COUNTY OF SANTA CLARA

Single Audit Reports

Basic Financial Statements with
Federal Compliance Section

For the Fiscal Year Ended June 30, 2008

COUNTY OF SANTA CLARA
Single Audit Reports
For the Fiscal Year Ended June 30, 2008

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

INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the County of Santa Clara, California, (the County), as of and for the fiscal year ended June 30, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the FIRST 5 Santa Clara County; the County Sanitation District 2 – 3 of Santa Clara County; the Santa Clara County Vector Control District; the Silicon Valley Tobacco Securitization Authority; the Santa Clara County Tobacco Securitization Corporation; and the Santa Clara County Central Fire Protection District, the South Santa Clara County Fire District, and Los Altos Hills County Fire District (collectively, "Fire Districts"), which represent the following percentages of assets, net assets and revenues as of and for the fiscal year ended June 30, 2008:

Opinion Unit	Assets	Net Assets	Revenues
Governmental activities	2.8%	3.8%	3.8%
Business-type activities	1.1%	6.2%	0.3%
Aggregate discretely presented component units and remaining fund information	3.7%	4.3%	1.2%

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the County as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1(o) to the basic financial statements, effective July 1, 2007, the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27.*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2008, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards (the Schedule) is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. In addition, the Schedule does not include expenditures of federal awards received by the Housing Authority of the County of Santa Clara (Housing Authority), which expended $223,757,449 in federal awards during the year ended June 30, 2008. The Housing Authority's expenditures are separately audited in accordance with OMB Circular A-133. The Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Macias Gini & O'Connell LLP
Certified Public Accountants

Walnut Creek, California
December 17, 2008

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

As management of the County of Santa Clara (the County), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i to vi of this report.

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities by $1.9 billion (*net assets*) for the year. Of this amount, $827.3 million (*unrestricted net assets*) may be used to meet the County's ongoing obligations to its citizens and creditors, and $282.4 million (*restricted net assets*) may be used for the County's ongoing obligations related to programs with external restrictions. The County's net assets invested in capital assets, net of related debt were $759.7 million. (See further detail in Table 1 on page 6).

- The County's total net assets decreased by $40.0 million for the year. (See further detail in Table 2 on page 9).

- At June 30, 2008, the County governmental funds reported combined fund balances of $860.0 million, an increase of $44.6 million from prior year. Approximately 86.1 percent of the combined fund balances, $740.8 million, is available to meet the County's current and future needs (*unreserved fund balance*), which represents a $67.8 million increase from prior year.

- At June 30, 2008, the County's unreserved fund balance for the General Fund was $434.4 million or 23.0 percent of total General Fund expenditures.

- The County's investments in capital assets increased by $162.6 million or 12.8 percent. (See further detail in Table 5 on page 17).

- The County's total long-term debt, net of debt service principal pay-off of $24.2 million for the year, increased by $470.8 million or 50.7 percent during the current fiscal year. (See further detail in Table 6 on page 18).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

Governmental funds

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

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

The County maintains 25 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund. Data from other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements and schedules* elsewhere in this report.

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

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

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

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

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

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

Notes to the Basic Financial Statements
The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 35 - 90 of this report.

Required Supplementary Information
The required supplementary information is presented concerning the County's progress in funding its obligation to provide pension benefits and post employment benefits to its employees and the County General Fund budgetary comparison schedule. The County adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget. Required supplementary information can be found on pages 91 - 104 of this report.

Combining Statements and Schedules
The combining and individual fund statements and schedules referred to earlier provide information for nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and certain fiduciary funds and are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 107 - 163 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The County's assets exceeded its liabilities by $1.9 billion at June 30, 2008. As stated earlier, net assets may serve over time as a useful indicator of a government's financial position. When applicable, prior year numbers have been reclassified to make them comparable to the current year.

Table 1—Net Assets (in thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	2007	2008	2007	2008	2007	2008	Dollar Change	Percent Change
Current and other assets	$ 1,728,725	$ 2,052,927	$ 437,319	$ 386,256	$ 2,166,044	$ 2,439,183	$ 273,139	12.6%
Capital assets	866,027	931,127	407,370	504,919	1,273,397	1,436,046	162,649	12.8%
Total assets	2,594,752	2,984,054	844,689	891,175	3,439,441	3,875,229	435,788	12.7%
Current and other liabilities	215,533	218,965	65,728	95,702	281,261	314,667	33,406	11.9%
Long-term liabilities	650,403	1,038,578	598,421	652,667	1,248,824	1,691,245	442,421	35.4%
Total liabilities	865,936	1,257,543	664,149	748,369	1,530,085	2,005,912	475,827	31.1%
Net assets:								
Invested in capital assets, net of related debt	673,075	693,874	42,466	65,821	715,541	759,695	44,154	6.2%
Restricted net assets	106,038	144,803	119,345	137,550	225,383	282,353	56,970	25.3%
Unrestricted net assets	949,703	887,834	18,729	(60,565)	968,432	827,269	(141,163)	(14.6%)
Total net assets	$ 1,728,816	$ 1,726,511	$ 180,540	$ 142,806	$ 1,909,356	$ 1,869,317	$ (40,039)	(2.1%)

Assets

The County's total assets increased by $435.8 million or 12.7 percent primarily due to the following:

Governmental activities. Total assets for the governmental activities increased by $389.3 million or 15.0 percent. The current and other assets increased by $324.2 million. The primary reason for this increase is that the County issued $389.5 million of bonds used to prepay part of the pension plan's unfunded actuarial accrued liability creating a $350.5 million net pension asset at June 30, 2008. Also contributing to the increase in current and other assets is a $71.6 million increase in the internal borrowings from the business-type activities discussed in the business-type activities section. Offsetting these increases included the County's contribution of $80.0 million used to establish an irrevocable trust with the California Employer's Retiree Benefit Trust (CERBT) used to fund its retiree healthcare benefits. In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension* (OPEB). This statement requires the County to report its costs and obligations related to postemployment healthcare and other non-pension benefits. Accordingly, the County hired a consultant to conduct an actuarial valuation to determine its retiree healthcare or OPEB annual required contributions (ARC). During 2008, the County established an irrevocable trust to fund the ARC.

Capital assets used to support governmental activities increased by $65.1 million or 7.5 percent; depreciable capital assets increased by $23.8 million, while non-depreciable capital assets increased by $41.3 million. Changes in capital assets will be discussed in the Capital Assets section on page 17.

Business-type activities. Total assets for the business-type activities increased by $46.5 million or 5.5 percent—a $51.0 million decrease in current and other assets and a $97.5 million increase in capital assets. The decrease in current and other assets consisted primarily of SCVMC's increased working capital borrowings from the County's General Fund which contributed $71.6 million of the decrease. This decrease offsets a $43.8 million increase in patient receivables and receivables from other government agencies due to price increases, increased Medi-Cal rates and Center for Medicare and Medicaid Services mandated system changes. The remaining $23.2 decrease is due primarily from cash flow timing differences. The $97.5 million increase in capital assets was from construction activities financed by bond proceeds. The SCVMC will spend the remaining restricted investments on its projects in the next fiscal year. Changes in capital assets will be discussed in the Capital Assets section on page 17.

Liabilities

The County's total liabilities increased by $475.8 million or 31.1 percent mainly due to the following:

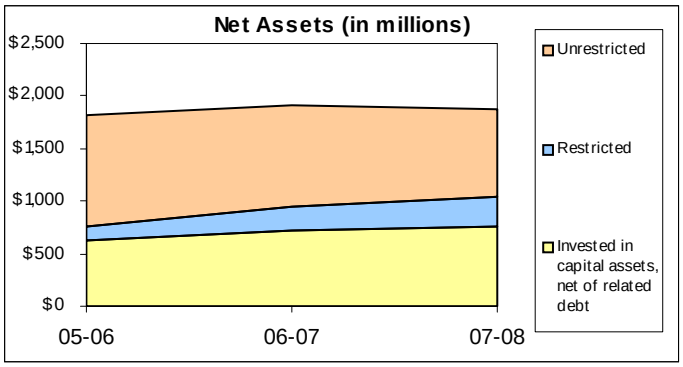
Governmental activities. Total liabilities for the governmental activities increased by $391.6 million or 45.2 percent is due primarily to the County's issuance of $389.5 million in taxable pension funding bonds used to prepay a portion of the County's unfunded actuarial accrued liability in the amount of $344.4 million and to finance the repayment of the net pension obligation in the amount of $42.2 million with the California Public Employees' Retirement System (PERS).

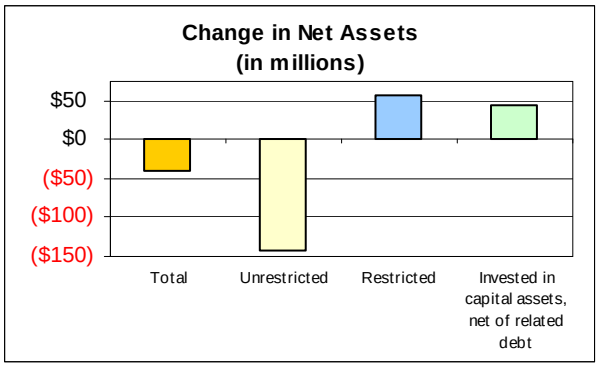
Business-type activities. Total liabilities for the business-type activities increased by $84.2 million or 12.7 percent - $30.0 million increase in current and other liabilities and $54.2 million increase in long-term liabilities. The increases in current and other liabilities resulted from timing differences in payment processing for year-end accruals due to staffing shortages as well as increases in estimated third-party payor settlements related to SCVMC's Valley Care Program. The increase in long-term liabilities mainly consisted of SCVMC's 2007 Series K Lease Revenue Bonds allocation in the amount of $70.9 million. These bonds were issued to fund the health clinic's capital improvements. This increase was offset by the County assuming and paying SCVMC's outstanding net pension obligation of $12.0 million.

Net Assets

The largest portion of the County's net assets (44.3 percent) represents *unrestricted net assets* of $827.3 million, which may be used to meet the County's ongoing obligations to citizens and creditors. Another significant portion of the County's net assets of $759.7 million (40.6 percent) reflects its investment in capital assets (e.g., land, buildings and improvements, infrastructure, and equipment and vehicles) net of accumulated depreciation, less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining $282.4 million (15.1 percent) of the County's net assets represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the County reported positive balances in all categories of net assets for its governmental activities. For business-type activities, a negative balance of $60.5 million existed for the unrestricted net asset category due to SCVMC's return of compensated absence cumulative funded subsidies to the General Fund.



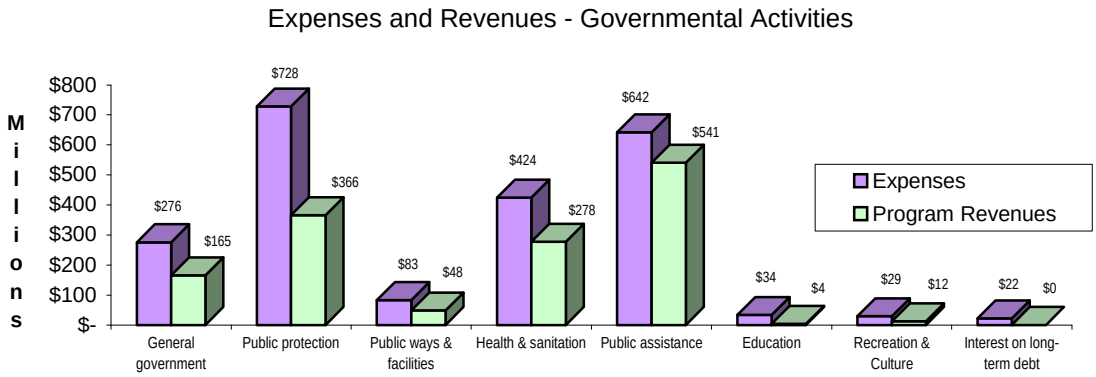


The County's net assets decreased by $40.0 million or 2.1 percent for the year. This change in net assets is explained below in the context of the County's governmental and business-type activities.

Governmental activities

The governmental activities decreased the County's net assets by $2.3 million. Revenues exceeded expenses by $119.2 million. In addition, net transfers of $121.5 million were made to the business-type activities.

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



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

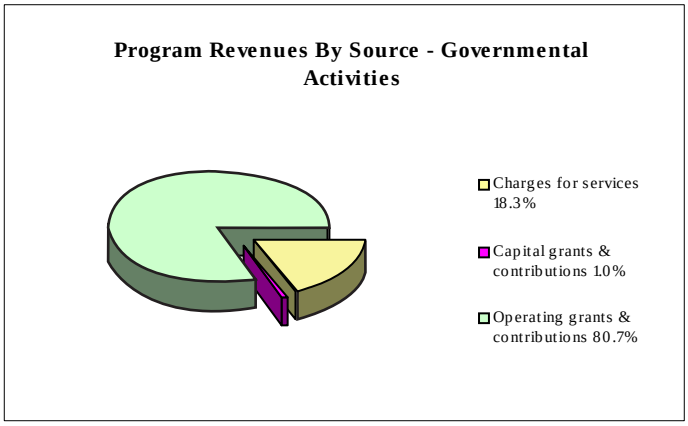
Table 2—The Change in Net Assets (in thousands)

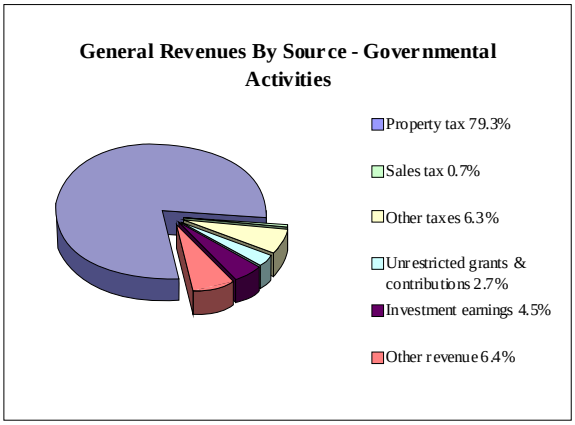
	Governmental Activities		Business-type Activities		Total		Total	
	2007	2008	2007	2008	2007	2008	Dollar Change	Percent Change
Revenues:								
Program revenues:								
Charges for services	$ 253,859	$ 258,938	$ 647,725	$ 732,360	$ 901,584	$ 991,298	$ 89,714	10.0%
Operating grants and contributions	1,042,424	1,141,284	9,138	9,276	1,051,562	1,150,560	98,998	9.4%
Capital grants and contributions	10,203	13,847	9,230	11,560	19,433	25,407	5,974	30.7%
General revenues:								
Property taxes	702,776	748,462	-	-	702,776	748,462	45,686	6.5%
Sales and use taxes	7,437	6,974	10,056	8,202	17,493	15,176	(2,317)	(13.2%)
Other taxes	60,652	59,542	-	-	60,652	59,542	(1,110)	(1.8%)
Unrestricted grants and contributions	39,490	25,862	-	-	39,490	25,862	(13,628)	(34.5%)
Unrestricted investment income	105,118	42,294	10,008	14,472	115,126	56,766	(58,360)	(50.7%)
Gain on sale of capital assets	217		-	-	217	-	(217)	(100.0%)
Other revenue	56,353	60,757	-	-	56,353	60,757	4,404	7.8%
Total revenues	2,278,529	2,357,960	686,157	775,870	2,964,686	3,133,830	169,144	5.7%
Program expenses:								
General government	198,510	275,888	-	-	198,510	275,888	77,378	39.0%
Public protection	696,216	728,482	-	-	696,216	728,482	32,266	4.6%
Public ways and facilities	89,741	83,103	-	-	89,741	83,103	(6,638)	(7.4%)
Health and sanitation	392,171	424,495	-	-	392,171	424,495	32,324	8.2%
Public assistance	601,222	641,710	-	-	601,222	641,710	40,488	6.7%
Education	27,932	33,640	-	-	27,932	33,640	5,708	20.4%
Recreation and culture	26,681	29,433	-	-	26,681	29,433	2,752	10.3%
Interest on long-term liabilities	18,887	22,008	-	-	18,887	22,008	3,121	16.5%
SCVMC	-	-	823,409	928,986	823,409	928,986	105,577	12.8%
Airport	-	-	3,451	3,589	3,451	3,589	138	4.0%
Sanitation District	-	-	2,514	2,772	2,514	2,772	258	10.3%
Total expenses	2,051,360	2,238,759	829,374	935,347	2,880,734	3,174,106	293,372	10.2%
Excess (deficiency) before transfers	227,169	119,201	(143,217)	(159,477)	83,952	(40,276)	(124,228)	(148.0%)
Transfers	(274,867)	(121,506)	274,867	121,506	-	-	-	n/a
Increase (decrease) in net assets	(47,698)	(2,305)	131,650	(37,971)	83,952	(40,276)	(124,228)	(148.0%)
Net assets, beginning of year, as previously reported	1,776,514	1,728,816	49,208	180,540	1,825,722	1,909,356	83,634	4.6%
Prior period adjustment	-	-	(318)	237	(318)	237	555	(174.5%)
Net assets, beginning of year, as restated	1,776,514	1,728,816	48,890	180,777	1,825,404	1,909,593	84,189	4.6%
Net assets, end of year	$ 1,728,816	$ 1,726,511	$ 180,540	$ 142,806	$ 1,909,356	$ 1,869,317	$ (40,039)	(2.1%)

Revenues

The County's revenue for its governmental activities increased $79.4 million or 3.5 percent to $2.36 billion. The program revenues increased by $107.6 million or 8.2 percent, while general revenues decreased by $28.2 million or 2.9 percent. Over the past three years, the County's program revenues and general revenues from its governmental activities have contributed about 64.1 percent and 35.9 percent, respectively, of total revenue for running those governmental programs.

The largest source of program revenues for the County's governmental activities is federal and state grants and contributions, both operating and capital. These revenues amount to about 81.7 percent of the County's program revenues, and about 49.0 percent of its total revenues. For the year, revenues from grants and contributions increased by $102.5 million or 9.7 percent, while revenues from charges for services increased by $5.1 million or 2.0 percent. Contributing to this increase was the State's increase in CalWorks, State Realignment for Public Health and State Medi-Cal administration local share ratio and reimbursement rates, increase in delegated payments from the San Jose Redevelopment Agency (SJRDA) and increases in other health related and public assistance grants. In prior years, the SJRDA has agreed to pass-through property taxes to the County. A portion of the pass-throughs are restricted to be used in a particular redevelopment project area (delegated payment) and a portion is unrestricted (pass-through payment). During fiscal year, the County reclassified its presentation of the delegated payment which resulted in an increase in the operating grants and contributions in the amount of $40.0 million and a decrease in the unrestricted grants and contribution in the amount of $15.4 million. The increased revenues from the SJRDA reflects the terms of the agreement which states 20 percent of any new debt proceeds secured by the SJRDA property tax revenues are to be paid to the County. Revenues from charges for services increased due to higher revenues earned from services provided by the Central Fire District and Office of the Sheriff to its customers as well as increased permit fees collected by the Environmental Health Department.





The County's general revenues decreased by $28.2 million or 2.9 percent from the prior year. General revenues include taxes, investment earnings, unrestricted grants and contributions, and some miscellaneous revenues not directly related to governmental programs. General revenues support government programs by defraying costs, which those programs cannot cover from their own revenues. Tax revenues are the County's second largest revenue source—grants and contributions being the largest. The County earned $815.0 million in tax revenues (property tax, property tax in lieu of motor vehicle license fee, and sales tax) for the current year. This is approximately 86.3 percent of the general revenues, and 34.6 percent of the total current year revenues. These general revenues provide the Board of Supervisors (the Board) with most of its discretionary spending ability.

Property tax revenues increased by $45.7 million or 6.5 percent from the prior year. For 2008, the assessed value of property in the County increased by $21.6 billion and the total assessed value, net of non-reimbursable institutional exemptions (e.g., qualifying charge and welfare organizations) was $283.5 billion, an increase of 8.3% over the previous year. However, this increase in the property tax assessments was tempered by increases in property tax refunds and delinquent accounts and the downward trend in the residential housing market due to increasing home foreclosures.

Unrestricted grants and contributions decreased by $13.6 million. Most of the decrease relates to a reclassification of the SJRDA dedicated payment of $15.4 million to operating grants.

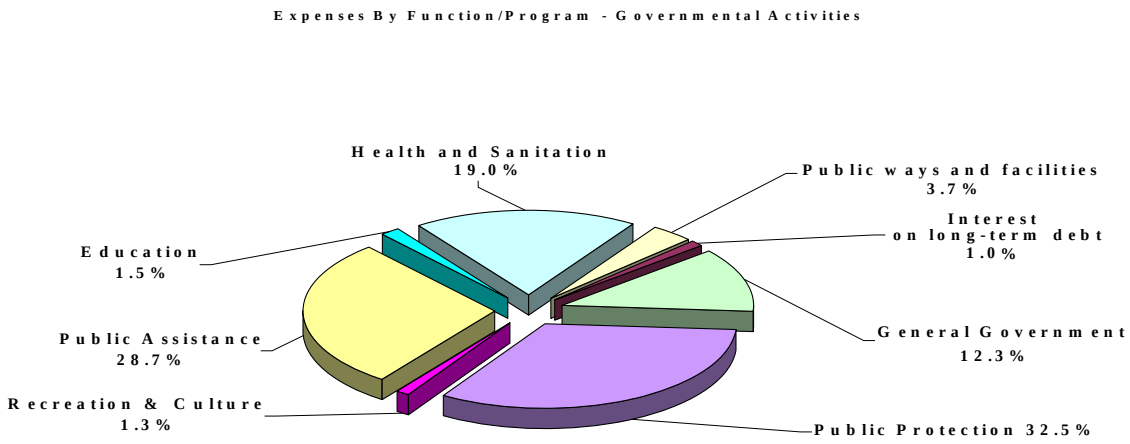
Investment earnings decreased by $62.8 million mainly due to reduction in fair market value of $34.9 million for investments held by the Retiree Health Insurance Fund. The County's investment policy allows the County to invest up to 67 percent of its Retiree Health Fund in equities. These investments lost over 9.0 percent of its value during the fiscal year. In addition, the County prepaid its pension cost in the amount of $168.4 at the beginning of the year decreasing the average daily cash balance over the year and the commingled investment pool's average quarterly earnings rate decreased from 4.884 percent last year to 4.493 percent in the current year. These factors also contributed to lower investment earnings.

Expenses

Expenses for the governmental activities increased by $187.4 million or 9.1 percent, and transfers to the business-type activities decreased by $153.4 million to $121.5 million. With the exception of public ways and facilities, costs for all other categories of governmental activities were higher for the year. Primary reasons for changes in expenses and transfers are explained below:

- Overall payroll costs increased by 3.3 percent from the prior year primarily due to increasing salaries and higher costs for retiree medical insurance. Pay increases and filling of vacant positions contributed an additional $27.9 million or 3.9 percent in comparison to last year. Health insurance rates rose by 6.5 percent, which increased healthcare costs by $6.6 million for existing employees. With the implementation of GASB Statement No. 45, the costs for retiree medical insurance increased significantly by 38.9 percent or an additional $9.8 million of costs. PERS costs declined by $12.5 million due to reductions in PERS rates for miscellaneous staff from 11.9 percent to 9.9 percent and for public safety members' from 25.8 percent to 20.5 percent as a result of prepaying PERS cost at the beginning of the year.
- General government expenses rose $77.4 million or 39.0 percent. This increase is due primarily to the County's contribution of $80.0 to establish an irrevocable trust with the CERBT to fund its retiree healthcare benefits.
- Higher demand for mental health service programs and expansion of the Mental Health Services Act contributed to a $32.3 million or 8.2 percent increases for health and sanitation costs. The passage of Proposition 63 (now known as the Mental Health Services Act or MHSA) in November 2004, provided the California Department of Mental Health (DMH) to provide increased funding, personnel and other resources to support county mental health programs and monitor progress toward statewide goals for children, transition age youth, adults, older adults and families.
- Higher payroll and benefit costs and increased costs for inmate medical, maintenance, and insurance and indigent defense cases contributed to increased public protection expenses of $32.2 million or 4.6 percent.
- Education and recreation expenses grew by $8.5 million or 15.5 percent in comparison to the prior year due to higher payroll and benefit costs plus book cost increases and the additional cost of installing wireless internet service at all County Library locations.
- Interest on long-term debt increased by $3.1 million or 16.5 percent mainly from interest payments on variable rate bonds that rose during a period when the auction rate interest rate market collapsed from the financial market upheaval that occurred towards the end of the calendar year. In addition, interest increased due to a full year's of interest from the $102.0 million Tobacco Settlement Asset-Backed bonds issued in January 2007.
- Public ways and facilities decreased by $6.6 million or 7.4 percent due to the reduction in the number of capital projects funded with the close-out of the Measure B Transportation Improvement Program.
- Public assistance program costs increased by $40.4 million or 6.7 percent. The increases were mainly due to higher payroll costs from salary and benefit increases for Social Services Agency employees. In addition, costs rose due to service increases in the In-Home Support Services and Welfare-to-Work programs.
- Transfers decreased by $153.4 million to $121.5 million due primarily to a nonrecurring prior year capital transfer of $107.8 million for seismic capital improvements and a $44.6 decrease in net transfers from the General Fund due to a return of prior years' compensated absence funding.

