

COUNTY OF SANTA CLARA

Single Audit Reports

Basic Financial Statements with
Federal Compliance Section

For the Fiscal Year Ended June 30, 2015



Certified
Public
Accountants

COUNTY OF SANTA CLARA
 Single Audit Reports
 For the Fiscal Year Ended June 30, 2015

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Independent Auditor’s Report

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

Report on the Financial Statements

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 (County), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the County’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the FIRST 5 Santa Clara County; the Santa Clara County Health Authority; the County Sanitation District 2 – 3 of Santa Clara County; the Santa Clara County Vector Control District; 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”), which collectively represent the following percentages of the assets, net position/fund balances, and revenues/additions of the following opinion units.

Opinion Unit	Assets	Net Position/ Fund Balances	Revenues/ Additions
Governmental activities	3.5%	6.2%	4.1%
Business-type activities	0.4%	19.6%	0.2%
Aggregate discretely presented component units	35.7%	32.8%	73.4%
Aggregate remaining fund information	1.9%	2.1%	0.8%

Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely 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 from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design

audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Change in Accounting Principles

As described in Note 1(q) to the basic financial statements, effective July 1, 2014, the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

Deficit Net Positions

As discussed in Note 2, several County internal service funds have deficit net positions at June 30, 2015, which include the Workers' Compensation, Retiree Healthcare, and Pension Obligation internal service funds with deficit net positions of \$34.5 million, \$234.6 million, and \$426.3 million, respectively.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis; the schedule of changes in net pension liability and related ratios; the schedule of the cost sharing plans' proportionate share of the net pension liability; the schedule of pension plans contributions; the schedule of funding progress – other postemployment benefits; and the budgetary comparison schedule – General Fund – budgetary basis 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 GASB, 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 of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2015 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* in considering the County's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, slightly slanted style.

Walnut Creek, California

December 31, 2015, except for our report on the schedule of expenditures of federal awards, as to which the date is March 30, 2016

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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 which ended June 30, 2015. 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 v of this report.

FINANCIAL HIGHLIGHTS

The liabilities and deferred inflows of resources of the County exceeded its assets and deferred outflows of resources by \$1.51 billion (*net position*) at June 30, 2015. Of this amount, a negative \$3.02 billion (*unrestricted net position*) resulted from the implementation of Governmental Accounting Standards Board (GASB) Statement Nos. 68 and 71 and its requirement to record a net pension liability in the amount of \$2.57 billion on the government-wide financial statements. The \$469.0 million (*restricted net position*) may be used for the County's ongoing obligations related to programs with external restrictions. The County's net investment in capital assets was \$1.01 billion. (See further detail in Table 1 on page 8).

In FY2015, the County implemented GASB Statement Nos. 68 and 71 and restated the beginning net position on the government wide statements by \$3.31 billion (\$2.36 billion governmental activities and \$952.6 million business-type activities). The restatement resulted in establishing the deferred outflows of resources balance of \$271.9 million related to the County's pension contributions made subsequent to the measurement date of June 30, 2014 and the net pension liability balance of \$3.2 billion and the removal of the net pension asset of \$377.5 million measured under the prior pension standards. GASB Statement No. 68 also changed the way the County measured pension costs under the accrual basis of accounting. Under GASB Statement No. 68, pension expense reflects the change in net pension liability and related pension deferred outflows and inflows of resources. This is different than the prior accounting requirement, where the expense is measured as the County's actuarially determined annual required contributions.

The County's total *net position* decreased by \$3.07 billion for the year due primarily to the implementation of GASB Statement Nos. 68 and 71 as explained above. The County did not restate the prior years' balances because the information was not available. (See further detail in Table 2 on page 12).

At June 30, 2015, the County governmental funds reported combined fund balances of \$1.07 billion, an increase of \$183.4 million from the prior year. Approximately 57.3 percent of the combined fund balances, \$610.7 million, is available to meet the County's current and future needs.

The County's investment in capital assets increased by \$72.9 million or 3.2 percent. (See further detail in Table 5 on page 19).

The County's total long-term debt decreased by \$30.8 million or 1.4 percent during the current fiscal year mainly due to scheduled debt service payments. The County also issued 2015 Series P Lease Revenue Bonds to advance refund 2006 Series I Lease Revenue Bonds during the year (See further detail in Table 6 on page 20).

At June 30, 2015, the County's unassigned fund balance for the General Fund was \$364.9 million, 16.4 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.

COUNTY OF SANTA CLARA

Management's Discussion and Analysis Required Supplementary Information – Unaudited

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 position* presents information on all County assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 a 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 healthcare operations [a hospital—Santa Clara Valley Medical Center (SCVMC) and a health plan (Valley Health Plan)], airport operations (2 airports - Reid Hillview 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 Tobacco Securitization Corporation and the Silicon Valley Tobacco Securitization Authority. The Housing Authority of Santa Clara County, Santa Clara County Health Authority, and the FIRST 5 Santa Clara County are reported separately as discrete component units of the County.

The government-wide financial statements can be found on pages 23 – 25 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.

COUNTY OF SANTA CLARA

Management's Discussion and Analysis Required Supplementary Information – Unaudited

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 reader 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 non-major 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 26 – 29 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), one health plan (Valley Health Plan), two airports (Reid Hillview and South County), and one sanitation district (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 with more detail. The proprietary fund financial statements provide separate information for the SCVMC and Valley Health Plan, which are considered major funds. The financial statements of the non-major 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 30 – 33 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 34 – 35 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 37 – 108 of this report.

COUNTY OF SANTA CLARA

Management’s Discussion and Analysis
Required Supplementary Information – Unaudited

Required Supplementary Information

The required supplementary information (RSI) is presented with additional information related to County’s defined benefit pension plans 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 109 – 124 of this report.

Combining Statements and Schedules

The combining and individual fund statements and schedules referred to earlier provide information for discrete component units, non-major governmental funds, non-major 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 125 – 187 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The County’s liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources by \$1.54 billion (*net position*) at June 30, 2015. As stated earlier, the County’s negative change in net position was due to the implementation of GASB Statement Nos. 68 and 71, which required governments to record a net pension liability on their accrual basis financial statements including the government-wide financial statements. When applicable, prior year numbers have been reclassified to make them comparable to the current year. However, the County did not reclassify nor restate the prior years’ amounts related to the implementation of these statements because the information was not available

Table 1—Net Position (in thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	2014	2015	2014	2015	2014	2015	Dollar Change	Percent Change
Assets								
Current and other assets	\$ 2,057,137	\$ 2,037,367	\$ 696,259	\$ 723,698	\$ 2,753,396	\$ 2,761,065	\$ 7,669	0.3%
Capital assets	1,157,137	1,215,325	1,113,980	1,128,705	2,271,117	2,344,030	72,913	3.2%
Total assets	3,214,274	3,252,692	1,810,239	1,852,403	5,024,513	5,105,095	80,582	1.6%
Deferred outflows of resources	886	186,401	26,529	117,355	27,415	303,756	276,341	1008.0%
Liabilities								
Current and other liabilities	295,313	494,804	326,629	365,108	621,942	859,912	237,970	38.3%
Long-term liabilities	2,242,289	2,291,688	622,661	603,046	2,864,950	2,894,734	29,784	1.0%
Net pension liability	-	1,741,149	-	832,128	-	2,573,277	2,573,277	n/a
Noncurrent derivative instrument liabilities	-	-	16,976	18,206	16,976	18,206	1,230	7.2%
Total liabilities	2,537,602	4,527,641	966,266	1,818,488	3,503,868	6,346,129	2,842,261	81.1%
Deferred inflows of resources	13,870	405,356	-	192,556	13,870	597,912	584,042	4210.8%
Net position:								
Net investment in capital assets	959,157	1,022,889	617,486	651,958	982,361	1,014,864	32,503	3.3%
Restricted	456,393	468,254	363,612	290,318	457,451	468,998	11,547	2.5%
Unrestricted	(751,862)	(2,985,047)	(110,596)	(983,562)	94,398	(3,019,052)	(3,113,450)	-3298.2%
Total net position	\$ 663,688	\$ (1,493,904)	\$ 870,502	\$ (41,286)	\$ 1,534,210	\$ (1,535,190)	\$ (3,069,400)	-200.1%

In accordance with GASB guidance, the County reclassified \$289.6 million of the primary government’s total net position amounts from restricted to unrestricted and \$660.0 million from net investment in capital assets to unrestricted. Additional information on the presentation can be found in Note 11 on page 83 of this report.

COUNTY OF SANTA CLARA

Management's Discussion and Analysis Required Supplementary Information – Unaudited

Assets and Deferred Outflows of Resources

The County's total assets and deferred outflows of resources increased \$356.9 million or 7.1 percent primarily due to the following:

Governmental activities. Total assets and deferred outflows of resources for the governmental activities increased by \$223.9 million or 7.0 percent. Current and other assets decreased by \$19.8 million. The primary reason was an increase of \$363.6 million in unrestricted cash and investments, which was offset by a removal of \$377.5 million in net pension assets. The removal in net pension assets was due to change in new pension reporting requirements under GASB Statement No. 68. The increase in unrestricted cash was due to increases of \$246.3 million in State funding for various County programs related to public assistance and public health, \$76.8 million from Proposition 63 funding for mental health programs, and \$9.0 million from Senate Bill (SB) 90 State Mandated Programs. Additionally, there was an excess in the Educational Revenue Augmentation Funds (ERAF) apportionment which resulted in an increase of \$34.7 million for the County at the end of the current fiscal year.

Capital assets increased \$58.2 million or 5.0 percent. Non-depreciable capital assets increased by \$53.7 million and depreciable capital assets increased by \$4.5 million. Changes in capital assets will be discussed in the Capital Assets section on page 19 and Note 6 on page 60.

Deferred outflow of resources increased by \$185.5 million mainly due to the implementation of GASB Statement No. 71 which changed the reporting of pension contributions made subsequent to the measurement date in FY2014.

Business-type activities. Total assets and deferred outflows of resources for the business-type activities increased by \$133.0 million or 2.6 percent. Current and other assets increased \$27.4 million and capital assets increased \$14.7 million. The increase in current and other assets of \$27.4 million was primarily a result of higher cash receipts from patients, governmental agencies, insurers and others. In addition, deferred outflows of resources increased \$90.8 million due primarily to the implementation of GASB Statement No. 71 which changed the reporting of pension contributions made subsequent to the measurement date in FY2014.

Changes in capital assets will be discussed in the Capital Assets section on page 19 and Note 6 on page 60.

Liabilities and Deferred Inflows of Resources

The County's total liabilities and deferred inflows of resources increased by \$3.42 billion or 97.4 percent mainly due to the following:

Governmental activities. Total liabilities and deferred inflows of resources for the governmental activities increased by \$2.38 billion or 93.3 percent due to increases of current and other liabilities of \$193.5 million, noncurrent liabilities of \$55.4 million, and deferred inflows of resources of \$391.6 million. In addition, the County recorded a net pension liability of \$1.74 billion in accordance with GASB Statement No. 68 as previously discussed.

The increases in current and other liabilities of \$193.5 million was due primarily to the following:

- Increase of \$135.2 million in unearned revenues primarily due to \$89.3 million in property tax and \$30.0 million in vehicle license fee receipts that were set aside for uncertainties. Furthermore, the County recorded \$15.3 million related to advances received from the State for Title IV-E Waiver and Wrap-around services contracts.
- Increase of \$76.9 million in due to other government agencies due to increases in the Short Doyle Medi-Cal program as a result of additional audit reserves for this uncertainty.

The increases in other long term liabilities will be discussed further in the Long-term Debt section on page 20.

Business-type activities. Total liabilities and deferred inflows of resources for the business-type activities increased by \$1.04 billion or 108.3 percent from increases of \$38.5 million in current and other liabilities and a decrease of

COUNTY OF SANTA CLARA

Management's Discussion and Analysis Required Supplementary Information – Unaudited

\$19.6 million in long-term liabilities. In addition, the County recorded a net pension liability of \$832.1 million in accordance with GASB Statement No. 68 as previously discussed.

Net Position

The County's unrestricted net position of negative \$3.0 billion as noted earlier was due to the implementation of GASB Statement No. 68, which required local governments to record a net pension liability on their government-wide financial statements. A large portion of the County's net position of \$1.0 billion 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 \$469.0 million of the County's net position 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 both net investment in capital assets and restricted categories of net position for its governmental activities and for its business-type activities. The unrestricted net position resulted in a negative balances of \$2.98 billion and \$983.6 million of its governmental activities and business-type activities, respectively. The negative unrestricted net position balances were partially offset on the County-wide level through reclassifications of \$289.6 million from restricted and \$660.0 million from net investment in capital assets.

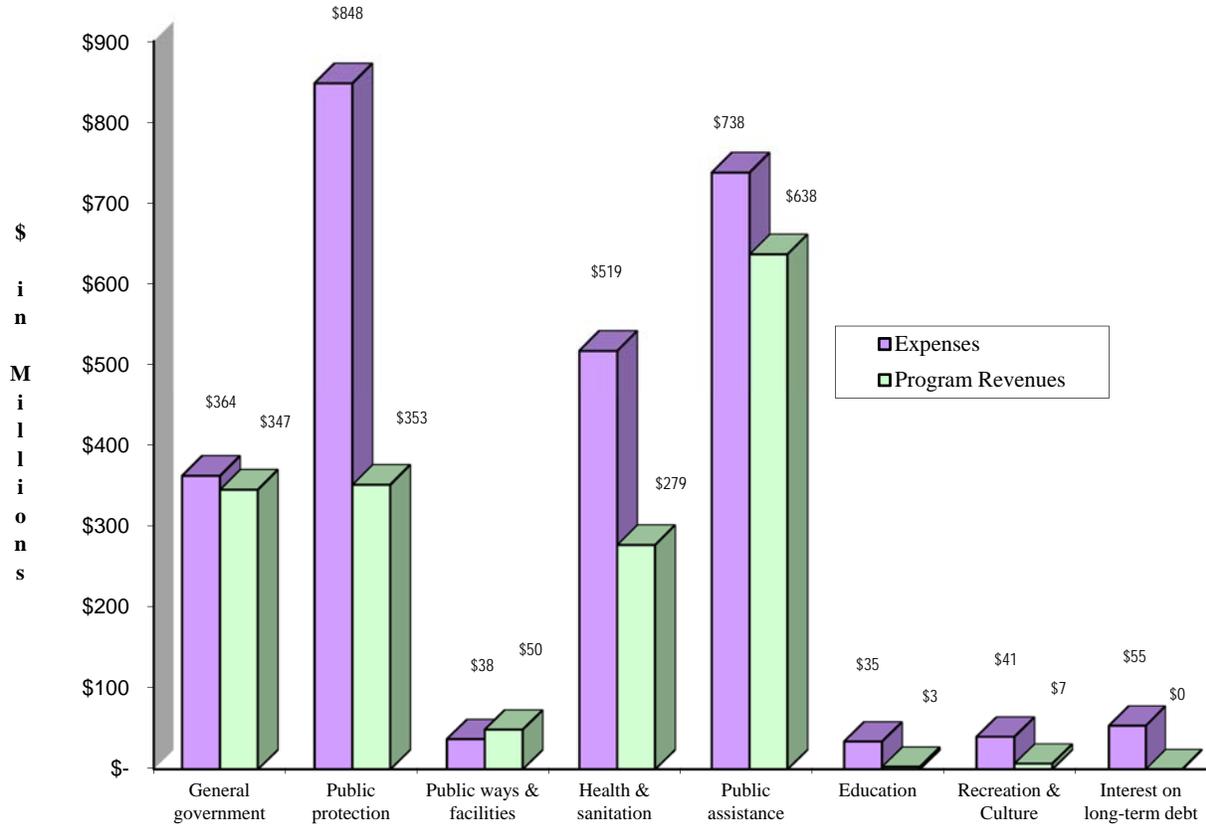
Governmental activities

The governmental activities without the impact of the restatement related to GASB Statement No. 68 increased the County's net position by \$202.0 million. Revenues exceeded expenses by \$253.3 million. Furthermore, net transfers of \$51.3 million were made to the business-type activities primarily for providing operational support to SCVMC.

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.

COUNTY OF SANTA CLARA
 Management's Discussion and Analysis
 Required Supplementary Information – Unaudited

Expenses and Revenues - Governmental Activities



COUNTY OF SANTA CLARA

Management’s Discussion and Analysis
Required Supplementary Information – Unaudited

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

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

	Governmental Activities		Business-type Activities		Total		Total	
	2014	2015	2014	2015	2014	2015	Dollar Change	Percent Change
Revenues:								
Program revenues:								
Charges for services	\$ 264,674	\$ 273,683	\$ 1,015,340	\$ 1,593,733	\$ 1,280,014	\$ 1,867,416	\$ 587,402	45.9%
Operating grants and contributions	1,300,352	1,394,876	108,809	119,566	1,409,161	1,514,442	105,281	7.5%
Capital grants and contributions	6,799	8,254	7,234	7,930	14,033	16,184	2,151	15.3%
General revenues:								
Property taxes	919,612	1,050,457	-	-	919,612	1,050,457	130,845	14.2%
Sales and use taxes	49,537	52,254	5,553	-	55,090	52,254	(2,836)	(5.1%)
Other taxes	35,597	9,188	-	-	35,597	9,188	(26,409)	(74.2%)
Unrestricted grants & contributions	15,765	20,149	-	-	15,765	20,149	4,384	27.8%
Unrestricted investment income	8,391	9,185	3,680	2,617	12,071	11,802	(269)	(2.2%)
Other revenue	79,837	74,167	-	-	79,837	74,167	(5,670)	(7.1%)
Total revenues	2,680,564	2,892,213	1,140,616	1,723,846	3,821,180	4,616,059	794,879	20.8%
Program expenses:								
General government	336,205	363,847	-	-	336,205	363,847	27,642	8.2%
Public protection	832,030	848,280	-	-	832,030	848,280	16,250	2.0%
Public ways and facilities	60,332	38,266	-	-	60,332	38,266	(22,066)	(36.6%)
Health and sanitation	487,010	519,489	-	-	487,010	519,489	32,479	6.7%
Public assistance	687,503	738,319	-	-	687,503	738,319	50,816	7.4%
Education	36,294	35,352	-	-	36,294	35,352	(942)	(2.6%)
Recreation and culture	40,270	40,790	-	-	40,270	40,790	520	1.3%
Interest on long-term liabilities	56,922	54,596	-	-	56,922	54,596	(2,326)	(4.1%)
Healthcare	-	-	1,332,671	1,728,849	1,332,671	1,728,849	396,178	29.7%
Airport	-	-	3,810	3,238	3,810	3,238	(572)	(15.0%)
Sanitation	-	-	1,818	2,205	1,818	2,205	387	21.3%
Total expenses	2,536,566	2,638,939	1,338,299	1,734,292	3,874,865	4,373,231	498,366	12.9%
Excess (deficiency) before transfers	143,998	253,274	(197,683)	(10,446)	(53,685)	242,828	296,513	(552.3%)
Transfers	(159,557)	(51,255)	159,557	51,255	-	-	-	
Change in net position	(15,559)	202,019	(38,126)	40,809	(53,685)	242,828	296,513	(552.3%)
Net position, beginning of year, as restated	679,247	(1,695,923)	908,628	(82,095)	1,587,875	(1,778,018)	(3,365,893)	(212.0%)
Net position, end of year	\$ 663,688	\$ (1,493,904)	\$ 870,502	\$ (41,286)	\$ 1,534,190	\$ (1,535,190)	\$ (3,069,380)	-200.07%

Revenues

The County’s governmental activities’ revenues increased \$211.6 million or 7.9 percent to \$2.89 billion. Program revenues increased by \$105.0 million or 6.7 percent, while general revenues increased by \$106.7 million or 9.6 percent. Over the past three years, the County’s program revenues from its governmental activities have contributed about 64.0 percent of the cost of running those governmental programs. The general revenues support the programs by covering the remaining 36.0 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 83.7 percent of the County’s program revenues and 48.5 percent of its total revenues. For the year, operating grants increased by \$94.5 million and capital grants increased by \$1.5 million. The reasons for these changes will be discussed in the governmental funds area.

The County’s governmental activities’ general revenues increased by \$106.7 million or 9.6 percent. General revenues are not directly related to governmental programs and include: taxes (property, business, and sales), unrestricted grants, investment income, and other revenues. General revenues support government programs by

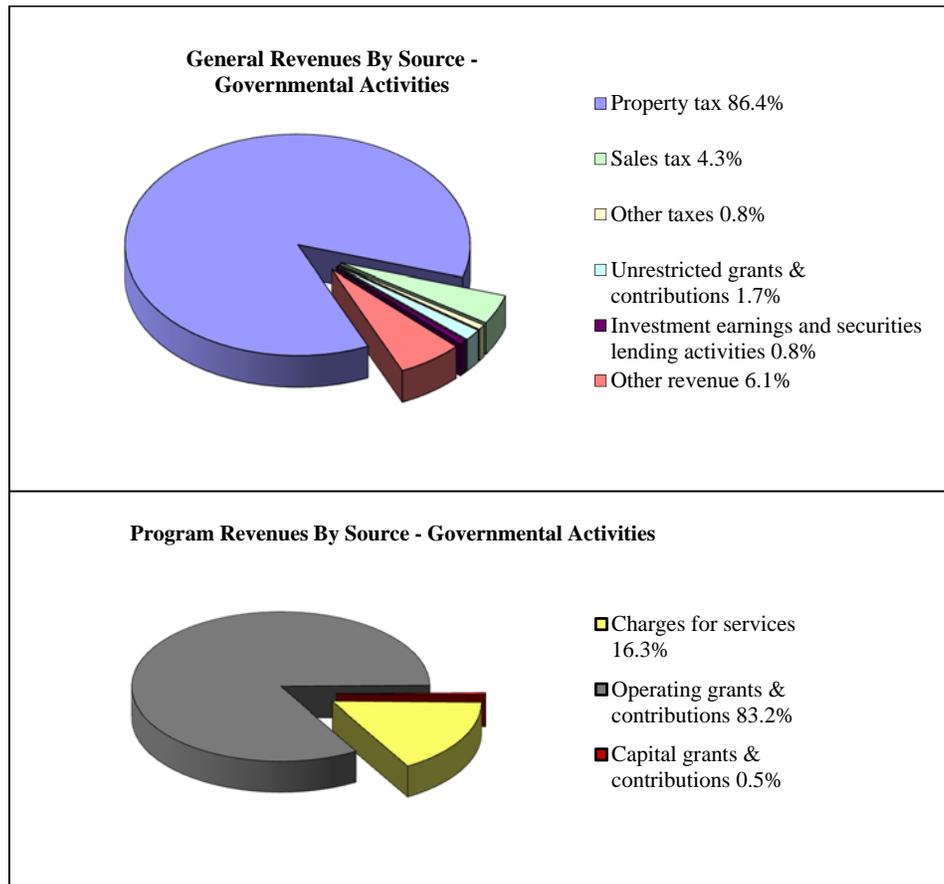
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defraying costs, which those programs cannot cover from their own revenues. Tax revenues are the County's second largest revenue source - grants and contributions being the largest. The County earned \$1.11 billion in tax revenues (property tax, sales and use tax, and other taxes) for the current year. This is approximately 91.5 percent of the general revenues and 36.3 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 increase of \$106.7 million was mainly due to an increase of \$130.8 million in property taxes primarily due to a 6.8 percent increase in total property assessed values. This resulted in an increase in secured property tax collection of \$45.0 million, \$7.4 million in unsecured property taxes, \$23.3 million in property tax collection to pay for General Obligation Bonds Series A and B, and \$13.5 million in property tax in lieu of vehicle license fee. Offsetting this increase was a decrease of \$26.4 million in other taxes mainly due to the reduction in 1991 State health realignment from motor vehicle license fee.

These topics will be discussed in Financial Analysis of the County's Funds section on page 15.



Expenses and Transfers

Expenses for governmental activities increased by \$102.4 million or 4.0 percent. All categories experienced higher costs than in the prior year except public ways and facilities, education, and interest on long-term liabilities. The primary reasons for the changes are explained below:

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- General Government expenses increased by \$27.6 million or 8.2 percent mainly due to increase in payroll and benefit costs.
- Public Protection expenses increased by \$16.3 million or 2.0 percent mainly due to a 2.0 percent increase in staffing, 2.0 to 3.0 percent countywide salary increase and health insurance rate increase. This increase was offset by a decrease of \$16.8 million in pension expense due to the change in measuring pension costs as previously discussed.
- Public Ways and Facilities expenses decreased by \$22.1 million or 36.6 percent mainly due to decrease in bridge and road repairs and maintenance cost.

Health and sanitation increased by \$32.5 million or 6.7 percent due to the following:

- Increase of \$15.2 million in salaries and benefits resulting from a 3.8 percent increase in staffing, 2.0 to 3.0 percent countywide salary increase, and health insurance rate and employee retirement plan rate increases.
- Increase of \$17.5 million in contracts and professional services to assist children and youth with complex behavioral health challenges.
- These increases was offset by a decrease of \$3.8 million in pension expense due to the change in measuring pension costs.

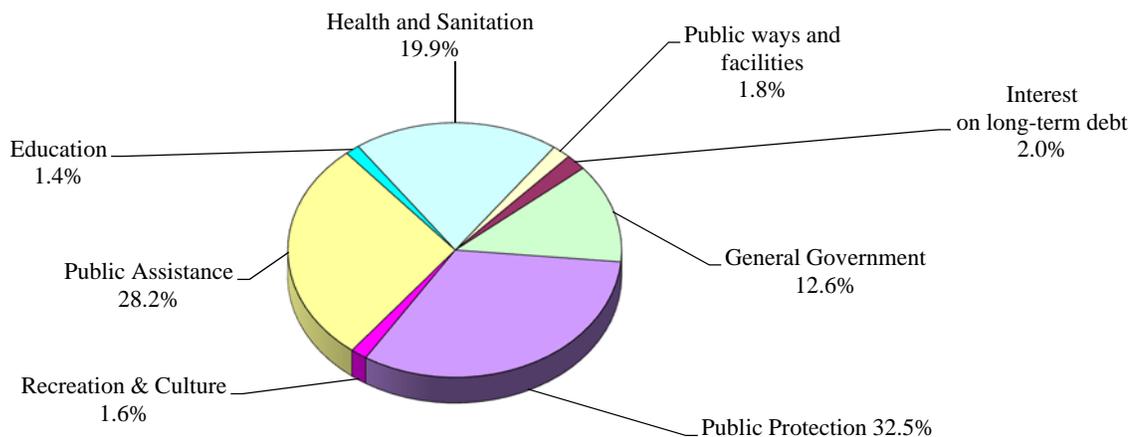
Public Assistance increased by \$50.8 million or 7.4 percent primarily due to the following:

- Increase of \$24.8 million in salaries and benefits resulting from a 4.8 percent increase in staffing, 2.0 to 3.0 percent countywide salary increase, and health insurance rate and employee retirement plan rate increases.
- Increase of \$12.0 million in health benefit cost due to the increased number of In Home Support Services (IHSS) providers enrolled in health benefits.
- Increase of \$5.8 million mainly due to an adjustments to the County's IHSS MOE calculation which increased the County's share of the costs
- Increase of \$5.3 million primarily due to larger contributions to provide housing units for the homeless.
- These increases was offset by a decrease of \$5.8 million in pension expense due to the change in measuring pension costs.

Transfers decreased by \$108.3 million primarily due to a reduction in operating subsidy made by the General Fund to SCVMC this fiscal year.

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

Expenses By Function/Program - Governmental Activities



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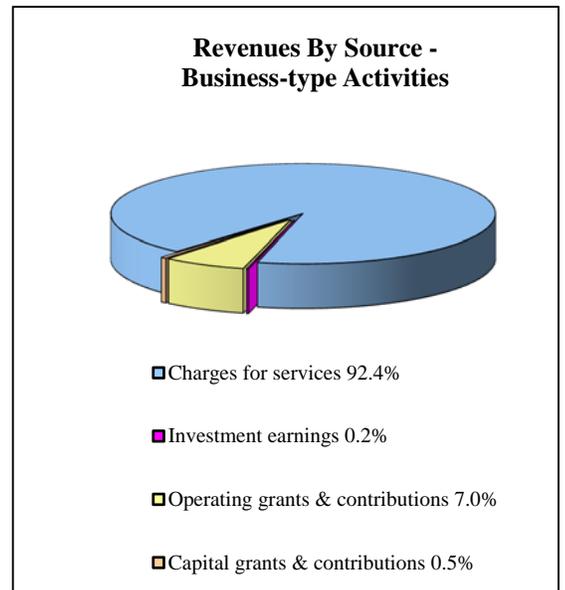
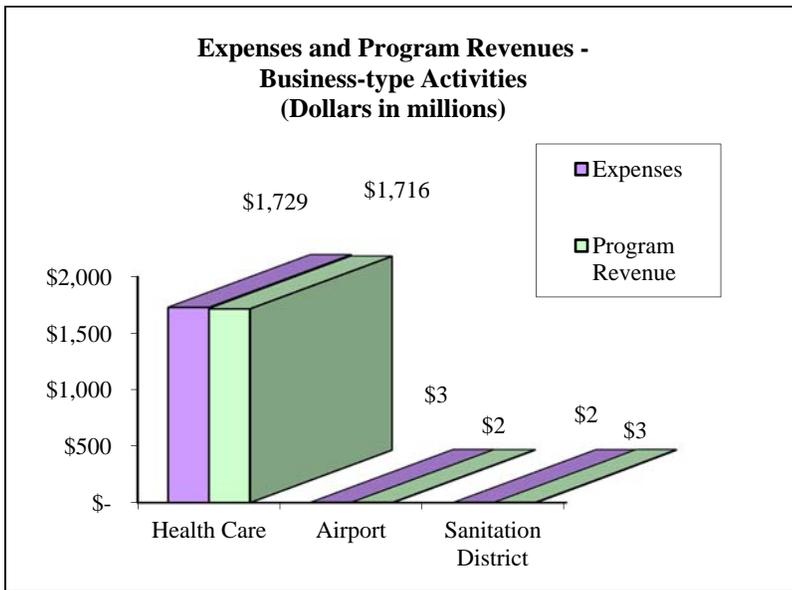
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Business-type activities

The business-type activities without the impact of the restatement related to GASB Statement No. 68 increased the County’s net position by \$40.8 million. The business-type activities had a net loss before transfers of \$10.4 million, which was partially offset by net transfers of \$51.3 million.

The largest of the County’s business-type activities, healthcare operations, had \$1.7 billion in expenses and \$1.7 billion in program revenues for the year. This is about 99.7 percent of the program revenues of all business-type activities. The reasons for these revenues and expenses changes will be discussed in the enterprise funds area. In addition, transfers decreased by \$108.3 million primarily due to a reduction in operating subsidy received from the General Fund.

The other enterprise operations—airport and sanitation district—are very small in size and did not change appreciably 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 resources. 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, 2015, the County’s governmental funds reported total fund balances of \$1.1 billion, an increase of \$183.4 million or 20.8 percent from the prior year. Approximately 57.0 percent of the combined fund balance, \$610.7 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 \$455.9 million is either in non-spendable form or restricted for specific spending. This includes \$10.9 million in items that are not expected to be converted

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to cash (for example: inventories, prepaid amounts, and long-term notes receivable) and \$444.9 million restricted for programs or other purposes.

