19,552</u>
Restricted for:			
General government	33,372	10,695	44,067
Public protection	-	11,103	11,103
Public ways and facilities	-	55,944	55,944
Health and sanitation	-	116,304	116,304
Public assistance	-	21,153	21,153
Capital projects	-	86,465	86,465
Debt service	-	52,654	52,654
Education	-	26,006	26,006
Subtotal	<u>33,372</u>	<u>380,324</u>	<u>413,696</u>
Committed to:			
General government	7,677	851	8,528
Public protection	-	11,179	11,179
Public ways and facilities	7,760	598	8,358
Health and sanitation	-	11,868	11,868
Recreation	-	9,866	9,866
Capital projects	-	12,017	12,017
Subtotal	<u>15,437</u>	<u>46,379</u>	<u>61,816</u>
Assigned to:			
General government	6,966	-	6,966
Public protection	-	19,301	19,301
Subtotal	<u>6,966</u>	<u>19,301</u>	<u>26,267</u>
Unassigned			
	<u>201,749</u>	<u>-</u>	<u>201,749</u>
Total	<u>\$ 274,790</u>	<u>\$ 448,290</u>	<u>\$ 723,080</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-through. 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, 2012, the County has a balance in its contingency reserve in the amount of \$91,062 reported as part of the General Fund's unassigned fund balance.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(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, 2009 actuarial report, the required employer contribution for fiscal year 2012 was 15.632% for Miscellaneous employees and 25.880% 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, 2012, 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 2012.

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, 2009 actuarial report, the Central Fire required employer contribution for fiscal year 2012, was 23.124% for Miscellaneous employees and 31.474% for Safety employees. At June 30, 2012, 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, 2012
(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

Annual Pension Costs

The required contributions were determined as part of the June 30, 2009 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 3.55% 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, 2009 is as follows:

	<u>County</u>	<u>Central Fire</u>
Miscellaneous Plan	24 years	19 years
Safety Plan	29 years	30 years

The County's changes in net pension asset for the year ended June 30, 2012, were as follows:

	<u>County Miscellaneous</u>	<u>County Safety</u>	<u>Central Fire</u>
Annual required contribution	\$ 171,171	\$ 47,332	\$ 11,324
Interest on net pension asset	(21,109)	(7,306)	-
Amortization of net pension asset	17,752	6,144	-
Annual pension cost	167,814	46,170	11,324
Contributions made	(171,171)	(47,332)	(11,324)
Change in net pension asset	(3,357)	(1,162)	-
Net pension asset, beginning of year	(272,372)	(94,275)	-
Net pension asset, end of year	<u>\$ (275,729)</u>	<u>\$ (95,437)</u>	<u>\$ -</u>

Three-year trend information for the County Miscellaneous and Safety Plans 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)
6/30/2012	\$ 197,099	102%	\$ (275,729)	\$ 53,190	102%	\$ (95,437)
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)

Three-year trend information for the Central Fire Miscellaneous and Safety Plans is as follows:

Fiscal Year Ended	<u>Required Contribution Rates</u>		Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
	Miscel- laneous	Safety			
6/30/2012	23.124%	31.474%	\$ 11,324	100%	\$ -
6/30/2011	20.210%	26.709%	9,806	100%	-
6/30/2010	19.915%	26.490%	9,489	100%	-

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2012
 (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, 2011 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 7.50%; (b) projected salary increases of 3.30% to 14.20% depending on age, service, and type of employment; (c) inflation of 2.75%; and (d) payroll growth of 3.00%. 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, 2011 is as follows:

	<u>County</u>	<u>Central Fire</u>
Miscellaneous Plan	24 years	20 years
Safety Plan	24 years	32 years

Summary of funding progress are as follows:

	<u>County Miscellaneous Plan</u>	<u>County Safety Plan</u>	<u>Central Fire Safety Plan</u>
	6/30/2011	6/30/2011	6/30/2011
Actuarial valuation date	6/30/2011	6/30/2011	6/30/2011
Actuarial asset value	\$ 5,741,951	\$ 1,635,628	\$ 330,808
Actuarial accrued liability - entry age	<u>6,930,682</u>	<u>1,991,108</u>	<u>412,761</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,188,731</u>	<u>\$ 355,480</u>	<u>\$ 81,953</u>
Funded ratio	82.8%	82.1%	80.1%
Covered payroll	\$ 1,152,298	\$ 197,330	\$ 31,515
UAAL as percentage of covered payroll	103.2%	180.1%	260.0%

The schedule of funding progress, presented as required supplementary information (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 104 participants, had ending cash value of \$11,252 at June 30, 2012. During the fiscal year ended June 30, 2012, the County contributed \$2,280 to the Supplemental Plan.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

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

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.

For the year ended June 30, 2012, the Housing Authority contributed its annual required contribution of \$1,022 and prepaid \$1,888 towards its actuarial unfunded liability.

Annual Pension Cost

The Housing Authority's actual contribution rates were determined as part of the June 30, 2009 actuarial valuation. The June 30, 2009 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, (c) 3% per year inflation adjustment and (d) 3.25% payroll growth. CalPERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll 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, 2012
(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

The Housing Authority's changes in net pension asset for the year ended June 30, 2012, were as follows:

Annual required contribution	\$ 1,022
Interest on net pension asset	(389)
Amortization of net pension asset	261
Annual pension cost	<u>894</u>
Contributions made	<u>2,782</u>
Change in net pension asset	(1,888)
Net pension asset, beginning of year	<u>(15,896)</u>
Net pension asset, end of year	<u><u>\$ (17,784)</u></u>

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

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
6/30/2012	\$ 894	311%	\$ (17,784)
6/30/2011	1,550	195%	(15,896)
6/30/2010	1,332	1183%	(14,420)

Funded Status and Funding Progress

The Housing Authority's June 30, 2011 actuarial valuation (the most recent valuation available) used the entry age actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) overall payroll growth assumptions of 3.0%, and (c) 2.75% 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, 2012 is 8 years. The Housing Authority's summary of funding progress is as follows:

Actuarial valuation date	6/30/11
Actuarial asset value	\$ 37,178
Actuarial accrued liability - entry age	<u>38,573</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 1,395</u></u>
Funded ratio	96.4%
Covered payroll	\$ 11,740
UAAL as percentage of covered payroll	11.9%

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(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, 39 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 \$145 for the year ended June 30, 2012. 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 maintains a cost-sharing multiple-employer defined benefit postemployment healthcare plan (OPEB Plan), which covers substantially all (excluding Central Fire and Housing Authority) of its employees and certain employees of the Superior Court. Due to the relative insignificance of the other employer in the OPEB Plan, the County presents disclosure information for the OPEB Plan as if it were a single-employer plan. The County's OPEB 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 OPEB Plan 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, 2011 and 2012, actuarial valuations, due to budgetary constraints, the County plans to fund the normal cost for one year of service accrual earned by the active employees plus the implicit subsidy. The Annual Required Contribution (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 2011-12 calculated in the June 30, 2011 actuarial valuation is 14.18% of annual covered payroll.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2012
 (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 \$75,175 of the annual OPEB cost of \$163,527. Of the total amount contributed in fiscal year 2011-12, the County made a deposit into the CERBT of \$12,040 and contributed \$63,135 towards benefit costs.

Annual required contribution	\$ 167,765
Interest on net OPEB obligation	7,551
Adjustment to annual required contribution	<u>(11,789)</u>
Annual OPEB cost	163,527
Contributions made	<u>(75,175)</u>
Change in net OPEB obligation	88,352
Net OPEB obligation, beginning of year	<u>119,809</u>
Net OPEB obligation, end of year	<u><u>\$ 208,161</u></u>

Annual OPEB Cost

The required contributions were determined as part of the June 30, 2011, 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
6/30/2012	\$ 163,527	46.0%	\$ 208,161
6/30/2011	141,213	42.2%	119,809
6/30/2010	128,487	70.2%	38,238

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 healthcare cost trends. 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, 2012
(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, 2011	<u>Method/Assumption</u> June 30, 2012
Valuation date		Entry age normal; Level percentage of pay
Actuarial cost method	Entry age normal; Level dollar	30 years, open, level percent of payroll
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, 2011	30 years as of June 30, 2012
Actuarial asset valuation method	Market value	Market value
Investment rate of return	6.61% *	6.55% *
Price inflation	3.00%	3.00%
Wage inflation	3.25%	3.25%
Projected payroll increases	Increase of 3.65% 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	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.	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 expected return on the County's investments of 5.60% and 5.70% for valuations at June 30, 2012 and 2011, respectively. The 5.60% 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 the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of June 30, 2012, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 2,121,600
Actuarial value of plan assets	264,139
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,857,461</u>
Funded ratio (actuarial value of plan assets/AAL)	12.4%
Covered payroll (active plan members)	\$ 1,329,864
UAAL as a percentage of covered payroll	139.7%

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, 2012
 (Dollars in thousands)

(12) Employee Benefit Plans (Continued)

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

During the year ended June 30, 2012, the Central Fire entered into an agreement with PERS where by the Central Fire 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 Central Fire 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 to 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 Central Fire’s June 30, 2011 actuarial valuation, the modified projected unit credit method was used. The actuarial assumptions included a 7.00 percent investment rate of return and an annual healthcare cost trends based on Kaiser and Indemnity medical/drug graded at no more than 10 years with an ultimate rate of 4.5 percent. The actuarial assumptions also include a 3.00 percent salary increase. The actuarial value of assets was determined using the market value of the assets since the Central Fire just started prefunding this plan. The Central Fire’s unfunded actuarial accrued liability is being amortized over 30 years on a closed basis. The assumption changes were made for the June 30, 2011 valuation compared to the prior valuation include: the discount rate was raised from 3% to 7%, which is the expected long-term rate of return on Central Fire’s contributions to the CERBT and the select period health trend rates were generally lowered, the period itself was shortened to no more than ten years and the ultimate health trend was reduced from 5.0% to 4.5%.