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

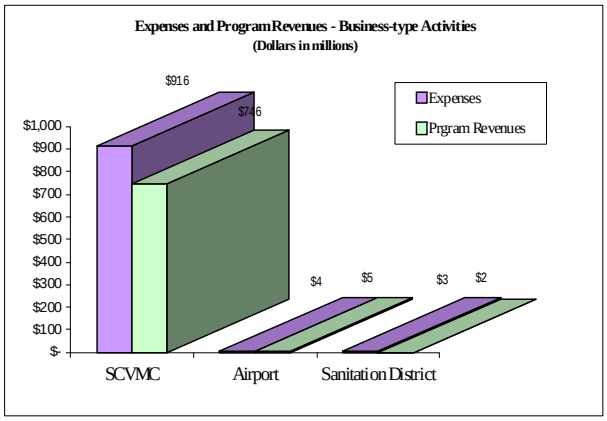


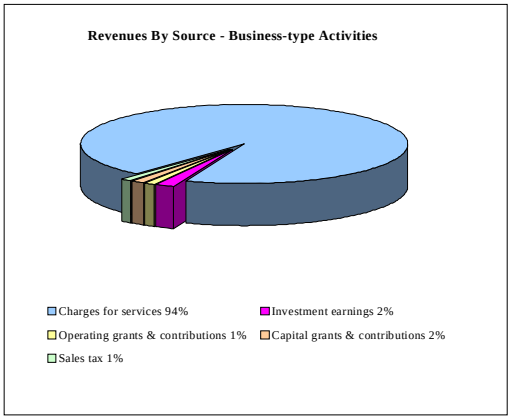
Business-type activities

Business-type activities decreased the County's net assets by $38.0 million. The business-type activities had a net operating deficit of $159.5 million and which was offset by net transfers of $121.5 million from the governmental activities.

The largest of the County's business-type activities, SCVMC, had $915.8 million in expenses and $746.3 million in program revenues for the year. This is about 99.1 percent of the program revenues of all business-type activities. Its program revenues increased by $85.3 million primarily due to increase in patient activity and changes of Federal Qualified Health Center requirements that caused an increase in the service charge rate. As a result, its charge for services increased by $84.2 million, while operating grants and contributions revenues increased by $1.1 million. SCVMC's expenses increased by $92.4 million. One key factor is payroll costs increased $49.8 million due to higher negotiated salary increases and increased full-time equivalents (FTE) (4,905 FTE in 2007 to 4,970 FTE in 2008) due to higher outpatient activity. Outpatient visits increased 6.8% from 702,860 to 750,849 visits. Increased contract services and supplies of $42.2 million due to higher outpatient activity, inflation and outside medical costs also attributed to the increase. SCVMC consists of a) Valley Medical Center—a 574-bed licensed acute-care hospital, and clinics for outpatient and ambulatory services, and b) Valley Health Plan—a licensed HMO with 62,000 clients.

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





FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

Governmental funds

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

At June 30, 2008, the County's governmental funds reported total fund balances of $860.0 million, an increase of $44.6 million or 5.5 percent from the prior year. Approximately 86.1 percent of the combined fund balances, $740.8 million, constitutes the *unreserved fund balance*, which is available to meet the County's current and future needs. The remainder of the fund balance is *reserved* to indicate that it is *not* available for new spending because it has been committed to: a) pay debt service - $52.9 million; b) reflect inventories and other assets that are long-term in nature and thus do not represent available spendable resources - $38.4 million; and c) liquidate contractual commitments of the period - $27.9 million.

For its governmental funds, the County's total revenues for the current fiscal year were $2.33 billion—an increase of $132.0 million or 6.0 percent over the last year. Total governmental fund expenditures decreased by $16.9 million or 0.7 percent to $2.27 billion for the year. Primary reasons for these significant changes in revenues and expenditures for the governmental funds are explained in the framework of individual funds.

The General Fund is the chief operating fund of the County. Its unreserved and undesignated fund balance was $109.7 million at June 30, 2008, while its total fund balance was $476.3 million, a $15.0 million increase from the prior year. This was mainly due to an excess of revenues over expenditures of $140.7 million for the fiscal year, which was offset by $125.7 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 unreserved fund balance and the total fund balance to total fund expenditures. The unreserved fund balance and the total fund balance represent 5.8 percent and 25.3 percent of the total General Fund expenditures, respectively.

The County's management designates (earmarks) unreserved fund balance to a particular function, project or activity. Fund balance may also be designated for long-term purposes. However, designated fund balance is available for appropriation at any time. Of the $476.2 million General Fund total fund balance, $324.7 million or 68.2 percent is designated for future expenditures. The fund balance designations are listed below:

Fund balance designated for:	Amount (Millions)
- Future operations of the Santa Clara Valley Medical Center	$240.3
- Fiduciary activities and contingencies	13.6
- Transportation improvement projects funded by Measure B (one-half percent Countywide sales tax) revenues	13.0
- Litigation Reserve	3.0
- Various contingencies designated by the Board of Supervisors	54.8
Total General Fund designated fund balance	$324.7

General Fund revenues and expenditures for the year were $2.02 billion and $1.88 billion, respectively. While its revenues increased by $96.9 million or 5.0 percent for the year, its expenditures increased by $1.1 million or 0.1 percent. The Fund's revenues by sources and expenditures by function as well as increases or decreases from the prior fiscal year are presented below:

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

	FY 2007		FY 2008		Increase/(Decrease)	
Revenues by source	Amount	Percent	Amount	Percent	Amount	Percent
Taxes	$ 596,235	30.9%	$ 633,133	31.3%	$ 36,898	6.2%
Licenses and permits	12,451	0.7%	13,733	0.7%	1,282	10.3%
Fines, forfeitures and penalties	44,672	2.3%	40,873	2.0%	(3,799)	(8.5%)
Interest and investment income	37,444	1.9%	25,749	1.3%	(11,695)	(31.2%)
Intergovernmental revenues	1,046,635	54.3%	1,147,477	56.5%	100,842	9.6%
Charges for services	131,784	6.8%	132,982	6.6%	1,198	0.9%
Other	59,536	3.1%	31,667	1.6%	(27,869)	(46.8%)
Total	$ 1,928,757	100.0%	$ 2,025,614	100.0%	$ 96,857	5.0%

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

	FY 2007		FY 2008		Increase/(Decrease)	
Expenditures by function	Amount	Percent	Amount	Percent	Amount	Percent
General government	$ 171,175	9.1%	$ 178,450	9.6%	$ 7,275	4.3%
Public protection	614,531	32.6%	637,304	33.8%	22,773	3.7%
Public ways and facilities	40,584	2.2%	28,304	1.5%	(12,280)	(30.3%)
Health and sanitation	372,695	19.8%	393,718	20.9%	21,023	5.6%
Public assistance	595,560	31.6%	627,573	33.3%	32,013	5.4%
Capital Outlay	2,866	0.2%	4,588	0.2%	1,722	60.1%
Debt service						
Principal retirement	78,794	4.1%	7,723	0.3%	(71,071)	(90.2%)
Interest and fiscal charges	7,637	0.4%	7,245	0.4%	(392)	(5.1%)
Totals	$ 1,883,842	100.0%	$ 1,884,905	100.0%	$ 1,063	0.1%

General Fund revenues from taxes, licenses and permits, intergovernmental revenue, and charges for services increased for the year. Its expenditures on all governmental functions, except for public ways and facilities and debt service, also increased. Combined debt service expenditures (principal and interest) decreased due to a reduction in scheduled principal and interest payments on outstanding bonds.

Our discussion on the County's governmental activities identified key reasons for changes in its revenues and expenses that also help explain significant changes in the General Fund because it is the chief operating fund of the County, and its revenues and expenditures respectively cover 87.1 percent and 82.9 percent of the County's total current year revenues and expenditures of all governmental funds. For this reason, we will briefly mention the points that were elaborated in our earlier discussion on the countywide revenues and expenses. This section will elaborate only those points that were not included in our earlier discussion.

- Tax revenues rose by $36.9 million or 6.2 percent. This was mainly due a $40.7 million increase in both secured property tax revenues and property taxes in lieu of vehicle license fees due to growth in the assessment roll and new construction. There were also increases of $2.5 million in the aircraft assessment roll due to more aircraft being located in Santa Clara County last year and $1.8 million in unitary taxes. These increases were offset by a $7.2 million decrease in property tax transfer fees as the real estate market slowed and $0.8 million decline in sales taxes.

- Fines, forfeitures and penalties declined by $3.8 million or 8.5 percent mainly due to a $2.1 million decrease in court awards and $2.0 million reduction in one time funding from the Justice Facility Temporary Construction Fund for operating and maintaining criminal justice buildings. These decreases were offset by a $0.3 million increase in penalties and costs collected on delinquent property taxes.
- Interest and investment income fell by $11.7 million or 31.2 percent mainly due to lower interest rates and average daily cash balances. As discussed earlier, the commingled investment pool's average quarterly earnings rate decreased from 4.884 percent last year to 4.493 percent in the current year and the average daily cash balance fell by $259.0 million from $642.0 million to $383.0 million.
- Net revenues from intergovernmental sources increased by $100.8 million or 9.6 percent. State revenues rose by $44.8 million as Mental Health reimbursements increased by $7.7 million, other grants and aids increased by $46.4 million, and public assistance rose by $6.0 million. These increases were offset by a reduction of Mental Health revenues from Proposition 63 of $14.3 million. During the year, the County established a new nonmajor governmental fund to account for the Proposition 63 revenues. Federal revenues increased by $32.7 million due to a $14.4 million rise in Medi-Cal program amounts, an increase of $5.8 million from the Child Care and Placement/Foster Care programs, and a $12.5 million increase in miscellaneous Federal sources and programs. During the year, the County re-classified amounts received from the SJRDA from Other revenue to Intergovernmental revenues as discussed earlier. As a result, for the year ended June 30, 2008, intergovernmental revenues shows an increase in the amount by $23.7 million and other revenues shows a decrease in the amount of $32.9 million.

- Revenues from charges for services increased by $1.2 million or 0.9 percent. Charges for services increased by $4.0 million due to a $1.2 million increase in civil assessment revenue, $1.3 million in increased cost reimbursements for Sheriff services, and a $1.5 million increase for the Department of Correction from prisoner housing received from the State and Federal governments. These amounts were offset by a $1.6 million reduction in election service revenues collected by the Registrar of Voters and a $1.2 million decrease in document recording fees for the Recorder's Office.
- As discussed earlier, Other revenues decreased by $27.9 million due mainly from a change in classification of the SJRDA contributions. This decrease was offset by a $4.2 million increase in delinquent tax revenues and a $1.1 million increase in tobacco settlement revenue.
- Pertinent reasons for changes in General Fund expenditures are not different from what was explained in earlier discussion on the countywide governmental programs and activities except a reduction in debt service payment in the amount of $71.5 million due mainly to the final principal payment on the County's special obligation bonds in August 2007.

The fund balances for the non-major governmental funds rose by $29.6 million or 8.3 percent to $383.7 million. This change was primarily due to the General Fund's establishment of the Proposition 63 Fund ($31.9 million).

Proprietary funds.

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

As of June 30, 2008, the County's net assets in its enterprise funds were $161.1 million. The investment in capital assets net of depreciation and related debt was $65.8 million. The restricted net assets of the enterprise funds were $137.6 million. These assets represent resources that are subject to external restrictions on how they may be used. The unrestricted net assets as of June 30, 2008 had a balance of a negative $42.3 million.

The net assets of the County's enterprise funds decreased by $24.8 million for the year. Primary reasons for change in net assets are explained in the framework of individual enterprise funds.

SCVMC is the largest enterprise fund and its revenues and expenses comprise 99.1 and 99.3 percent, respectively, of the total revenues and expenses for all enterprise funds. The other two enterprise funds—Airport and Sanitation District—are very small in comparison.

Net assets for SCVMC decreased by $25.8 million. Its unrestricted net assets (deficits) were ($50.2) million. Operating revenues increased by $84.3 million or 12.9 percent and expenses rose by $95.0 million or 11.9 percent. The net transfers were $121.5 million for the year. The primary reason for increased revenues and expenses were discussed in the business-type activities section. The restricted net assets of SCVMC were $137.3 million at June 30, 2008 mainly consisted of funding received from the General Fund and bond proceeds for the seismic and modernization projects. The net assets invested in capital assets, net of related debt were $49.8 million. There were no significant changes to the net assets for the airport and sanitation districts during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The County's final budget appropriations for FY2008 were $2.5 billion, which is $158.2 million or 6.7 percent higher than the original budget adopted by the Board. Occasionally, unexpected events may cause the County to commit its one-time reserves or use ongoing resources to pay for those unplanned events. The Board approves all supplemental appropriations. Differences between the original and final budgets represent supplemental appropriations approved by the Board for various new grants received by the County or to pay for increased service level that was not expected when the original budget was approved.

General Fund revenue and expenditure were less than the budgetary estimates for the year. Estimated revenues for the year exceeded actual revenues by $73.5 million or 3.1 percent. All revenue sources, except for inter-fund transfers came in lower than estimates. Final budgetary appropriations exceeded actual expenditures by $240.5 million or 9.5 percent for the year. The bulk of these cost savings resulted from unspent appropriations as follows: a) $100.4 million in contingency reserves; b) $26.8 million in salaries and benefits costs due to elimination and or non-filling of vacant positions; c) $101.6 million in services and supplies costs for government programs – general government, public protection, public assistance, health and sanitation, and Measure B programs; d) $4.8 million in inter-fund transfers from Measure B transportation fund to Roads Department for projects nearing completion, $3.0 million from special programs for hospital subsidy and $0.8 million in various programs; e) $1.3 million for debt service payments; and f) $1.3 million for capital asset purchases.

The General Fund budgetary comparison schedule starts on page 94 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, 2008 was $1.44 billion. This includes investment in land, buildings and improvements, leasehold improvements, infrastructure, equipment and vehicles, and construction in progress.

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

	Governmental Activities		Business-type Activities		Total		Dollar	Percent
	FY 2007	FY 2008	FY 2007	FY 2008	FY 2007	FY 2008	Change	Change
Land	$ 187,062	$ 192,138	$ 6,310	$ 6,310	$ 193,372	$ 198,448	$ 5,076	2.6%
Buildings & improvements	294,439	286,590	201,017	191,262	495,456	477,852	(17,604)	(3.6%)
Infrastructure	130,556	159,659	-	-	130,556	159,659	29,103	22.3%
Equipment and vehicles	37,812	40,407	23,214	21,309	61,026	61,716	690	1.1%
Leasehold improvements	-	-	985	881	985	881	(104)	(10.6%)
Construction in progress	216,158	252,333	175,844	285,157	392,002	537,490	145,488	37.1%
Total	$ 866,027	$ 931,127	$ 407,370	$ 504,919	$ 1,273,397	$ 1,436,046	$ 162,649	12.8%

The County's net capital assets increased $162.6 million or 12.8 percent for the year. Net capital assets for the governmental activities increased by 7.5 percent, while the business-type activities' net capital assets increased by 24.0 percent. Changes in capital assets by activity type were as follows:

Governmental activities

The County's capital assets for its governmental activities rose by $65.1 million as follows:

Land increased by $5.0 million due to a donation received by the Parks and Recreation Department.

Buildings and improvements declined by $7.8 million due to depreciation.

Infrastructure increased by $29.1 million. This was due to the following projects: Montague Expressway Improvement Project ($14.8 million), Signal Synchronization ($4.0 million), Bridge Seismic Retrofitting ($1.5 million), miscellaneous improvements and right of way purchases ($6.0 million), and miscellaneous bridge repair and maintenance ($2.8 million).

Construction in progress activities increased by $36.2 million as $155.0 million in construction occurred during the last fiscal year. Of these amounts, the following projects were completed and transferred to other asset categories: various Road Fund projects, including the projects mentioned under the Infrastructure category above ($37.3 million), building improvements completed by the Facilities and Fleet Department ($4.5 million), and various construction projects completed at SCVMC ($76.8 million).

Business-type activities

Net capital assets for business-type activities increased by $97.5 million for the year. The SCVMC construction in progress includes $262.6 million for various buildings, building improvements, and equipment at SCVMC, and $2.5 million for the security fencing and facility improvements at South County Airport, Palo Alto Airport and Reid Hillview Airport.

Commitment of Resources for Construction Work in Progress

At June 30, 2008, the County had committed $22.6 million of its net assets from the governmental activities and $69.8 million of its net assets from the business-type activities for various uncompleted capital projects included in the construction in progress.

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

Long-term debt

The County's long-term outstanding debt as of June 30, 2008 was $1.4 billion as shown in Table 6 below:

TABLE 6-Outstanding Debt (in thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	FY 2007	FY 2008	FY 2007	FY 2008	FY 2007	FY 2008	Dollar Change	Percent Change
Lease revenue bonds (net of discounts and deferred loss on refunding)	$ 281,902	$ 292,981	$ 533,533	$ 593,785	$ 815,435	$ 886,766	$ 71,331	8.7%
Pension obligation bonds	-	394,716	-	-	-	394,716	394,716	n/a
Certificates of participation	4,872	4,438	-	-	4,872	4,438	(434)	(8.9%)
Capital lease obligations	4,167	3,119	-	-	4,167	3,119	(1,048)	(25.1%)
Capital appreciation bonds	104,654	110,911	-	-	104,654	110,911	6,257	6.0%
Total	$ 395,595	$ 806,165	$ 533,533	$ 593,785	$ 929,128	$ 1,399,950	$ 470,822	50.7%

The County's long-term debt, net of debt service principal pay-off of $24.2 million for the year, increased $470.8 million or 50.7 percent. The County issued two new bonds, taxable pension funding bonds in the amount of $389.5 million and 2007 Series K bonds totaling $93.5 million, and refunded several variable rate bonds.

In July 2007, the County issued taxable pension funding bonds, series 2007 in the amount of $389.5 million to pay for a portion of the County's unfunded accrued actuarial liability with its pension plan.

In August 2007, the Santa Clara County Financing Authority (Authority) issued the 2007 Series K lease revenue bonds in the amount of $93.5 million. These bonds were issued to provide funds for the construction of the Valley Health Clinic in Milpitas, seismic retrofit of the Los Gatos courthouse, construction of a new fleet facility, and renovation of the west wing of the Santa Clara County Hall of Justice.

In February 2008, the Authority issued 2008 Series A bonds for $126.4 million to refund a portion of the 1997 Series A lease revenue bonds. The purpose of the refunding was to acquire lower interest rates on the previous fixed rate bonds.

In May 2008, the Authority converted the 2003 D, 2005 H, and 2006 J Series variable rate bonds into the 2008 Series L fixed rate bonds in the amount of $112.8 million. The 2005 F and G Series bonds were also converted into the 2008 Series M variable rate demand obligations in the amount of $143.1 million. These conversions were prompted by the liquidity crisis in the credit market, which caused bond interest rates to increase significantly.

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The economic slowdown at the national level and state level has impacted the Valley's economy also. While some of the indicators show positive trends, others are showing signs of continuing deterioration. This has led to expenditure growth rate for the County that exceeds its revenue growth for the current and future budgets. The following economic factors were considered in the County's FY2009 budget.

- The County's unemployment rate increased by 1.4 percent over the prior year, but it is still lower than the unemployment rate for the State. The County's unemployment as of June 2008 was 6.1 percent compared to 4.7 percent in June 2007. This is slightly lower than the statewide unemployment rate of 7.0 percent.
- The real per capita income (a measure of wealth creation) increased from $51,112 to $55,735, which is much higher than the national level of $38,564.
- Home sales in the County have slowed due to tighter lending standards, higher mortgage interest rates and stagnant growth in the economy. Residential foreclosures increased by 511.8 percent during the second quarter in comparison to the year before. The slow down in home sales, unprecedented increase in foreclosures, and slowing economy caused a decline in home values. The median home prices fell by 20.0 percent to the median home price level as in 2005.
- Venture capital investment, a leading indicator of innovation, continues to grow and extend into new areas. The investments were concentrated in areas of clean technology, energy generation and storage, environmental, medical devices and equipment, and media and entertainment. Silicon Valley accounts for 62.0 percent of total clean tech venture capital investment in the State.
- The Countywide taxable retail sales increased 3.9 percent to $30.3 billion in FY 2008, although statewide sales decreased. For the unincorporated County areas, the County received $3.5 million from sales tax, which was a $0.2 million decrease from last year. Public safety sales tax revenue increased by $1.3 million, a 0.8 percent increase in the County's share of the statewide sales tax collections. The County assumes public safety sales tax revenue will have a moderate decrease for its FY 2009 budget.
- Research and development (R&D) and office space occupancy rates—leading indicators of economic activity—show stagnant growth. The vacancy rate for R&D space was 17.2 percent in June 2008 versus 17.6 percent a year ago. The office space vacancy rate was 12.7 percent in June 2008 compared to 13.4 percent in June 2007. The vacancy rate for the warehouse space fell from 9.3 percent in 2007 to 8.5 percent in June 2008.
- Assessed values for real property increased by 8.3 percent generating an increase of $28.2 million in current secured property tax revenue. Although, the unsecured personal property values increased by 5 percent, unsecured revenue decreased by $0.4 million due to timing of collections. Property tax delinquencies on secured property increased by 1.1 percent from 2.1 percent in fiscal year 2007 to 3.2 percent in fiscal year 2008. Property transfer and supplemental tax revenues decreased by $7.4 million due to the sluggish housing market. The FY 2009 budget assumes 6.5 percent increase in secured property assessed values, which corresponds to an increase of $31.0 million in property tax revenues.

The County's FY 2009 budget of $3.9 billion included over $172.4 million of deficit reduction solutions. This is in addition to the $1.03 billion deficit solutions the County has already implemented since FY 2003. The budget deficit solutions for this fiscal year included $43.7 million in service/cost reductions or revenue increases and $128.7 million in one-time funds.

The FY 2009 budget sets aside $96.7 million in contingency reserves. Operating reserve designations and the strategic reserve designations are part of the financial resources that are available to address unanticipated revenue shortfalls or unforeseen expenditures. These designations provide a primary defense against deficit spending and help maintain liquidity when budgeted draw downs become necessary.

Activity at SCVMC remains high with an average daily census of 356.9 or 2.2 percent under budget and outpatient visits of 750,849 were on budget. Outpatient visits are 6.5 percent higher than last fiscal year. Strong activity and an improving payer mix have allowed the SCVMC's enterprise funds to operate within their budget plan, including use of the General Fund subsidy. The results of operations for the remainder of the fiscal year will be in large part determined by the health of other hospitals in the region, economic recovery, changes in Federal reimbursement regulations, and State budget decisions. The FY 2009 budget includes General Fund subsidy of $94.7 million to SCVMC, which is comprised of three basic elements: pass-through revenues, un-reimbursed County services (e.g. medical care for inmates and employee physicals), and the General Fund grant.

As of June 30, 2008, the unreserved fund balance in the General Fund was $434.4 million. Of this amount, $324.7 million is designated but available for appropriation. The proposed and final budgets were adopted prior to July 1 of the new fiscal year.