For its governmental funds, the County’s total revenues for the current fiscal year were \$2.87 billion—an increase of \$205.8 million or 7.7 percent from the prior year. Total governmental fund expenditures increased by \$160.3 million or 6.0 percent to \$2.65 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 \$364.9 million, at June 30, 2015, while its total fund balance was \$514.5 million, a \$149.6 million increase from the prior year. This was mainly due to an excess of revenues over expenditures of \$170.0 million for the fiscal year, which was offset by \$20.4 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 16.4 percent and 23.1 percent of the total General Fund expenditures at June 30, 2015, respectively.

The non-spendable and restricted portions of the General Fund’s fund balance were \$10.4 million and \$56.6 million, respectively. The remaining fund balance constitutes the spendable portion, which was \$447.5 million. Of this amount, \$364.9 million was unassigned fund balance. The remaining portions of spendable fund balance included \$43.4 million of committed fund balance and \$39.2 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 \$2.40 billion and \$2.23 billion, respectively. While its revenues increased by \$145.5 million or 6.5 percent for the year, its expenditures increased by \$160.2 million or 7.7 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 2014		FY 2015		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
Taxes	\$ 811,660	36.0%	\$ 870,809	36.3%	\$ 59,149	7.3%
Licenses and permits	13,922	0.6%	14,396	0.6%	474	3.4%
Fines, forfeitures and penalties	52,401	2.3%	58,620	2.5%	6,219	11.9%
Interest and investment income	8,732	0.4%	10,941	0.5%	2,209	25.3%
Intergovernmental revenues	1,217,760	54.0%	1,256,252	52.3%	38,492	3.2%
Charges for services	109,258	4.8%	121,532	5.1%	12,274	11.2%
Other revenue	41,290	1.8%	67,981	2.8%	26,691	64.6%
Total	\$ 2,255,023	100.0%	\$ 2,400,531	100.0%	\$ 145,508	6.5%

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

Expenditures by function	FY 2014		FY 2015		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
General government	\$ 240,782	11.6%	\$ 258,309	11.6%	\$ 17,527	7.3%
Public protection	673,700	32.6%	718,407	32.2%	44,707	6.6%
Public ways and facilities	5,329	0.3%	246	0.0%	(5,083)	-95.4%
Health and sanitation	451,786	21.8%	490,963	22.0%	39,177	8.7%
Public assistance	675,223	32.6%	736,832	33.1%	61,609	9.1%
Capital outlay	996	0.0%	4,730	0.2%	3,734	374.9%
Debt service:						
Principal retirement	10,056	0.5%	10,021	0.4%	(35)	-0.3%
Interest and fiscal charges	12,487	0.6%	11,036	0.5%	(1,451)	-11.6%
	<u>\$ 2,070,359</u>	<u>100.0%</u>	<u>\$ 2,230,544</u>	<u>100.0%</u>	<u>\$ 160,185</u>	<u>7.7%</u>

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 87.1 percent and 87.6 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 upon in our earlier discussion on the countywide revenues and expenses.

Tax revenues increased by \$59.1 million or 7.3 percent. This was mainly due to a 6.8 percent increase in total property assessed values, which increased secured property taxes by \$36.6 million, unsecured property taxes by \$6.0 million, and property tax in-lieu of vehicle license fees by \$13.3 million. In addition, supplemental taxes increased by \$4.0 million due to the improved economy which fueled the real estate market.

Intergovernmental revenues increased by \$38.5 million or 3.2 percent. This was due to the reimbursement made by the State Controller’s Office to local governments for the pre-2004 State Mandated Programs which increased SB90 revenues by \$28.7 million. There was also an increase in Public Safety Realignment from the State by \$7.2 million due to increases in sales tax collection as well as a one-time adjustments made by the Board of Equalization.

Other revenues increased by \$26.7 million or 64.6 percent. This resulted from an increase in excess ERAF apportionments of \$32.5 million. This increase was offset by a \$3.8 million reduction in revenue due to a one-time grant funded project in the prior year for radio and communication systems.

Charges for services increased by \$12.3 million or 11.2 percent. A general election was held this fiscal year and it generated \$3.7 million in additional revenues due to higher participation by cities, schools, and special districts when compared to prior year’s elections. In addition, Medi-Cal reimbursements increased by \$5.4 million from significant increases in medication costs and certified vital records issued to clients. Furthermore, a \$2.7 million settlement was received from a lawsuit involving consumer protection.

Pertinent reasons for changes in General Fund expenditures are not different from what was explained in the earlier discussion on the countywide governmental programs and activities.

Enterprise funds

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

As of June 30, 2015, the County’s net position in its enterprise funds was \$75.9 million. The net investment in capital assets was \$652.0 million. The restricted net position of the enterprise funds was \$290.3 million. These

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assets represent resources that are subject to external restrictions on how they may be used. The unrestricted net position as of June 30, 2015 was negative \$866.4 million. The net position of the County's enterprise funds decreased by \$906.4 million for the year, of which \$952.6 million was from the implementation of GASB Statement No. 68. Primary reasons for the change in net position are explained in the framework of individual enterprise funds.

SCVMC is the largest enterprise fund and its revenues and expenses comprise 71.2 percent of the total operating revenues and 71.7 percent of the total operating expenses for all enterprise funds. Valley Health Plan is the second largest and is considered a major fund in fiscal year 2015 and its revenues and expenses comprise 28.5 percent of the total operating revenues and 28.0 percent of the total operating expenses for all enterprise funds. The other two enterprise funds— Airport and Sanitation District—are very small in comparison.

The change in net position for SCVMC was \$37.8 million in FY2015. Operating revenues increased by \$215.5 million or 21.5 percent and operating expenses increased by \$43.5 million or 3.7 percent. Many factors contributed to the increase in operating revenues including: (1) an 8% increase in rates with an update to the charge master file; (2) an 8% increase in the average daily census from 304.4 in FY2014 to 329.3 in FY2015; (3) a significant increase in the managed care capitation revenues from \$106 million to \$269 million due to higher enrollment and hire rates under the MCE program; (4) increases in other managed care revenues of \$8 million due to higher incentive revenues from FHP/VHP due primarily from higher Medicaid Coverage Expansion (MCE) rates; and (5) other one-time- increased contribution and donations. Factors that contributed to the increase in operating expenses include: (1) payroll increased by 7.5% to cover the increased volume in patient days; (2) pharmacy costs increased by \$17 million due to higher costs for specialty drugs; (3) information technology costs increased due to system upgrades; and (4) depreciation costs increased due to accelerated depreciation for componentized projects. The net capital contributions and transfers were \$59.1 million for the year.

The change in net position for Valley Health Plan was \$8.7 million in FY2015. Operating revenues increased by \$206.3 million or 73.3 percent and operating expenses increased by \$204.3 million or 74.0 percent. During FY2015, Valley Health Plan experienced a 28% enrollment increase in the Medi-Cal line of business brought on by the Medi-Cal expansion as part of the Affordable Care Act. Revenues for the Medi-Cal line of business increased from \$165 million in FY2014 to \$347 million in FY2015. Premium revenues from the commercial and Covered California lines of business increased from \$115 million in FY2014 to \$140 million in FY2015. Overall revenue increased by 73.6% from the prior year. This increase in revenues contributed to the corresponding increase in expenses necessary to serve the revenue growth.

There were no significant changes to the net position for the Airport and Sanitation District during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The County's final budget appropriations for fiscal year 2015 were \$2.8 billion, which was \$115.5 million or 4.3 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 an increased service level that was not expected when the original budget was approved.

General Fund revenues exceeded budgeted estimates and expenditures were less than the budgetary estimates for the year. Estimated revenues for the year exceeded actual revenues by \$248.4 million or 9.1 percent. Intergovernmental revenues, and interfund transfers came in lower than estimates. Final budgetary appropriations exceeded actual expenditures by \$427.0 million or 15.4 percent for the year. These cost savings resulted from unspent appropriations of: a) \$29.9 million in salaries and benefits costs due to eliminating or not filling vacant positions; b) \$144.3 million in services and supplies costs for government programs – general government, health

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and sanitation, public assistance, and public protection; c) \$1.8 million in lower debt service payments; d) \$1.0 million in capital assets; e) \$7.0 million from special program amounts designated for the Healthy Kids program, \$3.0 million VHP’s system upgrade, and \$10.0 million Cash Reserve approved by Board of Supervisor; \$1.4 million in energy rebates set aside payables towards the Qualified Energy Conservation Bonds; and f) \$225.9 million remaining in contingency reserves.

The General Fund budgetary comparison schedule starts on page 114 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, 2015 was \$2.34 billion.

Table 5—Capital Assets (Net of depreciation, in thousands)

	Governmental Activities		Business-type Activities		Total		Dollar Change	Percent Change
	FY2014	FY 2015	FY2014	FY 2015	FY2014	FY 2015		
Land	\$ 260,592	\$ 269,896	\$ 6,310	\$ 6,310	\$ 266,902	\$ 276,206	\$ 9,304	3.5%
Construction in progress	134,851	179,372	574,180	634,307	709,031	813,679	104,648	14.8%
Infrastructure	199,290	198,145	-	-	199,290	198,145	(1,145)	(0.6%)
Buildings & improvements	512,356	515,998	417,708	370,008	930,064	886,006	(44,058)	(4.7%)
Equipment, software, and vehicles	50,048	51,914	115,524	118,080	165,572	169,994	4,422	2.7%
Leasehold improvements	-	-	258	-	258	-	(258)	(100.0%)
Total	\$ 1,157,137	\$ 1,215,325	\$ 1,113,980	\$ 1,128,705	\$ 2,271,117	\$ 2,344,030	\$ 72,913	3.2%

The County’s net capital assets increased by \$72.9 million or 3.2 percent for the year. Net capital assets for the governmental activities increased by \$58.2 million or 4.8 percent, while the business-type activities’ net capital assets increased by \$14.7 million or 1.3 percent. Changes in capital assets by activity type were as follows:

Governmental activities

The County’s capital assets for its governmental activities rose by \$58.2 million mainly due to:

- Land increased by \$9.3 million from the acquisition of property for the following purposes:
 - Outpatient surgery center in San Jose - \$4.0 million
 - New County Library headquarters in San Jose - \$2.1 million
 - Acquisition of land for future use in San Jose - \$1.5 million
 - Courthouse in Morgan Hill - \$0.7 million

- Construction in progress increased by \$44.5 million due to the following projects:
 - Various Road Department projects including Montague Expressway, bridge rehabilitation, expressway intelligent transportation systems, and road maintenance - \$27.0 million
 - San Jose downtown health clinic - \$18.7 million
 - Various Parks Department projects - \$10.8 million
 - Procurement system implementation - \$4.0 million

The increases were offset by \$13.0 million in construction incurred in the prior year for a headquarters building for the County Library.

- Buildings and improvements increased by \$3.6 million from buildings acquired for an outpatient surgery center in San Jose for \$2.4 million and mental health facility in Morgan Hill for \$1.3 million.

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Business-type activities

Net capital assets for business-type activities increased by \$14.7 million for the year. This increase was due to the current year net reduction of construction in progress of \$24.0 million, which comprised of \$80.8 million in project costs for the San Jose Downtown Health Center Project, offset by the completion of \$104.8 million of SCVMC buildings and facilities and related equipment seismic capital projects. These increases were offset by the current year’s depreciation of \$67.6 million.

Commitment of Resources for Construction Work in Progress

At June 30, 2015, the County had committed \$45.5 million of its net position from the governmental activities and \$21.1 million of its net position 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 found in Note 6 on page 60 of this report.

Long-term debt

The County’s long-term outstanding debt as of June 30, 2015 was \$2.2 billion as shown in Table 6 below:

Table 6—Outstanding Debt (in thousands)

	Governmental Activities		Business-type Activities		Total		Dollar Change	Percent Change
	FY2014	FY 2015	FY2014	FY 2015	FY2014	FY 2015		
Taxable pension funding bonds	\$ 418,337	\$ 419,799	\$ -	\$ -	\$ 418,337	\$ 419,799	\$ 1,462	0.3%
General obligation bonds	854,825	847,527	-	-	854,825	847,527	(7,298)	(0.9%)
Lease revenue bonds	230,797	217,022	551,068	527,036	781,865	744,058	(37,807)	(4.8%)
Capital appreciation bonds	157,191	166,606	-	-	157,191	166,606	9,415	6.0%
Certificates of participation	3,387	3,188	-	-	3,387	3,188	(199)	(5.9%)
Capital lease obligations	272	3,860	-	-	272	3,860	3,588	1319.1%
Total	\$ 1,664,809	\$ 1,658,002	\$ 551,068	\$ 527,036	\$ 2,215,877	\$ 2,185,038	\$ (30,839)	(1.4%)

The County’s long-term debt decreased by \$30.8 million mainly due to scheduled debt repayments. For its outstanding debt, Standard & Poor’s (S&P) has maintained an AA+ on the County’s existing lease revenue bonds and pension obligation bonds. In addition, S&P has maintained the County’s general obligation rating of AAA. This rating is the highest possible long-term rating. Additional information on the County’s ratings changes on its long term debt can be found in Note 17 on page 108.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The County continues to recover from one of the greatest economic downturns since the Great Depression. This is indicative of the County’s budget for the upcoming year, which projected a 7.8 percent increase in revenues and an 8.8 percent increase in net expenditures. The budgeted expenditures exceed budgeted revenues by \$220.3 million in fiscal year (FY) 2016. The deficit is expected to be covered by available FY 2015 fund balance. This increase in cost compared to the lower increase in revenues indicates a rising cost of doing business.

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The following economic factors, some pointing to a long-awaited recovery, were considered in the County's FY 2016 budget:

- The County's unemployment rate continues to improve: the rate for June 2015 was 4.0 percent. This is an improvement from June 2014 when the unemployment rate was 5.4 percent. In comparison, the statewide unemployment rate for June 2015 was 6.2 percent, a decrease of 1.1 percent from the prior year at 7.3 percent.
- The real per capita income (a measure of wealth creation) as of March 2014 (most current available data) increased from \$65,679 to \$69,205. The real per capita income on a national level is \$46,177, an increase of \$989 from the prior year.
- After several years of declining valuations, the housing prices continued to grow for a fourth straight year. This was demonstrated by the median price for single family homes, which increased to \$900,000, an 11.4 percent increase from a year ago. This increase was fueled by tight inventory of homes for sale, low mortgage interest rates, and pent-up buyer demand.
- Venture capital investment, a leading indicator of innovation and long-term development, increased by \$15.9 billion or 38.7 percent in FY 2015 compared to FY 2014. Silicon Valley and San Francisco regions, taken together, accounted for 47.3 percent of the national total and 82.4 percent of the state's total. High technology including software, biotechnology, media and entertainment, information technology services, and medical devices and equipment attracted the largest funding.
- Research and development, office, and warehouse space occupancy, which are leading indicators of economic activity, showed improved results compared to the past year. The vacancy rate for research and development space was 10.0 percent in June 2015 versus 12.2 percent a year ago. The office space vacancy rate was 9.4 percent in June 2015 compared to 10.3 percent last year. The vacancy rate for warehouse space dropped from 7.3 percent in June 2014 to 6.1 percent in June 2015.
- Assessed value for real property, which increased by 6.8 percent, contributed to an increase of \$25.9 million in current secured property tax revenue. The current unsecured property value increased by 20.4 percent with a tax increase of \$6.2 million. The property tax delinquencies on secured property decreased from 0.7 percent in FY 2014 to 0.4 percent in FY 2015. Property tax transfer tax revenue increased by 19.0 percent or \$4.5 million. Supplemental tax revenues increased by 28.5 percent or \$3.9 million due to significant market improvement and negative supplemental tax in prior years being absorbed. The FY 2016 budget assumes an 8.6 percent increase in secured property assessed value, which corresponds to an increase of \$65.0 million in property tax value.

The FY 2016 Countywide expenditure budget of \$5.5 billion included an 11.9 percent increase in comparison to the prior year's budget. This increase was due to the restoration and enhancement of administrative infrastructure, improving access and capacity to prepare for the Affordable Care Act, and continued commitment towards the County's physical and technological infrastructure.

The FY 2016 budget sets aside \$123.1 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.

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Basic Financial Statements

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COUNTY OF SANTA CLARA

Statement of Net Position

June 30, 2015

(In thousands)

	Primary Government			Component Units
	Governmental Activities	Business- type Activities	Total	
Assets:				
Cash and investments	\$ 1,421,554	\$ 263,021	\$ 1,684,575	\$ 231,355
Receivables, net of allowance for uncollectibles	92,811	121,481	214,292	184,880
Internal balances	101,833	(101,833)	-	-
Due from other governmental agencies, net	331,761	73,552	405,313	55,159
Receivables from related parties and component units	7,470	-	7,470	71,155
Inventories	3,891	21,779	25,670	-
Net pension asset	-	-	-	8,805
Net OPEB asset	-	-	-	1,199
Other assets	11,334	3,424	14,758	15,904
Restricted cash and investments	66,713	342,274	408,987	23,660
Capital assets:				
Nondepreciable	449,268	640,617	1,089,885	57,795
Depreciable, net of accumulated depreciation	766,057	488,088	1,254,145	370,017
Total assets	3,252,692	1,852,403	5,105,095	1,019,929
Deferred outflows of resources:				
Pension related items	183,290	88,977	272,267	2,091
Unamortized loss on refunding debt	3,111	10,172	13,283	-
Deferred outflows on derivative instruments	-	18,206	18,206	-
Total deferred outflows of resources	186,401	117,355	303,756	2,091
Liabilities:				
Accounts payable	102,639	81,001	183,640	27,496
Accrued salaries and benefits	39,771	25,383	65,154	558
Accrued liabilities	55,448	41,037	96,485	70,395
Estimated third-party payer settlements	-	77,813	77,813	-
Due to related parties	-	-	-	75,030
Due to other governmental agencies	117,200	132,171	249,371	128,842
Unearned revenue	179,745	7,703	187,448	3,320
Payable to primary government	-	-	-	7,470
Net OPEB obligation	291,807	-	291,807	-
Net pension liability	1,741,150	832,128	2,573,278	4,884
Noncurrent liabilities:				
Due within one year	89,026	40,650	129,676	14,678
Due in more than one year	1,910,855	562,396	2,473,251	264,656
Derivative instruments liabilities	-	18,206	18,206	-
Total liabilities	4,527,641	1,818,488	6,346,129	597,329
Deferred inflows of resources:				
Pension related items	391,615	192,556	584,171	5,741
Deferred service concession arrangement receipts	13,741	-	13,741	-
Total deferred inflows of resources	405,356	192,556	597,912	5,741
Net position (see Note 11(a)):				
Net investment in capital assets	1,022,889	651,958	1,014,864	168,859
Restricted for:				
Capital facilities	-	289,574	-	-
Debt service	17,330	744	18,074	-
Parks	70,968	-	70,968	-
Housing programs	81,697	-	81,697	-
Roads	51,158	-	51,158	-
Mental health	116,014	-	116,014	-
Other purposes	131,087	-	131,087	22,341
Unrestricted	(2,985,047)	(983,562)	(3,019,052)	227,750
Total net position	\$ (1,493,904)	\$ (41,286)	\$ (1,535,190)	\$ 418,950

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, 2015

(In thousands)

	Program Revenues				
	Expenses	Indirect Expenses Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Function/program activities:					
Primary government:					
Governmental activities:					
General government	\$ 406,208	\$ (42,361)	\$ 104,653	\$ 242,302	\$ -
Public protection	845,439	2,841	100,219	252,306	-
Public ways and facilities	37,378	888	3,247	38,792	8,254
Health and sanitation	519,489	-	52,658	226,787	-
Public assistance	733,132	5,187	5,943	632,271	-
Education	34,738	614	888	1,634	-
Recreation and culture	39,595	1,195	6,075	784	-
Interest on long-term liabilities	54,596	-	-	-	-
Total governmental activities	2,670,575	(31,636)	273,683	1,394,876	8,254
Business-type activities:					
Healthcare	1,697,275	31,574	1,588,621	119,566	7,930
Airport	3,176	62	2,487	-	-
Sanitation	2,205	-	2,625	-	-
Total business-type activities	1,702,656	31,636	1,593,733	119,566	7,930
Total primary government	\$ 4,373,231	\$ -	\$ 1,867,416	\$ 1,514,442	\$ 16,184
Component units	\$ 1,169,431		\$ 947,406	\$ 290,912	\$ 9,029
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					
Other:					
Penalties on delinquent taxes					
Tobacco settlement revenues					
Miscellaneous revenues					
Transfers					
Total general revenues and transfers					
Special item					
Change in net position					
Net position, beginning of year, as previously reported					
Change in accounting principle					
Net position, beginning of year, as restated					
Net position, end of year					

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

Net (Expense) Revenue and Changes in Net Position

Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	
				Function/program activities:
				Primary government:
				Governmental activities:
\$ (16,892)	\$ -	\$ (16,892)	\$ -	General government
(495,755)	-	(495,755)	-	Public protection
12,027	-	12,027	-	Public ways and facilities
(240,044)	-	(240,044)	-	Health and sanitation
(100,105)	-	(100,105)	-	Public assistance
(32,830)	-	(32,830)	-	Education
(33,931)	-	(33,931)	-	Recreation and culture
(54,596)	-	(54,596)	-	Interest on long-term liabilities
<u>(962,126)</u>	<u>-</u>	<u>(962,126)</u>	<u>-</u>	Total governmental activities
				Business-type activities:
-	(12,732)	(12,732)	-	SCVMC
-	(751)	(751)	-	Airport
-	420	420	-	Sanitation
<u>-</u>	<u>(13,063)</u>	<u>(13,063)</u>	<u>-</u>	Total business-type activities
<u>(962,126)</u>	<u>(13,063)</u>	<u>(975,189)</u>	<u>-</u>	Total primary government
<u>-</u>	<u>-</u>	<u>-</u>	<u>77,916</u>	Component units
				General revenues:
1,050,457	-	1,050,457	-	Property taxes
52,254	-	52,254	-	Sales and use taxes
674	-	674	-	Other taxes
8,514	-	8,514	-	Unrestricted motor vehicle in lieu of taxes
20,149	-	20,149	-	Grants/contributions not restricted to specific programs
9,185	2,617	11,802	4,040	Investment income
				Other:
38,125	-	38,125	-	Penalties on delinquent taxes
15,531	-	15,531	-	Tobacco settlement revenues
20,511	-	20,511	2,792	Miscellaneous revenues
<u>(51,255)</u>	<u>51,255</u>	<u>-</u>	<u>-</u>	
<u>1,164,145</u>	<u>53,872</u>	<u>1,218,017</u>	<u>6,832</u>	Transfers
<u>-</u>	<u>-</u>	<u>-</u>	<u>5,255</u>	Total general revenues and transfers
<u>202,019</u>	<u>40,809</u>	<u>242,828</u>	<u>90,003</u>	Special item
663,688	870,502	1,534,190	345,306	Change in net position
(2,359,611)	(952,597)	(3,312,208)	(16,359)	Net position, beginning of year, as previously reported
<u>(1,695,923)</u>	<u>(82,095)</u>	<u>(1,778,018)</u>	<u>328,947</u>	Change in accounting principle
\$ (1,493,904)	\$ (41,286)	\$ (1,535,190)	\$ 418,950	Net position, beginning of year, as restated
				Net position, 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, 2015
(In thousands)

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Assets:			
Cash and investments:			
Unrestricted	\$ 697,432	\$ 573,302	\$ 1,270,734
Restricted with fiscal agents	-	766	766
Other restricted	63	51,043	51,106
Receivables:			
Property taxes	2,744	-	2,744
Other, net of allowance for uncollectibles	16,501	62,464	78,965
Due from other funds	65,113	4,286	69,399
Due from other governmental agencies, net	315,614	15,097	330,711
Inventories	2,216	457	2,673
Other assets	7,677	538	8,215
Advances to other funds	538	-	538
Total assets	<u>\$ 1,107,898</u>	<u>\$ 707,953</u>	<u>\$ 1,815,851</u>
Liabilities, Deferred Inflows of Resources and Fund Balances:			
Liabilities:			
Accounts payable	\$ 77,928	\$ 13,088	\$ 91,016
Accrued salaries and benefits	33,578	4,929	38,507
Other accrued liabilities	18,923	13,080	32,003
Due to other funds	22,669	61,136	83,805
Due to other governmental agencies	116,502	659	117,161
Advances from other funds	-	538	538
Unearned revenue	176,984	2,761	179,745
Total liabilities	<u>446,584</u>	<u>96,191</u>	<u>542,775</u>
Deferred inflows of resources:			
Unavailable revenue	146,766	59,758	206,524
Total deferred inflows of resources	<u>146,766</u>	<u>59,758</u>	<u>206,524</u>
Fund balances:			
Nonspendable	10,431	457	10,888
Restricted	56,604	388,370	444,974
Committed	43,375	119,525	162,900
Assigned	39,242	43,652	82,894
Unassigned	364,896	-	364,896
Total fund balances	<u>514,548</u>	<u>552,004</u>	<u>1,066,552</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,107,898</u>	<u>\$ 707,953</u>	<u>\$ 1,815,851</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 Position - Governmental Activities

June 30, 2015
(In thousands)

Fund balances - total governmental funds (page 26)	\$	1,066,552
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		1,202,109
Prepaid bond insurance costs and loss on bond refundings are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net position.		3,185
Other long-term receivables are not available to pay for current period expenditures and therefore are recorded as deferred inflows of resources in the funds.		206,524
Long-term receivables from the Housing Authority with matching long term liabilities and service concession arrangements are not current financial resources and therefore are not reported in the governmental funds.		13,960
Deferred inflows of resources related to the receivable and capital assets from the service concession arrangements are not due and payable in the current period and therefore are not reported in the governmental funds.		(13,741)
Deferred outflows and inflows of resources for pension items are not financial resources and, therefore, are not reported in the governmental funds.		
Deferred outflows of resources		183,290
Deferred inflows of resources		(391,615)
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 position.		(538,733)
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 the internal service funds)	\$	(1,234,343)
Accrued vacation and sick leave		(146,862)
Net pension liability		(1,741,150)
Capital lease obligations		(3,860)
Accrued interest payable		(16,192)
Net OPEB obligations - Santa Clara Central Fire Protection District		(41,719)
Pollution remediation obligation		(6,530)
Accrued litigation liability		(34,779)
		<u>(3,225,435)</u>
Net Position - governmental activities (page 23)	\$	<u><u>(1,493,904)</u></u>

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

COUNTY OF SANTA CLARA

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

For the Fiscal Year Ended June 30, 2015
(In thousands)

	General Fund	Other Governmental Funds	Total
Revenues:			
Taxes	\$ 870,809	\$ 202,190	\$ 1,072,999
Licenses and permits	14,396	25,360	39,756
Fines, forfeitures, and penalties	58,620	9,013	67,633
Interest and investment income	10,941	5,328	16,269
Intergovernmental revenues	1,256,252	174,364	1,430,616
Charges for services	121,532	36,483	158,015
Other revenue	67,981	13,374	81,355
Total revenues	2,400,531	466,112	2,866,643
Expenditures:			
Current:			
General government	258,309	181	258,490
Public protection	718,407	140,519	858,926
Public ways and facilities	246	69,377	69,623
Health and sanitation	490,963	30,230	521,193
Public assistance	736,832	3,165	739,997
Education	-	34,611	34,611
Recreation and culture	-	38,928	38,928
Capital outlay	4,730	56,280	61,010
Debt service:			
Principal retirement	10,021	11,139	21,160
Interest and fiscal charges	11,036	36,487	47,523
Cost of issuance	-	629	629
Total expenditures	2,230,544	421,546	2,652,090
Excess of revenues over expenditures	169,987	44,566	214,553
Other financing sources (uses):			
Proceeds from sale of capital assets	16,244	2,375	18,619
Capital lease financing	-	3,702	3,702
Bond premium	-	9,548	9,548
Issuance of refunding bonds	-	60,232	60,232
Payment to bond refunding escrow	-	(69,349)	(69,349)
Transfers in	73,120	52,448	125,568
Transfers out	(109,762)	(69,689)	(179,451)
Total other financing sources (uses)	(20,398)	(10,733)	(31,131)
Net change in fund balances	149,589	33,833	183,422
Fund balances, beginning of year	364,959	518,171	883,130
Fund balances, end of year	\$ 514,548	\$ 552,004	\$ 1,066,552

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, 2015
(In thousands)

Net change in fund balances - total governmental funds (page 28)		\$ 183,422
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	\$ 104,561	
Net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, donations)	(5,620)	
Less current year depreciation	<u>(45,078)</u>	53,863
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. Capital leases are not revenues in the statement of activities but rather constitute long-term liabilities in the statement of net position.		
		(3,702)
Prepaid bond insurance 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.		
Amortization of prepaid bond insurance costs		(22)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		(4,275)
Revenues recognized in the governmental funds that were earned and recognized in previous years and are reported as beginning net position in the statement of activities.		
		(5,000)
Pension contribution made subsequent to the measurement date is an expenditure in the governmental funds, but reported as a deferred outflows of resources in the government-wide financial statements.		
		182,972
Pension 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.		
		(150,349)
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 changes long-term liabilities in the statement of net position and do not affect the statement of activities.		
Debt issued or incurred:		
Proceeds of refunding bonds	(69,780)	
Payment to bond refunding escrow	<u>69,349</u>	(431)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		21,160
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	2,845	
Amortization of loss on refunding debt	(288)	
Change in accrued interest payable	414	
Change in accreted interest - Tobacco Settlement Asset-Backed Bonds	(9,415)	
Change in net OPEB obligations - Santa Clara Central Fire Protection District	(1,483)	
Change in pollution remediation obligations	(200)	
Change in accrued litigation liability	(29,123)	
Change in long-term compensated absences	<u>(5,876)</u>	(43,126)
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>(32,493)</u>
Change in net position of governmental activities (page 25)		<u>\$ 202,019</u>

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

COUNTY OF SANTA CLARA

Statement of Fund Net Position

Proprietary Funds

June 30, 2015

(In thousands)

