

COUNTY OF SANTA CLARA

Single Audit Reports

Basic Financial Statements with
Federal Compliance Section

For the Fiscal Year Ended June 30, 2016



Certified
Public
Accountants

COUNTY OF SANTA CLARA
 Single Audit Reports
 For the Fiscal Year Ended June 30, 2016

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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 (the “County”), as of and for the year ended June 30, 2016, 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; 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	3.4%	7.2%	4.0%
Business-type activities	0.4%	8.2%	0.2%
Aggregate discretely presented component units	47.7%	33.7%	78.6%
Aggregate remaining fund information	1.9%	2.2%	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. The financial statements of Santa Clara County Tobacco Securitization Corporation, the South Santa Clara County Fire District, and Santa Clara County Health Authority were not audited in accordance with *Government Auditing Standards*.

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, 2016, 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

Deficit Net Positions

As discussed in Note 2, several County internal service funds have deficit net positions at June 30, 2016, which include the Workers' Compensation, Retiree Healthcare, and Pension Obligation internal service funds with deficit net positions of \$23.9 million, \$256.1 million, and \$427.0 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 Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 21, 2016, 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.

Handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Walnut Creek, California

December 21, 2016, except for our report on the schedule of expenditures of federal awards, as to which the date is March 29, 2017

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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, 2016. 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 viii of this report.

FINANCIAL HIGHLIGHTS

The liabilities and deferred inflows of resources of the County exceeded its assets and deferred outflows of resources by \$1.10 billion (*net position*) at June 30, 2016. Of this amount, a negative \$2.66 billion (*unrestricted net position*) resulted from the implementation of Governmental Accounting Standards Board (GASB) Statement Nos. 68 and its requirement to record a net pension liability in the amount of \$2.90 billion on the government-wide financial statements. The \$466.3 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 \$1.10 billion. (See further detail in Table 1 on page 8).

The County's total *net position* increased by \$437.6 million for the year. (See further detail in Table 2 on page 11).

At June 30, 2016, the County's governmental funds reported combined fund balances of \$1.28 billion, an increase of \$215.7 million from the prior year. Approximately 64.5 percent of the combined fund balances, \$827.6 million, is available to meet the County's current and future needs.

The County's investment in capital assets increased by \$189.2 million or 8.1 percent. (See further detail in Table 5 on page 18).

The County's total long-term debt decreased by \$16.6 million or 0.8 percent during the current fiscal year mainly due to scheduled debt service payments. The County also issued New Clean Renewable Energy bonds during the year (See further detail in Table 6 on page 19).

At June 30, 2016, the County's unassigned fund balance for the General Fund was \$557.3 million, 23.4 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.

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).

COUNTY OF SANTA CLARA

Management's Discussion and Analysis Required Supplementary Information – Unaudited

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 21 – 23 of this report.

Fund Financial Statements

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

Governmental funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, the 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 26 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund. Data from other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these 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 24 – 27 of this report.

Proprietary funds

The County maintains two kinds of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for one hospital - Santa Clara Valley Medical Center (SCVMC), one health plan (Valley Health Plan),

COUNTY OF SANTA CLARA

Management's Discussion and Analysis Required Supplementary Information – Unaudited

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 (Airports and Sanitation District) are combined into a single aggregated presentation. Similarly, the County's nine internal service funds are combined into a single aggregated presentation in the proprietary funds financial statements. Individual fund data for the enterprise funds and the internal service funds is provided in the form of *combining statements* section of this report.

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

Fiduciary funds

The *Fiduciary Funds* are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of these funds are *not* available to support the County's own programs.

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

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 34 – 108 of this report.

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, as well as other funds. 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 – 123 of this report.

COUNTY OF SANTA CLARA

Management’s Discussion and Analysis
Required Supplementary Information – Unaudited

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The County’s liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources by \$1.10 billion (*net position*) at June 30, 2016. As stated earlier, the County’s negative change in net position was due to the implementation of GASB Statement No. 68, which required governments to record a net pension liability on their accrual basis financial statements. When applicable, prior year numbers have been reclassified to make them comparable to the current year.

Table 1—Net Position (in thousands)

Assets									
Current and other assets	\$ 2,037,367	\$ 2,223,173	\$ 723,698	\$ 783,772	\$ 2,761,065	\$ 3,006,945	\$ 245,880	8.9%	
Capital assets	1,215,325	1,262,336	1,128,705	1,270,846	2,344,030	2,533,182	189,152	8.1%	
Total assets	3,252,692	3,485,509	1,852,403	2,054,618	5,105,095	5,540,127	435,032	8.5%	
Deferred outflows of resources	186,401	233,994	117,355	140,657	303,756	374,651	70,895	23.3%	
Liabilities									
Current and other liabilities	494,803	463,444	365,108	472,897	859,911	936,341	76,430	8.9%	
Long-term liabilities	2,291,688	2,320,208	603,046	579,551	2,894,734	2,899,759	5,025	0.2%	
Net pension liability	1,741,150	1,964,622	832,128	934,043	2,573,278	2,898,665	325,387	12.6%	
Noncurrent derivative instrument liabilities	-	-	18,206	24,799	18,206	24,799	6,593	36.2%	
Total liabilities	4,527,641	4,748,274	1,818,488	2,011,290	6,346,129	6,759,564	413,435	6.5%	
Deferred inflows of resources	405,356	174,470	192,556	78,293	597,912	252,763	(345,149)	-57.7%	
Net position:									
Net investment in capital assets	1,022,889	1,067,566	651,958	832,176	1,014,864	1,099,998	85,134	8.4%	
Restricted	468,254	465,552	290,318	142,227	468,998	466,343	(2,655)	-0.6%	
Unrestricted	(2,985,047)	(2,736,359)	(983,562)	(868,711)	(3,019,052)	(2,663,890)	355,162	-11.8%	
Total net position	\$ (1,493,904)	\$ (1,203,241)	\$ (41,286)	\$ 105,692	\$ (1,535,190)	\$ (1,097,549)	\$ 437,641	-28.5%	
					5,408,851		505,927	9.4%	

In accordance with GASB guidance, the County reclassified \$141.4 million of the primary government’s total net position amounts from restricted to unrestricted, and \$799.7 million from net investment in capital assets to unrestricted. Additional information on the presentation can be found in Note 10 on page 84 of this report.

Assets and Deferred Outflows of Resources

The County’s total assets and deferred outflows of resources increased \$505.9 million or 9.4 percent primarily due to the following:

Governmental activities. Total assets and deferred outflows of resources for the governmental activities increased by \$280.4 million or 8.2 percent. Current and other assets increased by \$185.8 million. The primary reasons were from increases of \$149.8 million in unrestricted cash and investments and \$12.0 million due from other governmental agencies.

The increases in total assets and deferred outflows of resources occurred in the following account balances:

- Increase in unrestricted cash and investments was due to increases of \$54.7 million in State funding for various County programs related to public assistance and public health, \$52.1 million in San Jose Redevelopment Agency-Pass-Through, and \$40.9 million from an excess in the Educational Revenue Augmentation Funds (ERAF) apportionment at the end of the current fiscal year.
- The increase in due from other governmental agencies of \$12.0 million was mainly due to increased receivables from Federal and State funding for CalWorks, Medi-Cal Administration, Title IV-E Waiver, and In-Home Support Service. There was a 9.2 percent increase in reimbursement from Federal and State funding for CalWorks as well as increase in revenue received from Medi-Cal.

COUNTY OF SANTA CLARA

Management's Discussion and Analysis Required Supplementary Information – Unaudited

Capital assets increased \$47.0 million or 3.9 percent. Non-depreciable capital assets increased by \$29.0 million and depreciable capital assets increased by \$18.1 million. Changes in capital assets will be discussed in the Capital Assets section on page 18 and Note 6 on page 60.

Deferred outflow of resources increased by \$47.6 million mainly due to increase in pension expense. This resulted from increase in staffing, salaries, and pension benefit rate.

Business-type activities. Total assets and deferred outflows of resources for the business-type activities increased by \$225.5 million or 11.4 percent. Current and other assets increased \$60.1 million and capital assets increased \$142.1 million. The increase in current and other assets of \$60.1 million was primarily a result of slower cash receipts from patients, governmental agencies, insurers and others. In addition, deferred outflows of resources increased \$23.3 million primarily due to increase in pension expense. This resulted from an increase in staffing, salaries, and pension benefit rate.

Changes in capital assets will be discussed in the Capital Assets section on page 18 and Note 6 on page 60.

Liabilities and Deferred Inflows of Resources

The County's total liabilities and deferred inflows of resources increased by \$68.3 million, or 1.0 percent, primarily due to the following:

Governmental activities. Total liabilities and deferred inflows of resources for the governmental activities decreased by \$10.3 million or 0.2 percent due to increases of long-term liabilities of \$252.0 million which were offset by a decrease in deferred inflow of resources of \$230.9 million and in current and other liabilities of \$31.4 million.

The increases in other long term liabilities will be discussed further in the Long-term debt section on page 19.

Business-type activities. Total liabilities and deferred inflows of resources for business-type activities increased by \$78.5 million or 3.9 percent, due to increases of \$107.8 million in current and other liabilities and \$85.0 million in long-term liabilities which was offset by a decrease in deferred inflows of resources of \$114.3 million.

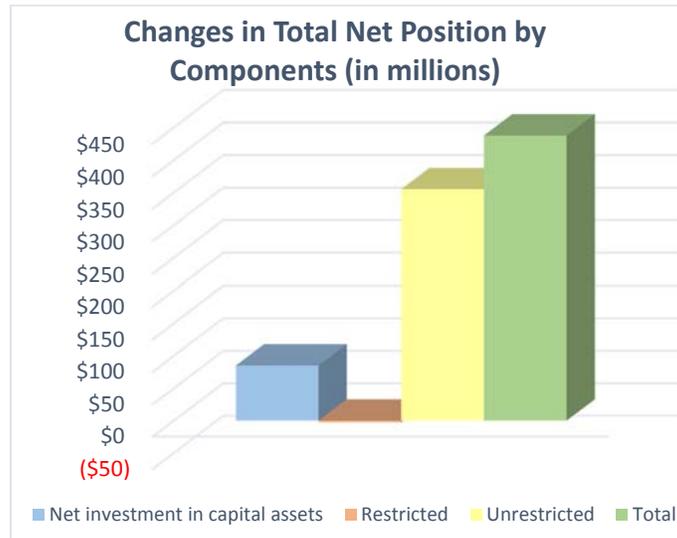
Net Position

The County's unrestricted net position of negative \$2.66 billion was due to the County's prior year's 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 \$1.10 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 residents; 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 \$466.3 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 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 \$2.74 billion and \$868.7 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 \$141.4 million from restricted and \$799.7 million from net investment in capital assets.

COUNTY OF SANTA CLARA

Management’s Discussion and Analysis Required Supplementary Information – Unaudited

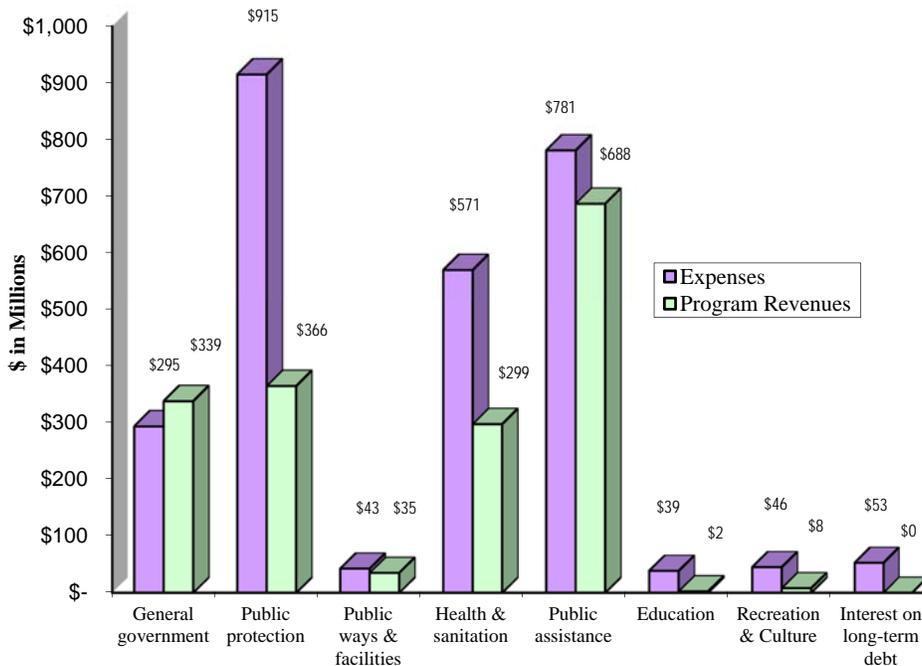


Governmental activities

Governmental activities increased the County’s net position by \$290.7 million. Revenues exceeded expenses by \$427.7 million. Furthermore, net transfers of \$137.0 million were made to the business-type activities primarily for providing 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.

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	
	2015	2016	2015	2016	2015	2016	Dollar Change	Percent Change
	Revenues:							
Program revenues:								
Charges for services	\$ 273,683	\$ 274,983	\$ 1,593,733	\$ 1,776,846	\$ 1,867,416	\$ 2,051,829	\$ 184,413	9.9
Operating grants and contributions	1,394,876	1,457,829	119,566	138,011	1,514,442	1,595,840	81,398	5.4
Capital grants and contributions	8,254	5,074	7,930	-	16,184	5,074	(11,110)	(68.6)
General revenues:								
Property taxes	1,050,457	1,190,229	-	-	1,050,457	1,190,229	139,772	13.3
Sales and use taxes	52,254	54,632	-	5,831	52,254	60,463	8,209	15.7
Other taxes	9,188	33,932	-	-	9,188	33,932	24,744	269.3
Unrestricted grants & contributions	20,149	76,104	-	-	20,149	76,104	55,955	277.7
Unrestricted investment income	9,185	18,501	2,617	4,671	11,802	23,172	11,370	96.3
Other revenue	74,167	58,529	-	-	74,167	58,529	(15,638)	(21.1)
Total revenues	2,892,213	3,169,813	1,723,846	1,925,359	4,616,059	5,095,172	479,113	10.4
Program expenses:								
General government	363,847	294,656	-	-	363,847	294,656	(69,191)	(19.0)
Public protection	848,280	915,449	-	-	848,280	915,449	67,169	7.9
Public ways and facilities	38,266	42,629	-	-	38,266	42,629	4,363	11.4
Health and sanitation	519,489	570,769	-	-	519,489	570,769	51,280	9.9
Public assistance	738,319	780,791	-	-	738,319	780,791	42,472	5.8
Education	35,352	38,987	-	-	35,352	38,987	3,635	10.3
Recreation and culture	40,790	45,574	-	-	40,790	45,574	4,784	11.7
Interest on long-term liabilities	54,596	53,300	-	-	54,596	53,300	(1,296)	(2.4)
Healthcare	-	-	1,728,849	1,910,014	1,728,849	1,910,014	181,165	10.5
Airport	-	-	3,238	2,736	3,238	2,736	(502)	(15.5)
Sanitation	-	-	2,205	2,626	2,205	2,626	421	19.1
Total expenses	2,638,939	2,742,155	1,734,292	1,915,376	4,373,231	4,657,531	284,300	6.5
Excess (deficiency) before transfers	253,274	427,658	(10,446)	9,983	242,828	437,641	194,813	80.2
Transfers	(51,255)	(136,995)	51,255	136,995	-	-	-	-
Change in net position	202,019	290,663	40,809	146,978	242,828	437,641	194,813	80.2
Net position, beginning of year, as restated	(1,695,923)	(1,493,904)	(82,095)	(41,286)	(1,778,018)	(1,535,190)	242,828	(13.7)
Net position, end of year	\$ (1,493,904)	\$ (1,203,241)	\$ (41,286)	\$ 105,692	\$ (1,535,190)	\$ (1,097,549)	\$ 437,641	-28.51

Revenues

The County’s governmental activities’ revenues increased \$277.6 million or 9.6 percent to \$3.17 billion. Program revenues increased by \$61.1 million or 3.6 percent, while general revenues increased by \$216.5 million or 17.8 percent. Over the past three years, the County’s program revenues from its governmental activities have contributed about 63.0 percent of the cost of running those governmental programs. General revenues support the programs by covering the remaining 37.0 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 84.2 percent of the County’s program revenues and 46.2 percent of its total revenues. For the year, operating grants increased by \$63.0 million and capital grants decreased by \$3.2 million. The reasons for these changes will be discussed in the governmental funds area.

The County’s governmental activities’ general revenues increased by \$216.5 million or 17.8 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 defraying costs, which those programs cannot cover from their own revenues. Tax revenues are the County’s second

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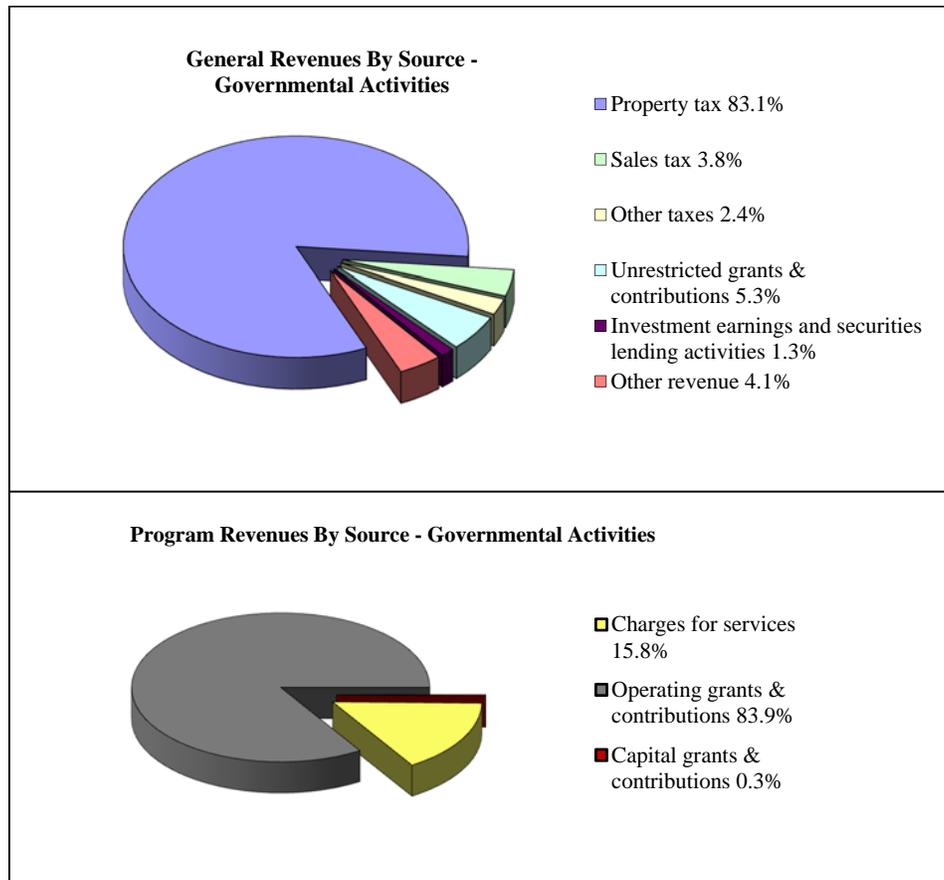
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largest revenue source - grants and contributions being the largest. The County earned \$1.28 billion in tax revenues (property tax, sales and use tax, and other taxes) for the current year. This is approximately 89.3 percent of the general revenues and 40.3 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 increased by \$216.5 million and was attributable mainly to:

- Increase of \$139.8 million in property taxes primarily due to an 8.7 percent increase in total property assessed values. This resulted in an increase in secured property taxes and other taxes by \$75.7 million, \$3.0 million in property tax collection to pay for General Obligation Bonds, \$18.4 million in property tax in lieu of vehicle license fee, and \$6.3 million in the residual distributions from the Redevelopment Property Tax Trust Fund (RPTTF).
- Increase of \$24.7 million in other taxes mainly due to the increase in 1991 State health realignment from motor vehicle license fee.
- Increase of \$56.0 million in unrestricted grants and contributions mainly due to repayment of past-due San Jose Redevelopment Agency-Pass-Through.

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



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Expenses and Transfers

Expenses for governmental activities increased by \$103.2 million or 3.9 percent. All categories experienced higher costs than in the prior year except general government and interest on long-term liabilities. The primary reasons for the changes are explained below:

Health and Sanitation increased by \$51.3 million or 9.9 percent due to the following:

- Increase of \$21.9 million in salaries and benefits resulting from a 4.0 percent increase in staffing, 2.0 to 3.0 percent countywide salary increase, and health insurance rates and employee retirement plan rates increased.
- Increase of \$27.0 million in contract services to assist children and youth with complex behavioral health challenges.

Public Assistance increased by \$42.5 million or 5.8 percent primarily due to the following:

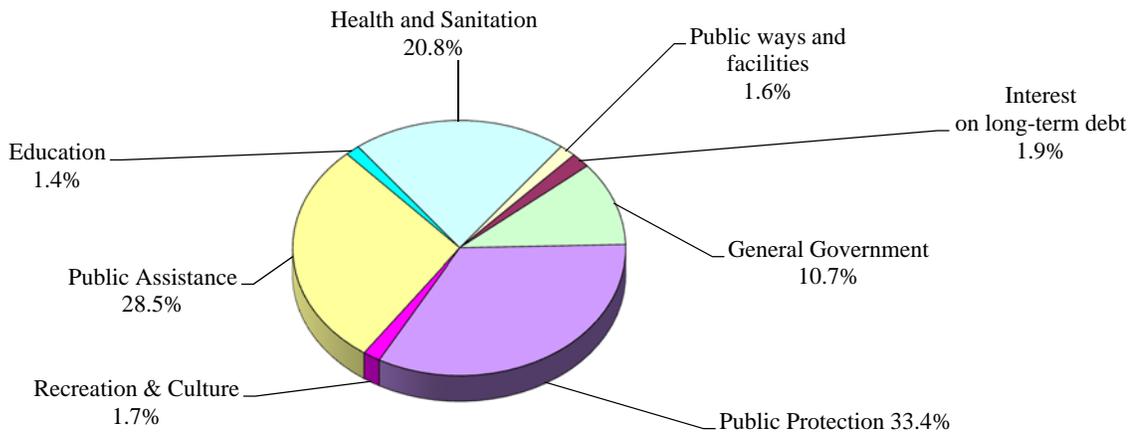
- Increase of \$24.9 million in salaries and benefits resulting from a 4.4 percent increase in staffing, 2.0 to 3.0 percent countywide salary increase, and health insurance rates and employee retirement plan rates increased.
- Increase of \$15.9 million in health benefit costs due to the increased number of In Home Support Services (IHSS) providers enrolled in health benefits.
- Increase of \$2.4 million mainly due to an adjustment to the County's IHSS maintenance of effort calculation which increased the County's share of costs

Public Ways and Facilities expenses increased by \$4.4 million, or 11.4 percent, mainly due to lower cost of bridge and road repairs and other maintenance costs last year. The cost in fiscal year 2015 was in line with the cost in fiscal year 2014.

Transfers increased by \$85.7 million primarily due to \$50.8 million in transfer of San Jose Downton Health Center to SCVMC and \$27.0 million transfer to fund the to fund the Seismic Safety Project 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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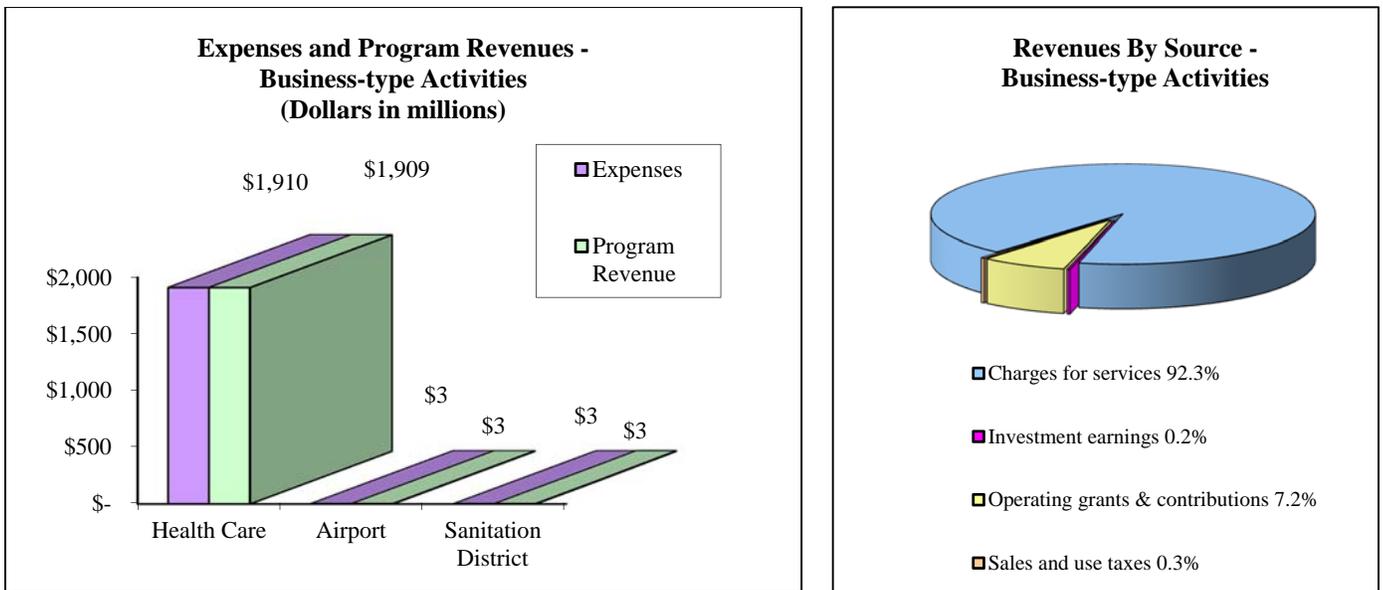
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Business-type activities

The business-type activities increased the County’s net position by \$147.0 million. Revenues exceeded expenses by \$10.0 million. In addition, net transfers of \$137.0 million were made as a subsidy from County’s General Fund.