The Central Fire provides lifetime medical insurance to a retiree and his/her spouse if the retiree retired on or before January 1, 1978. The Central Fire will pay for the spouse’s coverage so long as the retiree maintains eligibility. An employee who retires after January 1, 1978 may include his/her dependent on the plan at the retiree's cost.

The table below summarizes the position of the Central Fire’s OPEB plan for the fiscal year ended June 30, 2012.

Annual required contribution	\$	7,602
Interest on beginning net OPEB obligation		2,420
Amortization of net OPEB obligation		(1,962)
Annual OPEB cost		8,060
Contributions made		(7,649)
Change in net OPEB obligation		411
Net OPEB obligation, beginning of year		34,571
Net OPEB obligation, end of year	\$	34,982

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2012
 (Dollars in thousands)

(12) Employee Benefit Plans (Continued)

The required contributions were determined as part of the June 30, 2011 valuation and that valuation was used to determine the ARC for the fiscal year ended June 30, 2012. The following table represents the annual OPEB cost for the past three years, the percentage of annual OPEB cost contributed, and net OPEB obligations:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 8,060	95.0%	\$ 34,982
6/30/2011	14,216	20.8%	34,571
6/30/2010	14,005	20.2%	23,322

As discussed earlier, 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)	\$ 76,556
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 76,556</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Annual covered payroll	\$ 36,847
UAAL as a percentage of annual covered payroll	207.8%

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.

Details of the Central Fire's OPEB plan may be found in its financial report for the fiscal year ended June 30, 2012. 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, 2012
 (Dollars in thousands)

(12) Employee Benefit Plans (Continued)

(g) *Postretirement Health Care Benefits – Housing Authority*

The Housing Authority maintains a separate OPEB plan. 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 Housing 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 to 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, 2011 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 6.39 percent investment rate of return and an annual healthcare cost trend rate of 9.0 percent for 2012, reduced by decrements to an ultimate rate of 4.5 percent in year 2019 and beyond. The actuarial assumptions also include a 3.25 percent salary increase. 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, 2012, the Housing Authority’s annual OPEB cost equals to its ARC. The required contributions were determined as part of the July 1, 2011 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
6/30/2012	\$ 192	100.0%	\$ -
6/30/2011	284	100.0%	-
6/30/2010	4,567	126.9%	-

As of July 1, 2011, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 6,899
Actuarial value of plan assets	<u>6,557</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 342</u>
Funded ratio (actuarial value of plan assets/AAL)	95.0%
Annual covered payroll	\$ 11,472
UAAL as a percentage of annual covered payroll	3.0%

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2012
 (Dollars in thousands)

(12) Employee Benefit Plans (Continued)

Details of the Housing Authority’s OPEB plan may be found in its financial report for the fiscal year ended June 30, 2012. 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 (Insurance 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 for the following types of coverage listed below. The Insurance 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	\$0	\$33,000
General Liability	Up to \$2,000	\$0	\$25,000
Medical Malpractice	Up to \$500	\$1,500 per occurrence	\$21,500
			\$50,000 annual aggregate
Workers' Compensation	Up to \$4,000	\$1,000 per occurrence	Statutory
Property Damage	Up to \$50 ⁽²⁾ (This is deductible)	\$3,000 per occurrence \$10,000 annual aggregate	Up to \$1,807,500 ⁽³⁾
Earthquake	5% of property value \$100 minimum deductible		Up to \$472,500 ⁽⁴⁾
Airport	None		\$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 \$602,500 each for a total of \$1,807,500.

(4) Insured values are split between 3 schedules with limits of \$82,500 per tower shared with all other members in towers II, III and IV, plus a rooftop of \$225,000 shared with all member in towers I, II, III, IV and V for a total of \$472,500.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2012
 (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>2012</u>	<u>2011</u>
Unpaid claims, beginning of year	\$ 115,323	\$ 109,964
Incurred claims and changes in estimate	69,678	73,174
Claim payments	<u>(68,280)</u>	<u>(67,815)</u>
Unpaid claims, end of year	<u>\$ 116,721</u>	<u>\$ 115,323</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 \$11,477 for the fiscal year ended June 30, 2012.

(14) Commitments and Contingencies

(a) Commitments

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

<u>Fiscal year ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
2013	\$ 37,378	\$ 4,931	\$ 42,309
2014	33,847	5,032	38,879
2015	33,190	5,136	38,326
2016	33,846	5,257	39,103
2017	35,311	5,367	40,678
2018-2022	181,626	27,641	209,267
2023-2027	187,345	28,470	215,815
2028-2032	<u>192,855</u>	<u>29,325</u>	<u>222,180</u>
Total	<u>\$ 735,398</u>	<u>\$ 111,159</u>	<u>\$ 846,557</u>

Rent expense for fiscal year 2012 was approximately \$41,924 and \$6,804 for the governmental activities and business-type activities, respectively.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2012
(Dollars in thousands)

(14) Commitments and Contingencies (Continued)

The County has entered into operating leases as lessor 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
2013	\$ 3,585	\$ 457	\$ 4,042
2014	3,211	94	3,305
2015	3,269	95	3,364
2016	3,348	97	3,445
2017	3,424	99	3,523
2018-2022	17,772	406	18,178
2023-2027	19,026	-	19,026
2028-2032	19,450	-	19,450
Total	\$ 73,085	\$ 1,248	\$ 74,333

At June 30, 2012, the leased assets had a net book value of \$125. Rent income for fiscal year 2012 was approximately \$6,634 and \$2,754 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, 2012, 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, 2009 (pending a Notice of Program Reimbursement for fiscal years June 30, 2004, 2005, and 2006 due to Supplemental Security Income ratio changes). 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, 2012
(Dollars in thousands)

(14) Commitments and Contingencies (Continued)

Net receivables from patients and third-party payers at June 30, 2012, are summarized as follows:

Medicare	\$ 20,774
Medi-Cal	23,800
Insurance and other third-party payers	29,587
Private patients	<u>3,173</u>
Total	<u>\$ 77,334</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, 2012 were \$365.2 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) Conduit Debt - 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, 2012, the outstanding balance of these bonds was \$28,387. 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, 2012

(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, 2012, the total outstanding balances of these conduit bonds were \$136,950.

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, 2012, 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 assigned fund balance. At June 30, 2012, encumbrances totaled to \$2,891, \$20,003, and \$7,235 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, 2012

(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

Moody's Credit Rating Downgrade - On July 6, 2012, Moody's Investor Service assigned an A1 rating to the County's Refunding Lease Revenue Bonds 2012 Series A issued by the Santa Clara County Financing Authority. In conjunction with this rating assignment it lowered the credit ratings on the following County debt issues: General Obligation bonds (from Aa1 to Aa2), Pension Obligation bonds (Aa2 to Aa3), and Financing Authority lease revenue bonds (Aa2 to A1).

2012 Series A Lease Revenue Bonds – On August 8, 2012, the Financing Authority issued \$86,920 of 2012 Series A Lease Revenue Bonds on behalf of the County. The purpose of the issuance is to provide funds 1) to finance various public capital improvements and projects related to the Santa Clara Valley Health and Hospital System Enterprise Core Health Care Information System, 2) to fund the Reserve Fund relating to the 2012 Series A Bonds, and 3) for the cost of issuance of the 2012 Series A Bonds. The bonds bear fixed interest rates ranging from 4.00% to 5.00% and have a final maturity date of February 1, 2024.

2007 Silicon Valley Tobacco Securitization Authority Tobacco Settlement Asset-Backed Bonds- On August 22, 2012, 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 reduction occurred: Series 2007A maturing June 1, 2036 from BBB to BB+; Series 2007A maturing June 1, 2041 from BBB to BB+; Series 2007A maturing June 1, 2047 from BBB- to BB, Series 2007B maturing June 1, 2047 from BBB- to BB-, Series 2007C maturing June 1, 2056 from BB to B+; and Series 2007 D maturing June 1, 2056 from B+ to B.

Teeter Plan Obligation Commercial Paper Notes – The Teeter Plan Obligation Commercial Paper Notes Series A with maturity dates ranging from July 6, 2012 to October 9, 2012 were extended with new maturity dates ranging from February 4, 2013 to March 14, 2013 and interest rates from 0.13% to 0.22%.

This page intentionally left blank.

**Required Supplementary
Information**

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Schedules of Funding Progress
June 30, 2012
(Dollars in thousands)

Schedule of Funding Progress – PERS Defined Benefit Pension - County Miscellaneous 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
6/30/2011	\$ 5,741,951	\$ 6,930,682	\$ 1,188,731	82.8%	\$ 1,152,298	103.2%
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%

Schedule of Funding Progress – PERS Defined Benefit Pension - County 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
6/30/2011	\$ 1,635,628	\$ 1,991,108	\$ 355,480	82.1%	\$ 197,330	180.1%
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%

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
6/30/2011	\$ 330,808	\$ 412,761	\$ 81,953	80.1%	\$ 31,515	260.0%
6/30/2010	314,505	393,045	78,540	80.0%	32,467	241.9%
6/30/2009	300,245	372,860	72,615	80.5%	30,871	235.2%

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
6/30/2011	\$ 37,178	\$ 38,573	\$ 1,395	96.4%	\$ 11,740	11.9%
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%

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Schedules of Funding Progress
June 30, 2012
(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
6/30/2012	\$ 264,139	\$ 2,121,600	\$ 1,857,461	12.4%	\$ 1,329,864	139.7%
6/30/2011	251,789	2,035,456	1,783,667	12.4%	1,328,612 *	134.3%
6/30/2009	141,418	1,399,865	1,258,447	10.1%	1,267,398	99.3%

* Based on updated cover payroll for 2011-12 fiscal year.