	Business-type Activities - Enterprise Funds				Governmental
	Valley			Total	Internal
	SCVMC	Health Plan	Other		Service Funds
Assets:					
Current assets:					
Cash and investments:					
Unrestricted	\$ 174,133	\$ 79,108	\$ 9,780	\$ 263,021	\$ 150,820
Restricted with fiscal agent	341,569	-	705	342,274	14,340
Other restricted	-	-	-	-	501
Receivables:					
Patient accounts receivable, net of estimated uncollectables	117,846	-	-	117,846	-
Other	1,532	1,992	111	3,635	4,612
Due from other funds	24,997	-	-	24,997	8
Due from other governmental agencies	73,552	-	-	73,552	1,050
Inventories	21,779	-	-	21,779	1,218
Prepaid rent/insurance	3,402	-	-	3,402	2,118
Total current assets	<u>758,810</u>	<u>81,100</u>	<u>10,596</u>	<u>850,506</u>	<u>174,667</u>
Noncurrent assets:					
Other assets	-	-	22	22	927
Capital assets:					
Nondepreciable	628,907	7,528	4,182	640,617	1,295
Depreciable, net of accumulated depreciation	468,957	7,333	11,798	488,088	11,921
Total noncurrent assets	<u>1,097,864</u>	<u>14,861</u>	<u>16,002</u>	<u>1,128,727</u>	<u>14,143</u>
Total assets	<u>1,856,674</u>	<u>95,961</u>	<u>26,598</u>	<u>1,979,233</u>	<u>188,810</u>
Deferred outflows of resources:					
Pension items	87,374	1,499	104	88,977	-
Unamortized loss on refunding debt	10,172	-	-	10,172	-
Deferred outflows on derivative instruments	18,206	-	-	18,206	-
Total deferred outflows of resources	<u>115,752</u>	<u>1,499</u>	<u>104</u>	<u>117,355</u>	<u>-</u>
Liabilities:					
Current liabilities:					
Accounts payable	33,349	46,835	817	81,001	11,623
Accrued salaries and benefits	24,887	474	22	25,383	1,264
Accrued liabilities	32,742	8,137	158	41,037	7,253
Due to other funds	7,354	2,336	-	9,690	909
Due to third-party payers	77,813	-	-	77,813	-
Due to other governmental agencies	132,171	-	-	132,171	39
Unearned revenues	-	7,646	57	7,703	-
Current portion of insurance claims	-	-	-	-	38,785
Current portion of accrued vacation and sick leave	13,377	69	5	13,451	366
Current portion of bonds payable	27,044	-	155	27,199	6,895
Total current liabilities	<u>348,737</u>	<u>65,497</u>	<u>1,214</u>	<u>415,448</u>	<u>67,134</u>
Noncurrent liabilities:					
Noncurrent portion of insurance claims	-	-	-	-	109,030
Noncurrent portion of accrued vacation and sick leave	61,470	1,023	65	62,558	5,527
Noncurrent portion of bonds payable	495,628	-	4,210	499,838	412,904
Net OPEB obligation	-	-	-	-	250,088
Net pension liability	817,140	14,015	973	832,128	-
Derivative instruments liabilities	18,206	-	-	18,206	-
Total noncurrent liabilities	<u>1,392,444</u>	<u>15,038</u>	<u>5,248</u>	<u>1,412,730</u>	<u>777,549</u>
Total liabilities	<u>1,741,181</u>	<u>80,535</u>	<u>6,462</u>	<u>1,828,178</u>	<u>844,683</u>
Deferred outflows of resources:					
Pension items	189,088	3,243	225	192,556	-
Net position:					
Net investment in capital assets	633,450	7,333	11,175	651,958	13,216
Restricted:					
Capital facilities	289,574	-	-	289,574	-
Debt service	744	-	-	744	-
Unrestricted	(881,611)	6,349	8,840	(866,422)	(669,089)
Total net position	<u>\$ 42,157</u>	<u>\$ 13,682</u>	<u>\$ 20,015</u>	<u>75,854</u>	<u>\$ (655,873)</u>
Adjustment to reflect the consolidation of internal service fund activities to enterprise funds.				(117,140)	
Net position of business-type activities				<u>\$ (41,286)</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 Position

Proprietary Funds

For the Fiscal Year Ended June 30, 2015

(In thousands)

	Business-type Activities - Enterprise Funds				Governmental
	Valley			Total	Activities
	SCVMC	Health Plan	Other		Internal
					Service Funds
Operating revenues:					
Charges for services	\$ 1,100,756	\$ 487,865	\$ 5,112	\$ 1,593,733	\$ 325,824
Other program revenues	119,566	-	-	119,566	-
Net operating revenues	1,220,322	487,865	5,112	1,713,299	325,824
Operating expenses:					
Salaries and benefits	802,407	13,891	981	817,279	223,260
Services and supplies	133,528	464,967	889	599,384	31,220
General and administrative	-	-	-	-	5,995
Professional services	190,551	-	742	191,293	2,545
Depreciation	65,189	1,651	791	67,631	3,587
Leases and rentals	6,530	-	-	6,530	18
Utilities	11,792	-	-	11,792	-
Insurance claims and premiums	9,785	-	46	9,831	76,605
Other	8,470	2	1,374	9,846	-
Total operating expenses	1,228,252	480,511	4,823	1,713,586	343,230
Operating income (loss)	(7,930)	7,354	289	(287)	(17,406)
Nonoperating revenues (expenses):					
Investment income	2,220	356	41	2,617	1,166
Interest expense	(19,805)	-	(217)	(20,022)	(24,961)
Gain (Loss) on disposal of capital assets	(242)	-	(385)	(627)	356
Other, net	4,479	898	-	5,377	290
Total nonoperating revenues (expenses), net	(13,348)	1,254	(561)	(12,655)	(23,149)
Income (loss) before capital contributions and transfers	(21,278)	8,608	(272)	(12,942)	(40,555)
Capital contributions	7,930	-	-	7,930	-
Transfers in	75,923	42	16	75,981	2,628
Transfers out	(24,726)	-	-	(24,726)	-
Change in net position	37,849	8,650	(256)	46,243	(37,927)
Net position, beginning of year, as previously reported	939,747	21,076	21,385	982,208	(240,433)
Change in accounting principles	(935,439)	(16,044)	(1,114)	(952,597)	(377,513)
Net position, beginning of year, as restated	4,308	5,032	20,271	29,611	(617,946)
Net position, end of year	\$ 42,157	\$ 13,682	\$ 20,015	\$ 75,854	\$ (655,873)
Change in net position of enterprise funds				\$ 46,243	
Adjustment to reflect the consolidation of internal service funds to enterprise funds.				(5,434)	
Change in net position of business-type activities				\$ 40,809	

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, 2015

(In thousands)

	Business-type Activities - Enterprise Funds				Governmental
	Valley			Total	Internal
	SCVMC	Health Plan	Other		Service Funds
Cash flows from operating activities:					
Cash receipts from customers and users	\$ 1,248,383	\$ 488,740	\$ 5,125	\$ 1,742,248	\$ 329,185
Cash payment to suppliers for goods and services	(373,354)	(438,977)	(3,100)	(815,431)	(36,878)
Cash payment to employees for services	(810,722)	(13,936)	(1,059)	(825,717)	(45,030)
Cash payment for retirement benefits	-	-	-	-	(166,220)
Cash payment for judgments and claims	-	-	-	-	(70,804)
Other receipts	4,479	898	-	5,377	290
Net cash provided by operating activities	68,786	36,725	966	106,477	10,543
Cash flows from noncapital financing activities:					
Cash receipts from borrowings from other funds	-	2,770	-	2,770	162
Cash payments to other funds	(22,163)	-	-	(22,163)	-
Principal paid on pension obligation bonds	-	-	-	-	(3,975)
Interest paid on pension obligation bonds	-	-	-	-	(19,481)
Transfers in	75,923	42	16	75,981	2,628
Transfers out	(24,726)	-	-	(24,726)	-
Net cash provided by (used in) noncapital financing activities	29,034	2,812	16	31,862	(20,666)
Cash flows from capital and related financing activities:					
Proceeds from issuance of refunding bonds	302	-	-	302	-
Principal paid on bonds	(23,940)	-	(220)	(24,160)	-
Interest paid	(20,687)	-	(216)	(20,903)	-
Acquisition of capital assets	(79,920)	(7,195)	(59)	(87,174)	(7,914)
Proceeds from sale of capital assets	1,021	-	-	1,021	358
Capital contributions received	8,960	-	-	8,960	-
Net cash used in capital and related financing activities	(114,264)	(7,195)	(495)	(121,954)	(7,556)
Cash flows from investing activities:					
Proceeds from sale of investments	-	-	-	-	1,010
Investment income received	3,009	356	41	3,406	1,205
Investment expenses paid	-	-	-	-	(39)
Net cash provided by investing activities	3,009	356	41	3,406	2,176
Net change in cash and cash equivalents	(13,435)	32,698	528	19,791	(15,503)
Cash and cash equivalents, beginning of year	529,137	46,410	9,957	585,504	181,164
Cash and cash equivalents, end of year	\$ 515,702	\$ 79,108	\$ 10,485	\$ 605,295	\$ 165,661
Cash and cash equivalents:					
Cash and investments:					
Unrestricted	\$ 174,133	\$ 79,108	\$ 9,780	\$ 263,021	\$ 150,820
Restricted with fiscal agents	341,569	-	705	342,274	14,340
Other restricted	-	-	-	-	501
Total cash and cash equivalents	\$ 515,702	\$ 79,108	\$ 10,485	\$ 605,295	\$ 165,661

(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, 2015

(In thousands)

	Business-type Activities - Enterprise Funds				Governmental
	Valley			Total	Internal
	SCVMC	Health Plan	Other		Service Funds
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ (7,930)	\$ 7,354	\$ 289	\$ (287)	\$ (17,406)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	65,189	1,651	791	67,631	3,587
Provision for bad debts	15,996	-	-	15,996	-
Miscellaneous nonoperating revenues, net	4,479	898	-	5,377	290
Decrease (increase) in assets:					
Receivables	(4,624)	(1,396)	20	(6,000)	429
Due from other funds	-	-	-	-	13
Due from other governmental agencies	(2,610)	-	-	(2,610)	1,040
Inventories	(2,376)	-	-	(2,376)	181
Prepaid rent/insurance	957	-	-	957	(100)
Increase (decrease) in liabilities:					
Accounts payable	(3,364)	23,137	(45)	19,728	2,816
Accrued salaries and benefits	-	127	(7)	120	-
Accrued liabilities	355	2,855	(4)	3,206	311
Due to third-party payers	(37,124)	-	-	(37,124)	-
Accrued vacation and sick leave	-	113	(51)	62	381
Insurance claims	-	-	-	-	5,946
Due to other governmental agencies	56,423	-	-	56,423	25
Due to other funds	-	-	-	-	(167)
Unearned revenue	-	2,271	(7)	2,264	-
Net OPEB obligation	-	-	-	-	13,197
Changes in pension items:					
Decrease (increase) in deferred outflows of resources	(8,288)	(143)	(10)	(8,441)	-
Increase (decrease) in deferred inflows of resources	189,088	3,243	225	192,556	-
Net pension liability	(197,385)	(3,385)	(235)	(201,005)	-
Net cash provided by operating activities	<u>\$ 68,786</u>	<u>\$ 36,725</u>	<u>\$ 966</u>	<u>\$ 106,477</u>	<u>\$ 10,543</u>

Supplemental disclosure of noncash investing, capital and related financing activities:

Noncash capital and related financing activities:

Acquisition of capital assets through accounts payable	\$ 3,165	\$ -	\$ -	\$ 3,165	\$ -
Amortization of bond premiums	(1,700)	-	-	(1,700)	-
Amortization of loss on refunding debt	1,139	-	-	1,139	-
Amortization of prepaid insurance costs	24	-	-	24	-
Retirement of premiums due to refunding	(450)	-	-	(450)	-
Retirement of prepaid bond issuance costs due to refunding	227	-	-	227	-
Payment to refunded bond escrow agent	48,592	-	-	48,592	-
Decrease in estimate for arbitrage rebates	51	-	-	51	-

Noncash noncapital financing activities:

Accretion of interest on capital appreciation bonds	-	-	-	-	7,412
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The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015
(In thousands)

	<u>Investment Trust Funds</u>	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
Assets:			
Cash and investments:			
Unrestricted	\$ 3,588,379	\$ 41,947	\$ 104,116
Other restricted	5	328	149
Receivables:			
Property taxes	-	-	52,857
Interest	10,171	146	8,129
Other	-	85	182
Due from other agency funds	-	-	46,315
Due from other governmental agencies	-	-	1,324
Other assets	-	67,843	2,468
Total assets	<u>3,598,555</u>	<u>110,349</u>	<u>215,540</u>
Liabilities:			
Accounts payable	-	41,114	-
Other accrued liabilities	-	422	-
Due to other agency funds	-	-	46,315
Due to other governmental agencies	-	564	567
Deposits from others	-	67,931	-
Fiduciary liabilities	-	-	168,658
Total liabilities	<u>-</u>	<u>110,031</u>	<u>215,540</u>
Net position:			
Restricted for pool participants and trusts	<u>\$ 3,598,555</u>	<u>\$ 318</u>	<u>\$ -</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 Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2015
(In thousands)

	Investment Trust Funds	Private-Purpose Trust Fund
Additions:		
Contributions to pooled investments	\$ 14,222,620	\$ (2)
Interest and investment income	10,653	-
Total additions	14,233,273	(2)
Deductions:		
Distributions and administrative expenses	13,593,298	14
Total deductions	13,593,298	14
Change in net position	639,975	(16)
Net position, beginning of year, as restated	2,958,580	334
Net position, end of year	\$ 3,598,555	\$ 318

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

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COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements

June 30, 2015

(Dollars in thousands)

(1) Summary of Significant Accounting Policies

(a) Description of the Reporting Entity

The County of Santa Clara (County), California (State), was established on June 1, 1850. The County's powers are exercised through a Board of Supervisors (the Board), which is the governing body of the County. The Board is responsible for the legislative and executive control of the County. The County provides various services on a County-wide basis and certain services only to unincorporated areas. Services provided include law and justice, education, detention, social 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. Financial accountability is also defined as the fiscal dependency of the component units on the County and the potential for the component unit to provide a financial benefit to or impose a financial burden on the County regardless of the organization of the governing board of the component unit.

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 has financial and operational responsibility for the component units listed below, which requires that they be presented as blended component units. The Board serves as the governing board of the County's blended component units and the services provided by these entities serve the County.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (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.
Silicon Valley Tobacco Securitization Authority	Nonmajor governmental funds with the noncurrent liabilities included in the government-wide statement of net position.
Santa Clara County Tobacco Securitization Corporation	Nonmajor governmental funds with the noncurrent liabilities included in the government-wide statement of net position.

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. FIRST 5’s board consists of nine members, two of whom are officers of the County, while the remaining seven are appointed by the Board. FIRST 5 does not provide a financial benefit nor impose a financial burden on the County. FIRST 5 is financially accountable to the County as the County appoints a voting majority of FIRST 5’s governing board, and the County is able to impose its will on FIRST 5. Due to the nature and significance of FIRST 5’s relationship with the County, FIRST 5 is a discretely presented component unit of 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 (Housing Authority) was established in 1967 by the Board. The purpose of the Housing Authority is to provide affordable housing to low-income families, elderly and handicapped in Santa Clara County. It accomplishes its objectives by providing management, administrative and educational services to tenants and landlords to facilitate the operation of the various federal and state pretax assistance programs. Most of the housing programs administered by the Housing Authority are funded by contributions from the U.S. Department of Housing and Urban Development (HUD).

The Board appoints a voting majority of the Housing Authority’s Board of Commissioners and can remove appointed members at will. The Housing Authority has a financial burden relationship with 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 Housing Authority is presented as a discretely presented component unit of the County. The financial data included for the Housing Authority represents the aggregated data of its business-type activities and its component units. Complete financial statements for the Housing Authority can be obtained directly from its administrative office at 505 W. Julian Street, San Jose, CA 95110.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

The Santa Clara Health Authority, doing business as Santa Clara Family Health Plan and the Santa Clara Community Health Authority (collectively, the Health Authority), was established by the County Board pursuant to Section 14087.38 of the Welfare and Institutional Code. The Health Authority was created for the purpose of developing the Local Initiative Plan for the expansion of Medi-Cal Managed Care. The majority of the Health Authority's revenues are generated from a contract with the State of California Medi-Cal Program and a contract with the Centers for Medicare and Medicaid Services (CMS) for a Medicare program.

The Health Authority is a legally separate entity governed by a thirteen-member governing board appointed by the County. In April 2012, the County adopted an ordinance, which granted the County the ability to remove the Health Authority's governing board at will. Due to the nature and significance of Health Authority's relationship with the County, the Health Authority is included in the County's basic financial statements as a discretely presented component unit. The Health Authority is a nonprofit entity that is separate and apart from the County, and is not considered to be an agency, division, or department of the County. Furthermore, the Health Authority is not governed by, nor is it subject to, the Charter of the County and is not subject to the County's policies or operational rules. The Health Authority's debts are not expected to be repaid with County resources. Therefore, the Health Authority's data are presented separately from the data of the primary government.

The Health Authority acquired a license under the Knox-Keene Health Care Services Plan Act, and is regulated by the State's Department of Health Care Services (DHCS), California's Department of Managed Health Care (DMHC), and the Centers for Medicare and Medicaid Services (CMS). Complete financial statements for the Health Authority can be obtained directly from its administrative offices at 210 E. Hacienda Avenue, Campbell, CA 95008.

(b) Basis of Presentation

Government-wide Financial Statements

The statement of net position 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 and indirect 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 position is available, unrestricted resources are used only after restricted resources are depleted.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

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.

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.
- *Valley Health Plan Enterprise Fund* accounts for health care services provided to large employer groups, including the County and individuals insured under various plans such as Covered California, and is delegated by Santa Clara Family Health Plan (SCFHP) to provide health insurance to Medi-Cal members. Revenues are primarily received from employer groups, individual premiums, and other sources.

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 Mountain View – Los Altos School District, Palo Alto Unified School District, San Jose-Evergreen Community College District, and West Valley Mission Community College 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

- *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 for the 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.

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 120 days of the end of the current fiscal period. Revenues not considered available are recorded as deferred inflows of resources. 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.

(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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2015
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

(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 Board after receiving recommendations from the County Treasury Oversight Committee. Adherence to the statutes and policies is monitored by the Board and the Treasury Oversight Committee.

The pool consists of cash and investments that are either unrestricted or legally restricted to certain trust, bond issue, and specific expenditure purposes. The pool is not registered with the SEC as an investment company. State law requires that the County and its public school districts invest with the County Treasury. These involuntary external members' shares comprise 62% of the pool.

Investments of the pool are stated at fair value. The County Treasurer determines the fair value of the pool on a monthly basis, based on quoted market prices. The County has not provided nor obtained any legally binding guarantees during the year ended June 30, 2015 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, Park Charter Fund, 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 position.

The Santa Clara County Financing Authority maintains 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

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2015
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

with Governmental Accounting Standards Board (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.

(g) Inventories

Inventories are stated at cost (using the first-in, first-out method), which approximates market, and consist of expendable supplies that are reduced as consumed. Inventories reported in governmental funds are offset by a corresponding nonspendable fund balance, which indicates that they are not in spendable form even though they are a component of 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 inflows of resources 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 stated 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 reported 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:

Table with 2 columns: Asset Category and Useful Life. Rows include Infrastructure (5 to 50 years), Buildings and improvements (5 to 50 years), and Equipment and vehicles (3 to 30 years).

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

Interest is capitalized on proprietary funds' construction in progress. Interest capitalized is the total interest cost from the date of the borrowing net of any interest earned on temporary investments of the proceeds of those borrowings until the specified asset is ready for its intended use.

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

The State's Constitution, Article XIII A provides that the combined maximum 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:

	<u>Secured</u>	<u>Unsecured</u>
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 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 reported as receivables and payables, as appropriate, are subject to elimination upon consolidation. The fund financial statements referred to these loans 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."

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

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.

(l) *Bond Issuance Costs, Original Issue Discounts and Premiums, and Debt Refundings*

Bond premiums, discounts and prepaid insurance costs for the government-wide statement of net position and proprietary fund types are recorded 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 prepaid insurance costs are recorded as an asset. The County also has losses on refunding of debt, which result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is recorded as a deferred outflow of resources and amortized over the shorter of the life of the refunded or the refunding debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively. Issuance costs, including prepaid insurance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(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 position, 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 position and in the various proprietary funds to reflect the County's obligation to fund such costs from future operations. The County includes its share of Social Security and Medicare payments made on behalf of the employees in its accrual for compensated absences. Unused vacation and sick leave are paid out upon separation from the County based on the terms stated in the Memorandum of Understanding between the employees' bargaining units and the County. The County does not accrue for compensated absences in its governmental fund statements and recognizes liabilities for compensated absences only if they are due and payable in an event such as termination.

(o) *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2015
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County also reports deferred inflows of resources in the governmental funds balance sheet when revenues from property taxes, from the federal and State, and other sources are not available. These amounts are deferred and recognized as revenues in the period the amounts become available.

(p) Pension Plans

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California Public Employees' Retirement System (CalPERS) plans and additions to/deductions from the plans' fiduciary net positions have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan member contributions are recognized in the period in which the contributions are due. Investments are reported at fair value.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* (GASB Statement No. 68) requires that the reported results pertain to liability and asset information within certain defined timeframes. Liabilities are based on the results of actuarial calculations performed as of June 30, 2013 and were rolled forward to June 30, 2014. For this report, the following timeframes are used for the County's pension plans:

Valuation Date (VD).....	June 30, 2013 updated to June 30, 2014
Measurement Date (MD).....	June 30, 2014
Measurement Period (MP)....	July 1, 2013 to June 30, 2014

(q) Effects of New Pronouncements

During the year ended June 30, 2015, the County implemented the following GASB Statements:

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, which is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Also, in November 2013, the GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities.

The provisions of the Statement Nos. 68 and 71 are effective for fiscal years beginning after June 15, 2014. While restatement of all prior periods was not practical because the actuarial information was not available, the cumulative effect of applying this statement is reported as a restatement of beginning net position as of July 1, 2014.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

As of July 1, 2014, the County restated its net position to record beginning net pension liability and beginning deferred outflows of resources related to pensions as follows:

	Net Position, at Beginning of Year		
	GASB		
	As Previously Reported	Statement Nos. 68 and 71	As Restated
Primary Government:			
Governmental Activities.....	\$ 663,688	\$ (2,359,611)	\$ (1,695,923)
Business-type Activities.....	870,502	(952,597)	(82,095)
Total Primary Government.....	<u>\$ 1,534,190</u>	<u>\$ (3,312,208)</u>	<u>\$ (1,778,018)</u>
Private-Purpose Trust Fund.....	\$ -	\$ 334	\$ 334
Discrete Component Units:			
Housing Authority.....	\$ 236,789	\$ (10,724)	\$ 226,065
First 5.....	67,645	-	67,645
Health Authority.....	40,872	(5,635)	35,237
Total Discrete Component Units.....	<u>\$ 345,306</u>	<u>\$ (16,359)</u>	<u>\$ 328,947</u>
Proprietary Funds:			
SCVMC.....	\$ 939,747	\$ (935,439)	\$ 4,308
Valley Health Plan.....	21,076	(16,044)	5,032
Nonmajor enterprise funds.....	21,385	(1,114)	20,271
Internal service funds.....	(240,433)	(377,513)	(617,946)
Total proprietary funds.....	<u>\$ 741,775</u>	<u>\$ (1,330,110)</u>	<u>\$ (588,335)</u>

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The statement establishes accounting and financial reporting standards for governments that combine or dispose of their operations. The new standard is effective for periods beginning after December 15, 2013. Implementation of this statement did not have a significant impact on the County for the year ended June 30, 2015.

In addition, the County is currently analyzing its accounting practices to determine the potential impact of the following pronouncements:

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. The statement changes how fair value is measured and provides guidance for applying fair value and requires certain disclosures. The new standard is effective for periods beginning after June 15, 2015. Application of this statement is effective for the County's fiscal year ending June 30, 2016.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes. The provisions in this statement are effective for the County's fiscal year ending June 30, 2016, except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for the County's fiscal year ending June 30, 2017.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2015
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 74 revises and establishes new accounting and financial reporting requirements for postemployment benefit plans other than pensions (OPEB). Statement No. 75 revises and establishes new accounting and financial reporting requirements for governments that provide their employees with OPEB and requires additional OPEB disclosures. Statement No. 74 is effective for periods beginning after June 15, 2016 and is effective for the County's fiscal year ending June 30, 2017. Statement No. 75 is effective for periods beginning after June 15, 2017 and is effective for the County's fiscal year ending June 30, 2018.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 76 establishes the hierarchy of GAAP for state and local governments. The new standard is effective for periods beginning after June 15, 2015. Application of this statement is effective for the County's fiscal year ending June 30, 2016.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. Statement No. 77 establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The new standard is effective for periods beginning after December 15, 2015. Application of this statement is effective for the County's fiscal year ending June 30, 2017.

(r) Use of Estimates

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

(2) Stewardship, Compliance and Accountability

Deficit Net Position

At June 30, 2015, the County's governmental and business-type activities have deficit net position of \$1.49 billion and \$41.3 million, respectively, due primarily to the reporting of the net pension liability pursuant to the implementation of GASB Statement No. 68. The County is committed to fully funding the actuarially determined contributions annually

At June 30, 2015, the Workers' Compensation, Retiree Healthcare, and Pension Obligation Internal Service Funds have deficit net position of \$34,460, \$234,568, and \$426,331, respectively. For the Workers' Compensation Internal Service Fund, beginning with the annual contribution for 2014-15 fiscal year, the County implemented a 6-year funding plan to bring program assets to the actuarial determined required level by June 30, 2020. The County has developed a funding plan to reduce its deficit in the Retiree Health Care Internal Service Fund by increasing funding over the next four years to attain the Annual Required Contribution (ARC) level in fiscal year 2018 and maintaining ARC payments over the next 30 years. The deficit for the Pension Obligation Internal Service Fund increased as the Net Pension Asset amount recorded in prior years was eliminated as required by GASB Statement No. 68, which was implemented this fiscal year. The resulting increased deficit will be reduced through rate increases to repay the 2007 Taxable Pension Funding Bonds.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(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 position as “cash and investments” and “restricted cash and investments.”

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 includes monies held in the County Treasury restricted by debt covenants for construction projects and professional services and 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.

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>	<u>Credit Ratings Minimum (2 Ratings)</u>
U.S. Treasury Obligations	5 years	None	None	N/A
U.S. Agency Securities	5 years	None	None	N/A
State Local Agency Investment Fund (LAIF)	N/A	None	\$50 million	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%	5%	A-1/P-1/F1 *
Bankers' Acceptances	180 days	40%	5%	A-1/P-1/F1 *
Commercial Paper	270 days	40%	5%	A-1/P-1/F1 *
Medium-Term Corporate Notes	5 years	30%	5%	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
Supranational Debt Obligations	5 years	10%	None	AAA

* 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

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(3) Cash and Investments (Continued)

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. Additionally, the Board 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.

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

(c) Summary of Cash and Investments

Total County cash and investments are reported as follows:

	Unrestricted	Restricted	Total
Primary Government	\$ 1,684,575	\$ 408,987	\$ 2,093,562
Component Units	231,355	23,660	255,015
Investment Trust Funds	3,588,379	5	3,588,384
Private-Purpose Trust Fund	41,947	328	42,275
Agency Funds	104,116	149	104,265
Total cash and investments	<u>\$ 5,650,372</u>	<u>\$ 433,129</u>	<u>\$ 6,083,501</u>

The County’s cash and investments are as follows:

Cash and deposits:		
Cash on hand		\$ 75
Deposits of the County		112,255
Restricted deposits		2,845
Deposits with component units:		
Housing Authority		50,840
FIRST 5		2,924
Health Authority		49,869
Total cash and deposits		<u>218,808</u>
Investments:		
With Treasurer		5,697,501
With Treasurer - Health Authority		60,347
With Treasurer - FIRST 5		1,578
With fiscal agents		15,810
With Housing Authority		33,059
With FIRST 5		56,398
Total investments		<u>5,864,693</u>
Total cash, deposits and investments		<u>\$ 6,083,501</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

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2015
(Dollars in thousands)

(3) Cash and Investments (Continued)

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.

(e) Investment Composition

As of June 30, 2015, 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
With Treasurer:							
Commingled pool:							
U.S. Treasury Notes	0.25% - 0.63%	\$ 200,000	\$ 200,716	\$ 125,199	\$ 60,367	\$ 15,150	\$ -
U.S. Agencies - Coupon	0.11% - 5.05%	3,805,744	3,813,844	1,422,294	2,051,748	339,802	-
U.S. Agencies - Discount	0.05% - 0.18%	213,530	213,483	213,483	-	-	-
Medium-Term Corporate Notes	0.50% - 2.25%	272,490	272,738	50,607	222,131	-	-
Asset Backed Securities	0.18% - 1.98%	207,908	207,846	34,930	119,924	52,992	-
Municipal Bonds	1.25% - 8.30%	83,535	85,382	-	85,131	251	-
Commercial Paper	0.20%	100,000	100,000	100,000	-	-	-
Negotiable Certificates of Deposit	0.19% - 0.65%	30,000	30,020	30,020	-	-	-
Money Market Mutual Funds	0.03%	691,742	691,742	691,742	-	-	-
LAIF	0.23%	40,000	40,000	40,000	-	-	-
Supranationals	0.90% - 1.00%	37,500	37,504	-	37,504	-	-
Subtotal commingled pool		<u>\$ 5,682,449</u>	<u>5,693,275</u>	<u>2,708,275</u>	<u>2,576,805</u>	<u>408,195</u>	<u>-</u>
Separate investments:							
U.S. Treasury Notes			24,686	7,112	13,030	4,544	-
U.S. Agencies - Coupon			13,608	-	13,608	-	-
Municipal Bonds			23,705	6,106	8,301	7,819	1,479
Money Market Mutual Funds			4,152	4,152	-	-	-
Subtotal separate investments			<u>66,151</u>	<u>17,370</u>	<u>34,939</u>	<u>12,363</u>	<u>1,479</u>
Subtotal with Treasurer			<u>5,759,426</u>	<u>2,725,645</u>	<u>2,611,744</u>	<u>420,558</u>	<u>1,479</u>
With fiscal agents:							
U.S. Treasury Notes			4,807	271	1,677	2,859	-
U.S. Agencies - Coupon			6,655	889	3,845	1,921	-
Medium-Term Corporate Notes			1,347	469	878	-	-
Asset Backed Securities			954	-	669	285	-
Money Market Mutual Funds			2,047	2,047	-	-	-
Subtotal with fiscal agents			<u>15,810</u>	<u>3,676</u>	<u>7,069</u>	<u>5,065</u>	<u>-</u>
With Housing Authority:							
U.S. Agencies			6,684	-	2,492	4,192	-
Negotiable Certificates of Deposit			3,805	-	1,192	2,613	-
Money Market Mutual Funds			918	918	-	-	-
LAIF			21,652	21,652	-	-	-
Subtotal with Housing Authority			<u>33,059</u>	<u>22,570</u>	<u>3,684</u>	<u>6,805</u>	<u>-</u>
With FIRST 5:							
U.S. Treasury Notes			13,065	1,770	6,840	4,455	-
U.S. Agencies - Coupon			16,572	2,907	9,169	4,496	-
U.S. Agencies - Discount			5,396	-	2,459	2,937	-
Medium-Term Corporate Notes			14,798	1,037	8,035	5,726	-
Money Market Mutual Funds			150	150	-	-	-
Asset Backed Securities			4,833	-	3,196	1,637	-
Commercial Paper			1,584	1,584	-	-	-
Subtotal with FIRST 5			<u>56,398</u>	<u>7,448</u>	<u>29,699</u>	<u>19,251</u>	<u>-</u>
Total investments			<u>\$ 5,864,693</u>	<u>\$ 2,759,339</u>	<u>\$ 2,652,196</u>	<u>\$ 451,679</u>	<u>\$ 1,479</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(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, 2015, the County's weighted average maturity of its commingled pool is 469 days. The County invested in callable Federal Agency Bonds (\$553,363 of the County's U.S. Agencies coupon position of \$2,668,126; \$431,726 of the County's U.S. Agencies discount position of \$1,359,201) within its commingled pool. These investments are highly sensitive to interest rate changes and are callable at par prior to maturity based on these rate changes.