Request for Information

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

Basic Financial Statement

Basic Financial Statement

COUNTY OF SANTA CLARA

Statement of Net Assets

June 30, 2008
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets:				
Cash and investments	$ 1,075,478	$ 8,951	$ 1,084,429	$ 139,845
Receivables, net of allowance for uncollectibles	91,579	134,821	226,400	3,198
Internal balances	88,416	(88,416)	-	-
Due from other governmental agencies	334,276	42,862	377,138	4,820
Due from related parties	-	-	-	3,092
Receivable from component unit	8,475	-	8,475	-
Inventories	3,730	15,548	19,278	-
Net pension asset	350,482	-	350,482	-
Other assets	44,210	6,189	50,399	4,792
Restricted cash and investments	56,281	266,301	322,582	4,913
Capital assets:				
Nondepreciable	444,471	291,467	735,938	20,473
Depreciable, net of accumulated depreciation	486,656	213,452	700,108	42,232
Total assets	2,984,054	891,175	3,875,229	223,365
Liabilities:				
Accounts payable	86,814	26,756	113,570	8,513
Accrued salaries and benefits	48,266	28,731	76,997	819
Accrued liabilities	58,049	14,041	72,090	66
Estimated third-party payer settlements	-	13,097	13,097	-
Due to others	-	-	-	2,205
Due to other governmental agencies	6,876	13,000	19,876	198
Unearned revenue	18,960	77	19,037	1,759
Other liabilities	-	-	-	2,207
Payable to primary government	-	-	-	8,475
Noncurrent liabilities:				
Due within one year	61,851	25,922	87,773	814
Due in more than one year	976,727	626,745	1,603,472	27,795
Total liabilities	1,257,543	748,369	2,005,912	52,851
Net assets:				
Invested in capital assets, net of related debt	693,874	65,821	759,695	33,154
Restricted for:				
Capital facilities	-	132,783	132,783	-
Debt service	24,589	4,767	29,356	-
Housing programs	43,283	-	43,283	-
Roads	35,138	-	35,138	-
Other purposes	41,793	-	41,793	86,821
Unrestricted	887,834	(60,565)	827,269	50,539
Total net assets	$ 1,726,511	$ 142,806	$ 1,869,317	$ 170,514

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, 2008
(In thousands)

			Program Revenues		
	Expenses	Indirect Expenses Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Function/program activities:					
Primary government:					
Governmental activities:					
General government	$ 315,969	$ (40,081)	$ 79,568	$ 85,650	$ -
Public protection	724,707	3,775	126,609	238,856	687
Public ways and facilities	80,303	2,800	2,776	39,257	6,239
Health and sanitation	410,448	14,047	41,798	235,722	-
Public assistance	636,960	4,750	2,689	538,364	-
Education	32,875	765	888	3,031	-
Recreation and culture	28,584	849	4,610	404	6,921
Interest on long-term liabilities	22,008	-	-	-	-
Total governmental activities	2,251,854	(13,095)	258,938	1,141,284	13,847
Business-type activities:					
SCVMC	915,897	13,089	727,061	9,276	9,975
Airport	3,583	6	3,147	-	1,585
Sanitation District	2,772	-	2,152	-	-
Total business-type activities	922,252	13,095	732,360	9,276	11,560
Total primary government	$ 3,174,106	$ -	$ 991,298	$ 1,150,560	$ 25,407
Component units	$ 271,315		$ 11,765	$ 268,308	$ -
General revenues:					
Property taxes					
Sales and use taxes					
Other taxes					
Unrestricted motor vehicle in lieu of taxes					
Grants/contributions not restricted to specific programs					
Investment income					
Other					
Transfers					
Total general revenues and transfers					
Change in net assets					
Net assets, beginning of year, as previously reported					
Prior period adjustment					
Net assets, beginning of year, as restated					
Net assets, end of year					

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

Net (Expense) Revenue and Changes in Net Assets				
Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	
				Function/program activities:
				Primary government:
				Governmental activities:
$ (110,670)	$ -	$ (110,670)	$ -	General government
(362,330)	-	(362,330)	-	Public protection
(34,831)	-	(34,831)	-	Public ways and facilities
(146,975)	-	(146,975)	-	Health and sanitation
(100,657)	-	(100,657)	-	Public assistance
(29,721)	-	(29,721)	-	Education
(17,498)	-	(17,498)	-	Recreation and culture
(22,008)	-	(22,008)	-	Interest on long-term liabilities
(824,690)	-	(824,690)	-	Total governmental activities
				Business-type activities:
-	(182,674)	(182,674)	-	SCVMC
-	1,143	1,143	-	Airport
-	(620)	(620)	-	Sanitation District
-	(182,151)	(182,151)	-	Total business-type activities
(824,690)	(182,151)	(1,006,841)	-	Total primary government
-	-	-	8,758	Component units
				General revenues:
748,462	-	748,462	-	Property taxes
6,974	8,202	15,176	-	Sales and use taxes
449	-	449	-	Other taxes
59,093	-	59,093	-	Unrestricted motor vehicle in lieu of taxes
25,862	-	25,862	-	Grants/contributions not restricted to specific programs
42,294	14,472	56,766	6,648	Investment income
60,757	-	60,757	494	Other
(121,506)	121,506	-	-	**Transfers**
822,385	144,180	966,565	7,142	Total general revenues and transfers
(2,305)	(37,971)	(40,276)	15,900	Change in net assets
1,728,816	180,540	1,909,356	155,145	Net assets, beginning of year, as previously reported
-	237	237	(531)	Prior period adjustment
1,728,816	180,777	1,909,593	154,614	Net assets, beginning of year, as restated
$ 1,726,511	$ 142,806	$ 1,869,317	$ 170,514	Net assets, end of year

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

COUNTY OF SANTA CLARA

Balance Sheet
Governmental Funds

June 30, 2008
(In thousands)

	General Fund	Other Governmental Funds	Total
Assets:			
Cash and investments:			
Unrestricted	$ 336,880	$ 322,651	$ 659,531
Restricted with fiscal agents	-	14,106	14,106
Other restricted	22	41,537	41,559
Receivables:			
Property taxes	5,936	-	5,936
Other, net of allowance for uncollectibles	39,517	38,302	77,819
Due from other funds	65,400	16,268	81,668
Due from other governmental agencies	299,968	33,776	333,744
Inventories	2,089	495	2,584
Other assets	35,822	-	35,822
Total assets	$ 785,634	$ 467,135	$ 1,252,769
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	$ 61,856	$ 21,055	$ 82,911
Accrued salaries and benefits	40,623	6,371	46,994
Other accrued liabilities	37,739	11,150	48,889
Due to other funds	185	10,696	10,881
Due to other governmental agencies	5,750	181	5,931
Deferred revenue	163,228	33,942	197,170
Total liabilities	309,381	83,395	392,776
Fund balances:			
Reserved for:			
Encumbrances	3,896	23,999	27,895
Inventories and other assets	37,911	495	38,406
Debt service	-	52,919	52,919
Unreserved, reported in:			
General fund:			
Designated	324,712	-	324,712
Undesignated	109,734	-	109,734
Special revenue funds	-	171,481	171,481
Capital projects funds	-	134,790	134,790
Permanent fund	-	56	56
Total fund balances	476,253	383,740	859,993
Total liabilities and fund balances	$ 785,634	$ 467,135	$ 1,252,769

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

COUNTY OF SANTA CLARA

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

June 30, 2008
(In thousands)

Fund balances - total governmental funds (page 24)		$ 859,993
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		921,984
Bond issuance costs are expended in the governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets.		4,060
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		178,214
Long-term assets with matching long term liabilities, including receivables from related parties, are not current financial resources and therefore are not reported in the governmental funds.		8,475
Internal service funds are used by management to charge the costs of management of information services, fleet management, insurance, printing, unemployment insurance, workers' compensation, employee benefits and retiree healthcare to individual funds. The assets and liabilities are included in governmental activities in the statement of net assets.		289,226
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	(408,330)	
Accrued vacation and sick leave	(119,233)	
Capital lease obligations	(2,307)	
Accrued interest payable	(1,626)	
Arbitrage liabilities	(945)	
Accrued litigation liability	(3,000)	(535,441)
Net assets - governmental activities (page 21)		$ 1,726,511

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, 2008
(In thousands)

	General Fund	Other Governmental Funds	Total
Revenues:			
Taxes	$ 633,133	$ 125,076	$ 758,209
Licenses and permits	13,733	14,541	28,274
Fines, forfeitures, and penalties	40,873	8,669	49,542
Interest and investment income	25,749	21,711	47,460
Intergovernmental revenues	1,147,477	96,168	1,243,645
Charges for services	132,982	30,732	163,714
Other revenue	31,667	2,767	34,434
Total revenues	2,025,614	299,664	2,325,278
Expenditures:			
Current:			
General government	178,450	99	178,549
Public protection	637,304	79,948	717,252
Public ways and facilities	28,304	45,821	74,125
Health and sanitation	393,718	26,275	419,993
Public assistance	627,573	6,102	633,675
Education	-	32,234	32,234
Recreation	-	28,376	28,376
Capital outlay	4,588	156,073	160,661
Debt service:			
Principal retirement	7,723	4,563	12,286
Interest and fiscal charges	7,210	8,666	15,876
Cost of issuance	35	723	758
Total expenditures	1,884,905	388,880	2,273,785
Excess (deficiency) of revenues over (under) expenditures	140,709	(89,216)	51,493
Other financing sources (uses):			
Proceeds from sale of capital assets	4,000	200	4,200
Bonds issuance	-	22,655	22,655
Bond premium	-	1,935	1,935
Proceeds of refunding bonds	-	65,379	65,379
Payment to bond refunding escrow	-	(66,015)	(66,015)
Transfers in	272,744	193,002	465,746
Transfers out	(402,427)	(98,373)	(500,800)
Total other financing sources (uses)	(125,683)	118,783	(6,900)
Net change in fund balances	15,026	29,567	44,593
Fund balances, beginning of year	461,227	354,173	815,400
Fund balances, end of year	$ 476,253	$ 383,740	$ 859,993

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, 2008
(In thousands)

Net change in fund balances - total governmental funds (page 26)		$ 44,593
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	164,979	
Net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, donations)	5,082	
Transfer of capital assets to business-type activities	(76,553)	
Less current year depreciation	(31,411)	62,097
Bond issuance costs are expended in governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for the purposes of the statement of activities.		
Bond issuance costs	758	
Amortization of bond issuance costs	(170)	
Refunding of bond issuance costs	(923)	(335)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		952
Revenues recognized in the governmental funds that were earned and recognized in previous years and are reported as beginning net assets in the statement of activities.		(4,070)
Issuance and refunding of bonds are reported as other financing sources in governmental funds and thus contribute to the change in fund balances. However, bonds issuance and refunding changes long-term liabilities in the statement of net assets and do not affect the statement of activities.		(89,969)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal repayments	12,590	
Refunding of bonds	65,979	78,569
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Amortization of bond premium and deferred loss on refunding	100	
Deferred amounts on bond issued	959	
Change in accrued interest payable	(321)	
Change in accreted interest	(6,257)	
Change in arbitrage liabilities	346	
Change in net pension obligation	28,621	
Change in accrued litigation liability	3,600	
Change in long-term compensated absences	(5,581)	21,467
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.		(115,609)
Change in net assets of governmental activities (page 23)		$ (2,305)

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

COUNTY OF SANTA CLARA

Statement of Fund Net Assets
Proprietary Funds

June 30, 2008
(In thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	SCVMC	Other	Total	Internal Service Funds
Assets:				
Current assets:				
Cash and investments:				
Unrestricted	$ -	$ 8,951	$ 8,951	$ 415,947
Restricted with fiscal agent	-	740	740	23
Other restricted	265,561	-	265,561	593
Receivables:				
Patient accounts receivable, net of estimated uncollectibles	131,568	-	131,568	-
Other	3,099	154	3,253	7,824
Due from other funds	3,278	-	3,278	-
Due from other governmental agencies	42,673	189	42,862	532
Inventories	15,548	-	15,548	1,146
Prepaid rent/insurance	1,264	-	1,264	1,564
Total current assets	462,991	10,034	473,025	427,629
Noncurrent assets:				
Net pension asset	-	-	-	350,482
Other assets	4,735	190	4,925	2,764
Capital assets:				
Nondepreciable	285,519	5,948	291,467	-
Depreciable, net of accumulated depreciation	198,250	15,202	213,452	9,143
Total noncurrent assets	488,504	21,340	509,844	362,389
Total assets	951,495	31,374	982,869	790,018
Liabilities:				
Current liabilities:				
Accounts payable	25,652	1,104	26,756	3,903
Accrued salaries and benefits	28,679	52	28,731	1,272
Accrued liabilities	13,790	251	14,041	7,534
Due to other funds	73,409	-	73,409	656
Due to third-party payers	13,097	-	13,097	-
Insurance claims	-	-	-	34,941
Due to other governmental agencies	13,000	-	13,000	-
Unearned revenue	-	77	77	4
Current portion of accrued vacation and sick leave	9,569	10	9,579	191
Current portion of capital lease obligations	-	-	-	503
Current portion of bonds payable	16,189	154	16,343	310
Total current liabilities	193,385	1,648	195,033	49,314
Noncurrent liabilities:				
Long-term insurance claims	-	-	-	71,692
Noncurrent portion of accrued vacation and sick leave	49,190	113	49,303	3,356
Noncurrent portion of capital lease obligations	-	-	-	309
Noncurrent portion of bonds payable	572,006	5,436	577,442	394,406
Total noncurrent liabilities	621,196	5,549	626,745	469,763
Total liabilities	814,581	7,197	821,778	519,077
Net assets:				
Invested in capital assets, net of related debt	49,806	16,015	65,821	8,331
Restricted:				
Capital facilities	132,783	-	132,783	-
Debt service	4,482	285	4,767	-
Unrestricted	(50,157)	7,877	(42,280)	262,610
Total net assets	$ 136,914	$ 24,177	161,091	$ 270,941
Adjustment to reflect the consolidation of internal service fund activities to enterprise funds			(18,285)	
Net assets of business-type activities			$ 142,806	

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

COUNTY OF SANTA CLARA

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

For the Fiscal Year Ended June 30, 2008
(In thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	SCVMC	Other	Total	Internal Service Funds
Operating revenues:				
Charges for services	$ 727,061	$ 5,299	$ 732,360	$ 207,253
Other program revenues	9,276	-	9,276	-
Net operating revenues	736,337	5,299	741,636	207,253
Operating expenses:				
Salaries and benefits	615,394	1,450	616,844	156,675
Services and supplies	112,813	1,007	113,820	25,066
General and administrative	82,811	-	82,811	6,793
Professional services	27,473	749	28,222	1,074
Depreciation	22,613	721	23,334	2,498
Amortization of net pension asset	-	-	-	(6,060)
Leases and rentals	7,023	-	7,023	763
Utilities	9,868	-	9,868	-
Insurance claims and premiums	11,543	20	11,563	68,879
Other	5,702	2,027	7,729	-
Total operating expenses	895,240	5,974	901,214	255,688
Operating loss	(158,903)	(675)	(159,578)	(48,435)
Nonoperating revenues (expenses):				
Taxes	8,202	-	8,202	-
Investment income (loss)	14,049	423	14,472	(17,298)
Interest expense	(12,846)	(267)	(13,113)	(23,231)
Gain (loss) on disposal of capital assets	(18)	-	(18)	17
Other, net	(7,717)	(69)	(7,786)	187
Total nonoperating revenues (expenses), net	1,670	87	1,757	(40,325)
Income (loss) before capital contributions and transfers	(157,233)	(588)	(157,821)	(88,760)
Capital contributions	9,975	1,585	11,560	-
Capital contributions transferred in from other County funds	93,953	-	93,953	-
Transfers in	328,175	10	328,185	2,115
Transfers out	(312,646)	-	(312,646)	-
Transfers out of net pension obligation liability	12,014	-	12,014	-
Assumption of net pension obligation liability	-	-	-	(42,180)
Change in net assets	(25,762)	1,007	(24,755)	(128,825)
Net assets, beginning of year, as previously reported	162,676	22,933		399,766
Prior period adjustment	-	237		-
Net assets, beginning of year, as restated	162,676	23,170		399,766
Net assets, end of year	$ 136,914	$ 24,177		$ 270,941
Adjustment to reflect the consolidation of internal service funds to enterprise funds.			(13,216)	
Change in net assets of business-type activities			$ (37,971)	

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, 2008
(In thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	SCVMC	Other	Total	Internal Service Funds
Cash flows from operating activities:				
Cash receipts from customers and users	$ 697,127	$ 5,083	$ 702,210	$ 205,996
Cash payment to suppliers for goods and services	(242,631)	(4,201)	(246,832)	(33,324)
Cash payment to employees for services	(603,037)	(1,423)	(604,460)	(31,218)
Cash payment for retirement benefits	-	-	-	(125,328)
Cash payment for judgments and claims	-	-	-	(64,678)
Other payments	(7,717)	(69)	(7,786)	-
Other receipts	-	-	-	187
Net cash used in operating activities	(156,258)	(610)	(156,868)	(48,365)
Cash flows from noncapital financing activities:				
Cash receipts from state grants - taxes realignment	8,475	-	8,475	-
Cash receipts from other funds	58,376	-	58,376	13,777
Proceeds from pension obligation bonds	-	-	-	389,485
Pension obligation bonds cost of issuance paid	-	-	-	(2,851)
Pension contribution towards unfunded pension liabilities	-	-	-	(386,602)
Interest paid on pension obligation bonds	-	-	-	(10,297)
Transfers in	328,175	10	328,185	2,115
Transfers out	(312,646)	-	(312,646)	-
Net cash provided by noncapital financing activities	82,380	10	82,390	5,627
Cash flows from capital and related financing activities:				
Proceeds from bonds	74,572	-	74,572	-
Repayment of capital leases	-	-	-	(744)
Bond issuance costs paid	(3,086)	-	(3,086)	-
Principal paid on bonds	(11,634)	(265)	(11,899)	-
Interest paid	(24,582)	(265)	(24,847)	(70)
Acquisition of capital assets	(30,700)	(1,932)	(32,632)	(5,541)
Proceeds from sale of capital assets	-	-	-	57
Capital contributions received	27,530	1,585	29,115	-
Net cash provided by (used in) capital and related financing activities	32,100	(877)	31,223	(6,298)
Cash flows from investing activities:				
Proceeds from sale of investments	12,250	-	12,250	75,894
Interest received	21,429	460	21,889	19,824
Net cash provided by investing activities	33,679	460	34,139	95,718
Net change in cash and cash equivalents	(8,099)	(1,017)	(9,116)	46,682
Cash and cash equivalents, beginning of year	256,577	10,708	267,285	227,802
Cash and cash equivalents, end of year	$ 248,478	$ 9,691	$ 258,169	$ 274,484
Cash and cash equivalents:				
Cash and investments:				
Unrestricted	$ -	$ 8,951	$ 8,951	$ 415,947
Restricted with fiscal agents	-	740	740	23
Other restricted	265,561	-	265,561	593
Less deposits and investments not meeting the definition of cash and cash equivalents	(17,083)	-	(17,083)	(142,079)
Total cash and cash equivalents	$ 248,478	$ 9,691	$ 258,169	$ 274,484

(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, 2008
(In thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	SCVMC	Other	Total	Internal Service Funds
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	$ (158,903)	$ (675)	$ (159,578)	$ (48,435)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	22,613	721	23,334	2,498
Amortization of net pension assets	-	-	-	(6,060)
Provision for bad debts	29,270	-	29,270	-
Miscellaneous nonoperating revenues (expenses), net	(7,717)	(69)	(7,786)	187
Decrease (increase) in assets:				
Receivables	(63,082)	(30)	(63,112)	(1,202)
Due from other governmental agencies	(10,074)	(184)	(10,258)	(43)
Inventories	(431)	-	(431)	(143)
Prepaid rent/insurance	2,188	-	2,188	-
Other assets	-	6	6	(134)
Increase (decrease) in liabilities:				
Accounts payable	5,619	(407)	5,212	691
Accrued salaries and benefits	6,373	3	6,376	-
Accrued liabilities	7,226	3	7,229	85
Due to third-party payers	5,917	-	5,917	-
Accrued vacation and sick leave	5,984	24	6,008	44
Insurance claims	-	-	-	4,201
Due to other governmental agencies	(1,241)	-	(1,241)	(42)
Unearned revenue	-	(2)	(2)	(12)
Net cash provided by (used in) operating activities	$ (156,258)	$ (610)	$ (156,868)	$ (48,365)
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	$ 76,553	$ -	$ 76,553	$ -
Capitalized interest expenses	14,147	-	14,147	-
Payment to refunded bond escrow agent from refunding bond proceeds	(326,606)	-	(326,606)	-
Acquisition of capital assets through accounts payable	5,112	-	5,112	
Noncash investing activities:				
Capitalized interest revenue	(7,543)	-	(7,543)	-
Increase in rebatable arbitrage	216	-	216	-
Net change in fair value of investments not considered cash and cash equivalents	828	-	828	37,122
Noncash noncapital financing activities				
Accretion of interest on capital appreciation bonds	-	-	-	5,231
Transfer net pension obligation liability to the pension obligation fund	12,014	-	12,014	-
Assumption of net pension obligation liability from governmental activities and SCVMC	-	-	-	42,180

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

COUNTY OF SANTA CLARA

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2008
(In thousands)

	Investment Trust Funds	Private Purpose Trust Fund	Agency Funds
Assets:			
Cash and investments:			
Unrestricted	$ 2,577,410	$ 51,576	$ 16,832
Other restricted	5	-	4,154
Receivables:			
Property taxes	-	-	146,121
Interest	17,114	417	14,854
Other	-	1	396
Due from other agency funds	-	-	117,776
Due from other governmental agencies	-	-	353
Other assets	-	72,599	2,469
Total assets	2,594,529	124,593	$ 302,955
Liabilities:			
Accounts payable	-	45,765	$ -
Due to other agency funds	-	-	117,776
Due to other governmental agencies	-	236	30,271
Deposits from others	-	72,620	-
Fiduciary liabilities	-	-	154,908
Total liabilities	-	118,621	$ 302,955
Net assets:			
Net assets held in trust for investment pool participants/private-purpose trust	$ 2,594,529	$ 5,972	

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

COUNTY OF SANTA CLARA

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

For the Fiscal Year Ended June 30, 2008
(In thousands)

	Investment Trust Funds	Private-Purpose Trust Fund
Additions:		
Contributions to pooled investments	$ 9,639,128	$ 2,646
Interest and investment income	104,771	464
Total additions	9,743,899	3,110
Deductions:		
Distributions and administrative expenses	9,366,353	21
Change in net assets	377,546	3,089
Net assets held in trust, beginning of year	2,216,983	2,883
Net assets held in trust, end of year	$ 2,594,529	$ 5,972

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

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(1) Summary of Significant Accounting Policies

(a) Description of the Reporting Entity

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

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

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

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

Blended Component Units

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

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

Discretely Presented Component Units

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

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

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

(1) Summary of Significant Accounting Policies (Continued)

units in a single column. The component units column includes information of some non-profit organizations that are on different year-ends of December 31, 2007 and May 31, 2008. Complete financial statements for the Housing Authority can be obtained directly from its administrative office at 100 Great Oaks Blvd., 2nd Floor, San Jose, California 95119.

(b) Basis of Presentation

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

(1) Summary of Significant Accounting Policies (Continued)

The County reports the following major governmental and enterprise funds:

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

The County reports the following additional fund types:

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

(c) Basis of Accounting

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

(1) Summary of Significant Accounting Policies (Continued)

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

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

(d) Federal, State, and Local Grant Funds

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

(e) County Commingled Investment Pools

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

(1) Summary of Significant Accounting Policies (Continued)

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

Investments of the pool are stated at fair value. The County Treasurer determines the fair value of the pool on a monthly basis, based on quoted market prices. The County has not provided nor obtained any legally binding guarantees during the year ended June 30, 2008, to support the value of shares in the pool.

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

Other Investments

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

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

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

Investment Income

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

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

(1) Summary of Significant Accounting Policies (Continued)

(f) Statement of Cash Flows

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

(g) Inventories

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

(h) Loans Receivable

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

(i) Capital Assets

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

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

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

(1) Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

(1) Summary of Significant Accounting Policies (Continued)

(k) Interfund Transactions

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

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

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

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

(m) Leases

The County leases various assets under both operating and capital lease agreements. For governmental fund types, assets under capital leases and the related long-term lease obligations are reported as capital assets and long-term liabilities in the governmental-wide statement of net assets, respectively. For proprietary fund types, the assets and related capital lease obligations are recorded in the appropriate proprietary fund.