The largest of the County’s business-type activities, healthcare operations, had \$1.91 billion in expenses and \$1.91 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 increased by \$85.7 million primarily due to the transfer of San Jose Downtown Health Center and to fund the Seismic Safety Project to SCVMC.

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.

On June 30, 2016, the County’s governmental funds reported total fund balances of \$1.28 billion, an increase of \$215.7 million or 20.2 percent from the prior year. Approximately 64.5 percent of the combined fund balance, \$827.6 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 \$454.7 million is either in non-spendable form or restricted for specific spending. This includes \$7.7 million in items that are not expected to be converted to cash (for example: inventories, prepaid amounts, and long-term notes receivable) and \$447.0 million restricted for programs or other purposes.

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For its governmental funds, the County’s total revenues for the current fiscal year were \$3.14 billion—an increase of \$278.0 million or 9.7 percent from the prior year. Total governmental fund expenditures increased by \$226.0 million, or 8.5 percent, to \$2.88 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 \$557.3 million on June 30, 2016, while its total fund balance was \$712.1 million, a \$197.6 million increase over the prior year. This was mainly due to an excess of revenues over expenditures of \$295.0 million for the fiscal year, which was offset by \$97.4 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 23.4 percent and 29.9 percent of the total General Fund expenditures on June 30, 2016, respectively.

The non-spendable and restricted portions of the General Fund’s fund balance were \$7.3 million and \$72.7 million, respectively. The remaining fund balance constitutes the spendable portion, which was \$632.1 million. Of this amount, \$557.3 million was unassigned fund balance. The remaining portions of spendable fund balance included \$58.1 million of committed fund balance and \$16.7 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 fiscal year were \$2.7 billion and \$2.4 billion, respectively. While its revenues increased by \$279.3 million or 11.6 percent for the year, its expenditures increased by \$154.3 million or 6.9 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 2015		FY 2016		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
Taxes	\$ 870,809	36.3%	\$ 954,789	35.6%	\$ 83,980	9.6%
Licenses and permits	14,396	0.6%	15,105	0.6%	709	4.9%
Fines, forfeitures and penalties	58,620	2.4%	47,133	1.8%	(11,487)	(19.6%)
Interest and investment income	10,941	0.5%	19,187	0.7%	8,246	75.4%
Intergovernmental revenues	1,256,252	52.3%	1,418,671	52.9%	162,419	12.9%
Charges for services	121,532	5.1%	122,828	4.6%	1,296	1.1%
Other revenue	67,981	2.8%	102,131	3.8%	34,150	50.2%
Total	\$ 2,400,531	100.0%	\$ 2,679,844	100.0%	\$ 279,313	11.6%

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

Expenditures by function	FY 2015		FY 2016		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
General government	\$ 258,309	11.6%	\$ 245,506	10.3%	\$ (12,803)	-5.0%
Public protection	718,407	32.3%	781,048	32.8%	62,641	8.7%
Public ways and facilities	246	0.0%	3,138	0.1%	2,892	1175.6%
Health and sanitation	490,963	22.0%	544,154	22.8%	53,191	10.8%
Public assistance	736,832	33.0%	783,194	32.8%	46,362	6.3%
Capital outlay	4,730	0.2%	6,949	0.3%	2,219	46.9%
Debt service:						
Principal retirement	10,021	0.4%	11,328	0.5%	1,307	13.0%
Interest and fiscal charges	11,036	0.5%	9,561	0.4%	(1,475)	-13.4%
	<u>\$ 2,230,544</u>	<u>100.0%</u>	<u>\$ 2,384,878</u>	<u>100.0%</u>	<u>\$ 154,334</u>	<u>6.9%</u>

Our analysis of the County’s governmental activities identified key reasons for changes in its revenues and expenditures. This helps explain significant changes in the General Fund because it is the chief operating fund of the County. The General Fund’s revenues and expenditures respectively cover 85.2 percent and 82.9 percent of the County’s total current year revenues and expenditures of all governmental funds. For this reason, we will briefly mention the points that were elaborated upon in our earlier discussion of the countywide revenues and expenses.

Intergovernmental revenues increased by \$162.4 million or 12.9 percent. This was due to an increase in San Jose Redevelopment Agency-Pass-Through of \$52.1 million which was due in the prior fiscal years but subsequently received this fiscal year. In addition, there were increases of \$27.5 million in 2011 State Realignment for Behavioral Health, Community Corrections, Juvenile Justice, and Enhancing Law Enforcement Activity; \$24.9 million for increased State Motor Vehicle In-Lieu taxes; and \$54.7 million for Federal and State funding for CalWorks, Medi-Cal Administration, Title IV-E Waiver, and IHSS (Individual Care Plan and Primary Care Physician) due to an increase in health benefits providers and number of IHSS providers enrolled in health benefits.

Tax revenues increased by \$84.0 million or 9.6 percent. This was mainly due to an 8.7 percent increase in total property assessed values, which increased secured property taxes and other taxes by \$59.7 million. The increase in assessed values is in line with the increase in property tax in-lieu of vehicle license fees of \$18.2 million. In addition, the residual distributions from the Redevelopment Property Tax Trust Fund (RPTTF) increased by \$6.1 million.

Other revenues increased by \$34.2 million or 50.2 percent. This was mainly due to an increase in revenue from an excess in Educational Revenue Augmentation Funds (ERAF) apportionment; as the result of changes in the State’s contributions towards Schools.

Interest and investment income increased by \$8.2 million or 75.4 percent mainly due to higher interest rates and average daily cash balances. The average quarterly earnings rate increased from 0.46 percent last year to 0.71 percent in the current year. The average daily cash balance for the County’s General Fund increased by \$255.6 million from \$834.2 to \$1,089.8 million.

Fines, forfeitures, and penalties decreased by \$11.5 million or 19.6 percent. For the year, the collections from the penalties on delinquent property taxes decreased by \$6.5 million. There were also decreases of \$2.5 million for penalties assessed to an Emergency Medical and Transportation provider for not meeting contract performance provisions and \$2.6 million in legal settlements involving consumer protection when compared to the prior year.

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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, 2016, the County's net position in its enterprise funds was \$221.9 million. The net investment in capital assets was \$832.2 million. The restricted net position of the enterprise funds was \$142.2 million. These assets represent resources that are subject to external restrictions on how they may be used. The unrestricted net position as of June 30, 2016 was negative \$752.5 million. The net position of the County's enterprise funds increased by \$146.1 million for the year. 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 72.8 percent of the total operating revenues and 73.0 percent of the total operating expenses for all enterprise funds. Valley Health Plan is the second largest and its revenues and expenses comprise 26.9 percent of the total operating revenues and 26.7 percent of the total operating expenses for all enterprise funds. The other two enterprise funds— Airports and Sanitation District— are very small in comparison.

The change in net position for SCVMC was \$135.5 million in fiscal year 2016. Operating revenues increased by \$174.1 million or 14.3 percent and operating expenses increased by \$156.6 million or 12.7 percent. Many factors contributed to the increase in operating revenues including: (1) an 8.0 percent increase in rates with an update to the charge master file; (2) a 3.2 percent increase in the average daily census from 329.3 in fiscal year 2015 to 340.3 in fiscal year 2016; (3) a \$2.5 million or 1.0 percent increase in the managed care capitation revenues due to higher enrollment and higher rates under the Medicaid Coverage Expansion (MCE) program; (4) a \$9.2 million or 20.1 percent increases in other managed care revenues due to higher incentive revenues; (5) a \$26.8 million or 36.0 percent increase in outpatient pharmacy revenues due to the program expansion; (6) recognition of \$5.8 million of State Realignment revenues; and (7) other one-time- increased contribution and donations. Factors that contributed to the increase in operating expenses include: (1) payroll increased by 7.5 percent to cover the increased volume in patient days; (2) pharmacy costs increased by \$22.9 million due to higher costs for specialty drugs; (3) information technology costs increased due to system upgrades; (4) \$35.3 million increase in outside medical costs due to service demands exceeding capacity; and (5) depreciation costs increased due to the capitalization of two major projects (Downtown Health Clinic and Services Building) and accelerated depreciation for componentized projects. The net capital contributions and transfers were \$137.0 million for the year.

The change in net position for Valley Health Plan was \$10.2 million in fiscal year 2016. Operating revenues increased by \$27.0 million or 5.5 percent and operating expenses increased by \$25.3 million or 5.3 percent. Premium revenues from the commercial and Covered California lines of business increased from \$140.3 million in fiscal year 2015 to \$166.2 million in fiscal year 2016 mainly due to increase in membership and increase in rates. 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 Airports and Sanitation District during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The County's final budget appropriations for 2016 were \$3.2 billion, which was \$177.8 million or 6 percent higher than the original budget adopted by the Board. Occasionally, unexpected events may cause the County to commit one-time reserves or use ongoing resources to pay for those unplanned events. Differences between the original and final budgets represent supplemental appropriations approved by the Board for various new grants received by the County or to pay for increased service level that was not expected when the original budget was approved.

General fund revenues and expenditures were less than the budgetary estimates for the year. Estimated revenues for the year exceeded actual revenues by \$228.5 million or 7.6 percent. Intergovernmental revenues and Interfund Transfers came in lower than estimates. Final budgetary appropriations exceeded actual expenditures by \$579.8 million or 18.3 percent for the year. These cost savings resulted from unspent appropriations of: a) \$51.2 million in

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salaries and benefits costs due to unfilled vacant positions resulting from turn-over; b) \$199.2 million in services and supplies costs for government programs – general government, health and sanitation, public assistance, and public protection; c) \$3.3 million in capital assets; d) \$6 million from amounts designated for the Healthy Kids program; e) \$3 million for Valley Health Plan’s system upgrade; f) \$6.2 million in Reserves approved by Board of Supervisor to prepay Lease Revenue Bonds; g) \$1.4 million for Qualified Energy Conservation Bonds; h) \$2.2 million for Court Construction Bonds and i) \$306.3 million remaining in contingency reserves.

The General Fund budgetary comparison schedule starts on page 115 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, 2016 was \$2.5 billion.

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

	Governmental Activities		Business-type Activities		Total		Dollar Change	Percent Change
	FY2015	FY 2016	FY2015	FY 2016	FY2015	FY 2016		
Land	\$ 269,896	\$ 271,894	\$ 6,310	\$ 6,310	\$ 276,206	\$ 278,204	\$ 1,998	0.7%
Construction in progress	179,372	206,326	634,307	\$ 663,558	813,679	869,884	56,205	6.9%
Infrastructure	198,145	205,489	-	-	198,145	205,489	7,344	3.7%
Buildings & improvements	515,998	505,864	370,008	505,214	886,006	1,011,078	125,072	14.1%
Equipment, software, and vehicles	51,914	72,763	118,080	95,764	169,994	168,527	(1,467)	(0.9%)
Total	\$ 1,215,325	\$ 1,262,336	\$ 1,128,705	\$ 1,270,846	\$ 2,344,030	\$ 2,533,182	\$ 189,152	8.1%

The County’s net capital assets increased by \$189.2 million or 8.1 percent for the year. Net capital assets for the governmental activities increased by \$47.0 million or 3.7 percent, while the business-type activities’ net capital assets increased by \$142.1 million or 12.6 percent. Changes in capital assets by activity type were as follows:

Governmental activities

The County’s capital assets for its governmental activities rose by \$47.0 million mainly due to:

- Construction in progress increased by \$27.0 million due to the following projects:
 - Enhancements to the Tax Collection and Apportionment System - \$3.3 million
 - Various roads projects including bridge rehabilitation and replacement, expressway repaving, and road maintenance and improvements - \$19.0 million
 - Various Parks Department projects - \$25.0 million
 - Solar panel construction projects and improvements to County buildings - \$29.0 million

The increase was offset by \$50.8 million due to the completion of the San Jose Downtown Health Center and transferred to the Health and Hospital System

- Equipment, software, and vehicles increased by \$21.0 million primarily due to the implementation of new software such as the Ariba procure-to-pay system, County Communication radio projects, and purchase of new vehicles.

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Business-type activities

Net capital assets for business-type activities increased by \$142.1 million for the year. This increase was mainly due to the current year net increase of \$135.2 million in building and improvements million due to \$50.8 million in transfer of San Jose Downtown Health Center from Facilities & Fleet to SCVMC and other completed projects.

Commitment of Resources for Construction Work in Progress

On June 30, 2016, the County had committed \$43.8 million of its net position from the governmental activities, and \$83.0 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, 2016 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
	FY2015	FY 2016	FY2015	FY 2016	FY2015	FY 2016		
Taxable pension funding bonds	\$ 419,799	\$ 420,365	\$ -	\$ -	\$ 419,799	\$ 420,365	\$ 566	0.1%
General obligation bonds	847,527	839,150	-	-	847,527	839,150	(8,377)	(1.0%)
Lease revenue bonds	217,022	194,774	527,036	498,248	744,058	693,022	(51,036)	(6.9%)
Capital appreciation bonds	166,606	176,589	-	-	166,606	176,589	9,983	6.0%
Certificates of participation	3,188	2,984	-	-	3,188	2,984	(204)	(6.4%)
New Clean Renewable Energy Bonds	-	33,000	-	-	-	33,000	33,000	100.0%
Capital lease obligations	3,860	3,347	-	-	3,860	3,347	(513)	(13.3%)
Total	\$ 1,658,002	\$ 1,670,209	\$ 527,036	\$ 498,248	\$ 2,185,038	\$ 2,168,457	\$ (16,581)	(0.8%)

The County’s long-term debt decreased by \$16.6 million mainly due to scheduled debt repayments for lease revenue bonds of \$51.0 million and general obligation bonds of \$8.4 million. These were offset by \$33.0 million and \$10.0 million in New Clean Renewable Energy bonds and accreted interest on Tobacco Settlement Asset-Backed bonds, respectively. Additional information on the County’s long-term debt can be found in Note 8 on page 65 of this report.

For its outstanding debt, Standard & Poor’s (S&P) has maintained an AA+ rating 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. Both ratings are the highest possible long-term ratings. Additional information on the County’s ratings on its long term debt can be found in Note 17 on page 108.

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ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Emerging from one of the greatest economic downturns since the Great Depression, the County of Santa Clara has now experienced five successive years of growth in both revenues and expenditures. The County's budget for the upcoming year continues this trend with a projected 6.1 percent increase in revenue and an 8.4 percent increase in net expenditures. Budgeted expenditures exceed budgeted revenue by \$385.4 million in fiscal year 2017. The deficit is expected to be covered by available fiscal year 2016 fund balance. The following economic factors were considered in the County's fiscal year 2017 budget:

- The County's unemployment rate remains steady: the rate for June 2016 was 4.0 percent which remains unchanged from June 2015. In comparison, the statewide unemployment rate for June 2016 was 5.7 percent, a decrease of 0.5 percent from the prior year at 6.2 percent.
- The real per capita income (a measure of wealth creation) as of March 2015 (most current available data) increased from \$69,205 to \$73,887. The real per capita income on a national level is \$47,615, an increase of \$1,438 from the prior year.
- Housing prices continued to grow strongly for a fifth straight year. This was demonstrated by the median price for single family homes, which increased to \$1,085,000, a 10.7 percent increase from a year ago. This increase was fueled by tight inventory of homes for sale, low mortgage interest rates, and buyer demand.
- Venture capital investment, a leading indicator of innovation and long-term development, decreased slightly by \$429.6 million, or 0.8 percent, in fiscal year 2016 compared to fiscal year 2015. Silicon Valley and San Francisco regions, taken together, accounted for 45.5 percent of the national total and 80.3 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 significantly improved results compared to the past year. The vacancy rate for research and development space was 8.4 percent in June 2016 versus 10.0 percent the year prior. The office space vacancy rate was 6.4 percent in June 2016 compared to 9.4 percent prior year. The vacancy rate for warehouse space dropped from 6.1 percent in June 2015 to 2.2 percent in June 2016.
- Assessed value for real property, which increased by 9.0 percent, contributed to an increase of \$31.2 million in current secured property tax revenue. The current unsecured tax revenue decreased by 7.0 percent, or 2.6 million, from the prior year due to reduction in collection because of the small growth in the unsecured tax levy. The property tax delinquencies on secured property increased slightly from 0.4 percent in fiscal year 2015 to 0.6 percent in fiscal year 2016. Property tax (transfer tax) revenue decreased by 4.0 percent or \$1.2 million. Supplemental tax revenues decreased by 0.8 percent or \$132,974. The fiscal year 2017 budget assumes a 7.2 percent increase in secured property assessed value, which corresponds to an increase of \$59.3 million in property tax value.

The fiscal year 2017 Countywide expenditure budget of \$6.1 billion included an 11.0 percent increase compared to the prior year's budget. This increase was due to the increased spending for the County's correctional facilities and programs, support service for the homeless, the creation of affordable housing, and continued commitment towards the restoration and enhancement of administrative infrastructure.

The fiscal year 2017 budget sets aside \$131.1 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.

COUNTY OF SANTA CLARA

Statement of Net Position

June 30, 2016

(In thousands)

	Primary Government			Component Units
	Governmental Activities	Business- type Activities	Total	
Assets:				
Cash and investments	\$ 1,571,310	\$ 363,519	\$ 1,934,829	\$ 262,677
Receivables, net of allowance for uncollectibles	95,999	137,753	233,752	425,221
Internal balances	116,637	(116,637)	-	-
Due from other governmental agencies, net	343,746	166,191	509,937	97,408
Receivables from related parties and component units	7,300	-	7,300	88,611
Inventories	4,103	23,145	27,248	-
Other assets	7,952	16,122	24,074	13,282
Restricted cash and investments	76,126	193,679	269,805	26,829
Capital assets:				
Nondepreciable	478,220	669,868	1,148,088	60,052
Depreciable, net of accumulated depreciation	784,116	600,978	1,385,094	365,565
Total assets	<u>3,485,509</u>	<u>2,054,618</u>	<u>5,540,127</u>	<u>1,348,781</u>
Deferred outflows of resources:				
Pension related items	226,873	103,439	330,312	927
Unamortized loss on refunding debt	7,121	12,419	19,540	-
Deferred outflows on derivative instruments	-	24,799	24,799	-
Total deferred outflows of resources	<u>233,994</u>	<u>140,657</u>	<u>374,651</u>	<u>927</u>
Liabilities:				
Accounts payable	156,831	102,896	259,727	23,790
Accrued salaries and benefits	55,790	35,593	91,383	660
Accrued liabilities	41,064	65,652	106,716	95,249
Estimated third-party payer settlements	-	77,668	77,668	-
Due to related parties	-	-	-	95,922
Due to other governmental agencies	72,511	182,227	254,738	363,046
Unearned revenue	137,248	8,861	146,109	1,374
Payable to primary government	-	-	-	7,300
Net OPEB obligation	313,311	-	313,311	-
Net pension liability	1,964,622	934,043	2,898,665	5,018
Noncurrent liabilities:				
Due within one year	88,363	93,898	182,261	8,185
Due in more than one year	1,918,534	485,653	2,404,187	261,213
Derivative instruments liabilities	-	24,799	24,799	-
Total liabilities	<u>4,748,274</u>	<u>2,011,290</u>	<u>6,759,564</u>	<u>861,757</u>
Deferred inflows of resources:				
Pension related items	158,501	78,293	236,794	2,545
Deferred service concession arrangement receipts	15,969	-	15,969	-
Total deferred inflows of resources	<u>174,470</u>	<u>78,293</u>	<u>252,763</u>	<u>2,545</u>
Net position (see Note 10(a)):				
Net investment in capital assets	1,067,566	832,176	1,099,998	190,956
Restricted for:				
Capital facilities	-	141,436	-	-
Debt service	16,757	791	17,548	-
Parks	53,334	-	53,334	-
Housing programs	78,108	-	78,108	-
Roads	36,120	-	36,120	-
Mental health	127,890	-	127,890	-
Other purposes	153,343	-	153,343	25,362
Unrestricted	<u>(2,736,359)</u>	<u>(868,711)</u>	<u>(2,663,890)</u>	<u>269,088</u>
Total net position	<u>\$ (1,203,241)</u>	<u>\$ 105,692</u>	<u>\$ (1,097,549)</u>	<u>\$ 485,406</u>

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, 2016

(In thousands)

Function/program activities:	<u>Program Revenues</u>				
	<u>Expenses</u>	<u>Indirect Expenses Allocation</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:					
Governmental activities:					
General government	\$ 351,772	\$ (57,116)	\$ 93,306	\$ 245,830	\$ -
Public protection	912,139	3,310	104,620	261,111	-
Public ways and facilities	41,230	1,399	3,154	27,151	5,074
Health and sanitation	570,769	-	61,906	237,261	-
Public assistance	773,866	6,925	4,697	683,268	-
Education	38,061	926	629	1,866	-
Recreation and culture	44,040	1,534	6,671	1,342	-
Interest on long-term liabilities	53,300	-	-	-	-
Total governmental activities	<u>2,785,177</u>	<u>(43,022)</u>	<u>274,983</u>	<u>1,457,829</u>	<u>5,074</u>
Business-type activities:					
Healthcare	1,867,083	42,931	1,771,220	138,011	-
Airport	2,645	91	2,505	-	-
Sanitation	2,626	-	3,121	-	-
Total business-type activities	<u>1,872,354</u>	<u>43,022</u>	<u>1,776,846</u>	<u>138,011</u>	<u>-</u>
Total primary government	<u>\$ 4,657,531</u>	<u>\$ -</u>	<u>\$ 2,051,829</u>	<u>\$ 1,595,840</u>	<u>\$ 5,074</u>
Component units	<u>\$ 1,511,780</u>		<u>\$ 1,544,177</u>	<u>\$ 23,767</u>	<u>\$ 4,268</u>

General revenues:

- Property taxes
- Sales and use taxes
- Other taxes
- Unrestricted intergovernmental - 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
- Change in net position
- Net position, beginning of year
- 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:
\$ 44,480	\$ -	\$ 44,480	\$ -	General government
(549,718)	-	(549,718)	-	Public protection
(7,250)	-	(7,250)	-	Public ways and facilities
(271,602)	-	(271,602)	-	Health and sanitation
(92,826)	-	(92,826)	-	Public assistance
(36,492)	-	(36,492)	-	Education
(37,561)	-	(37,561)	-	Recreation and culture
(53,300)	-	(53,300)	-	Interest on long-term liabilities
(1,004,269)	-	(1,004,269)	-	Total governmental activities
				Business-type activities:
-	(783)	(783)	-	SCVMC
-	(231)	(231)	-	Airport
-	495	495	-	Sanitation
-	(519)	(519)	-	Total business-type activities
(1,004,269)	(519)	(1,004,788)	-	Total primary government
-	-	-	60,432	Component units
1,190,229	-	1,190,229	-	General revenues:
54,632	5,831	60,463	-	Property taxes
524	-	524	-	Sales and use taxes
33,408	-	33,408	-	Other taxes
76,104	-	76,104	-	Unrestricted intergovernmental - motor vehicle in lieu of taxes
18,501	4,671	23,172	5,413	Grants/contributions not restricted to specific programs
				Investment income
				Other:
31,581	-	31,581	-	Penalties on delinquent taxes
15,356	-	15,356	-	Tobacco settlement revenues
11,592	-	11,592	611	Miscellaneous revenues
(136,995)	136,995	-	-	
1,294,932	147,497	1,442,429	6,024	Transfers
290,663	146,978	437,641	66,456	Total general revenues and transfers
(1,493,904)	(41,286)	(1,535,190)	418,950	Change in net position
\$ (1,203,241)	\$ 105,692	\$ (1,097,549)	\$ 485,406	Net position, beginning of year
				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, 2016
(In thousands)