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	3.5%	37.3%	30.4%	0.0%	23.1%
U.S. Agencies - Discount	Aaa	3.8%	0.0%	0.0%	0.0%	0.0%
U.S. Agencies - Coupon	Aaa	67.0%	20.6%	42.1%	20.2%	38.9%
Asset Backed Securities	Aaa	2.4%	0.0%	3.8%	0.0%	6.3%
Asset Backed Securities	Unrated	1.2%	0.0%	2.2%	0.0%	2.2%
Municipal bonds	Aaa	0.0%	11.8%	0.0%	0.0%	0.0%
Municipal bonds	Aa1	0.0%	20.7%	0.0%	0.0%	0.0%
Municipal bonds	Aa2	0.0%	3.3%	0.0%	0.0%	0.0%
Municipal bonds	Aa3	1.5%	0.0%	0.0%	0.0%	0.0%
Medium-term corporate notes	Aaa	2.1%	0.0%	1.3%	0.0%	0.0%
Medium-term corporate notes	Aa1	1.0%	0.0%	2.3%	0.0%	2.7%
Medium-term corporate notes	Aa2	0.8%	0.0%	1.9%	0.0%	1.1%
Medium-term corporate notes	Aa3	0.6%	0.0%	2.1%	0.0%	1.7%
Medium-term corporate notes	A1	0.3%	0.0%	1.0%	0.0%	13.2%
Medium-term corporate notes	A2	0.0%	0.0%	0.0%	0.0%	6.2%
Medium-term corporate notes	A3	0.0%	0.0%	0.0%	0.0%	1.2%
Commercial paper	P-1	1.8%	0.0%	0.0%	0.0%	2.8%
Negotiable Certificate of Deposits	Aa2	0.3%	0.0%	0.0%	0.0%	0.0%
Negotiable Certificate of Deposits	Aa3	0.3%	0.0%	0.0%	11.5%	0.0%
Money market funds	Aaa	0.0%	0.8%	12.9%	0.0%	0.3%
Money market funds	Unrated	12.1%	5.5%	0.0%	2.8%	0.3%
State Local Agency Investment Fund	Unrated	0.7%	0.0%	0.0%	65.5%	0.0%
Supranationals	Aaa	0.6%	0.0%	0.0%	0.0%	0.0%
Total Investments		<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(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, 2015, was approximately \$21.5 billion. LAIF is part of the State's Pooled Money Investment Account (PMIA). PMIA has a total of approximately \$69.6 billion as of June 30, 2015. Of that amount, 97.92% was invested in non-derivative financial products and 2.08% 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. Treasuries, U.S. Agency securities explicitly backed by the U.S., and mutual and pooled funds are not subject to this limitation.

More than 5% of the County's pooled investments are invested with the Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal Farm Credit Bank, which represent 15.5%, 29.8%, 15.1%, and 10.4%, respectively, of the County's pooled investments.

More than 5% of the FIRST 5's investments are invested with the Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, and Federal National Mortgage Association which represent 10.9%, 9.9%, 13.2%, respectively, of the First 5's investments.

More than 5% of the Housing Authority's investments are invested with the Federal Home Loan Mortgage Corporation, which represent 11.2%, of the Housing Authority's investments.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2015
(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, 2015:

Assets:	
U.S. Treasury Notes	\$ 225,402
U.S. Agencies - Coupon	3,827,452
U.S. Agencies - Discount	213,483
Medium-term corporate notes	272,738
Asset Backed Securities	207,846
Municipal bonds	109,087
Commercial paper	100,000
Negotiable Certificates of Deposit	30,020
Money market mutual fund	695,894
State Local Agency Investment Fund	40,000
Supranationals	37,504
Total investments	<u>5,759,426</u>
Other assets (interest receivable)	<u>10,171</u>
Total assets	<u><u>\$ 5,769,597</u></u>
Net Position	
Equity of internal pool participants	\$ 2,171,042
Equity of individual investment accounts	27,603
Equity of external pool participants	<u>3,570,952</u>
Total net position	<u><u>\$ 5,769,597</u></u>
Statement of Changes in Net Position	
Net position at July 1, 2014	\$ 4,755,946
Net change in investments by pool participants	<u>1,013,651</u>
Net position at June 30, 2015	<u><u>\$ 5,769,597</u></u>
Net position composition of the equity of external pool participants is as follows:	
Participants units outstanding (\$1 par)	\$ 3,567,238
Undistributed and unrealized gain	<u>3,714</u>
Net position at June 30, 2015	<u><u>\$ 3,570,952</u></u>
Participants net position value at fair value price per share (\$3,570,952 divided by 3,567,238 units)	<u><u>\$ 1.001</u></u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(4) Receivables

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

	General Fund	Nonmajor Governmental Funds	Internal Service Funds	Government-Wide Service Concession Arrangement	Total Governmental Activities
<u>Receivables - Governmental Activities</u>					
Property tax	\$ 2,744	\$ -	\$ -	\$ -	\$ 2,744
Loans receivable	-	60,098	-	-	60,098
Other	<u>190,025</u>	<u>2,706</u>	<u>4,612</u>	<u>6,490</u>	<u>203,833</u>
Gross receivables	192,769	62,804	4,612	6,490	266,675
Less: allowance for uncollectibles	<u>(173,524)</u>	<u>(340)</u>	<u>-</u>	<u>-</u>	<u>(173,864)</u>
Total receivables, net	<u>\$ 19,245</u>	<u>\$ 62,464</u>	<u>\$ 4,612</u>	<u>\$ 6,490</u>	<u>\$ 92,811</u>
<u>Receivables - Business-type Activities</u>	SCVMC	Valley Health Plan	Nonmajor Enterprise Funds	Total Business-type Activities	
Patient accounts receivable	\$ 739,601	\$ -	\$ -	\$ 739,601	
Other	<u>1,532</u>	<u>1,992</u>	<u>111</u>	<u>3,635</u>	
Gross receivables	741,133	1,992	111	743,236	
Less allowance for uncollectibles	<u>(621,755)</u>	<u>-</u>	<u>-</u>	<u>(621,755)</u>	
Total receivables, net	<u>\$ 119,378</u>	<u>\$ 1,992</u>	<u>\$ 111</u>	<u>\$ 121,481</u>	

Net loan receivables from housing programs in the amount of \$59,758 are not expected to be collected within the subsequent year. The other receivables of General Fund in the amount of \$190,025 represent receivables of various County departments and majority of the balances were allowed for at year-end.

At June 30, 2015, the General Fund’s due from other governmental agencies is net of allowances for uncollectible accounts in the amount of \$138,077.

Governmental funds report deferred inflows of resources in connection with receivables for revenues not considered available to liquidate liabilities of the current period. At June 30, 2015, the deferred inflows of resources balance consists of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Due from other governmental agencies	\$ 142,894	\$ -	\$ 142,894
Other receivables	<u>3,872</u>	<u>59,758</u>	<u>63,630</u>
Total deferred inflows of resources	<u>\$ 146,766</u>	<u>\$ 59,758</u>	<u>\$ 206,524</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(4) Receivables (Continued)

The “unavailable” due from other governmental agencies for General Fund 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	Other	Milpitas Redevelopment Agency		Total
	Negotiated Value		Installment Payments	Additional Payments	
From Fiscal Year 2014 and prior	\$ 57,750	\$ 419	\$ 65,000	\$ -	\$ 123,169
2015	-	-	5,000	-	5,000
2016	-	-	5,000	-	5,000
2017	-	-	5,000	-	5,000
2018	-	-	5,000	-	5,000
2019	-	-	6,000	-	6,000
2020	-	-	6,000	-	6,000
2021-2025	-	-	18,000	7,000	25,000
2026-2030	-	-	-	17,500	17,500
2031-2033	-	-	-	10,500	10,500
Total	57,750	419	115,000	35,000	208,169
Less amount received prior to June 30, 2014	(57,750)	(419)	(65,000)	-	(123,169)
Receivable at June 30, 2014	-	-	50,000	35,000	85,000
Less amount received during current year	-	-	(5,000)	-	(5,000)
Receivable at June 30, 2015	\$ -	\$ -	\$ 45,000	\$ 35,000	\$ 80,000

At June 30, 2015, the County’s General Fund receivable balance of \$80,000 represents the remaining estimated future cash flow related to the sale of the Elmwood surplus lands. During the year ended June 30, 2015, the County recognized proceeds from the sale in the amount of \$5,000 as revenue in its General Fund. At June 30, 2015, the deferred inflows of resources balance related to this balance is \$80,000.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(4) Receivables (Continued)

San Jose Redevelopment Agency

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

In September 2009, the SJFDA 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 2009-2010 County Pass-Through Payment. The SJFDA further informed the County that it has held funds for the fiscal year 2008-2009 County Pass-Through Payments pending negotiations regarding the payment. At June 30, 2010, the County recorded a receivable from the SJFDA in the amount of \$45.2 million, which included the fiscal years 2008-2009 and 2009-10 County Pass-Through Payments, accumulated interest and other administration fees.

In March 2011, a settlement agreement was reached and entered into between the County, SJFDA, and City of San Jose in which the SJFDA: (1) paid the County \$26.5 million during fiscal year 2010-2011; (2) transferred title to the former San Jose City Hall (valued at \$8.6 million) to the County on June 30, 2011; and agreed to pay the remaining \$23.78 million in five equal annual installments no later than June 30 of 2014, 2015, 2016, 2017, and 2018. Upon dissolution of the SJFDA, the enforceable obligation was approved by its Oversight Board. Under the modified accrual basis of accounting, the unavailable revenues is reported as a deferred inflows of resources in governmental fund financial statements until the revenues are available to the County. At June 30, 2015, the deferred inflows of resources reported related to this receivable is \$23.78 million.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(5) Interfund Transactions

Interfund receivables, payables, and transfers as of and for the fiscal year ended June 30, 2015, 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	Nonmajor Governmental Funds	\$ 60,884
General Fund	SCVMC	3,320
General Fund	Internal Service Funds	909
Nonmajor Governmental Funds	Nonmajor Governmental Funds	252
Nonmajor Governmental Funds	SCVMC	4,034
SCVMC	General Fund	22,661
SCVMC	Valley Health Plan	2,336
Internal Service Funds	General Fund	8
Agency	Agency	46,315
Total		<u>\$ 140,719</u>

The General Fund is due \$60,884 from Nonmajor Governmental Funds to reimburse for Mental Health Service Act expenditures incurred by the General Fund. The Nonmajor Governmental Funds are due \$4,034 from the SCVMC to reimburse costs incurred for capital projects, while the SCVMC is due \$22,661 from the General Fund for reimbursement of costs incurred for mental health and community health services. In addition, the interfund balances of \$46,315 between the County's Agency Funds represent current borrowings for working capital expected to be repaid during the following year.

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 February 2013, the Board approved an interfund loan from the General Fund to the Child Support nonmajor special revenue fund for tenant improvements in the amount of \$1,000 to be repaid over the ten-year term of the lease. The actual amount of the loan was \$693. The terms of the loan include a maturity of June 30, 2023 and interest is based on the quarterly rate of return of the County Commingled Pool. At June 30, 2015, the advance balance was \$538.

Payable to primary government:

As described in Note 9(a), the Housing Authority reported its lease obligations to the County in the amount of \$7,470 as a payable to primary government on its statement of net position.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(5) Interfund Transactions (Continued)

Transfer in/out between funds:

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

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose</u>
Between Governmental and Business-type Activities:			
General Fund	SCVMC	\$ 73,866	Transfer funds for subsidy.
General Fund	SCVMC	2,057	Transfer funds to reimburse payment of retiree benefits.
General Fund	VHP	42	Transfer funds to reimburse payment of retiree benefits.
General Fund	Nonmajor Enterprise Fund	5	Transfer funds to reimburse payment of retiree benefits.
General Fund	Nonmajor Enterprise Fund	11	Transfer funds to cover rent costs for the animal rescue clinic.
SCVMC	General Fund	125	Transfer funds to reimburse the Sheriff's Office for an outreach grant.
SCVMC	General Fund	5,874	Transfer funds to pay for FQHC Clinic services provided by Mental Health Department.
SCVMC	Nonmajor Governmental Funds	18,727	Transfer bond proceeds to the General Capital Improvement fund for Valley Health Center Project.
Subtotal Between Governmental and Business-type Activities:		<u>100,707</u>	
Between Funds within the Governmental or Business-type Activities*:			
General Fund	Internal Service Fund	2,500	Transfer funds for purchases in the Facilities and Fleet Department.
		128	Transfer funds to reimburse payment of retiree benefits.
		<u>2,628</u>	
General Fund	Nonmajor Governmental Fund	29,862	Transfer funds to finance Facilities and Fleet Department capital projects.
		51	Transfer funds to the County Library fund for annual contribution per Joint Power Authority agreement.
		152	Transfer funds to reimburse the household waste program.
		80	Transfer funds to the Roads Department for school crossing guard project.
		123	Transfer funds to pay for expenditures of the tobacco program.
		180	Transfer to the Roads Fund for Measure B Transportation Projects.
		440	Transfer funds to reimburse payment of retiree benefits.
		13	Transfer funds for employee service awards.
		252	Transfer funds to record the issuance of 2015P lease revenue bonds.
		<u>31,153</u>	
Nonmajor Governmental Fund	General Fund	252	Transfer funds to record the issuance of 2015P lease revenue bonds.
		61	Transfer funds to General Fund to pay for debt service.
		144	Transfer fund from the Vital Statistic fund for specified ongoing operations.
		60,813	Transfer funds for Proposition 63 nonmajor fund for planning, administrative, and program costs for the mental health services programs.
		5,792	Transfer funds for technology project reimbursements.
		59	Transfer funds to Facilities and Fleet Department to finance the animal shelter project.
		<u>67,121</u>	
Nonmajor Governmental Fund	Nonmajor Governmental Fund	1,458	Transfer funds to the Parks Department for Parks Capital Projects.
		1,110	Transfer debt proceeds to fund qualified Facilities & Fleet Capital Projects.
		<u>2,568</u>	
Subtotal: Between Funds within Governmental or Business-type Activities:		<u>103,470</u>	
Total Transfers:		<u>\$ 204,177</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, 2015
(Dollars in thousands)

(6) Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance, July 1, 2014	Additions	Reductions/ Adjustments	Transfers	Balance, June 30, 2015
Governmental activities					
<i>Capital assets, not being depreciated:</i>					
Land	\$ 260,592	\$ 6,839	\$ -	\$ 2,465	\$ 269,896
Construction in progress	134,851	81,173	-	(36,652)	179,372
Total capital assets, not being depreciated	395,443	88,012	-	(34,187)	449,268
<i>Capital assets, being depreciated:</i>					
Infrastructure	330,855	1,151	-	10,669	342,675
Buildings and improvements	959,970	4,295	(5,438)	21,829	980,656
Equipment, software and vehicles	208,968	19,017	(9,936)	1,689	219,738
Total capital assets, being depreciated	1,499,793	24,463	(15,374)	34,187	1,543,069
<i>Less accumulated depreciation for:</i>					
Infrastructure	(131,565)	(12,965)	-	-	(144,530)
Buildings and improvements	(447,614)	(17,118)	74	-	(464,658)
Equipment, software and vehicles	(158,920)	(18,582)	9,678	-	(167,824)
Total accumulated depreciation	(738,099)	(48,665)	9,752	-	(777,012)
Total capital assets, being depreciated, net	761,694	(24,202)	(5,622)	34,187	766,057
Governmental activities, capital assets, net	\$ 1,157,137	\$ 63,810	\$ (5,622)	\$ -	\$ 1,215,325
Business-type activities					
<i>Capital assets, not being depreciated:</i>					
Land	\$ 6,310	\$ -	\$ -	\$ -	\$ 6,310
Construction in progress	574,180	80,760	-	(20,633)	634,307
Total capital assets, not being depreciated	580,490	80,760	-	(20,633)	640,617
<i>Capital assets, being depreciated:</i>					
Buildings and improvements	793,623	1,654	(5,564)	(21,690)	768,023
Equipment and vehicles	219,774	1,590	(7,460)	44,396	258,300
Leasehold improvements	2,073	-	-	(2,073)	-
Total capital assets, being depreciated	1,015,470	3,244	(13,024)	20,633	1,026,323
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	(375,915)	(27,279)	5,179	-	(398,015)
Equipment and vehicles	(104,250)	(40,352)	6,197	(1,815)	(140,220)
Leasehold improvements	(1,815)	-	-	1,815	-
Total accumulated depreciation	(481,980)	(67,631)	11,376	-	(538,235)
Total capital assets, being depreciated, net	533,490	(64,387)	(1,648)	20,633	488,088
Business-type activities, capital assets, net	\$ 1,113,980	\$ 16,373	\$ (1,648)	\$ -	\$ 1,128,705

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(6) Capital Assets (Continued)

Capital asset activity for the Housing Authority for the fiscal year ended June 30, 2015, was as follows:

	Balance, July 1, 2014 as reclassified	Additions	Reductions/ Adjustments	Balance, June 30, 2015
<i>Capital assets, not being depreciated:</i>				
Land	\$ 17,786	\$ 5,131	\$ -	\$ 22,917
Construction in progress	736	251	(210)	777
Total capital assets, not being depreciated	<u>18,522</u>	<u>5,382</u>	<u>(210)</u>	<u>23,694</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	39,650	16,431	(3,143)	52,938
Furniture and equipment	4,022	448	(16)	4,454
Total capital assets, being depreciated	<u>43,672</u>	<u>16,879</u>	<u>(3,159)</u>	<u>57,392</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(14,365)	(8,681)	1,042	(22,004)
Furniture and equipment	(3,629)	(156)	16	(3,769)
Total accumulated depreciation	<u>(17,994)</u>	<u>(8,837)</u>	<u>1,058</u>	<u>(25,773)</u>
Total capital assets, being depreciated, net	<u>25,678</u>	<u>8,042</u>	<u>(2,101)</u>	<u>31,619</u>
Housing Authority's business-type activities	44,200	<u>\$ 13,424</u>	<u>\$ (2,311)</u>	55,313
Housing Authority's discrete component units' capital assets, as of December 31, 2014	<u>347,699</u>			<u>363,411</u>
Housing Authority capital assets, net	<u>\$ 391,899</u>			<u>\$ 418,724</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, 2015, was as follows:

	Balance, July 1, 2014	Additions	Reductions/ Adjustments	Balance, June 30, 2015
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,358	\$ -	\$ -	\$ 2,358
Construction in progress	65	-	(65)	-
Total capital assets, not being depreciated	<u>2,423</u>	<u>-</u>	<u>(65)</u>	<u>2,358</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	4,265	65	65	4,395
Furniture and equipment	277	-	-	277
Total capital assets, being depreciated	<u>4,542</u>	<u>65</u>	<u>65</u>	<u>4,672</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(1,900)	(282)	-	(2,182)
Furniture and equipment	(269)	(6)	-	(275)
Total accumulated depreciation	<u>(2,169)</u>	<u>(288)</u>	<u>-</u>	<u>(2,457)</u>
Total capital assets, being depreciated, net	<u>2,373</u>	<u>(223)</u>	<u>65</u>	<u>2,215</u>
FIRST 5 capital assets, net	<u>\$ 4,796</u>	<u>\$ (223)</u>	<u>\$ -</u>	<u>\$ 4,573</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(6) Capital Assets (Continued)

Capital asset activity for the Health Authority for fiscal year ended June 30, 2015, was as follows:

	Balance, July 1, 2014	Additions	Reductions/ Adjustments	Balance, June 30, 2015
<i>Capital assets, not being depreciated:</i>				
Constuction in progress	\$ 3,061	\$ 984	\$ (4,045)	\$ -
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	6,624	672	3	7,299
Leasehold improvements	412	125	(3)	534
Software	-		4,045	4,045
Total capital assets, being depreciated	<u>7,036</u>	<u>797</u>	<u>4,045</u>	<u>11,878</u>
<i>Less accumulated depreciation for:</i>				
Furniture and equipment	(6,170)	(405)	1	(6,574)
Leasehold improvements	(383)	(23)	(1)	(407)
Software		(382)		(382)
Total accumulated depreciation	<u>(6,553)</u>	<u>(810)</u>	<u>-</u>	<u>(7,363)</u>
Total capital assets, being depreciated, net	<u>483</u>	<u>(13)</u>	<u>4,045</u>	<u>4,515</u>
Health Authority capital assets, net	<u>\$ 3,544</u>	<u>\$ 971</u>	<u>\$ -</u>	<u>\$ 4,515</u>

Depreciation

Depreciation expense was charged to governmental functions for the year ended June 30, 2015, as follows:

General government	\$ 27,055
Public protection	1,571
Public ways	12,350
Health and sanitation	513
Public assistance	870
Education	763
Recreation	1,956
Amount reported in the internal service funds	<u>3,587</u>
Total depreciation expense - governmental functions	<u>\$ 48,665</u>

Depreciation expense was charged to the business-type functions for the year ended June 30, 2015 as follows:

SCVMC	\$ 65,189
Valley Health Plan	1,651
Airport	753
Sanitation District	<u>38</u>
Total depreciation expense - business-type functions	<u>\$ 67,631</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(6) Capital Assets (Continued)

Capital Projects Commitments

As of June 30, 2015, the SCVMC, VHP, and the Airport have active construction projects that include construction of the seismic compliance for SCVMC buildings and infrastructure, development of core system for VHP, and facility improvement of airport projects.

The County's commitments for business-type activities as of June 30, 2015, are as follows:

Projects	Expended to June 30, 2015	Committed as of June 30, 2015
SCVMC Projects	\$ 626,008	\$ 45,504
VHP Projects	7,528	-
Airport Projects	771	-
Total	\$ 634,307	\$ 45,504

Nonmajor governmental funds (Special Revenue and Capital Projects Funds) also have active construction projects as of June 30, 2015. They are as follows:

- Road projects include: rehabilitation and replacement; road, highway and bridge repair, maintenance and improvements; Intelligent Transportation System; neighborhood protection projects; spot safety projects; and pedestrian and bicycle route improvements.
- Parks projects include: Almaden Park quicksilver toxic mitigation; Martial Cottle master plan phase I; and improvement to various County Parks facilities.
- General Capital projects include: demolition and abatement of the former San Jose Medical clinic in the downtown area of San Jose; construction of the San Jose downtown health center; and repair, rehabilitation and improvement of County buildings.

The County's governmental activities commitments at June 30, 2015, are as follows:

Projects	Expended to June 30, 2015	Committed as of June 30, 2015
Road projects	\$ 48,881	\$ 10,449
Park projects	44,565	2,815
Fire district projects	3,188	-
General capital projects	82,738	7,795
Total	\$ 179,372	\$ 21,059

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (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 2022. As of June 30, 2015, the governmental activities' capital assets and accumulated depreciation under capital leases are:

Description	
<u>Equipment and vehicles</u>	\$ 4,263
Less accumulated depreciation	<u>(658)</u>
Net capital assets	<u>\$ 3,605</u>

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

<u>Fiscal year ending June 30,</u>	
2016	\$ 841
2017	833
2018	754
2019	754
2020	754
2021-2012	<u>169</u>
Total	4,105
Amount representing interest at rates from 2.03% to 4.00%	<u>(245)</u>
Present value of future minimum lease payments	<u>\$ 3,860</u>

(8) Short-Term Debt

(a) Housing Authority Line of Credit

The Housing Authority maintains a \$3,000 line of credit with a financial institution, which provides the Housing Authority with a ready means of short-term financing. On June 30, 2015 the maturity date was extended to March 31, 2016. The line of credit, payable monthly, bears interest at the prime rate, which was 3.25% at June 30, 2015. During the year ended June 30, 2015, the Housing Authority did not have any short-term borrowing activity against the line of credit.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(9) Long-Term Liabilities

As of June 30, 2015, 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, 2015
Governmental Activities:					
2007 Taxable Pension Funding Bonds	8/1/15 - 8/1/36	5.863% - 6.111%	\$4,325 - \$51,560	\$ 389,485	\$ 371,444
2009 Series A General Obligation Bonds	8/1/15 - 8/1/39	3.00% - 5.00%	\$1,100 - \$32,500	350,000	313,600
2013 Series B General Obligation Bonds	8/1/15 - 8/1/43	3.00% - 5.00%	\$5,495 - \$29,340	490,000	485,580
Financing Authority:					
1994 Series B Lease Revenue Bonds	11/15/23 - 11/15/25	(1)	\$233 - \$262	742	742
2006 Series I Lease Revenue Bonds	5/15/2016	4.25%	\$3,069	88,047	3,069
2007 Series K Lease Revenue Bonds	5/15/16 - 5/15/37	4.00% - 5.00%	\$545 - \$1,460	22,655	20,230
2008 Series A Lease Revenue Bonds	11/15/15 - 11/15/22	5.00%	\$169 - \$238	5,579	1,617
2008 Series L Lease Revenue Bonds	5/15/16 - 5/15/36	4.00% - 5.25%	\$1,140 - \$4,445	59,800	52,410
2010 Series N Lease Revenue Bonds	5/15/16 - 5/15/17	4.54% - 5.00%	\$5,865 - 5,915	47,188	11,780
2011 Series A Lease Revenue Bonds	2/1/16 - 2/1/26	5.90%	\$871 - \$2,153	20,368	14,639
2011 Series B Lease Revenue Bonds	2/1/16 - 2/1/26	4.91%	\$250 - \$282	3,639	2,919
2012 Series A Lease Revenue Bonds	2/1/16 - 2/1/24	4.00% - 5.00%	\$1,519 - \$2,180	19,316	16,451
2014 Series O Lease Revenue Bonds	5/15/16 - 5/15/23	3.00% - 4.00%	\$1,180 - \$1,490	11,715	10,595
2015 Series P Lease Revenue Bonds	5/15/17 - 5/15/31	5.00%	\$2,790 - \$5,527	60,232	60,232
Housing Authority:					
2004 Series A Lease Revenue Bonds	9/1/15 - 9/1/29	(2)	\$115 - \$255	3,550	2,710
2006 Series A Lease Revenue Bonds	9/1/15 - 9/1/38	5.00%	\$55 - \$510	5,125	4,760
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	6/1/16 - 6/1/27	4.00% - 5.00%	\$195 - \$330	4,495	3,085
Total governmental activities				<u>\$ 1,683,966</u>	<u>\$ 1,477,893</u>
Business-Type Activities					
SCVMC:					
Financing Authority:					
1994 Series B Lease Revenue Bonds	11/15/23 - 11/15/25	(1)	\$15,967 - \$17,938	\$ 50,758	\$ 50,758
2006 Series I Lease Revenue Bonds	5/15/2016	4.25%	\$2,151	61,693	2,151
2007 Series K Lease Revenue Bonds	5/15/16 - 5/15/37	4.00% - 5.00%	\$1,705 - \$4,565	70,885	63,320
2008 Series A Lease Revenue Bonds	11/15/15 - 11/15/22	5.00%	\$11,206 - \$15,657	120,831	106,828
2008 Series L Lease Revenue Bonds	5/15/32 - 5/15/36	5.25%	\$9,530 - \$11,750	53,040	53,040
2008 Series M Lease Revenue Bonds	5/15/16 - 5/15/35	(3)	\$4,600 - \$8,300	143,105	125,200
2012 Series A Lease Revenue Bonds	2/1/16 - 2/1/24	4.00% - 5.00%	\$5,316 - \$7,630	67,604	57,579
2015 Series P Lease Revenue Bonds	5/15/17 - 5/15/31	5.00%	\$1,955 - \$3,873	42,203	42,203
Total SCVMC				<u>610,119</u>	<u>501,079</u>
Airport:					
ABAG Series 2002-1 Lease Revenue Bonds	7/1/15 - 7/1/32	4.50% - 5.00%	\$155 - \$355	6,780	4,380
Total business-type activities				<u>\$ 616,899</u>	<u>\$ 505,459</u>

(1) Variable rate, 0.12% effective as of June 30, 2015.
 (2) Variable rate, 0.08% effective as of June 30, 2015.
 (3) Variable rate, 0.07% effective as of June 30, 2015.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (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, 2015:

	Balance, June 30, 2014 (as restated)	Additions	Retirements	Balance, June 30, 2015	Amounts Due Within One Year
Governmental activities:					
Lease Revenue Bonds	\$ 223,784	\$ 60,232	\$ (81,862)	\$ 202,154	\$ 15,959
Unamortized premium	7,013	9,548	(1,693)	14,868	1,581
Tobacco Settlement Asset-Backed Bonds	102,030	-	-	102,030	-
Accreted interest on capital appreciation bonds	55,161	9,415	-	64,576	-
Taxable Pension Funding Bonds	375,419	-	(3,975)	371,444	4,325
Accreted interest on capital appreciation bonds	42,918	7,412	(1,975)	48,355	2,570
Certificates of Participation	3,275	-	(190)	3,085	195
Unamortized premium	112	-	(9)	103	9
General Obligation Bonds	804,700	-	(5,520)	799,180	6,595
Unamortized premium	50,125	-	(1,778)	48,347	1,782
Subtotal governmental bonds	<u>1,664,537</u>	<u>86,607</u>	<u>(97,002)</u>	<u>1,654,142</u>	<u>33,016</u>
Capital Lease Obligations (Note 7)	272	3,702	(114)	3,860	760
Accrued litigation liability	5,656	29,123	-	34,779	-
Insurance claims (Note 14)	141,869	62,285	(56,339)	147,815	38,785
Pollution remediation obligations (Note 16)	6,330	200	-	6,530	-
Accrued vacation & sick leave	146,498	106,754	(100,497)	152,755	16,465
Total governmental activities	<u>\$ 1,965,162</u>	<u>\$ 288,671</u>	<u>\$ (253,952)</u>	<u>\$ 1,999,881</u>	<u>\$ 89,026</u>
Business-type activities:					
SCVMC Lease Revenue Bonds	\$ 529,430	\$ 42,203	\$ (70,554)	\$ 501,079	\$ 24,977
Unamortized premium	17,053	6,690	(2,150)	21,593	2,067
Subtotal SCVMC bonds	<u>546,483</u>	<u>48,893</u>	<u>(72,704)</u>	<u>522,672</u>	<u>27,044</u>
Airport Lease Revenue Bonds	4,600	-	(220)	4,380	155
Unamortized discount	(15)	-	(1)	(16)	(1)
Subtotal Airport bonds	<u>4,585</u>	<u>-</u>	<u>(221)</u>	<u>4,364</u>	<u>154</u>
Accrued vacation & sick leave	71,593	65,316	(60,900)	76,010	13,452
Total business-type activities	<u>\$ 622,661</u>	<u>\$ 114,209</u>	<u>\$ (133,825)</u>	<u>\$ 603,046</u>	<u>\$ 40,650</u>
Component Units:					
Housing Authority:					
Notes payable	\$ 1,398	\$ -	\$ -	\$ 1,398	\$ 20
Other blended component unit debt	12,003	9,523	(708)	20,818	216
Payment in lieu of taxes	84	2	(77)	9	-
Accrued vacation & sick leave	886	209	(85)	1,010	259
Interest payable	4,990	506	(259)	5,237	150
Housing Authority's business type activity	<u>19,361</u>	<u>\$ 10,240</u>	<u>\$ (1,129)</u>	<u>28,472</u>	<u>645</u>
Housing Authority's discrete component units' long-term obligations as of December 31, 2014, except for Poco Way Associates which is as of April 30, 2015					
Notes, loans, and bonds payable	271,586			229,268	12,185
Long-term interest payable	23,024			21,432	1,848
Housing Authority's discrete component units	<u>294,610</u>			<u>250,700</u>	<u>14,033</u>
Total Housing Authority	<u>\$ 313,971</u>			<u>\$ 279,172</u>	<u>\$ 14,678</u>
<i>FIRST 5:</i>					
Accrued vacation & sick leave	\$ 164	\$ -	\$ (2)	\$ 162	\$ -

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, 2015
(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 (CalPERS) 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 5.863% 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 and 2013 Series B General Obligation Bonds

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.