(1) Summary of Significant Accounting Policies (Continued)

(n) Accrued Vacation and Sick Leave

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

(o) Effects of New Pronouncements

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

At July 1, 2007, the County implemented GASB Statement No. 45 prospectively and as such, the County did not have a net OPEB obligation at transition (i.e., July 1, 2007). The County pays certain health care insurance premiums for retired employees. Employees may become eligible for these benefits if they reach normal retirement age while working for the County. As of June 30, 2008, the County's annual OPEB expense of $125,328 was equal to the annual required contribution (ARC). As a result, the County does not have an outstanding net OPEB obligation at June 30, 2008. The additional disclosure concerning the implementation of GASB Statement No. 45 is available in Note 11.

(1) Summary of Significant Accounting Policies (Continued)

In May 2007, GASB issued Statement No. 50, *Pension Disclosures*, which more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 27, *Accounting for Pensions by State and Local Governmental Employers,* to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Application of this statement is effective for the County's fiscal year ended June 30, 2008. The additional disclosure concerning the implementation of GASB 50 is available in Note 11.

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

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

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

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* The Statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of financial statements gives the users of financial statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The Statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government's derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. Application of this Statement is effective for the County's fiscal year ending June 30, 2010.

(1) Summary of Significant Accounting Policies (Continued)

(p) Use of Estimates

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

(2) Stewardship, Compliance and Accountability

(a) Deficit Net Assets

At June 30, 2008, the Unemployment Insurance, the Workers' Compensation and the Pension Obligation Internal Service Funds have net deficits of $633, $29,619, and $48,962, respectively. The deficits are expected to be eliminated in future years through rate increases.

(b) Expenditures Over Appropriations

For the year ended June 30, 2008, the Multiple Facilities Construction and Morgan Hill Courthouse Construction Capital Projects Funds have excess expenditures over appropriations of $22,593 and $21,422, respectively. The excesses were related to the lease revenue bonds refundings transactions that were not budgeted and were offset by positive variances in the amounts available for appropriation.

(3) Cash and Investments

(a) Description

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

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

(3) Cash and Investments (Continued)

(b) Investment Policies

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage/Dollar Of Portfolio	Maximum Investment In One Issuer	Moody's Credit Rating Minimum
U.S. Treasury Obligations	5 years	None	None	None
U.S. Agency Securities	5 years	None	None	None
State Local Agency Investment Fund (LAIF)	N/A	None	None	None
Repurchase Agreements	92 days	None	None	None
Reverse Repurchase Agreements	92 days	$90 million	None	None
Securities Lending	92 days	20%	None	None
Collateralized Bank Deposits	5 years	None	None	None
Negotiable Certificates of Deposit	5 years	30%	7.5% of the 30%	P1 or Aa3
Bankers' Acceptances	180 days	40%	15% of the 40%	P1
Commercial Paper	270 days	40%	10%	P1
Medium-Term Corporate Notes	5 years	30%	10% of the 30%	Aa3
Notes & Bonds of Other Local Agencies	5 years	None	None	None
Municipal Obligations	5 years	10%	None	A3
Money Market Funds	5 years*	20%	10%	Aaa
Federal Agency Mortgage Backed Securities	5 years	20%	None	None
Asset Backed Securities	5 years	20%	None	A3 for issuer, Aa3 for security

* Money market funds maturity may be defined as the weighted average maturity.

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

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

(3) Cash and Investments (Continued)

(c) Summary of Cash and Investments

Total County cash and investments are reported as follows:

	Unrestricted	Restricted	Total
Primary Government	$ 1,084,429	$ 322,582	$ 1,407,011
Component Units	139,845	4,913	144,758
Investment Trust Funds	2,577,410	5	2,577,415
Private-Purpose Trust Fund	51,576	-	51,576
Agency Funds	16,832	4,154	20,986
Total cash and investments	$ 3,870,092	$ 331,654	$ 4,201,746

The County's cash and investments are as follows:

Cash and deposits:	
Cash on hand	$ 94
Deposits of the County	15,462
Restricted deposits	5,315
Deposits with component units:	
Housing Authority	9,120
FIRST 5	3,522
Total cash and deposits	33,513
Investments:	
With Treasurer	4,037,288
With fiscal agents	27,812
With Housing Authority	45,178
With FIRST 5	57,955
Total investments	4,168,233
Total cash, deposits and investments	$ 4,201,746

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the County will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2008, $565 of the County's bank balance of $41,685 was exposed to custodial credit risk by not being insured or collateralized.

(3) Cash and Investments (Continued)

(d) Investment Composition

As of June 30, 2008, the major classes of the County's cash and investments consisted of the following:

				Investment Maturities (in years)					
	Interest Rates	Par Value	Fair Value	Less than 0.5	0.5 - 1	1 - 3	3 - 5	5 - 10	10 - 30
With Treasurer:									
Commingled pool:									
U.S. Agencies - Coupon	2.43% - 5.50%	$ 1,434,041	$ 1,440,868	$ 261,568	$ 162,065	$ 663,874	$ 353,361	$ -	$ -
U.S. Agencies - Discount	2.52%	40,000	39,616	39,616	-	-	-	-	-
Medium-term corporate notes	2.65% - 7.90%	469,904	472,444	129,972	19,962	262,930	59,580	-	-
Commercial paper	2.15% - 3.00%	1,243,075	1,241,498	1,241,498	-	-	-	-	-
Negotiable Certificate of Deposits	2.45% - 5.41%	205,000	204,960	169,906	35,054	-	-	-	-
Money Market Mutual Fund	2.53%	803	803	803	-	-	-	-	-
State Local Agency Investment Fund	2.78%	40,000	39,998	39,998	-	-	-	-	-
Subtotal commingled pool		3,432,823	3,440,187	1,883,361	217,081	926,804	412,941	-	-
Separate investments:									
U.S. Treasury Notes		65,780	62,863	1,308	-	23,394	8,722	15,839	13,600
U.S. Agencies - Coupon		293,923	299,013	38,466	67,760	125,269	25,060	-	42,458
U.S. Agencies - Discount		15,294	14,845	3,144	2,958	8,230	513	-	-
Municipal bonds		11,739	11,785	6,724	1,604	1,007	-	-	2,450
Medium-term corporate notes		27,904	27,082	1,200	-	5,191	5,139	9,758	5,794
Money market mutual funds		39,433	39,433	39,433	-	-	-	-	-
Stock mutual funds:									
Vanguard 500 Index Fund		64,099	76,471	76,471	-	-	-	-	-
Vanguard Mid Cap Index Fund		18,221	38,047	38,047	-	-	-	-	-
Vanguard Small-Cap Index Fund		14,959	27,562	27,562	-	-	-	-	-
Subtotal separate investments		551,352	597,101	232,355	72,322	163,091	39,434	25,597	64,302
Subtotal with Treasurer		3,984,175	4,037,288	2,115,716	289,403	1,089,895	452,375	25,597	64,302
With fiscal agents:									
U.S. Treasury Notes		2,355	2,440	-	-	709	1,731	-	-
U.S. Agencies - Coupon		14,115	14,605	-	-	3,533	11,072	-	-
U.S. Agencies - Discount		556	556	556	-	-	-	-	-
Municipal bonds		280	309	-	-	-	309	-	-
Medium-term corporate notes		2,345	2,376	-	762	1,614	-	-	-
Commercial paper		490	490	490	-	-	-	-	-
Money market mutual funds		7,036	7,036	7,036	-	-	-	-	-
Subtotal with fiscal agents		27,177	27,812	8,082	762	5,856	13,112	-	-
With Housing Authority:									
U.S. Agencies		14,290	14,290	-	-	1,884	12,406	-	-
Money market mutual funds		2,390	2,390	2,390	-	-	-	-	-
State Local Agency Investment Fund		28,498	28,498	28,498	-	-	-	-	-
Subtotal with Housing Authority		45,178	45,178	30,888	-	1,884	12,406	-	-
With FIRST 5:									
U.S. Treasury Notes		13,325	13,898	-	-	2,953	10,945	-	-
U.S. Agencies - Coupon		28,250	29,200	-	4,575	14,228	10,397	-	-
Medium-term corporate notes		13,425	13,641	1,010	732	1,603	10,296	-	-
Money market funds		1,216	1,216	1,216	-	-	-	-	-
Subtotal with FIRST 5		56,216	57,955	2,226	5,307	18,784	31,638	-	-
Total investments		$ 4,112,746	$ 4,168,233	$ 2,156,912	$ 295,472	$ 1,116,419	$ 509,531	$ 25,597	$ 64,302

Custodial Credit Risk – Investments

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

Interest Rate Risk

Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by limiting the weighted average maturity of its commingled pool to eighteen months. At June 30, 2008, the County's weighted average maturity of its commingled pool is 413 days. The County invested in callable Federal Agency issues within its commingled pool ($918,794 of the County's U.S. Agencies – Coupon position of $1,440,868) and the Housing Authority invested in callable Federal Agency issues in the amount of $13,747. These issues are highly sensitive to interest rate changes and are callable at par prior to maturity based on these rate changes.

(3) Cash and Investments (Continued)

Credit Risk

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

Investment	Moody's Rating	% of Commingled Pool investments with the Treasury	% of Separate investments with the Treasury	% of investments with fiscal agents	% of investments with Housing Authority	% of investments with FIRST 5
U.S. Treasury	Exempt	0.0%	10.6%	8.8%	0.0%	24.0%
U.S. Agencies	Exempt	0.0%	0.3%	0.0%	0.0%	0.0%
U.S. Agencies	Aaa	41.9%	49.8%	52.5%	31.6%	50.4%
U.S. Agencies	P1	1.1%	2.5%	2.0%	0.0%	0.0%
Municipal bonds	Aaa	0.0%	0.0%	1.1%	0.0%	0.0%
Municipal bonds	A	0.0%	1.3%	0.0%	0.0%	0.0%
Municipal bonds	P-1	0.0%	0.6%	0.0%	0.0%	0.0%
Medium-term corporate notes	Aaa	2.9%	0.4%	1.2%	0.0%	5.8%
Medium-term corporate notes	Aa	10.6%	1.9%	7.3%	0.0%	8.8%
Medium-term corporate notes	A	0.3%	1.7%	0.0%	0.0%	8.9%
Medium-term corporate notes	Baa	0.0%	0.5%	0.0%	0.0%	0.0%
Commercial paper	P1	36.1%	0.0%	1.8%	0.0%	0.0%
Negotiable Certificate of Deposits	P1	6.0%	0.0%	0.0%	0.0%	0.0%
Money market mutual funds	Aaa	0.0%	6.6%	25.3%	5.3%	0.0%
Money market funds	Not rated	0.0%	0.0%	0.0%	0.0%	2.1%
State Local Agency Investment Fund	Not rated	1.1%	0.0%	0.0%	63.1%	0.0%
Stock Mutual Fund	Not applicable	0.0%	23.8%	0.0%	0.0%	0.0%
Total Investments		100.0%	100.0%	100.0%	100.0%	100.0%

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 that date was approximately $25,161,913. Of that amount, 85.28% was invested in non-derivative financial products and 14.72% in structured notes and asset backed securities as of June 30, 2008. 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.

(3) Cash and Investments (Continued)

Concentration of Credit Risk

Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer. The County diversifies its portfolio by limiting the percentage of the portfolio that can be invested in any one issuer's name. U.S. Treasury and Agency securities are not subject to this limitation. More than 5 percent of the County's pooled investments are invested in Federal Home Loan Mortgage Corporation notes, Federal National Mortgage Association notes, Federal Home Loan Bank notes, Robobank's negotiable certificate of deposits and commercial paper, and Toyota Motor Credit Corporation's notes and commercial paper, which represent 20.0%, 13.2%, 8.5%, 7.1% and 5.1%, respectively, of the County's pooled investments.

(e) Condensed Financial Information

In lieu of separately issued financial statements for the external pools, condensed financial information is presented below as of and for the year ended June 30, 2008:

Assets	
U.S. Treasury Notes	$ 62,863
U.S. Agencies - Coupon	1,739,881
U.S. Agencies - Discount	54,461
Municipal bonds	11,785
Medium-term corporate notes	499,526
Commercial paper	1,241,498
Negotiable certificate of deposits	204,960
Money market mutual fund	40,236
State Local Agency Investment Fund	39,998
Stock mutual funds	142,080
Total investments	4,037,288
Other assets (Interest receivable)	24,182
Total assets	$ 4,061,470
Net Assets:	
Equity of internal pool participants	$ 1,466,941
Equity of individual investment accounts	269,558
Equity of external pool participants	2,324,971
Total net assets	$ 4,061,470
Statement of Changes in Net Assets	
Net assets at July 1, 2007	$ 3,902,782
Net change in investments by pool participants	158,688
Net assets at June 30, 2008	$ 4,061,470

Net assets composition of the equity of external pool participants is as follows:	
Participants units outstanding ($1 par)	$2,318,861
Undistributed and unrealized gain	6,110
Net assets at June 30, 2008	$2,324,971
Participants net asset value at fair value price per share ($2,324,971 divided by 2,318,566 units)	$ 1.003

(4) Receivables

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

Receivables - Governmental Activities	General Fund	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Property tax	$ 5,936	$ -	$ -	$ 5,936
Loans receivable	-	32,715	-	32,715
Other	142,345	5,587	7,824	155,756
Gross receivables	148,281	38,302	7,824	194,407
Less: allowance for uncollectibles	(102,828)	-	-	(102,828)
Total receivables, net	$ 45,453	$ 38,302	$ 7,824	$ 91,579

Receivables - Business-type Activities	SCVMC	Nonmajor Enterprise Funds	Total Business-type Activities
Patient accounts receivable	$ 527,616	$ -	$ 527,616
Other	3,099	154	3,253
Gross receivables	530,715	154	530,869
Less allowance for uncollectibles	(396,048)	-	(396,048)
Total receivables, net	$ 134,667	$ 154	$ 134,821

Loan receivables from housing programs in the amount of $32,175 are not expected to be collected within the subsequent year.

Governmental funds report deferred revenues in connection with receivables for revenues not considered available to liquidate liabilities of the current period. Governmental and enterprise funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2008, the components of deferred revenue reported, separated into unavailable revenue and unearned revenue, were as follows:

	Unavailable	Unearned
Governmental Activities:		
General Fund:		
Due from other governmental agencies	$ 136,495	$ 9
Other receivables	9,004	711
Other miscellaneous assets including cash deposits	-	17,009
Nonmajor governmental funds:		
Due from other governmental agencies	-	315
Other receivables	32,715	218
Other miscellaneous assets including cash deposits	-	694
Internal Service Funds	-	4
Total governmental activities	$ 178,214	$ 18,960
Business-type activities:		
Nonmajor enterprise funds	$ -	$ 77

(4) Receivables (Continued)

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

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

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

At June 30, 2008, the County's General Fund receivable balance of $107,000 represents the remaining estimate future cash flow related to the sale of the Elmwood surplus lands. The County received proceeds from the sale in the amount of $4,000 within its availability period and recognized this revenue in its General Fund for the fiscal year ended June 30, 2008. As a result, the deferred revenue balance related to this balance is $103,000 at June 30, 2008.

(5) Interfund Transactions

Interfund receivables, payables, and transfers as of and for the fiscal year ended June 30, 2008, by individual fund/fund type are summarized as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Internal Service Funds	$ 656
General Fund	Nonmajor Governmental Funds	3,724
General Fund	SCVMC	61,020
Nonmajor Governmental Funds	General Fund	185
Nonmajor Governmental Funds	SCVMC	12,389
Nonmajor Governmental Funds	Nonmajor Governmental Funds	3,694
SCVMC	Nonmajor Governmental Funds	3,278
Agency Funds	Agency Funds	117,776
Total		$ 202,722

The General Capital Improvement Fund is due $12,389 from SCVMC to reimburse capital project costs incurred while the General Fund is due $61,020 from SCVMC for current borrowings for working capital. In addition, the interfund balances of $117,776 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.

Transfer in/out between funds:

During the fiscal year ended June 30, 2008, the County's governmental activities funded from the General Capital Improvement Fund transferred the accumulated costs in the amount of $76,553 related to the active construction projects involving the Valley Health Centers, Valley Specialty Center, and other health facility improvements to SCVMC. These amounts were not reported in the governmental funds as the amount did not involve the transfer of financial resources. However, the SCVMC did report a capital contribution for the capital resources received.

During the fiscal year ended June 30, 2008, the County's governmental activities transferred its net pension obligation in the amount of $30,166 to the Pension Obligation Internal Service Fund. This transfer did not require the use of current financial resources and therefore is not reported as a transfer in the governmental funds.

(5) Interfund Transactions (Continued)

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

Between Governmental and Business-type Activities:

Transfer From	Transfer To	Amount	Purpose
General Fund	SCVMC	$ 327,989	Transfer funds for operating subsidy.
General Fund	SCVMC	17,400	Transfer San Jose Redevelopment Agency delegated payment for the Seismic Compliance Modernization Project.
General Fund	Nonmajor Enterprise Funds	10	Transfer funds to cover rent for the animal rescue clinic.
Nonmajor Governmental funds	SCVMC	38	Transfer remaining balance of tobacco securitization cost of issuance to pay for bond interest expense.
Nonmajor Governmental funds	SCVMC	148	Transfer funds related to the 2008 Series L Refunding bonds issuance.
Internal Service Fund	SCVMC	12,014	Transfer funds from pension obligation bonds issuance to payoff net pension obligation.
SCVMC	General Fund	240,310	Transfer funds to return operating subsidy.
SCVMC	General Fund	804	Transfer funds to public health for nursing services.
SCVMC	Nonmajor Governmental funds	71,479	Transfer bond proceeds to General Capital Improvement Nonmajor fund for Valley Specialty Center and Valley Health Center projects.
SCVMC	Nonmajor Governmental Funds	53	Transfer funds related to the 2008 Series M Refunding bonds issuance.
Subtotal Between Governmental and Business-type Activities:		670,245	
Between Funds within the Governmental or Business-type Activities*:			
General Fund	Nonmajor Governmental Funds	51	Transfer funds to the County Library Nonmajor fund towards annual contribution per Joint Power Authority (JPA) agreement.
		5,676	Transfer benefit assessments to the County Library Nonmajor fund.
		291	Transfer funds to the Housing and Community Development Nonmajor fund to subsidize the operation of Community Development Block Grant program.
		731	Transfer funds to pay debt service for Hospital Facilities Authority Bonds.
		28,507	Transfer funds to finance various facilities and fleet department capital projects
		100	Transfer funds to the Tobacco Securitization Corporation for operations.
		18,241	Transfer funds to the Proposition 63 Nonmajor fund for operations.
		1,316	Transfer funds to the Roads Nonmajor fund for Measure B Transportation Improvement Program.
		54,913	
General Fund	Internal Service Fund	2,115	Transfer funds to facilities and fleet department for acquisition of new vehicles and to information systems for the equipment replacement.
Nonmajor Governmental Funds	General Fund	244	Transfer funds from the Vital Statistics Nonmajor fund for specified ongoing operations.
		3,220	Transfer funds from Clerk-Recorder's Nonmajor fund to cover expenditures over the enhanced 1985 base.
		7,500	Return funds to the General Fund to substitute for San Jose Redevelopment Agency funding.
		856	Transfer remaining balance to close out Measure B Bond Proceeds Nonmajor fund.
		619	Transfer funds to pay contract services for a 10 year plan to address chronic homelessness in the County.
		3,538	Transfer funds for Proposition 36 Nonmajor fund for substance abuse prevention program.
		15,639	Transfer funds to establish the Proposition 63 Nonmajor fund.
		14	Transfer remaining balance of 2007 Series K bond cost of issuance to pay for bond interest expense.
		31,630	
Nonmajor Governmental Funds	Nonmajor Governmental Funds	415	Transfer funds from Vector Control District Nonmajor fund to design the alteration projects related to the new Vector Control building.
		24,877	Transfer funds to Parks Operation and Maintenance Nonmajor fund for operations.
		48	Transfer funds for Historical Heritage Commission grants administration cost.
		100	Transfer to Mortgage and Rental Assistance from Developer Application Other Nonmajor Special Revenue Fund for emergency rental and mortgage program.
		4,654	Transfer bond proceeds to General Capital Improvement for the Morgan Hill Courthouse project.
		4,967	Transfer bond proceeds to General Capital Improvement for the Charcot project.
		20,344	Transfer bond proceeds to General Capital Improvement for the Crime Lab/ Courthouse Seismic projects.
		9,603	Transfer Bond proceeds to General Capital Improvement for the Fleet Building and Courthouse Seismic Project.
		1,549	Transfer 2007 Lease Revenue Bonds Series K bond proceeds to establish reserve fund.
		66,557	
Total Between Funds within Governmental or Business-type Activities:		155,215	
	Total Transfers:	$ 825,460	

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

(6) Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

	Balance, July 1, 2007	Additions	Reductions/ Adjustments	Transfers	Balance, June 30, 2008
Governmental activities					
Capital assets, not being depreciated:					
Land	$ 187,062	$ 5,076	$ -	$ -	$ 192,138
Construction in progress	216,158	154,898	(107)	(118,616)	252,333
Total capital assets, not being depreciated	403,220	159,974	(107)	(118,616)	444,471
Capital assets, being depreciated:					
Infrastructure	188,276	-	-	37,375	225,651
Buildings and improvements	664,541	647	-	4,519	669,707
Equipment and vehicles	143,312	15,586	(7,084)	169	151,983
Total capital assets, being depreciated	996,129	16,233	(7,084)	42,063	1,047,341
Less accumulated depreciation for:					
Infrastructure	(57,720)	(8,272)	-	-	(65,992)
Buildings and improvements	(370,102)	(13,015)	-	-	(383,117)
Equipment and vehicles	(105,500)	(12,622)	6,546	-	(111,576)
Total accumulated depreciation	(533,322)	(33,909)	6,546	-	(560,685)
Total capital assets, being depreciated, net	462,807	(17,676)	(538)	42,063	486,656
Governmental activities, capital assets, net	$ 866,027	$ 142,298	$ (645)	$ (76,553)	$ 931,127
Business-type activities					
Capital assets, not being depreciated:					
Land	$ 6,310	$ -	$ -	$ -	$ 6,310
Construction in progress	175,844	44,134	-	65,179	285,157
Total capital assets, not being depreciated	182,154	44,134	-	65,179	291,467
Capital assets, being depreciated:					
Buildings and improvements	398,854	78	(1,189)	7,122	404,865
Equipment and vehicles	84,670	136	(3,688)	4,252	85,370
Leasehold improvements	2,274	-	-	-	2,274
Total capital assets, being depreciated	485,798	214	(4,877)	11,374	492,509
Less accumulated depreciation for:					
Buildings and improvements	(197,837)	(16,950)	1,184	-	(213,603)
Equipment and vehicles	(61,456)	(6,280)	3,675	-	(64,061)
Leasehold improvements	(1,289)	(104)	-	-	(1,393)
Total accumulated depreciation	(260,582)	(23,334)	4,859	-	(279,057)
Total capital assets, being depreciated, net	225,216	(23,120)	(18)	11,374	213,452
Business-type activities, capital assets, net	$ 407,370	$ 21,014	$ (18)	$ 76,553	$ 504,919

(6) Capital Assets (Continued)

Capital asset activity for the Housing Authority for the fiscal year ended June 30, 2008 was as follows:

	Balance, July 1, 2007*	Additions	Reductions/ Adjustments	Balance, June 30, 2008
Capital assets, not being depreciated:				
Land	$ 14,296	$ -	$ -	$ 14,296
Construction in progress	7,711	2,164	(6,056)	3,819
Total capital assets, not being depreciated	22,007	2,164	(6,056)	18,115
Capital assets, being depreciated:				
Buildings and improvements	56,038	6,638	20	62,696
Equipment and vehicles	3,278	82	(139)	3,221
Total captial assets, being depreciated	59,316	6,720	(119)	65,917
Less accumulated depreciation for:				
Buildings and improvements	(23,148)	(1,627)	-	(24,775)
Equipment and vehicles	(2,503)	(240)	154	(2,589)
Total accumulated depreciation	(25,651)	(1,867)	154	(27,364)
Total capital assets, being depreciated, net	33,665	4,853	35	38,553
Housing Authority capital assets, net	$ 55,672	$ 7,017	$ (6,021)	$ 56,668

* SPG Housing, Inc. restated the January 1, 2007 capital assets balance in the amount of $1,846 to consolidate the Authority's limited partnerships' interest in San Pedro Gardens Associates, Ltd.