	General Fund	Other Governmental Funds	Total
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Cash and investments:			
Unrestricted	\$ 862,699	\$ 545,655	\$ 1,408,354
Restricted with fiscal agents	-	21,840	21,840
Other restricted	80	40,367	40,447
Receivables:			
Property taxes	2,774	-	2,774
Other, net of allowance for uncollectibles	19,653	62,234	81,887
Due from other funds	3,004	4,956	7,960
Due from other governmental agencies, net	336,095	7,061	343,156
Inventories	2,484	438	2,922
Other assets	4,282	468	4,750
Advances to other funds	468	-	468
	<u>\$ 1,231,539</u>	<u>\$ 683,019</u>	<u>\$ 1,914,558</u>
Liabilities, Deferred Inflows of Resources and Fund Balances:			
Liabilities:			
Accounts payable	\$ 120,400	\$ 23,504	\$ 143,904
Accrued salaries and benefits	47,232	6,609	53,841
Other accrued liabilities	2,510	15,421	17,931
Due to other funds	1,158	4,845	6,003
Due to other governmental agencies	71,850	659	72,509
Advances from other funds	-	468	468
Unearned revenue	134,275	2,247	136,522
	<u>377,425</u>	<u>53,753</u>	<u>431,178</u>
Deferred inflows of resources:			
Unavailable revenue	142,015	59,141	201,156
	<u>142,015</u>	<u>59,141</u>	<u>201,156</u>
Fund balances:			
Nonspendable	7,234	438	7,672
Restricted	72,724	374,268	446,992
Committed	58,119	159,524	217,643
Assigned	16,696	35,895	52,591
Unassigned	557,326	-	557,326
	<u>712,099</u>	<u>570,125</u>	<u>1,282,224</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,231,539</u>	<u>\$ 683,019</u>	<u>\$ 1,914,558</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, 2016
(In thousands)

Fund balances - total governmental funds (page 26)	\$ 1,282,224
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.	1,245,193
Loss on bond refundings are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net position.	7,121
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.	201,156
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.	13,045
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.	(15,969)
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	226,873
Deferred inflows of resources	(158,501)
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.	(556,426)
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)	\$ (1,246,497)
Accrued vacation and sick leave	(153,783)
Net pension liability	(1,964,622)
Capital lease obligations	(3,347)
Accrued interest payable	(15,872)
Net OPEB obligations - Santa Clara Central Fire Protection District	(43,135)
Pollution remediation obligation	(12,901)
Accrued litigation liability	(7,800)
	<u>(3,447,957)</u>
Net Position - governmental activities (page 23)	<u><u>\$ (1,203,241)</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, 2016

(In thousands)

	General Fund	Other Governmental Funds	Total
Revenues:			
Taxes	\$ 954,789	\$ 219,409	\$ 1,174,198
Licenses and permits	15,105	26,692	41,797
Fines, forfeitures, and penalties	47,133	8,610	55,743
Interest and investment income	19,187	6,146	25,333
Intergovernmental revenues	1,418,671	150,873	1,569,544
Charges for services	122,828	38,289	161,117
Other revenue	102,131	14,781	116,912
	<hr/>	<hr/>	<hr/>
Total revenues	2,679,844	464,800	3,144,644
Expenditures:			
Current:			
General government	245,506	162	245,668
Public protection	781,048	153,733	934,781
Public ways and facilities	3,138	63,667	66,805
Health and sanitation	544,154	32,554	576,708
Public assistance	783,194	4,760	787,954
Education	-	39,023	39,023
Recreation and culture	-	44,148	44,148
Capital outlay	6,949	96,893	103,842
Debt service:			
Principal retirement	11,328	18,132	29,460
Interest and fiscal charges	9,561	37,166	46,727
Payment to bond refunding escrow	-	3,013	3,013
	<hr/>	<hr/>	<hr/>
Total expenditures	2,384,878	493,251	2,878,129
Excess (deficiency) of revenues over (under) expenditures	<hr/>	<hr/>	<hr/>
	294,966	(28,451)	266,515
Other financing sources (uses):			
Proceeds from sale of capital assets	5,010	103	5,113
Capital lease financing	-	283	283
Bond premium	-	6,183	6,183
Bonds issuance	-	33,000	33,000
Issuance of refunding bonds	-	64,835	64,835
Payment to bond refunding escrow	-	(71,018)	(71,018)
Transfers in	88,488	124,398	212,886
Transfers out	(190,913)	(111,212)	(302,125)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(97,415)	46,572	(50,843)
Net change in fund balances	197,551	18,121	215,672
Fund balances, beginning of year	514,548	552,004	1,066,552
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	\$ 712,099	\$ 570,125	\$ 1,282,224

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, 2016
(In thousands)

Net change in fund balances - total governmental funds (page 28)		\$ 215,672
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	\$ 140,026	
Net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, donations)	(2,249)	
Transfer of capital assets to business-type activities	(50,798)	
Less current year depreciation	<u>(43,895)</u>	43,084
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.		
		(283)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		6,396
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.		
		(14,907)
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.		
		210,121
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.		
		(156,896)
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 bonds issuance	(104,018)	
Payment to bond refunding escrow	<u>74,031</u>	(29,987)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		29,460
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	3,872	
Amortization of loss on refunding debt	(782)	
Amortization of prepaid bond insurance costs	(2)	
Change in accrued interest payable	320	
Change in accreted interest - Tobacco Settlement Asset-Backed Bonds	(9,983)	
Change in net OPEB obligations - Santa Clara Central Fire Protection District	(1,416)	
Change in pollution remediation obligations	(6,371)	
Change in accrued litigation liability	26,979	
Change in long-term compensated absences	<u>(6,921)</u>	5,696
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>(17,693)</u>
Change in net position of governmental activities (page 25)		<u>\$ 290,663</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, 2016

(In thousands)

	Business-type Activities - Enterprise Funds				Governmental
	SCVMC	Valley		Total	Internal
		Health Plan	Other		Service Funds
Assets:					
Current assets:					
Cash and investments:					
Unrestricted	\$ 246,028	\$ 107,124	\$ 10,367	\$ 363,519	\$ 162,956
Restricted with fiscal agent	192,968	-	711	193,679	13,113
Other restricted	-	-	-	-	726
Receivables:					
Patient accounts receivable, net of estimated uncollectables	134,021	-	-	134,021	-
Other	1,451	2,177	104	3,732	5,593
Due from other funds	1,123	27	-	1,150	8
Due from other governmental agencies	166,191	-	-	166,191	590
Inventories	23,145	-	-	23,145	1,181
Prepaid rent/insurance	16,100	-	-	16,100	2,319
Total current assets	<u>781,027</u>	<u>109,328</u>	<u>11,182</u>	<u>901,537</u>	<u>186,486</u>
Noncurrent assets:					
Other assets	-	-	22	22	883
Capital assets:					
Nondepreciable	665,686	-	4,182	669,868	1,295
Depreciable, net of accumulated depreciation	567,973	21,472	11,533	600,978	15,848
Total noncurrent assets	<u>1,233,659</u>	<u>21,472</u>	<u>15,737</u>	<u>1,270,868</u>	<u>18,026</u>
Total assets	<u>2,014,686</u>	<u>130,800</u>	<u>26,919</u>	<u>2,172,405</u>	<u>204,512</u>
Deferred outflows of resources:					
Pension items	101,566	1,753	120	103,439	-
Unamortized loss on refunding debt	12,419	-	-	12,419	-
Deferred outflows on derivative instruments	24,799	-	-	24,799	-
Total deferred outflows of resources	<u>138,784</u>	<u>1,753</u>	<u>120</u>	<u>140,657</u>	<u>-</u>
Liabilities:					
Current liabilities:					
Accounts payable	41,618	60,340	938	102,896	12,927
Accrued salaries and benefits	34,863	701	29	35,593	1,949
Accrued liabilities	44,867	20,620	165	65,652	7,261
Due to other funds	1,567	-	-	1,567	1,548
Due to third-party payers	77,668	-	-	77,668	-
Due to other governmental agencies	182,227	-	-	182,227	2
Unearned revenues	132	8,682	47	8,861	726
Current portion of insurance claims	-	-	-	-	39,949
Current portion of accrued vacation and sick leave	14,759	61	6	14,826	433
Current portion of bonds payable	78,907	-	165	79,072	7,870
Total current liabilities	<u>476,608</u>	<u>90,404</u>	<u>1,350</u>	<u>568,362</u>	<u>72,665</u>
Noncurrent liabilities:					
Noncurrent portion of insurance claims	-	-	-	-	115,945
Noncurrent portion of accrued vacation and sick leave	65,273	1,125	79	66,477	5,877
Noncurrent portion of bonds payable	415,130	-	4,046	419,176	412,495
Net OPEB obligation	-	-	-	-	270,176
Net pension liability	917,136	15,824	1,083	934,043	-
Derivative instruments liabilities	24,799	-	-	24,799	-
Total noncurrent liabilities	<u>1,422,338</u>	<u>16,949</u>	<u>5,208</u>	<u>1,444,495</u>	<u>804,493</u>
Total liabilities	<u>1,898,946</u>	<u>107,353</u>	<u>6,558</u>	<u>2,012,857</u>	<u>877,158</u>
Deferred inflows of resources:					
Pension items	76,876	1,326	91	78,293	-
Net position:					
Net investment in capital assets	798,760	21,472	11,944	832,176	17,143
Restricted:					
Capital facilities	141,436	-	-	141,436	-
Debt service	791	-	-	791	-
Unrestricted	(763,339)	2,402	8,446	(752,491)	(689,789)
Total net position	<u>\$ 177,648</u>	<u>\$ 23,874</u>	<u>\$ 20,390</u>	<u>221,912</u>	<u>\$ (672,646)</u>
Adjustment to reflect the consolidation of internal service fund activities to enterprise funds.				(116,220)	
Net position of business-type activities				<u>\$ 105,692</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, 2016
 (In thousands)

	Business-type Activities - Enterprise Funds				Governmental
	Valley			Total	Activities
	SCVMC	Health Plan	Other		Internal
					Service Funds
Operating revenues:					
Charges for services	\$ 1,256,363	\$ 514,857	\$ 5,626	\$ 1,776,846	\$ 364,888
Other program revenues	138,011	-	-	138,011	-
Net operating revenues	1,394,374	514,857	5,626	1,914,857	364,888
Operating expenses:					
Salaries and benefits	881,181	16,954	935	899,070	224,700
Services and supplies	163,614	485,246	959	649,819	36,586
General and administrative	-	-	-	-	6,133
Professional services	233,755	-	773	234,528	2,879
Depreciation	65,575	3,576	679	69,830	4,464
Leases and rentals	7,717	-	-	7,717	34
Utilities	12,819	-	-	12,819	-
Insurance claims and premiums	10,958	-	46	11,004	87,742
Other	9,220	-	1,756	10,976	-
Total operating expenses	1,384,839	505,776	5,148	1,895,763	362,538
Operating income (loss)	9,535	9,081	478	19,094	2,350
Nonoperating revenues (expenses):					
Taxes	5,831	-	-	5,831	-
Investment income	3,523	1,058	90	4,671	2,069
Interest expense	(18,879)	-	(210)	(19,089)	(25,018)
Gain (loss) on disposal of capital assets	(402)	-	-	(402)	455
Other, net	(1,041)	(1)	-	(1,042)	329
Total nonoperating revenues (expenses), net	(10,968)	1,057	(120)	(10,031)	(22,165)
Income (loss) before capital contributions and transfers	(1,433)	10,138	358	9,063	(19,815)
Capital contributions transferred in from other County funds	50,798	-	-	50,798	-
Transfers in	99,676	54	17	99,747	3,642
Transfers out	(13,550)	-	-	(13,550)	(600)
Change in net position	135,491	10,192	375	146,058	(16,773)
Net position, beginning of year	42,157	13,682	20,015	75,854	(655,873)
Net position, end of year	\$ 177,648	\$ 23,874	\$ 20,390	\$ 221,912	\$ (672,646)
Change in net position of enterprise funds				\$ 146,058	
Adjustment to reflect the consolidation of internal service funds to enterprise funds.				920	
Change in net position of business-type activities				\$ 146,978	

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, 2016

(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	\$ 1,335,596	\$ 515,708	\$ 5,623	\$ 1,856,927	\$ 365,093
Cash payment to suppliers for goods and services	(432,326)	(459,258)	(3,406)	(894,990)	(44,647)
Cash payment to employees for services	(892,428)	(16,995)	(953)	(910,376)	(53,331)
Cash payment for retirement benefits	-	-	-	-	(150,179)
Cash payment for judgments and claims	-	-	-	-	(79,545)
Other payments	(1,041)	(1)	-	(1,042)	-
Other receipts	-	-	-	-	329
Net cash provided by operating activities	9,801	39,454	1,264	50,519	37,720
Cash flows from noncapital financing activities:					
Cash receipts from state grants - taxes realignment	5,831	-	-	5,831	-
Cash receipts from borrowings from other funds	18,087	-	-	18,087	639
Cash payments to other funds	-	(2,363)	-	(2,363)	-
Principal paid on pension obligation bonds	-	-	-	-	(4,325)
Interest paid on pension obligation bonds	-	-	-	-	(20,075)
Transfers in	99,676	54	17	99,747	3,642
Transfers out	(13,550)	-	-	(13,550)	(600)
Net cash provided by (used in) noncapital financing activities	110,044	(2,309)	17	107,752	(20,719)
Cash flows from capital and related financing activities:					
Proceeds from issuance of refunding bonds	1,821	-	-	1,821	-
Bond issuance costs paid	(1,821)	-	-	(1,821)	-
Payment to bond refunding escrow	(6,693)	-	-	(6,693)	-
Principal paid on bonds	(24,977)	-	(155)	(25,132)	-
Interest paid	(18,422)	-	(209)	(18,631)	-
Acquisition of capital assets	(150,136)	(10,187)	(414)	(160,737)	(8,391)
Proceeds from sale of capital assets	66	-	-	66	455
Capital contributions received	7	-	-	7	-
Net cash used in capital and related financing activities	(200,155)	(10,187)	(778)	(211,120)	(7,936)
Cash flows from investing activities:					
Investment income received	3,604	1,058	90	4,752	2,134
Investment expenses paid	-	-	-	-	(65)
Net cash provided by investing activities	3,604	1,058	90	4,752	2,069
Net change in cash and cash equivalents	(76,706)	28,016	593	(48,097)	11,134
Cash and cash equivalents, beginning of year	515,702	79,108	10,485	605,295	165,661
Cash and cash equivalents, end of year	\$ 438,996	\$ 107,124	\$ 11,078	\$ 557,198	\$ 176,795
Cash and cash equivalents:					
Cash and investments:					
Unrestricted	\$ 246,028	\$ 107,124	\$ 10,367	\$ 363,519	\$ 162,956
Restricted with fiscal agents	192,968	-	711	193,679	13,113
Other restricted	-	-	-	-	726
Total cash and cash equivalents	\$ 438,996	\$ 107,124	\$ 11,078	\$ 557,198	\$ 176,795

(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, 2016

(In thousands)

	Business-type Activities - Enterprise Funds				Governmental
	Valley			Total	Internal
	SCVMC	Health Plan	Other		Service Funds
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 9,535	\$ 9,081	\$ 478	\$ 19,094	\$ 2,350
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	65,575	3,576	679	69,830	4,464
Provision for bad debts	5,909	-	-	5,909	-
Miscellaneous nonoperating revenues (expenses), net	(1,041)	(1)	-	(1,042)	329
Decrease (increase) in assets:					
Receivables	(22,084)	(185)	7	(22,262)	(981)
Due from other governmental agencies	(92,633)	-	-	(92,633)	460
Inventories	(1,366)	-	-	(1,366)	37
Prepaid rent/insurance	(12,930)	-	-	(12,930)	(201)
Increase (decrease) in liabilities:					
Accounts payable	7,365	13,505	121	20,991	1,304
Accrued salaries and benefits	-	227	7	234	-
Accrued liabilities	27,849	12,483	7	40,339	685
Due to third-party payers	(145)	-	-	(145)	-
Accrued vacation and sick leave	-	94	15	109	417
Insurance claims	-	-	-	-	8,079
Due to other governmental agencies	50,043	-	-	50,043	(37)
Unearned revenue	132	1,036	(10)	1,158	726
Net OPEB obligation	-	-	-	-	20,088
Changes in pension items:					
Decrease (increase) in deferred outflows of resources	(14,192)	(254)	(16)	(14,462)	-
Increase (decrease) in deferred inflows of resources	(112,212)	(1,917)	(134)	(114,263)	-
Net pension liability	99,996	1,809	110	101,915	-
Net cash provided by operating activities	\$ 9,801	\$ 39,454	\$ 1,264	\$ 50,519	\$ 37,720

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

Noncash capital and related financing activities:

Transfers of capital assets from the					
County's governmental activities	\$ 50,798	\$ -	\$ -	\$ 50,798	\$ -
Payment to refunded bond escrow agent from refunding bond proc	112,065	-	-	112,065	-
Acquisition of capital assets through accounts payable	4,069	-	-	4,069	-
Amortization of bond premiums	(2,095)	-	-	(2,095)	-
Amortization of loss on refunding debt	1,284	-	-	1,284	-
Amortization of prepaid insurance costs	10	-	-	10	-
Retirement of premiums due to refunding	(2,564)	-	-	(2,564)	-
Retirement of prepaid bond issuance costs due to refunding	222	-	-	222	-

Noncash noncapital financing activities:

Accretion of interest on capital appreciation bonds	-	-	-	-	7,461
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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, 2016
(In thousands)

	<u>Investment Trust Funds</u>	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
Assets:			
Cash and investments:			
Unrestricted	\$ 3,902,382	\$ 45,808	\$ 174,032
Other restricted	5	-	334
Receivables:			
Property taxes	-	-	50,399
Interest	11,805	222	11,884
Other	-	85	191
Due from other agency funds	-	-	20,580
Due from other governmental agencies	-	-	1,156
Other assets	-	94,743	2,568
Total assets	<u>3,914,192</u>	<u>140,858</u>	<u>261,144</u>
Liabilities:			
Accounts payable	-	44,775	-
Other accrued liabilities	-	462	-
Due to other agency funds	-	-	20,580
Due to other governmental agencies	-	576	22,858
Deposits from others	-	94,830	-
Fiduciary liabilities	-	-	217,706
Total liabilities	<u>-</u>	<u>140,643</u>	<u>261,144</u>
Net position:			
Restricted for pool participants and trusts	<u>\$ 3,914,192</u>	<u>\$ 215</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, 2016
(In thousands)

	<u>Investment Trust Funds</u>	<u>Private-Purpose Trust Fund</u>
Additions:		
Contributions to pooled investments	\$ 15,751,276	\$ -
Interest and investment income	10,224	146
Total additions	<u>15,761,500</u>	<u>146</u>
Deductions:		
Distributions and administrative expenses	15,445,863	249
Total deductions	<u>15,445,863</u>	<u>249</u>
Change in net position	315,637	(103)
Net position, beginning of year	<u>3,598,555</u>	<u>318</u>
Net position, end of year	<u>\$ 3,914,192</u>	<u>\$ 215</u>

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, 2016

(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 Board serves as the governing board of the entities listed below. The County has financial and operational responsibility for these component units and the services provided by these entities benefits the County. Accordingly, these entities are presented as blended component units of the County.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2016
(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, 2016

(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, 2016
(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, 2016

(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; 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, 2016

(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 61% of the pool.

Investments of the pool are stated at fair value. The County has not provided nor obtained any legally binding guarantees during the year ended June 30, 2016 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.

Investment Income

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

The County follows legal or contractual provisions regarding the assignment of interest revenue to certain other funds. Interest on bond monies held in the non-major governmental funds have such arrangements. The assignment of other interest is based on management's discretion. In accordance with 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2016

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

The County adopted the provisions of fair value measurements. Under accounting principles generally in the United States of America, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. Accounting principles generally accepted in the United States of America establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the County. Unobservable inputs, if any, reflects the County’s assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuation based on unadjusted quoted prices in active markets for identical assets or liabilities that the County has the ability to access at measurement date. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuation based on significant inputs that are observable, either directly or indirectly or quoted prices in markets that are not active, that is markets in which there are few transactions, the prices are not current or price quotations vary substantially either over time or among market makers.

Level 3 – Valuation based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less than observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed, and the differences could be material.

(f) *Statement of Cash Flows*

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

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2016
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

(g) Inventories

Inventories are stated at cost (using the first-in, first-out method), which approximates market, and consist of expendable supplies that are reduced as consumed. Inventories reported in governmental funds are offset by a corresponding 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, \$5 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:

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

Interest is capitalized on proprietary funds' construction in progress. 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

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

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”. 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

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2016

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

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 governmental-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.

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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2016
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

(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, 2014 and were rolled forward to June 30, 2015. For this report, the following timeframes are used for the County's pension plans:

Valuation Date (VD).....	June 30, 2014 updated to June 30, 2015
Measurement Date (MD).....	June 30, 2015
Measurement Period (MP)....	July 1, 2014 to June 30, 2015

(q) Effects of New Pronouncements

During the year ended June 30, 2016, the County implemented the following GASB Statements:

- GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 requires the County to use valuation techniques which are appropriate under the circumstances and are consistent with the market approach, the cost approach or the income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. The County made the required disclosures in Note 3.
- 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. Implementation of this statement did not have a significant impact on the County for the year ending June 30, 2016.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2016
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

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

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.

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 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.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The statement amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan and established accounting and reporting guidelines for such pension plan. 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.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2016
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

In January 2016, the GASB issued Statement No 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No.14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*. The new standard is effective for periods beginning after June 15, 2016. Application of this statement is effective for the County’s fiscal year ending June 30, 2017.

In March 2016, the GASB issued Statement No 81, *Irrevocable Split-Interest Agreements*. This Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The new standard is effective for periods beginning after December 15, 2016. Application of this statement is effective for the County’s fiscal year ending June 30, 2018.

In March 2016, the GASB issued Statement No 82, *Pension Issues – an amendment of GASB Statements No.67, No.68, and No.73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The new standard is effective for periods beginning after June 15, 2017. Application of this statement is effective for the County’s fiscal year ending June 30, 2018.