The County's Unfunded Actuarial Accrued Liability (UAAL) as determined through actuarial valuations increased from \$1.3 billion as of June 30, 2009 to \$1.8 billion as of June 30, 2011 and to \$1.9 billion as of June 30, 2012. The increases were mainly due to decreases in discount rates used in the actuarial valuations, from 7.75% as of June 30, 2009 to 6.61% as of June 30, 2011 and to 6.55% as of June 30, 2012. The decreases in the discount rate were 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 and 2012 valuations, due to budgetary constraints, the County planned to fund the normal cost for one year of service accrual earned by the active employees 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
6/30/2011	\$ -	\$ 76,556	\$ 76,556	0.0%	\$ 36,847	207.8%
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
7/1/2011	\$ 6,557	\$ 6,899	\$ 342	95.0%	\$ 11,472	3.0%
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, 2012
(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	\$ 246,644	\$ 246,644	\$ 246,644	\$ -
Resources (inflows):				
Taxes	634,086	634,441	641,051	6,610
Licenses and permits	10,942	11,174	12,223	1,049
Fines, forfeitures, and penalties	43,516	53,524	55,074	1,550
Interest and investment income	8,766	9,993	10,344	351
Intergovernmental revenues	1,037,055	1,133,891	1,075,939	(57,952)
Charges for services	142,656	111,736	109,598	(2,138)
Other revenue	24,016	27,754	27,244	(510)
Other financing sources	21,225	21,225	9,943	(11,282)
Interfund transfers	116,019	240,597	59,076	(181,521)
Total resources (inflows) available for appropriation	<u>2,038,281</u>	<u>2,244,335</u>	<u>2,000,492</u>	<u>(243,843)</u>
Charges to appropriations (outflows):				
General government:				
Supervisorial District 1				
Salaries and benefits	1,055	1,058	944	114
Services and supplies	66	66	27	39
Total Supervisorial District 1	<u>1,121</u>	<u>1,124</u>	<u>971</u>	<u>153</u>
Supervisorial District 2				
Salaries and benefits	1,064	993	962	31
Services and supplies	57	131	96	35
Total Supervisorial District 2	<u>1,121</u>	<u>1,124</u>	<u>1,058</u>	<u>66</u>
Supervisorial District 3				
Salaries and benefits	1,064	1,017	948	69
Services and supplies	57	130	74	56
Expenditure reimbursements	-	-	1	(1)
Total Supervisorial District 3	<u>1,121</u>	<u>1,147</u>	<u>1,023</u>	<u>124</u>
Supervisorial District 4				
Salaries and benefits	1,064	1,067	1,031	36
Services and supplies	57	57	16	41
Expenditure reimbursements	-	-	1	(1)
Total Supervisorial District 4	<u>1,121</u>	<u>1,124</u>	<u>1,048</u>	<u>76</u>
Supervisorial District 5				
Salaries and benefits	1,055	1,003	971	32
Services and supplies	66	121	104	17
Total Supervisorial District 5	<u>1,121</u>	<u>1,124</u>	<u>1,075</u>	<u>49</u>
Clerk - Board of Supervisors				
Salaries and benefits	3,098	3,080	2,900	180
Services and supplies	4,443	4,390	3,777	613
Expenditure reimbursements	(134)	(134)	(73)	(61)
Total Clerk - Board of Supervisors	<u>7,407</u>	<u>7,336</u>	<u>6,604</u>	<u>732</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2012
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
General government (continued):				
Office of the County Executive				
Salaries and benefits	9,864	10,117	10,103	14
Services and supplies	17,241	25,988	13,427	12,561
Expenditure reimbursements	(610)	(710)	(396)	(314)
Total Office of the County Executive	<u>26,495</u>	<u>35,395</u>	<u>23,134</u>	<u>12,261</u>
Controller-Treasurer				
Salaries and benefits	8,992	9,190	9,171	19
Services and supplies	10,515	13,162	12,968	194
Expenditure reimbursements	(45,909)	(45,843)	(45,909)	66
Total Controller-Treasurer	<u>(26,402)</u>	<u>(23,491)</u>	<u>(23,770)</u>	<u>279</u>
Tax Collector				
Salaries and benefits	5,692	5,720	5,603	117
Services and supplies	2,198	8,126	1,835	6,291
Total Tax Collector	<u>7,890</u>	<u>13,846</u>	<u>7,438</u>	<u>6,408</u>
Office of the Assessor				
Salaries and benefits	25,826	25,649	25,147	502
Services and supplies	8,629	9,556	3,330	6,226
Total Office of the Assessor	<u>34,455</u>	<u>35,205</u>	<u>28,477</u>	<u>6,728</u>
Purchasing				
Salaries and benefits	3,874	3,793	3,499	294
Services and supplies	608	723	612	111
Expenditure reimbursements	(554)	(554)	(574)	20
Total Purchasing	<u>3,928</u>	<u>3,962</u>	<u>3,537</u>	<u>425</u>
Office of Budget and Analysis - Special Programs				
Services and supplies	6,282	6,282	4,221	2,061
Interfund transfers	90,749	138,711	133,211	5,500
Total Office of Budget and Analysis - Special Programs	<u>97,031</u>	<u>144,993</u>	<u>137,432</u>	<u>7,561</u>
Office of the County Counsel				
Salaries and benefits	21,732	22,033	21,845	188
Services and supplies	7,079	6,788	6,332	456
Fixed assets	-	28	27	1
Expenditure reimbursements	(17,381)	(17,585)	(17,323)	(262)
Total Office of the County Counsel	<u>11,430</u>	<u>11,264</u>	<u>10,881</u>	<u>383</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2012
(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	12,020	12,287	12,286	1
Services and supplies	3,980	3,992	3,817	175
Expenditure reimbursements	(4,712)	(4,712)	(4,185)	(527)
Interfund transfers	-	2,100	2,100	-
Total Personnel	<u>11,288</u>	<u>13,667</u>	<u>14,018</u>	<u>(351)</u>
Risk Management				
Salaries and benefits	1,364	1,402	1,385	17
Services and supplies	565	527	497	30
Expenditure reimbursements	(1,780)	(1,780)	(1,876)	96
Total Risk Management	<u>149</u>	<u>149</u>	<u>6</u>	<u>143</u>
Registrar of Voters				
Salaries and benefits	7,285	7,790	7,363	427
Services and supplies	8,183	8,127	5,160	2,967
Fixed assets	-	455	424	31
Total Registrar of Voters	<u>15,468</u>	<u>16,372</u>	<u>12,947</u>	<u>3,425</u>
Information Services				
Salaries and benefits	3,885	4,168	4,167	1
Services and supplies	15,238	15,775	12,968	2,807
Fixed assets	-	153	148	5
Expenditure reimbursements	(1,436)	(1,436)	(1,282)	(154)
Total Information Services	<u>17,687</u>	<u>18,660</u>	<u>16,001</u>	<u>2,659</u>
Department of Revenue				
Salaries and benefits	8,170	8,177	7,233	944
Services and supplies	1,767	1,817	1,405	412
Total Department of Revenue	<u>9,937</u>	<u>9,994</u>	<u>8,638</u>	<u>1,356</u>
Communication				
Salaries and benefits	13,448	13,198	12,397	801
Services and supplies	5,225	7,583	3,867	3,716
Fixed assets	-	118	118	-
Expenditure reimbursements	(5,211)	(7,310)	(4,344)	(2,966)
Total Communication	<u>13,462</u>	<u>13,589</u>	<u>12,038</u>	<u>1,551</u>
Department of Planning & Development				
Salaries and benefits	10,034	10,040	9,910	130
Services and supplies	2,281	2,532	2,364	168
Expenditure reimbursements	(349)	(349)	(265)	(84)
Total Department of Planning & Development	<u>11,966</u>	<u>12,223</u>	<u>12,009</u>	<u>214</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2012
(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):				
Facilities and Fleet Department				
Salaries and benefits	23,491	23,510	23,458	52
Services and supplies	68,238	67,968	64,767	3,201
Fixed assets	-	10	-	10
Expenditure reimbursements	(52,061)	(52,606)	(49,993)	(2,613)
Interfund transfers	13,926	15,393	14,993	400
Total Facilities and Fleet Department	<u>53,594</u>	<u>54,275</u>	<u>53,225</u>	<u>1,050</u>
General government - subtotals:				
Salaries and benefits	164,077	165,292	161,323	3,969
Services and supplies	162,775	183,841	141,664	42,177
Fixed assets	-	764	717	47
Expenditure reimbursements	(130,137)	(133,019)	(126,218)	(6,801)
Interfund transfers	104,675	156,204	150,304	5,900
Total general government	<u>301,390</u>	<u>373,082</u>	<u>327,790</u>	<u>45,292</u>
Public protection:				
Clerk Recorder				
Salaries and benefits	4,827	4,826	4,779	47
Services and supplies	532	532	456	76
Total Clerk Recorder	<u>5,359</u>	<u>5,358</u>	<u>5,235</u>	<u>123</u>
District Attorney				
Salaries and benefits	77,626	78,281	78,268	13
Services and supplies	15,429	17,466	16,787	679
Fixed assets	-	15	15	-
Expenditure reimbursements	(5,466)	(5,746)	(5,720)	(26)
Total District Attorney	<u>87,589</u>	<u>90,016</u>	<u>89,350</u>	<u>666</u>
Public Defender				
Salaries and benefits	38,901	40,371	40,110	261
Services and supplies	4,031	4,118	4,041	77
Expenditure reimbursements	(338)	(338)	(337)	(1)
Total Public Defender	<u>42,594</u>	<u>44,151</u>	<u>43,814</u>	<u>337</u>
Pretrial Services				