Capital asset activity for the FIRST 5 for the fiscal year ended June 30, 2008 was as follows:

	Balance, July 1, 2007	Additions	Reductions/ Adjustments	Balance, June 30, 2008
Capital assets, not being depreciated:				
Land	$ 2,358	$ -	$ -	$ 2,358
Total capital assets, not being depreciated	2,358	-	-	2,358
Capital assets, being depreciated:				
Buildings and improvements	4,384	-	-	4,384
Furniture and equipment	146	-	-	146
Total capital assets, being depreciated	4,530	-	-	4,530
Less accumulated depreciation for:				
Buildings and improvements	(407)	(213)	-	(620)
Furniture and equipment	(213)	(18)		(231)
Total accumulated depreciation	(620)	(231)	-	(851)
Total capital assets, being depreciated, net	3,910	(231)	-	3,679
FIRST 5 capital assets, net	$ 6,268	$ (231)	$ -	$ 6,037

(6) Capital Assets (Continued)

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	$	18,050
Public protection		2,947
Public ways		8,260
Health and sanitation		382
Public assistance		402
Education		945
Recreation		425
Amount reported in the internal service funds		2,498
Total depreciation expense - governmental functions	$	33,909

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

SCVMC	$	22,613
Airport		693
Sanitation District		28
Total depreciation expense - business-type functions	$	23,334

Capital Projects Commitments

As of June 30, 2008, the SCVMC and the Airport have active construction projects that include constructions of Valley Health Centers at Gilroy, Milpitas, and Sunnyvale; the Valley Specialty Center; seismic compliance for all SCVMC buildings; installation of a new absorption chiller and cooling tower at Valley Specialty Center; Ambulatory Electronic Medical Record; continued construction of South County Airport aircraft hangars and fire protection system; and infrastructure and facility improvement of Reid Hillview Airport and Palo Alto Airport.

The County's commitments for business-type activities as of June 30, 2008 are as follows:

Projects		Expended to June 30, 2008		Committed as of June 30, 2008
Hospital Projects:				
Valley Specialty Center	$	127,211	$	1,268
VHC Gilroy/Sunnyvale/Milpitis		107,435		26,333
Seismic Safety		22,661		35,804
Renovations and equipment		25,313		6,355
Airport Projects		2,537		37
Total	$	285,157	$	69,797

(6) Capital Assets (Continued)

Nonmajor governmental funds (Special Revenue and Capital Projects Funds) also have active construction projects as of June 30, 2008. They are as follows:

- Roads projects include bridge seismic retrofit, rehabilitation and replacement; pedestrian and bicycle routes improvements; signal synchronization programs and pavement management of Measure B projects; and the continued comprehensive study and planning for the County's expressways.

- Parks projects include Almaden Quicksilver toxic mitigation; Santa Teresa County Park and Coyote Lake County Park Development Projects; land acquisition for Anderson Lake County Park; and improvement of County Parks' facilities.

- General capital projects include the construction of the Morgan Hill Courthouse; a new Crime Lab; continued renovation and improvement of the Juvenile Hall Housing detention buildings and jail facilities; the remodeling of County buildings; repair and replacement of County's facilities; and the upgrade of County buildings' security system.

The County's governmental activities commitments at June 30, 2008 are as follows:

Projects	Expended to June 30, 2008	Committed as of June 30, 2008
Road projects	$ 20,630	$ 5,566
Park projects	19,098	1,688
General capital projects	212,605	15,366
Total	$ 252,333	$ 22,620

(7) Capital Leases

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

As of June 30, 2008, governmental activities property and accumulated depreciation of major classes of assets under capital lease are as follows:

Description		
Buildings and improvements	$	6,462
Equipment and vehicles		26,004
Total capital assets		32,466
Less accumulated depreciation		(28,539)
Net capital assets	$	3,927

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

Fiscal year ending June 30,		
2009	$	830
2010		526
2011		399
2012		302
2013		302
2014-2018		756
2019		120
Total		3,235
Amount representing interest at rates from 0.00% to 4.87%		(116)
Present value of future minimum lease payments	$	3,119

(8) Long-Term Liabilities

As of June 30, 2008, 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, 2008
Governmental activities:					
Taxable Pension Funding Bonds	8/1/08 - 8/1/36	5.34 - 6.14%	$310 - $51,560	$ 389,485	$ 389,485
El Camino Hospital District Hospital Facilities Authority:					
1985 ACES Lease Revenue Bonds Series A & B	8/1/08 - 8/1/15	(1)	$622 - $8,000	19,205	14,567
Financing Authority:					
1994 Lease Revenue Bonds Series A & B	11/15/08 - (2)	(3)	$93 - $262	2,060	1,158
1997 Lease Revenue Bonds Series A	11/15/08 - 11/15/13	4.70% - 6.00%	$1,081 - $1,632	16,649	4,225
1998 Lease Revenue Bonds Series A	5/15/09 - 5/15/17	4.30% - 4.75%	$350 - $5,749	61,373	22,710
2000 Lease Revenue Bonds Series B	5/15/09 - 5/15/17	5.25% - 5.50%	$4,080 - $6,000	71,920	45,625
2003 Lease Revenue Bonds Series C	5/15/09 - 5/15/23	3.00% - 5.00%	$910 - $1,645	20,025	18,295
2006 Lease Revenue Bonds Series I	5/15/09 - 5/15/31	3.50% - 5.00%	$2,342 - $5,895	87,575	87,575
2007 Lease Revenue Bonds Series K	5/15/11 - 5/15/37	4.00% - 5.00%	$445 - $1,460	22,655	22,655
2008 Lease Revenue Bonds Series A	11/15/09 - 11/15/22	3.00% - 5.00%	$161 - $1,364	5,579	5,579
2008 Lease Revenue Bonds Series L	5/15/09 - 5/15/36	3.00% - 5.25%	$1,030 - $4,445	59,800	59,800
Housing Authority:					
2004 Lease Revenue Bonds Series A	9/1/08 - 9/1/29	(4)	$75 - $255	3,550	3,350
2006 Lease Revenue Bonds	9/1/08 - 9/1/38	5.00%	$50 - $510	5,125	5,125
Silicon Valley Tobacco Securitization Authority:					
Tobacco Settlement Asset-Backed Bonds	6/1/36 - 6/1/56	5.63 - 6.85%	$4,408 - $43,604	102,030	102,030
2006 Vector Control COP Series TT	6/1/09 - 6/1/27	3.50 - 5.00%	$150 - $330	4,495	4,275
Total governmental activities				$ 871,526	$ 786,454
Business-type activities					
SCVMC:					
El Camino Hospital District Hospital Facilities Authority:					
1985 ACES Lease Revenue Bonds Series A&B	8/1/08 - 8/1/15	(1)	$3,278 - $5,527	$ 55,795	$ 31,333
Financing Authority:					
1994 Lease Revenue Bonds Series A & B	11/15/07 - (2)	(3)	$6,332 - $17,938	256,435	79,190
1997 Lease Revenue Bonds Series A	11/15/08 - 11/15/13	4.70% - 6.00%	$1,324 - $10,633	171,756	22,015
1998 Lease Revenue Bonds Series A	5/15/09 - 5/15/17	4.30% - 4.75%	$1,231 - $1,457	16,322	5,426
2005 Lease Revenue Bonds Series E	5/15/09 - 5/15/11	4.00% - 4.50%	$3,550 - $3,855	11,110	11,110
2006 Lease Revenue Bonds Series I	5/15/09 - 5/15/31	3.50% - 5.00%	$1,662 - $4,185	62,165	62,165
2007 Lease Revenue Bonds Series K	5/15/12 - 5/15/37	4.00% - 5.00%	$1,395 - $4,565	70,885	70,885
2008 Lease Revenue Bonds Series A	11/15/09 - 11/15/22	3.00% - 5.00%	$1,076 - $15,657	120,831	120,831
2008 Lease Revenue Bonds Series L	5/15/09 - 5/15/36	3.00% - 5.25%	$9,530 - $11,750	53,040	53,040
2008 Lease Revenue Bonds Series M	5/15/10 - 5/15/35	(5)	$520 - $8,300	143,105	143,105
				961,444	599,100
Airport:					
ABAG Lease Revenue Bonds Series 2002-1	7/1/08 - 7/1/32	3.50 - 5.00%	$155 - $355	6,780	5,610
Total business-type activities				$ 968,224	$ 604,710

(1) Variable rate, 1.35% effective as of June 30, 2008.
(2) Series A: 11/15/11 and Series B: 11/15/25.
(3) Series A: fixed rate of 7.75% and Series B: variable rate, 1.35% effective as of June 30, 2008.
(4) Variable rate, 1.33% effective as of June 30, 2008.
(5) Variable rate, 1.35% effective as of June 30, 2008.

(8) Long-Term Liabilities (Continued)

The following is a summary of long-term liabilities transactions for the fiscal year ended June 30, 2008:

	Balance, July 1, 2007	Additions	Retirements	Balance, June 30, 2008	Amounts Due Within One Year
Governmental activities:					
Lease Revenue Bonds	$ 280,470	$ 88,034	$ 77,840	$ 290,664	$ 15,079
Unamortized premium	1,432	1,935	94	3,273	138
Unamortized deferred loss on refunding	-	(959)	(3)	(956)	(37)
Tobacco Settlement Asset-Backed Bonds	102,030	-	-	102,030	-
Accreted interest on capital appreciation bonds	2,624	6,257	-	8,881	-
Pension Funding Bonds	-	389,485	-	389,485	310
Accreted interest on capital appreciation bonds	-	5,231	-	5,231	-
Certificates of Participation	4,700	-	425	4,275	150
Unamortized premium	172	-	9	163	9
Subtotal governmental bonds	391,428	489,983	78,365	803,046	15,649
Capital Lease Obligations (Note 7)	4,167	-	1,048	3,119	787
Accrued litigation liability	6,600	-	3,600	3,000	-
Insurance claims (Note 12)	102,432	56,875	52,674	106,633	34,941
Net Pension Obligation (Note 11)	28,621	1,545	30,166	-	-
Accrued vacation & sick leave	117,155	93,153	87,528	122,780	10,474
Total governmental activities	$ 650,403	$ 641,556	$ 253,381	$ 1,038,578	$ 61,851
Business-type activities:					
SCVMC Lease Revenue Bonds	$ 544,708	$ 387,861	$ 333,469	$ 599,100	$ 17,486
Unamortized discount	(3,343)	-	(2,482)	(861)	(187)
Unamortized premium	985	13,317	423	13,879	890
Unamortized deferred loss on refunding	(14,671)	(21,345)	(12,093)	(23,923)	(2,000)
Subtotal SCVMC bonds	527,679	379,833	319,317	588,195	16,189
Airport Lease Revenue Bonds	5,875	-	265	5,610	155
Unamortized discount	(21)	-	(1)	(20)	(1)
Subtotal Airport bonds	5,854	-	264	5,590	154
Net Pension Obligation (Note 11)	12,014	-	12,014	-	-
Accrued vacation & sick leave	52,874	54,778	48,770	58,882	9,579
Total business-type activities	$ 598,421	$ 434,611	$ 380,365	$ 652,667	$ 25,922
Component Units:					
Housing Authority:					
Notes payable	$ 4,682	$ 308	$ 207	$ 4,783	$ 403
Bonds payable	4,065	-	170	3,895	180
Bracher HDC, Inc.	1,331	16	-	1,347	-
SPG Housing, Inc. *	7,957	330	3,620	4,667	35
Villa Garcia, Inc.	2,716	34	74	2,676	81
Villa San Pedro HDC, Inc.	6,932	61	57	6,936	59
Rotary Plaza/HACSC HDC, Inc.	115	6	-	121	-
Payment in lieu of taxes	1,951	126	-	2,077	-
Accrued vacation & sick leave	803	1,241	1,187	857	56
Net other postemployment benefits	-	608	-	608	-
Accreted interest payable	440	43	20	463	-
Total Housing Authority	30,992	2,773	5,335	28,430	814
FIRST 5:					
Accrued vacation & sick leave	179	-	-	179	-
Total component units	$ 31,171	$ 2,773	$ 5,335	$ 28,609	$ 814

* SPG Housing, Inc. restated the January 1, 2007 long-term obligation balance in the amount of $2,352 to consolidate the Authority's limited partnerships' interest in San Pedro Gardens Associates, Ltd.

(8) Long-Term Liabilities (Continued)

(a) Governmental Activities

2007 Taxable Pension Funding Bonds

During July 2007, the County issued 2007 Taxable Pension Funding Bonds in the amount of $389,485 to refinance a portion of the County's statutory obligations to make payments to the State of California Public Employees' Retirement System (PERS) for certain amounts arising as a result of retirement benefits accruing to County employees. The bonds were comprised of current interest bonds and capital appreciation bonds. The current interest bonds were issued for $302,180 and bear fixed interest rates ranging from 5.34% to 6.00%, 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.

Hospital Facilities Authority

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

The 1985 Adjustable Convertible Extendable Securities (ACES) Lease Revenue Bonds were issued by the Hospital Facilities Authority to provide financing for the acquisition, construction, and renovation of various Santa Clara Valley Health and Hospital System projects, including the Valley Health Center, the Patient Care Tower, the Psychiatric Inpatient Facility, and the Cogeneration Facility. The debt is allocated between the County's governmental activities and SCVMC to reflect the use of bond proceeds to construct assets operated by the departments reported in the governmental activities and SCVMC, respectively. The bonds bear interest at an adjustable rate, which is determined weekly. The weekly rate is the rate that results in the market value of the bonds being equal to their par value. A remarketing agreement maintains an open market for the bonds. On March 6, 1998, the Hospital Facilities Authority engaged State Street Bank and Trust Company to provide an irrevocable, transferable letter of credit to support the principal and interest due on the bonds. The letter of credit, which has never been drawn upon, is reduced pro rata as principal payments are made. The amount of the irrevocable letter of credit agreement, as of June 30, 2008, was $46,730.

(8) Long-Term Liabilities (Continued)

Silicon Valley Tobacco Securitization Authority

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

The first Series A Capital Appreciation Bonds (CABs) were issued for $43,604 with an interest rate of 5.63%, final turbo redemption date on June 1, 2031 and due date of June 1, 2036. The second Series A CABs were issued for $11,338 with an interest rate 5.68%, final turbo redemption date on June 1, 2033 and due date on June 1, 2041. The third Series A CABs were issued for $13,618 with an interest rate of 5.70%, final turbo redemption date on June 1, 2036 and due date on June 1, 2047. Series B CABs were issued for $4,408 with an interest rate of 5.85%, final turbo redemption date on June 1, 2036 and due date of June 1, 2047. Series C CABS were issued for $20,161 with an interest rate of 6.30%, final turbo redemption date on June 1, 2042 and due date of June 1, 2056. Series D CABs were issued for $8,901 with an interest rate of 6.85%, final turbo redemption date on June 1, 2046 and due date of June 1, 2056.

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

Financing Authority Lease Revenue Bonds

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

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

(8) Long-Term Liabilities (Continued)

2003 Lease Revenue Bonds Series C & D and 2005 Lease Revenue Bonds Series H - On December 18, 2003, the County through the Financing Authority issued 2003 Series C and D Lease Revenue Bonds in the amount of $20,025 and $21,350, respectively. These bonds were issued to embark on a number of long-term capital projects including the construction of a new courthouse in the City of Morgan Hill. On May 19, 2005, the County through the Financing Authority issued 2005 Series H Lease Revenue Bonds in the amount of $40,725. The bonds were issued to provide funds for the Charcot Center and the Morgan Hill Courthouse. As discussed on Note 8(b), the 2003 Lease Revenue Bonds Series D and the 2005 Lease Revenue Bonds Series H were refunded with the issuance of the 2008 Lease Revenue Bonds Series L.

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

The Business-type Activities section of this note at (b) describes the governmental activities' portions of the Financing Authority's 1994, 1997, 1998, 2006, 2007 and 2008 Lease Revenue Bonds.

2006 Vector Control Certificates of Participation Series TT

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

(b) Business-type Activities

SCVMC

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

(8) Long-Term Liabilities (Continued)

Financing Authority Lease Revenue Bonds

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

Series A, initially issued for $206,995, consists of serial and term bonds that can be redeemed early at specific dates at call rates varying from 100% to 102% of the face value of bonds maturing after November 15, 2004. The 1994 Series A bonds are covered by indemnity insurance. 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. The amount of the irrevocable letter of credit, pursuant to a Standby Bond Purchase Agreement with JP Morgan Chase Bank dated November 1, 2000 is $52,126. On October 1, 1997, the Financing Authority issued lease revenue bonds to advance refund and defease $146,975 of outstanding 1994 Lease Revenue Series A Bonds.

1997 Lease Revenue Bonds Series A and 2008 Lease Revenue Bonds Series A - The Financing Authority's 1997 Lease Revenue Bonds Series A, issued for $188,405 on October 1, 1997, advance refunded $146,975 of the 1994 Lease Revenue Series A Bonds and all $16,405 of outstanding debt for the Public Facilities Corporation 1988 COPs. Debt payments on the 1997 Series A are insured by a municipal bond insurance policy issued by AMBAC Assurance Corporation. On February 14, 2008, the Financing Authority issued $126,410 of 2008 Series A Lease Revenue Bonds on behalf of the County and SCVMC to current refund a portion of outstanding 1997 Series A Lease Revenue Bonds. 2008 Series A bonds net proceeds and amounts available from the refunded bonds were used to establish a refunding escrow on the date of the issuance of the 2008 Series A bonds. The 1997 Series A bonds in the amount of $131,415 were redeemed on March 17, 2008 and have been removed from the County's basic financial statements. The refunding generated approximately $10,067 of aggregate debt service savings (net of available funds) and $7,677 of net economic gain. The 2008 A bonds bear fixed interest rates ranging from 3.00% to 5.00%, and have a final maturity date of November 15, 2022.

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

(8) Long-Term Liabilities (Continued)

2005 Lease Revenue Bonds Series E - On May 19, 2005, the County through the Financing Authority issued lease revenue bonds 2005 Series E in the amount of $11,110. The bonds were issued to provide funds for the Valley Specialty Center. The 2005 Series E bonds, bear fixed interest rates ranging from 4.00% to 4.50%, and have a final maturity date of May 15, 2011.

2006 Lease Revenue Bonds Series I and J - On March 2, 2006, the County through the Financing Authority issued Lease Revenue Bonds 2006 Series I and 2006 Series J in the amount of $149,740 and $53,950, respectively. The bonds were issued to finance the construction costs of the County Crime Laboratory Facilities, and the Valley Health Clinics at Fair Oaks and Gilroy; and seismic retrofitting costs of Santa Clara Courthouse. The 2006 Series I bonds, bear fixed interest rates ranging from 3.50% to 5.00%, and have a final maturity date of May 15, 2031. Debt payments on the 2006 Bonds Series I are insured by a municipal bond insurance policy issued by AMBAC Assurance Corporation. On May 27, 2008, the Series 2006 J bonds in the amount of $53,950 were redeemed with the issuance of the 2008 Lease Revenue Bonds Series L.

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

2008 Lease Revenue Bonds Series L - On May 22, 2008, the Financing Authority issued $112,840 of 2008 Series L Lease Revenue Bonds on behalf of the County and SCVMC to refund the County's outstanding 2003 Series D and 2005 Series H, and SCVMC's outstanding 2006 Series J Lease Revenue Bonds. 2008 Series L bonds net proceeds and amounts available from the refunded bonds were used to establish refunding escrows on the date of the issuance of the 2008 Series L bonds. The 2003 Series D bonds, 2005 Series H bonds and 2006 Series J bonds were auction rate bonds secured by financial guaranty insurance policies issued by Ambac Assurance Corporation.

The 2008 L bonds bear fixed interest rates ranging from 3.00% to 5.25%, and have a final maturity date of May 15, 2036. The refunding of these auction rate bonds with fixed-rate bonds constitutes a restructuring of the refunded bonds, which had been negatively impacted by the disruption in the financial markets related to bond issuer downgrades by the ratings agencies.

2008 Lease Revenue Bonds Series M - On May 29, 2008, the Financing Authority issued $143,105 of 2008 Series M Lease Revenue Bonds on behalf of the County and SCVMC. The bond proceeds were used to refund the outstanding 2005 Series F and 2005 Series G Lease Revenue Bonds.

The 2008 Series M bonds net proceeds and amounts available from the refunded bonds were used to establish refunding escrows on the date of the issuance of the 2008 Series M bonds. The 2005 Series F and 2005 Series G bonds were auction rate bonds secured by financial guaranty insurance policies issued by Ambac Assurance Corporation. The 2005 Series F and 2005 Series G bonds in the amount of $71,025 and $71,025, respectively, were redeemed on June 4, 2008.

(8) Long-Term Liabilities (Continued)

The refunding of these auction rate bonds with another series of variable-rate bonds constitutes a restructuring of the refunded bonds, which had been negatively impacted by the disruption in the financial markets related to bond issuer downgrades by the ratings agencies. The 2008 Series M bonds, which are supported by a direct line of credit with Bank of America, N.A., 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.

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

In May 2005, the County through the Financing Authority issued 2005 Series F and 2005 Series G Lease Revenue Bonds (2005 Series F and G bonds) in the amount of $71,025 and $71,025, respectively. The bonds were issued to provide funds for the Charcot Center, the Valley Specialty Center and the Morgan Hill Courthouse.

In May 2008, the County through the Financing Authority issued lease revenue bonds 2008 Series M in the amount of $143,105 to fully refund the 2005 Series F and G in the total amount of $142,050. The difference of principal amount between the 2008 Series M and the refunded 2005 Series F and G bonds in the amount of $1,055 represents additional funding for the cost of issuance of 2008 Series M, and are scheduled to be repaid during fiscal year 2010 and 2011. The payment schedule for the 2008 Series M starting fiscal year 2012 remains the same as the combined debt service schedule for the refunded 2005 Series F and G bonds.

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

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

Fair Value. The swaps had a combined aggregate negative fair value of $2,293 as of June 30, 2008. Since coupons on the Financing Authority's variable rate securities adjust to changing interest rates, they do not have a corresponding fair value increase. The fair value is the net present value of the swaps using market data and the terms of the swaps, which include the expectations of the probability of occurrence of certain underlying events as defined in the swaps' documentation.

(8) Long-Term Liabilities (Continued)

Credit Risk. The aggregate fair value of the swaps represented the Financing Authority's credit exposure to the counterparties as of June 30, 2008. Should the counterparties fail to perform according to terms of the swap contracts, the Financing Authority faced a maximum possible loss equivalent to the aggregate fair value of the swap. At June 30, 2008, the Financing Authority was not exposed to credit risk because the swaps had a negative fair value of $2,293. 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, 2008, Citibank's ratings were Aa1 by Moody's, AA by Standard and Poor's, and AA- by Fitch Ratings.

Basis Risk. The swaps expose the Financing Authority to basis risk should the relationship between LIBOR and weekly auction rate vary, changing the synthetic rate on the bonds. As a result of changing basis between LIBOR and the rate on the Financing Authority's bonds during the course of the year, the synthetic fixed rates for the fiscal year ended June 30, 2008 were 2.802% for 2008 Series M.

Termination Risk. The Financing Authority or Citibank may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may be terminated by the Financing Authority if Citibank's credit rating of long-term, unsecured, unenhanced senior debt obligations is withdrawn, suspended or falls below "Baa1" as determined by Moody's Investors Service, or "BBB+" as determined by Standard and Poor's, or fail to have any rated long-term, unsecured, unenhanced senior debt obligations. The swaps may be terminated by Citibank if the Financing Authority's rating of long-term, 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.

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

(8) Long-Term Liabilities (Continued)

Swap Payments and Associated Debt Service Payments. Using rates as of June 30, 2008, 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.