(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, 2016, the County’s governmental activities have a deficit net position of \$1.2 billion, 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, 2016, the Unemployment Insurance, Workers’ Compensation, Retiree Healthcare, and Pension Obligation Internal Service Funds have deficit net position of \$159, \$23,911, \$256,099, and \$427,002, respectively. For the Workers’ Compensation Internal Service Fund, the County contributed \$34 million to reduce the deficit in fiscal year 2017. 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 three years to attain the Annual Required Contribution (ARC) level in fiscal year 2018 and maintaining ARC payments over the next 30 years. For the Pension Obligation Internal Service Fund, the deficit net position will be reduced through repayment of pension obligation bonds with final maturity date of August 1, 2036.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer	Credit Ratings Minimum (2 Ratings)
U.S. Treasury Obligations	5 years	None	None	N/A
U.S. Agency Securities	5 years	None	None	N/A
State Local Agency Investment Fund (LAIF)	N/A	None	\$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, 2016
 (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:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Primary Government	\$ 1,934,829	\$ 269,805	\$ 2,204,634
Component Units	262,677	26,829	289,506
Investment Trust Funds	3,902,382	5	3,902,387
Private-Purpose Trust Fund	45,808	-	45,808
Agency Funds	<u>174,032</u>	<u>334</u>	<u>174,366</u>
Total cash and investments	<u>\$ 6,319,728</u>	<u>\$ 296,973</u>	<u>\$ 6,616,701</u>

The County’s cash and investments are as follows:

Cash and deposits:		
Cash on hand		\$ 75
Deposits of the County		16,870
Restricted deposits		3,033
Deposits with component units:		
Housing Authority		53,421
FIRST 5		2,906
Health Authority		<u>75,027</u>
Total cash and deposits		<u>151,332</u>
Investments:		
With Treasurer		6,271,555
With Treasurer - FIRST 5		1,043
With Treasurer - Health Authority		70,750
With fiscal agents		35,662
With Housing Authority		31,913
With FIRST 5		<u>54,446</u>
Total investments		<u>6,465,369</u>
Total cash, deposits and investments		<u>\$ 6,616,701</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2016
(Dollars in thousands)

(3) Cash and Investments (Continued)

(d) Custodial Credit Risk – Deposits

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

(e) Investment Composition

As of June 30, 2016, the major classes of the County’s investments consisted of the following:

	Interest Rates	Par Value	Fair Value	0 - 1	1 - 3	3 - 5
With Treasurer:						
Commingled pool:						
U.S.Treasury Notes	0.63% - 1.38%	\$ 115,000	\$ 115,721	\$ 75,106	\$ 40,615	\$ -
U.S. Agencies - Coupon	0.43% - 5%	3,000,328	3,018,257	953,889	1,623,798	440,570
U.S. Agencies - Discount	0.38% - 0.71%	385,277	384,669	384,669	-	-
Medium-term Corporate Notes	0.70% - 2.13%	328,589	330,807	72,055	238,673	20,079
Asset Backed Securities	0.42% - 1.57%	202,879	203,490	4,551	106,247	92,692
Municipal Bonds	0.75% - 5.75%	119,755	121,191	52,430	43,141	25,620
Commercial Paper - Coupon	0.20%	150,000	150,000	150,000	-	-
Commercial Paper - Discount	0.39% - 1.03%	255,000	254,122	254,122	-	-
Negotiable Certificate of Deposit	0.80% - 1.69%	805,000	805,283	785,283	20,000	-
Purchase Agreement	0.35%	100,000	100,000	100,000	-	-
Money Market Mutual Funds	0.03% - 0.49%	594,209	594,209	594,209	-	-
LAIF	0.55%	40,115	40,115	40,115	-	-
Supranationals	0.90% - 1.38%	162,500	163,515	-	143,305	20,210
Subtotal commingled pool		<u>6,258,652</u>	<u>6,281,379</u>	<u>3,466,429</u>	<u>2,215,779</u>	<u>599,171</u>
Separate Investments:						
U.S.Treasury Notes		17,500	17,624	8,519	9,105	-
U.S. Agencies - Coupon		15,600	15,639	4,506	11,133	-
Municipal Bonds		15,850	17,136	4,203	10,420	2,513
Money Market Mutual Funds		11,570	11,570	11,570	-	-
Subtotal separate investments		<u>60,520</u>	<u>61,969</u>	<u>28,798</u>	<u>30,658</u>	<u>2,513</u>
Subtotal with Treasurer		<u>6,319,172</u>	<u>6,343,348</u>	<u>3,495,227</u>	<u>2,246,437</u>	<u>601,684</u>
With fiscal agents:						
U.S.Treasury Notes		4,325	4,409	50	1,906	2,453
U.S. Agencies - Coupon		6,090	6,170	1,230	3,262	1,678
U.S. Agencies - Discount		500	499	499	-	-
Medium-term corporate notes		1,190	1,206	200	442	564
Asset Backed Securities		757	758	-	658	100
Money Market Mutual Funds		22,620	22,620	22,620	-	-
Subtotal with fiscal agents		<u>35,482</u>	<u>35,662</u>	<u>24,599</u>	<u>6,268</u>	<u>4,795</u>
With Housing Authority:						
U.S. Agencies - Coupon		6,010	6,119	-	2,254	3,865
Negotiable Certificate of Deposit		1,633	1,667	725	586	356
Money market mutual funds		3,889	3,889	3,889	-	-
LAIF		20,238	20,238	20,238	-	-
Subtotal with Housing Authority		<u>31,770</u>	<u>31,913</u>	<u>24,852</u>	<u>2,840</u>	<u>4,221</u>
With FIRST 5:						
U.S.Treasury Notes		13,895	14,074	2,392	5,636	6,046
U.S. Agencies - Coupon		20,813	21,039	5,365	8,109	7,565
Medium-term Corporate Notes		13,850	14,021	2,276	8,239	3,506
Asset Backed Securities		4,390	4,396	-	3,763	633
Commercial Paper		850	848	848	-	-
Money Market Mutual Funds		68	68	68	-	-
Subtotal with FIRST 5		<u>53,866</u>	<u>54,446</u>	<u>10,949</u>	<u>25,747</u>	<u>17,750</u>
Total investments		<u>\$ 6,440,290</u>	<u>\$ 6,465,369</u>	<u>\$ 3,555,627</u>	<u>\$ 2,281,292</u>	<u>\$ 628,450</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2016

(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, 2016, the County’s weighted average maturity of its commingled pool is 439 days. The County invested in callable Federal Agency Bonds (\$812,057 of the County’s U.S. Agencies coupon position of \$3,018,257) 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 Notes	Aaa	1.84%	28.44%	12.36%	0.00%	25.85%
U.S. Agencies - Coupon	Aaa	47.81%	25.24%	1.40%	17.49%	38.64%
U.S. Agencies - Coupon	Unrated	0.24%	0.00%	0.00%	1.68%	0.00%
U.S. Agencies - Discount	P-1	5.81%	0.00%	17.30%	0.00%	0.00%
U.S. Agencies - Discount	Unrated	0.32%	0.00%	0.00%	0.00%	0.00%
Asset Backed Securities	Aaa	1.68%	0.00%	1.41%	0.00%	6.24%
Asset Backed Securities	Unrated	1.56%	0.00%	0.72%	0.00%	1.84%
Municipal Bonds	Aaa	0.00%	9.91%	0.00%	0.00%	0.00%
Municipal Bonds	Aa1	0.00%	13.56%	0.00%	0.00%	0.00%
Municipal Bonds	Aa2	0.05%	4.18%	0.00%	0.00%	0.00%
Municipal Bonds	Aa3	1.88%	0.00%	0.00%	0.00%	0.00%
Medium-term Corporate Notes	Aaa	2.24%	0.00%	1.78%	0.00%	1.48%
Medium-term Corporate Notes	Aa1	0.13%	0.00%	0.51%	0.00%	1.50%
Medium-term Corporate Notes	Aa2	1.94%	0.00%	1.09%	0.00%	1.86%
Medium-term Corporate Notes	Aa3	0.64%	0.00%	0.00%	0.00%	1.93%
Medium-term Corporate Notes	A1	0.32%	0.00%	0.00%	0.00%	12.46%
Medium-term Corporate Notes	A2	0.00%	0.00%	0.00%	0.00%	4.32%
Medium-term Corporate Notes	A3	0.00%	0.00%	0.00%	0.00%	2.19%
Commercial Paper - Coupon	P-1	6.43%	0.00%	0.00%	0.00%	1.56%
Negotiable Certificate of Deposit	Aa3	0.32%	0.00%	0.00%	0.00%	0.00%
Negotiable Certificate of Deposit	P-1	12.50%	0.00%	0.00%	0.00%	0.00%
Negotiable Certificate of Deposit	Unrated	0.00%	0.00%	0.00%	5.22%	0.00%
Repurchase Agreement	Unrated	1.59%	0.00%	0.00%	0.00%	0.00%
Money Market Mutual Funds	Aaa	0.00%	0.00%	63.43%	0.00%	0.13%
Money Market Mutual Funds	Unrated	9.46%	18.67%	0.00%	12.19%	0.00%
LAIIF	Unrated	0.64%	0.00%	0.00%	63.41%	0.00%
Supranationals	Aaa	2.60%	0.00%	0.00%	0.00%	0.00%
Total Investments		100.00%	100.00%	100.00%	100.00%	100.00%

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2016
(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, 2016, was approximately \$ 22.7 billion. LAIF is part of the State's Pooled Money Investment Account (PMIA). PMIA has a total of approximately \$75.5 billion as of June 30, 2016. Of that amount, 97.19% was invested in non-derivative financial products and 2.81% 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 13.7%, 18.6%, 11.3%, and 9.5%, respectively, of the County's pooled investments.

More than 5% of the Housing Authority's investments are invested with the Federal Home Loan Bank and Federal Farm Credit Bank, these represent 7.4% and 7.0% respectively of the total Housing Authority's 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 11.0%, 10.9 %, 11.8%, respectively, of the First 5's investments.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (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, 2016:

Assets:	
U.S. Treasury Notes	\$ 133,345
U.S. Agencies - Coupon	3,033,896
U.S. Agencies - Discount	384,670
Medium-term corporate notes	330,807
Asset Backed Securities	203,490
Municipal bonds	138,326
Commercial paper - Coupon	150,000
Commercial paper - Discount	254,122
Negotiable Certificates of Deposit	805,283
Purchase Agreement	100,000
Money market mutual fund	605,778
State Local Agency Investment Fund	40,116
Supranationals	163,515
Total investments	6,343,348
Other assets (Interest receivable)	11,806
Total assets	\$ 6,355,154
Net Position	
Equity of internal pool participants	\$ 2,440,962
Equity of individual investment accounts	22,945
Equity of external pool participants	3,891,247
Total net position	\$ 6,355,154
Statement of Changes in Net Position	
Net position at July 1, 2015	\$ 5,769,597
Net change in investments by pool participants	585,557
Net position at June 30, 2016	\$ 6,355,154
Net position composition of the equity of external pool participants is as follows:	
Participants units outstanding (\$1 par)	\$ 3,884,058
Undistributed and unrealized gain	7,189
Net position at June 30, 2016	\$ 3,891,247
Participants net position value at fair value price per share (\$3,891,247 divided by 3,884,058 units)	
	\$ 1.0019

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2016

(Dollars in thousands)

(3) Cash and Investments (Continued)

(g) Fair Value Hierarchy

As of June 30, 2016, the County's fair value hierarchy for its investments was as follows:

With Treasurer:	
Commingled pool:	
Investments subject to fair value hierarchy - Level 2 Investments	
U.S.Treasury Notes	\$ 115,721
U.S. Agencies - Coupon	3,018,257
U.S. Agencies - Discount	384,669
Medium-term Corporate Notes	330,807
Asset Backed Securities	203,490
Municipal Bonds	121,191
Commercial Paper - Coupon	150,000
Commercial Paper - Discount	254,122
Negotiable Certificate of Deposit	805,283
Purchase Agreement	100,000
Supranationals	163,515
Total investments subject to fair value hierarchy	<u>5,647,055</u>
Investments not subject to fair value hierarchy - Money Market Mutual Funds	594,209
Investments not subject to fair value hierarchy - LAIF	40,115
Subtotal commingled pool	<u>6,281,379</u>
Separate Investments:	
Investments subject to fair value hierarchy - Level 2 Investments	
U.S.Treasury Notes	17,624
U.S. Agencies - Coupon	15,639
Municipal Bonds	17,136
Total investments subject to fair value hierarchy	<u>50,399</u>
Investments not subject to fair value hierarchy - Money Market Mutual Funds	11,570
Subtotal separate investments	<u>61,969</u>
Subtotal with Treasurer	<u>6,343,348</u>
With fiscal agents:	
Investments subject to fair value hierarchy - Level 2 Investments	
U.S.Treasury Notes	4,409
U.S. Agencies - Coupon	6,170
U.S. Agencies - Discount	499
Medium-term corporate notes	1,206
Asset Backed Securities	758
Total investments subject to fair value hierarchy	<u>13,042</u>
Investments not subject to fair value hierarchy:	
Investments not subject to fair value hierarchy - Money Market Mutual Funds	22,620
Subtotal with fiscal agents	<u>35,662</u>
With Housing Authority:	
Investments subject to fair value hierarchy - Level 2 Investments	
U.S. Agencies - Coupon	6,119
Negotiable Certificate of Deposit	1,667
Total investments subject to fair value hierarchy	<u>7,786</u>
Investments not subject to fair value hierarchy - Money Market Mutual Funds	3,890
Investments not subject to fair value hierarchy - LAIF	20,237
Subtotal with Housing Authority	<u>31,913</u>
With FIRST 5:	
Investments subject to fair value hierarchy - Level 2 Investments	
U.S.Treasury Notes	14,074
U.S. Agencies - Coupon	21,039
Medium-term Corporate Notes	14,021
Asset Backed Securities	4,396
Commercial Paper	848
Total investments subject to fair value hierarchy	<u>54,378</u>
Investments not subject to fair value hierarchy - Money Market Mutual Funds	68
Subtotal with FIRST 5	<u>54,446</u>
Total investment	<u>\$ 6,465,369</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(3) Cash and Investments (Continued)

Fixed income investments are valued using a variety of techniques such as matrix pricing, market corroborated pricing inputs such as yield curve, indices, and other market related data and classified in Level 2 of the fair value hierarchy.

Money market mutual funds have maturities of one year or less from fiscal year end and are not subject to GASB Statement No. 72.

(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	\$ 2,774	\$ -	\$ -	\$ -	\$ 2,774
Loans receivable	-	59,385	-	-	59,385
Other	196,160	3,189	5,593	5,745	210,687
Gross receivables	198,934	62,574	5,593	5,745	272,846
Less: allowance for uncollectibles	(176,507)	(340)	-	-	(176,847)
Total receivables, net	<u>\$ 22,427</u>	<u>\$ 62,234</u>	<u>\$ 5,593</u>	<u>\$ 5,745</u>	<u>\$ 95,999</u>
<u>Receivables - Business-type Activities</u>	SCVMC	Valley Health Plan	Nonmajor Enterprise Funds	Total Business-type Activities	
Patient accounts receivable	\$ 679,964	\$ -	\$ -	\$ 679,964	
Other	1,451	2,177	104	3,732	
Gross receivables	681,415	2,177	104	683,696	
Less allowance for uncollectibles	(545,943)	-	-	(545,943)	
Total receivables, net	<u>\$ 135,472</u>	<u>\$ 2,177</u>	<u>\$ 104</u>	<u>\$ 137,753</u>	

Net loan receivables from housing programs in the amount of \$59,045 are not expected to be collected within the subsequent year. The other receivables of General Fund in the amount of \$196,160 represent receivables of various County departments and majority of the balances were allowed for at year-end.

At June 30, 2016, the General Fund's due from other governmental agencies is net of allowances for uncollectible accounts in the amount of \$117,668.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(4) Receivables (Continued)

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, 2016, the deferred inflows of resources balance consists of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Due from other governmental agencies	\$ 138,971	\$ -	\$ 138,971
Other receivables	3,044	59,141	62,185
Total deferred inflows of resources	<u>\$ 142,015</u>	<u>\$ 59,141</u>	<u>\$ 201,156</u>

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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(4) Receivables (Continued)

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

Fiscal year ending June 30,	Developer		Milpitas Redevelopment Agency		Total
	Negotiated Value	Other	Installment Payments	Additional Payments	
From Fiscal Year 2015 and prior	\$ 57,750	\$ 419	\$ 70,000	\$ -	\$ 128,169
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, 2015	(57,750)	(419)	(70,000)	-	(128,169)
Receivable at June 30, 2015	-	-	45,000	35,000	80,000
Less amount received during current year	-	-	(5,000)	-	(5,000)
Receivable at June 30, 2016	\$ -	\$ -	\$ 40,000	\$ 35,000	\$ 75,000

At June 30, 2016, the County’s General Fund receivable balance of \$75,000 represents the remaining estimated future cash flow related to the sale of the Elmwood surplus lands. During the year ended June 30, 2016, the County recognized proceeds from the sale in the amount of \$5,000 as revenue in its General Fund. At June 30, 2016, the deferred inflows of resources balance related to this balance is \$75,000.

San Jose Redevelopment Agency

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

In September 2009, the SJRDA 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 SJRDA 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 SJRDA 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, SJRDA, and City of San Jose in which the SJRDA: (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;

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(4) Receivables (Continued)

and agreed to pay the remaining \$23.8 million in five equal annual installments no later than June 30 of 2014, 2015, 2016, 2017, and 2018. Upon dissolution of the SJRDA, 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, 2016, the deferred inflows of resources reported related to this receivable is \$23.8 million.

(5) Interfund Transactions

Interfund receivables, payables, and transfers as of and for the fiscal year ended June 30, 2016, by individual fund/fund type are summarized as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ 73
General Fund	SCVMC	1,383
General Fund	Internal Service Funds	1,548
Nonmajor Governmental Funds	Nonmajor Governmental Funds	4,772
Nonmajor Governmental Funds	SCVMC	184
SCVMC	General Fund	1,123
Valley Health Plan	General Fund	27
Internal Service Funds	General Fund	8
Agency	Agency	20,580
Total		<u>\$ 29,698</u>

The Nonmajor Governmental Funds are due \$4,772 from other Nonmajor Governmental Funds to reimburse costs incurred for capital projects funded with Clean Renewable Energy Bonds. In addition, the General Fund is due \$1,383 from SCVMC and \$1,548 from Internal Service Funds for current borrowings for working capital. In addition, the interfund balances of \$20,580 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, 2016, the advance balance was \$468.

Payable to primary government:

As described in Note 8(a), the Housing Authority reported its lease obligations to the County in the amount of \$7,300 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, 2016
 (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	\$ 64,332	Transfer funds for subsidy.
General Fund	SCVMC	2,339	Transfer funds to reimburse payment of retiree benefits.
General Fund	SCVMC	27,000	Transfer funds for subsidy drawdown for seismic safety project.
General Fund	Valley Health Plan	54	Transfer funds to reimburse payment of retiree benefits.
General Fund	Nonmajor Enterprise Fund	6	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	156	Transfer funds to reimburse the Sheriff's Office for an outreach grant.
SCVMC	General Fund	4,696	Transfer funds to pay for FQHC Clinic services provided by Mental Health Department.
SCVMC	Nonmajor Governmental Funds	8,698	Transfer bond proceeds to the General Capital Improvement fund for Valley Health Center Project.
Nonmajor Governmental Funds	SCVMC	6,005	Transfer funds to record the issuance of 2016Q lease revenue bonds.
Subtotal Between Governmental and Business-type Activities:		113,297	
Between Funds within the Governmental or Business-type Activities*:			
General Fund	Internal Service Fund	3,500	Transfer funds for purchases in the Facilities and Fleet Department.
		142	Transfer funds to reimburse payment of retiree benefits.
		<u>3,642</u>	
General Fund	Nonmajor Governmental Fund	85,318	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.
		99	Transfer funds to reimburse the household waste program.
		85	Transfer funds to the Roads Department for school crossing guard project.
		127	Transfer funds to pay for expenditures of the tobacco program.
		135	Transfer to the Roads Fund for Measure B Transportation Projects.
		499	Transfer funds to reimburse payment of retiree benefits.
		18	Transfer funds for employee service awards.
		5,847	Transfer funds from contingency reserve for 2010N defeasance.
		1,350	Transfer funds to Parks for the acquisition of James Ranch.
		<u>93,529</u>	
Nonmajor Governmental Fund	General Fund	19	Transfer QECB proceeds to General Fund for debt service payments.
		56	Transfer funds to General Fund to pay for debt service.
		216	Transfer fund from the Vital Statistics fund for specified ongoing operations.
		55,283	Transfer funds for Proposition 63 nonmajor fund for planning, administrative, and program costs for the mental health services programs.
		2,308	Transfer funds for technology project reimbursements.
		5,974	Transfer funds for the Valley Health Center San Jose Downtown Clinic.
		19,780	Transfer funds to Facilities and Fleet Department for various capital projects, services, and supplies.
		<u>83,636</u>	
Nonmajor Governmental Fund	Nonmajor Governmental Fund	746	Transfer funds to the Parks Department for Parks Capital Projects.
		109	Transfer debt proceeds to fund qualified Facilities & Fleet Capital Projects.
		65	Transfer funds to Environmental Health Department to enable the Household Hazardous Waste Program.
		16,741	Transfers CREB proceeds to finance Facilities and Fleet Department capital projects.
		3,704	Transfer funds to record the issuance of 2016Q lease revenue bond.
		206	Transfer funds for professional services for the issuance of CREB bond.
		<u>21,571</u>	
Internal Service Fund	Nonmajor Governmental Fund	600	Transfer funds for office space reconfiguration.
Subtotal: Between Funds within Governmental or Business-type Activities:		202,978	
Total Transfers:		\$ 316,275	

* 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, 2016
 (Dollars in thousands)

(6) Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance, July 1, 2015	Additions	Reductions/ Adjustments	Transfers	Balance, June 30, 2016
Governmental activities					
<i>Capital assets, not being depreciated:</i>					
Land	\$ 269,896	\$ -	\$ -	\$ 1,998	\$ 271,894
Construction in progress	179,372	122,838	(733)	(95,151)	206,326
Total capital assets, not being depreciated	449,268	122,838	(733)	(93,153)	478,220
<i>Capital assets, being depreciated:</i>					
Infrastructure	342,675	3,165	-	17,748	363,588
Buildings and improvements	980,656	1,334	(337)	5,193	986,846
Equipment, software and vehicles	219,738	21,080	(12,903)	19,414	247,329
Total capital assets, being depreciated	1,543,069	25,579	(13,240)	42,355	1,597,763
<i>Less accumulated depreciation for:</i>					
Infrastructure	(144,530)	(13,569)	-	-	(158,099)
Buildings and improvements	(464,658)	(16,454)	38	92	(480,982)
Equipment, software and vehicles	(167,824)	(18,336)	11,686	(92)	(174,566)
Total accumulated depreciation	(777,012)	(48,359)	11,724	-	(813,647)
Total capital assets, being depreciated, net	766,057	(22,780)	(1,516)	42,355	784,116
Governmental activities, capital assets, net	\$ 1,215,325	\$ 100,058	\$ (2,249)	\$ (50,798)	\$ 1,262,336
Business-type activities					
<i>Capital assets, not being depreciated:</i>					
Land	\$ 6,310	\$ -	\$ -	\$ -	\$ 6,310
Construction in progress	634,307	150,966	-	(121,715)	663,558
Total capital assets, not being depreciated	640,617	150,966	-	(121,715)	669,868
<i>Capital assets, being depreciated:</i>					
Buildings and improvements	768,023	414	-	174,833	943,270
Equipment and vehicles	258,300	10,261	(2,711)	1,989	267,839
Total capital assets, being depreciated	1,026,323	10,675	(2,711)	176,822	1,211,109
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	(398,015)	(31,025)	-	(9,016)	(438,056)
Equipment and vehicles	(140,220)	(38,805)	2,243	4,707	(172,075)
Total accumulated depreciation	(538,235)	(69,830)	2,243	(4,309)	(610,131)
Total capital assets, being depreciated, net	488,088	(59,155)	(468)	172,513	600,978
Business-type activities, capital assets, net	\$ 1,128,705	\$ 91,811	\$ (468)	\$ 50,798	\$ 1,270,846

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(6) Capital Assets (Continued)

Capital asset activity for the Housing Authority for the fiscal year ended June 30, 2016, was as follows:

	Balance, July 1, 2015 as reclassified	Additions	Reductions/ Adjustments	Balance, June 30, 2016
<i>Capital assets, not being depreciated:</i>				
Land	\$ 32,195	\$ -	\$ (7,688)	\$ 24,507
Construction in progress	836	1,909	-	2,745
Total capital assets, not being depreciated	<u>33,031</u>	<u>1,909</u>	<u>(7,688)</u>	<u>27,252</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	100,507	120	(16,385)	84,242
Furniture and equipment	4,943	79	(489)	4,533
Total capital assets, being depreciated	<u>105,450</u>	<u>199</u>	<u>(16,874)</u>	<u>88,775</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(44,154)	(2,842)	7,589	(39,407)
Furniture and equipment	(4,253)	(133)	108	(4,278)
Total accumulated depreciation	<u>(48,407)</u>	<u>(2,975)</u>	<u>7,697</u>	<u>(43,685)</u>
Total capital assets, being depreciated, net	<u>57,043</u>	<u>(2,776)</u>	<u>(9,177)</u>	<u>45,090</u>
Housing Authority's business-type activities	90,074	<u>\$ (867)</u>	<u>\$ (16,865)</u>	72,342
Housing Authority's discrete component units' capital assets, as of December 31, 2015	<u>328,929</u>			<u>343,978</u>
Housing Authority capital assets, net	<u>\$ 419,003</u>			<u>\$ 416,320</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, 2016, was as follows:

	Balance, July 1, 2015	Additions	Reductions/ Adjustments	Balance, June 30, 2016
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,358	\$ -	\$ -	\$ 2,358
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	4,395			4,395
Furniture and equipment	277	-	-	277
Total capital assets, being depreciated	<u>4,672</u>	<u>-</u>	<u>-</u>	<u>4,672</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(2,182)	(217)	-	(2,399)
Furniture and equipment	(275)	(1)	-	(276)
Total accumulated depreciation	<u>(2,457)</u>	<u>(218)</u>	<u>-</u>	<u>(2,675)</u>
Total capital assets, being depreciated, net	<u>2,215</u>	<u>(218)</u>	<u>-</u>	<u>1,997</u>
FIRST 5 capital assets, net	<u>\$ 4,573</u>	<u>\$ (218)</u>	<u>\$ -</u>	<u>\$ 4,355</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(6) Capital Assets (Continued)

Capital asset activity for the Health Authority for fiscal year ended June 30, 2016, was as follows:

	Balance, July 1, 2015	Additions	Reductions/ Adjustments	Balance, June 30, 2016
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	\$ 7,299	\$ 1,938	\$ -	\$ 9,237
Leasehold improvements	534	130	-	664
Software	4,045	-	(229)	3,816
	<u>11,878</u>	<u>2,068</u>	<u>(229)</u>	<u>13,717</u>
<i>Less accumulated depreciation for:</i>				
Furniture and equipment	(6,574)	(591)	-	(7,165)
Leasehold improvements	(407)	(58)	-	(465)
Software	(382)	(763)	-	(1,145)
	<u>(7,363)</u>	<u>(1,412)</u>	<u>-</u>	<u>(8,775)</u>
Total capital assets, being depreciated, net	<u>4,515</u>	<u>656</u>	<u>(229)</u>	<u>4,942</u>
Health Authority capital assets, net	<u>\$ 4,515</u>	<u>\$ 656</u>	<u>\$ (229)</u>	<u>\$ 4,942</u>

Depreciation

Depreciation expense was charged to governmental functions for the year ended June 30, 2016, as follows:

General government	\$ 22,639
Public protection	4,331
Public ways	12,986
Health and sanitation	492
Public assistance	695
Education	628
Recreation	2,124
Amount reported in the internal service funds	4,464
Total depreciation expense - governmental functions	<u>\$ 48,359</u>

Depreciation expense was charged to the business-type functions for the year ended June 30, 2016 as follows:

SCVMC	\$ 65,575
Valley Health Plan	3,576
Airport	631
Sanitation District	48
Total depreciation expense - business-type functions	<u>\$ 69,830</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(6) Capital Assets (Continued)

Capital Projects Commitments

As of June 30, 2016, the SCVMC and the Airport have active construction projects that include construction of the seismic compliance for SCVMC buildings and infrastructure and facility improvement of airport projects.

The County's commitments for business-type activities as of June 30, 2016, are as follows:

Projects	Expended to June 30, 2016	Committed as of June 30, 2016
SCVMC Projects	\$ 662,787	\$ 82,998
Airport Projects	771	-
Total	\$ 663,558	\$ 82,998

Nonmajor governmental funds (Special Revenue and Capital Projects Funds) also have active construction projects as of June 30, 2016. 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 development; master planning for the Coyote Highlands and Coyote Canyon; 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; energy projects such as R4R developer qualifying phase; and repair, rehabilitation and improvement of County buildings.