On March 6, 2013, the County issued 2013 Series B General Obligation Bonds in the amount of \$490,000. The bonds bear fixed interest rates ranging from 3.00% to 5.00% which are payable semi-annually commencing August 1, 2013. The series will mature on August 1, 2043.

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 (Central Fire). The Financing Authority commenced operations in the County with the issuance of bonds pursuant to the Marks-Roos Local Bond Pooling Act of 1985.

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 (\$47,188) and SCVMC (\$2,922). 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 4.54% to 5.00% and have a final maturity date of May 15, 2017.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

2014 Series O Lease Revenue Bonds – On April 22, 2014, the County through the Financing Authority issued \$11,715 of 2014 Series O Lease Revenue Bonds. The bond proceeds including premiums of \$909 and County contributions of \$1,408, of which \$1,090 was deposited into the refunding escrow that were used to current refund the outstanding 2003 Series C Lease Revenue Bonds. The bonds bear fixed interest rates ranging from 3.00% to 4.00% and have a final maturity date of May 15, 2023. The refunding achieved \$1,724 in gross debt service savings and net present value savings of \$1,579.

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 (QECB), 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 QECB, 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 systems 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.

QECBs 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. Effective March 1, 2013, due to the effect of sequester reductions, the Federal interest subsidy was reduced by 8.7% through September 30, 2013. Effective October 1, 2013 through September 30, 2014, the Federal interest subsidy was reduced by 7.2%. Absent of Congressional action, the sequester reductions will continue through and including Federal's fiscal year ended September 30, 2021 and the sequester reduction percentage will vary between future years.

Debt service payments for the QECBs are serviced by 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.

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 position.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

In connection with the issuance of the 2004 Series A Lease Revenue Bonds, the County, on behalf of the Financing Authority, obtained an irrevocable letter of credit as a credit facility with U.S. Bank N.A. for these bonds. The letter of credit was set to expire on September 1, 2015, and was extended until August 31, 2018. The Financing Authority'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 Financing Authority 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, 2015, the Housing Authority paid an annual commitment fee in the amount of \$42. In February 2012, the Housing Authority entered into an interest rate cap agreement with SMBC Capital Markets, Inc., which will limit the maximum interest incurred on the bonds to 6%. The interest rate cap agreement is effective for the period beginning September 1, 2015 through August 31, 2020.

The Business-type Activities section of this note at (b) describes the governmental activities portions of the Financing Authority's 1994, 2006, 2007, 2008, 2012, and 2015 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 of 5.68%, final turbo redemption date on June 1, 2033 and due date on June 1, 2041. The third Series A CABs were issued for \$13,618 with an interest rate of 5.70%, final turbo redemption date on June 1, 2036 and due date on June 1, 2047.

Series B CABs were issued for \$4,408 with an interest rate of 5.85%, final turbo redemption date on June 1, 2036 and due date of June 1, 2047. Series C CABS were issued for \$20,161 with an interest rate of 6.30%, final turbo redemption date on June 1, 2042 and due date of June 1, 2056. Series D CABs were issued for \$8,901 with an interest rate of 6.85%, final turbo redemption date on June 1, 2046 and due date of June 1, 2056.

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

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2015
(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

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 4.00% to 5.00% and have a final maturity date of June 1, 2027.

(b) Business-type Activities

SCVMC

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. The 1994 Series A Lease Revenue Bonds 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 November 1, 2000. At June 30, 2015, the irrevocable letter of credit amount was \$52,126 and the expiration date is November 1, 2016. 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, 2016. The Financing Authority is required to pay JP Morgan Chase Bank N.A. an annual commitment fee of 0.625% effective November 1, 2013 based on the outstanding principal amount of the bonds supported by the credit facility. For the year ended June 30, 2015, the Financing Authority paid an annual commitment fee in the amount of \$330.

2008 Series A Lease Revenue Bonds - 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

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 the County Courthouse. The bonds bear fixed interest rates ranging from 4.00% to 5.00% and have a final maturity date of May 15, 2031. On June 3, 2015, \$113,140 of the bonds were advance refunded by 2015 Series P Lease Revenue Bonds. The unrefunded portion of \$5,220 is due on May 15, 2016. At June 30, 2015, the outstanding defeased 2006 Series I Lease Revenue Bonds were \$113,140.

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 Milpitas 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.

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, 2015, and was extended until August 13, 2018. 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 0.60%, effective September 18, 2012 based on the outstanding principal amount of the bonds supported by the credit facility. For the year ended June 30, 2015, the Financing Authority paid an annual commitment fee in the amount of \$802.

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

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

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%.

Fair Value. The swaps had a combined aggregate negative fair value of \$18,206 as of June 30, 2015. 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, 2015. Should the counterparties fail to perform according to the terms of the swap contracts, the Financing Authority faces a maximum possible loss equivalent to the aggregate fair value of the swaps. At June 30, 2015, the Financing Authority was not exposed to credit risk because the swaps had a negative fair value of \$18,206. 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, 2015, Citibank's ratings were A1 by Moody's, A by Standard and Poor's, and A+ by Fitch Ratings.

Basis Risk. The Financing Authority has chosen a variable index based on a percentage of LIBOR plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Financing Authority is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. As a result of changing basis between LIBOR and the rate on the Financing Authority's bonds during the course of the year, the synthetic fixed rate for the fiscal year ended June 30, 2015, was 2.820%.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

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 the 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.

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.

Swap Payments and Associated Debt Service Payments. Using rates as of June 30, 2015, 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
2016	\$ 4,600	\$ 87	\$ 3,418	\$ 3,505
2017	4,700	84	3,300	3,384
2018	4,850	81	3,182	3,263
2019	5,050	77	3,025	3,102
2020	5,200	74	2,907	2,981
2021-2025	28,450	313	12,296	12,609
2026-2030	33,325	206	8,093	8,299
2031-2035	39,025	81	3,182	3,263
	<u>\$ 125,200</u>	<u>\$ 1,003</u>	<u>\$ 39,403</u>	<u>\$ 40,406</u>

⁽¹⁾ Variable interest on the 2008 Series M is estimated using interest rate at June 30, 2015, of 0.07%.

⁽²⁾ Net swap interest on the 2008 Series M is estimated using USD-LIBOR-BBA rate at June 30, 2015, of 0.185%. Net swap interest at June 30, 2015, is calculated as follows: 3.185% minus (0.185% * 56.5% + 0.33%) equals to 2.750%.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(9) Long-Term Liabilities (Continued)

Impact on Financial Statements. The impact of the interest rate swaps on the financial statements for the year ended June 30, 2015, is as follows:

	Deferred outflows of resources	Derivative instrument liabilities
Balance at July 1, 2014	\$ 16,976	\$ 16,976
Change in fair value	1,230	1,230
Balance at June 30, 2015	\$ 18,206	\$ 18,206

Derivative instrument liabilities of \$18,206 as of June 30, 2015, represent the fair value of the interest rate swap agreements and deferred outflows on resources of \$18,206 as of June 30, 2015, represent accumulated decreases in fair value of hedging derivatives.

2012 Series A Lease Revenue Bonds - On August 8, 2002, the Financing Authority issued \$86,920 of 2012 Series A Lease Revenue Bonds on behalf of the County and SCVMC. The bonds were issued to provide funds to finance various public capital improvements and projects related to the Santa Clara Valley Health and Hospital System Enterprise Core Health Care Information System. The 2012 Series A Lease Revenue Bonds bear fixed interest rates ranging from 4.00% to 5.00% and have a final maturity date of February 1, 2024.

2015 Series P Lease Revenue Bonds - On June 3, 2015, the Financing Authority issued \$102,435 of 2015 Series P Lease Revenue Bonds on behalf of the County and SCVMC. The bond proceeds including part of the bond premium received from the issuance totaled to \$117,941 was deposited into the refunding escrow to advance refund the outstanding 2006 Series I Lease Revenue Bonds of \$113,140 (\$66,526 and \$46,614 for County’s governmental activities and SCVMC, respectively). The bonds bear fixed interest rates of 5.00% and have a final maturity date of May 15, 2031. The refunding achieved \$9,779 in gross debt service savings and net present value savings of \$7,650.

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
1994 Series B	1.4%	98.6%
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%
2012 Series A	22.2%	77.8%
2015 Series P	58.8%	41.2%

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

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 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, 2015, 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	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 15,959	\$ 9,578	\$ -	\$ -	\$ 195	\$ 152
2017	16,013	8,997	-	-	205	145
2018	9,154	8,256	-	-	215	134
2019	9,543	7,840	-	-	225	124
2020	9,979	7,391	-	-	235	112
2021-2025	55,462	29,458	-	-	1,365	373
2026-2030	50,772	16,554	-	-	645	49
2031-2035	30,522	5,007	-	-	-	-
2036-2040	4,750	411	43,604	178,571	-	-
2041-2045	-	-	11,339	66,321	-	-
2046-2050	-	-	18,025	158,675	-	-
2051-2055	-	-	-	-	-	-
2056	-	-	29,062	648,788	-	-
Total	\$ 202,154	\$ 93,493	\$ 102,030	\$ 1,052,355	\$ 3,085	\$ 1,089

Fiscal year ending June 30:	Taxable Pension Funding Bonds		General Obligation Bond	
	Principal	Interest	Principal	Interest
2016	\$ 4,325	\$ 20,074	\$ 6,595	\$ 35,180
2017	4,647	20,727	7,740	34,847
2018	4,924	21,461	8,955	34,464
2019	5,168	22,251	10,235	34,003
2020	5,382	23,112	11,635	33,456
2021-2025	29,343	130,475	82,455	156,385
2026-2030	46,435	145,937	132,890	129,855
2031-2035	172,895	57,675	195,640	93,981
2036-2040	98,325	6,044	273,095	45,275
2041-2044	-	-	69,940	5,807
Total	\$ 371,444	\$ 447,756	\$ 799,180	\$ 603,253

(1) Variable interest on 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, 2015, of 0.12%, 0.08%, and 0.07%, respectively.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(9) Long-Term Liabilities (Continued)

Certificates of participation 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 the 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
2016	\$ 24,977	\$ 15,703	155	213
2017	25,717	14,859	165	206
2018	26,853	13,854	170	198
2019	28,141	12,754	180	190
2020	29,425	11,594	190	181
2021-2025	159,489	40,528	1,100	748
2026-2030	82,784	26,926	1,400	437
2031-2035	103,028	16,234	1,020	78
2036-2037	20,665	1,291	-	-
Total	\$ 501,079	\$ 153,743	\$ 4,380	\$ 2,251

⁽¹⁾ Variable interest on the 1994 Series B Lease Revenue Bonds, and the 2008 Series M Lease Revenue Bonds are estimated using interest rate at June 30, 2015, of 0.12%, 0.08%, and 0.07%, respectively.

(d) Pledged Revenues for Bonds

The lease revenue bonds issued by the Financing Authority are payable by a pledge of revenues from the base rental payments payable by the County, SCVMC, and the Housing Authority, pursuant to the Master Facility Lease Agreements between the County and the Financing Authority and between the Housing Authority and the Financing Authority for the use of facilities acquired or constructed by the Financing Authorities. Under California law, the County, SCVMC, and the Housing Authority cannot make lease payments until the County, SCVMC, and the Housing Authority have 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 \$950,469 payable through September 1, 2038. For the fiscal year ended June 30, 2015, the total lease payments made by the County, SCVMC, and the Housing Authority totaled to \$69,054 and total debt service payments paid by the Financing Authority totaled to \$69,848.

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, 2015.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

The County's Series 2009 and 2013 General Obligation Bonds are payable from pledged ad valorem property taxes until August 1, 2039 and August 1, 2043, the final maturity dates of the bonds. The total principal and interest remaining on these bonds is approximately \$1,402,433. For the fiscal year ended June 30, 2015, the County collected \$36,388 in ad valorem property taxes and made total debt service payments in the amount of \$41,069.

The Airport's lease revenue bonds are secured by the pledge of revenues generated by the Airport and paid to ABAG as lease payments. 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 \$6,631. For the fiscal year ended June 30, 2015, the total principal and interest payment made by the Airport totaled to \$436.

(e) Legal Debt Margin

As of June 30, 2015, the County's legal debt limit (1.25% of the total assessed valuation) was \$4.46 billion. At June 30, 2015, the County has debt in the amount of \$799.2 million applicable to the limit outstanding and the legal debt margin was \$3.66 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, 2015, the County did not accrue amounts for arbitrage rebate payable in the government-wide statements – governmental activities, while \$468 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, 2015

(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:

Type of indebtedness (purpose)	Maturity	Interest Rates	Principal Installments	Original Issue Amount	Outstanding at June 30, 2015
Business-type activities - notes payable:					
Redevelopment Agency of the					
City of Morgan Hill	6/15/2021	1.00%	(1)	\$ 425	\$ 425
City of San Jose (Morrone Gardens)	9/23/2024	4.00%	(1)	973	973
Subtotal				\$ 1,398	1,398
Other blended component unit notes, loans and bonds payable (as of December 31, 2014)					
AE Associates, Ltd.					4,595
Poco Way HDC, Inc.					9,016
Rotary Plaza/HACSC HDC, Inc.					3,505
San Pedro Gardens Associates					1,627
S.P.G. Housing, Inc.					2,075
Subtotal					20,818
Discrete component units (as of December 31, 2014):					
Bascom HACSC Associates					12,600
Bendorf Drive, L.P.					23,932
Blossom River Associates					15,855
Branham Lane					2,706
Clarendon Street, L.P.					6,671
Fairground Luxury Family Apartments, L.P.					40,161
Fairground Senior Apartments, L.P.					21,820
HACSC/Choices Family Associates					15,788
HACSC/Choices Senior Associates					11,262
Helzer Associates					21,403
Huff Avenue Associates					4,457
Julian Street Partners, L.P.					16,365
Klamath Associates					1,189
Opportunity Center Associates					10,700
Rincon Gardens Associates, L.P.					15,234
South Drive LLC					2,755
Thunderbird Associates					2,116
Willow/HACSC Associates					4,254
Subtotal					229,268
Total Housing Authority					\$ 251,484

⁽¹⁾ Deferred until maturity

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(9) Long-Term Liabilities (Continued)

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

Fiscal year ending June 30:	Principal	Interest
2016	\$ 20	\$ 43
2017	-	43
2018	-	43
2019	-	43
2020	-	43
2021 - 2025	<u>1,378</u>	<u>170</u>
Total	<u>\$ 1,398</u>	<u>\$ 385</u>

A copy of each of the Housing Authority’s blended and discretely presented component units separately issued audited financial statements can be obtained from the Housing Authority’s management.

(10) Healthcare Programs

(a) Santa Clara Valley Medical Center

Net Patient Revenues - The SCVMC provides a continuum of acute and outpatient care. 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 revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered at the SCVMC, including estimated retroactive adjustments under reimbursement agreements due to future audits, reviews and investigations with federal and state government programs and other third-party payers (contractual allowances) and the uncollectible portion of patient service revenues (bad debts provision). Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Net patient service revenues are calculated for the fiscal year ended June 30, 2015, as follows:

Patient service revenues	\$ 3,453,453
Contractual allowances	(2,346,653)
Bad debts provision	<u>(6,044)</u>
Net patient service revenues	<u>\$ 1,100,756</u>

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. Revenues from the Medi-Cal and Medicare programs represents approximately 67% and 14%, respectively, of net patient service revenue (excluding the effects of bad debts provision) for the fiscal year ended June 30, 2015. Reimbursement for services provided under these programs is currently based on various contractual arrangements.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(10) Healthcare Programs (Continued)

Third-Party Payers - The SCVMC has agreements with third-party payers that provide for reimbursement to the SCVMC at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the SCVMC's established rates and amounts reimbursed by third-party payers. Major third-party payers with whom such agreements have been established are Medicare, Medi-Cal, and the State of California through the Medi-Cal Hospital/Section 1115 Medicaid Waiver and Short-Doyle mental health programs. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. The SCVMC believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigation involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medi-Cal programs.

California's Section 1115 Medicaid Waiver (Waiver), titled the "Bridge to Health Care Reform" began in November 2010. The Waiver is intended to help sustain the State's Medicaid Program (known as Medi-Cal), test new innovations to help improve care and reduce costs, and to support the safety net in advance of health reform. Under the Waiver, payments for public hospitals are comprised of: 1) fee-for-service cost-based reimbursements for inpatient hospital services; 2) Disproportionate Share Hospital payments; 3) distribution from a pool of federal funding for uninsured care, known as the Safety Net Care Pool (SNCP); 4) Delivery System Reform Incentive Program (DSRIP); and 5) the Low Income Health Program (LIHP). The non-federal share of these payments will be provided by the public hospitals, primarily through certified public expenditures, whereby the hospital would expend its local funding for services to draw down the federal financial participation. Revenues recognized under the Waiver approximated \$53.6 million for the year ended June 30, 2015.

The DSRIP is a pay-for-performance initiative that challenges public hospital systems to meet specific benchmarks related to improving health care access, quality and safety and outcomes. The LIHP ended on December 31, 2013. Individuals who fell under the LIHP program either transitioned to Medi-Cal or purchased health insurance through California's health benefit exchange (Covered California). Fiscal year 2014-15 was the first full year of expanded Medi-Cal coverage and Covered California.

On October 31, 2015, the Section 1115 Medicaid Waiver, originally set to expire on October 31, 2015, was extended temporarily to December 31, 2015. In addition, the DHCS and CMS arrived at a conceptual agreement that outlines the major components of the waiver renewal, with the details of the renewal currently being finalized. The conceptual agreement includes the following core elements: (a) Global Payment Program for services to the uninsured in designated public hospital systems (DPH); (b) Delivery System Transformation and Alignment Incentive Program for DPHs and district/municipal hospitals, known as PRIME (Public Hospital Redesign and Incentives in Medi-Cal); (c) Dental Transformation Incentive Program; (d) Whole Person Care Pilot Program which would be a county-based, voluntary program to target providing more integrated care for high-risk, vulnerable populations; (e) Independent assessment of access to care and network adequacy for medical managed care beneficiaries; and (f) Independent studies of uncompensated care and hospital financing. The financial impact of the new Waiver in future years is not yet known.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2015
(Dollars in thousands)

(10) Healthcare Programs (Continued)

Transactions with VHP - The SCVMC received a total of \$253.7 million in fiscal year 2015 from VHP and is reported as a component of net patient service revenues on the Statement of Revenues, Expenses and Changes in Net Position.

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. SB 1732 revenues are classified as capital contributions for reporting purposes under accounting principles generally accepted in the United States of America. SB 1732 capital contributions as of June 30, 2015, are \$7,930.

Due to Other Governmental Agencies - As of June 30, 2015, the SCVMC recorded approximately \$132.2 million in due to other governmental agencies, which was comprised \$113.8 million in unearned credits related to receipts under SNCP, the LIHP, and AB915 programs; \$17.9 million related to receipts under the SB1732 program; and \$0.5 million in arbitrage liabilities (see Note 9). In addition, the SCVMC recorded approximately \$77.8 million in third-party settlements payables.

Charity Care - The SCVMC has a policy for providing charity care to patients who are otherwise unable to afford health care services. Generally, charity care recipients are those patients for which an indigency standard has been established and for which the patient qualifies. Inability to pay may be determined through an interview process by the SCVMC, by the Department of Revenue, or by an outside collection agency. Determination of charity care status may be made prior to or at the time of service, or any time thereafter. The total amount of such charity care provided by the SCVMC for the fiscal year ended June 30, 2015, based on the cost incurred to perform these services, is as follows:

Charity care, at cost	\$	176,971
Percentage of operating expenses		14%

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

(b) *Valley Health Plan*

Commercial Plan - The Valley Health Plan (VHP) is a health care service plan licensed pursuant to the Knox-Keene Health Care Service Plan Act of 1975, as amended, and the regulations promulgated there under (collectively, “Knox-Keene Act”). VHP was licensed in September 1985 for the purpose of providing comprehensive health care services on a prepaid basis to the County’s active and retired employees, the Santa Clara County Valley Transportation Authority’s active and retired employees, and other non-profit agencies which have a contractual relationship with the County. Two other groups – the Council on Aging and the In-Home Supportive Services started their coverage in July 2000 and September 2000, respectively. Under the Affordable Care Act, Valley Health Plan started to enroll members through the State (Covered California) January 1, 2014.

Premium Revenues - Membership contracts are on a yearly basis subject to cancellation by the employer group or VHP upon 30 days written notice. Premiums are due either bi-weekly or monthly and are recognized as revenue during the period in which VHP is obligated to provide services to members. VHP receives both premium payments from Covered California individuals and subsidy from the federal government on a monthly basis.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(10) Healthcare Programs (Continued)

Health Care Service Expense - Prior to July 1, 2013, VHP contracted with the SCVMC under a capitation arrangement for the provision of certain medical care services to its members. VHP compensates SCVMC through this capitation agreement which was an agreed upon percentage of the total premiums. This arrangement subjected SCVMC to the full risk of all contracted providers. Beginning July 1, 2013, VHP's capitation agreement with the SCVMC only includes payments to SCVMC less the projected payments to other medical groups for the provision of certain medical care services to its member. These other provider groups are paid for services directly from VHP, therefore the risk shifts from SCVMC to VHP. VHP compensates SCVMC an agreed upon per member per month rate, while other medical groups are reimbursed on a FFS basis. Thus, both VHP and SCVMC share the risk for all incurred but not reported claims and thus, the liabilities are recorded in each fund accordingly. Effective July 1, 2014, VHP assumes all risk for the Commercial Group population. In addition, VHP assumes all the risk for the Covered California population.

Medi-Cal Managed Care Plan - In December 1996, VHP received approval to participate in the State Department of Health Services' Two-Plan Model for Medi-Cal managed care. VHP contracts with Medi-Cal prepaid health plans and providers to render medical services to eligible Medi-Cal beneficiaries. Beginning on July 1, 1998, VHP also provides coverage for the Healthy Families. As of February 2001, the County-Sponsored program, Healthy Kids, started its coverage with VHP. In addition, the plan started to provide coverage for Healthy Workers subscribers (IHSS) in April 2010.

Capitation Revenue - Medi-Cal prepaid health plans (HMOs) contract with VHP to provide medical health care services to Medi-Cal enrollees. VHP is compensated on a fixed payment per member per month basis.

Capitation Expenses – VHP pays hospital and various clinics a fixed amount per member per month to render medical health care services to its members. VHP pays all federally qualified health clinics on a fee-for-service basis for primary care services rendered to its Medi-Cal members.

Medical Incentive Pool - Under contract, VHP will reserve an agreed upon amount per member per month for each pool based on aid category. Eligibility for annual payment of pro rata shares of the reserve pools will be based on participating clinic meeting VHP designated target goals.

Stop-Loss Insurance – VHP entered into a stop-loss insurance agreement with an insurance company to limit losses on individual claims for its commercial members. Under the terms of this agreement, the insurance company will reimburse approximately 90 percent of the cost of each member's annual hospital services, in excess of a \$375 deductible, up to a maximum of \$2,000 less applicable deductible per member per contract year.

Malpractice Claims - There have been no malpractice claims asserted against VHP and no incidents occurring through June 30, 2015 that management believes would result in the assertion of claims against VHP.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2015
(Dollars in thousands)

(11) Net Position/Fund Balances

(a) Net Position Classifications

The government-wide and proprietary funds financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt, including debt related deferred outflows and inflows of resources, that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted net position includes restrictions for parks, mental health, capital facilities, debt service, housing programs, roads and other purposes.

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

During fiscal year 2007, the County, through the JPA and Corporation, issued \$102,030 of Tobacco Settlement Asset-Backed Bonds. In addition, in fiscal years 2009 and 2013, the County issued \$350,000 and \$490,000, respectively, 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 position 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 position in the County's governmental activities. In accordance with GASB guidance, at June 30, 2015, the County reclassified \$289.6 million of the primary government's total net position amounts from restricted to unrestricted and \$660.0 million from net investment in capital assets to unrestricted to reflect the primary government as a whole perspective.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(11) Net Position/Fund Balances (Continued)

(b) Fund Balances Classifications

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications 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, 2015, 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.

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. Commitments may be changed or lifted only by the County taking the same formal action that imposed the constraint originally. The Board is the County’s highest level of decision making. The highest level of formal action to commit resources is the passage of ordinances.

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, (b) standing committees of the Board, or (c) Director of Finance. Assignments are established by the Board through resolutions and delegation to the Director of Finance to set aside amounts to cover purchase orders, contracts, and other commitment for the expenditures of monies for budgetary 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, 2015

(Dollars in thousands)

(11) Net Position/Fund Balances (Continued)

Fund balances for the governmental funds as of June 30, 2015, were distributed as follows:

	General Fund	Nonmajor Funds	Total
Nonspendable:			
Inventory	\$ 2,216	\$ 457	\$ 2,673
Advance to other fund	538	-	538
Prepaid items	7,677	-	7,677
Subtotal	<u>10,431</u>	<u>457</u>	<u>10,888</u>
Restricted for:			
Child support program	-	469	469
Clerk recorder program	-	12,464	12,464
Debt service	-	50,853	50,853
Energy efficient system projects	-	261	261
Health and human services	7,449	-	7,449
Housing and community development programs	-	21,939	21,939
Law enforcement	29,044	-	29,044
Library services	-	31,265	31,265
Mental health services	-	116,014	116,014
Parks acquisition and development projects	-	70,967	70,967
Public ways and facilities	-	51,158	51,158
Stanford trails	-	10,553	10,553
Technology projects	-	3,034	3,034
Vector control programs	-	14,478	14,478
Other purposes	20,111	4,915	25,026
Total restricted	<u>56,604</u>	<u>388,370</u>	<u>444,974</u>
Committed to:			
County parks operations	-	17,725	17,725
Environmental health services	-	22,429	22,429
Fire protection services	-	12,500	12,500
General capital improvement projects	-	65,427	65,427
Housing programs	8,983	-	8,983
Postemployment healthcare benefits	4,212	-	4,212
Public ways and facilities	371	604	975
Working capital	15,175	-	15,175
Other Purposes	14,634	840	15,474
Total committed	<u>43,375</u>	<u>119,525</u>	<u>162,900</u>
Assigned to:			
Fire protection services	-	43,651	43,651
General liability program	34,779	-	34,779
Other purposes	4,463	1	4,464
Total assigned	<u>39,242</u>	<u>43,652</u>	<u>82,894</u>
Unassigned	<u>364,896</u>	<u>-</u>	<u>364,896</u>
Total	<u>\$ 514,548</u>	<u>\$ 552,004</u>	<u>\$ 1,066,552</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(11) Net Position/Fund Balances (Continued)

County’s Contingency Reserve Policy. The Board 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, 2015, the County has a balance in its contingency reserve in the amount of \$179,241 reported as part of the General Fund’s unassigned fund balance.

(12) Pension Plans

(a) California Public Employees’ Retirement System – Defined Benefit Plans

Plan Description

All qualified permanent and probationary employees are eligible to participate in the County’s CalPERS defined benefit pension plans. The County’s primary government participates in six plans with CalPERS as follows:

CalPERS Plan	Type of Plan	Participants
County Miscellaneous Plan	Agent multi-employer plan	County non-safety members ⁽¹⁾
County Safety Plan	Agent multi-employer plan	County safety members
Central Fire Miscellaneous Plan	Cost sharing plan	Central Fire non-safety members
Central Fire Safety Plan	Agent multi-employer plan	Central Fire safety members
Housing Authority Miscellaneous Plan	Agent multi-employer plan	Housing Authority members
Health Authority Miscellaneous Plan	Cost sharing plan	Health Authority members

⁽¹⁾ Includes non-Judge employees and retirees of the Superior Court of California. The Superior Court of California is not part of the County’s reporting entity as such the amounts disclosed for the County Miscellaneous Plan excludes amounts and allocations to the Superior Court of California. At June 30, 2015, County’s proportionate share of this plan is 95.824%.

CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. Benefit provisions and other requirements are established by State statute, employer contract with CalPERS and by County resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

Benefits

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on a final average compensation period of 36 months. The cost of living adjustments for the CalPERS plans are applied as specified by the Public Employees’ Retirement Law. The California Public Employees’ Pension Reform Act (PEPRA), which took effect in January 2013, changes the way CalPERS retirement and health benefits are applied, and places compensation limits on members. As such members who established CalPERS membership on or after January 1, 2013 are known as “PEPRA” members.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(12) Pension Plans (Continued)

The CalPERS' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>County Miscellaneous Plan</u>		<u>County Safety Plan</u>	
	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Hire date				
Benefit formula	2% @ 55, 2.5% @ 55, 2% @ 60	2% @ 62	2% @ 50, 3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life	Monthly for life
Retirement age	55-60	62	50	57
Required employee contribution rates	8.000%	6.500%	9.000%	10.750%
Required employer contribution rates	16.934%	16.934%	30.453%	30.453%
	<u>Central Fire Miscellaneous Plan</u>		<u>Central Fire Safety Plan</u>	
	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Hire date				
Benefit formula	2.7% @ 55	2% @ 62	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life	Monthly for life
Retirement age	55	62	50	57
Required employee contribution rates	8.000%	6.500%	9.000%	11.250%
Required employer contribution rates	25.525%	6.700%	34.523%	34.523%
	<u>Housing Authority Miscellaneous Plan</u>		<u>Health Authority Miscellaneous Plan</u>	
	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Hire date				
Benefit formula	2% @ 55	2% @ 62	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life	Monthly for life
Retirement age	50-55	62-67	55	62
Required employee contribution rates	6.996%	6.250%	7.00%	6.25%
Required employer contribution rates	9.231%	7.750%	11.03%	6.25%

Employees Covered

At June 30, 2014, the following employees were covered by the benefit terms for each agent multi-employer plan:

	<u>County</u>		<u>Central Fire</u>	<u>Housing Authority</u>
	<u>Miscellaneous Plan⁽¹⁾</u>	<u>Safety Plan</u>	<u>Safety Plan</u>	<u>Miscellaneous Plan</u>
Inactive employees or beneficiaries currently receiving benefits	11,591	2,120	413	49
Inactive employees entitled to but not yet receiving benefits	6,629	465	95	-
Active employees	13,738	1,873	225	123
Total	31,958	4,458	733	172

⁽¹⁾ Includes employees and retirees of the Superior Court of California.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(12) Pension Plans (Continued)

Contributions

For the year ended June 30, 2015, the County’s actuarial determined contributions were as follows:

County Miscellaneous Plan.....	\$	199,434
County Safety Plan.....		60,086
Central Fire Miscellaneous Plan.....		1,363
Central Fire Safety Plan.....		11,045
		<hr/>
Total primary government		271,928
Housing Authority Miscellaneous Plan.....		724
Health Authority Miscellaneous Plan.....		961
		<hr/>
Total County	\$	<u>273,613</u>

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the PERF is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by public employees during the year, with an additional amount to finance any unfunded accrued liability.