Salaries and benefits	4,145	4,152	4,000	152
Services and supplies	738	738	620	118
Total Pretrial Services	<u>4,883</u>	<u>4,890</u>	<u>4,620</u>	<u>270</u>
Criminal Justice Support				
Services and supplies	46,790	46,790	46,748	42
Total Criminal Justice Support	<u>46,790</u>	<u>46,790</u>	<u>46,748</u>	<u>42</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2012
(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):				
Sheriff Administration				
Salaries and benefits	110,750	110,802	103,806	6,996
Services and supplies	14,043	18,851	15,197	3,654
Fixed assets	133	138	138	-
Expenditure reimbursements	(7,867)	(8,878)	(4,653)	(4,225)
Total Sheriff Administration	<u>117,059</u>	<u>120,913</u>	<u>114,488</u>	<u>6,425</u>
Sheriff - Department of Correction Services				
Salaries and benefits	96,588	101,519	101,481	38
Total Sheriff - Department of Correction Services	<u>96,588</u>	<u>101,519</u>	<u>101,481</u>	<u>38</u>
Department of Correction				
Salaries and benefits	25,242	24,599	24,048	551
Services and supplies	45,581	44,410	42,575	1,835
Fixed assets	-	50	49	1
Expenditure reimbursements	(171)	(171)	(121)	(50)
Total Department of Correction	<u>70,652</u>	<u>68,888</u>	<u>66,551</u>	<u>2,337</u>
Probation Department				
Salaries and benefits	102,516	106,067	106,046	21
Services and supplies	18,486	22,825	15,800	7,025
Expenditure reimbursements	(471)	(831)	(615)	(216)
Total Probation Department	<u>120,531</u>	<u>128,061</u>	<u>121,231</u>	<u>6,830</u>
Department of Agriculture/Weights & Measures/ Animal Control				
Salaries and benefits	5,253	5,313	5,132	181
Services and supplies	1,838	1,948	1,927	21
Interfund transfers	11	11	11	-
Expenditure reimbursements	(478)	(478)	(400)	(78)
Total Department of Agriculture/ Weights & Measures/Animal Control	<u>6,624</u>	<u>6,794</u>	<u>6,670</u>	<u>124</u>
Medical Examiner - Coroner				
Salaries and benefits	2,706	2,704	2,704	-
Services and supplies	702	716	693	23
Total Medical Examiner - Coroner	<u>3,408</u>	<u>3,420</u>	<u>3,397</u>	<u>23</u>
Public protection - subtotals:				
Salaries and benefits	468,554	478,634	470,374	8,260
Services and supplies	148,170	158,394	144,844	13,550
Fixed assets	133	203	202	1
Interfund transfers	11	11	11	-
Expenditure reimbursements	(14,791)	(16,442)	(11,846)	(4,596)
Total public protection	<u>602,077</u>	<u>620,800</u>	<u>603,585</u>	<u>17,215</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2012
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Public ways and facilities:				
Measure B				
Services and supplies	6,661	6,661	3,444	3,217
Interfund transfers	10,632	10,632	2,727	7,905
Total Measure B	<u>17,293</u>	<u>17,293</u>	<u>6,171</u>	<u>11,122</u>
Health and sanitation:				
Health Services Administration				
Salaries and benefits	50,079	49,885	47,690	2,195
Services and supplies	37,480	39,218	31,923	7,295
Fixed assets	455	62	50	12
Interfund transfers	-	150	150	-
Expenditure reimbursements	(2,435)	(2,807)	(3,125)	318
Total Health Services Administration	<u>85,579</u>	<u>86,508</u>	<u>76,688</u>	<u>9,820</u>
Mental Health Bureau				
Salaries and benefits	37,710	40,716	39,021	1,695
Services and supplies	264,706	275,301	234,200	41,101
Expenditure reimbursements	(2,945)	(2,903)	(2,533)	(370)
Total Mental Health Bureau	<u>299,471</u>	<u>313,114</u>	<u>270,688</u>	<u>42,426</u>
Custody Health Services				
Salaries and benefits	35,199	35,090	33,526	1,564
Services and supplies	9,686	10,844	9,770	1,074
Fixed assets	412	552	-	552
Expenditure reimbursements	(44,962)	(45,138)	(42,145)	(2,993)
Total Custody Health Services	<u>335</u>	<u>1,348</u>	<u>1,151</u>	<u>197</u>
Bureau of Alcohol & Drug Programs				
Salaries and benefits	16,762	17,652	16,863	789
Services and supplies	23,140	25,886	22,997	2,889
Fixed assets	-	20	18	2
Expenditure reimbursements	(1,872)	(2,414)	(1,964)	(450)
Total Bureau of Alcohol & Drug Programs	<u>38,030</u>	<u>41,144</u>	<u>37,914</u>	<u>3,230</u>
Community Outreach Program				
Salaries and benefits	8,238	8,244	7,757	487
Services and supplies	6,314	6,199	5,960	239
Expenditure reimbursements	(1,824)	(1,899)	(1,304)	(595)
Total Community Outreach Program	<u>12,728</u>	<u>12,544</u>	<u>12,413</u>	<u>131</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2012
(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 (continued):				
Healthy Children				
Services and supplies	4,500	4,500	3,211	1,289
Total Healthy Children	<u>4,500</u>	<u>4,500</u>	<u>3,211</u>	<u>1,289</u>
Health and sanitation - subtotals:				
Salaries and benefits	147,988	151,587	144,857	6,730
Services and supplies	345,826	361,948	308,061	53,887
Fixed assets	867	634	68	566
Interfund transfers	-	150	150	-
Expenditure reimbursements	<u>(54,038)</u>	<u>(55,161)</u>	<u>(51,071)</u>	<u>(4,090)</u>
Total health and sanitation	<u>440,643</u>	<u>459,158</u>	<u>402,065</u>	<u>57,093</u>
Public assistance:				
In-House Support Services				
Services and supplies	95,839	93,667	91,845	1,822
Total In-House Support Services	<u>95,839</u>	<u>93,667</u>	<u>91,845</u>	<u>1,822</u>
Office of Affordable Housing				
Salaries and benefits	762	762	694	68
Services and supplies	173	173	68	105
Expenditure reimbursements	<u>(983)</u>	<u>(983)</u>	<u>(762)</u>	<u>(221)</u>
Total Office of Affordable Housing	<u>(48)</u>	<u>(48)</u>	<u>-</u>	<u>(48)</u>
Social Services Administration				
Salaries and benefits	235,464	237,901	236,661	1,240
Services and supplies	113,399	117,819	102,625	15,194
Fixed assets	-	1,166	1,124	42
Expenditure reimbursements	<u>(617)</u>	<u>(581)</u>	<u>(321)</u>	<u>(260)</u>
Total Social Services Administration	<u>348,246</u>	<u>356,305</u>	<u>340,089</u>	<u>16,216</u>
Nutrition Services to the Aged				
Salaries and benefits	950	952	950	2
Services and supplies	<u>5,767</u>	<u>5,764</u>	<u>5,542</u>	<u>222</u>
Total Nutrition Services to the Aged	<u>6,717</u>	<u>6,716</u>	<u>6,492</u>	<u>224</u>
Categorical Aids Payments				
Services and supplies	191,139	191,139	172,508	18,631
Expenditure reimbursements	<u>-</u>	<u>-</u>	<u>(3,000)</u>	<u>3,000</u>
Total Categorical Aids Payments	<u>191,139</u>	<u>191,139</u>	<u>169,508</u>	<u>21,631</u>
Public assistance - subtotals:				
Salaries and benefits	237,176	239,615	238,305	1,310
Services and supplies	406,317	408,562	372,588	35,974
Fixed assets	-	1,166	1,124	42
Expenditure reimbursements	<u>(1,600)</u>	<u>(1,564)</u>	<u>(4,083)</u>	<u>2,519</u>
Total public assistance	<u>641,893</u>	<u>647,779</u>	<u>607,934</u>	<u>39,845</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2012
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Debt service:				
County debt service				
Principal retirement	12,182	12,663	12,174	489
Interest and fiscal charges	15,438	15,571	14,578	993
Interfund transfers	996	996	940	56
Total debt service	<u>28,616</u>	<u>29,230</u>	<u>27,692</u>	<u>1,538</u>
Reserves:				
OMB Special Programs				
General government	34,959	26,603	-	26,603
Total OMB Special Programs	<u>34,959</u>	<u>26,603</u>	<u>-</u>	<u>26,603</u>
Personnel				
General government	2,100	-	-	-
Total Personnel	<u>2,100</u>	<u>-</u>	<u>-</u>	<u>-</u>
Registrar of Voters				
General government	759	359	-	359
Total Registrar of Voters	<u>759</u>	<u>359</u>	<u>-</u>	<u>359</u>
Criminal Justice Support				
Public protection	-	1,555	-	1,555
Total Criminal Justice Support	<u>-</u>	<u>1,555</u>	<u>-</u>	<u>1,555</u>
Sheriff Administration				
Public protection	34	34	-	34
Total Sheriff Administration	<u>34</u>	<u>34</u>	<u>-</u>	<u>34</u>
Bureau of Alcohol & Drug Programs				
Health and sanitation	226	-	-	-
Total Bureau of Alcohol & Drug Programs	<u>226</u>	<u>-</u>	<u>-</u>	<u>-</u>
Social Services Administration				
Public assistance	2,197	2,197	-	2,197
Total Social Services Administration	<u>2,197</u>	<u>2,197</u>	<u>-</u>	<u>2,197</u>
Nutrition Services to the Aged				
Public assistance	77	177	-	177
Total Nutrition Services to the Aged	<u>77</u>	<u>177</u>	<u>-</u>	<u>177</u>
Appropriation Contingencies				
Total Appropriation Contingencies	<u>91,376</u>	<u>91,062</u>	<u>-</u>	<u>91,062</u>
Total reserves	<u>131,728</u>	<u>121,987</u>	<u>-</u>	<u>121,987</u>
Total charges to appropriations	<u>\$ 2,163,640</u>	<u>\$ 2,269,329</u>	<u>\$ 1,975,237</u>	<u>\$ 294,092</u>