The County's governmental activities commitments at June 30, 2016, are as follows:

Projects	Expended to June 30, 2016	Committed as of June 30, 2016
Road projects	\$ 53,179	\$ 16,894
Park projects	74,012	4,220
Fire district projects	629	-
General capital projects	78,506	22,718
Total	\$ 206,326	\$ 43,832

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2016

(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, 2016, the governmental activities' capital assets and accumulated depreciation under capital leases are:

<u>Description</u>	
Equipment and vehicles	\$ 4,547
Less accumulated depreciation	<u>(1,396)</u>
Net capital assets	<u>\$ 3,151</u>

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

<u>Fiscal year ending June 30,</u>	
2017	\$ 878
2018	800
2019	800
2020	800
2021	131
2022	<u>129</u>
Total	3,538
Amount representing interest at rates from 2.03% to 5.39%	<u>(191)</u>
Present value of future minimum lease payments	<u>\$ 3,347</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(8) Long-Term Liabilities

As of June 30, 2016, 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, 2016
Governmental Activities:					
2007 Taxable Pension Funding Bonds	8/1/16 - 8/1/36	5.893% - 6.111%	\$4,647 - \$51,560	\$ 389,485	\$ 367,119
2009 Series A General Obligation Bonds	8/1/16 - 8/1/39	3.00% - 5.00%	\$1,500 - \$32,500	350,000	312,500
2013 Series B General Obligation Bonds	8/1/16 - 8/1/43	3.00% - 5.00%	\$6,240 - \$29,340	490,000	480,085
2016 New Clean Renewable Energy Bonds	10/1/17 - 10/1/30	3.87%	\$2,261 - \$2,456	33,000	33,000
Financing Authority:					
1994 Series B Lease Revenue Bonds	11/15/16	(1)	\$742	742	742
2007 Series K Lease Revenue Bonds	5/15/17	4.50%	\$565	22,655	565
2008 Series A Lease Revenue Bonds	11/15/16 - 11/15/22	5.00%	\$178 - \$238	5,579	1,448
2008 Series L Lease Revenue Bonds	5/15/17 - 5/15/18	4.00% - 5.00%	\$1,185 - \$1,235	59,800	2,420
2011 Series A Lease Revenue Bonds	2/1/17 - 2/1/26	5.90%	\$871 - \$2,153	20,368	12,586
2011 Series B Lease Revenue Bonds	2/1/17 - 2/1/26	4.91%	\$253 - \$282	3,639	2,670
2012 Series A Lease Revenue Bonds	2/1/17 - 2/1/24	4.00% - 5.00%	\$1,580 - \$2,180	19,316	14,932
2014 Series O Lease Revenue Bonds	5/15/17 - 5/15/23	3.00% - 4.00%	\$1,215 - \$1,490	11,715	9,415
2015 Series P Lease Revenue Bonds	5/15/17 - 5/15/31	5.00%	\$2,790 - \$5,527	60,232	60,232
2016 Series Q Lease Revenue Bonds	5/15/18 - 5/15/37	2.25% - 5.00%	\$545 - \$5,335	64,835	64,835
Housing Authority:					
2004 Series A Lease Revenue Bonds	9/1/16 - 9/1/29	(2)	\$125 - \$255	3,550	2,595
2006 Series A Lease Revenue Bonds	9/1/16 - 9/1/38	5.00%	\$55 - \$510	5,125	4,705
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	6/1/17 - 6/1/27	4.00% - 5.00%	\$205 - \$330	4,495	2,890
Total governmental activities				<u>\$ 1,646,566</u>	<u>\$ 1,474,769</u>
Business-Type Activities					
SCVMC:					
Financing Authority:					
1994 Series B Lease Revenue Bonds	11/15/16	(1)	\$50,758	\$ 50,758	\$ 50,758
2007 Series K Lease Revenue Bonds	5/15/17	4.50%	\$1,770	70,885	1,770
2008 Series A Lease Revenue Bonds	11/15/16 - 11/15/22	5.00%	\$11,762 - \$15,657	120,831	95,622
2008 Series M Lease Revenue Bonds	5/15/17 - 5/15/35	(3)	\$4,700 - \$8,300	143,105	120,600
2012 Series A Lease Revenue Bonds	2/1/17 - 2/1/24	4.00% - 5.00%	\$5,530 - \$7,630	67,604	52,264
2015 Series P Lease Revenue Bonds	5/15/17 - 5/15/31	5.00%	\$1,955 - \$3,873	42,203	42,203
2016 Series Q Lease Revenue Bonds	5/15/18 - 5/15/37	2.25% - 5.00%	\$1,715 - \$14,025	103,510	103,510
Total SCVMC				<u>598,896</u>	<u>466,727</u>
Airport:					
ABAG Series 2002-1 Lease Revenue Bonds	7/1/16 - 7/1/32	4.60% - 5.00%	\$165 - \$355	6,780	4,225
Total business-type activities				<u>\$ 605,676</u>	<u>\$ 470,952</u>

(1) Variable rate, 0.42% effective as of June 30, 2016.
 (2) Variable rate, 0.41% effective as of June 30, 2016.
 (3) Variable rate, 0.41% effective as of June 30, 2016.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(8) Long-Term Liabilities (Continued)

The following is a summary of long-term liabilities transactions for the fiscal year ended June 30, 2016:

	Balance, June 30, 2015 (as restated)	Additions	Retirements	Balance, June 30, 2016	Amounts Due Within One Year
Governmental activities:					
Lease Revenue Bonds	\$ 202,154	\$ 64,835	\$ (89,844)	\$ 177,145	\$ 10,840
Unamortized premium	14,868	6,183	(3,422)	17,629	1,241
Tobacco Settlement Asset-Backed Bonds	102,030	-	-	102,030	-
Accreted interest on capital appreciation bonds	64,576	9,983	-	74,559	-
Taxable Pension Funding Bonds	371,444	-	(4,325)	367,119	4,647
Accreted interest on capital appreciation bonds	48,355	7,461	(2,570)	53,246	3,223
Certificates of Participation	3,085	-	(195)	2,890	205
Unamortized premium	103	-	(9)	94	9
General Obligation Bonds	799,180	-	(6,595)	792,585	7,740
Unamortized premium	48,347	-	(1,782)	46,565	1,778
New Clean Renewable Energy Bonds	-	33,000	-	33,000	-
Subtotal governmental bonds	<u>1,654,142</u>	<u>121,462</u>	<u>(108,742)</u>	<u>1,666,862</u>	<u>29,683</u>
Capital Lease Obligations (Note 7)	3,860	283	(796)	3,347	806
Accrued litigation liability	34,779	-	(26,979)	7,800	-
Insurance claims (Note 13)	147,815	72,598	(64,519)	155,894	39,949
Pollution remediation obligations (Note 15)	6,530	6,371	-	12,901	-
Accrued vacation & sick leave	152,755	112,718	(105,380)	160,093	17,925
Total governmental activities	<u>\$ 1,999,881</u>	<u>\$ 313,432</u>	<u>\$ (306,416)</u>	<u>\$ 2,006,897</u>	<u>\$ 88,363</u>
Business-type activities:					
SCVMC Lease Revenue Bonds	\$ 501,079	\$ 103,510	\$ (137,862)	\$ 466,727	\$ 76,475
Unamortized premium	21,593	10,376	(4,659)	27,310	2,432
Subtotal SCVMC bonds	<u>522,672</u>	<u>113,886</u>	<u>(142,521)</u>	<u>494,037</u>	<u>78,907</u>
Airport Lease Revenue Bonds	4,380	-	(155)	4,225	165
Unamortized discount	(16)	-	2	(14)	-
Subtotal Airport bonds	<u>4,364</u>	<u>-</u>	<u>(153)</u>	<u>4,211</u>	<u>165</u>
Accrued vacation & sick leave	76,010	73,487	(68,188)	81,303	14,826
Total business-type activities	<u>\$ 603,046</u>	<u>\$ 187,373</u>	<u>\$ (210,862)</u>	<u>\$ 579,551</u>	<u>\$ 93,898</u>
Component Units:					
Housing Authority:					
Notes payable	\$ 1,398	\$ -	\$ -	\$ 1,398	\$ 20
Other blended component unit debt	59,360	-	(9,637)	49,723	662
Payment in lieu of taxes	9	-	(6)	3	-
Accrued vacation & sick leave	1,010	138	(135)	1,013	123
Interest payable	13,500	2,999	(2,255)	14,244	898
Housing Authority's business type activity	<u>75,277</u>	<u>\$ 3,137</u>	<u>\$ (12,033)</u>	<u>66,381</u>	<u>1,703</u>
Housing Authority's discrete component units'					
long-term obligations as of December 31, 2015					
Notes, loans, and bonds payable	190,821	-	-	183,540	3,617
Long-term interest payable	13,235	-	-	19,268	2,865
Housing Authority's discrete component units	<u>204,056</u>	<u>-</u>	<u>-</u>	<u>202,808</u>	<u>6,482</u>
Total Housing Authority	<u>\$ 279,333</u>	<u>\$ 3,137</u>	<u>\$ (12,033)</u>	<u>\$ 269,189</u>	<u>\$ 8,185</u>
FIRST 5:					
Accrued vacation & sick leave	\$ 162	\$ 47	\$ -	\$ 209	\$ -

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, 2016
(Dollars in thousands)

(8) 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.

2016 Taxable New Clean Renewable Energy Bonds

On October 22, 2015, in lieu of issuing \$33,000 of taxable New Clean Renewable Energy Bonds (NCREB) with a 15-year term to finance the acquisition and installation of six photovoltaic systems, the "renewable energy equipment," that constitute "qualified renewable energy facilities" within the meaning of Section 54C of the Internal Revenue Code of 1986, the County sold and delivered to Banc of America Leasing & Capital, LLC, a Taxable NCREB Equipment Lease/Purchase Agreement. The aggregate principal component of rental payments total \$33,000, with a fixed interest rate of 3.87% and a final payment date of October 1, 2030. Interest payments total \$10,913, of which \$9,119 or 83.6% will be recouped from federal direct pay subsidies.

The debt proceeds were deposited in an escrow account to be drawn down during the "acquisition period" from the closing date to the fifth business day prior to April 20, 2017. The first rental payment was due on October 1, 2016, corresponding to the first interest payment of the bond. Rental payments are paid from the County's General Fund or other funds legally available for the Agreement.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2016
(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

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. On May 15, 2016, the remaining balance of \$5,915 was defeased early, with \$5,595 belonging to the 2000 Series B refunding and \$320 belonging to the 1998 Series A refunding.

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%. From October 1, 2015 to September 30, 2016, the sequestration rate was 6.8%. Absent of Congressional action, the sequester reductions will continue through and including Federal's fiscal year ended September 30, 2021. 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.

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 include 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2016

(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

Housing Authority Lease Revenue Bonds - On September 1, 2004, the County through the Financing Authority issued 2004 Series A Lease Revenue Bonds in the amount of \$3,550 that bear interest that is set each week by the remarketing agent based upon prevailing interest rates for 7-day variable rate demand bonds of similar credit quality trading in the municipal market place during the week. The bonds were issued to refund and redeem the Housing Authority's 1993 Certificates of Participation (COPS) in fiscal year 2005. On October 19, 2006, the Financing Authority issued \$5,125 of 2006 Lease Revenue Bonds (2006 Bonds) on behalf of the Santa Clara County. The bond proceeds were used to provide additional financing for the renovation of an office building used by the Housing Authority. The 2006 Bonds bear fixed interest rates of 5.00% and are payable semi-annually commencing September 1, 2008 and mature on September 1, 2038. The Housing Authority has reported its lease obligations to the County as payable to primary government on its statement of net position.

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. At June 30, 2016, the letter of credit was set to expire on August 31, 2018. The Financing Authority's repayment of unreimbursed draws made on the credit facilities bear interest at rates as defined in the reimbursement agreement up to LIBOR plus 4% per annum with the principal due at August 31, 2018. The Financing Authority is required to pay U.S. Bank N.A. an annual commitment fee of 1.25% (1.50% before August 11, 2015) based on the outstanding principal amount of the bonds supported by the credit facility. For the year ended June 30, 2016, the Housing Authority paid an annual commitment fee in the amount of \$35. 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, 2015, and 2016 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2016
(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

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.

On June 15, 2016, Fitch Ratings withdrew all ratings assigned to U.S. Tobacco Settlement Asset-Backed securities including the Authority's Tobacco Settlement Asset-Backed Bonds.

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

2006 Series TT Vector Control Certificates of Participation

During November 2006, the County issued 2006 Series TT Certificates of Participation in the amount of \$4,495 through the California Special Districts Association Finance Corporation to finance the acquisition of an office building. The Certificates bear fixed interest rates ranging from 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, 2016, 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, 2016, the Financing Authority paid an annual commitment fee in the amount of \$330.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2016

(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

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.

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. Final payment of the unrefunded portion of \$5,220 was made on May 15, 2016.

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. On June 8, 2016, \$78,965 of the bonds were advance refunded by 2016 Series Q Lease Revenue Bonds. The unrefunded portion of \$2,335 is due on May 15, 2017.

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. On June 8, 2016, \$101,890 of the bonds were advance refunded by 2016 Series Q Lease Revenue Bonds. The unrefunded portions of \$1,185 and \$1,235 are due on May 15, 2017 and May 15, 2018, respectively.

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. Any unreimbursed draws made would convert to Bank Bonds with repayments made in accordance with the maturity schedule provided in the Trust Agreement and these Bank Bonds would bear interest at the Bank Rate which is up to 12% per annum. The Financing Authority is required to pay Bank of America, N.A. an

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2016

(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

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, 2016, the Financing Authority paid an annual commitment fee in the amount of \$545.

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

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

Objective of the Interest Rate Swaps. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in May 2005, the Financing Authority entered into interest rate swap agreements with Citibank, N.A. (Citibank) in connection with its \$71,025 Series F and \$71,025 Series G variable rate lease revenue bonds. The intention of the swaps was to effectively change the Financing Authority's variable interest rates on the 2005 Series F and G bonds to a synthetic fixed rate of 3.185%. The Financing Authority continued to hedge the 2008 Series M bonds with the 2005 swap agreement.

Significant Terms. The bonds and related swap agreements both mature on May 15, 2035. The swaps' notional amount matches the \$142,050 principal amount of the 2008 Series M variable rate bonds. The swaps were entered into at the same time the 2005 Series F and G bonds were issued in May 2005. Starting fiscal year 2012, the notional value of the swaps declines as the principal amount of the associated debt begins to be repaid. Under the swaps, the Financing Authority pays the counterparty a fixed payment of 3.185% and receives a variable payment computed as 56.5% of USD-LIBOR-BBA plus 0.33%.

Fair Value. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the swaps. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. The fair value hierarchy of the interest rate swap is Level 2. Because interest rates have declined since the execution of the swaps, the swaps have a negative fair value of \$24,799 as of June 30, 2016.

Credit Risk. The aggregate fair value of the swaps represented the Financing Authority's credit exposure to the counterparties as of June 30, 2016. Should the counterparties fail to perform according to the terms of the swap contracts, the Financing Authority faces a maximum possible loss equivalent

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2016

(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

to the aggregate fair value of the swaps. At June 30, 2016, the Financing Authority was not exposed to credit risk because the swaps had a negative fair value of \$24,799. 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, 2016, 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, 2016, was 3.015%.

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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(8) Long-Term Liabilities (Continued)

Swap Payments and Associated Debt Service Payments. Using rates as of June 30, 2016, 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
2017	\$ 4,700	\$ 493	\$ 3,132	\$ 3,625
2018	4,850	474	3,009	3,483
2019	5,050	454	2,882	3,336
2020	5,200	433	2,750	3,183
2021	5,350	411	2,614	3,025
2022-2026	29,350	1,714	10,890	12,604
2027-2031	34,400	1,070	6,799	7,869
2032-2035	31,700	319	2,027	2,346
	<u>\$ 120,600</u>	<u>\$ 5,368</u>	<u>\$ 34,103</u>	<u>\$ 39,471</u>

⁽¹⁾ Variable interest on the 2008 Series M is estimated using interest rate at June 30, 2016, of 0.41%.

⁽²⁾ Net swap interest on the 2008 Series M is estimated using USD-LIBOR-BBA rate at June 30, 2016, of 0.442%. Net swap interest at June 30, 2016, is calculated as follows: 3.185% minus (0.442% * 56.5% + 0.33%) equals to 2.605%.

Impact on Financial Statements. The impact of the interest rate swaps on the financial statements for the year ended June 30, 2016, is as follows:

	Deferred outflows of resources	Derivative instrument liabilities
Balance at July 1, 2015	\$ 18,206	\$ 18,206
Change in fair value	6,593	6,593
Balance at June 30, 2016	<u>\$ 24,799</u>	<u>\$ 24,799</u>

Derivative instrument liabilities of \$24,799 as of June 30, 2016, represent the fair value of the interest rate swap agreements and deferred outflows on resources of \$24,799 as of June 30, 2016, 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(8) Long-Term Liabilities (Continued)

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.

2016 Series Q Lease Revenue Bonds - On June 8, 2016, the Financing Authority issued \$168,345 of 2016 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 \$192,789 and were deposited into the refunding escrow to advance refund the outstanding 2007 Series K and 2008 Series L Lease Revenue Bonds of \$78,965 and \$101,890, respectively. The bonds bear fixed interest rates ranging from 2.25% to 5.00% and have a final maturity date of May 15, 2037. The refunding achieved \$49,864 in gross debt service savings and \$36,514 in net present value savings. At June 30, 2016, the outstanding defeased 2007 Series K and 2008 Series L Lease Revenue Bonds were \$78,965 and \$101,890, respectively.

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%
2016 Series Q	38.5%	61.5%

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, 2016, 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(8) Long-Term Liabilities (Continued)

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
2017	\$ 10,840	\$ 7,803	\$ -	\$ -	\$ 205	\$ 145
2018	9,104	7,495	-	-	215	134
2019	9,463	7,075	-	-	225	123
2020	9,909	6,613	-	-	235	112
2021	10,397	6,129	-	-	245	101
2022-2026	54,997	22,815	-	-	1,435	304
2027-2031	49,935	10,751	-	-	330	17
2032-2036	19,850	2,259	43,604	178,571	-	-
2037-2041	2,650	147	11,339	66,321	-	-
2042-2046	-	-	-	-	-	-
2047-2051	-	-	18,025	158,675	-	-
2052-2056	-	-	29,062	648,788	-	-
Total	\$ 177,145	\$ 71,087	\$ 102,030	\$ 1,052,355	\$ 2,890	\$ 936

Fiscal year ending June 30:	Taxable Pension Funding Bonds		General Obligation Bond		New Clean Renewable Energy Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 4,647	\$ 20,727	\$ 7,740	\$ 34,847	\$ -	\$ 1,841
2018	4,924	21,461	8,955	34,463	2,261	1,233
2019	5,168	22,251	10,235	34,003	2,275	1,146
2020	5,382	23,112	11,635	33,456	2,290	1,057
2021	5,597	24,002	13,125	32,837	2,305	968
2022-2026	29,901	136,023	91,395	152,038	11,745	3,488
2027-2031	67,685	131,841	144,670	123,203	12,124	1,179
2032-2036	192,255	46,719	209,590	85,661	-	-
2037-2041	51,560	1,547	241,220	34,236	-	-
2042-2044	-	-	54,020	3,328	-	-
Total	\$ 367,119	\$ 427,683	\$ 792,585	\$ 568,072	\$ 33,000	\$ 10,912

(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, 2016, of 0.42%, 0.41%, and 0.41%, respectively.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(8) 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 and the General Fund. 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
2017	\$ 76,475	\$ 13,084	\$ 165	\$ 206
2018	26,719	12,272	170	198
2019	28,011	11,143	180	190
2020	29,305	9,958	190	181
2021	30,655	8,714	200	171
2022-2026	107,212	27,738	1,155	691
2027-2031	66,260	17,174	1,470	365
2032-2036	98,355	7,382	695	35
2037	3,735	112	-	-
Total	<u>\$ 466,727</u>	<u>\$ 107,577</u>	<u>\$ 4,225</u>	<u>\$ 2,037</u>

⁽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, 2016, of 0.42% and 0.41%, 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 \$822,536 payable through September 1, 2038. For the fiscal year ended June 30, 2016, the total lease payments made by the County, SCVMC, and the Housing Authority totaled to \$79,029 and total debt service payments paid by the Financing Authority totaled to \$75,475.

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, 2016.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2016

(Dollars in thousands)

(8) 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 \$1,360,657. For the fiscal year ended June 30, 2016, the County collected \$40,672 in ad valorem property taxes and made total debt service payments in the amount of \$41,873.

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 \$6,262. For the fiscal year ended June 30, 2016, the total principal and interest payment made by the Airport totaled to \$364.

(e) Legal Debt Margin

As of June 30, 2016, the County's legal debt limit (1.25% of the total assessed valuation) was \$4.85 billion. At June 30, 2016, the County has debt in the amount of \$792.6 million applicable to the limit outstanding and the legal debt margin was \$4.06 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, 2016, 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, 2016

(Dollars in thousands)

(8) 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, 2016
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, 2015)					
AE Associates, Ltd.					4,569
Blossom River Associates, LP					15,675
Helzer Associates, LP					21,198
Klamath Associates, LP					1,162
Rotary Plaza/HACSC HDC, Inc.					3,471
San Pedro Gardens Associates, Ltd.					1,611
S.P.G. Housing, Inc.					2,037
Subtotal					49,723
Discrete component units (as of December 31, 2015):					
Bascom HACSC Associates					12,430
Bendorf Drive, L.P.					15,854
Branham Lane					2,632
Clarendon Street, L.P.					6,385
Fairground Luxury Family Apartments, L.P.					39,921
Fairground Senior Apartments, L.P.					21,389
HACSC/Choices Family Associates					8,067
HACSC/Choices Senior Associates					5,407
Hermocilla LLC					2,034
Huff Avenue Associates					4,126
Julian Street Partners, L.P.					15,470
McCreery Avenue, L.P.					17,570
Opportunity Center Associates					10,700
Rincon Gardens Associates, L.P.					14,762
South Drive LLC					2,678
Willow/HACSC Associates					4,115
Subtotal					183,540
Total Housing Authority					\$ 234,661

⁽¹⁾ Deferred until maturity

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(8) 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
2017	\$ 20	\$ 43
2018	-	43
2019	-	43
2020	-	43
2021	-	43
2022 - 2026	1,378	170
Total	\$ 1,398	\$ 385

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.

(9) 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 whom 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, 2016, as follows:

Patient service revenues	\$ 4,031,098
Contractual allowances	(2,768,826)
Bad debts provision	(5,909)
Net patient service revenues	\$ 1,256,363

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 68% and 14%, respectively, of net patient service revenue (excluding the effects of bad debts provision) for the fiscal year ended June 30, 2016. 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, 2016

(Dollars in thousands)

(9) 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 \$66.5 million for the year ended June 30, 2016. 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 Bridge to Health Care Reform waiver expired October 31, 2015. On December 30, 2015, the Centers for Medicare and Medicaid Services (CMS) approved Medi-Cal 2020, a five-year renewal of California's Section 1115 Medicaid Waiver, which provides California public hospitals new federal funding through programs that are designed to shift the focus away from hospital-based and inpatient care, towards outpatient, primary and preventative care. A renewal of California's Medicaid Waiver was a fundamental component to public hospitals' ability to continue to successfully implement the Affordable Care Act (ACA) beyond the primary step of coverage expansion. The Medi-Cal 2020 waiver features four new programs: (1) a pay-for-performance delivery system transformation and alignment program that is considered the successor to the 2010 Bridge to Reform waiver's DSRIP, known as PRIME (Public Hospital Redesign and Incentives in Medi-Cal); (2) Global Payment Program (GPP) for services to the uninsured in designated public hospital systems; (3) Whole Person Care Pilot Program which would be a county-based, voluntary program to target providing more integrated care for high-risk, vulnerable populations; and (4) Dental Transformation Incentive Program, an optional incentive program to increase the frequency and quality of dental care provided to children.

Payments received under Medi-Cal 2020 Waiver's GPP are utilization based and not dependent on Certified Public Expenditures (CPEs). However, GPP claims are subject to State and federal audit and final reconciliation. SCVMC has established reserves for the uncertainty of future financial impact of potential audit and reconciliation adjustments. Revenues recognized under Medi-Cal 2020 approximated \$128.4 million for the fiscal year ended June 30, 2016.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2016
(Dollars in thousands)

(9) Healthcare Programs (Continued)

SCVMC submitted an application to participate in the Whole Person Care Pilot Program. The State Department of Health Care Services approved its application on October 24, 2016.

Transactions with VHP - The SCVMC received a total of \$298 million in fiscal year 2016 from VHP and is reported as a component of net patient service revenues on the Statement of Revenues, Expenses and Changes in Net Position.