Net Pension Liability (Asset)

The table below shows how the net pension liability (asset) as of June 30, 2015, is distributed.

	<u>Net Pension Asset</u>	<u>Net Pension Liability</u>
Governmental activities	\$ -	\$ 1,741,150
Business-type activities	-	832,128
		<hr/>
Total primary government	-	2,573,278
Housing Authority	8,805	-
Health Authority	-	4,884
		<hr/>
Total	<u>\$ 8,805</u>	<u>\$ 2,578,162</u>

As of June 30, 2015, the County’s net pension liability (asset) is comprised of the following:

	<u>Proportionate Share</u>	<u>Share of Net Pension Liability (Asset)</u>
County Miscellaneous Plan.....	95.83%	\$ 1,865,330
County Safety Plan.....	n/a	581,570
Central Fire Miscellaneous Plan.....	0.16073%	10,002
Central Fire Safety Plan.....	n/a	116,376
		<hr/>
Total primary government		2,573,278
Housing Authority Miscellaneous Plan.....	n/a	(8,805)
Health Authority Miscellaneous Plan.....	0.07849%	4,884
		<hr/>
Total County		<u>\$ 2,569,357</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(12) Pension Plans (Continued)

The County's net pension liability for the Central Fire miscellaneous plan (a cost-sharing plan) is measured as a proportionate share of the plan's net pension liability. The County's net pension liability of each of its plans is measured as of June 30, 2014, and the total pension liability for each of its plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014, using standard update procedures. The County's proportions of the net pension liability for the CalPERS plans were actuarially determined as of the valuation date.

The following table shows the proportionate share of the risk pool collective net pension liability over the measurement period.

	<u>Central Fire Miscellaneous Plan</u>		
	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Balance at June 30, 2013 (VD).....	\$ 38,846	\$ 26,715	\$ 12,131
Net changes during measurement period.....	2,312	4,441	(2,129)
Balance at June 30, 2014 (MD)	<u>\$ 41,158</u>	<u>\$ 31,156</u>	<u>\$ 10,002</u>

The County's net pension liability (asset) for each of its agent multiple employer plan is measured as the total pension liability less the fiduciary net position for each plan. The change in the net pension liability (asset) for each plan is as follows:

	<u>County Miscellaneous Plan</u>			<u>County Safety Plan</u>		
	<u>Increase (Decrease)</u>			<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Balance at June 30, 2013 (VD).....	\$ 7,760,812	\$ 5,444,900	\$ 2,315,912	\$ 2,290,704	\$ 1,576,385	\$ 714,319
Change in year:						
Service cost.....	194,389	-	194,389	51,470	-	51,470
Interest on the total pension liability.....	576,809	-	576,809	169,583	-	169,583
Contributions from the employer.....	-	180,535	(180,535)	-	58,722	(58,722)
Contributions from employees.....	-	96,868	(96,868)	-	22,482	(22,482)
Net investment income ⁽¹⁾	-	944,377	(944,377)	-	272,598	(272,598)
Benefit payments, including refunds of employee contributions.....	(334,427)	(334,427)	-	(110,678)	(110,678)	-
Net changes during measurement period.....	<u>436,771</u>	<u>887,353</u>	<u>(450,582)</u>	<u>110,375</u>	<u>243,124</u>	<u>(132,749)</u>
Balance at June 30, 2014 (MD)	<u>\$ 8,197,583</u>	<u>\$ 6,332,253</u>	<u>\$ 1,865,330</u>	<u>\$ 2,401,079</u>	<u>\$ 1,819,509</u>	<u>\$ 581,570</u>

⁽¹⁾ Net of administrative expenses.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(12) Pension Plans (Continued)

	<u>Central Fire Safety Plan</u>			<u>Housing Authority Miscellaneous Plan</u>		
	<u>Increase (Decrease)</u>			<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Balance at June 30, 2013 (VD).....	\$ 465,363	\$ 322,265	\$ 143,098	\$ 45,081	\$ 48,728	\$ (3,647)
Change in year:						
Service cost.....	8,572	-	8,572	1,413	-	1,413
Interest on the total pension liability.....	34,357	-	34,357	3,357	-	3,357
Contributions from the employer.....	-	10,233	(10,233)	-	825	(825)
Contributions from employees.....	-	3,886	(3,886)	-	670	(670)
Net investment income ⁽¹⁾	-	55,532	(55,532)	-	8,433	(8,433)
Benefit payments, including refunds of employee contributions.....	(23,106)	(23,106)	-	(2,065)	(2,065)	-
Net changes during measurement period.....	19,823	46,545	(26,722)	2,705	7,863	(5,158)
Balance at June 30, 2014 (MD)	<u>\$ 485,186</u>	<u>\$ 368,810</u>	<u>\$ 116,376</u>	<u>\$ 47,786</u>	<u>\$ 56,591</u>	<u>\$ (8,805)</u>

⁽¹⁾ Net of administrative expenses.

Pension Expense and Pension Related Deferred Outflows and Inflows of Resources

For the year ended June 30, 2015, the County recognized pension expense (income) as follows:

Governmental activities	\$ 150,349
Business-type activities	<u>72,087</u>
Total primary government	222,436
Housing Authority	(486)
Health Authority	<u>735</u>
Total	<u>\$ 222,685</u>

Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(12) Pension Plans (Continued)

At June 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	County Miscellaneous Plan		County Safety Plan		Central Fire Miscellaneous and Safety		Total Primary Government	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date.....	\$ 199,454	\$ -	\$ 60,086	\$ -	\$ 12,409	\$ -	\$ 271,949	\$ -
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions.....	-	-	-	-	318	(161)	318	(161)
Net differences between projected and actual earnings on plan investments.....	-	(431,641)	-	(124,830)	-	(27,539)	-	(584,010)
Total	\$ 199,454	\$ (431,641)	\$ 60,086	\$ (124,830)	\$ 12,727	\$ (27,700)	\$ 272,267	\$ (584,171)

	Housing Authority Miscellaneous Plan		Health Authority Miscellaneous Plan		Total Discrete Component Units	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date.....	\$ 724	\$ -	\$ 961	\$ -	\$ 1,685	\$ -
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions.....	-	-	406	(251)	406	(251)
Net differences between projected and actual earnings on plan investments.....	-	(3,848)	-	(1,642)	-	(5,490)
Total	\$ 724	\$ (3,848)	\$ 1,367	\$ (1,893)	\$ 2,091	\$ (5,741)

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic manner. At June 30, 2015, the primary government and discrete component units reported \$271.9 million and \$1.7 million, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as a reduction to net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30	Deferred Outflows/ (Inflows) of Resources		
	Primary Government	Component Units	Total
2016.....	\$ (145,946)	\$ (1,251)	\$ (147,197)
2017.....	(145,946)	(1,354)	(147,300)
2018.....	(145,958)	(1,358)	(147,316)
2019.....	(146,003)	(1,372)	(147,375)
Total	\$ (583,853)	\$ (5,335)	\$ (589,188)

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2015
(Dollars in thousands)

(12) Pension Plans (Continued)

Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2014 is provided below, including any assumptions that differ from those used in the July 1, 2013 actuarial valuation.

Valuation date.....	June 30, 2013 updated to June 30, 2014
Measurement date.....	June 30, 2014
Actuarial cost method.....	Entry-age normal cost method
Investment rate of return.....	7.50%, net of pension plan investment expense, including inflation
Inflation.....	2.75%
Projected salary increases.....	3.30% to 14.20% depending on age, service, and type of employment
Discount rate.....	7.50% as of June 30, 2013 Net of pension plan, investment and administrative expenses, including inflation
Basic COLA.....	Contract COLA up to 2.75% until purchasing power allowance floor on purchasing power applies, 2.75% thereafter

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB Statement No. 68 section.

According to GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the County.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statement Nos. 67 and 68 calculations through at least the 2017-18 fiscal years.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(12) Pension Plans (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10¹</u>	<u>Real Return Years 11+²</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

¹ An expected inflation of 2.5 percent used for this period.

² An expected inflation of 3.0 percent used for this period.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(12) Pension Plans (Continued)

Sensitivity of the Net Pension Liability (Asset) to Changes in Discount Rate

The following presents the net pension liability (asset) of each of the County’s pension plans as of the measurement date, calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if they were calculated using a discount rate that is 1 percentage-point lower (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

	Net Pension Liability (Asset)		
	Current		
	Discount Rate -1% (6.50%)	Discount Rate (7.50%)	Discount Rate +1% (8.50%)
County Miscellaneous Plan ⁽¹⁾	\$ 2,944,734	\$ 1,865,330	\$ 967,388
County Safety Plan	906,273	581,570	314,356
Central Fire Miscellaneous Plan ⁽²⁾	15,462	10,002	5,470
Central Fire Safety Plan	178,441	116,376	64,931
Housing Authority Miscellaneous Plan	(1,991)	(8,805)	(14,493)
Health Authority Miscellenous Plan	8,702	4,884	1,716

⁽¹⁾ Excludes non-Judge employees and retirees of the Superior Court of California.

⁽²⁾ Represents the Central Fire’s proportionate share of the net pension liability of the CalPERS Miscellaneous Plan.

Pension Plan Fiduciary Net Position

Detailed information about each of the pension plans’ fiduciary net position is available in the separately issued CalPERS financial reports. Each plan’s fiduciary net position disclosed per the GASB Statement No. 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. For the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included as assets. These amounts are excluded for rate setting purposes in the County’s funding actuarial valuation. In addition, differences may result from early financial statement closing and final reconciled reserves.

(b) County of Santa Clara Supplemental Benefit Plan

During the fiscal year 2009, the County established a defined contribution retirement plan (County of Santa Clara Supplemental Benefit Plan (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 105 participants, had ending cash value of \$20,947 at June 30, 2015. During the fiscal year ended June 30, 2015, the County contributed \$2,018 to the Supplemental Plan.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2015
(Dollars in thousands)

(12) Pension Plans (Continued)

(c) *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, 46 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 \$242 for the year ended June 30, 2015. The employer also contributes a dollar for dollar match on the elective deferrals noted in the deferred compensation plan to a maximum of 5% of each employee's annual compensation. The employer's contribution was \$144 for the year ended June 30, 2015. 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.

(d) *Santa Clara County Health Authority Defined Contribution Plan*

In addition to the defined benefit pension plan, the Health Authority has a defined contribution plan under Sections 401(a) of the Internal Revenue Code. Under the 401(a) Plan, participants must contribute 6% of their gross compensation and the Health Authority must contribute 3% of the participants' gross compensation. The Health Authority contributes greater than 3% of gross compensation for senior staff level employees. In return, senior staff level employees contribute less than 6% of their gross compensation. Contributions by the Health Authority totaled \$276 for the year ended June 30, 2015.

(13) Other Postemployment Benefit (OPEB) Plans

(a) *County OPEB Plan*

Plan Description

The County maintains a cost-sharing multiple-employer defined benefit postemployment healthcare plan (OPEB Plan), which covers substantially all (excluding Central Fire, Housing Authority and Health 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 was a single-employer plan. The County's OPEB Plan provides healthcare benefits to eligible County (excluding Central Fire, Housing Authority and Health Authority) employees and their surviving spouses. Central Fire, Housing Authority and Health 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 and mostly on or before September 30, 2013, the eligibility requirements were increased to a minimum of ten years of service after attaining age 50. For a majority of the employees hired beginning in August 2013 (mostly on and after

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(13) Other Postemployment Benefit (OPEB) Plans (Continued)

September 30, 2013), the eligibility requirements were increased to a minimum of fifteen years of service and attaining age 50. For all of the above, employees must retire from PERS directly from the County.

The County, Central Fire, Housing Authority, and Health Authority participate 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 95811. A separate report for the County's plan in CERBT is not available.

Funding Policy

Since fiscal year 2005 through 2013, due to budgetary constraints, the County has not been funding the OPEB at the Annual Required Contribution (ARC) level determined in the annual actuarial valuation. In August 2013, the County adopted an ordinance that incrementally increases the OPEB contributions with the goal of funding 100% of the ARC by fiscal year 2018. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The contribution requirements of plan members are in accordance with the provision in the member's respective representation unit labor contract. County contributions to OPEB may be amended by the Board.

The ARC rate for the fiscal year 2015 calculated in the June 30, 2014 actuarial valuation is 11.55%. In fiscal year 2015, County contributed a total of \$169,180 towards OPEB. This amount included \$76,597 payments towards retiree benefit costs and \$92,583 deposits into the CERBT funded by \$81,472 from the County Retiree Medical Trust Fund, a one time contribution from the County of \$6,292, and \$4,819 contributed by County employees.

Annual required contribution	\$ 178,899
Interest on net OPEB obligation	15,401
Adjustment to annual required contribution	<u>(11,923)</u>
Annual OPEB cost	182,377
Contributions made	<u>(169,180)</u>
Change in net OPEB obligation	13,197
Net OPEB obligation, beginning of year	236,891
Net OPEB obligation, end of year	<u><u>\$ 250,088</u></u>

Annual OPEB Cost

The required contributions were determined as part of the June 30, 2014 actuarial valuation. Three year trend information for the County (excluding Central Fire, Housing Authority and Health Authority) is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	\$ 182,377	92.8%	\$ 250,088
6/30/2014	181,297	125.7%	236,891
6/30/2013	175,061	57.0%	283,487

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(13) Other Postemployment Benefit (OPEB) Plans (Continued)

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.

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>	<u>Method/Assumption</u>
Valuation date	June 30, 2014	June 30, 2015
Actuarial cost method	Entry age normal; Level percent of salary	Entry age normal; Level percent of salary
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, 2014	30 years as of June 30, 2015
Actuarial asset valuation method	Market value	Market value
Investment rate of return	6.45% *	6.72% *
Price inflation	2.75%	2.75%
Wage inflation	3.00%	3.00%
Projected payroll increases	Increase of 3.30% to 16.90% depending on age, service and type of employment.	Increase of 3.30% to 16.90% depending on age, service and type of employment.
Healthcare cost trend rate: Medical	7.00% applied to 2014-2015 plan year premiums to calculate 2015-2016 plan year premiums, then 6.75% and graded down by 0.25% per year until 5.00% ultimate rate is reached.	6.75% applied to 2015-2016 plan year premiums to calculate 2016-2017 plan year premiums, then 6.50% and graded down by 0.25% per year until 5.00% ultimate rate is reached.

* 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.

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 at 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 for all County's OPEB plans 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(13) Other Postemployment Benefit (OPEB) Plans (Continued)

As of June 30, 2015, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 2,150,410
Actuarial value of plan assets	<u>620,275</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 1,530,135</u></u>
Funded ratio (actuarial value of plan assests/AAL)	28.8%
Covered payroll (active plan members)	\$ 1,434,228
UAAL as a percentage of covered payroll	106.7%

The schedules 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.

(b) Santa Clara County Central Fire Protection District OPEB Plan

Plan Description

The Central Fire maintains a separate OPEB plan from the County. Under this plan, Central Fire provides for lifetime medical coverage to retirees who meet eligibility requirements. Currently, employees who retire directly from the Central Fire, have accrued seven years of service and were hired between January 1, 1995 and December 31, 2006, inclusive, or retire directly from the Central Fire, have accrued 10 years of service and were hired after December 31, 2006 are eligible. The Central Fire also provides lifetime medical insurance to retirees 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.

Funding Policy and Annual OPEB Cost

Central Fire began prefunding with the CERBT in 2011/2012. The Central Fire's annual required contribution for the year 2014-15 is determined based on the June 30, 2013 actuarial valuation. The table below summarizes the position of the Central Fire's OPEB plan for the fiscal year ended June 30, 2015.

Annual required contribution	\$ 6,442
Interest on beginning net OPEB obligation	2,817
Amortization of net OPEB obligation	<u>(2,422)</u>
Annual OPEB cost	6,837
Contributions made	<u>(5,354)</u>
Change in net OPEB obligation	1,483
Net OPEB obligation, beginning of year	<u>40,236</u>
Net OPEB obligation, end of year	<u><u>\$ 41,719</u></u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(13) Other Postemployment Benefit (OPEB) Plans (Continued)

The following table represents 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
6/30/2015	\$ 6,837	78%	\$ 41,719
6/30/2014	6,527	69%	40,236
6/30/2013	6,531	58%	38,222

Actuarial Methods and Assumptions

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 at 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 the long-term perspective of the calculations.

A summary of the actuarial assumptions and methods used to calculate the annual required contribution for the year ended June 30, 2015 and the most recent funding status as of June 30, 2015 is as follows:

	June 30, 2013	June 30, 2015
Valuation date	June 30, 2013	June 30, 2015
Purpose	Fiscal year 2015 annual required contribution	Most recent funding status
Actuarial cost method	Projected unit credit Level percentage of payroll over a static 30 years beginning 2011/2012	Entry age normal actuarial cost
Remaining amortization period	27 years as of July 1, 2013	25 years as of July 1, 2015
Investment return	7.00%	7.00%
Projected salary increases	3.00% per year	3.00% per year
Inflation rate	3.00% per year	3.00% per year
Initial healthcare cost trend	Self funded medical 7.25%, Self-funded drug 5.75%, Kaiser 8.50%	Initially between 4.75% and 7.50%, and each grade down to an ultimate rate of 4.00% by fiscal year 2022/2024
Ultimate healthcare cost trend	4.50%	4.00%

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2015
(Dollars in thousands)

(13) Other Postemployment Benefit (OPEB) Plans (Continued)

Funding Status and Funding Progress

As of June 30, 2015, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$	90,960
Actuarial value of plan assets		<u>13,283</u>
Unfunded actuarial accrued liability (UAAL)	\$	<u>77,677</u>
Funded ratio (actuarial value of plan assets/AAL)		14.6%
Annual covered payroll	\$	37,354
UAAL as a percentage of annual covered payroll		207.9%

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, 2015. The report may be obtained by writing to the Santa Clara County Central Fire Protection District at 14700 Winchester Boulevard, Los Gatos, California, 95032.

(c) Housing Authority OPEB Plan

Plan Description

The Housing Authority maintains a separate OPEB plan. The Housing Authority provides eligible employees with post-retirement medical healthcare benefits. Upon retirement, qualified employees and spouses/domestic partners are eligible for continued medical coverage up to the Employer Coverage Cap in effect on the date of the employee's retirement. Medical provider at the time of retirement will be the same medical provider during the final year of employment unless the employee moves from the plan service area. In the event the employee moves out of the plan service area, a supplemental medical plan will be made available at that time. Participation in Part A and Part B of the Medicare plan available at the time of retirement is a requirement of the plan. The surviving spouse or domestic partner may continue to purchase medical coverage after the death of the retiree at the surviving spouse/partner's expense.

Funding Policy

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.

Annual OPEB Cost

For the year ended June 30, 2015, the Housing Authority's annual OPEB cost is actuarially determined in accordance with the parameters of GASB Statement No. 45, and based on the Housing Authority's most recent OPEB actuarial valuation that was performed as of July 1, 2013. In the Housing Authority's July 1, 2013 actuarial valuation, the entry age normal cost method was used.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(13) Other Postemployment Benefit (OPEB) Plans (Continued)

The following table shows the components of the Authority's annual OPEB cost for the year, the amount contributed to the plan, and changes in the Authority's net OPEB obligation (asset):

Annual required contribution	\$ 165
Interest on beginning net OPEB obligation	(16)
Amortization of net OPEB obligation	22
Annual OPEB cost	<u>171</u>
Contributions made	<u>(1,125)</u>
Change in net OPEB obligation (asset)	(954)
Net OPEB obligation (asset), beginning of year	<u>(245)</u>
Net OPEB obligation (asset), end of year	<u><u>\$ (1,199)</u></u>

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 (Asset)
6/30/2015	\$ 171	656.3%	\$ (1,199)
6/30/2014	185	232.4%	(245)
6/30/2013	186	100.0%	-

Funding Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 10,558
Actuarial value of plan assets	<u>8,507</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 2,051</u></u>
Funded ratio (actuarial value of plan assets/AAL)	80.6%
Annual covered payroll	\$ 9,393
UAAL as a percentage of annual covered payroll	21.8%

Actuarial Methods and Assumptions

A summary of the actuarial assumptions and methods used to calculate the annual required contribution for the year ended June 30, 2015 and the most recent funding status as of July 1, 2015 is as follows:

<u>Description</u>	<u>Method/Assumption</u>	<u>Method/Assumption</u>
Valuation date	July 1, 2013	July 1, 2015
Purpose	Fiscal year 2015 annual required contribution	Most recent funding status
Actuarial cost method	Entry age normal cost, level percent of pay	Entry age normal cost, level percent of pay
Asset valuation method	Market value of assets	Market value of assets
Long term return on assets	6.39%	6.73%
Discount rate	6.39%	6.73%
Salary increase	3.25% per year, used only to allocate the cost of benefits between service years	3.25% per year, used only to allocate the cost of benefits between service years
General inflation rate	3.00% per year	2.75% per year
Healthcare cost trend rate	Actual for 2014, 8.50% for 2015, reduced by decrements to an ultimate rate of 4.64% in year 2025 and later	8.00% for 2016, reduced by decrements to an ultimate rate of 5.50% in year 2021 and later

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2015
(Dollars in thousands)

(13) Other Postemployment Benefit (OPEB) Plans (Continued)

(d) Health Authority OPEB Plan

Plan Description

The Health Authority also maintains a separate OPEB plan. The Health Authority must contribute the minimum required amount of \$5 or the ARC, whichever is lower. Retired employees who retire directly from the Health Authority are eligible to receive contributions from Santa Clara Family Health Plan toward their monthly Public Employees' Medical and Hospital Care Act if they meet certain age and service eligibility requirements as outlined in the plan document, and approved by the Board of Directors of the Health Authority. All employees who attain age 50 with a minimum of 5 years of PERS service and employed by the Health Authority at the time of retirement are eligible. Retirees are required to fund 10% of the cost of their monthly premiums.

Annual OPEB Cost and Actuarial Methods and Assumptions

For the year ended June 30, 2015, the Health Authority's annual OPEB cost equals to its ARC and based on the Health Authority's most recent OPEB actuarial valuation that was performed as of June 30, 2015. The actuarial cost method for determining the benefit obligation is the projected unit credit cost method. In the June 30, 2015 actuarial valuation, the assumed health care cost trend rates was 5.25% for 2015, graded to 4.50% for 2080 and beyond, and 6.00% graded to 4.50% for year 2083 and beyond for ages pre-65 and post-65, respectively. The discount rate was 6.50%. The Health Authority's unfunded actuarial accrued liability is being amortized over 30 years.

Three-year trend information for the Health Authority's OPEB plan is as follows:

Table with 4 columns: Fiscal Year Ended, Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed, Net OPEB Obligation. Rows for 6/30/2015, 6/30/2014, and 6/30/2013.

Funding Status and Funding Progress

As of June 30, 2015, the most recent actuarial valuation date, the plan was 52.1% funded. The actuarial accrued liability for benefits was \$8,999 and the actuarial value of assets was \$4,692, resulting in an unfunded actuarial liability of \$4,307.

Details of the Health Authority's OPEB plan may be found in its financial report for the fiscal year ended June 30, 2014. The report may be obtained by writing to the Health Authority at 210 E. Hacienda Avenue, Campbell, CA 95008.

(14) 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(14) Risk Management (Continued)

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	\$33,000
Medical Malpractice	Up to \$500	\$1,500 per occurrence	\$20,000 \$50,000 annual aggregate \$33,000 excess insurance
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 \$1,200,000 ⁽³⁾
Flood	Up to \$100 (This is deductible)		Up to 1,090,000 ⁽⁴⁾
Earthquake	5% of insurable value per occurrence \$100 minimum deductible per occurrence		Up to \$690,000 ⁽⁵⁾
Cyber Liability ⁽⁶⁾	Up to \$100		\$250 to \$2,000 \$20,000 annual aggregate
Airport	None		\$30,000
Crime Bond	Up to \$25		\$15,000
Pollution	Up to \$250		\$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 \$300,000 each for a total of \$1,200,000.
- (4) Insured values are split between 3 schedules with limits of \$300,000 each for a total of \$1,090,000.
- (5) Insured values are split between 3 schedules with limits of \$100,000 per tower shared with all other members in towers II, III and IV, plus a rooftop of \$390,000 shared with all member in towers I, II, III, IV and V for a total of \$690,000.
- (6) \$50 per claim for each member with total insurable value up to \$500 at the time of loss.
\$100 per claim for each member with total insurable value greater than \$500 at the time of loss.

There have been no settlement amounts exceeding commercial or Insurance Authority insurance coverage since self-insurance was introduced in 1978. It is the County's practice to obtain full actuarial studies annually for the self-insured automobile liability, general liability, medical malpractice, and workers' compensation liability issues. The unpaid claims liabilities included in the self-insurance internal service funds for these risks are based on the results of actuarial studies and include amounts for claims incurred but not reported and loss adjustment expenses. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(14) Risk Management (Continued)

The County computes its claims liability based on the expected value discounted at 1.0% for Property, General and Automobile Liability claims, 2.0% for Malpractice claims and 2.0% 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>2015</u>	<u>2014</u>
Unpaid claims, beginning of year	\$ 141,869	\$ 117,932
Incurred claims and changes in estimate	62,285	74,880
Claim payments	<u>(56,339)</u>	<u>(50,943)</u>
Unpaid claims, end of year	<u>\$ 147,815</u>	<u>\$ 141,869</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 self-insurance internal service funds totaled \$14,465 for the fiscal year ended June 30, 2015.

(15) 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 ended June 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
2016	\$ 35,066	\$ 5,915	\$ 40,981
2017	36,085	6,054	42,139
2018	37,205	6,204	43,409
2019	38,272	6,358	44,630
2020	39,455	6,517	45,972
2021-2025	195,403	32,600	228,003
2026-2030	205,251	34,230	239,481
2031-2035	<u>214,844</u>	<u>35,942</u>	<u>250,786</u>
Total	<u>\$ 801,581</u>	<u>\$ 133,820</u>	<u>\$ 935,401</u>

Rent expense for fiscal year 2015 was approximately \$38,747 and \$7,218 for the governmental activities and business-type activities, respectively.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2015
 (Dollars in thousands)

(15) Commitments and Contingencies (Continued)

The County has entered into operating leases as lessor on various properties with businesses 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
2016	\$ 3,967	\$ 362	\$ 4,329
2017	3,728	102	3,830
2018	3,733	105	3,838
2019	3,803	108	3,911
2020	3,851	112	3,963
2021-2025	19,857	406	20,263
2026-2030	21,501	-	21,501
2031-2035	20,748	-	20,748
Total	\$ 81,188	\$ 1,195	\$ 82,383

At June 30, 2015, the leased assets had a net book value of \$18,363. Rent income for fiscal year 2015 was approximately \$7,922 and \$2,350 for the governmental activities and business-type activities, respectively.

The County has entered into various service concession arrangements with governmental and nongovernmental entities (operators) to provide services to the public. Rental incomes received from these service concessions arrangements are included in the above table.

As part of service concession arrangements, County facilities were conveyed to the operators to provide services related to the primary function of the facility. The operators agreed to operate and maintain the County's facilities and collect the related fees during the term of the agreements. The operators agreed to pay the County a certain percentage of revenues they collected and/or pay installment payments to the County. Some operators also agreed to construct new facilities or improve existing facilities. The County reported the new facilities or the improvements as capital assets at fair value when it is placed in operations.

The County has no contractual obligation related to the facilities or obligations related to the maintenance of a minimum level of the service in connection with the operations of the facilities. In accordance with GASB Statement No. 60, the County recognized the present value of the future installment payments as a receivable, the fair value of newly constructed facilities or improvements as capital assets, and offset the balances with deferred inflows of resources. The capital assets are depreciated using the straight-line method based on the useful lives in accordance with the County's capital asset policy. Revenues are recognized over the term of the arrangements. At June 30, 2015, the governmental activities reported total deferred inflows of resources for the service concession arrangements of \$13,741, of which \$6,490 is related to the receivables and \$7,251 is related to the capital assets.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(15) Commitments and Contingencies (Continued)

(b) *Litigation*

The County accounts for claims in the internal service funds and the General Fund. As of June 30, 2015, 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) *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 properties. SCVMC estimates the total remediation cost to make its facilities SB 1953-compliant will be approximately \$1.4 billion.

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

In fiscal year 2009, after authorization at an election of the County voters on November 4, 2008, the County issued General Obligation Bonds Series 2009 A and 2013 B in May 2009 and March 2013, respectively. The proceeds from the sale in the amount of \$350,000 and \$490,000 for Series 2009 A and 2013 B, respectively, were transferred to the SCVMC and are restricted to meeting the seismic requirements of SB 1953.

(d) *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, 2015, the outstanding balance of these bonds was \$25,155. Single family mortgage revenue bonds were issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing residences. The purpose of this program is to provide below market interest rate home mortgages to persons who are unable to qualify for conventional mortgages at market rates. Multiple family mortgage revenue bonds were issued to provide financing to developers of specified multiple family housing projects. These developers agree to rent a percentage of units to qualified families at below market rates. The bonds are not considered obligations of the County and are payable solely from payments made on the related secured mortgage loans.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(15) Commitments and Contingencies (Continued)

(e) 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).

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, 2015, the total outstanding balances of these conduit bonds were \$128,025.

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, 2015, 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.

(f) 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, 2015, encumbrances totaled to \$3,397, \$15,125, and \$10,687 for the General Fund, Special Revenue Funds, and Capital Projects Funds, respectively.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2015

(Dollars in thousands)

(16) Pollution Remediation

The Almaden Quicksilver County Park (Park) was established in the mid-1970s after the purchase of various properties in the Almaden foothills. From the mid 1800's to 1975, numerous companies that owned these properties extracted mercury from portions of these properties. 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 to allowable levels for human exposure. 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. At this point in time, one of the projects concerning Jacques Gulch was completed but the second one for the Hacienda Deep Gulch cleanup is in the design and permitting stage and will not be done until 2016.

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 (TMDL) 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 concluded the required evaluation for erosion potential of mercury mining waste. As of June 30, 2015, it is estimated that approximately \$6,530 will be spent during the next five years to repair and remediate damaged areas. Further repair costs may be necessary, but such amounts cannot be estimated nor has funding been identified at this time.

(17) Subsequent Events

2007 Silicon Valley Tobacco Securitization Authority Tobacco Settlement Asset-Backed Bonds - On August 11, 2015, Fitch Ratings lowered the ratings on the Series 2007B maturing June 1, 2047 from B+ to B.

New Clean Renewable Energy Bonds - On October 20, 2015, the County entered into a taxable New Clean Renewable Energy Bond (NCREB) equipment lease/purchase agreement with Banc of America Leasing & Capital LLC to provide financing of \$33.0 million for solar photovoltaic systems at six County locations - Guadalupe Parkway, Hellyer Landfill, Reid Hillview Airport, San Martin Airport, Holden Ranch and Malech Road. The interest rate on the financing is 3.87% with payments commencing on October 1, 2016 and ending on October 1, 2030.