(Continued)

This page intentionally left blank.

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2012
(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	\$ 2,000,492
Differences - budget to GAAP:	
Proceeds from sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes	(9,943)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(59,076)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u><u>\$ 1,931,473</u></u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 1,975,237
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	(2,891)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(154,132)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u><u>\$ 1,818,214</u></u>

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

COUNTY OF SANTA CLARA

Notes to Required Supplementary Information

June 30, 2012

(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.

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.

Federal Compliance Section

The Board of Supervisors
County of Santa Clara
San José, 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, 2012, which collectively comprise the County’s basic financial statements and have issued our report thereon dated January 25, 2013, except for our report on the schedule of expenditures of federal awards, as to which the date is March 27, 2013. Our report includes a reference to 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. Other auditors audited the financial statements of the Housing Authority of the County of Santa Clara; 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 basic 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County’s internal control over financial reporting.

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 previously.

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 January 25, 2013.

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
January 25, 2013

The Board of Supervisors
County of Santa Clara
San José, 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, 2012. 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 \$273,770,704 in federal awards, which is not included in the schedule of expenditures of federal awards (SEFA) for the fiscal year ended June 30, 2012. Our audit as described below did not include the operations of the Housing Authority because this entity engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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

As described in finding 2012-1 in the accompanying schedule of findings and questioned costs, the County did not comply with requirements of the Davis-Bacon Act that are applicable to its ARRA – Grants to Health Center Programs (CFDA No. 93.703). Compliance with such requirements is necessary, in our opinion, for the County to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2012. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as finding 2012-2.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 2012-1 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 2012-2 to be a significant deficiency.

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

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.



Walnut Creek, California
March 27, 2013

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2012

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	\$ 26,125,284
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	10-10159	340,447
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	08-85173	1,287,293
Subtotal State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			\$ 27,753,024
<u>Passed Through State Department of Public Health</u>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	11-10454 10/01/10-09/30/11	1,249,300
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	11-10454 10/01/11-09/30/12	3,077,648
Subtotal Special Supplemental Nutrition Program for Women, Infants, and Children			4,326,948
<u>Passed Through State Department of Education</u>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	43-10439-6066435-01	140,827
National School Lunch Program	10.555	43-10439-6066435-01	213,256
Subtotal of Child Nutrition Cluster			354,083
Total U.S. Department of Agriculture			32,434,055
U.S. Department of Commerce			
<u>Passed Through State Department of Public Health</u>			
CDC Public Health Emergency Response	11.206	n/a	258,714
Total U.S. Department of Commerce			258,714
U.S. Department of Housing and Urban Development			
<u>Direct Programs</u>			
Community Development Block Grants/Entitlement Grants	14.218	B-10-UY-060007	1,736,676
Community Development Block Grants/Entitlement Grants	14.218	n/a	186,628
Subtotal Community Development Block Grants/Entitlement Grants			1,923,304
Supportive Housing Program	14.235	n/a	707,386
Home Investment Partnerships Program	14.239	M-11-UC060218	1,540,610
Home Investment Partnerships Program	14.239	Prior Year Ending Loan Balance	13,378,503
Subtotal HOME Investment Partnerships Program			14,919,113
ARRA - Homelessness Prevention and Rapid Re-Housing Program (HPRP) (Recovery Act Funded)	14.257	S-09-UY-06-007	119,809
Total U.S. Department of Housing and Urban Development			17,669,612
U.S. Department of Interior			
<u>Direct Program</u>			
Coastal Impact Assistance Program	15.668	RT-43-006	97,564
Total U.S. Department of Interior			97,564

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, 2012

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#209-11	\$ 83,144
Juvenile Accountability Block Grants	16.523	CSA#176-11	231,177
Subtotal Juvenile Accountability Block Grants			\$ 314,321
Crime Victim Assistance	16.575	2009-VT-BX-K0003	41,331
State Criminal Alien Assistance Program	16.606	n/a	1,319,030
Public Safety Partnership and Community Policing Grants	16.710	2010-DD-BX-0618	267,603
DNA Backlog Reduction Program	16.741	2010-DN-BX-K064	19,495
DNA Backlog Reduction Program	16.741	2011-DN-BX-K465	237,146
Subtotal DNA Backlog Reduction Program			256,641
Edward Byrne Memorial Justice Assistance Grant Program	16.738	n/a	150,962
Edward Byrne Memorial Justice Assistance Grant Program	16.738	n/a	113,035
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2007-DJ-BX-0531	310
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			264,307
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants To Units of Local Government	16.804	2009-SB-B9-0976	59,038
ARRA - Edward Byrne Memorial Competitive Grant Program	16.808	n/a	280,104
Second Chance Act Prisoner Reentry Initiative	16.812	2011-CZ-BX-0004	81,214
Second Chance Act Prisoner Reentry Initiative	16.812	2011-CZ-BX-0042	28,605
Subtotal Second Chance Act Prisoner Reentry Initiative			109,819
Equitable Sharing Program	16.922	CA043013A	9,636
Subtotal Direct Programs			2,921,830
<u>Passed Through State Department of Alcohol and Drug</u>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DI 10 01 0430	297,205
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to Units of Local Government	16.804	ZR09018650	161,850
Subtotal Passed Through State Department of Alcohol and Drug			459,055
<u>Passed Through City of San José</u>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-0821	54,233
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-2315	25,889
Edward Byrne Memorial Justice Assistance Grant Program	16.738	n/a	81,208
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			161,330
Subtotal Passed Through City of San Jose			161,330
<u>Passed Through City of Sunnyvale Police Department</u>			
Equitable Sharing Program	16.922	CA0431600	76,451
Subtotal Passed Through City of Sunnyvale Police Department			76,451
<u>Passed Through California Emergency Management Agency</u>			
Crime Victim Assistance	16.575	UV10010430	38,996
Crime Victim Assistance	16.575	UV11020430	71,473
Crime Victim Assistance	16.575	VW11300430	394,675
Subtotal Crime Victim Assistance			505,144
Violence Against Women Formula Grants	16.588	SU0901430	92,738
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DC11220430	483,825
Edward Byrne Memorial Justice Assistance Grant Program	16.738	MS10010430	230,326
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			714,151
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ10070430	74,077
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	ZO09010430	81,371
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units of Local Government	16.804	ZM09010430	29,885
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units of Local Government	16.804	ZP09010430	1,225,338
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units of Local Government	16.804	ZA09010430	208,601
Subtotal ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants To Units of Local Government			1,463,824
Subtotal Passed Through California Emergency Management Agency			2,931,305

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, 2012

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures
U.S. Department of Justice (Continued)			
<u>Passed Through Board of State and Community Correction</u>			
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	CSA#365-10	\$ 90,223
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	CSA#365-11	9,000
Subtotal Juvenile Justice and Delinquency Prevention_Allocation to States			\$ 99,223
Total U.S. Department of Justice			6,649,194
U.S. Department of Transportation			
<u>Direct Program</u>			
Federal Aviation Administration:			
Airport Improvement Program	20.106	3-06-0182-08	40,578
Airport Improvement Program	20.106	3-06-0225-14	41,633
Airport Improvement Program	20.106	3-06-0229-09	37,386
Subtotal Airport Improvement Program			119,597
Highway Planning and Construction Cluster:			
<u>Passed Through State Department of Transportation</u>			
Highway Planning and Construction	20.205	CMI 6084 (160)	48,080
Highway Planning and Construction	20.205	HPLUL 5937 (112)	1,987,404
Highway Planning and Construction	20.205	HPLUL 5937 (163)	60,221
Highway Planning and Construction	20.205	CML 5937 (166)	43,916
Highway Planning and Construction	20.205	BRLO 5937 (047)	411,004
Highway Planning and Construction	20.205	BRLO 5937 (046)	463,851
Highway Planning and Construction	20.205	BRLO 5937 (107)	34,372
Highway Planning and Construction	20.205	BRLO-5937 (109)	45,985
Highway Planning and Construction	20.205	BRLS 5937 (124)	122,529
Highway Planning and Construction	20.205	BRLO 5937 (106)	130,789
Highway Planning and Construction	20.205	BRLS 5937 (123)	94,496
Highway Planning and Construction	20.205	STPLZ 5937 (058)	7,238
Highway Planning and Construction	20.205	BHLO 5937 (174)	122,089
Highway Planning and Construction	20.205	BRLO 5937 (176)	106,918
Highway Planning and Construction	20.205	STPL 5937 (171)	127,702
Highway Planning and Construction	20.205	STPL 5937 (172)	21,205
Highway Planning and Construction	20.205	TCSPL08 5937 (128)	159,442
Highway Planning and Construction	20.205	DEMO8L 5937 (137)	91,031
Highway Planning and Construction	20.205	BRLS 5937 (169)	46,023
Highway Planning and Construction	20.205	HSIPL 5937 (138)	6,728
Highway Planning and Construction	20.205	HRRRL 5937 (129)	4,852
Highway Planning and Construction	20.205	BRLO 5937 (168)	162,922
Highway Planning and Construction	20.205	BRL-NBIS (514)	107,000
Highway Planning and Construction	20.205	TLSPL 5937 (122)	479,909
Highway Planning and Construction	20.205	BHLO 5937 (139)	35,145
Highway Planning and Construction	20.205	BHLO 5937 (142)	37,739
Highway Planning and Construction	20.205	BHLO 5937 (146)	11,643
Highway Planning and Construction	20.205	BHLO 5937 (143)	29,098
Highway Planning and Construction	20.205	BHLO 5937 (147)	12,963
Highway Planning and Construction	20.205	BHLO 5937 (140)	28,803
Highway Planning and Construction	20.205	BHLO 5937 (144)	8,108
Highway Planning and Construction	20.205	BHLO 5937 (148)	9,879
Highway Planning and Construction	20.205	BHLO 5937 (145)	25,480
Highway Planning and Construction	20.205	BHLO 5937 (150)	14,880
Highway Planning and Construction	20.205	BHLO 5937 (149)	16,045
Highway Planning and Construction	20.205	BHLO 5937 (141)	34,632
Highway Planning and Construction	20.205	BPMP 5937 (155)	340
Highway Planning and Construction	20.205	BPMP 5937 (156)	11,181
Highway Planning and Construction	20.205	BPMP 5937 (158)	340
Highway Planning and Construction	20.205	BPMP 5937 (151)	22,532
Highway Planning and Construction	20.205	BPMP 5937 (159)	340
Highway Planning and Construction	20.205	BPMP 5937 (160)	340
Highway Planning and Construction	20.205	BPMP 5937 (161)	340
Highway Planning and Construction	20.205	BPMP 5937 (152)	11,267
Highway Planning and Construction	20.205	BPMP 5937 (153)	13,669
Highway Planning and Construction	20.205	BPMP 5937 (154)	24,627
Highway Planning and Construction	20.205	BPMP 5937 (157)	23,271
Subtotal Highway Planning and Construction			5,258,368