Due to Other Governmental Agencies - As of June 30, 2016, the SCVMC recorded approximately \$182.2 million in due to other governmental agencies, which was comprised \$163.8 million in unearned credits related to receipts under SNCP and AB915 programs; \$17.9 million related to receipts under the SB1732 program; and \$0.5 million in arbitrage liabilities (see Note 8). In addition, the SCVMC recorded approximately \$77.7 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	\$	176,169
Percentage of operating expenses		12%

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) beginning 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, 2016
(Dollars in thousands)

(9) 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.

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, 2016 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, 2016
(Dollars in thousands)

(10) 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, 2016, the County reclassified \$141.4 million of the primary government’s total net position amounts from restricted to unrestricted and \$799.7 million from net investment in capital assets to unrestricted to reflect the primary government as a whole perspective.

(b) Fund Balances Classifications

As prescribed by GASB Statement No. 54, governmental funds report fund balance in 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, 2016, 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2016

(Dollars in thousands)

(10) Net Position/Fund Balances (Continued)

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.

Fund balances for the governmental funds as of June 30, 2016, were distributed as follows:

	General Fund	Nonmajor Funds	Total
Nonspendable:			
Inventory	\$ 2,484	\$ 438	\$ 2,922
Advance to other fund	468	-	468
Other assets	4,282	-	4,282
Subtotal	<u>7,234</u>	<u>438</u>	<u>7,672</u>
Restricted for:			
Child support program	-	1,127	1,127
Clerk recorder program	-	12,488	12,488
Debt service	-	40,210	40,210
Energy efficient system projects	-	131	131
Health and human services	3,217	-	3,217
Housing and community development programs	-	19,243	19,243
Law enforcement	45,711	-	45,711
Library services	-	36,412	36,412
Mental health services	-	127,890	127,890
Parks acquisition and development projects	-	53,334	53,334
Public ways and facilities	-	36,120	36,120
Stanford trails	-	10,628	10,628
Technology projects	-	726	726
Clean renewable energy projects	-	16,262	16,262
Vector control programs	-	14,381	14,381
Other purposes	23,796	5,316	29,112
Total restricted	<u>72,724</u>	<u>374,268</u>	<u>446,992</u>
Committed to:			
County parks operations	-	19,955	19,955
Environmental health services	-	24,159	24,159
Fire protection services	-	24,500	24,500
General capital improvement projects	-	89,729	89,729
Housing programs	8,983	-	8,983
Postemployment healthcare benefits	10,654	-	10,654
Public ways and facilities	231	400	631
Working capital	25,354	-	25,354
Other purposes	12,897	781	13,678
Total committed	<u>58,119</u>	<u>159,524</u>	<u>217,643</u>
Assigned to:			
Fire protection services	-	35,895	35,895
General liability program	7,800	-	7,800
Other purposes	8,896	-	8,896
Total assigned	<u>16,696</u>	<u>35,895</u>	<u>52,591</u>
Unassigned	<u>557,326</u>	<u>-</u>	<u>557,326</u>
Total	<u>\$ 712,099</u>	<u>\$ 570,125</u>	<u>\$ 1,282,224</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(10) 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, 2016, the County has a balance in its contingency reserve in the amount of \$212,517 reported as part of the General Fund’s unassigned fund balance.

(11) 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, 2016, County’s proportionate share of this plan is 96.36%.

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, 2016
 (Dollars in thousands)

(11) Pension Plans (Continued)

The CalPERS' provisions and benefits in effect at June 30, 2016, 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	18.186%	18.186%	32.881%	32.881%

	<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	26.188%	6.730%	37.742%	37.742%

	<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%	6.24%
Required employer contribution rates	9.231%	7.750%	8.00%	6.24%

Employees Covered

At June 30, 2016, 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	12,015	2,192	421	56
Inactive employees entitled to but not yet receiving benefits	6,801	448	80	-
Active employees	14,213	1,960	232	123
Total	33,029	4,600	733	179

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

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(11) Pension Plans (Continued)

Contributions

For the year ended June 30, 2016, the County’s actuarial determined contributions were as follows:

County Miscellaneous Plan.....	\$	231,314
County Safety Plan.....		68,669
Central Fire Miscellaneous Plan.....		1,551
Central Fire Safety Plan.....		12,026
		<u>313,560</u>
Total primary government		313,560
Housing Authority Miscellaneous Plan.....		768
Total County	\$	<u><u>314,328</u></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 Public Employees Retirement Fund (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, 2016, is distributed.

	<u>Net Pension Asset</u>	<u>Net Pension Liability</u>
Governmental activities	\$ -	\$ 1,964,622
Business-type activities	-	934,043
		<u>2,898,665</u>
Total primary government	-	2,898,665
Housing Authority	7,978	-
Health Authority	-	5,018
Total	<u>\$ 7,978</u>	<u>\$ 2,903,683</u>

As of June 30, 2016, 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.....	96.36%	\$ 2,088,756
County Safety Plan.....	n/a	665,576
Central Fire Miscellaneous Plan.....	0.17055%	11,707
Central Fire Safety Plan.....	n/a	132,626
		<u>2,898,665</u>
Total primary government		2,898,665
Housing Authority Miscellaneous Plan.....	n/a	(7,978)
Health Authority Miscellaneous Plan.....	0.07311%	5,018
Total County		<u><u>\$ 2,895,705</u></u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(11) 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, 2015, 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, 2014, rolled forward to June 30, 2015, 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.

	Central Fire Miscellaneous Plan		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2014 (MD).....	\$ 41,158	\$ 31,156	\$ 10,002
Net changes during measurement period.....	1,632	(73)	1,705
Balance at June 30, 2015 (MD)	<u>\$ 42,790</u>	<u>\$ 31,083</u>	<u>\$ 11,707</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:

	County Miscellaneous Plan			County Safety Plan		
	Increase (Decrease)			Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2014 (MD).....	\$ 8,197,583	\$ 6,332,253	\$ 1,865,330	\$ 2,401,079	\$ 1,819,509	\$ 581,570
Change in year:						
Service cost.....	193,108	-	193,108	51,239	-	51,239
Interest on the total pension liability.....	611,717	-	611,717	179,112	-	179,112
Changes of assumptions.....	(149,993)	-	(149,993)	(44,951)	-	(44,951)
Differences between expected and actual experience.....	(12,698)	-	(12,698)	17,045	-	17,045
Plan to plan resource movement.....	-	(557)	557	-	1	(1)
Contributions from the employer.....	-	200,542	(200,542)	-	60,423	(60,423)
Contributions from employees.....	-	93,991	(93,991)	-	19,683	(19,683)
Net investment income.....	-	142,299	(142,299)	-	40,380	(40,380)
Benefit payments, including refunds of employee contributions.....	(360,951)	(360,951)	-	(114,909)	(114,909)	-
Administrative Expenses.....	-	(7,251)	7,251	-	(2,048)	2,048
Change in proportionate share.....	45,338	35,022	10,316	-	-	-
Net changes during measurement period.....	<u>326,521</u>	<u>103,095</u>	<u>223,426</u>	<u>87,536</u>	<u>3,530</u>	<u>84,006</u>
Balance at June 30, 2015 (MD)	<u>\$ 8,524,104</u>	<u>\$ 6,435,348</u>	<u>\$ 2,088,756</u>	<u>\$ 2,488,615</u>	<u>\$ 1,823,039</u>	<u>\$ 665,576</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(11) Pension Plans (Continued)

	Central Fire Safety Plan			Housing Authority Miscellaneous Plan		
	Increase (Decrease)			Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2014 (MD).....	\$ 485,186	\$ 368,810	\$ 116,376	\$ 47,786	\$ 56,591	\$ (8,805)
Change in year:						
Service cost.....	8,357	-	8,357	1,328	-	1,328
Interest on the total pension liability.....	36,014	-	36,014	3,523	-	3,523
Differences between expected and actual experience.....	2,264	-	2,264	(539)	-	(539)
Changes of assumptions.....	(8,633)	-	(8,633)	(933)	-	(933)
Plan to plan resource movement.....	-	(3)	3	-	-	-
Contributions from the employer.....	-	11,070	(11,070)	-	724	(724)
Contributions from employees.....	-	2,986	(2,986)	-	654	(654)
Net investment income.....	-	8,111	(8,111)	-	1,238	(1,238)
Benefit payments, including refunds of Administrative expense	(24,442)	(24,442)	-	(1,857)	(1,857)	-
	-	(412)	412	-	(64)	64
Net changes during measurement period.....	13,560	(2,690)	16,250	1,522	695	827
Balance at June 30, 2015 (MD)	\$ 498,746	\$ 366,120	\$ 132,626	\$ 49,308	\$ 57,286	\$ (7,978)

Pension Expense and Pension Related Deferred Outflows and Inflows of Resources

For the year ended June 30, 2016, the County recognized pension expense (income) as follows:

Governmental activities	\$ 156,896
Business-type activities	<u>76,629</u>
Total primary government	233,525
Housing Authority	(670)
Health Authority	<u>1,221</u>
Total	<u>\$ 234,076</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, 2016
 (Dollars in thousands)

(11) Pension Plans (Continued)

At June 30, 2016, 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.....	\$ 231,314	\$ -	\$ 68,669	\$ -	\$ 13,577	\$ -	\$ 313,560	\$ -
Changes of assumptions.....	-	(112,495)	-	(34,735)	-	(6,984)	-	(154,214)
Differences between expected and actual experiences.....	-	(9,524)	13,172	-	1,703	-	14,875	(9,524)
Net differences between projected and actual earnings on plan investments.....	-	(53,064)	-	(16,143)	-	(3,746)	-	(72,953)
Changes in employers portions.....					1,460	(104)	1,460	(104)
Difference in actual and proportionated contributions.....	-	-	-	-	417	-	417	-
Total	<u>\$ 231,314</u>	<u>\$ (175,083)</u>	<u>\$ 81,841</u>	<u>\$ (50,878)</u>	<u>\$ 17,157</u>	<u>\$ (10,834)</u>	<u>\$ 330,312</u>	<u>\$ (236,795)</u>

	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.....	\$ 768	\$ -	\$ -	\$ -	\$ 768	\$ -
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions.....	-	-	97	-	97	-
Net differences between projected and actual earnings on plan investments.....	-	(437)	-	(331)	-	(768)
Differences between expected and actual experiences.....	-	(436)	62	-	62	(436)
Change in assumptions.....	-	(753)	-	(588)	-	(1,341)
Total	<u>\$ 768</u>	<u>\$ (1,626)</u>	<u>\$ 159</u>	<u>\$ (919)</u>	<u>\$ 927</u>	<u>\$ (2,545)</u>

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, 2016, the primary government and discrete component units reported \$313.6 million and \$0.8 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, 2017.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(11) Pension Plans (Continued)

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
2017.....	\$ (103,406)	\$ (1,041)	\$ (104,447)
2018.....	(103,417)	(1,024)	(104,441)
2019.....	(102,619)	(935)	(103,554)
2020.....	89,399	671	90,070
2021.....	-	(57)	(57)
Total	<u>\$ (220,043)</u>	<u>\$ (2,386)</u>	<u>\$ (222,429)</u>

Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2015 is provided below, including any assumptions that differ from those used in the June 30, 2014 actuarial valuation.

Valuation date.....	June 30, 2014
Measurement date.....	June 30, 2015
Actuarial cost method.....	Entry-age normal cost method
Investment rate of return.....	7.65%, net of pension plan investment expenses, including inflation
Inflation.....	2.75%
Projected salary increases.....	Varies by entry age and service
Discount rate.....	7.65%
Post retirement benefit increase.....	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS’ website under Forms and Publications.

Change of Assumptions

GASB Statement No. 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 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 of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 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 68 section.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2016

(Dollars in thousands)

(11) 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 (Public Employees' Retirement 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. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 ¹	Real Return Years 11+ ²
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	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, 2016
 (Dollars in thousands)

(11) 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 7.65 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 (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Net Pension Liability (Asset)		
	Current		
	Discount Rate -1% (6.65%)	Discount Rate (7.65%)	Discount Rate +1% (8.65%)
County Miscellaneous Plan ⁽¹⁾	\$ 3,234,691	\$ 2,088,756	\$ 1,139,702
County Safety Plan	1,008,618	665,576	384,224
Central Fire Miscellaneous Plan ⁽²⁾	17,534	11,707	6,895
Central Fire Safety Plan	197,872	132,626	78,764
Housing Authority Miscellaneous Plan	(761)	(7,978)	(13,907)
Health Authority Miscellaneous Plan	8,416	5,018	2,213

⁽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 \$22,721 at June 30, 2016. During the fiscal year ended June 30, 2016, the County contributed \$2,023 to the Supplemental Plan.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2016
(Dollars in thousands)

(11) 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 \$198 for the year ended June 30, 2016. 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 \$163 for the year ended June 30, 2016. 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 \$361 for the year ended June 30, 2016.

(12) 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, 2016
 (Dollars in thousands)

(12) 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 2016 calculated in the June 30, 2015 actuarial valuation is 10.55%. In fiscal year 2016, the County contributed a total of \$137,867 towards OPEB. This amount included \$87,073 payments towards retiree benefit costs and \$47,567 deposits into the CERBT funded by \$35,000 from the County Retiree Medical Trust Fund, a one time contribution from the County of \$7,196, and \$5,372 contributed by County employees.

Annual required contribution	\$ 155,351
Interest on net OPEB obligation	16,806
Adjustment to annual required contribution	<u>(14,202)</u>
Annual OPEB cost	157,955
Contributions made	<u>(137,867)</u>
Change in net OPEB obligation	20,088
Net OPEB obligation, beginning of year	<u>250,088</u>
Net OPEB obligation, end of year	<u><u>\$ 270,176</u></u>

Annual OPEB Cost

The required contributions were determined as part of the June 30, 2015 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
6/30/2016	\$ 157,955	87.3%	\$ 270,176
6/30/2015	182,377	92.8%	250,088
6/30/2014	181,297	125.7%	236,891

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(12) 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, 2015	June 30, 2016
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, 2015	30 years as of June 30, 2016
Actuarial asset valuation method	Market value	Market value
Investment rate of return	6.72% *	7.00% *
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	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.	6.50% applied to 2016-2017 plan year premiums to calculate 2017-2018 plan year premiums, then 6.25% 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, 2016
 (Dollars in thousands)

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

As of June 30, 2016, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 2,172,715
Actuarial value of plan assets	<u>705,175</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 1,467,540</u></u>
Funded ratio (actuarial value of plan assets/AAL)	32.5%
Covered payroll (active plan members)	\$ 1,425,110
UAAL as a percentage of covered payroll	103.0%

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 2015-16 is determined based on the June 30, 2015 actuarial valuation. The table below summarizes the position of the Central Fire's OPEB plan for the fiscal year ended June 30, 2016.

Annual required contribution	\$ 6,442
Interest on beginning net OPEB obligation	2,920
Amortization of net OPEB obligation	<u>(2,566)</u>
Annual OPEB cost	6,796
Contributions made	<u>(5,380)</u>
Change in net OPEB obligation	1,416
Net OPEB obligation, beginning of year	<u>41,719</u>
Net OPEB obligation, end of year	<u><u>\$ 43,135</u></u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(12) 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
6/30/2016	\$ 6,796	79%	\$ 43,135
6/30/2015	6,837	78%	41,719
6/30/2014	6,527	69%	40,236

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, 2016 and the most recent funding status as of June 30, 2015 is as follows:

Valuation date	June 30, 2013	June 30, 2015
Purpose	Fiscal year 2016 annual required contribution	Most recent funding status
Actuarial cost method	Projected unit credit	Entry age normal actuarial cost
	Level percentage of payroll over a static 30 years beginning 2011/2012	
Remaining amortization period	27 years as of July 1, 2013	24 years as of July 1, 2016
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, 2016
(Dollars in thousands)

(12) 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><u>77,677</u></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, 2016. 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, 2016, 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, 2015. In the Housing Authority's July 1, 2015 actuarial valuation, the entry age normal cost method was used.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(12) 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	\$ 435
Interest on beginning net OPEB obligation	(81)
Amortization of net OPEB obligation	111
Annual OPEB cost	<u>465</u>
Contributions made	<u>(424)</u>
Change in net OPEB obligation (asset)	41
Net OPEB obligation (asset), beginning of year	<u>(1,199)</u>
Net OPEB obligation (asset), end of year	<u><u>\$ (1,158)</u></u>

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

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net</u> <u>OPEB</u> <u>(Asset)</u>
6/30/2016	\$ 465	91.2%	\$ (1,158)
6/30/2015	171	656.3%	(1,199)
6/30/2014	185	232.4%	(245)

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, 2016 and the most recent funding status as of July 1, 2015 is as follows:

<u>Description</u>	<u>Method/Assumption</u>
Valuation date	July 1, 2015
Purpose	Most recent funding status
Actuarial cost method	Entry age normal cost, level percent of pay
Asset valuation method	Market value of assets
Long term return on assets	6.73%
Discount rate	6.73%
Salary increase	3.25% per year, used only to allocate the cost of benefits between service years
General inflation rate	2.75% per year
Healthcare cost trend rate	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, 2016
 (Dollars in thousands)

(12) 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 are 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, 2016, 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, 2016. The actuarial cost method for determining the benefit obligation is the projected unit credit cost method. In the June 30, 2016 actuarial valuation, the assumed health care cost trend rates was 4.25% for 2017, graded to 4.25% for 2088 and beyond, and 3.50% graded to 4.50% for year 2075 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:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	\$ 954	100.0%	\$ -
6/30/2015	1,100	100.0%	-
6/30/2014	743	100.0%	-

Funding Status and Funding Progress

As of June 30, 2016, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 8,959
Actuarial value of plan assets	<u>5,188</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,771</u>
Funded ratio (actuarial value of plan assets/AAL)	57.9%
Annual covered payroll	\$ 13,266
UAAL as a percentage of annual covered payroll	28.4%

Details of the Health Authority’s OPEB plan may be found in its financial report for the fiscal year ended June 30, 2016. The report may be obtained by writing to the Health Authority at 210 E. Hacienda Avenue, Campbell, CA 95008.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2016

(Dollars in thousands)

(13) Risk Management

The County is exposed to various risks of loss related to torts; medical malpractice; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment; and health benefits to employees and retirees. The County is self-insured for its general liability, workers' compensation, unemployment, basic life insurance, dental, retiree benefits, medical malpractice liability, and automobile liability. The County has chosen to establish risk financing internal service funds where assets are set aside for claim settlements associated with the above risks of loss up to certain limits.

Excess coverage is provided by the California State Association of Counties' Excess Insurance Authority (Insurance Authority), a joint powers authority, whose purpose is to develop and fund programs of excess insurance and provide the joint purchase of coverage from independent third parties for its member entities for the following types of coverage listed below. The Insurance Authority is governed by a Board of Directors consisting of representatives of its member entities.

Self-insurance and Insurance Authority limits are as follows:

Type of Coverage	Self-Insurance (per occurrence)	Self-Retained ⁽¹⁾	Purchase Insurance Policies (per occurrence)
Automobile	Up to \$2,000	\$0	\$33,000
General Liability	Up to \$2,000	\$0	\$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 1,150,000 ⁽⁴⁾
Earthquake	2% of insurable value per occurrence \$100 minimum deductible per occurrence		Up to \$715,000 ⁽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 towers with limits of \$300,000 per tower shared with all other members in those same three towers, plus a rooftop of \$300,000 shared with all members in a total of eight towers for a total of \$1,200,000.
- (4) Insured values are split between 3 towers with limits of \$300,000 per tower shared with all other members in those same three towers, plus a rooftop of \$250,000 shared with all members in a total of eight towers for a total of \$1,150,000.
- (5) Insured values are split between 3 towers with limits of \$100,000 per tower shared with all other members in those same three towers, plus a rooftop of \$415,000 shared with all member in a total of five towers for a total of \$715,000.
- (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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2016

(Dollars in thousands)

(13) Risk Management (Continued)

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 property, automobile liability, general liability, medical malpractice, and workers' compensation liability issues. The unpaid claims liabilities included in the self-insurance internal service funds for these risks are based on the results of actuarial studies and include amounts for claims incurred but not reported and loss adjustment expenses. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

The County computes its claims liability based on the expected value discounted at 1.0% for Property, General and Automobile Liability claims, 2.0% for Malpractice claims and 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>2016</u>	<u>2015</u>
Unpaid claims, beginning of year	\$ 147,815	\$ 141,869
Incurred claims and changes in estimate	72,598	62,285
Claim payments	<u>(64,519)</u>	<u>(56,339)</u>
Unpaid claims, end of year	<u>\$ 155,894</u>	<u>\$ 147,815</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 \$15,206 for the fiscal year ended June 30, 2016.

(14) Commitments and Contingencies

(a) Commitments

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

<u>Fiscal year ended June 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
2017	\$ 36,310	\$ 6,552	\$ 42,862
2018	37,390	6,758	44,148
2019	38,414	6,972	45,386
2020	39,549	7,192	46,741
2021	41,082	7,419	48,501
2022-2026	214,071	38,952	253,023
2027-2031	224,765	40,899	265,664
2032-2036	<u>235,150</u>	<u>42,944</u>	<u>278,094</u>
Total	<u>\$ 866,731</u>	<u>\$ 157,688</u>	<u>\$1,024,419</u>

Rent expense for fiscal year 2016 was approximately \$40,069 and \$8,695 for the governmental activities and business-type activities, respectively.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2016
 (Dollars in thousands)

(14) 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
2017	\$ 4,094	\$ 368	\$ 4,462
2018	3,802	102	3,904
2019	3,889	105	3,994
2020	3,938	108	4,046
2021	4,028	112	4,140
2022-2026	21,250	406	21,656
2027-2031	22,521	-	22,521
2032-2036	22,209	-	22,209
Total	\$ 85,731	\$ 1,201	\$ 86,932

At June 30, 2016, the leased assets had a net book value of \$10,224. Rent income for fiscal year 2016 was approximately \$8,583 and \$2,393 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, 2016, the governmental activities reported total deferred inflows of resources for the service concession arrangements of \$15,969, of which \$5,745 is related to the receivables and \$10,224 is related to the capital assets.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2016

(Dollars in thousands)

(14) Commitments and Contingencies (Continued)

(b) *Litigation*

The County accounts for claims in the internal service funds and the General Fund. As of June 30, 2016, 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) *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, 2016, the outstanding balance of these bonds was \$9,303. 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.

(d) *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, 2016, the total outstanding balances of these conduit bonds were \$124,825.

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, 2016, 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2016
(Dollars in thousands)

(14) Commitments and Contingencies (Continued)

(e) 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, 2016, encumbrances totaled to \$7,821, \$21,280, and \$44,418 for the General Fund, Special Revenue Funds, and Capital Projects Funds, respectively.

(15) Pollution Remediation

The Almaden Quicksilver County Park (Park) was established in the mid-1970s after the 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 be commenced until 2017.

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, 2016, it is estimated that approximately \$8,071 will be spent during the next five years and \$4,830 will be spent starting 2019 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.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2016

(Dollars in thousands)

(16) Vehicle Registration Fee

County has started to receive vehicle registration fees (VRF) from Valley Transportation Authority since August 2012. The amounts received have been spent on various digout and microsurfacing projects on Lawrence Expressway (Homestead Road to State Route 237), Capitol Expressway (Tully Road to Quimby, US101 to Seven Trees Boulevard), and also on a cold in-place recycling and overlay project on Lawrence Expressway (Kifer Avenue to Central Expressway). Table below summarizes VRF receipts and expenditures:

	June 30, 2016	From Inception To June 30, 2016 Cumulative Balance
Proceeds received	\$ 1,823	\$ 7,036
Total expenditures paid and accrued	<u>(4,976)</u>	<u>(6,280)</u>
Current year unused proceeds	(3,153)	756
Prior year unused proceeds	<u>3,920</u>	<u>-</u>
Total proceeds available	767	756
Interest earned	<u>1</u>	<u>12</u>
Total proceeds available plus interest earned	<u><u>\$ 768</u></u>	<u><u>\$ 768</u></u>

(17) Subsequent Events

Moody's Credit Rating Update - On September 12, 2016, Moody's Investor Service has assigned an Aa2 rating on the County's general obligation bonds, A1 rating on its pension obligation bonds (POBs) and upgraded its outstanding lease revenue bond rating to Aa3 from A1.

2016 Series A Lease Revenue Bonds - On September 20, 2016, the Financing Authority issued \$41,810 of 2016 Series A Lease Revenue Bonds on behalf of the County and SCVMC to fully refund the County's outstanding 1994 Series B Lease Revenue Bonds of \$51,500. The 2016 Series A Lease Revenue Bonds bears fixed interest rates of 3.00% and 5.00%, and have a final maturity date of November 15, 2025. On August 31, 2016, S&P Global Ratings assigned its AA+ rating on 2016 Series A Lease Revenue Bonds.