Fiscal Year	Principal (1)	Variable Interest (2)	Net Swap Interest (3)	Total Interest
FY 2009	$ -	$ 1,918	$ 2,063	$ 3,981
FY 2010	-	1,918	2,063	3,981
FY 2011	-	1,918	2,063	3,981
FY 2012	3,950	1,913	2,058	3,971
FY 2013	4,150	1,860	2,001	3,861
FY 2014 - 2018	22,900	8,416	9,054	17,470
FY 2019 - 2023	26,775	6,764	7,277	14,041
FY 2024 - 2028	31,275	4,835	5,202	10,037
FY 2029 - 2033	36,650	2,578	2,774	5,352
FY 2034 - 2035	16,350	314	338	652
	$ 142,050	$ 32,434	$ 34,893	$ 67,327

(1) Principal payment amounts presented in the above schedule excluded the non-swap related principal payments for 2008 Series M in the amount of $520 and $535 due on May 15, 2010 and May 15, 2011, respectively.

(2) Variable interest on the 2008 Series M is estimated using interest rate at June 30, 2008 of 1.35%.

(3) Net swap interest on the 2008 Series M is estimated using USD-LIBOR-BBA rate at June 30, 2008 of 2.483%. Net swap interest at June 30, 2008 is calculated as follows: 3.185% minus (2.483% * 56.5% + 0.33%) equals to 1.452%.

Division of the Lease Revenue Bonds

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

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

(8) Long-Term Liabilities (Continued)

Airport

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

(c) Repayment Requirements

As of June 30, 2008, the debt service requirements to maturity and the fund types from which principal payments will be made are as follows, excluding accrued vacation and sick leave, accrued litigation liability, insurance claims payable and capital leases obligations.

Governmental Activities

Fiscal year ending	Lease Revenue Bonds (1)		Tobacco Securtization Asset-Backed Bonds		Certificates of Participation		Taxable Pension Funding Bonds	
June 30:	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	$ 15,079	$ 13,324	$ -	$ -	$ 150	$ 197	$ 310	$ 18,074
2010	15,772	12,700	-	-	160	190	1,130	18,035
2011	16,975	11,993	-	-	165	184	2,020	17,950
2012	18,147	11,212	-	-	170	179	2,990	17,812
2013	13,323	10,376	-	-	175	173	4,040	17,617
2014-2018	68,115	41,732	-	-	985	758	21,448	100,709
2019-2023	38,613	30,501	-	-	1,240	500	27,805	120,376
2024-2028	47,485	20,800	-	-	1,230	158	30,717	148,010
2029-2033	44,790	9,086	-	-	-	-	120,240	94,311
2034-2038	11,855	1,454	43,604	178,571	-	-	178,785	22,798
2039-2043	510	13	11,339	66,321	-	-	-	-
2044-2048	-	-	18,025	158,675	-	-	-	-
2049-2053	-	-	-	-	-	-	-	-
2054-2056	-	-	29,062	648,788	-	-	-	-
Total	$ 290,664	$ 163,191	$ 102,030	$ 1,052,355	$ 4,275	$ 2,339	$ 389,485	$ 575,692

(1) Variable interest on the 1985 ACES Lease Revenue Bonds, the 1994 Lease Revenue Bonds Series B, the 2004 Lease Revenue Bonds Series A, and the 2008 Lease Revenue Bonds Series M are estimated using interest rate at June 30, 2008 of 1.35%, 1.35%, 1.33%, and 1.35%, respectively.

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

(8) Long-Term Liabilities (Continued)

Business-type Activities

Fiscal year ending June 30:	SCVMC Lease Revenue Bonds (1) Principal	SCVMC Lease Revenue Bonds (1) Interest	Airport Lease Revenue Bonds Principal	Airport Lease Revenue Bonds Interest
2009	$ 17,486	$ 21,322	$ 155	$ 264
2010	18,923	20,527	160	259
2011	21,525	19,657	160	252
2012	21,938	18,662	170	246
2013	22,602	17,743	180	239
2014-2018	109,935	76,885	895	1,071
2019-2023	122,272	54,842	1,000	853
2024-2028	112,270	35,302	1,270	570
2029-2033	85,339	23,988	1,620	210
2034-2037	66,810	6,067	-	-
Total	$ 599,100	$ 294,995	$ 5,610	$ 3,964

(1) Variable interest on the 1985 ACES Lease Revenue Bonds, the 1994 Lease Revenue Bonds Series B, and the 2008 Lease Revenue Bonds Series M are estimated using interest rate at June 30, 2008 of 1.35%, 1.35%, and 1.35%, respectively.

Business-type Activities lease revenue bonds retirements and related interest payments are serviced by revenues generated by the SCVMC and the Airport.

(d) Legal Debt Margin

As of June 30, 2008, the County's legal debt limit (1.25% of the total assessed secured valuation) was $3.54 billion. At June 30, 2008, the County did not have any debt applicable to the limit outstanding.

(e) Arbitrage Rebate Payable

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

- 1994 Lease Revenue Bonds Series B
- 2003 Lease Revenue Bonds Series C & D
- 2005 Lease Revenue Bonds Series E, F, G & H
- 2007 Lease Revenue Bonds Series K
- 2008 Lease Revenue Bonds Series A & M

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, 2008, arbitrage rebate payable in the amount of $945 has been accrued in the government-wide statements – governmental activities under the "Due to other governmental agencies" financial statement caption, while $3,379 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.

(8) Long-Term Liabilities (Continued)

(f) Housing Authority Long-term Obligations

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

Type of indebtedness (purpose)	Maturity	Interest Rates	Principal Installments	Original Issue Amount	Outstanding at June 30, 2008
Notes payable:					
City of San Jose (Lucretia Gardents)	8/1/2038	0.00%	(4)	$ 1,114	$ 1,041
City of San Jose (Julian Gardens)	8/1/2038	0.00%	(4)	319	262
Redevelopment Agency of the City of Santa Clara (Deborah & Miramer)	4/17/2036	0.00%	(4)	270	270
Redevelopment Agency of the City of Morgan Hill	6/15/2021	1.00%	(4)	425	425
County of Santa Clara (San Pedro Gardens)	11/30/2012	0.00%	3/year	50	12
City of San Jose (Morrone Gardens)	9/23/2024	4.00%	(4)	973	973
Comerica (Julian Office Renovations)	12/30/2012	Prime minus 1.25%	33/month	2,000	1,800
				5,151	4,783
Bonds payable:					
Affordable Housing Agency	10/1/2024	3.00% - 4.95%	180-335	4,550	3,895
Bracher HDC, Inc.					
Redevelopment Agency of the City of Santa Clara (principal)	8/1/2033	2.00%	(4)	1,246	1,246
Accrued interest				-	101
				1,246	1,347
SPG Housing, Inc.					
Citibank Mortgage #1	10/1/2026	8.79%	(1)	919	877
Citibank Mortgage #2	12/1/2022	3.75%	(1)	337	230
California DHCD (principal)	1/1/2047	3.00%	(4)	1,490	1,490
City of San Jose (principal)	12/1/2020	8.00%	(4)	1,400	1,400
Accrued interest				-	670
				4,146	4,667
Villa Garcia, Inc.					
HUD Flexible Subsidy Notes	11/1/2022	1.00%	(4)	1,416	1,416
GMAC Commercial Mortgage	11/1/2022	7.00%	(1)	1,254	386
County of Santa Clara (principal)	6/24/2012	3.00%	(4)	100	100
City of San Jose (principal)	4/1/2022	3.00%	(2)	514	514
Accrued interest				-	260
				3,284	2,676
Villa San Pedro HDC, Inc.					
HUD Flexible Subsidy Note	At sale or refinancing	0.00%	(4)	800	800
HUD Mortgage	2/1/2012	3.00%	(1)	1,209	250
California Department of Housing and Community Development (DHCD) (principal)	9/1/2037	3.00%	(4)	4,157	4,157
City of San Jose (principal)	9/1/2041	3.00%	(3)	692	679
Accrued interest				-	1,050
				6,858	6,936
Rotary Plaza/HACSC, HDC, Inc					
County of Santa Clara Note (principal)	5/29/2033	6.00%	(4)	95	95
Accrued interest				-	26
				95	121
Total Housing Authority				$ 25,330	$ 24,425

(1) Monthly amortization

(2) 25% of Net Cash Flow

(3) Deferred for 21 years

(4) Deferred until maturity

(8) Long-Term Liabilities (Continued)

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

	Notes Payable [1]		Bonds Payable	
Fiscal year ending June 30:	Principal	Interest	Principal	Interest
2009	$ 403	$ 104	$ 180	$ 171
2010	403	89	185	166
2011	403	74	190	160
2012	402	59	195	154
2013	202	51	205	148
2014-2018	-	216	1,150	577
2019-2023	425	207	1,455	298
2024-2028	973	9	335	16
2029-2033	-	-	-	-
2034-2038	270	-	-	-
2039	1,302	-	-	-
Total	$ 4,783	$ 809	$ 3,895	$ 1,690

[1] The Comerica note payable bears interest at a rate of prime minus 1.25% and is at 3.75% at June 30, 2008.

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

Fiscal year ending	Bracher HDC, Inc.		SPG Housing, Inc.		Villa Garcia, Inc.	
December 31:	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ -	$ -	$ 35	$ 72	$ 81	$ 29
2009	-	-	37	71	87	23
2010	-	-	40	69	95	15
2011	-	-	42	68	104	6
2012	-	-	44	66	118	-
2013-2017	-	-	268	302	-	-
2018-2022	-	-	1,765	240	514	-
2023-2027	-	-	276	38	-	-
2028-2032	-	-	-	-	-	-
2033-2037	1,246	-	-	-	-	-
2038-2042	-	-	-	-	-	
2043-2047	-	-	1,490	-	-	-
Total	$ 1,246	$ -	$ 3,997	$ 926	$ 999	$ 73

Fiscal year ending	Villa San Pedro, Inc.		Rotary Plaza, Inc.	
December 31:	Principal	Interest	Principal	Interest
2008	$ 59	$ 7	$ -	$ -
2009	60	5	-	-
2010	62	3	-	-
2011	64	1	-	-
2012	5	-	-	-
2013-2017	-	-	-	-
2018-2022	-	-	-	-
2023-2027	-	-	-	-
2028-2032	-	-	-	-
2033-2037	4,157	-	95	-
2038-2042	679	-	-	-
Total	$ 5,086	$ 16	$ 95	$ -

(9) Hospital Program Revenues

(a) Net Patient Service Revenue

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

Net patient service revenues are calculated for the fiscal year ended June 30, 2008 as follows:

Patient service revenues	$ 2,198,227
Contractual allowances	(1,441,896)
Bad debts provision	(29,270)
Net patient service revenues	$ 727,061

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

A substantial portion of SCVMC's net patient service revenue is derived from services provided to patients eligible for benefits under the Medi-Cal and Medicare programs. Revenue from the Medi-Cal and Medicare programs represents approximately 57% of net patient service revenue (excluding the effects of bad debts provision) for the fiscal year ended June 30, 2008. Revenue from the Medicare program represents approximately 14% of net patient service revenue (excluding the effects of bad debts provision) for the fiscal year ended June 30, 2008. Reimbursement for services provided under these programs is currently based on various contractual arrangements (see Note 13(c)).

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

(9) Hospital Program Revenues (Continued)

The Demonstration authorized the State of California to create a health Care Coverage Initiative in ten selected counties during FY 2007-08 through FY 2009-10 to expand health care coverage for eligible low-income, uninsured individuals using an $180 million annual allotment of federal funds from the SNCP. Selected counties certify their public expenditures to claim federal funding to reimburse their health care services costs. The selected counties also will receive federal reimbursement for administrative costs associated with the implementation and ongoing administration of the coverage initiative programs. This funding is separate from the SNCP funding that is available. Senate Bill 1448, passed in July 2006, implements the Health Care Coverage. The County submitted a proposal to participate in the Coverage Initiative under a program it named Valley Care. The Valley Care Program will provide comprehensive primary and preventive health care to enrollees with incomes at or below 200 percent of the federal poverty level. The County's proposal was selected for participation in April 2007. The County's allocation is $20,700 annually during the period of September 1, 2007 to August 31, 2010.

(b) Capital Contributions

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

(c) 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, 2008, based on the cost incurred to perform these services, is as follows:

Charity care, at cost	$	133,492
Percentage of operating expenses		15%

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

(10) Net Assets/Fund Balances

(a) Net Assets Classifications

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

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

(10) Net Assets/Fund Balances (Continued)

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

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

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

(b) Fund Balances Classifications

As of June 30, 2008, reservations of fund balance included:

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

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

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

	General Fund	Nonmajor Funds	Governmental Funds
Designated for:			
SCVMC	$ 240,310	$ -	$ 240,310
Measure B program	13,054	-	13,054
Litigation	3,000	-	3,000
Fiduciary activities/contingencies	13,550	-	13,550
Roads	-	12,733	12,733
County Library	-	10,547	10,547
Housing and Community Development	-	100	100
Fire Districts	-	930	930
Environment Health	-	5,434	5,434
Vector Control	-	6,790	6,790
Other	54,798	-	54,798
Undesignated	109,734	269,793	379,527
Total	$ 434,446	$ 306,327	$ 740,773

(c) Restatements of Net Assets/Fund Balances

The County Sanitation District 2 - 3 is responsible for collecting, processing and disposal of sewage for the County. During the current fiscal year, the County Sanitation District evaluated its proportionate share of costs for operations, maintenances, and construction of joint use sewer lines and the valuation of capital assets and restated its June 30, 2007 net assets balance and related balances in the amount of $237 to reflect the change in associated costs.

(10) Net Assets/Fund Balances (Continued)

SPG Housing, Inc., a discrete component unit of the Housing Authority, serves as the general partner of San Pedro Gardens Associates, Ltd., (SPGA). SPGA is a limited partnership formed to develop and operate a 20-unit affordable housing complex located in Morgan Hill, California. On September 30, 2007, the limited partner of SPGA assigned its limited partnership interest to the Housing Authority. As a result, SPG Housing, Inc. restated its beginning net assets in the amount of ($531) at December 31, 2006 to consolidate the Authority's limited partnership's interest with SPG Housing, Inc.'s financial statements.

(11) Employee Benefit Plans

(a) California Public Employees' Retirement System – County

Plan Description

All eligible County employees participate in the State's Public Employees' Retirement System (PERS). The County participates in four plans with PERS. Two plans (Miscellaneous and Safety) cover the Santa Clara County Central Fire District (Central Fire) and two plans (Miscellaneous and Safety) cover all remaining eligible County employees. PERS provides retirement, disability, and death benefits based on the employees' years of service, age and final compensation. Employees vest after five years of PERS-credited service and they are eligible for service retirement if they are 50 years old or over and have at least 5 years of PERS-credited service. These provisions and all other requirements are established by State statute and County resolutions. Copies of PERS' annual financial report may be obtained from their executive office at 400 Q Street, Sacramento, California 95814. A separate report for the County's plan in PERS is not available.

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

Funding Policy

The contribution requirements of plan members and the County are established and may be amended by PERS. The County is required to contribute at an actuarially determined rate or prepay a discounted annual required contribution between July 1 and July 15. At June 30, 2008, all County employee participants are also required to contribute 8% (9% for Safety employees) of their annual covered salary. During the fiscal year, the County and its Miscellaneous employees entered into a contract amendment enhancing the County's and Central Fire's Miscellaneous employees retirement formula from 2% at 55 to 2.5% at 55. As a result, the Miscellaneous employees' contribution rate increased from 7% to 8% of their annual covered salary during fiscal year 2007-08. The County made 76.9% of the employees' required payroll contributions for fiscal year 2008.

(11) Employee Benefit Plans (Continued)

In May 2005, PERS agreed to restructure the County's pension contribution for the 2004-05 fiscal year-end and defer $35 million of the scheduled payment. Since May 2005, interest has accrued and was added to the liability balance. In fiscal year 2007-08, the County issued taxable pension funding bonds in order to refinance this obligation and to prepay other amounts arising as a result of enhanced retirement benefits accruing to County employees totaling $386,602. This resulted in a net pension asset in the amount of $350,482 at June 30, 2008. The County's net pension asset is recorded in the Pension Obligation Internal Service Fund and the government-wide statements-governmental activities.

After applying the pension obligation bonds to the respective County plans, the County's recomputed employer contributions is $149,147 for fiscal year 2007-08. In July 2007, the County elected to prepay the annual employer share of the retirement contribution in the amount of $143,683. The prepayment reduced the County's actuarially determined contribution required by $5,464. In addition, the mid-year contract amendment brought about an increase in the employer contribution rates by 2.761% of the Miscellaneous employees' covered salary. As part of the County's collective bargaining process, the County's Miscellaneous employees agreed to pay the increased employer required contributions or $16,773 for the year ended June 30, 2008.

The County's contributions for the year ended June 30, 2008 comprised as follows:

	County Miscellaneous	County Safety	County Total
Unfunded actuarial accrued liability payment	$ 289,952	$ 96,651	$ 386,602
Annual prepayment option	109,119	34,564	143,683
Employees enhancement contribution	16,773	-	16,773
Employer contributions made	$ 415,844	$ 131,215	$ 547,058

The Central Fire's fiscal year 2008 required contributions as a percentage of annual covered payrolls were as follows:

	Employer	Employee
Central Fire Miscellaneous Plan		
7/1/07 - 11/18/07	13.680%	7.000%
11/19/07 - 6/30/08	19.500%	8.000%
Central Fire Safety Plan		
7/1/07 - 6/30/08	26.584%	9.000%

(11) Employee Benefit Plans (Continued)

Annual Pension Costs

The required contributions were determined as part of the June 30, 2005 actuarial valuations using a modification of the Entry Age Normal Actuarial Cost Method. The actuarial assumptions includes: (a) a rate of return on investments of 7.75%; (b) inflation of 3.00%; and (c) projected salary increases of 3.25% to 14.45% depending on Age, Service, and type of employment. The actuarial value of the pension plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. PERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period as of June 30, 2005 is as follows:

	County	Central Fire
Miscellaneous Plan	30 years	17 years
Safety Plan	30 years	32 years

The County's changes in net pension obligation (asset) for the year ended June 30, 2008, were as follows:

Annual required contribution	$ 160,456
Interest on beginning net pension obligation	1,545
Interest on net pension asset	(26,693)
Amortization of net pension asset	20,633
Annual pension cost	155,941
Contributions made	547,058
Change in net pension obligation	(391,117)
Net pension obligation, beginning of year	40,635
Net pension asset, end of year	$ (350,482)

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2008	$ 155,941	351%	$ (350,482)
6/30/2007	168,980	98%	40,635
6/30/2006	153,803	98%	37,712

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2008	$ 7,372	100%	$ -
6/30/2007	7,460	100%	-
6/30/2006	8,810	100%	-

(11) Employee Benefit Plans (Continued)

Funded Status and Funding Progress

Summary of funding progress are as follows:

	County Miscellaneous Plan	County Safety Plan	Central Fire Safety Plan
Actuarial valuation date	6/30/07	6/30/07	6/30/06
Actuarial asset value	$ 4,072,831	$ 1,213,321	$ 240,522
Actuarial accrued liability - entry age	4,972,306	1,492,398	284,246
Unfunded actuarial accrued liability (UAAL)	$ 899,475	$ 279,077	$ 43,724
Funded ratio	81.9%	81.3%	84.6%
Covered payroll	$ 1,076,476	$ 164,100	$ 24,204
UAAL as percentage of covered payroll	83.6%	170.1%	180.6%

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

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

The Authority participates in and administers a defined contribution retirement plan (Housing Authority of the County of Santa Clara Retirement Plan & Trust (the Plan)). All regular employees of the Authority with more than six months of service participate in the plan. The Authority makes monthly contributions of 6 - 12% on all qualified employees' gross salary at July 1 and January 1. The Plan, which had 288 participants, had ending cash value of $16,371 at June 30, 2008. Employer contributions are vested 20% for each year of service of the individual employee until the employee becomes fully vested. During the fiscal year ended June 30, 2008, the Authority contributed $1,176 to the Plan. At June 30, 2008, 124 employees had loans outstanding to the Plan in the amount of $1,278.

(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.

The Plan requires employer contributions of 7% of employees' annual salaries and wages. Employees vest 100% after three years of employment service. Employer contributions were $222 for the year ended June 30, 2008. The contribution requirements of Plan members and the Commission are established by and may be amended by the Unified Trust Company.

(11) Employee Benefit Plans (Continued)

(d) Postretirement Health Care Benefits – County

Plan Description

The County's defined benefit postemployment healthcare plan provides healthcare benefits to eligible County (excluding Central Fire and Housing Authority) employees and their surviving spouse. Central Fire and Housing Authorities employees have separate defined benefit postemployment healthcare plans. All County employees hired prior to August 12, 1996, with at least five years of service after attaining age 50 are covered under the County's Retiree Health Care Program upon retirement. For employees hired after August 12, 1996 and on or before June 18, 2006, the eligibility requirements were increased to a minimum of eight years of service after attaining age 50. For employees hired after June 19, 2006, the eligibility requirements were increased to a minimum of ten years of service after attaining age 50. For all of the above, employees must retire from PERS directly from County.

The County participates in the California Employers' Retiree Benefit Trust Fund Program (CERBT), an agent-multiple employer postemployment health plan, to fund other postemployment benefits through PERS. Copies of PERS' annual financial report may be obtained from their executive office at 400 Q Street, Sacramento, California 95814. A separate report for the County's plan in CERBT is not available.

Funding Policy

The County is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. 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 current ARC rate is 11.2 percent of annual covered payroll.

The contribution requirements of plan members and the County are established and may be amended by the Board. As of June 30, 2008, the County contributed $125,328, or 100%, of the annual required contribution (ARC). Of the total amount, the County deposited $79,981 to the CERBT and paid $45,347 through healthcare premium payments during the year.

Annual OPEB Cost

As of June 30, 2008, the County's annual other postemployment benefit (OPEB) expense of $125,328 was equal to the ARC. The following table represents annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation.

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	$ 125,328	100%	$ -

The actuarial valuation was performed as of June 30, 2007 and was used to determine the ARC for the fiscal year ended June 30, 2008.

(11) Employee Benefit Plans (Continued)

Funding Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	$ 1,261,402
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 1,261,402
Funded ratio (actuarial value of plan assests/AAL)	0.0%
Covered payroll (active plan members)	$ 1,119,488
UAAL as a percentage of covered payroll	112.7%

Actuarial Methods and Assumptions

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

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

In the June 30, 2007 actuarial valuation, the entry age normal (EAN) actuarial cost method was used. The EAN method is designed to spread the cost of benefits as a level percentage of pay over an employee's career. The unfunded actuarial accrued liability is amortized over a period of 30 years as a level percentage of payroll on an open basis. This methodology provides the lowest annual expense permitted under GASB Statement No. 45, but the amortization amount calculated is not sufficient to cover interest on the unfunded actuarial accrued liability. The actuarial assumptions included a 7.75 percent investment rate of return, a 3.25 percent payroll growth, and an annual healthcare cost trend rate of 10.0 percent initially, reduced by 1.0 percent increments to an ultimate rate of 5.0 percent by the year 2012-2013.

(11) Employee Benefit Plans (Continued)

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

The Central Fire maintains a separate OPEB plan and reported a net OPEB obligation of $0 as of June 30, 2008. Per its most recent actuarial valuation as of June 30, 2008, the Central Fire OPEB plan was 0% funded and the unfunded actuarial accrued liability was $165,398. Details of the Central Fire's OPEB plan may be found in its financial report for the fiscal year ended June 30, 2008. The report may be obtained by writing to the Santa Clara County Central Fire Protection District at 14700 Winchester Boulevard, Los Gatos, CA 95032.

(f) Postretirement Health Care Benefits – Housing Authority

The Housing Authority maintains a separate OPEB plan and reported a net OPEB obligation of $609 as of June 30, 2008. Per its most recent actuarial valuation as of June 30, 2008, the Housing Authority OPEB plan was 12% funded and the unfunded actuarial accrued liability was $5,441. Details of the Housing Authority's OPEB plan may be found in its financial report for the fiscal year ended June 30, 2008. The report may be obtained by writing to the Housing Authority of the County of Santa Clara at 100 Great Oaks Blvd., 2nd Floor, San Jose, CA 95119.

(12) 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, medical malpractice liability, and automobile liability. The County has chosen to establish risk financing internal service funds where assets are set aside for claim settlements associated with the above risks of loss up to certain limits. Excess coverage is provided by the California State Association of Counties' Excess Insurance Authority (Authority), a joint powers authority, whose purpose is to develop and fund programs of excess insurance and provide the joint purchase of coverage from independent third parties for its member entities. The Authority is governed by a Board of Directors consisting of representatives of its member entities.