**Required Supplementary
Information**

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COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Schedule of Changes in Net Pension Liability and Related Ratios

During the Measurement Period

(In thousands)

	County Miscellaneous Plan	County Safety Plan	Central Fire Safety Plan	Housing Authority Miscellaneous Plan
Measurement period (2)	2013-14	2013-14	2013-14	2013-14
Total pension liability				
Service cost	\$ 194,389	\$ 51,470	\$ 8,571	\$ 1,413
Interest	576,809	169,583	34,357	3,357
Benefit payments, including refunds of employee contributions	<u>(334,427)</u>	<u>(110,678)</u>	<u>(23,106)</u>	<u>(2,065)</u>
Net change in total pension liability	436,771	110,375	19,822	2,705
Total pension liability, beginning	<u>7,760,812</u>	<u>2,290,704</u>	<u>465,364</u>	<u>45,081</u>
Total pension liability, ending	<u>\$ 8,197,583</u>	<u>\$ 2,401,079</u>	<u>\$ 485,186</u>	<u>\$ 47,786</u>
Plan fiduciary net position				
Contributions, employer	180,535	58,722	10,233	825
Contributions, employee	96,868	22,482	3,886	670
Net investment income (1)	944,377	272,598	55,532	8,433
Benefit payments, including refunds of employee contributions	<u>(334,427)</u>	<u>(110,678)</u>	<u>(23,106)</u>	<u>(2,065)</u>
Net change in plan fiduciary net position	887,353	243,124	46,545	7,863
Plan fiduciary net position, beginning	<u>5,444,900</u>	<u>1,576,385</u>	<u>322,265</u>	<u>48,728</u>
Plan fiduciary net position, ending	<u>\$ 6,332,253</u>	<u>\$ 1,819,509</u>	<u>\$ 368,810</u>	<u>\$ 56,591</u>
Plan net pension liability (asset)	<u>\$ 1,865,330</u>	<u>\$ 581,570</u>	<u>\$ 116,376</u>	<u>\$ (8,805)</u>
Plan fiduciary net position as a percentage of the total pension liability	77.25%	75.78%	76.01%	118.43%
Covered-employee payroll	\$ 1,143,056	\$ 182,993	\$ 31,131	\$ 9,370
Plan net liability (asset) as a percentage of covered-employee payroll	163.19%	317.81%	373.83%	-93.97%

Note to schedule:

(1) Net of administrative expenses.

(2) Historical information is required only for measurement periods for which GASB Statement No. 68 is applicable.

Benefit Changes - The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
 Schedule of the Cost Sharing Plans' Proportionate Share of Net Pension Liability
 During the Measurement Period
 (In thousands)

	Central Fire Miscellaneous Plan	Health Authority Miscellaneous Plan
Measurement period (2)	<u>2013-14</u>	<u>2013-14</u>
Plan's proportion of the net pension liability (NPL)	0.16073%	0.07849%
Plan's proportion share of the NPL	\$ 10,002	\$ 4,884
Plan's covered-employee payroll	\$ 5,636	\$ 8,850
Plan's proportionate share of the NPL as a percentage of its covered-employee payroll	177.47%	55.19%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability	83.03%	83.03%

Note to schedule:

(1) *Net of administrative expenses.*

(2) *Historical information is required only for measurement periods for which GASB Statement No. 68 is applicable.*

Benefit Changes - The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions - There are no changes in assumptions.

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Schedule of Pension Plans Contributions

June 30, 2015

(In thousands)

Fiscal Year Ended	County Miscellaneous Plan		County Safety Plan	
	2015	2014	2015	2014
Actuarially determined contributions (ADC)	\$ 199,434	\$ 180,526	\$ 60,086	\$ 58,722
Contributions in relation to the ADC	(199,434)	(180,526)	(60,086)	(58,722)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,231,509	\$ 1,143,056	\$ 222,524	\$ 182,993
Contributions as a percentage of covered-employee payroll	16.19%	15.79%	27.00%	32.09%

Fiscal Year Ended	Central Fire Miscellaneous Plan		Central Fire Safety Plan	
	2015	2014	2015	2014
Actuarially determined contributions (ADC)	\$ 1,363	\$ 1,275	\$ 11,046	\$ 10,233
Contributions in relation to the ADC	(1,363)	(1,275)	(11,046)	(10,233)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 5,625	\$ 5,636	\$ 31,992	\$ 31,131
Contributions as a percentage of covered-employee payroll	24.23%	22.62%	34.53%	32.87%

Fiscal Year Ended	Housing Authority Miscellaneous Plan		Health Authority Miscellaneous Plan	
	2015	2014	2015	2014
Actuarially determined contributions (ADC)	\$ 724	\$ 825	\$ 961	\$ 886
Contributions in relation to the ADC	(724)	(825)	(961)	(886)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 9,370	\$ 9,370	\$ 8,850	\$ 8,850
Contributions as a percentage of covered-employee payroll	7.73%	8.80%	10.86%	10.01%

See accompanying notes to the schedule of the pension plans contributions.

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Notes to the Schedule of Pension Plans Contributions

June 30, 2015

(In thousands)

The actuarial methods and assumptions used to set the actuarially determined contributions were as follows:

Actuarially determined contribution for fiscal year.....	June 30, 2015	June 30, 2014
Actuarial valuation date.....	June 30, 2012	June 30, 2011
Actuarial cost method.....	Entry age normal	Entry age normal
Asset valuation method.....	Actuarial value of assets	Actuarial value of assets
Inflation.....	2.75%	2.75%
Salary increases.....	Varies by entry age and service	Varies by entry age and service
Payroll growth.....	3.00%	3.00%
Investment rate of return.....	7.50%, net of pension plan investment and administrative expenses, includes inflation	7.50%, net of pension plan investment and administrative expenses, includes inflation
Retirement age.....	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period 1997 to 2007.	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period 1997 to 2007.
Mortality.....	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Schedules of Funding Progress – Other Postemployment Benefits
June 30, 2015
(Dollars in thousands)

County Other Postemployment Benefits:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2015	\$ 620,275	\$ 2,150,410	\$ 1,530,135	28.8%	\$ 1,434,228	106.7%
6/30/2014	560,257	2,430,157	1,869,900	23.1%	1,462,928	127.8%
6/30/2013	329,185	2,204,484	1,875,299	14.9%	1,401,851	133.8%

Santa Clara County Central Fire Protection District Other Postemployment Benefits:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2015	\$ 13,283	\$ 90,960	\$ 77,677	14.6%	\$ 37,354	207.9%
6/30/2013	7,296	84,335	77,039	8.7%	37,233	206.9%
6/30/2011	-	76,556	76,556	0.0%	36,847	207.8%

Housing Authority of the County of Santa Clara Other Postemployment Benefits:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
7/1/2015	\$ 8,507	\$ 10,558	\$ 2,051	80.6%	\$ 9,393	21.8%
7/1/2013	6,921	7,634	713	90.7%	8,970	7.9%
7/1/2011	6,976	7,189	213	97.0%	11,845	1.8%

Santa Clara County Health Authority Other Postemployment Benefits:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2015	\$ 4,692	\$ 8,999	\$ 4,307	52.1%	\$ 10,308	41.8%
6/30/2014	4,055	9,343	5,288	43.4%	9,586	55.2%
6/30/2013	3,085	6,705	3,620	46.0%	8,956	40.4%

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, 2015
(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	\$ 364,959	\$ 364,959	\$ 364,959	\$ -
Resources (inflows):				
Taxes	834,741	840,441	870,809	30,368
Licenses and permits	13,983	14,286	14,396	110
Fines, forfeitures, and penalties	43,373	53,302	58,620	5,318
Interest and investment income	8,530	8,642	10,941	2,299
Intergovernmental revenues	1,078,534	1,328,436	1,256,252	(72,184)
Charges for services	111,035	118,359	121,532	3,173
Other revenue	28,802	30,908	67,981	37,073
Other financing sources	4,496	4,496	16,244	11,748
Interfund transfers	319,081	339,414	73,120	(266,294)
Total resources (inflows) available for appropriation	<u>2,442,575</u>	<u>2,738,284</u>	<u>2,489,895</u>	<u>(248,389)</u>
Charges to appropriations (outflows):				
General government:				
Supervisorial District 1				
Salaries and benefits	1,234	1,237	1,108	129
Services and supplies	94	94	32	62
Total Supervisorial District 1	<u>1,328</u>	<u>1,331</u>	<u>1,140</u>	<u>191</u>
Supervisorial District 2				
Salaries and benefits	1,240	1,243	1,164	79
Services and supplies	88	88	39	49
Total Supervisorial District 2	<u>1,328</u>	<u>1,331</u>	<u>1,203</u>	<u>128</u>
Supervisorial District 3				
Salaries and benefits	1,234	1,258	1,244	14
Services and supplies	103	82	56	26
Total Supervisorial District 3	<u>1,337</u>	<u>1,340</u>	<u>1,300</u>	<u>40</u>
Supervisorial District 4				
Salaries and benefits	1,234	1,237	1,035	202
Services and supplies	94	94	38	56
Total Supervisorial District 4	<u>1,328</u>	<u>1,331</u>	<u>1,073</u>	<u>258</u>
Supervisorial District 5				
Salaries and benefits	1,240	1,193	1,191	2
Services and supplies	102	152	110	42
Total Supervisorial District 5	<u>1,342</u>	<u>1,345</u>	<u>1,301</u>	<u>44</u>
Clerk - Board of Supervisors				
Salaries and benefits	3,511	3,610	3,514	96
Services and supplies	3,656	3,528	2,490	1,038
Capital outlay	-	87	86	1
Expenditure reimbursements	(112)	(112)	(53)	(59)
Total Clerk - Board of Supervisors	<u>7,055</u>	<u>7,113</u>	<u>6,037</u>	<u>1,076</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2015
(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	\$ 15,155	\$ 15,805	\$ 14,934	\$ 871
Services and supplies	15,522	23,196	14,975	8,221
Expenditure reimbursements	(524)	(743)	(606)	(137)
Total Office of the County Executive	<u>30,153</u>	<u>38,258</u>	<u>29,303</u>	<u>8,955</u>
Controller-Treasurer				
Salaries and benefits	14,385	14,734	13,673	1,061
Services and supplies	21,392	30,265	28,908	1,357
Expenditure reimbursements	(43,946)	(43,946)	(43,588)	(358)
Interfund transfers	-	1,182	1,182	-
Total Controller-Treasurer	<u>(8,169)</u>	<u>2,235</u>	<u>175</u>	<u>2,060</u>
Tax Collector				
Salaries and benefits	6,514	6,298	5,956	342
Services and supplies	4,914	4,865	7,085	(2,220)
Capital outlay	-	10	10	-
Total Tax Collector	<u>11,428</u>	<u>11,173</u>	<u>13,051</u>	<u>(1,878)</u>
Office of the Assessor				
Salaries and benefits	32,541	32,926	31,085	1,841
Services and supplies	3,060	5,177	3,278	1,899
Total Office of the Assessor	<u>35,601</u>	<u>38,103</u>	<u>34,363</u>	<u>3,740</u>
Purchasing				
Salaries and benefits	6,295	6,315	5,673	642
Services and supplies	8,310	8,244	3,549	4,695
Expenditure reimbursements	(602)	(602)	(603)	1
Total Purchasing	<u>14,003</u>	<u>13,957</u>	<u>8,619</u>	<u>5,338</u>
Office of Budget and Analysis - Special Programs				
Services and supplies	4,740	16,830	2,856	13,974
Interfund transfers	154,058	99,588	79,305	20,283
Total Office of Budget and Analysis - Special Programs	<u>158,798</u>	<u>116,418</u>	<u>82,161</u>	<u>34,257</u>
Office of the County Counsel				
Salaries and benefits	26,989	27,138	26,038	1,100
Services and supplies	8,228	9,550	8,842	708
Expenditure reimbursements	(20,530)	(20,677)	(20,578)	(99)
Total Office of the County Counsel	<u>14,687</u>	<u>16,011</u>	<u>14,302</u>	<u>1,709</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2015
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
General government (continued):				
Personnel				
Salaries and benefits	\$ 19,846	\$ 19,936	\$ 19,691	\$ 245
Services and supplies	7,186	7,208	6,200	1,008
Expenditure reimbursements	(9,434)	(9,469)	(9,165)	(304)
Interfund transfers	-	72	72	-
Total Personnel	<u>17,598</u>	<u>17,747</u>	<u>16,798</u>	<u>949</u>
Registrar of Voters				
Salaries and benefits	8,228	8,470	8,012	458
Services and supplies	6,472	6,662	6,554	108
Capital outlay	-	26	26	-
Total Registrar of Voters	<u>14,700</u>	<u>15,158</u>	<u>14,592</u>	<u>566</u>
Information Services				
Salaries and benefits	799	976	838	138
Services and supplies	38,495	36,715	26,421	10,294
Capital outlay	413	1,934	1,245	689
Expenditure reimbursements	(1,448)	(1,448)	(1,574)	126
Interfund transfers	558	558	-	558
Total Information Services	<u>38,817</u>	<u>38,735</u>	<u>26,930</u>	<u>11,805</u>
Department of Revenue				
Salaries and benefits	9,021	9,081	8,458	623
Services and supplies	1,788	1,813	1,414	399
Total Department of Revenue	<u>10,809</u>	<u>10,894</u>	<u>9,872</u>	<u>1,022</u>
Communication				
Salaries and benefits	15,466	15,421	14,360	1,061
Services and supplies	6,418	8,639	6,018	2,621
Expenditure reimbursements	(6,743)	(8,811)	(7,061)	(1,750)
Total Communication	<u>15,141</u>	<u>15,249</u>	<u>13,317</u>	<u>1,932</u>
Department of Planning & Development				
Salaries and benefits	12,161	12,203	11,043	1,160
Services and supplies	3,603	3,872	2,081	1,791
Capital outlay	-	25	9	16
Expenditure reimbursements	(372)	(372)	(239)	(133)
Total Department of Planning & Development	<u>15,392</u>	<u>15,728</u>	<u>12,894</u>	<u>2,834</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2015
(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	\$ 28,093	\$ 27,095	\$ 27,032	\$ 63
Services and supplies	69,543	72,174	70,461	1,713
Capital outlay	-	7,927	7,883	44
Expenditure reimbursements	(48,312)	(48,040)	(47,464)	(576)
Interfund transfers	23,896	26,419	24,994	1,425
Total Facilities and Fleet Department	<u>73,220</u>	<u>85,575</u>	<u>82,906</u>	<u>2,669</u>
General government - subtotals:				
Salaries and benefits	205,186	206,176	196,049	10,127
Services and supplies	203,808	239,248	191,406	47,842
Capital outlay	413	10,009	9,259	750
Expenditure reimbursements	(132,023)	(134,220)	(130,931)	(3,289)
Interfund transfers	178,512	127,819	105,553	22,266
Total general government	<u>455,896</u>	<u>449,032</u>	<u>371,336</u>	<u>77,696</u>
Public protection:				
Clerk Recorder				
Salaries and benefits	5,918	5,942	5,664	278
Services and supplies	812	846	692	154
Total Clerk Recorder	<u>6,730</u>	<u>6,788</u>	<u>6,356</u>	<u>432</u>
District Attorney				
Salaries and benefits	94,474	96,175	96,172	3
Services and supplies	19,822	21,325	18,977	2,348
Capital outlay	155	288	270	18
Expenditure reimbursements	(9,217)	(9,845)	(9,735)	(110)
Total District Attorney	<u>105,234</u>	<u>107,943</u>	<u>105,684</u>	<u>2,259</u>
Public Defender				
Salaries and benefits	49,246	49,341	49,340	1
Services and supplies	6,682	7,245	5,031	2,214
Capital outlay	-	14	14	-
Expenditure reimbursements	(257)	(257)	(257)	-
Total Public Defender	<u>55,671</u>	<u>56,343</u>	<u>54,128</u>	<u>2,215</u>
Pretrial Services				
Salaries and benefits	5,137	5,239	5,193	46
Services and supplies	1,130	928	653	275
Expenditure reimbursements	(277)	(277)	(230)	(47)
Total Pretrial Services	<u>5,990</u>	<u>5,890</u>	<u>5,616</u>	<u>274</u>
Criminal Justice Support				
Services and supplies	42,453	44,505	44,378	127
Interfund transfers	-	194	195	(1)
Total Criminal Justice Support	<u>42,453</u>	<u>44,699</u>	<u>44,573</u>	<u>126</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2015
(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	\$ 120,456	\$ 122,061	\$ 120,132	\$ 1,929
Services and supplies	19,541	21,352	19,497	1,855
Capital outlay	247	285	285	-
Expenditure reimbursements	(7,494)	(7,999)	(5,815)	(2,184)
Total Sheriff Administration	<u>132,750</u>	<u>135,699</u>	<u>134,099</u>	<u>1,600</u>
Sheriff - Department of Correction Services				
Salaries and benefits	123,417	128,531	128,525	6
Department of Correction				
Salaries and benefits	32,574	31,883	31,881	2
Services and supplies	48,592	47,775	47,625	150
Capital outlay	197	230	226	4
Expenditure reimbursements	(169)	(169)	(242)	73
Total Department of Correction	<u>81,194</u>	<u>79,719</u>	<u>79,490</u>	<u>229</u>
Probation Department				
Salaries and benefits	129,833	130,427	130,334	93
Services and supplies	24,450	24,821	17,028	7,793
Expenditure reimbursements	(405)	(405)	(263)	(142)
Total Probation Department	<u>153,878</u>	<u>154,843</u>	<u>147,099</u>	<u>7,744</u>
Department of Agriculture/Weights & Measures/ Animal Control				
Salaries and benefits	9,329	9,372	9,288	84
Services and supplies	3,028	2,913	2,641	272
Capital outlay	250	-	-	-
Interfund transfers	261	611	513	98
Expenditure reimbursements	(3,290)	(3,385)	(2,915)	(470)
Total Department of Agriculture/ Weights & Measures/Animal Control	<u>9,578</u>	<u>9,511</u>	<u>9,527</u>	<u>(16)</u>
Medical Examiner - Coroner				
Salaries and benefits	3,345	3,426	3,336	90
Services and supplies	675	852	850	2
Capital outlay	-	87	86	1
Total Medical Examiner - Coroner	<u>4,020</u>	<u>4,365</u>	<u>4,272</u>	<u>93</u>
Public protection - subtotals:				
Salaries and benefits	573,729	582,397	579,865	2,532
Services and supplies	167,185	172,562	157,372	15,190
Capital outlay	849	904	881	23
Interfund transfers	261	805	708	97
Expenditure reimbursements	(21,109)	(22,337)	(19,457)	(2,880)
Total public protection	<u>720,915</u>	<u>734,331</u>	<u>719,369</u>	<u>14,962</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2015
(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	\$ 3,432	\$ 3,432	\$ 247	\$ 3,185
Interfund transfers	631	631	180	451
Total Measure B	<u>4,063</u>	<u>4,063</u>	<u>427</u>	<u>3,636</u>
Health and sanitation:				
Health Services Administration				
Salaries and benefits	59,153	59,617	58,111	1,506
Services and supplies	34,744	34,619	31,079	3,540
Capital outlay	-	227	208	19
Interfund transfers	-	152	-	152
Expenditure reimbursements	<u>(2,472)</u>	<u>(2,687)</u>	<u>(2,928)</u>	<u>241</u>
Total Health Services Administration	<u>91,425</u>	<u>91,928</u>	<u>86,470</u>	<u>5,458</u>
Mental Health Bureau				
Salaries and benefits	54,931	54,567	50,312	4,255
Services and supplies	295,013	317,668	283,335	34,333
Capital outlay	-	1,980	1,979	1
Interfund transfers	277	3,069	3,069	-
Expenditure reimbursements	<u>(5,080)</u>	<u>(6,592)</u>	<u>(5,681)</u>	<u>(911)</u>
Total Mental Health Bureau	<u>345,141</u>	<u>370,692</u>	<u>333,014</u>	<u>37,678</u>
Custody Health Services				
Salaries and benefits	36,630	38,000	38,000	-
Services and supplies	14,712	14,408	14,387	21
Capital outlay	552	552	251	301
Expenditure reimbursements	<u>(46,059)</u>	<u>(46,059)</u>	<u>(45,963)</u>	<u>(96)</u>
Total Custody Health Services	<u>5,835</u>	<u>6,901</u>	<u>6,675</u>	<u>226</u>
Bureau of Alcohol & Drug Programs				
Salaries and benefits	21,128	21,274	19,851	1,423
Services and supplies	33,159	33,884	29,826	4,058
Capital outlay	-	56	50	6
Expenditure reimbursements	<u>(2,898)</u>	<u>(2,973)</u>	<u>(2,033)</u>	<u>(940)</u>
Total Bureau of Alcohol & Drug Programs	<u>51,389</u>	<u>52,241</u>	<u>47,694</u>	<u>4,547</u>
Community Outreach Program				
Salaries and benefits	12,304	12,349	11,347	1,002
Services and supplies	7,572	7,547	6,353	1,194
Expenditure reimbursements	<u>(1,796)</u>	<u>(1,796)</u>	<u>(1,097)</u>	<u>(699)</u>
Total Community Outreach Program	<u>18,080</u>	<u>18,100</u>	<u>16,603</u>	<u>1,497</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2015
(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	\$ 7,500	\$ 7,500	\$ 3,655	\$ 3,845
Health and sanitation - subtotals:				
Salaries and benefits	184,146	185,807	177,621	8,186
Services and supplies	392,700	415,626	368,635	46,991
Capital outlay	552	2,815	2,488	327
Interfund transfers	277	3,221	3,069	152
Expenditure reimbursements	(58,305)	(60,107)	(57,702)	(2,405)
Total health and sanitation	<u>519,370</u>	<u>547,362</u>	<u>494,111</u>	<u>53,251</u>
Public assistance:				
In-House Support Services				
Services and supplies	<u>134,752</u>	<u>135,780</u>	<u>135,410</u>	<u>370</u>
Office of Affordable Housing				
Salaries and benefits	900	998	869	129
Services and supplies	2,414	8,102	5,510	2,592
Expenditure reimbursements	<u>(1,030)</u>	<u>(1,125)</u>	<u>(946)</u>	<u>(179)</u>
Total Office of Affordable Housing	<u>2,284</u>	<u>7,975</u>	<u>5,433</u>	<u>2,542</u>
Social Services Administration				
Salaries and benefits	306,243	311,449	302,535	8,914
Services and supplies	125,360	131,376	118,736	12,640
Capital outlay	-	592	577	15
Expenditure reimbursements	<u>(605)</u>	<u>(605)</u>	<u>(112)</u>	<u>(493)</u>
Total Social Services Administration	<u>430,998</u>	<u>442,812</u>	<u>421,736</u>	<u>21,076</u>
Nutrition Services to the Aged				
Salaries and benefits	1,115	1,138	1,111	27
Services and supplies	<u>7,374</u>	<u>7,794</u>	<u>7,591</u>	<u>203</u>
Total Nutrition Services to the Aged	<u>8,489</u>	<u>8,932</u>	<u>8,702</u>	<u>230</u>
Categorical Aids Payments				
Services and supplies	<u>188,344</u>	<u>190,027</u>	<u>165,870</u>	<u>24,157</u>
Public assistance - subtotals:				
Salaries and benefits	308,258	313,585	304,515	9,070
Services and supplies	458,244	473,079	433,117	39,962
Capital outlay	-	592	577	15
Expenditure reimbursements	<u>(1,635)</u>	<u>(1,730)</u>	<u>(1,058)</u>	<u>(672)</u>
Total public assistance	<u>764,867</u>	<u>785,526</u>	<u>737,151</u>	<u>48,375</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2015
(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	\$ 21,413	\$ 21,413	\$ 10,021	\$ 11,392
Interest and fiscal charges	1,482	1,482	11,036	(9,554)
Interfund transfers	1,272	1,525	252	1,273
Total debt service	<u>24,167</u>	<u>24,420</u>	<u>21,309</u>	<u>3,111</u>
Reserves:				
OMB Special Programs				
General government	39,474	30,835	-	30,835
Personnel				
General government	1,800	1,728	-	1,728
Criminal Justice Support				
Public protection	4,007	2,649	-	2,649
Bureau of Alcohol & Drug Programs				
Health and sanitation	4,911	438	-	438
Social Services Administration				
Public assistance	2,197	10,711	-	10,711
Nutrition Services to the Aged				
Public assistance	337	279	-	279
Appropriation Contingencies				
Total Appropriation Contingencies	<u>113,126</u>	<u>179,241</u>	<u>-</u>	<u>179,241</u>
Total reserves	<u>165,852</u>	<u>225,881</u>	<u>-</u>	<u>225,881</u>
Total charges to appropriations	<u>2,655,130</u>	<u>2,770,615</u>	<u>2,343,703</u>	<u>426,912</u>
Budgetary fund balances, end of year	<u>\$ 152,404</u>	<u>\$ 332,628</u>	<u>\$ 511,151</u>	<u>\$ 178,523</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2015
(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	\$ 2,489,895
Differences - budget to GAAP:	
Proceeds from sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes	(16,244)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(73,120)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u><u>\$ 2,400,531</u></u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,343,703
Differences - budget to GAAP:	
Encumbrances for services and supplies ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year services are incurred or goods received for financial reporting purposes	(3,397)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(109,762)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u><u>\$ 2,230,544</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, 2015
(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 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 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 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 re-appropriated 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 re-appropriated 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, 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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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 (County), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the County’s basic financial statements, and have issued our report thereon dated December 31, 2015, except for our report on the schedule of expenditures of federal awards, as to which the date is March 30, 2016.

Our report includes a reference to other auditors who audited the financial statements of the FIRST 5 Santa Clara County; the Santa Clara County Health Authority; the County Sanitation District 2 – 3 of Santa Clara County; the Santa Clara County Vector Control District; 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. The financial statements of the Santa Clara County Tobacco Securitization Corporation and the South Santa Clara County Fire District were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the County’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, slightly slanted style.

Walnut Creek, California
December 31, 2015



Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

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

Report on Compliance for Each Major Federal Program

We have audited the County of Santa Clara's, California (County) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2015. 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.

The County's basic financial statements include the operations of the Housing Authority of the County of Santa Clara (Housing Authority), which expended \$227,584,824 in federal awards, which is not included in the schedule of expenditures of federal awards, during the year ended June 30, 2015. Our audit, described below, did not include the operations of the Housing Authority because we were engaged to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), and report on the results separately to the Housing Authority.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Basis for Qualified Opinion on the Temporary Assistance for Needy Families Program (CFDA No. 93.558)

As described in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding the Temporary Assistance for Needy Families Program (CFDA No. 93.558) as described in finding number 2015-001 for Special Tests & Provisions – Child Support Non-Cooperation. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified Opinion on the Temporary Assistance for Needy Families Program (CFDA No. 93.558)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Temporary Assistance for Needy Families Program (CFDA No. 93.558) for the year ended June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-002 and 2015-003. Our opinion on each major federal program is not modified with respect to these matters.

The County’s response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. The County’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 the County’s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 item 2015-001 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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-002 and 2015-003 to be significant deficiencies.