**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)

Fiscal Year	County Miscellaneous Plan		County Safety Plan		Central Fire Safety Plan		Housing Authority Miscellaneous Plan	
	2016	2015	2016	2015	2016	2015	2016	2015
Measurement period (2)	2015	2014	2015	2014	2015	2014	2015	2014
Total pension liability								
Service cost	\$ 193,108	\$ 194,389	\$ 51,239	\$ 51,470	\$ 8,357	\$ 8,571	\$ 1,328	\$ 1,413
Interest	611,717	576,809	179,112	169,583	36,014	34,357	3,523	3,357
Changes of assumptions	(149,993)	-	(44,951)	-	(8,633)	-	(933)	-
Differences between expected and actual experience	(12,698)	-	17,045	-	2,264	-	(539)	-
Benefit payments, including refunds of employee contributions	(360,951)	(334,427)	(114,909)	(110,678)	(24,442)	(23,106)	(1,857)	(2,065)
Change in proportionate share	45,338	-	-	-	-	-	-	-
Net change in total pension liability	326,521	436,771	87,536	110,375	13,560	19,822	1,522	2,705
Total pension liability, beginning	8,197,583	7,760,812	2,401,079	2,290,704	485,186	465,364	47,786	45,081
Total pension liability, ending	\$ 8,524,104	\$ 8,197,583	\$ 2,488,615	\$ 2,401,079	\$ 498,746	\$ 485,186	\$ 49,308	\$ 47,786
Plan fiduciary net position								
Contributions, employer	\$ 200,542	\$ 180,535	\$ 60,423	\$ 58,722	\$ 11,070	\$ 10,233	\$ 724	\$ 825
Contributions, employee	93,991	96,868	19,683	22,482	2,986	3,886	654	670
Net investment income (1)	142,299	944,377	40,380	272,598	8,111	55,532	1,238	8,433
Plan to plan resource movement	(557)	-	1	-	(3)	-	-	-
Benefit payments, including refunds of employee contributions	(360,951)	(334,427)	(114,909)	(110,678)	(24,442)	(23,106)	(1,857)	(2,065)
Administrative expenses	(7,251)	-	(2,048)	-	(412)	-	(64)	-
Change in proportionate share	35,022	-	-	-	-	-	-	-
Net change in plan fiduciary net position	103,095	887,353	3,530	243,124	(2,690)	46,545	695	7,863
Plan fiduciary net position, beginning	6,332,253	5,444,900	1,819,509	1,576,385	368,810	322,265	56,591	48,728
Plan fiduciary net position, ending	\$ 6,435,348	\$ 6,332,253	\$ 1,823,039	\$ 1,819,509	\$ 366,120	\$ 368,810	\$ 57,286	\$ 56,591
Plan net pension liability (asset)	\$ 2,088,756	\$ 1,865,330	\$ 665,576	\$ 581,570	\$ 132,626	\$ 116,376	\$ (7,978)	\$ (8,805)
Plan fiduciary net position as a percentage of the total pension liability	75.50%	77.25%	73.26%	75.78%	73.41%	76.01%	116.18%	118.43%
Covered-employee payroll	\$ 1,196,655	\$ 1,143,056	\$ 191,470	\$ 182,993	\$ 33,375	\$ 33,375	\$ 9,296	\$ 9,370
Plan net liability (asset) as a percentage of covered-employee payroll	174.55%	163.19%	347.61%	317.81%	397.38%	348.69%	-85.82%	-93.97%

Note to schedule:

(1) Net of administrative expenses.

(2) Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only two years of information is shown.

Benefit Changes - The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 valuation date. 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 - The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent.

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)

Measurement period (2)	Central Fire Miscellaneous Plan		Health Authority Miscellaneous Plan	
	2015	2014	2015	2014
Plan's proportion of the net pension liability (NPL)	0.17055%	0.16073%	0.07311%	0.07849%
Plan's proportion share of the NPL	\$ 11,707	\$ 10,002	\$ 5,018	\$ 4,884
Plan's covered-employee payroll	\$ 5,625	\$ 5,636	\$ 7,427	\$ 8,850
Plan's proportionate share of the NPL as a percentage of its covered-employee payroll	208.11%	177.45%	67.56%	55.19%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability	78.40%	83.03%	78.40%	83.03%

Note to schedule:

(1) Net of administrative expenses.

(2) Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only two years of information is shown.

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 - The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent.

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)

Schedule of Pension Plans Contributions

June 30, 2016

(In thousands)

Fiscal Year Ended	County Miscellaneous Plan			County Safety Plan		
	2016	2015	2014	2016	2015	2014
Actuarially determined contributions (ADC)	\$ 231,314	\$ 200,542	\$ 180,535	\$ 68,669	\$ 60,423	\$ 58,722
Contributions in relation to the ADC	(231,314)	(200,542)	(180,535)	(68,669)	(60,423)	(58,722)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 1,263,139	\$ 1,196,655	\$ 1,143,056	\$ 208,858	\$ 191,470	\$ 182,993
Contributions as a percentage of covered-employee payroll	18.31%	16.76%	15.79%	32.88%	31.56%	32.09%

Fiscal Year Ended	Central Fire Miscellaneous Plan			Central Fire Safety Plan		
	2016	2015	2014	2016	2015	2014
Actuarially determined contributions (ADC)	\$ 1,551	\$ 1,363	\$ 1,275	\$ 12,026	\$ 11,070	\$ 10,233
Contributions in relation to the ADC	(1,551)	(1,363)	(1,275)	(12,026)	(11,070)	(10,233)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 6,608	\$ 5,625	\$ 5,636	\$ 33,375	\$ 31,992	\$ 31,131
Contributions as a percentage of covered-employee payroll	23.47%	24.23%	22.62%	36.03%	34.60%	32.87%

Fiscal Year Ended	Housing Authority Miscellaneous Plan			Health Authority Miscellaneous Plan		
	2016	2015	2014	2016	2015	2014
Actuarially determined contributions (ADC)	\$ 768	\$ 724	\$ 825	\$ 911	\$ 961	\$ 886
Contributions in relation to the ADC	(768)	(724)	(825)	(911)	(961)	(886)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 10,911	\$ 9,296	\$ 9,370	\$ 7,428	\$ 8,850	\$ 8,850
Contributions as a percentage of covered-employee payroll	7.04%	7.79%	8.80%	12.26%	10.86%	10.01%

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

* Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only three years of information is shown.

COUNTY OF SANTA CLARA

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

June 30, 2016

(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, 2016	June 30, 2015
Actuarial valuation date.....	June 30, 2013	June 30, 2012
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, 2016
(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
6/30/2016	\$ 705,175	\$ 2,172,715	\$ 1,467,540	32.5%	\$ 1,425,110	103.0%
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%

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
6/30/2016	\$ 5,188	\$ 8,959	\$ 3,771	57.9%	\$ 13,266	28.4%
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%

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, 2016
(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	\$ 514,548	\$ 514,548	\$ 514,548	\$ -
Resources (inflows):				
Taxes	909,529	909,529	954,789	45,260
Licenses and permits	14,668	15,247	15,105	(142)
Fines, forfeitures, and penalties	38,348	46,134	47,133	999
Interest and investment income	11,392	11,507	19,187	7,680
Intergovernmental revenues	1,181,394	1,455,913	1,418,671	(37,242)
Charges for services	111,100	114,246	122,828	8,582
Other revenue	32,054	67,133	102,131	34,998
Other financing sources	5,000	5,000	5,010	10
Interfund transfers	337,234	377,115	88,488	(288,627)
Total resources (inflows) available for appropriation	<u>2,640,719</u>	<u>3,001,824</u>	<u>2,773,342</u>	<u>(228,482)</u>
Charges to appropriations (outflows):				
General government:				
Supervisorial District 1				
Salaries and benefits	1,342	1,346	1,241	105
Services and supplies	143	129	15	114
Total Supervisorial District 1	<u>1,485</u>	<u>1,475</u>	<u>1,256</u>	<u>219</u>
Supervisorial District 2				
Salaries and benefits	1,348	1,383	1,381	2
Services and supplies	137	108	53	55
Total Supervisorial District 2	<u>1,485</u>	<u>1,491</u>	<u>1,434</u>	<u>57</u>
Supervisorial District 3				
Salaries and benefits	1,343	1,371	1,342	29
Services and supplies	153	138	71	67
Total Supervisorial District 3	<u>1,496</u>	<u>1,509</u>	<u>1,413</u>	<u>96</u>
Supervisorial District 4				
Salaries and benefits	1,342	1,346	1,140	206
Services and supplies	143	146	60	86
Total Supervisorial District 4	<u>1,485</u>	<u>1,492</u>	<u>1,200</u>	<u>292</u>
Supervisorial District 5				
Salaries and benefits	1,348	1,277	1,269	8
Services and supplies	167	248	181	67
Total Supervisorial District 5	<u>1,515</u>	<u>1,525</u>	<u>1,450</u>	<u>75</u>
Clerk - Board of Supervisors				
Salaries and benefits	4,343	4,352	4,030	322
Services and supplies	4,283	4,274	3,117	1,157
Expenditure reimbursements	(112)	(112)	(52)	(60)
Total Clerk - Board of Supervisors	<u>8,514</u>	<u>8,514</u>	<u>7,095</u>	<u>1,419</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2016
(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	\$ 18,455	\$ 18,394	\$ 17,774	\$ 620
Services and supplies	17,876	24,918	17,616	7,302
Expenditure reimbursements	(536)	(932)	(611)	(321)
Interfund transfers	100	100	100	-
Total Office of the County Executive	<u>35,895</u>	<u>42,480</u>	<u>34,879</u>	<u>7,601</u>
Controller-Treasurer				
Salaries and benefits	15,749	15,833	14,252	1,581
Services and supplies	26,723	28,711	11,488	17,223
Expenditure reimbursements	(56,447)	(55,204)	(55,095)	(109)
Interfund transfers	-	35	35	-
Total Controller-Treasurer	<u>(13,975)</u>	<u>(10,625)</u>	<u>(29,320)</u>	<u>18,695</u>
Tax Collector				
Salaries and benefits	6,763	6,836	6,727	109
Services and supplies	4,905	4,857	8,077	(3,220)
Capital outlay	-	55	55	-
Total Tax Collector	<u>11,668</u>	<u>11,748</u>	<u>14,859</u>	<u>(3,111)</u>
Office of the Assessor				
Salaries and benefits	35,539	35,592	33,166	2,426
Services and supplies	4,723	5,196	4,117	1,079
Total Office of the Assessor	<u>40,262</u>	<u>40,788</u>	<u>37,283</u>	<u>3,505</u>
Purchasing				
Salaries and benefits	7,557	7,733	6,874	859
Services and supplies	6,779	7,407	1,257	6,150
Expenditure reimbursements	(621)	(621)	(612)	(9)
Total Purchasing	<u>13,715</u>	<u>14,519</u>	<u>7,519</u>	<u>7,000</u>
Office of Budget and Analysis - Special Programs				
Services and supplies	18,716	6,968	4,032	2,936
Interfund transfers	164,434	135,183	120,010	15,173
Total Office of Budget and Analysis - Special Programs	<u>183,150</u>	<u>142,151</u>	<u>124,042</u>	<u>18,109</u>
Office of the County Counsel				
Salaries and benefits	28,886	29,315	29,063	252
Services and supplies	9,327	9,594	9,277	317
Capital outlay	-	30	19	11
Expenditure reimbursements	(20,397)	(23,019)	(22,155)	(864)
Total Office of the County Counsel	<u>17,816</u>	<u>15,920</u>	<u>16,204</u>	<u>(284)</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2016
(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	\$ 21,758	\$ 21,931	\$ 21,334	\$ 597
Services and supplies	7,359	7,747	7,307	440
Expenditure reimbursements	<u>(10,727)</u>	<u>(10,796)</u>	<u>(9,881)</u>	<u>(915)</u>
Total Personnel	<u>18,390</u>	<u>18,882</u>	<u>18,760</u>	<u>122</u>
Registrar of Voters				
Salaries and benefits	9,916	10,383	10,325	58
Services and supplies	7,976	8,357	8,207	150
Capital outlay	<u>2,900</u>	<u>2,900</u>	<u>243</u>	<u>2,657</u>
Total Registrar of Voters	<u>20,792</u>	<u>21,640</u>	<u>18,775</u>	<u>2,865</u>
Information Services				
Salaries and benefits	1,304	1,220	943	277
Services and supplies	42,889	38,716	15,932	22,784
Capital outlay	878	3,604	3,310	294
Expenditure reimbursements	<u>(1,477)</u>	<u>(1,612)</u>	<u>(1,519)</u>	<u>(93)</u>
Total Information Services	<u>43,594</u>	<u>41,928</u>	<u>18,666</u>	<u>23,262</u>
Department of Revenue				
Salaries and benefits	9,629	9,753	8,907	846
Services and supplies	<u>1,960</u>	<u>1,954</u>	<u>1,486</u>	<u>468</u>
Total Department of Revenue	<u>11,589</u>	<u>11,707</u>	<u>10,393</u>	<u>1,314</u>
Communication				
Salaries and benefits	17,453	17,859	15,826	2,033
Services and supplies	6,790	7,978	6,686	1,292
Expenditure reimbursements	<u>(6,450)</u>	<u>(7,194)</u>	<u>(6,095)</u>	<u>(1,099)</u>
Total Communication	<u>17,793</u>	<u>18,643</u>	<u>16,417</u>	<u>2,226</u>
Department of Planning & Development				
Salaries and benefits	12,700	13,017	11,632	1,385
Services and supplies	3,991	4,038	2,751	1,287
Capital outlay	-	39	36	3
Expenditure reimbursements	<u>(117)</u>	<u>(117)</u>	<u>(120)</u>	<u>3</u>
Total Department of Planning & Development	<u>16,574</u>	<u>16,977</u>	<u>14,299</u>	<u>2,678</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2016
(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	\$ 30,079	\$ 29,308	\$ 29,040	\$ 268
Services and supplies	73,618	78,879	77,941	938
Capital outlay	281	281	278	3
Expenditure reimbursements	(49,431)	(50,018)	(49,205)	(813)
Interfund transfers	54,398	65,138	63,593	1,545
Total Facilities and Fleet Department	<u>108,945</u>	<u>123,588</u>	<u>121,647</u>	<u>1,941</u>
General government - subtotals:				
Salaries and benefits	226,854	228,249	216,266	11,983
Services and supplies	238,658	240,363	179,671	60,692
Capital outlay	4,059	6,909	3,941	2,968
Expenditure reimbursements	(146,315)	(149,625)	(145,345)	(4,280)
Interfund transfers	218,932	200,456	183,738	16,718
Total general government	<u>542,188</u>	<u>526,352</u>	<u>438,271</u>	<u>88,081</u>
Public protection:				
Clerk Recorder				
Salaries and benefits	6,274	6,258	5,811	447
Services and supplies	954	1,044	942	102
Total Clerk Recorder	<u>7,228</u>	<u>7,302</u>	<u>6,753</u>	<u>549</u>
District Attorney				
Salaries and benefits	101,341	104,454	104,294	160
Services and supplies	21,088	21,547	20,025	1,522
Capital outlay	792	910	905	5
Expenditure reimbursements	(9,187)	(9,989)	(9,970)	(19)
Total District Attorney	<u>114,034</u>	<u>116,922</u>	<u>115,254</u>	<u>1,668</u>
Public Defender				
Salaries and benefits	53,395	52,875	52,323	552
Services and supplies	5,347	7,543	6,772	771
Expenditure reimbursements	(257)	(257)	(257)	-
Total Public Defender	<u>58,485</u>	<u>60,161</u>	<u>58,838</u>	<u>1,323</u>
Pretrial Services				
Salaries and benefits	5,493	5,558	5,342	216
Services and supplies	961	1,000	791	209
Expenditure reimbursements	(277)	(277)	(124)	(153)
Total Pretrial Services	<u>6,177</u>	<u>6,281</u>	<u>6,009</u>	<u>272</u>
Criminal Justice Support				
Services and supplies	43,535	45,841	45,726	115
Interfund transfers	-	150	-	150
Total Criminal Justice Support	<u>43,535</u>	<u>45,991</u>	<u>45,726</u>	<u>265</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2016
(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	\$ 136,979	\$ 136,560	\$ 129,451	\$ 7,109
Services and supplies	22,289	22,467	20,510	1,957
Capital outlay	50	3,422	3,333	89
Interfund transfers	204	-	-	-
Expenditure reimbursements	(8,509)	(9,252)	(6,473)	(2,779)
Total Sheriff Administration	<u>151,013</u>	<u>153,197</u>	<u>146,821</u>	<u>6,376</u>
Sheriff - Department of Correction Services				
Salaries and benefits	138,925	140,193	139,177	1,016
Department of Correction				
Salaries and benefits	34,822	35,832	35,264	568
Services and supplies	55,871	62,570	58,957	3,613
Capital outlay	-	771	745	26
Expenditure reimbursements	(175)	(175)	(175)	-
Total Department of Correction	<u>90,518</u>	<u>98,998</u>	<u>94,791</u>	<u>4,207</u>
Probation Department				
Salaries and benefits	140,627	141,393	139,386	2,007
Services and supplies	26,196	27,827	19,031	8,796
Expenditure reimbursements	(405)	(484)	(305)	(179)
Total Probation Department	<u>166,418</u>	<u>168,736</u>	<u>158,112</u>	<u>10,624</u>
Department of Agriculture/Weights & Measures/ Animal Control				
Salaries and benefits	10,787	10,855	10,684	171
Services and supplies	3,079	3,132	2,649	483
Capital outlay	65	142	139	3
Interfund transfers	111	111	110	1
Expenditure reimbursements	(3,906)	(3,918)	(3,480)	(438)
Total Department of Agriculture/ Weights & Measures/Animal Control	<u>10,136</u>	<u>10,322</u>	<u>10,102</u>	<u>220</u>
Medical Examiner - Coroner				
Salaries and benefits	3,509	3,542	3,536	6
Services and supplies	843	800	711	89
Total Medical Examiner - Coroner	<u>4,352</u>	<u>4,342</u>	<u>4,247</u>	<u>95</u>
Public protection - subtotals:				
Salaries and benefits	632,152	637,520	625,268	12,252
Services and supplies	180,163	193,771	176,114	17,657
Capital outlay	907	5,245	5,122	123
Interfund transfers	315	261	110	151
Expenditure reimbursements	(22,716)	(24,352)	(20,784)	(3,568)
Total public protection	<u>790,821</u>	<u>812,445</u>	<u>785,830</u>	<u>26,615</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2016
(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	\$ 3,191	\$ 3,191	\$ 3,139	\$ 52
Interfund transfers	451	451	135	316
Total Measure B	<u>3,642</u>	<u>3,642</u>	<u>3,274</u>	<u>368</u>
Health and sanitation:				
Health Services Administration				
Salaries and benefits	63,844	64,821	62,964	1,857
Services and supplies	37,275	39,817	37,223	2,594
Capital outlay	-	228	209	19
Expenditure reimbursements	<u>(2,683)</u>	<u>(3,320)</u>	<u>(3,141)</u>	<u>(179)</u>
Total Health Services Administration	<u>98,436</u>	<u>101,546</u>	<u>97,255</u>	<u>4,291</u>
Mental Health Bureau				
Salaries and benefits	61,087	61,483	56,734	4,749
Services and supplies	332,480	347,199	312,871	34,328
Interfund transfers	-	711	711	-
Expenditure reimbursements	<u>(5,280)</u>	<u>(5,631)</u>	<u>(5,000)</u>	<u>(631)</u>
Total Mental Health Bureau	<u>388,287</u>	<u>403,762</u>	<u>365,316</u>	<u>38,446</u>
Custody Health Services				
Salaries and benefits	39,912	44,236	43,843	393
Services and supplies	18,993	24,425	21,925	2,500
Capital outlay	170	196	11	185
Expenditure reimbursements	<u>(53,989)</u>	<u>(60,865)</u>	<u>(58,049)</u>	<u>(2,816)</u>
Total Custody Health Services	<u>5,086</u>	<u>7,992</u>	<u>7,730</u>	<u>262</u>
Bureau of Alcohol & Drug Programs				
Salaries and benefits	22,591	22,716	22,007	709
Services and supplies	32,469	33,014	32,394	620
Capital outlay	-	47	47	-
Expenditure reimbursements	<u>(2,706)</u>	<u>(4,229)</u>	<u>(2,134)</u>	<u>(2,095)</u>
Total Bureau of Alcohol & Drug Programs	<u>52,354</u>	<u>51,548</u>	<u>52,314</u>	<u>(766)</u>
Community Outreach Program				
Salaries and benefits	12,865	13,181	12,687	494
Services and supplies	7,317	7,343	6,440	903
Expenditure reimbursements	<u>(1,319)</u>	<u>(1,319)</u>	<u>(995)</u>	<u>(324)</u>
Total Community Outreach Program	<u>18,863</u>	<u>19,205</u>	<u>18,132</u>	<u>1,073</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2016
(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	\$ 4,117	\$ 3,383
Health and sanitation - subtotals:				
Salaries and benefits	200,299	206,437	198,235	8,202
Services and supplies	436,034	459,298	414,970	44,328
Capital outlay	170	471	267	204
Interfund transfers	-	711	711	-
Expenditure reimbursements	(65,977)	(75,364)	(69,319)	(6,045)
Total health and sanitation	<u>570,526</u>	<u>591,553</u>	<u>544,864</u>	<u>46,689</u>
Public assistance:				
In-House Support Services				
Services and supplies	<u>157,560</u>	<u>157,676</u>	<u>154,116</u>	<u>3,560</u>
Office of Affordable Housing				
Salaries and benefits	991	1,525	923	602
Services and supplies	2,832	35,453	8,107	27,346
Interfund transfers	-	373	373	-
Expenditure reimbursements	(880)	(2,455)	(1,913)	(542)
Total Office of Affordable Housing	<u>2,943</u>	<u>34,896</u>	<u>7,490</u>	<u>27,406</u>
Social Services Administration				
Salaries and benefits	341,746	348,408	330,293	18,115
Services and supplies	136,114	144,963	128,631	16,332
Capital outlay	-	41	9	32
Expenditure reimbursements	(501)	(712)	(188)	(524)
Total Social Services Administration	<u>477,359</u>	<u>492,700</u>	<u>458,745</u>	<u>33,955</u>
Nutrition Services to the Aged				
Salaries and benefits	1,295	1,262	1,216	46
Services and supplies	7,979	8,921	8,714	207
Total Nutrition Services to the Aged	<u>9,274</u>	<u>10,183</u>	<u>9,930</u>	<u>253</u>
Categorical Aids Payments				
Services and supplies	<u>192,374</u>	<u>197,915</u>	<u>154,358</u>	<u>43,557</u>
Public assistance - subtotals:				
Salaries and benefits	344,032	351,195	332,432	18,763
Services and supplies	496,859	544,928	453,926	91,002
Capital outlay	-	41	9	32
Interfund transfers	-	373	373	-
Expenditure reimbursements	(1,381)	(3,167)	(2,101)	(1,066)
Total public assistance	<u>839,510</u>	<u>893,370</u>	<u>784,639</u>	<u>108,731</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2016
(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	\$ 11,107	\$ 11,441	\$ 11,328	\$ 113
Interest and fiscal charges	10,055	10,055	9,561	494
Interfund transfers	2,376	8,223	5,847	2,376
Total debt service	<u>23,538</u>	<u>29,719</u>	<u>26,736</u>	<u>2,983</u>
Reserves:				
OMB Special Programs				
General government	40,146	76,400	-	76,400
Personnel				
General government	2,211	2,211	-	2,211
Facilities and Fleet				
General government	1,050	765	-	765
Criminal Justice Support				
Public protection	5,059	3,333	-	3,333
Bureau of Alcohol & Drug Programs				
Health and sanitation	352	352	-	352
Social Services Administration				
Public assistance	10,711	10,711	-	10,711
Nutrition Services to the Aged				
Public assistance	279	-	-	-
Appropriation Contingencies				
Total Appropriation Contingencies	<u>155,587</u>	<u>212,517</u>	<u>-</u>	<u>212,517</u>
Total reserves	<u>215,395</u>	<u>306,289</u>	<u>-</u>	<u>306,289</u>
Total charges to appropriations	<u>2,985,620</u>	<u>3,164,135</u>	<u>2,583,614</u>	<u>580,521</u>
Budgetary fund balances, end of year	<u>\$ 169,647</u>	<u>\$ 352,237</u>	<u>\$ 704,276</u>	<u>\$ 352,039</u>

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2016
(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	\$ 2,773,342
Differences - budget to GAAP:	
Proceeds from sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes	(5,010)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(88,488)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u>\$ 2,679,844</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,583,614
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	(7,823)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(190,913)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u>\$ 2,384,878</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, 2016
(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, 2016, 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 21, 2016, except for our report on the schedule of expenditures of federal awards, as to which the date is March 29, 2017.

Our report includes a reference to other auditors who audited the financial statements of the FIRST 5 Santa Clara County; 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, the South Santa Clara County Fire District, and the Santa Clara County Health Authority 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.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 21, 2016



Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

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, 2016. 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 \$241,109,432 in federal awards, which is not included in the schedule of expenditures of federal awards, during the year ended June 30, 2016. Our audit, described below, did not include the operations of the Housing Authority because we were engaged to perform an audit in accordance with the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and report on the results separately to the Housing Authority.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its federal awards 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 the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance 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.

Opinion on Each 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 major federal programs for the year ended June 30, 2016.

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 the Uniform Guidance, 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.

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. 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be a material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-001 that we considered to be a significant deficiency.