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, 2012

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures
U.S. Department of Transportation (Continued)			
<u>Passed Through State Department of California Parks</u>			
Recreational Trails Program	20.219	RT-43-006	\$ 70,810
Subtotal Highway Planning and Construction Cluster			5,329,178
<u>Passed Through State Office of Traffic Safety</u>			
State and Community Highway Safety	20.600	n/a	\$ 128,951
State and Community Highway Safety	20.600	20868	44,435
State and Community Highway Safety	20.600	AL0980	105,467
Subtotal State and Community Highway Safety			278,853
Total U.S. Department of Transportation			5,727,628
U.S. Department of Treasury			
<u>Direct Programs</u>			
Treasury Forfeiture Fund Program	21.000	n/a	97,542
<u>Passed Through City of Sunnyvale Police Department</u>			
Treasury Forfeiture Fund Program	21.000	CA0431600	2,440
Subtotal Passed Through City of Sunnyvale Police Department			2,440
Total U.S. Department of Treasury			99,982
U.S. Department of Energy			
<u>Direct Programs</u>			
State Energy Program	81.041	n/a	1,646,478
<u>Passed Through State Department of California Energy Commission</u>			
ARRA - Energy Efficiency and Conservation Block Grant (EECBG)	81.128	CBG-09-105	229,952
Total U.S. Department of Energy			1,876,430
U.S. Department of Health and Human Services			
<u>Direct Programs</u>			
Enhance Safety of Children Affected by Substance Abuse	93.087	n/a	654,708
Projects for Assistance in Transition from Homelessness (PATH)	93.150	n/a	260,275
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	1,733,114
Centers for Disease Control and Prevention-Affordable Care Act (ACA) - Communities Putting Prevention to Work	93.520	n/a	1,310,440
ARRA - Grants to Health Center Programs	93.703	C80CS16957	1,311,567
National Bioterrorism Hospital Preparedness Program	93.889	n/a	501,861
HIV Emergency Relief Project Grants	93.914	6 H89HA00046-16-03/ 6 H89HA00046-17-02	2,139,745
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	n/a	812,067
Block Grants for Community Mental Health Services	93.958	n/a	697,287
Subtotal Direct Programs			9,421,064
<u>Passed Through State Department of Public Health</u>			
Immunization Cooperative Agreements	93.268	11-10562	953,136
Refugee and Entrant Assistance _Discretionary Grants	93.576	10-43-90840-00	137,074
Refugee and Entrant Assistance _Discretionary Grants	93.576	11-43-90840-00	360,291
Subtotal Refugee and Entrant Assistance _Discretionary Grants			497,365
HIV Prevention Activities _Health Department Based	93.940	10-95291	444,630
Subtotal Passed Through State Department of Public Health			1,895,131
<u>Passed Through Council on Aging Silicon Valley</u>			
Aging Cluster:			
Special Programs for the Aging _Title III, Part C _Nutrition Services	93.045	AP-1112-12	1,809,788
Nutrition Services Incentive Program	93.053	AP-1112-12	764,453
Subtotal Aging Cluster			2,574,241
<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	1,626,074
<u>Passed Through State Department of Health Services</u>			
Public Health Emergency Preparedness	93.069	n/a	2,042,080
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	n/a	339,690
Childhood Lead Poisoning Prevention Projects _State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	CLPPP	89,656
ARRA - Prevention and Wellness - Communities Putting Prevention to Work			
Funding Opportunities Announcement (FOA)	93.724	1U58DP002545-01	3,385,588
Children's Health Insurance Program	93.767	CCS Admin	409,566

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, 2012

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures
U.S. Department of Health and Human Services (Continued)			
Medical Assistance Program:			
Medical Assistance Program	93.778	Foster Care	\$ 725,587
Medical Assistance Program	93.778	CHDP	559,877
Medical Assistance Program	93.778	CCS Admin	3,152,303
Medical Assistance Program	93.778	CCS PPC	35,478
Subtotal Medical Assistance Program			\$ 4,473,245
HIV Care Formula Grants	93.917	10-95291	907,840
Prevention and Public Health Fund (PPHF) Public Health Traineeships	93.964	201143 MCH	124,733
Prevention and Public Health Fund (PPHF) Public Health Traineeships	93.964	201143 AFLP	239,545
Prevention and Public Health Fund (PPHF) Public Health Traineeships	93.964	201143 BIH	210,442
Subtotal Public Health Traineeships			574,720
Maternal and Child Health Services Block Grant to the States	93.994	201143 MCH	197,089
Maternal and Child Health Services Block Grant to the States	93.994	201143 AFLP	76,129
Maternal and Child Health Services Block Grant to the States	93.994	201143 BIH	218,223
Subtotal Maternal and Child Health Services Block Grant to the States			491,441
Subtotal Passed Through State Department of Health Services			12,713,826
<u>Passed Through State Department of Child Support Services</u>			
Child Support Enforcement	93.563	IV-356	24,461,768
<u>Passed Through State Department of Social Services</u>			
Guardianship Assistance	93.090	n/a	22,036
Promoting Safe and Stable Families	93.556	n/a	1,079,997
Temporary Assistance for Needy Families	93.558	n/a	99,803,947
Refugee and Entrant Assistance_State Administered Programs	93.566	n/a	995,412
Refugee and Entrant Assistance_Discretionary Grants	93.576	TART1107	3,500
Refugee and Entrant Assistance_Discretionary Grants	93.576	TARL1109	33,562
Subtotal Refugee and Entrant Assistance_Discretionary Grants			37,062
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	TAFO1106	441,387
Stephanie Tubbs Jones Child Welfare Services Program	93.645	n/a	1,460,773
Child Welfare Research Training or Demonstration	93.648	n/a	383,278
Foster Care_Title IV-E	93.658	n/a	31,120,312
Adoption Assistance	93.659	n/a	13,619,165
Social Services Block Grant	93.667	n/a	4,619,683
Chafee Foster Care Independence Program	93.674	n/a	465,756
Medical Assistance Program	93.778	n/a	55,735,243
Subtotal Passed Through State Department of Social Services			209,784,051
<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	598,880
Block Grants for Prevention and Treatment of Substance Abuse	93.959	n/a	10,875,034
Subtotal Passed Through State Department of Alcohol and Drugs			11,473,914
Total U.S. Department of Health and Human Services			273,950,069
U.S. Department of Homeland Security			
<u>Passed Through the California Emergency Management Agency</u>			
Pre Disaster Mitigation	97.017	2008-0001	55,459
Emergency Management Performance Grants	97.042	2011-0048	11,638
09 Homeland Security Grant Program	97.067	2009-0019	1,889,635
10 Homeland Security Grant Program	97.067	2010-0085	1,315,332
Subtotal Homeland Security Grant Program			3,204,967
Buffer Zone Protection Program (BZPP)	97.078	2010-BF-T0-0020	5,040
Subtotal Passed Through California Emergency Management Agency			3,277,104
<u>Passed Through Governor's Office of Homeland Security</u>			
Buffer Zone Protection Program (BZPP)	97.078	2009-0026 085-00000	199,544
Subtotal Passed Through Governor's Office of Homeland Security			199,544
<u>Passed Through City and County of San Francisco</u>			
Homeland Security Grant Program	97.067	2009-0019	1,021,605
Homeland Security Grant Program	97.067	075-95017	333,510
Subtotal Passed Through City and County of San Francisco			1,355,115
Total U.S. Department of Homeland Security			4,831,763
Total Expenditures of Federal Awards			\$ 343,595,011

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

This page is left intentionally blank.

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2012

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 (County), for the fiscal year ended June 30, 2012, 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, and as expenses for noncapital expenditures and as additions to capital assets for capital related expenditures in the enterprise funds. Federal award expenditures agree or can be reconciled with the amounts reported in the County’s basic financial statements.