(12) Risk Management (Continued)

Self-insurance and Insurance Authority limits are as follows:

Type of Coverage	Self-Insurance (per occurrence)	Self-Retained [1]	Purchase Insurance Policies (per occurrence)
Automobile	Up to $2,000	$8,068 per occurrence	$35,000
General Liability	Up to $2,000	$8,068 per occurrence	$35,000
Medical Malpractice	Up to $500	$1,500 per occurrence	$25,000
Workers' Compensation	Up to $4,000	$1,000 per occurrence	$300,000
Property Damage	Up to $50 [2] (This is deductible)	$3,000 per occurrence $8,000 aggregate	Up to $1,800,000 [3]
Earthquake	5% of property value $100 minimum deductible		Up to $430,000 [4]
Airport	Up to $1		$30,000
Crime Bond	Up to $25		$10,000
Pollution	Up to $500		$10,000

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

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

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

(4) Insured values are split between 3 schedules with limits of $60,000 each, plus a rooftop of $250,000, for a total of $430,000.

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

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

The County annually changes its interest rate for estimating its liability for General, Automobile and Medical Malpractice to approximate the current investment rate of return. In the current year, management used actuarial estimates based on the expected value discounted at 3.5% for General and Automobile and Medical Malpractice claims. In addition, the workers' compensation liability is discounted at 5.0%.

(12) Risk Management (Continued)

Changes in the balances of claims liabilities during the past two fiscal years ended June 30 for all self-insurance internal service funds combined are as follows:

	2008	2007
Unpaid claims, beginning of year	$ 102,432	$ 104,046
Incurred claims and changes in estimate	56,875	46,911
Claim payments	(52,674)	(48,525)
Unpaid claims, end of year	$ 106,633	$ 102,432

Annual premiums are charged by each self-insurance fund using various allocation methods that include actual costs, trends in claims experience, and number of participants. Premiums paid by the Insurance Fund totaled $11,510 for the fiscal year ended June 30, 2008.

(13) Commitments and Contingencies

(a) Commitments

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

Fiscal year ending June 30,	Governmental Activities	Business-type Activities	Total
2009	$ 38,814	$ 7,920	$ 46,734
2010	38,419	7,964	46,383
2011	38,906	8,166	47,072
2012	40,022	8,477	48,499
2013	40,799	8,798	49,597
2014-2018	101,175	4,926	106,101
2019-2023	81,737	-	81,737
2024-2028	3,243	-	3,243
Total	$ 383,115	$ 46,251	$ 429,366

Rent expense for fiscal year 2008 was approximately $44,557 and $7,470 for the governmental activities and business-type activities, respectively.

(13) Commitments and Contingencies (Continued)

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

Fiscal year ending June 30,	Governmental Activities	Business-type Activities	Total
2009	$ 4,172	$ 482	$ 4,654
2010	3,537	86	3,623
2011	3,630	88	3,718
2012	3,716	90	3,806
2013	3,805	92	3,897
2014-2018	19,672	486	20,158
2019-2023	20,256	262	20,518
2024-2028	9,528	-	9,528
Total	$ 68,316	$ 1,586	$ 69,902

Rent income for fiscal year 2008 was approximately $5,416 and $2,876 for the governmental activities and business-type activities, respectively.

(b) Litigation

The County accounts for claims in the internal service funds and the General Fund. As of June 30, 2008, the County had accrued amounts which management believes are adequate to provide for claims and litigation, which arose during the normal course of activities. There are other outstanding claims and litigation for which County management believes the ultimate outcome of these claims and litigation will not significantly impact the County's financial position.

(c) Patient Service Revenue and Receivables

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

Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The SCVMC's Medicare and Medi-Cal cost reports have been audited by the fiscal intermediary through June 30, 2002 and June 30, 2004, respectively. As such, the cost reports for certain other prior years are in various stages of review by third-party intermediaries and have not been settled as a result of certain unresolved reimbursement issues. The County believes it has adequately provided for any potential liabilities that may arise from the intermediaries' audits.

(13) Commitments and Contingencies (Continued)

Net receivables from patients and third-party payers at June 30, 2008, are summarized as follows:

Medicare	$	23,773
Medi-Cal		71,287
Insurance and other third-party payers		34,503
Private patients		2,005
Total	$	131,568

(d) Seismic Safety Building Standards

The County is affected by State of California Senate Bill 1953 (SB 1953), which requires certain seismic safety building standards for acute care hospital facilities. SCVMC has reviewed the SB 1953 compliance requirements and developed multiple plans of action to achieve such compliance, the estimated time frame for complying with such requirements, and the cost of performing necessary remediation of certain of the properties. SCVMC estimates the total remediation cost to make its facilities SB 1953-compliant will be approximately $1.4 billion.

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

(e) Single and Multiple Family Mortgage Revenue Bonds

The County, acting as coordinator with certain cities, issued Tax-Exempt Mortgage Revenue Bonds with periodic maturities through May 2040. At June 30, 2008, the outstanding balance of these bonds is $42,236. 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.

(13) Commitments and Contingencies (Continued)

(f) Conduit Debt -Insured Revenue Bonds

On March 16, 2007, the Financing Authority served as the conduit issuer of 2007 Insured Revenue Bonds Series A ($50,000), Series B ($50,000), and Series C ($50,000) in order to provide funds for the construction, renovation, and improvement of El Camino Hospital, including a portion of the construction of a new five-level main hospital building and purchasing and installing equipment. The Financing Authority and the County have no obligation for these bonds as they are secured under the provisions of the Indenture and will be payable solely from payment made by the El Camino Hospital under the Loan Agreement. These bonds are not payable from any revenues or assets of the County. Neither the faith and credit nor the taxing power of the County, the State or any political subdivision thereof are pledged for the payment of the principal or interest on the bonds. At June 30, 2008, the conduit bonds' outstanding balance was $150,000.

(14) Subsequent Events

(a) Measure A – Hospital Seismic Safety and Medical Facilities

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

(b) Recent Changes in the Economic Environment and its Impact to the County

The recent turmoil in the financial market has been unprecedented. In September 2008, the U.S. Treasury placed government sponsored enterprises Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation) into conservatorship and committed to provide as much as $100 billion to each company to backstop any shortfalls in capital through 2009, which protected the principal and interest payments on their debt (bonds issued). In addition, the federal government recently assumed control of American International Group Inc. (AIG), the largest insurance company in the U. S.; Lehman Brothers Holdings Inc., (Lehman) the 4th largest investment bank in the U.S. filed for bankruptcy; and Washington Mutual Inc. (WaMu) was seized by government regulators and its branches and assets sold to JPMorgan Chase & Co. On October 3, 2008, the President of the United States signed into law the $700 billion Emergency Economic Stabilization Act of 2008 in an effort to address the economic crisis.

At June 30, 2008, the County has two investments in its Santa Clara County Retiree Healthcare Plan Investments at risk. Specifically, the County has a $1.0 million corporate note with Lehman. At this time the County cannot estimate the loss on this investment since it does not know what value the assets of the firm will recover upon liquidation. In addition, the County has a $1.5 million note with WaMu which has been downgraded by Fitch Ratings to below investment grade. The County has a higher risk profile in its Retiree Healthcare Plan Investments and invests in longer term assets and equities as allowed by state law. The fair value of the separately invested Santa Clara County Retiree Healthcare Plan Investments as of November 30, 2008 decreased 20.0 percent since June 30, 2008. The County's investments are exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on the County's investments depend in large measure on how deep the market downturn is, how long it lasts, and how it fits within fiscal year reporting periods.

(14) Subsequent Events (Continued)

The current market turmoil has had an impact on the County's debt program to date. Because of the volatile market, due to liquidity concerns, the County has seen a bounce in its variable debt interest since June 30, 2008. The County uses Lehman, Bank of America, and Morgan Stanley as remarketing agents and all three remarket weekly. In September, with the Lehman bankruptcy, the County saw a bounce from below 2% to 4% on its variable rate paper remarketed by Lehman.

Required Suplementary Information

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Schedule of Funding Progress
June 30, 2008
(Dollars in thousands)

Schedule of Funding Progress – CalPERS Defined Benefit Retirement County Miscellaneous Plan:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability-Entry Age	Unfunded Actuarial Accrued Liability – UAAL	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2007	$ 4,072,831	$ 4,972,306	$ 899,475	81.9%	$ 1,076,476	83.6%
6/30/2006	3,688,587	4,576,572	887,985	80.6%	1,002,639	88.6%
6/30/2005	3,379,899	4,092,910	713,011	82.6%	939,349	75.9%

Schedule of Funding Progress – CalPERS Defined Benefit Retirement County Safety Plan:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability-Entry Age	Unfunded Actuarial Accrued Liability – UAAL	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2007	$ 1,213,321	$ 1,492,398	$ 279,077	81.3%	$ 164,100	170.1%
6/30/2006	1,111,525	1,381,871	270,346	80.4%	151,480	178.5%
6/30/2005	1,026,433	1,268,296	241,863	80.9%	142,821	169.3%

Schedule of Funding Progress – CalPERS Defined Benefit Retirement Central Fire Safety Plan:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability-Entry Age	Unfunded Actuarial Accrued Liability – UAAL	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2006	$ 240,522	$ 284,246	$ 43,724	84.6%	$ 24,204	180.6%
6/30/2005	222,791	269,665	46,874	82.6%	23,472	199.7%
6/30/2004	205,844	253,053	47,209	81.3%	22,755	207.5%

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Schedule of Funding Progress
June 30, 2008
(Dollars in thousands)

Schedule of Funding Progress – County Other Postemployment Benefits:

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability-Entry Age	Unfunded Actuarial Accrued Liability – UAAL	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2007	$ -	$ 1,261,402	$ 1,261,402	0.0%	$ 1,119,488	112.7%

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

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

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

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

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, 2008
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Budgetary fund balances, beginning of year	$ 461,227	$ 461,227	$ 461,227	$ -
Resources (inflows):				
Taxes	637,382	637,382	633,133	(4,249)
Licenses and permits	15,414	15,414	13,733	(1,681)
Fines, forfeitures, and penalties	43,426	50,886	40,873	(10,013)
Interest and investment income	27,914	29,970	25,749	(4,221)
Intergovernmental revenues	1,119,934	1,164,735	1,147,477	(17,258)
Charges for services	143,979	142,489	132,982	(9,507)
Other revenue	152,419	58,656	31,667	(26,989)
Other financing sources	4,000	4,000	4,000	-
Interfund transfers	22,882	272,302	272,744	442
Total resources (inflows) available for appropriation	2,167,350	2,375,834	2,302,358	(73,476)
Charges to appropriations (outflows):				
General government:				
Supervisorial District 1				
Salaries and benefits	960	968	960	8
Services and supplies	63	63	21	42
Total Supervisorial District 1	1,023	1,031	981	50
Supervisorial District 2				
Salaries and benefits	968	976	948	28
Services and supplies	58	57	30	27
Total Supervisorial District 2	1,026	1,033	978	55
Supervisorial District 3				
Salaries and benefits	968	976	959	17
Services and supplies	56	55	46	9
Total Supervisorial District 3	1,024	1,031	1,005	26
Supervisorial District 4				
Salaries and benefits	978	892	846	46
Services and supplies	44	139	136	3
Total Supervisorial District 4	1,022	1,031	982	49
Supervisorial District 5				
Salaries and benefits	968	970	970	-
Services and supplies	88	91	89	2
Total Supervisorial District 5	1,056	1,061	1,059	2
Clerk - Board of Supervisors				
Salaries and benefits	2,897	2,922	2,783	139
Services and supplies	3,664	3,620	3,241	379
Fixed assets	-	18	17	1
Expenditure reimbursements	(374)	(374)	(109)	(265)
Total Clerk - Board of Supervisors	6,187	6,186	5,932	254

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2008
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
General government (continued):				
Office of the County Executive				
Salaries and benefits	9,702	9,738	9,654	84
Services and supplies	10,257	14,413	10,410	4,003
Expenditure reimbursements	(198)	(198)	(174)	(24)
Interfund transfers	-	399	291	108
Total Office of the County Executive	19,761	24,352	20,181	4,171
Controller-Treasurer				
Salaries and benefits	10,008	10,008	9,833	175
Services and supplies	5,778	8,434	6,142	2,292
Fixed assets	189	189	189	-
Expenditure reimbursements	(40,821)	(40,821)	(40,821)	-
Interfund transfers	100,000	48,817	48,817	-
Total Controller-Treasurer	75,154	26,627	24,160	2,467
Tax Collector				
Salaries and benefits	5,541	5,541	5,349	192
Services and supplies	5,875	5,875	5,585	290
Expenditure reimbursements	(272)	(272)	(263)	(9)
Total Tax Collector	11,144	11,144	10,671	473
Office of the Assessor				
Salaries and benefits	25,724	25,828	25,517	311
Services and supplies	10,397	10,382	4,150	6,232
Total Office of the Assessor	36,121	36,210	29,667	6,543
Purchasing				
Salaries and benefits	3,503	2,703	2,445	258
Services and supplies	1,415	2,202	997	1,205
Expenditure reimbursements	(497)	(497)	(498)	1
Total Purchasing	4,421	4,408	2,944	1,464
Office of Budget and Analysis - Special Programs				
Salaries and benefits	-	2	2	-
Services and supplies	8,429	8,326	6,122	2,204
Interfund transfers	231,849	333,095	330,095	3,000
Total Office of Budget and Analysis - Special Programs	240,278	341,423	336,219	5,204
Office of the County Counsel				
Salaries and benefits	20,033	20,107	19,452	655
Services and supplies	1,718	2,017	1,389	628
Fixed assets	-	13	-	13
Expenditure reimbursements	(16,203)	(16,203)	(15,808)	(395)
Total Office of the County Counsel	5,548	5,934	5,033	901

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2008
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
General government (continued):				
Personnel				
Salaries and benefits	10,463	10,693	10,684	9
Services and supplies	7,258	7,068	6,395	673
Fixed assets	65	141	141	-
Expenditure reimbursements	(4,344)	(4,344)	(4,538)	194
Total Personnel	13,442	13,558	12,682	876
Risk Management				
Salaries and benefits	1,584	1,584	1,568	16
Services and supplies	741	740	705	35
Expenditure reimbursements	(2,314)	(2,314)	(2,310)	(4)
Total Risk Management	11	10	(37)	47
Registrar of Voters				
Salaries and benefits	9,103	9,103	8,408	695
Services and supplies	12,526	11,813	9,400	2,413
Fixed assets	-	647	642	5
Total Registrar of Voters	21,629	21,563	18,450	3,113
Information Services				
Salaries and benefits	4,570	4,580	4,578	2
Services and supplies	11,281	11,543	10,278	1,265
Fixed assets	78	72	12	60
Expenditure reimbursements	(1,578)	(1,578)	(1,434)	(144)
Interfund transfers	-	160	160	-
Total Information Services	14,351	14,777	13,594	1,183
Department of Revenue				
Salaries and benefits	6,633	6,675	6,241	434
Services and supplies	1,267	1,255	1,176	79
Fixed assets	20	20	11	9
Total Department of Revenue	7,920	7,950	7,428	522
Communication				
Salaries and benefits	13,300	13,535	13,482	53
Services and supplies	3,202	3,142	2,654	488
Fixed assets	71	71	71	-
Expenditure reimbursements	(4,995)	(4,995)	(4,571)	(424)
Total Communication	11,578	11,753	11,636	117

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2008
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
General government (continued):				
Department of Planning & Development				
Salaries and benefits	10,251	10,086	10,077	9
Services and supplies	4,515	5,739	4,517	1,222
Fixed assets	-	24	24	-
Expenditure reimbursements	(506)	(506)	(500)	(6)
Total Department of Planning & Development	14,260	15,343	14,118	1,225
Facilities and Fleet Department				
Salaries and benefits	28,111	28,600	28,340	260
Services and supplies	68,272	76,621	71,197	5,424
Fixed assets	-	11	11	-
Expenditure reimbursements	(52,579)	(53,276)	(52,132)	(1,144)
Interfund transfers	13,557	13,612	13,112	500
Total Facilities and Fleet Department	57,361	65,568	60,528	5,040
General government - subtotals:				
Salaries and benefits	166,265	166,487	163,096	3,391
Services and supplies	156,904	173,595	144,680	28,915
Fixed assets	423	1,206	1,118	88
Expenditure reimbursements	(124,681)	(125,378)	(123,158)	(2,220)
Interfund transfers	345,406	396,083	392,475	3,608
Total general government	544,317	611,993	578,211	33,782
Public protection:				
Clerk Recorder				
Salaries and benefits	7,395	7,395	6,882	513
Services and supplies	806	794	672	122
Total Clerk Recorder	8,201	8,189	7,554	635
Department of Child Support Services				
Salaries and benefits	31,064	31,433	31,317	116
Services and supplies	7,094	7,588	7,442	146
Fixed assets	383	127	117	10
Total Department of Child Support Services	38,541	39,148	38,876	272

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2008
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Public protection (continued):				
District Attorney				
Salaries and benefits	73,119	73,511	72,768	743
Services and supplies	18,569	19,856	18,838	1,018
Fixed assets	127	181	172	9
Expenditure reimbursements	(17,613)	(18,414)	(17,899)	(515)
Total District Attorney	74,202	75,134	73,879	1,255
Laboratory of Criminalistics				
Salaries and benefits	6,840	6,763	6,518	245
Services and supplies	1,455	2,006	1,863	143
Expenditure reimbursements	(173)	(173)	(182)	9
Total Laboratory of Criminalistics	8,122	8,596	8,199	397
Public Defender				
Salaries and benefits	34,989	35,977	35,977	-
Services and supplies	5,146	5,222	4,711	511
Other charges	1	1	-	1
Expenditure reimbursements	(322)	(322)	(336)	14
Total Public Defender	39,814	40,878	40,352	526
Pretrial Services				
Salaries and benefits	4,665	4,699	4,531	168
Services and supplies	1,316	1,317	1,092	225
Expenditure reimbursements	-	(35)	(35)	-
Total Pretrial Services	5,981	5,981	5,588	393
Criminal Justice Support				
Services and supplies	54,247	55,147	54,969	178
Total Criminal Justice Support	54,247	55,147	54,969	178
Sheriff Administration				
Salaries and benefits	103,740	106,192	96,446	9,746
Services and supplies	15,506	16,192	14,068	2,124
Fixed assets	829	701	258	443
Expenditure reimbursements	(5,776)	(5,941)	(2,277)	(3,664)
Total Sheriff Administration	114,299	117,144	108,495	8,649
Sheriff - Department of Correction Services				
Salaries and benefits	97,236	99,220	99,220	-
Total Sheriff - Department of Correction Services	97,236	99,220	99,220	-

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2008
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Public protection (continued):				
Department of Correction				
Salaries and benefits	30,857	30,524	29,208	1,316
Services and supplies	44,124	45,815	45,624	191
Fixed assets	289	351	277	74
Interfund transfers	7,500	-	-	-
Expenditure reimbursements	(3,104)	(2,402)	(2,459)	57
Total Department of Correction	79,666	74,288	72,650	1,638
Probation Department				
Salaries and benefits	89,996	96,503	96,368	135
Services and supplies	22,586	22,956	22,956	-
Expenditure reimbursements	(351)	(409)	(409)	-
Total Probation Department	112,231	119,050	118,915	135
Department of Agriculture/Weights & Measures/ Animal Control				
Salaries and benefits	5,354	5,435	5,181	254
Services and supplies	1,880	1,871	1,309	562
Fixed assets	-	30	30	-
Interfund transfers	11	11	10	1
Expenditure reimbursements	(213)	(213)	(243)	30
Total Department of Agriculture/ Weights & Measures/Animal Control	7,032	7,134	6,287	847
Medical Examiner - Coroner				
Salaries and benefits	2,658	2,658	2,652	6
Services and supplies	628	627	574	53
Total Medical Examiner - Coroner	3,286	3,285	3,226	59
Public protection - subtotals:				
Salaries and benefits	487,913	500,310	487,068	13,242
Services and supplies	173,357	179,391	174,118	5,273
Other charges	1	1	-	1
Fixed assets	1,628	1,390	854	536
Interfund transfers	7,511	11	10	1
Expenditure reimbursements	(27,552)	(27,909)	(23,840)	(4,069)
Total public protection	642,858	653,194	638,210	14,984
Public ways and facilities:				
Measure B				
Salaries and benefits	-	26	25	1
Services and supplies	6,286	39,572	28,279	11,293
Interfund transfers	6,095	6,095	1,316	4,779
Total Measure B	12,381	45,693	29,620	16,073

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2008
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Health and sanitation:				
Health Services Administration				
Salaries and benefits	51,608	51,762	50,775	987
Services and supplies	31,500	34,644	30,715	3,929
Fixed assets	-	300	-	300
Interfund transfers	-	95	95	-
Expenditure reimbursements	(1,290)	(1,720)	(2,449)	729
Total Health Services Administration	81,818	85,081	79,136	5,945
Mental Health Bureau				
Salaries and benefits	41,860	42,942	36,353	6,589
Services and supplies	195,513	223,620	215,549	8,071
Expenditure reimbursements	(2,386)	(2,565)	(2,375)	(190)
Total Mental Health Bureau	234,987	263,997	249,527	14,470
Custody Health Services				
Salaries and benefits	35,711	36,309	36,190	119
Services and supplies	10,722	12,543	11,392	1,151
Expenditure reimbursements	(44,483)	(45,983)	(45,285)	(698)
Total Custody Health Services	1,950	2,869	2,297	572
Bureau of Alcohol & Drug Programs				
Salaries and benefits	17,986	18,241	17,699	542
Services and supplies	32,119	32,523	30,372	2,151
Expenditure reimbursements	(3,479)	(3,653)	(3,284)	(369)
Total Bureau of Alcohol & Drug Programs	46,626	47,111	44,787	2,324
Community Outreach Program				
Salaries and benefits	10,968	11,658	10,730	928
Services and supplies	6,231	6,231	6,044	187
Fixed assets	-	111	-	111
Expenditure reimbursements	(1,565)	(1,863)	(2,035)	172
Total Community Outreach Program	15,634	16,137	14,739	1,398
Healthy Children				
Services and supplies	4,500	4,500	3,336	1,164
Total Healthy Children	4,500	4,500	3,336	1,164

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2008
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Health and sanitation - subtotals (continued):				
Salaries and benefits	158,133	160,912	151,747	9,165
Services and supplies	280,585	314,061	297,408	16,653
Fixed assets	-	411	-	411
Interfund transfers	-	95	95	-
Expenditure reimbursements	(53,203)	(55,784)	(55,428)	(356)
Total health and sanitation	385,515	419,695	393,822	25,873
Public assistance:				
In-House Support Services				
Services and supplies	69,853	69,853	62,307	7,546
Total In-House Support Services	69,853	69,853	62,307	7,546
Office of Affordable Housing				
Salaries and benefits	414	414	359	55
Services and supplies	1,166	1,381	1,275	106
Expenditure reimbursements	(403)	(403)	(357)	(46)
Total Office of Affordable Housing	1,177	1,392	1,277	115
Social Services Administration				
Salaries and benefits	253,702	255,518	254,586	932
Services and supplies	139,224	136,737	123,301	13,436
Fixed assets	78	1,151	845	306
Total Social Services Administration	393,004	393,406	378,732	14,674
Nutrition Services to the Aged				
Salaries and benefits	813	857	856	1
Services and supplies	5,521	5,476	5,343	133
Total Nutrition Services to the Aged	6,334	6,333	6,199	134
Categorical Aids Payments				
Services and supplies	204,388	204,388	179,351	25,037
Total Categorical Aids Payments	204,388	204,388	179,351	25,037
Public assistance - subtotals:				
Salaries and benefits	254,929	256,789	255,801	988
Services and supplies	420,152	417,835	371,577	46,258
Fixed assets	78	1,151	845	306
Expenditure reimbursements	(403)	(403)	(357)	(46)
Total public assistance	674,756	675,372	627,866	47,506

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2008
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Debt service:				
County debt service				
Principal retirement	9,001	9,001	7,723	1,278
Interest and fiscal charges	7,650	7,650	7,245	405
Interfund transfers	916	916	731	185
Total debt service	17,567	17,567	15,699	1,868
Provisions for Contingencies:				
Appropriation Contingencies				
Interfund transfers	-	7,800	7,800	-
Total provisions for contingencies	-	7,800	7,800	-
Reserves:				
Office of County Executive				
General government	399	-	-	-
Total Office of County Executive	399	-	-	-
OMB Special Programs				
General government	2,100	-	-	-
Total OMB Special Programs	2,100	-	-	-
Probation Department				
Public protection	500	500	-	500
Total Probation Department	500	500	-	500
Social Services Administration				
Public assistance	3,153	2,873	-	2,873
Total Social Services Administration	3,153	2,873	-	2,873
Categorical Aids Payments				
Public assistance	1,370	1,370	-	1,370
Total Categorical Aids Payments	1,370	1,370	-	1,370
Nutrition Services to the Aged				
Public assistance	825	825	-	825
Total Nutrition Services to the Aged	825	825	-	825
Appropriation Contingencies				
Total Appropriation Contingencies	87,745	94,836	-	94,836
Total reserves	96,092	100,404	-	100,404
Total charges to appropriations	$ 2,373,486	$ 2,531,718	$ 2,291,228	$ 240,490

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2008
(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	$ 2,302,358
Differences - budget to GAAP:	
Proceeds from sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes	(4,000)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(272,744)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - general fund	$ 2,025,614
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 2,291,228
Differences - budget to GAAP:	
Encumbrances for services and supplies ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year services are incurred or goods received for financial reporting purposes	(3,896)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(402,427)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - general fund	$ 1,884,905

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

Budgets and Budgetary Accounting

The County is a charter county and, under the general laws of the State, adopts final annual operating budgets before September 1 for all governmental funds, except the Proposition 36 and Tobacco Securitization special revenue funds. From the effective date of the budgets, which are adopted by the Board of Supervisors after public hearings, the proposed expenditures become appropriations to the various County departments. Only the Board has the authority to approve new appropriations. The County Executive has a limited authority to approve appropriation transfers of $100 between the objects within a budget unit. The Board of Supervisors must approve transfers among budget units and may amend the budget during the fiscal year. Unencumbered and unexpended appropriations lapse at fiscal year-end. During the year, the Board of Supervisors approved various supplemental appropriations.