The County's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
March 29, 2017

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures	Amount Passed to Subrecipients
U.S. Department of Agriculture				
<u>Passed Through California Department of Social Services</u>				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	None	\$ 31,949,429	\$ 11,147
<u>Passed Through California Department of Public Health</u>				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	14-10242	536,723	-
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	15-10075	3,580,692	-
Subtotal Special Supplemental Nutrition Program for Women, Infants, and Children			4,117,415	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	None	128,459	42,399
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	13-20507	1,490,779	139,195
Subtotal State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			1,619,238	181,594
Subtotal Passed Through California Department of Public Health			5,736,653	181,594
<u>Passed Through California Department of Education</u>				
Child Nutrition Cluster:				
School Breakfast Program	10.553	43-10439-6066435-01	92,843	-
National School Lunch Program	10.555	43-10439-6066435-01	141,608	-
Subtotal of Child Nutrition Cluster			234,451	-
Total U.S. Department of Agriculture			37,920,533	192,741
U.S. Department of Housing and Urban Development				
<u>Direct Programs</u>				
Community Development Block Grants/Entitlement Grants	14.218	B-14-UC-06-0007	901,719	605,423
Supportive Housing Program	14.235	--	1,295,562	1,216,875
Home Investment Partnerships Program	14.239	M14-UC060218	77,841	5,646
Total U.S. Department of Housing and Urban Development			2,275,122	1,827,944
U.S. Department of Interior				
<u>Direct Programs</u>				
Central Valley Improvement Act, Title XXXIV	15.512	--	35,485	-
Total U.S. Department of Interior			35,485	-
U.S. Department of Justice				
<u>Direct Programs</u>				
State Criminal Alien Assistance Program	16.606	--	654,628	-
DNA Backlog Reduction Program	16.741	--	87,604	-
Subtotal Direct Programs			742,232	-
<u>Passed Through Board of State and Community Correction</u>				
Juvenile Accountability Block Grants	16.523	CSA #176-11	70,328	-
Subtotal Passed Through Board of State and Community Correction			70,328	-
<u>Passed Through City of San José</u>				
Missing Children's Assistance	16.543	None	2,840	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0642	13,300	-
Subtotal Passed Through City of San José			16,140	-
<u>Passed Through City of Sunnyvale</u>				
Equitable Sharing Program	16.922	CA0431600	27,125	-
<u>Passed Through California Governor's Office of Emergency Service:</u>				
Crime Victim Assistance	16.575	UV14050430	101,337	37,072
Crime Victim Assistance	16.575	VW15340430	661,198	142,943
Subtotal Crime Victim Assistance			762,535	180,015
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ14100430	19,889	-
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ15110430	483	-
Subtotal Paul Coverdell Forensic Sciences Improvement Grant Program			20,372	-
Subtotal Passed Through California Governor's Office of Emergency Service:			782,907	180,015
Total U.S. Department of Justice			1,638,732	180,015

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

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures	Amount Passed to Subrecipients
U.S. Department of Transportation				
<u>Direct Program</u>				
Highway Planning and Construction	20.205	--	\$ 26,515	\$ -
<u>Passed Through California Department of Public Health</u>				
Highway Planning and Construction	20.205	SR2SL5937	505,086	-
<u>Passed Through California Department of Transportation</u>				
Highway Planning and Construction	20.205	BHLO 5937 (174)	3,253,708	-
Highway Planning and Construction	20.205	BHLO 5937 (186)	25,866	-
Highway Planning and Construction	20.205	BHLO 5937 (193)	2,870	-
Highway Planning and Construction	20.205	BHLO 5937 (194)	6,198	-
Highway Planning and Construction	20.205	BHLO 5937 (195)	3,846	-
Highway Planning and Construction	20.205	BHLS 5937 (187)	6,222	-
Highway Planning and Construction	20.205	BPMP 5937 (155)	3,629	-
Highway Planning and Construction	20.205	BPMP 5937 (156)	13,915	-
Highway Planning and Construction	20.205	BPMP 5937 (158)	3,629	-
Highway Planning and Construction	20.205	BPMP 5937 (159)	3,856	-
Highway Planning and Construction	20.205	BPMP 5937 (160)	3,932	-
Highway Planning and Construction	20.205	BPMP 5937 (161)	3,932	-
Highway Planning and Construction	20.205	BRLO 5937 (106)	22,576	-
Highway Planning and Construction	20.205	BRLO 5937 (107)	659,375	-
Highway Planning and Construction	20.205	BRLO-5937 (109)	759,162	-
Highway Planning and Construction	20.205	BRLO 5937 (168)	1,151	-
Highway Planning and Construction	20.205	BRLO 5937 (176)	147,335	-
Highway Planning and Construction	20.205	BRLO 5937 (180)	6,694	-
Highway Planning and Construction	20.205	BRLO 5937 (182)	44,830	-
Highway Planning and Construction	20.205	BRLS 5937 (123)	85,674	-
Highway Planning and Construction	20.205	BRLS 5937 (124)	84,696	-
Highway Planning and Construction	20.205	BRLS 5937 (169)	658	-
Highway Planning and Construction	20.205	CML 5937 (191)	37,385	-
Highway Planning and Construction	20.205	CML 5937 (196)	470,886	-
Highway Planning and Construction	20.205	CML 5937 (197)	11,281	-
Highway Planning and Construction	20.205	DEMO8L 5937 (137)	898,943	-
Highway Planning and Construction	20.205	HPLUL 5937 (163)	606,565	-
Highway Planning and Construction	20.205	HRRRL 5937 (188)	66,734	-
Highway Planning and Construction	20.205	HRRRL 5937 (189)	34,457	-
Highway Planning and Construction	20.205	HRRRL 5937 (190)	109,286	-
Highway Planning and Construction	20.205	HSIP 5937 (199)	107,905	-
Highway Planning and Construction	20.205	SR2SL 5937 (185)	18,883	-
Subtotal Passed Through California Department of Transportation			7,506,079	-
<u>Passed Through California Office of Traffic Safety</u>				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL1553	107,328	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL1630	140,109	-
Subtotal Minimum Penalties for Repeat Offenders for Driving While Intoxicated			247,437	-
Total U.S. Department of Transportation			8,285,117	-
U.S. Department of Treasury				
<u>Passed Through City of Sunnyvale</u>				
Treasury Forfeiture Fund Program	21.000	CA0431600	43,299	-
Total U.S. Department of Treasury			43,299	-
U.S. Department of Labor				
<u>Passed Through California Department of Education</u>				
Adult Education - Basic Grants to States	84.002A	0615	29,498	-
Total U.S. Department of Labor			29,498	-

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

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures	Amount Passed to Subrecipients
U.S. Department of Health and Human Services				
<u>Direct Programs</u>				
Projects for Assistance in Transition from Homelessness (PATH) Health Center Program (Community Health Centers, Migrant Health Centers Health Care for the Homeless, and Public Housing Primary Care	93.150	--	\$ 216,142	\$ 194,529
Partnerships to Improve Community Health	93.224	--	2,191,156	-
U.S. Repatriation	93.331	--	2,316,044	983,310
Adoption Opportunities	93.579	--	4,042	-
HIV Emergency Relief Project Grants	93.652	--	220,029	215,679
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.914	--	2,989,040	1,374,579
Subtotal Direct Programs	93.918	6G76HA001572302	855,264	-
			<u>8,791,717</u>	<u>2,768,097</u>
<u>Passed Through California Department of Public Health</u>				
Public Health Emergency Preparedness	93.069	15-10386	249,909	-
Public Health Emergency Preparedness	93.069	14-10542	1,781,516	-
Subtotal Public Health Emergency Preparedness Program			<u>2,031,425</u>	<u>-</u>
Project Grants and Cooperative Agreements for Tuberculosis Control Programs Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.116	None	608,540	12,085
Immunization Cooperative Agreements	93.197	14-100069	88,413	-
Refugee and Entrant Assistance _Discretionary Grant:	93.268	15-10452	891,210	-
Medical Assistance Program	93.576	15-43-90840-00	326,563	-
Medical Assistance Program	93.778	201143 MCH	1,718,124	-
Medical Assistance Program	93.778	201143 AFLP	62,541	58,217
Medical Assistance Program	93.778	201143 BIH	316,688	-
Subtotal Medical Assistance Program			<u>2,097,353</u>	<u>58,217</u>
National Bioterrorism Hospital Preparedness Program	93.889	--	542,019	211,518
HIV Care Formula Grants	93.917	13-20074-A03	589,154	538,244
HIV Care Formula Grants	93.917	15-11076	176,379	159,164
Subtotal HIV Care Formula Grants			<u>765,533</u>	<u>697,408</u>
HIV Prevention Activities_Health Department Based	93.940	13-20253	270,700	83,052
HIV Prevention Activities_Health Department Based	93.940	15-10949	197,426	81,725
Subtotal HIV Prevention Activities_Health Department Based			<u>468,126</u>	<u>164,777</u>
Preventative Health Services_Sexually Transmitted Diseases Control Grant	93.977	15-10269	102,300	-
Maternal and Child Health Services Block Grant to the States	93.994	201143 MCH	219,308	-
Maternal and Child Health Services Block Grant to the States	93.994	201143 AFLP	158,151	158,151
Maternal and Child Health Services Block Grant to the States	93.994	201143 BIH	208,640	-
Subtotal Maternal and Child Health Services Block Grant to the States			<u>586,099</u>	<u>158,151</u>
Subtotal Passed Through California Department of Public Health			<u>8,507,581</u>	<u>1,302,156</u>
<u>Passed Through Sourcewise</u>				
Aging Cluster:				
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	AP-1516-10	1,535,179	1,535,179
Nutrition Services Incentive Program	93.053	AP-1516-10	907,053	907,053
Subtotal Passed Through Sourcewise			<u>2,442,232</u>	<u>2,442,232</u>
<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	1,459,236	-
<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	324,776	249,958
Children's Health Insurance Program	93.767	CCS Admin	944,801	-
Medical Assistance Program:				
Medical Assistance Program	93.778	Foster Care & HCPCFC	929,316	-
Medical Assistance Program	93.778	CHDP	657,554	-
Medical Assistance Program	93.778	CCS Admin	3,931,537	-
Medical Assistance Program	93.778	CCS PPC	65,636	-
Subtotal Medical Assistance Program			<u>5,584,043</u>	<u>-</u>

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

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures	Amount Passed to Subrecipients
U.S. Department of Health and Human Services (Continued)				
Block Grants for Community Mental Health Service:	93.958	DHCS1772A	\$ 767,925	\$ 30,157
Block Grants for Prevention and Treatment of Substance Abuse	93.959	None	11,362,090	3,590,296
Subtotal Passed Through California Department of Health Care Services			18,983,635	3,870,411
<u>Passed Through California Department of Child Support Services</u>				
Child Support Enforcement	93.563	IV-356	23,005,528	-
<u>Passed Through Foundation for California Community College</u>				
Health Care Innovation Awards (HCIA)	93.610	TC-007-14	24,903	-
<u>Passed Through California Department of Social Services</u>				
Guardianship Assistance	93.090	None	723,753	-
Promoting Safe and Stable Families	93.556	None	1,013,751	-
Temporary Assistance for Needy Families:	93.558	None	78,091,089	-
Refugee and Entrant Assistance_State Administered Programs	93.566	None	258,734	-
Refugee and Entrant Assistance_State Administered Programs	93.566	RESS 1407	100,608	52,595
Refugee and Entrant Assistance_State Administered Programs	93.566	RESS 1507	60,549	52,652
Subtotal Refugee and Entrant Assistance_State Administered Programs			419,891	105,247
Refugee and Entrant Assistance_Discretionary Grant:	93.576	TART 1406	3,228	2,612
Refugee and Entrant Assistance_Discretionary Grant:	93.576	TARL 1407	4,055	4,055
Refugee and Entrant Assistance_Discretionary Grant:	93.576	TARL 1506	8,007	7,564
Subtotal Refugee and Entrant Assistance_Discretionary Grant:			15,290	14,231
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	TAF01407	141,600	68,073
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	TAF01507	109,094	91,390
Subtotal Refugee and Entrant Assistance_Targeted Assistance Grant:			250,694	159,463
Community-Based Child Abuse Prevention Grant:	93.590	None	237,894	237,894
Stephanie Tubbs Jones Child Welfare Services Program	93.645	None	1,357,408	-
Child Welfare Research Training or Demonstrator	93.648	None	446,705	-
Foster Care_Title IV-E	93.658	None	50,828,628	-
Adoption Assistance	93.659	None	14,038,929	-
Social Services Block Grant	93.667	None	8,484,456	-
Chafee Foster Care Independence Program	93.674	None	439,413	403,705
Medical Assistance Program	93.778	None	132,055,290	773,016
Subtotal Passed Through California Department of Social Services			288,403,191	1,693,556
Total U.S. Department of Health and Human Services			351,618,023	12,076,452
Corporation for National Community Service				
<u>Passed through Non-Profit Finance Fund</u>				
Social Innovation Fund Pay for Success	94.024	2015-SIF9	52,678	-
Total Corporation for National Community Service			52,678	-
U.S. Department of Homeland Security				
<u>Passed Through California Governor's Office of Emergency Service:</u>				
Hazardous Mitigation Grant Program	97.039	FEMA-4158-DR-CA, Project #PJ0159, FIPS	1,711,661	-
Emergency Management Performance Grants	97.042	2015-0049	502,186	71,919
Subtotal Emergency Management Performance Grants			2,213,847	71,919
Homeland Security Grant Program	97.067	2014-00093-085-00000	1,024,482	79,062
Homeland Security Grant Program	97.067	2015-00078-085-00000	1,107,325	81,929
Subtotal Homeland Security Grant Program			2,131,807	160,991
Subtotal Passed Through California Governor's Office of Emergency Service:			4,345,654	232,910
<u>Passed Through City and County of San Francisco:</u>				
Homeland Security Grant Program	97.067	2014-00093	598,608	-
Homeland Security Grant Program	97.067	2015-00078	911,497	-
Subtotal Passed Through City and County of San Francisco:			1,510,105	-
Total U.S. Department of Homeland Security			5,855,759	232,910
Total Expenditures of Federal Awards			\$ 407,754,246	\$ 14,510,062

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, 2016

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, 2016, 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 financial statements. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. 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. Such expenditures are recognized following the cost principles contained in 2 CFR Section 200, Subpart E (Cost Principles), wherein certain types of expenditures are not allowable or are limited as to reimbursement. The County did not elect to use the 10% de minimis cost rate as covered in 2 CFR Section 200.414 Indirect (F&A) costs.

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. 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	\$ 3,183,642
Lower Income Housing Assistance Program			
Section 8 Moderate Rehabilitation	14.856	n/a	1,182,997
Housing Voucher Cluster:			
Section 8 Housing Choice Vouchers	14.871	n/a	9,055,501
Mainstream Vouchers	14.879	n/a	686,529
Total Housing Voucher Cluster			<u>9,742,030</u>
Family Self Sufficiency	14.896	n/a	344,814
Moving To Work Demonstration Program	14.881	n/a	<u>226,653,338</u>
Total Direct Programs			<u>241,106,821</u>
<i>Indirect:</i>			
<i>Pass-through from County of Santa Clara, CA</i>			
Continuum of Care	14.267	Not Available	<u>2,611</u>
Total Expenditures of Federal Awards			<u>\$ 241,109,432</u>

COUNTY OF SANTA CLARA

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

For the Fiscal Year Ended June 30, 2016

Note 5 – 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	\$ 31,949,429
Passed Through California Department of Public Health	10.561	1,619,238
Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program		<u>\$ 33,568,667</u>
<i>Highway Planning and Construction</i>		
Direct	20.205	\$ 26,515
Passed Through California Department of Public Health	20.205	505,086
Passed Through California Department of Transportation	20.205	7,506,079
Total Highway Planning and Construction		<u>\$ 8,037,680</u>
<i>Refugee and Entrant Assistance_Discretionary Grants</i>		
Passed Through California Department of Public Health	93.576	\$ 326,563
Passed Through California Department of Social Services	93.576	15,290
Total Refugee and Entrant Assistance_Discretionary Grants		<u>\$ 341,853</u>
<i>Medical Assistance Program</i>		
Passed Through California Department of Public Health	93.778	\$ 2,097,353
Passed Through California Department of Health Care Services	93.778	5,584,043
Passed Through California Department of Social Services	93.778	132,055,290
Total Medical Assistance Program		<u>\$ 139,736,686</u>
<i>Homeland Security Grant Program</i>		
Passed Through the California Emergency Management Agency	97.067	\$ 2,131,807
Passed Through City and County of San Francisco	97.067	1,510,105
Total Homeland Security Grant Program		<u>\$ 3,641,912</u>

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2016

Note 6 - 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, 2016:

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	UV14050430					
Personnel Services	10/1/14-3/31/16		\$ -	\$ 46,875	\$ 46,875	
Operating Expenses			101,337	-	101,337	
Total		\$ 187,500	\$ 101,337	\$ 46,875	\$ 148,212	16.575
Victim Witness Assistance - Cal EMA	VW15340430					
Operating Expenses	7/1/15-6/30/16		\$ 661,198	\$ -	\$ 661,198	
Total		\$ 1,241,869	\$ 661,198	\$ -	\$ 661,198	16.575
Paul Coverdell Forensic Sciences Improvement Grant Program	CQ14100430					
Operating Expenses	10/1/14-12/31/15		\$ 19,889	\$ -	\$ 19,889	
Total		\$ 31,211	\$ 19,889	\$ -	\$ 19,889	16.742
Paul Coverdell Forensic Sciences Improvement Grant Program	CQ15110430					
Operating Expenses	10/1/15-12/31/16		\$ 483	\$ -	\$ 483	
Total		\$ 33,473	\$ 483	\$ -	\$ 483	16.742
Hazardous Mitigation Grant Program	FEMA-4158-DR-CA					
Operating Expenses	12/13/2013-6/30/2016		\$ 1,711,661	\$ -	\$ 1,711,661	
Total		\$ 2,720,383	\$ 1,711,661	\$ -	\$ 1,711,661	97.039
Emergency Management Performance Grants	2015-0049					
Personnel Expenses	7/1/15-6/30/16		\$ 127,108	\$ -	\$ 127,108	
Operating Expenses			192,977	-	192,977	
Equipment			182,101	-	182,101	
Total		\$ 516,384	\$ 502,186	\$ -	\$ 502,186	97.042
Homeland Security Grant Program	2014-00093-085-00000					
Personnel Expenses	9/1/14-5/31/16		\$ 270,502	\$ -	\$ 270,502	
Operating Expenses			223,179	-	223,179	
Equipment			530,801	-	530,801	
Total		\$ 1,964,055	\$ 1,024,482	\$ -	\$ 1,024,482	97.067
Homeland Security Grant Program	2015-00078-085-00000					
Personnel Services	9/1/15-5/31/19		\$ 244,982	\$ -	\$ 244,982	
Operating Expenses			161,237	-	161,237	
Equipment			701,106	-	701,106	
Total		\$ 1,978,074	\$ 1,107,325	\$ -	\$ 1,107,325	97.067
Homeland Security Grant Program	2014-00093					
Equipment	11/1/14-2/28/16		\$ 598,608	\$ -	\$ 598,608	
Total		\$ 678,799	\$ 598,608	\$ -	\$ 598,608	97.067
Homeland Security Grant Program	2015-00078					
Equipment	11/1/15-2/28/17		\$ 911,497	\$ -	\$ 911,497	
Total		\$ 942,055	\$ 911,497	\$ -	\$ 911,497	97.067

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2016

Note 6 - 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, 2016. 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 Restitution for Crime Victims	VCGC3083				
Personnel Services	7/1/13-6/30/16		\$ 291,631	-	291,631
Total		\$ 879,435	\$ 291,631	\$ -	\$ 291,631
Victim Witness Restitution for Crime Victims	VCGC5060				
Personnel Services	7/1/15-6/30/18		\$ 1,016,449	\$ -	\$ 1,016,449
Operating Expenses			39,821	-	39,821
Total		\$ 3,172,326	\$ 1,056,270	\$ -	\$ 1,056,270

COUNTY OF SANTA CLARA
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended June 30, 2016

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	Yes
Type of auditor’s report issued on compliance for major programs:	Unmodified

Any audit findings required to be reported in accordance with 2 CFR 200.516(a)?	Yes
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Identification of major programs:	
CFDA No. 10.561	Supplemental Nutrition Assistance Programs
CFDA No. 93.558	Temporary Assistance for Needy Families
CFDA No. 93.563	Child Support Enforcement
CFDA No. 93.658	Foster Care – Title IV-E
CFDA No. 93.914	HIV Emergency Relief Project Grants

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, 2016

Section III – Federal Award Findings and Questioned Costs

Finding 2016-001

Allowable Costs/Cost Principles

Awarding Agency:	United States Department of Health and Human Services
Passed Through:	California Department of Child Support Services
Program Name:	Child Support Enforcement (CSE)
CFDA Number:	93.563
Award Number:	Not Available
Award Year:	July 1, 2015 through June 30, 2016
Classification of Finding:	Significant Deficiency in Internal Control over Compliance

Criteria

Pursuant to §200.303 of the Uniform Guidance, non-Federal entity must establish and maintain effective internal control over the Federal awards that provides reasonable assurance that non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Further, §200.333 of Uniform Guidance requires that financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient.

Pursuant to the County’s internal controls procedures, employees working for the CSE Program prepare manual timesheets that the supervisors review and approve.

Condition/Context

During our testing of payroll disbursements for the County’s CSE Program for the period of July 1, 2015 to June 30, 2016, we selected a statistically valid sample of forty payroll disbursements in a population of 2,703 disbursements and identified three disbursements where the underlying employees’ timesheet could not be located. As a result, the employee’s supervisor approval validation of the hours charged to the federal program could not be ascertained.

Questioned Costs

Not applicable. Based on our review of the County’s electronic records derived from its payroll system and the employee’s approved personal action form, the payroll expenditures were determined to be an allowable cost.

Cause and/or Effect

The department noted that the missing timesheets was caused by an oversight due to personnel turnover of the individual responsible for its record maintenance. The missing timesheets create a risk that employee hours could be misclassified and thus improperly charged to the grant program.

Recommendation

We recommend that the County strengthen internal controls over its record maintenance procedures in order to mitigate incomplete documentation of costs charged to federal programs.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2016

View of Responsible Officials

In FY2016 employees were required to fill out paper Time-Off Request forms. A paper Time-Off Request form was hand carried to the supervisor for approval. The department developed an excel worksheet that showed the 2 weeks in the pay period and each supervisor would manually enter time off for each employee on the sheets in daily increments. At the end of the pay period the supervisor added up all the time off requests and summarized regular hours worked, vacation, sick, overtime, etc. on the worksheet. Those balances were manually entered in Kronos employee by employee. The supervisor was required to keep the original worksheet along with the paper time off requests in his/her file and then send a copy of the worksheet to the Department Approver.

In September 2016, we started using Kronos Employee Self-Serve. The employees request their time off electronically in Kronos ESS and the request is sent by email to the approver. We are no longer using paper forms or preparing a worksheet summarizing the employee's time. Once the approver approves the request for time off the employee's timecard is updated to show the hours requested and approved. Then at the end of the pay period, the supervisor approves each employee's timecard.

Our corrective action plan is that we are no longer using the paper method we used in FY2016. We use the County system Kronos ESS which is electronic.

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County of Santa Clara

Office of the County Executive

County Government Center, East Wing
70 West Hedding Street
San Jose, California 95110
(408) 299-5105



In relation to the County of Santa Clara (County) annual financial statement audit and the single audit for the year ended June 30, 2016, the County hereby submits a summary schedule of prior audit findings and a corrective action plan, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Section 511 *Audit findings follow-up*.

Summary of Schedule of Prior Audit Findings

Reference Number:	Federal Award Finding 2015-001 <i>Special Tests & Provisions – Child Support Non-Cooperation</i>
Program Identification:	United States 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 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 sanction.
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.
Status:	Corrective action plan has been implemented.

Reference Number: **Federal Award Finding 2015-002**
Special Tests & Provisions – Penalty for Refusal to Work

Program Identification: United States 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 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 not be effective starting July 1, 2014, but the actual reduction started in October 1, 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 to 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.

Status: Corrective action plan has been implemented.

Reference Number: **Federal Award Finding 2015-003**
Cash Management

Program Identification: United States Department of Homeland Security
Passed Through State of California Emergency Management Agency
CFDA No. 97.067 – Homeland Security Grant Program

Audit Finding: 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.

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 grant activities.

Status: Corrective action plan has been implemented.

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The following finding was reported to the County's Schedule of Findings and Questioned Costs for the Year Ended June 30, 2016. The County's Corrective Action Plan for the finding is as follows:

Comment #2016-001 – (Significant Deficiency in Internal Control over Compliance and Noncompliance) – Allowable Costs/Cost Principles – Child Support Enforcement (CFDA# 93.563)

In FY2016 employees were required to fill out paper Time-Off Request forms. A paper Time-Off Request form was hand carried to the supervisor for approval. The department developed an excel worksheet that showed the 2 weeks in the pay period and each supervisor would manually enter time off for each employee on the sheets in daily increments. At the end of the pay period the supervisor added up all the time off requests and summarized regular hours worked, vacation, sick, overtime, etc. on the worksheet. Those balances were manually entered in Kronos employee by employee. The supervisor was required to keep the original worksheet along with the paper time off requests in his/her file and then send a copy of the worksheet to the Department Approver.

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