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 by other auditors. 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:

<u>U.S. Department of Housing and Urban Development Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Community Development Block Grants	14.218	\$ 123,421
ARRA-Public Housing Capital Fund Stimulus (Formula) Recovery Act Funded	14.885	259,257
Shelter Plus Care	14.238	2,941,382
Housing Voucher Cluster		
Section 8 Housing Choice Vouchers	14.871	4,479,174
Mainstream Vouchers	14.879	726,490
Family Unification Program (FUP)	14.880	1,858,397
Subtotal Housing Voucher Cluster		<u>7,064,061</u>
Section 8 Project-Based Cluster		
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	670,590
Lower Income Housing Assistance - Program Section 8 Moderate Rehabilitation	14.856	796,238
Subtotal - Section 8 Project-Based Cluster		<u>1,466,828</u>
Moving-to-Work		
Public and Indian Housing	14.850	36,058
Public Housing Capital Fund	14.872	16,492
Moving To Work Demonstration Program	14.881	261,863,205
Subtotal - Moving-to-Work		<u>261,915,755</u>
Total Expenditure of Federal Awards		<u>\$ 273,770,704</u>

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2012

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	\$ 200,847
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	233,222
CDC Public Health Emergency Response	11.206	216,217
Community Development Block Grants/Entitlement Grants	14.218	1,562,934
Supportive Housing Program	14.235	689,079
Home Investment Partnerships Program	14.239	1,467,208
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257	119,809
Juvenile Accountability Block Grants	16.523	81,059
Crime Victim Assistance	16.575	505,144
Edward Byrne Memorial Justice Assistance Grant Program	16.738	474,396
ARRA - Edward Byrne Memorial Justice Assistance (JAG) Program/Grants to Units of Local Government	16.804	161,850
State and Community Highway Safety	20.600	15,675
Treasury Forfeiture Fund Program	21.000	2,440
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	1,809,788
Nutrition Services Incentive Program	93.053	764,453
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	13,750
Projects for Assistance in Transition from Homelessness (PATH)	93.150	255,715
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	321,386
Centers for Disease Control and Prevention-Affordable Care Act (ACA) - Communities Putting Prevention to Work	93.520	314,952
Temporary Assistance for Needy Families	93.558	3,569,299
Refugee and Entrant Assistance_State Administered Programs	93.566	292,490
Refugee and Entrant Assistance_Discretionary Grants	93.576	36,062
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	288,332
Chafee Foster Care Independence Program	93.674	465,756
ARRA - Prevention and Wellness - Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724	934,027
National Bioterrorism Hospital Preparedness Program	93.889	385,198
HIV Emergency Relief Project Grants	93.914	641,725
HIV Care Formula Grants	93.917	741,072
HIV Prevention Activities_Health Department Based	93.940	216,167
Block Grants for Community Mental Health Services	93.958	110,692
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2,578,350
Prevention and Public Health Fund (PPHF) Public Health Traineeships	93.964	239,545
Maternal and Child Health Services Block Grant to the States	93.994	70,833
Homeland Security Grant	97.067	1,269,405

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2012

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, 2012, the total amount of HOME loans outstanding subject to continuing compliance requirements was \$13,378,503, 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 and 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-1012-12	\$ 314,485	\$ 1,809,788
Nutrition Services Incentive Program	93.053	AP-1012-12	n/a	764,453

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2012

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	\$ 41,331
Passed Through California Emergency Management Agency	16.575	505,144
Total Crime Victim Assistance		\$ 546,475
<i>JAG Program Cluster</i>		
Edward Byrne Memorial Justice Assistance Grant Program		
Direct	16.738	\$ 264,307
Passed Through State Department of Alcohol and Drug	16.738	297,205
Passed Through City of San Jose	16.738	161,330
Passed Through California Emergency Management Agency	16.738	714,151
Subtotal Edward Byrne Memorial Justice Assistance Grant Program		1,436,993
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to States and Territories		
Passed Through California Emergency Management Agency	16.803	81,371
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government		
Direct	16.804	59,038
Passed Through State Department of Alcohol and Drug	16.804	161,850
Passed Through California Emergency Management Agency	16.804	1,463,824
Subtotal JAG/ Grants to Units of Local Government		1,684,712
Total JAG Program Cluster		\$ 3,203,076
<i>Medical Assistance Program</i>		
Passed Through State of California, Department of Health Services	93.778	\$ 4,473,245
Passed Through State of California, Department of Social Services	93.778	55,735,243
Total Medical Assistance Program		\$ 60,208,488
<i>Homeland Security Grant Program</i>		
Passed Through the California Emergency Management Agency	97.067	\$ 3,204,967
Passed Through City and County of San Francisco	97.067	1,355,115
Total Homeland Security Grant		\$ 4,560,082

COUNTY OF SANTA CLARA
Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2012

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

California Emergency Management Agency grant expenditures:

The following represents grant expenditures for Department of Justice grants passed through the California Emergency Management Agency for the fiscal year ended June 30, 2012:

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
Underserved Victims Advocacy & Outreach Program	UV10010430					
Personnel Expenses	10/1/10-9/30/11		\$ -	\$ 1,354	\$ 1,354	
Operating Expenses			38,996	-	38,996	
Total		\$ 156,250	\$ 38,996	\$ 1,354	\$ 40,350	16.575
Underserved Victims Advocacy & Outreach Program	UV11020430					
Personnel Services	10/1/11-9/30/12		\$ -	\$ 23,439	\$ 23,439	
Operating Expenses			71,473	-	71,473	
Total		\$ 156,250	\$ 71,473	\$ 23,439	\$ 94,912	16.575
Victim Witness Assistance - Cal EMA	VW11300430					
Operating Expenses	7/1/11-6/30/12		\$ 394,675	\$ -	\$ 394,675	
Total		\$ 424,964	\$ 394,675	\$ -	\$ 394,675	16.575
Violence Against Women Formula Grants	SU09010430					
Personnel Services	9/1/09-12/31/11		\$ 81,338	\$ -	\$ 81,338	
Operating Expenses			11,400	-	11,400	
Total		\$ 250,000	\$ 92,738	\$ -	\$ 92,738	16.588
Anti-Drug Abuse Enforcement Program	DC11220430					
Personnel Services	7/1/11-6/30/13		\$ 124,712	\$ -	\$ 124,712	
Operating Expenses			359,113	-	359,113	
Total		\$ 503,588	\$ 483,825	\$ -	\$ 483,825	16.738
Marijuana Suppression Program	MS10010430					
Personnel Services	7/1/10-6/30/13		\$ 230,326	\$ -	\$ 230,326	
Total		\$ 505,326	\$ 230,326	\$ -	\$ 230,326	16.738
Paul Coverdell Forensic Sciences Improvement Grant Program	CQ10070430					
Operating Expenses	10/1/10-8/31/12		\$ 74,077	\$ -	\$ 74,077	
Total		\$ 268,215	\$ 74,077	\$ -	\$ 74,077	16.742
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	ZO09010430					
Operating Expenses	10/1/09-3/31/13		\$ 81,371	-	\$ 81,371	
Total		\$ 2,205,091	\$ 81,371	\$ -	\$ 81,371	16.803
ARRA - California Multi-jurisdictional Methamphetamine Enfor	ZM09010430					
Personnel Services	3/1/10-9/30/12		\$ 29,885	\$ -	\$ 29,885	
Total		\$ 100,287	\$ 29,885	\$ -	\$ 29,885	16.804
ARRA - Evidence-Based Probation Supervision	ZP09010430					
Personnel Services	4/1/10-9/30/12		\$ 626,489	\$ -	\$ 626,489	
Operating Expenses			598,849	-	598,849	
Total		\$ 1,673,075	\$ 1,225,338	\$ -	\$ 1,225,338	16.804
ARRA - ADA Enforcement Team	ZA09010430					
Personnel Services	3/1/10-2/28/12		\$ 50,312	\$ -	\$ 50,312	
Operating Expenses			158,289	-	158,289	
Total		\$ 492,869	\$ 208,601	\$ -	\$ 208,601	16.804
Pre Disaster Mitigation	2008-0001					
Operating Expenses	9/25/08-12/31/11		\$ 55,459	\$ -	\$ 55,459	
Total		\$ 187,500	\$ 55,459	\$ -	\$ 55,459	97.017
Emergency Management Performance Grants	2011-0048					
Personnel Expenses	7/1/11-12/31/12		\$ 11,638	\$ -	\$ 11,638	
Total		\$ 458,807	\$ 11,638	\$ -	\$ 11,638	97.042

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2012

Note 9 - Schedules of the California Emergency Management Agency (Cal EMA) and California Victim Compensation and Government Claims Board (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
09 Homeland Security Grant Program	2009-0019					
Personnel Services	10/1/09-12/31/11		\$ 350,298	\$ -	\$ 350,298	
Operating Expenses			1,539,337	-	1,539,337	
Total		\$ 4,064,764	\$ 1,889,635	\$ -	\$ 1,889,635	97.067
10 Homeland Security Grant Program	2010-0085					
Personnel Services	10/25/10-12/31/12		\$ 511,176	\$ -	\$ 511,176	
Operating Expenses			804,156	-	804,156	
Total		\$ 4,102,191	\$ 1,315,332	\$ -	\$ 1,315,332	97.067
Buffer Zone Protection Program (BZPP)	2010-BF-T0-0020					
Personnel Services	6/10/10-2/28/13		\$ 5,040	\$ -	\$ 5,040	
Total		\$ 195,000	\$ 5,040	\$ -	\$ 5,040	97.078

The following represents the California Emergency Management Agency summary grant expenditures for the fiscal year ended June 30, 2012. This information is included in the County's single audit report at the request of the California Emergency Management Agency.

Program Title and Expenditure Category	Grant Award Number/Period	Award Amount	Actual Non-match	Actual Match	Actual Total
Victim Witness Assistance - Cal EMA	VW111300430				
Operating Expenses	7/1/11-6/30/12		\$ 348,299	\$ -	\$ 348,299
Total		\$ 348,299	\$ 348,299	\$ -	\$ 348,299
Child Abuser Vertical Prosecution Program	VB 08060430				
Personnel Services	7/1/08-12/31/12		\$ 116,411	\$ -	\$ 116,411
Total		\$ 932,640	\$ 116,411	\$ -	\$ 116,411
High Technology Theft Apprehension & Prosecution	HT 08090430				
Personnel Services	7/1/08-12/31/12		\$ 95,156	\$ -	\$ 95,156
Operating Expenses			5,008	-	5,008
Total		\$ 5,710,959	\$ 100,164	\$ -	\$ 100,164

California Victim Compensation and Government Claims Board grant expenditures:

The following represents the California Victim Compensation and Government Claims Board grant expenditures for the fiscal year ended June 30, 2012. This information is included in the County's single audit report at the request of the California Victim Compensation and 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	VCGC1060				
Personnel Services	7/1/11-6/30/12		\$ 921,774	\$ -	\$ 921,774
Operating Expenses			155,668	-	155,668
Total		\$ 1,077,442	\$ 1,077,442	\$ -	\$ 1,077,442
Victim Witness Restitution for Crime Victims	VCGC1083				
Personnel Services	7/1/11-6/30/12		\$ 290,957	\$ -	\$ 290,957
Operating Expenses			2,188	-	2,188
Total		\$ 293,145	\$ 293,145	\$ -	\$ 293,145

State Controller's Office program expenditures:

The following represents the State Controller's Office grant expenditures for the fiscal year ended June 30, 2012. This information is included in the County's single audit report at the request of the State Controller's Office.