The County's response to the internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
March 30, 2016

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COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2015

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	None	\$ 30,616,628
<u>Passed Through State Department of Public Health</u>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	11-10454	\$ 908,825
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	14-10242	3,580,692
Subtotal Special Supplemental Nutrition Program for Women, Infants, and Children			4,489,517
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	None	426,407
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	13-20507	546,040
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	13-20507	1,230,458
Subtotal State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			2,202,905
Subtotal Passed Through State Department of Public Health			6,692,422
<u>Passed Through State Department of Education</u>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	43-10439-6066435-01	102,398
National School Lunch Program	10.555	43-10439-6066435-01	155,518
Subtotal of Child Nutrition Cluster			257,916
Total U.S. Department of Agriculture			37,566,966
U.S. Department of Housing and Urban Development			
<u>Direct Programs</u>			
Community Development Block Grants/Entitlement Grants	14.218	--	2,179,076
Supportive Housing Program	14.235	--	961,111
Home Investment Partnerships Program	14.239	--	902,241
Total U.S. Department of Housing and Urban Development			4,042,428
U.S. Department of Interior			
<u>Direct Programs</u>			
Central Valley Project Improvement Act, Title XXXIV	15.512	--	235,593
Central Valley Project Improvement (CVPI) Anadromous Fish Restoration Program (AFRP)	15.648	--	179,564
Subtotal Direct Programs			415,157
Total U.S. Department of Interior			415,157
U.S. Department of Justice			
<u>Direct Programs</u>			
State Criminal Alien Assistance Program	16.606	--	537,974
Public Safety Partnership and Community Policing Grants	16.710	--	36,876
Edward Byrne Memorial Justice Assistance Grant Program	16.738	--	13,950
DNA Backlog Reduction Program	16.741	--	211,655
Subtotal Direct Programs			800,455
<u>Passed Through Board of State and Community Correction</u>			
Juvenile Accountability Block Grants	16.523	CSA #176-11	67,087
Edward Byrne Memorial Justice Assistance Grant Program	16.738	BSCC 630-13	82,408
Edward Byrne Memorial Justice Assistance Grant Program	16.738	BSCC 673-13	4,964
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			87,372
Subtotal Passed Through Board of State and Community Correction			154,459
<u>Passed Through City of San José</u>			
Missing Children's Assistance	16.543	None	5,950
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-2315	12,392
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0642	29,686
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			42,078
Subtotal Passed Through City of San José			48,028

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, 2015

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures
U.S. Department of Justice (Continued)			
<u>Passed Through City of Sunnyvale</u>			
Equitable Sharing Program	16.922	CA0431600	\$ 17,549
<u>Passed Through California Governor's Office of Emergency Services</u>			
Crime Victim Assistance	16.575	UV13040430	\$ 36,480
Crime Victim Assistance	16.575	UV14050430	86,163
Crime Victim Assistance	16.575	VW14330430	409,128
Subtotal Crime Victim Assistance			531,771
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ14100430	11,317
Subtotal Passed Through California Governor's Office of Emergency Services			543,088
Total U.S. Department of Justice			1,563,579
U.S. Department of Transportation			
<u>Passed Through California Department of Transportation</u>			
Highway Planning and Construction	20.205	BHLO 5937 (146)	25,620
Highway Planning and Construction	20.205	BHLO 5937 (147)	19,209
Highway Planning and Construction	20.205	BHLO 5937 (150)	17,288
Highway Planning and Construction	20.205	BHLO 5937 (174)	663,598
Highway Planning and Construction	20.205	BHLO 5937 (186)	30,216
Highway Planning and Construction	20.205	BHLO 5937 (193)	12,904
Highway Planning and Construction	20.205	BHLO 5937 (194)	9,362
Highway Planning and Construction	20.205	BHLO 5937 (195)	12,928
Highway Planning and Construction	20.205	BHLS 5937 (187)	5,763
Highway Planning and Construction	20.205	BPMP 5937 (155)	1,431
Highway Planning and Construction	20.205	BPMP 5937 (156)	22,113
Highway Planning and Construction	20.205	BPMP 5937 (158)	1,431
Highway Planning and Construction	20.205	BPMP 5937 (159)	1,361
Highway Planning and Construction	20.205	BPMP 5937 (160)	2,341
Highway Planning and Construction	20.205	BPMP 5937 (161)	1,361
Highway Planning and Construction	20.205	BRLO 5937 (106)	77,571
Highway Planning and Construction	20.205	BRLO 5937 (107)	66,660
Highway Planning and Construction	20.205	BRLO-5937 (109)	65,085
Highway Planning and Construction	20.205	BRLO 5937 (168)	9,428
Highway Planning and Construction	20.205	BRLO 5937 (176)	170,175
Highway Planning and Construction	20.205	BRLO 5937 (180)	6,940
Highway Planning and Construction	20.205	BRLO 5937 (182)	66,423
Highway Planning and Construction	20.205	BRLS 5937 (123)	87,176
Highway Planning and Construction	20.205	BRLS 5937 (124)	215,453
Highway Planning and Construction	20.205	BRLS 5937 (169)	4,251
Highway Planning and Construction	20.205	CML 5937 (191)	124,455
Highway Planning and Construction	20.205	CML 5937 (196)	469,019
Highway Planning and Construction	20.205	DEMO8L 5937 (137)	4,360,407
Highway Planning and Construction	20.205	HPLUL 5937 (163)	1,184,576
Highway Planning and Construction	20.205	HRRRL 5937 (188)	6,415
Highway Planning and Construction	20.205	HRRRL 5937 (189)	11,258
Highway Planning and Construction	20.205	HRRRL 5937 (190)	33,385
Highway Planning and Construction	20.205	HSIP 5937 (199)	1,877
Highway Planning and Construction	20.205	SR2SL 5937 (185)	56,256
Subtotal Highway Planning and Construction			7,843,736
<u>Passed Through State Office of Traffic Safety</u>			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL1419	59,590
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL1553	115,599
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL1547	115,264
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PS1409	15,279
Subtotal Minimum Penalties for Repeat Offenders for Driving While Intoxicated			305,732
Total U.S. Department of Transportation			8,149,468

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, 2015

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures
U.S. Department of Treasury			
<u>Passed Through City of Sunnyvale</u>			
Treasury Forfeiture Fund Program	21.000	CA0431600	\$ 75,045
Total U.S. Department of Treasury			75,045
U.S. Department of Health and Human Services			
<u>Direct Programs</u>			
Projects for Assistance in Transition from Homelessness (PATH)	93.150	--	253,131
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	--	2,034,390
Partnerships to Improve Community Health (PICH)	93.331		316,872
Adoption Opportunities	93.652	--	25,975
HIV Emergency Relief Project Grants	93.914	--	2,514,444
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	--	811,907
Block Grants for Community Mental Health Services	93.958	--	708,471
Subtotal Direct Programs			6,665,190
<u>Passed Through California Department of Public Health</u>			
Public Health Emergency Preparedness	93.069	None	1,837,944
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	None	580,884
Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	CLPPP	65,230
Immunization Cooperative Agreements	93.268	13-20346	1,002,714
Refugee and Entrant Assistance _Discretionary Grants	93.576	13-43-90840-00	\$ 98,132
Refugee and Entrant Assistance _Discretionary Grants	93.576	14-43-90840-00	264,423
Subtotal Refugee and Entrant Assistance_Discretionary Grants			362,555
National Bioterrorism Hospital Preparedness Program	93.889	--	534,949
HIV Care Formula Grants	93.917	13-20074	716,044
HIV Prevention Activities_Health Department Based	93.940	13-20253-01A	429,857
Prevention and Public Health Fund (PPHF) Public Health Traineeships	93.964	201443 MCH	159,479
Prevention and Public Health Fund (PPHF) Public Health Traineeships	93.964	201443 AFLP	129,109
Prevention and Public Health Fund (PPHF) Public Health Traineeships	93.964	201443 BIH	85,279
Subtotal Prevention and Public Health Fund (PPHF) Public Health Traineeships			373,867
Maternal and Child Health Services Block Grant to the States	93.994	201143 MCH	1,485,477
Maternal and Child Health Services Block Grant to the States	93.994	201143 AFLP	73,384
Maternal and Child Health Services Block Grant to the States	93.994	201143 BIH	338,864
Subtotal Maternal and Child Health Services Block Grant to the States			1,897,725
Subtotal Passed Through State Department of Public Health			7,801,769
<u>Passed Through Sourcewise</u>			
Aging Cluster:			
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	AP-1415-15	1,745,897
Nutrition Services Incentive Program	93.053	AP-1415-15	979,488
Subtotal Aging Cluster			2,725,385
<u>Passed Through California Department of Education</u>			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CAPP-4062	1,636,987
<u>Passed Through California Department of Health Care Services</u>			
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	None	546,256
Children's Health Insurance Program	93.767	None	717,237
Medical Assistance Program:			
Medical Assistance Program	93.778	Foster Care & HCPCFC	761,275
Medical Assistance Program	93.778	CHDP	640,876
Medical Assistance Program	93.778	CCS Admin	3,920,894
Medical Assistance Program	93.778	CCS PPC	42,052
Subtotal Medical Assistance Program			5,365,097
Block Grants for Prevention and Treatment of Substance Abuse	93.959	None	10,872,242
Subtotal Passed Through California Department of Health Care Services			17,500,832

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, 2015

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures
U.S. Department of Health and Human Services (Continued)			
<u>Passed Through California Department of Child Support Services</u>			
Child Support Enforcement	93.563	IV-356	\$ 22,761,471
<u>Passed Through Foundation for California Community College</u>			
Health Care Innovation Awards (HCIA)	93.610	TC-007-14	132,370
<u>Passed Through California Department of Social Services</u>			
Guardianship Assistance	93.090	None	581,839
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	None	847,629
Promoting Safe and Stable Families	93.556	None	1,072,162
Temporary Assistance for Needy Families	93.558	None	74,351,036
Refugee and Entrant Assistance_State Administered Programs	93.566	None	\$ 340,144
Refugee and Entrant Assistance_State Administered Programs	93.566	RESS 1307	136,689
Refugee and Entrant Assistance_State Administered Programs	93.566	RESS 1407	96,906
Subtotal Refugee and Entrant Assistance_State Administered Programs			573,739
Refugee and Entrant Assistance_Discretionary Grants	93.576	TART1306	1,885
Refugee and Entrant Assistance_Discretionary Grants	93.576	TARL1307	4,512
Refugee and Entrant Assistance_Discretionary Grants	93.576	TART 1406	7,222
Refugee and Entrant Assistance_Discretionary Grants	93.576	TARL 1407	11,539
Subtotal Refugee and Entrant Assistance_Discretionary Grants			25,158
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	TAFO1306	144,712
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	TAFO1407	114,887
Subtotal Refugee and Entrant Assistance_Targeted Assistance Grants			259,599
Community-Based Child Abuse Prevention Grants	93.590	None	20,561
Stephanie Tubbs Jones Child Welfare Services Program	93.645	None	1,368,062
Child Welfare Research Training or Demonstration	93.648	None	525,739
Foster Care_Title IV-E	93.658	None	41,026,925
Adoption Assistance	93.659	None	13,923,831
Social Services Block Grant	93.667	None	9,236,592
Chafee Foster Care Independence Program	93.674	None	427,669
Children's Health Insurance Program	93.767	None	6,719
Medical Assistance Program	93.778	None	77,667,285
Subtotal Passed Through State Department of Social Services			221,914,545
Total U.S. Department of Health and Human Services			281,138,549
U.S. Department of Homeland Security			
<u>Passed Through California Governor's Office of Emergency Services</u>			
Emergency Management Performance Grants	97.042	2013-0047-0085-00000	218,306
Emergency Management Performance Grants	97.042	2014-0070-0085-00000	512,298
Subtotal Emergency Management Performance Grants			730,604
Homeland Security Grant Program	97.067	2012-SS-00123-085-00000	210,160
Homeland Security Grant Program	97.067	2013-0010-085-00000	1,689,412
Homeland Security Grant Program	97.067	2014-00093-085-00000	935,874
Subtotal Homeland Security Grant Program			2,835,446
Subtotal Passed Through California Governor's Office of Emergency Services			3,566,050
<u>Passed Through City and County of San Francisco</u>			
Homeland Security Grant Program	97.067	2013-00110	2,239,787
Homeland Security Grant Program	97.067	2014-00093	72,548
Subtotal Passed Through City and County of San Francisco			2,312,335
Total U.S. Department of Homeland Security			5,878,385
Total Expenditures of Federal Awards			\$ 338,829,577

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

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2015

Note 1 – General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activities of the County of Santa Clara, California (County) under programs of the federal government, for the fiscal year ended June 30, 2015, 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. The information in the SEFA is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133). Because the SEFA presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, changes in net position and cash flows of the County.

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.

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 (Discretely Presented 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:

Federal Grantor/ Pass-through Grantor/ Program Title	CFDA Number	Grant/ Contract Number	Expenditures
U.S. Department of Housing and Urban Development			
<i>Direct Programs</i>			
Continuum of Care	14.267	n/a	\$ 3,025,571
Lower Income Housing Assistance Program			
Section 8 Moderate Rehabilitation	14.856	n/a	1,112,373
Housing Voucher Cluster:			
Section 8 Housing Choice Vouchers	14.871	n/a	6,417,203
Mainstream Vouchers	14.879	n/a	597,251
Family Unification Program (FUP)	14.880	n/a	1,427,190
Total Housing Voucher Cluster			<u>8,441,644</u>
Family Self Sufficiency	14.896	n/a	201,125
Moving To Work Demonstration Program	14.881	n/a	<u>214,762,263</u>
Total Direct Programs			<u>227,542,976</u>
<i>Pass-through from City of Sunnyvale, CA</i>			
Home Investment Partnership Program	14.239	1011-828750	32,000
<i>Pass-through from County of Santa Clara, CA</i>			
Continuum of Care	14.267	n/a	9,848
Total Pass-Through Programs			<u>41,848</u>
Total Expenditures of Federal Awards			<u>\$227,584,824</u>

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2015

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
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ 485,110
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	64,522
Community Development Block Grants/Entitlement Grants	14.218	1,786,572
Supportive Housing Program	14.235	949,804
Home Investment Partnerships Program	14.239	856,756
Crime Victim Assistance	16.575	531,771
Edward Byrne Memorial Justice Assistance Grant Program	16.738	87,372
Special Programs for the Aging_ Title III, Part C_ Nutrition Services	93.045	1,745,897
Nutrition Services Incentive Program	93.053	979,488
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	12,250
Projects for Assistance in Transition from Homelessness (PATH)	93.150	239,665
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	324,727
Partnerships to Improve Community Health	93.331	29,425
Refugee and Entrant Assistance_ State Administered Programs	93.566	116,637
Refugee and Entrant Assistance_ Discretionary Grants	93.576	25,158
Refugee and Entrant Assistance_ Targeted Assistance Grants	93.584	127,309
Community-Based Child Abuse Prevention Program	93.590	20,561
Chafee Foster Care Independence Program	93.674	329,936
National Bioterrorism Hospital Preparedness Program	93.889	276,025
HIV Emergency Relief Project Grants	93.914	1,162,631
HIV Care Formula Grants	93.917	613,749
HIV Prevention Activities_ Health Department Based	93.940	123,556
Block Grants for Community Mental Health Services	93.958	35,910
Block Grants for Prevention and Treatment of Substance Abuse	93.959	3,740,607
Prevention and Public Health Fund (PPHF) Public Health Traineeships	93.964	129,109
Maternal and Child Health Services Block Grant to the States	93.994	58,473
Emergency Management Performance Grants	97.042	259,352
Homeland Security Grant Program	97.067	375,994

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2015

Note 6 – 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 Sourcewise</i>				
Special Programs for the Aging_ Title III, Part C				
Nutrition Services	93.045	AP-1415-15	\$ 308,689	\$ 1,745,897
Nutrition Services Incentive Program	93.053	AP-1415-15	-	979,488

Note 7 – 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>State Administrative Matching Grants for the Supplemental Nutrition Assistance Program</i>		
Passed Through California Department of Social Services	10.561	\$ 30,616,628
Passed Through California Department of Public Health	10.561	2,202,905
Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program		<u>\$ 32,819,533</u>
<i>Edward Byrne Memorial Justice Assistance Grant Program</i>		
Direct	16.738	\$ 13,950
Passed Through Board of State and Community Correction	16.738	87,372
Passed Through City of San José	16.738	42,078
Total Edward Byrne Memorial Justice Assistance Grant Program		<u>\$ 143,400</u>
<i>Refugee and Entrant Assistance Discretionary Grants</i>		
Passed Through California Department of Public Health	93.576	\$ 362,555
Passed Through California Department of Social Services	93.576	25,158
Total Refugee and Entrant Assistance Discretionary Grants		<u>\$ 387,713</u>
<i>Children's Health Insurance Program</i>		
Passed Through California Department of Health Care Services	93.767	\$ 717,237
Passed Through California Department of Social Services	93.767	6,719
Total Children's Health Insurance Program		<u>\$ 723,956</u>
<i>Medical Assistance Program</i>		
Passed Through California Department of Health Care Services	93.778	\$ 5,365,097
Passed Through California Department of Social Services	93.778	77,667,285
Total Medical Assistance Program		<u>\$ 83,032,382</u>
<i>Homeland Security Grant Program</i>		
Passed Through the California Emergency Management Agency	97.067	\$ 2,835,446
Passed Through City and County of San Francisco	97.067	2,312,335
Total Homeland Security Grant Program		<u>\$ 5,147,781</u>

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2015

**Note 8 - 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 Federal grant expenditures for Department of Justice grants passed through the California Governor's Office of Emergency Services for the fiscal year ended June 30, 2015:

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	UV13040430					
Personnel Expenses	10/1/13-9/30/14		\$ -	\$ 7,812	\$ 7,812	
Operating Expenses			36,480	-	36,480	
Total		\$ 125,000	\$ 36,480	\$ 7,812	\$ 44,292	16.575
Underserved Victims Advocacy & Outreach Program	UV14050430					
Personnel Services	10/1/14-9/30/15		\$ -	\$ 23,438	\$ 23,438	
Operating Expenses			86,163	-	86,163	
Total		\$ 125,000	\$ 86,163	\$ 23,438	\$ 109,601	16.575
Victim Witness Assistance - Cal EMA	VW14330430					
Operating Expenses	7/1/14-6/30/15		\$ 409,128	\$ -	\$ 409,128	
Total		\$ 823,576	\$ 409,128	\$ -	\$ 409,128	16.575
Paul Coverdell Forensic Sciences Improvement Grant Program	CQ14100430					
Operating Expenses	10/1/14-12/31/15		\$ 11,317	\$ -	\$ 11,317	
Total		\$ 31,211	\$ 11,317	\$ -	\$ 11,317	16.742
Emergency Management Performance Grants	2013-0047-0085-00000					
Personnel Expenses	7/1/13-8/31/14		\$ 15,880	\$ -	\$ 15,880	
Operating Expenses			150,051	-	150,051	
Equipment			52,375	-	52,375	
Total		\$ 499,977	\$ 218,306	\$ -	\$ 218,306	97.042
Emergency Management Performance Grants	2014-0070-085-00000					
Personnel Expenses	7/1/14-6/30/15		\$ 26,252	\$ -	\$ 26,252	
Operating Expenses			312,590	-	312,590	
Equipment			173,456	-	173,456	
Total		\$ 514,636	\$ 512,298	\$ -	\$ 512,298	97.042
Homeland Security Grant Program	2012-SS-00123-085-00000					
Operating Expenses	10/12/12-8/15/14		30,815	-	30,815	
Equipment			179,345	-	179,345	
Total		\$ 1,414,699	\$ 210,160	\$ -	\$ 210,160	97.067
Homeland Security Grant Program	2013-0010-085-00000					
Personnel Services	9/1/13-5/31/15		\$ 401,531	\$ -	\$ 401,531	
Operating Expenses			325,462	-	325,462	
Equipment			962,419	-	962,419	
Total		\$ 1,760,533	\$ 1,689,412	\$ -	\$ 1,689,412	97.067
Homeland Security Grant Program	2014-00093-085-00000					
Personnel Services	9/1/14-5/31/16		\$ 179,285	\$ -	\$ 179,285	
Operating Expenses			244,760	-	244,760	
Equipment			511,829	-	511,829	
Total		\$ 1,964,055	\$ 935,874	\$ -	\$ 935,874	97.067

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2015

**Note 8 - Schedules of the California Emergency Management Agency (Cal EMA) and
California Victim Compensation and Government Claims Board (Continued)**

California Victim Compensation and Government Claims Board grant expenditures:

The following represents the California Victim Compensation and Government Claims Board non-Federal grant expenditures for the fiscal year ended June 30, 2015. This information is included in the County's single audit report at the request of the California Victim Compensation and Government Claims Board.

<u>Program Title and Expenditure Category</u>	<u>Grant Award Number/Period</u>	<u>Award Amount</u>	<u>Actual Non-match</u>	<u>Actual Match</u>	<u>Actual Total</u>
Victim Witness Assistance - BOC	VCGC2060				
Personnel Services	7/1/12-6/30/15		\$ 789,927	\$ -	\$ 789,927
Operating Expenses			143,309	-	143,309
Total		\$ 3,212,326	\$ 933,236	\$ -	\$ 933,236
Victim Witness Restitution for Crime Victims	VCGC3083				
Personnel Services	7/1/13-6/30/16		\$ 275,565	\$ -	\$ 275,565
Total		\$ 879,435	\$ 275,565	\$ -	\$ 275,565

COUNTY OF SANTA CLARA
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended June 30, 2015

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(cies) identified?	None Reported
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:	Unmodified for all major programs, except for CFDA No. 93.558, which was qualified.
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes

Identification of major programs:

CFDA No. 10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA No. 93.558	Temporary Assistance for Needy Families
CFDA No. 93.667	Social Services Block Grant
CFDA No. 93.778	Medical Assistance Program
CFDA No. 93.959	Block Grants for Prevention and Treatment of Substance Abuse
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 Reported.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2015

Section III – Federal Award Findings and Questioned Costs

Finding 2015-001

Special Tests & Provisions – Child Support Non-Cooperation

Awarding Agency:	United States Department of Health and Human Services
Passed Through:	State of California Department of Social Services
Program Name:	Temporary Assistance for Needy Families
CFDA Number:	93.558
Award Number:	Not Available
Award Year:	July 1, 2014 through June 30, 2015
Classification of Finding:	Material Weakness in Internal Control over Compliance Material Noncompliance

Criteria

A grantee is responsible for documenting special tests and provisions determinations. Under the Temporary Assistance for Needy Families (TANF) special tests and provisions requirements, the Notice of Action forms are used to ensure compliance with the special tests and provisions – child support non-cooperation and as such these forms should be properly maintained. Under TANF guidelines, participants who are sanctioned should perform the following:

If the IV-D agency determines that an individual is not cooperating, and the individual does not qualify for a good cause or other exception established by the State agency responsible for making good cause determinations...the IV-A agency must then take appropriate action by: deducting from the assistance that would otherwise be provided to the family of the individual an amount equal to not less than 25 percent of the amount of such assistance; or denying the family any assistance under the program (45 CFR section 264.30).

Condition/Context

During our testing of nine participant files out of a population of 31 individuals who did not cooperate with the State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual for the fiscal year, we noted that Notice of Action forms for five participant files were not maintained in the client records. As such the reduction in benefit payment was not communicated to the participant at least 10 days prior to the sanction.

Questioned Costs

Not applicable. The missing Notice of Action forms did not result in an overpayment of federal funds.

Cause and/or Effect

Inadequate documentation may result in incorrect benefit reductions, thus improper benefit amounts may be issued.

Recommendation

We recommend that the County continue to evaluate the effectiveness of its current internal control policies over proper record keeping of all required correspondence, including Notice of Action forms, to benefit recipients. In addition, we recommend the County continue to strengthen its internal control procedures over the benefit sanction process to ensure that sanctions are properly and timely communicated to beneficiaries and only imposed when valid.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2015

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding 2015-002

Special Tests & Provisions – Penalty for Refusal to Work

Awarding Agency:	United States Department of Health and Human Services
Passed Through:	State of California Department of Social Services
Program Name:	Temporary Assistance for Needy Families
CFDA Number:	93.558
Award Number:	Not Available
Award Year:	July 1, 2014 through June 30, 2015
Classification of Finding:	Significant Deficiency in Internal Control over Compliance Incident of Noncompliance

Criteria

A grantee is responsible for documenting special tests and provisions determinations. Under the Temporary Assistance for Needy Families (TANF) special tests and provisions requirements, the Notice of Action forms are used to ensure compliance with the special tests and provisions – penalty for refusal to work and as such these forms should be properly maintained. Under TANF guidelines, participants who are sanctioned should perform the following:

If the State agency determines that an individual refuses to work, subject to any good cause or other exemptions established by the State, the State agency must reduce or terminate the assistance payable to the family. The HHS may penalize the State by an amount not less than one percent and not more than five percent of the SFAG for violation of this provision (42 USC 609 (a)(14); 45 CFR sections 261.14, 261.16, and 261.54).

Condition/Context

During our testing of 40 participant files out of a population of 1,095 individuals who are not exempt under State rules or do not meet State good cause criteria, we noted that the County did not properly reduce the participants' benefits on a timely basis. Per review of the case history, the sanction should be effective starting July 1, 2014, but the actual reduction started in October 1, 2014.

Questioned Costs

\$384. The participants' benefits were required to be reduced by \$128 per month from July 2014 through September 2014.

Cause and/or Effect

The family had an existing sanction related to other requirements placed for another individual at that time. This created some confusion about setting up another sanction under the same family ID in the CalWIN system. Therefore, this sanction was not correctly established. The monthly benefit was overpaid from July 2014 through September 2014.

Recommendation

We recommend that the County provide training to the users of the system on a regular basis and make all resources available to the staff to ensure all users of the system understand how to use all system functions related their areas of responsibility. The County should also consider designating a number of users as "super users", who thoroughly understands the CalWIN system and will become the "go-to" people for any questions from other users.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2015

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding 2015-003

Cash Management

Awarding Agency:	United States Department of Homeland Security
Passed Through:	California Emergency Management Agency
Program Name:	Homeland Security Grant Program
CFDA Number:	97.067
Award Number:	2012-SS-0123
Award Year:	October 1, 2012 through August 31, 2014
Classification of Finding:	Significant Deficiency in Internal Control over Compliance Incident of Noncompliance

Criteria

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* (OMB Circular A-133) states that when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the federal government. The fiscal year 2012 Homeland Security Grant Program (SHSGP) is a reimbursement basis program.

Condition/Context

During our review of the reimbursement claims submitted to the grantor, we noted that one of the reimbursement claims included a transaction in which the payment to the vendor has not been made at the time the reimbursement claim was submitted. The payment was made to its vendor on February 12, 2015, after the reimbursement claim was submitted in August 20, 2014.

Questioned Costs

Not applicable. The payment was made for an allowable activity of the program. Therefore, the federal expenditure is not considered a questioned cost.

Cause and/or Effect

The invoice was received in June 2014, however, the payment to the vendor was not made until February 2015. The noncompliance was caused by an oversight between the disbursement process and the preparation of reimbursement claims by the County's Office of Emergency Services.

Recommendation

We recommend the County evaluate the reporting preparation process to increase communication between the County's finance department and the County's Office of Emergency Services that handles the grants activities.

COUNTY OF SANTA CLARA
Status of Prior Year's Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2015

Reference Number: **Financial Statement Finding 2014-001 – Significant Deficiency**
Internal Controls Over the Financial Reporting Process

Audit Finding: As part of our audit, we assessed whether the County's internal controls have been effective over financial reporting. During our audit, we identified the following significant adjustments to the County's financial statements, which resulted in a significant deficiency in its internal controls:

- Reclassification of the Santa Clara Valley Health & Hospital System Enterprise Fund's (SCVHHSEF) cash and investments in the amount of \$181.4 million from a restricted asset to an unrestricted asset.
- Reversal of SCVHHSEF's payable to other County funds and the corresponding unrestricted cash and investments in the amount of \$66.9 million.
- Reclassification of SCVHHSEF's unearned cash received from the State in the amount of \$57.3 million from and offset to an asset to a due to other governmental agencies liability.

Recommendation: The Department should continue to evaluate the experience of professionals assigned to key roles in the preparation of the annual financial reports and ensure that there is a robust supervision and review process.

Status Corrective action plan has been implemented.

Reference Number: **Federal Award Finding 2014-002 –**
Allowable Costs/Cost Principles

Program Identification: U.S. Department of Health and Human Services
Passed Through State of California Department of Health Services
CFDA No. 93.778 – Medical Assistance Program

Audit Finding: During our testing of 40 payroll disbursements for the County's Medical Assistance Program during the period of July 1, 2013 to June 30, 2014, we identified 2 disbursements where the underlying timesheet of the employee did not contain an approval signature by the employee's supervisor validating review and approval of the hours charged to the program.

Recommendation: We recommend that the County strengthen internal controls over the payroll process to ensure that all employee timesheets have undergone supervisory review and approval prior to payroll distribution.

Status: Corrective action plan has been implemented.

COUNTY OF SANTA CLARA
Status of Prior Year's Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2015

Reference Number: **Federal Award Finding 2014-003 – Reporting**

Program Identification: U.S. Department of Health and Human Services
Passed Through State of California Department of Alcohol and Drugs
CFDA No. 93.959 – Block Grants for Prevention and Treatment of Substance Abuse

Audit Finding: During our testing of 2 quarterly reports out of a population of the 4 QFFMRs submitted for the fiscal year ended June 30, 2014, we noted that the QFFMRs were prepared and submitted by a Senior Health Care Financial Analyst in the General Accounting and Reimbursement Department without secondary review of accuracy.

Recommendation: We recommend the County evaluate the reporting process and redistribute responsibilities as appropriate.

Status: Corrective action plan has been implemented.

Reference Number: **Federal Award Finding 2014-004 – Special Tests & Provisions – Child Support Non-Cooperation**

Program Identification: U.S. Department of Health and Human Services
Passed Through State of California Department of Social Services
CFDA No. 93.558 – Temporary Assistance for Needy Families

Audit Finding: During our testing of 9 files out of a population of 44 individuals who did not cooperate with the State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual for the fiscal year, we noted that 6 participant files did not have a Notice of Action form maintained with the client records. As such the reduced benefit payment was not communicated to the participant at least 10 days prior to the sanction.

Recommendation: We recommend that the County continue to evaluate the effectiveness of its current internal control policies over proper record keeping of all correspondence, including Notice of Action forms, to benefit recipients. In addition, we recommend the County continue to strengthen its internal control procedures over the benefit sanction process to ensure that sanctions are properly and timely communicated to beneficiaries and only imposed when valid.

Status: Not corrected. See current year finding 2015-001.

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COUNTY OF SANTA CLARA
Corrective Action Plan
For the Fiscal Year Ended June 30, 2015

The following findings were reported to the County's Schedule of Findings and Questioned Costs for the Year Ended June 30, 2015. The County's Corrective Action Plan for these findings is as follows:

Comment #2015-001 – (Material Weakness in Internal Control over Compliance and Material Noncompliance) – Special Tests and Provisions – Child Support Non-Cooperation (CFDA# 93.558)

The Social Service Agency agrees that all five of the participant files noted did not have copies of the Notice of Action to decrease benefits for Child Support Non-Cooperation. We have taken the following corrective actions:

- 1) Effective 2/1/16, individual caseloads were created and assigned to continuing eligibility workers in an effort to facilitate seamless communication between various departments and agencies. Eligibility Workers are now responsible for the maintenance, ongoing eligibility determinations, and penalty applications of a specific assigned caseload.
- 2) Supplements were issued on these cases as there is no verification on file to indicate a legal and timely 10-day Notice of Action (NOA) was sent to the clients.
 - a) On the active cases, a NOA has been sent informing them of the penalty being applied in the future month.
 - b) On the closed cases, the penalty has been recorded and will be implemented if and when the client reapplies for CalWORKs.
- 3) Expansion of child-support non-cooperation listing.
 - a) Existing report on child support penalty and sanctions has been expanded to include cases where child support penalty/sanction was imposed and if NOA was issued.
 - b) This report is a reoccurring cumulative monthly report which is assigned to workers by caseload.
- 4) Updated business process to include a case rejection process when the prior worker fails to issue a NOA after imposing a child support penalty/sanction.
 - a) Cases that have been reassigned to a new worker will be returned to the previous worker, within a designated timeframe, if it is discovered that the previous worker failed to issue a NOA to the client regarding the implementation of a child support sanction/penalty.

The following actions are pending implementation for the respective timeframes identified:

- 1) Service Request to modify CalWIN data system.
 - a) Systems vendor has confirmed functionality error regarding NOAs not generating on cases when there is an existing unrelated sanction.
 - b) The CalWIN Project anticipates a resolution for this known error by April 2016.
- 2) Mandatory in-class training will be conducted for all CalWORKs Eligibility Workers by late July 2016. The training will encompass the following aspects:
 - a) Difference between a child support penalty and child support sanction.
 - b) Timeframe in which actions must be taken,
 - c) Process to notify a client,
 - d) How to enter information correctly into CalWIN,

Review of the process to ensure that the correct NOA is being mailed, and the Communication process between DCSS and EWs.

COUNTY OF SANTA CLARA
Corrective Action Plan (Continued)
For the Fiscal Year Ended June 30, 2015

Comment #2015-002 – (Significant Deficiency in Internal Control over Compliance and Noncompliance) – Special Tests and Provisions – Penalty for Refusal to Work (CFDA# 93.558)

The Social Service Agency agrees that, for the one case referenced, an overpayment was not calculated for the period July, August and September 2014 as a result of Welfare-to-Work (WTW) sanction not implemented timely. The agency will take the following corrective actions:

- 1) An overpayment of \$128 per month will be calculated for the period of July 1, 2014 through September 30, 2014 and an overpayment claim of \$384 will be established. A Notice of Action will be mailed to the client to inform her of the claim/overpayment. The overpayment will be recorded and forwarded to collections for recovery.
- 2) As part of the communication between the EC/EC Supervisor and EW/EW Supervisor, the CWES Supervisor notifies the EW and EWS by sending an email on the day the sanction is authorized. Additional instructions will be provided to staff by June 15, 2016 reminding them to confirm that sanctions are implemented in a timely manner and that overpayments must be calculated, and claims established when the sanction is not imposed timely.

Instructions will include a process for EW/EC experiencing automated systems issues, such as addressing prior sanctions resulting in duplicate sanctions that prevent implementing a current sanction, to immediately contact specialized support staff, including CalWIN Help Desk, to address the issues timely and accurately.

Comment #2015-003 – (Significant Deficiency in Internal Control over Compliance and Noncompliance) – Cash Management (CFDA# 97.067)

The County's Office of Emergency Services (OES) recognizes and agrees with this finding. The cash management error was due in part to OES being understaffed, i.e. there was no permanent accounting staff, or trained grant staff, at the time of the FY 2012 SHSGP grant closeout.

Since 2014, current staff has been trained in the preparation of grant reimbursement requests. We implemented this training immediately upon hiring. We have also implemented new reimbursement/cash request procedures wherein all grant invoices are cross-checked against an SAP financial report of grant expenditures. This procedure prohibits the inclusion of vendor/sub-recipient invoices that have not yet been paid by our office during the reimbursement request process. It also ensures that all grant expenditures have been included in our reimbursement requests.

The Grant Manager has also implemented the practice of meeting quarterly with accounting staff to review grant expenditures. This practice is to ensure that sub-recipient invoices are submitted well before the grant performance period end date, and to avoid having to expend funding in a last minute fashion, where the potential for delayed reimbursement of vendors/sub-recipients is increased.

In addition to the measures above, OES will implement the following additional corrective action: Effective immediately, a secondary review for accuracy and completeness of all reimbursement requests will be performed before final submission to the State.