Program Title and Expenditure Category	Funding period	Award Amount	Actual Non-match	Actual Match	Actual Total
High Technology Theft Apprehension & Prosecution	7/1/11-9/30/12				
Personnel Services			\$ 832,885	\$ -	\$ 832,885
Operating Expenses			658,998	-	658,998
Equipment			12,124	-	12,124
Total		\$ 1,996,440	\$ 1,504,007	\$ -	\$ 1,504,007

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(cies) identified? None noted

Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified? Yes

Type of auditor’s report issued on compliance for major programs: Unqualified,
except qualified for
CFDA No. 93.703

Any audit findings disclosed that are required
to be reported in accordance with section
510(a) of OMB Circular A-133? Yes

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2012

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

Identification of major programs:

1. CFDA No. 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
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. 93.558 Temporary Assistance for Needy Families
4. CFDA No. 93.703 ARRA – Grants to Health Center Programs
5. CFDA No. 93.724 ARRA – Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)
6. CFDA No. 93.778 Medical Assistance Program
7. CFDA No. 93.914 HIV Emergency Relief Project Grants
8. CFDA No. 97.067 Homeland Security Grant Program

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.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2012

Section III – Federal Award Findings and Questioned Costs

Finding 2012-1 Davis-Bacon Act

Awarding Agency: United States Department of Health and Human Services
Passed Through: N/A – Direct program to the County’s Health and Hospital System
Program Name: ARRA – Grants to Health Care Programs (HCP)
CFDA: 93.703
Award Number: C80CS16957
Award Year: December 9, 2009 through December 31, 2012

Criteria

The Davis-Bacon Act requires all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds be paid prevailing wage rates. Contractors or subcontractors must submit weekly, for each week in which any contract work is performed, a copy of the payroll (certified payrolls). The County is responsible for enforcing the compliance of contractors and subcontractors with Davis-Bacon Act requirements. In the event that the contractor does not provide the required certified payrolls by the due date, the County should initiate timely corrective actions to ensure compliance, such as sending timely follow-up requests to the contractor and withholding payment until the certified payrolls are received.

Condition/Context

During our review of the County’s compliance with the Davis-Bacon Act for the ARRA HCP program, we tested 25 items from a population of 66 certified payrolls for the HCP program. Our testing showed that the County did not perform timely follow-up of past due certified payroll reports with the prime contractors for 11 out of 25 items selected and disbursed funds prior to receipt of these past due reports. In addition, we also noted that 1 out of 25 items selected did not have certified payrolls with proper weekly information submitted.

Questioned Costs

Not applicable – The County received the untimely certified payroll reports.

Effect

The County did not consistently verify that laborers and mechanics employed by the contractors and subcontractors were paid prevailing wage rates before payment was released to the contractors. As a result, the County is at risk that payments may be made to contractors who do not comply with the Davis-Bacon Act requirements.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2012

Finding 2012-1 Davis-Bacon Act (continued)

Recommendation

We recommend the County evaluate the effectiveness of its current internal control policies and grant agreements to ensure compliance with the Davis-Bacon Act requirements. In addition, we recommend that the County establish internal control policies and procedures withholding release of contractor payments until receipt of certified payrolls.

Department's View and Corrective Action Plan

The major findings on the Davis-Bacon Act violations cited in Finding 2012-1 in the Single Audit Reports for the Fiscal Year Ended June 30, 2012 involve timing and format of Certified Payroll submittals. While we are confident that there were no prevailing wage violations in terms of actual payments made, we nonetheless recognize the need to improve our processes pertaining to the collection, review, and processing of Prevailing Wage documentation.

To this end we have implemented the SCVHHS Facilities Policy and Procedure for Certified Payrolls. Late submission of Certified Payrolls in the FIP Project C80CS16957 was in large part due to a lack of clarity of roles, including miscommunication between various responsible parties. The new Policy and Procedure assigns roles and responsibilities as well as clarifies routing and sequence of activities.

The Contractor was well aware of the Prevailing Wage requirements in terms of paying staff and subcontractors either Davis-Bacon prevailing wage rates or California prevailing wage rates, whichever was higher. Davis-Bacon prevailing wage requirements were reviewed with the General Contractor in both the Pre-Bid and Pre-Construction meetings as well as specified in the County's General Conditions and ARRA Special Conditions sections of the contract with the General Contractor. Davis-Bacon regulations were incorporated by reference in the ARRA Special Conditions section. In the future, the County General Conditions will be modified, when Federal funds are used, to identify specific requirements of Davis-Bacon where the requirements are stricter than the standard County prevailing wage requirements rather than being incorporated by reference only.

As California Bay Area prevailing wage rates are typically higher than those identified under Davis-Bacon (with a few exceptions), it is unlikely that a knowledgeable contractor doing business in this geographical area would pay less than Davis-Bacon prevailing wage rates.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2012

Finding 2012-2 Procurement and Suspension and Debarment

Awarding Agency: United States Department of Health and Human Services
Passed Through: State of California Department of Health Services
Program Name: ARRA – Prevention and Wellness - Communities Putting Prevention to Work
Funding Opportunities Announcement (FOA) (CPPW)
Program CFDA No: 93.724
Award Number: 1U58DP002545-01
Award Year: March 19, 2010 through March 18, 2013

Criteria

In accordance with 2 CFR part 180, non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

Condition/Context

During our review of the County’s compliance with Procurement and Suspension and Debarment requirements for the CPPW program, we tested 4 contracts from a population of 12 contracts that the program had entered into or had incurred expenditures during fiscal year ended June 30, 2012. Our testing noted that the County did not maintain documentation or include a clause in 1 out of the 4 contracts tested to support that the County performed the required verification prior to entering into the contract.

In addition, during our review of the County’s compliance with Subrecipient Monitoring requirements for the CPPW program, we tested 8 agreements from a population of 17 subrecipient agreements that received federal funding from the County. Our subrecipient monitoring testing also noted that the County did not maintain evidence or include a clause in the subrecipient agreement to support that the County performed the required suspension and debarment verification prior to entering into the 1 of the 8 agreements selected for testing.

Questioned Costs

Not applicable - the vendor related to the 1 procurement contract and the 1 grantee related to the subrecipient agreement noted above have not been suspended or debarred based on our review of Excluded Parties List System (EPLS) issued by the General Services Administration at <http://epls.arnet.gov>.

Effect

The County did not have supporting documentation to verify that it performed the review to ensure the vendor and/or grantee was not suspended or debarred from receipt of federal funds prior to the execution of the contract and/or agreement. As such, the County is at risk that federal funds could be remitted to a vendor and/or subrecipient that is suspended or debarred.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2012

Finding 2012-2 Procurement and Suspension and Debarment (Continued)

Recommendation

We recommend that the County evaluate the effectiveness of its current internal control policies and procedures to ensure documentation of the verifications is completed prior to the execution of contracts and/or agreements with vendors and subrecipients. As part of the County's evaluation of effectiveness of its current internal control policies and procedures, we also recommend that the County ensure that at least one of the following procedures to document compliance with suspension and debarment requirements are performed:

- Requiring a suspension and debarment certification be completed prior to entering into a contract.
- Documenting suspension and debarment certifications from subrecipient in project files.
- Maintain documentation that the County verified through the EPLS maintained by the U.S. General Services Administration that the County's subrecipients and other procurement transactions are not included as a suspended and debarred organization.

Department's View and Corrective Action Plan

Effective immediately, Public Health Department will require certification of non-debarment from all potential vendors and/or subrecipients who submit proposals in response to a solicitation process. Vendors and/or subrecipients that are not able to verify compliance with such requirements will not be considered for award.

In addition, Public Health Department will continue with its current practice of including the following provision in its contracts with vendors and/or subrecipients:

Debarment and Suspension Certification

Contractor guarantees that it, its employees, contractors, subcontractors or agents (collectively "Contractor") are not suspended, debarred, excluded, or ineligible for participation in Medicare, Medi-Cal or any other federal or state funded health care program, or from receiving Federal funds as listed in the List of Parties Excluded from Federal Procurement or Non-procurement Programs issued by the Federal General Services Administration. Contractor must within 30 calendar days advise the County if, during the term of this Agreement, Contractor becomes suspended, debarred, excluded or ineligible for participation in Medicare, Medi-Cal or any other federal or state funded health care program, as defined by 42. U.S.C. 1320a-7b(f), or from receiving Federal funds as listed in the List of Parties Excluded from Federal Procurement or Non-procurement Programs issued by the Federal General Services Administration. Contractor will indemnify, defend and hold the County harmless for any loss or damage resulting from the conviction, debarment, exclusion or ineligibility of the Contractor.

Inclusion of this provision will be verified prior to final execution of the agreement through utilization of a departmental checklist.

COUNTY OF SANTA CLARA
Summary Schedule of Prior Year Audit Findings
For the Fiscal Year Ended June 30, 2012

Financial Statement and Federal Award Findings

There were no financial statement nor federal award audit findings for the fiscal year ended June 30, 2011.