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

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

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary accounting in the General Fund, special revenue funds, and capital projects funds. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

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

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

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the County of Santa Clara, California, (the County), as of and for the fiscal year ended June 30, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 17, 2008. Our report was modified to include a reference to other auditors. Our report also includes an explanatory paragraph indicating that the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and GASB Statement No. 50, *Pension Disclosures – an Amendment of GASB Statements No. 25 and 27.* We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the FIRST 5 Santa Clara County; the County Sanitation District 2 – 3 of Santa Clara County; the Santa Clara County Vector Control District; the Silicon Valley Tobacco Securitization Authority; the Santa Clara County Tobacco Securitization Corporation; and the Santa Clara County Central Fire Protection District, the South Santa Clara County Fire District, and Los Altos Hills County Fire District (collectively, "Fire Districts"), as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies as listed as items 2008-A and 2008-B in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessary identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the County in a separate letter dated December 17, 2008.

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

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

Macias Gini & O'Connell LLP
Certified Public Accountants

Walnut Creek, California
December 17, 2008

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

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

Compliance

We have audited the compliance of the County of Santa Clara, California (the County), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2008. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

The County's basic financial statements include the operations of the Housing Authority of the County of Santa Clara (Housing Authority), which expended $223,757,449 in federal awards, which is not included in the schedule of expenditures of federal awards (SEFA) for the fiscal year ended June 30, 2008. Our audit, described below, did not include the operations of the Housing Authority because we audited and reported on the Housing Authority in accordance with OMB Circular A-133 as a separate engagement.

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

As described in item 2008-1, in the accompanying schedule of findings and questioned costs, the County did not comply with the requirement regarding program income that is applicable to its HOME Investment Partnerships Program (CFDA No. 14.239). Compliance with such requirement is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2008. Also, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2008-2, 2008-3, 2008-4, and 2008-5.

Internal Control Over Compliance

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

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying federal awards schedule of findings and questioned costs as items 2008-1, 2008-2, 2008-3, 2008-4, and 2008-5 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item 2008-1 to be a material weakness.

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

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

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

March 20, 2009

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COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2008

Federal Grantor/Pass Through Entity/Grant Name	Federal CFDA No.	Pass Through Entity Number	Expenditures	
U.S. Department of Agriculture				
Passed Through State Department of Social Services				
Food Stamps	10.551	43-10439	$ 78,296,179	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	04-35461	93,270	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	04-35881	1,041,070	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	07-65337	277,581	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	07-65348	20,000	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	n/a	16,211,955	
Subtotal State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			17,643,876	
Subtotal Pass Through State Department of Social Services				95,940,055
Passed Through State Department of Health Services				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	05-45797		2,610,468
Passed Through State Department of Agriculture				
Inspection Grading and Standardization	10.162	8415		1,528
Passed Through State Department of Education				
School Breakfast Program	10.553	43-10439-6066435-01	255,050	
National School Lunch Program	10.555	43-10439-6066435-01	383,328	
Subtotal Child Nutrition Cluster			638,378	
Subtotal Passed Through State Department of Education				638,378
Total U.S. Department of Agriculture				**99,190,429**
U.S. Department of Housing and Urban Development				
Direct Programs				
Community Development Block Grants/Entitlement Grants	14.218	n/a		2,191,012
HOME Investment Partnerships Program	14.239	n/a		9,711,594
Total U.S. Department of Housing and Urban Development				**11,902,606**
U.S. Department of Interior				
Passed Through State Department of Parks and Recreation				
Cooperative Endangered Species Conservation	15.615	P0330012		369,049
Technical Preservation Services	15.915	06-01549		233,427
Total U.S. Department of Interior				**602,476**
U.S. Department of Justice				
Direct Programs				
Juvenile Accountability Incentive Block Grants	16.523	n/a	160,687	
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	n/a	412,026	
Community Capacity Development Office	16.595	n/a	135,483	
State Criminal Alien Assistance Program	16.606	n/a	1,527,544	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	n/a	338,928	
Subtotal Direct Programs				2,574,668
Passed Through State Office of Emergency Services				
Crime Victim Assistance	16.575	VW 07260430	294,306	
Building Our Leaders For Tomorrow	16.609	US 05020430	6,523	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	MS 07060430	177,169	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DC 07180430	563,154	
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			740,323	
Subtotal Passed Through State Office of Emergency Services				1,041,152
Total U.S. Department of Justice				**3,615,820**

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

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2008

Federal Grantor/Grant Name	Federal CFDA No.	Pass Through Entity Number	Expenditures	
U.S. Department of Transportation				
Direct Program				
Airport Improvement Program	20.106	n/a		1,585,140
Passed Through State Department of Transportation				
Highway Planning and Construction	20.205	STPLH 5937(102)	1,232,244	
Highway Planning and Construction	20.205	STPL 5937 (101)	81,313	
Highway Planning and Construction	20.205	STPL 5937(108)	697,237	
Highway Planning and Construction	20.205	STPLZ 5937(033)	714,789	
Highway Planning and Construction	20.205	BRLO 5937 (047)	45,875	
Highway Planning and Construction	20.205	BRLO 5937 (046)	45,928	
Highway Planning and Construction	20.205	STPLZ-5937(087)	384,522	
Highway Planning and Construction	20.205	STPLZ-5937(088)	601,775	
Highway Planning and Construction	20.205	BHLO 5937(096)	726	
Highway Planning and Construction	20.205	BRLS 5937(077)	1,510,254	
Highway Planning and Construction	20.205	STPLZ-5937 (033)	348,911	
Highway Planning and Construction	20.205	BHLO 5937(093)	31,336	
Highway Planning and Construction	20.205	BRLO 5937(106)	4,339	
Highway Planning and Construction	20.205	STPLZ 5937(058)	125,471	
Highway Planning and Construction	20.205	STPLER -5937(099)	100,000	
Highway Planning and Construction	20.205	BRL-NBIS (508)	70,293	
Subtotal Passed Through State Department of Transportation				5,995,013
Passed Through State Department of Parks and Recreation				
Recreational Trails Program	20.219	RT-43-005	153,000	
Recreational Trails Program	20.219	RT-43-006	67,353	
Subtotal Passed Through State Department of Parks and Recreation				220,353
Passed Through State Office of Traffic Safety				
State and Community Highway Safety	20.600	AL0632	102,558	
State and Community Highway Safety	20.600	AL0668	111,179	
State and Community Highway Safety	20.600	CT080102/238/396	13,055	
State and Community Highway Safety	20.600	AL0807	357,368	
Subtotal Passed Through State Office of Traffic Safety				584,160
Total U.S. Department of Transportation				**8,384,666**
Institute of Museum and Library Services				
Passed Through California State Library				
Grants to States	45.310	n/a		4,860
Total Institute of Museum and Library Services				**4,860**
Environmental Protection Agency				
Passed Through California Environmental Protection Agency - Air Resources Board				
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	OS-83137601-1	177,029	
Leaking Underground Storage Tank Trust Fund Program	66.805	07-016-250-0	95,000	
Total Environmental Protection Agency				**272,029**
U.S. Department of Education				
Passed Through State Department of Alcohol and Drug				
Safe and Drug Free Schools and Communities_State Grants	84.186	n/a		116,496
Total U.S. Department of Education				**116,496**

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

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2008

Federal Grantor/Grant Name	Federal CFDA No.	Pass Through Entity Number	Expenditures	
U.S. Department of Health and Human Services				
Direct Programs				
Consolidated Health Centers (Community Health Center, Migrate Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	n/a	945,144	
Enhance the Safety of Children Affected By Parental Methamphetamine or Other Substance Abuse	93.087	n/a	159,245	
Subtotal Direct Programs				1,104,389
Passed Through Council on Aging Silicon Valley				
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	AP-0708-10	1,164,424	
Nutrition Service Incentive Program	93.053	AP-0708-10	710,319	
Subtotal Aging Cluster				1,874,743
Passed Through State Department of Education				
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	43-W038	272,552	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	43-2243	1,806,065	
Subtotal Passed Through State Department of Education				2,078,617
Passed Through State Department of Health Services				
Public Health and Social Services Emergency Fund	93.003	n/a	2,287,175	
Public Health Emergency Preparedness	93.069	n/a	376,799	
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	n/a	486,308	
Projects for Assistance in Transition from Homelessness (PATH)	93.150	n/a	230,287	
Immunization Grants	93.268	07-65249	951,451	
Centers for Disease Control and Prevention _ Investigations and Technical Assistance	93.283	n/a	1,303,585	
Refugee and Entrant Assistance_Discretionary Grants	93.576	n/a	25,674	
Refugee and Entrant Assistance_Discretionary Grants	93.576	07-43-90841-01	35,296	
Refugee and Entrant Assistance_Discretionary Grants	93.576	07-43-90840-1	310,236	
Refugee and Entrant Assistance_Discretionary Grants	93.576	07-43-9460-1A	119,609	
Subtotal Refugee and Entrant Assistance_Discretionary Grants			490,815	
Medical Assistance Program (Medicaid: Title XIX)	93.778	n/a	4,394,917	
Grants for Training in Primary Care Medicine and Dentistry	93.884	PS0423	631,414	
HIV Emergency Relief Project Grants	93.914	n/a	2,373,482	
HIV Care Formula Grants	93.917	94-19897 A-1	371,203	
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	n/a	713,663	
HIV Prevention Activities_Health Department Based	93.940	n/a	1,603,781	
Public Health Traineeships	93.964	2007-43 MCH	124,542	
Public Health Traineeships	93.964	2007-43 BIH	217,499	
Public Health Traineeships	93.964	2007-43 AFLP	236,826	
Subtotal Public Health Traineeships			578,867	
Maternal and Child Health Services Block Grant to the States	93.994	2007-43 BIH	340,123	
Maternal and Child Health Services Block Grant to the States	93.994	2007-43 AFLP	90,691	
Maternal and Child Health Services Block Grant to the States	93.994	2007-43 MCH	322,928	
Subtotal Maternal and Child Health Services Block Grant to the States			753,742	
Subtotal Passed Through State Department of Health Services				17,547,489
Passed Through State Department of Child Support Services				
Child Support Enforcement	93.563	IV-356		25,133,084

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

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2008

Federal Grantor/Grant Name	Federal CFDA No.	Pass Through Entity Number	Expenditures	
U.S. Department of Health and Human Services (Continued)				
Passed Through State Department of Social Services				
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	n/a	544,844	
Promoting Safe and Stable Families	93.556	n/a	1,093,899	
Temporary Assistance for Needy Families (TANF)	93.558	n/a	124,808,892	
Refugee and Entrant Assistance_State Administered Programs	93.566	n/a	885,911	
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	n/a	440,980	
Child Welfare Services_State Grants	93.645	n/a	1,378,728	
Foster Care_Title IV-E	93.658	n/a	41,914,969	
Adoption Assistance	93.659	n/a	11,069,061	
Social Services Block Grant	93.667	n/a	9,303,013	
Chafee Foster Care Independence Program	93.674	n/a	504,035	
Medical Assistance Program (Medicaid: Title XIX)	93.778	n/a	55,536,437	
Subtotal Passed Through State Department of Social Services				247,480,769
Passed Through State Department of Mental Health				
Block Grants for Community Mental Health Services	93.958	n/a		687,217
Passed Through State Department of Alcohol and Drug				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	n/a		11,272,305
Total U.S. Department of Health and Human Services				**307,178,613**
U.S. Department of Homeland Security				
Passed Through the City of San Jose				
Urban Areas Security Initiative	97.008	n/a		566,230
Passed Through the City and County of San Francisco				
Urban Areas Security Initiative	97.008	2006-0071		245,865
Passed Through the State Office of Emergency Services				
Homeland Security Grant Program	97.067	2006-0015	1,445,372	
Homeland Security Grant Program	97.067	2006-0071	1,590,932	
Homeland Security Grant Program	97.067	2007-8	823,283	
Homeland Security Grant Program	97.067	2005-0015	9,859	
Subtotal Homeland Security Grant Program			3,869,446	
Pre-Disaster Mitigation Competitive Grants	97.017	OES # PJ55	600,718	
Pre-Disaster Mitigation Competitive Grants	97.017	OES # PJ37	1,710,092	
Pre-Disaster Mitigation Competitive Grants	97.017	OES # PJ45	5,295	
Subtotal Pre-Disaster Mitigation Competitive Grants			2,316,105	
Emergency Management Performance Grants	97.042	2006-GR-0008	250,987	
Emergency Management Performance Grants	97.042	2007-6	248,225	
Subtotal Emergency Management Performance Grants			499,212	
Buffer Zone Protection Program	97.078	2005-GR-15-0068	174,332	
Subtotal Passed Through State Office of Emergency Services				6,859,095
Total U.S. Department of Homeland Security				**7,671,190**
Total Expenditures of Federal Awards				**$ 438,939,185**

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, 2008

Note 1 – General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the expenditures of all federal award programs of the County of Santa Clara, California (the County), for the fiscal year ended June 30, 2008, except for the Housing Authority of the County of Santa Clara (Housing Authority) (see Note 4). The County's reporting entity is defined in Note 1 to the County's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the SEFA.

Note 2 – Basis of Accounting

The accompanying SEFA is presented using the modified accrual basis of accounting for grants accounted for in the governmental fund types and the accrual basis of accounting for grants accounted for in the proprietary fund types, as described in Note 1 to the County's basic financial statements. In addition, the outstanding balance of prior year's loans that have significant continuing compliance requirements has been included in the total federal expenditure for the HOME Investment Partnerships program (note 7) and the total federal expenditures for the State Criminal Alien Assistance Program (SCAAP) includes the awarded funds as a one-time payment that is expended as of the date receipt pursuant to the *SCAAP Guidance and Application*.

Note 3 – Relationship to the Financial Statements

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

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

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

Federal Grantor/Program Title	CFDA Number	Grantor Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Pass-through the City of San Jose:			
Community Development Block Grants/Entitlement Grants	14.218	HTF-07-006	$ 59,337
Direct:			
Shelter Plus Care	14.238	n/a	2,477,637
Public and Indian Housing	14.850	n/a	1,301,830
Section 8 Project Based Cluster:			
Lower Income Housing Assistance Program - Section 8 New Construction/Substantial Rehabilitation -Huff Gardens	14.182	n/a	339,035
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	n/a	837,451
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	n/a	1,200,907
Subtotal Section 8 Project Based Cluster			2,377,393
Section 8 Housing Choice Vouchers	14.871	n/a	216,680,514
Public Housing Capital Fund	14.872	n/a	860,738
Total Federal Expenditures			$ 223,757,449

Note 5 – Food Stamps

Food stamps expenditures of $78,296,179 represent the face value of food stamps distributed to program participants. They do not represent cash expenditures in the County's basic financial statements for the fiscal year ended June 30, 2008.

Note 6 – Amounts Provided to Subrecipients

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

Program Title	CFDA Number	Amount Provided to Subrecipients
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	$ 67,318
State Administrative Matching Program for the Supplemental Nutrition Assistance Program	10.561	330,107
Community Development Block Grants/Entitlement Grants	14.218	1,364,386
HOME Investment Partnerships Program	14.239	392,855
Juvenile Accountability Incentive Block Grants	16.523	81,059
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	412,026
Edward Byrne Memorial Justice Assistance Grant Program	16.738	686,635
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	177,029
Leaking Underground Storage Tank Trust Fund Program	66.805	95,000
Safe and Drug Free Schools and Communities_State Grants	84.186	73,307
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	1,164,424
Nutrition Services Incentive Program	93.053	710,319
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	25,000
Projects for Assistance in Transition from Homelessness (PATH)	93.150	230,287
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	182,330
Immunization Grants	93.268	245,482
Center for Disease Control and Prevention _ Investigations and Technical Assistance	93.283	622,102
Temporary Assistance for Needy Families (TANF)	93.558	4,854,549
Refugee and Entrant Assistance_State Administered Programs	93.566	154,727
Refugee and Entrant Assistance_Discretionary Grants	93.576	23,026
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	352,558
Chafee Foster Care Independent Living	93.674	423,093
Grants for Training in Primary Care Medicine and Dentistry	93.884	265,789
HIV Emergency Relief Project Grants	93.914	882,383
HIV Care Formula Grants	93.917	307,702
HIV Prevention Activities_Health Department Based	93.940	295,665
Block Grants for Community Mental Health Services	93.958	85,861
Block Grants for Prevention and Treatment of Substance Abuse	93.959	4,809,514
Public Health Traineeships	93.964	236,826
Maternal and Child Health Services Block Grant to the States	93.994	79,045
Urban Area Security Initiative	97.008	53,500
Homeland Security Grant Program	97.067	469,860
Buffer Zone Protection Program	97.078	99,287
Total		$ 20,253,051

Note 7 – Loans Outstanding

The County participates in certain federal award programs that sponsor revolving loan programs, which are administered by the County. These programs maintain servicing and trust arrangements with the County to collect loan repayments. The funds are returned to the programs upon repayment of the principal and interest. The federal government has imposed certain continuing compliance requirements with respect to the loans rendered under the HOME Investment Partnerships Program (HOME). During the fiscal year 2008, the County incurred $240,000 in expenditures related to new loans under this program. As of June 30, 2008, the total amount of HOME loans outstanding subject to continuing compliance requirements was $9,441,256, which is included in the SEFA.

Note 8 – California Department of Aging (CDA) Grant

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

Federal Grantor Pass-through Grantor Program Title	CFDA Number	Grant/ Contract Number	Expenditures State	Expenditures Federal
U.S. Department of Health & Human Services				
Pass through the Council on Aging Silicon Valley				
Special Programs for the Aging_Title III, Part C Nutrition Services	93.045	AP-0708-10	$ 153,204	$ 1,164,424
Pass through the Council on Aging Silicon Valley				
Nutrition Services Incentive Program	93.053	AP-0708-10	-	710,319
Total Expenditures of State and Federal Awards			$ 153,204	$ 1,874,743

Note 9 – Program Totals

The SEFA does not summarize programs that receive funding from various funding sources or grants. The following table summarizes these programs by CDFA numbers:

Program Title / Federal Grantor or Pass-Through Grantor	Federal Expenditures
CFDA Number 16.738 - Anti-Drug Abuse Enforcement Program	
U.S. Department of Justice	$ 338,928
State of California, Office of Emergency Services	740,323
	$ 1,079,251
CFDA Number 93.778 - Medical Assistance Program (Medicaid: Title XIX)	
State of California, Department of Social Services	$ 55,536,437
State of California, Department of Health Services	4,394,917
	$ 59,931,354

Note 10 – Homeland Security Cluster

The County is a recipient of 2005 and 2006, and 2007 Urban Areas Security Initiative (UASI) grant awards (CFDA No. 97.008). Per the 2008 *A-133 Compliance Supplement*, UASI grant awards for the specified grant years listed above are part of the Homeland Security Cluster. In addition, the County incurred federal expenditures under the Homeland Security Grant Program (HSGP) (CFDA No. 97.067), which are also part of the Homeland Security Cluster program. The following table summarizes these programs by CDFA numbers:

Program Title / Federal Grantor or Pass-Through Grantor	Federal Expenditures
CFDA Number 97.008 - Urban Area Security Initiative	
Passed through the City of San Jose	$ 566,230
Passed through the City and County of San Francisco	245,865
Subtotal Urban Area Security Initiative	812,095
CFDA Number 93.067 - Homeland Security Grant Program	
Passed through the State Office of Emergency Services	3,869,446
Total Homeland Security Cluster	$ 4,681,541

Note 11 - Schedules of the Office of Emergency Services (OES), California Victims Compensation & Governmen Claims Board, and California Department of Justice grant expenditures

State of California Office of Emergency Services grant expenditures:
The following represents grant expenditures for Department of Justice grants passed through the State of California Office of Emergency Services for the fiscal year ended June 30, 2008.

Program Title and Expenditure Category	Grant Award Number/Period	Budget	Actual Non-match	Actual Match	Actual Total	Variance
Victim Witness Assistance - OES	VW 07260430					
Operating Expenses	7/1/07 to 6/30/08	$ 294,306	$ 294,306	$ -	$ 294,306	$ -
Total		$ 294,306	$ 294,306	$ -	$ 294,306	$ -
Building Our Leaders for Tomorrow	US 05020430					
Operating Expenses	10/1/05 to 12/31/08	$ 25,000	$ 6,523	$ -	$ 6,523	$ 18,477
Total		$ 25,000	$ 6,523	$ -	$ 6,523	$ 18,477
Marijuana Suppression Program	MS 07060430					
Operating Expenses	7/1/07 to 6/30/08	$ 177,169	$ 177,169	$ -	$ 177,169	$ -
Total		$ 177,169	$ 177,169	$ -	$ 177,169	$ -
Anti-Drug Abuse Enforcement Program	DC 07180430					
Personal Services	7/1/07 to 6/30/08	$ 167,739	$ 167,739	$ -	$ 167,739	$ -
Operating Expenses		322,646	322,646	-	322,646	-
Equipment		72,769	72,769	-	72,769	-
Total		$ 563,154	$ 563,154	$ -	$ 563,154	$ -

(Note: The non-match expenditure of $294,306, $6,523, $177,169, and $563,154 for grants VW 07260430, US 05020430, MS 07060430, and DC 07180430, respectively, are reported as federal expenditures in the SEFA under the following CFDA numbers: 16.575, 16.609, and 16.738.)

The following represents the State of California Office of Emergency Services summary grant expenditures for the fiscal year ended June 30, 2008. This information is included in the County's single audit report at the request of the State of California's Office of Emergency Services.

Program Title and Expenditure Category	Grant Award Number/Period	Budget	Actual Non-match	Actual Match	Actual Total	Variance
Victim Witness Assistance - OES	VW 06250430					
Personal Services	7/1/06 to 6/30/07	$ 223,410	$ -	$ -	$ -	$ 223,410
Operating Expenses		124,889	6,579	-	6,579	118,310
Total		$ 348,299	$ 6,579	$ -	$ 6,579	$ 341,720
Victim Witness Assistance - OES	VW 07260430					
Operating Expenses	7/1/07 to 6/30/08	$ 348,299	$ 332,487	$ -	$ 332,487	$ 15,812
Total		$ 348,299	$ 332,487	$ -	$ 332,487	$ 15,812
Child Abuser Vertical Prosecution Program	VB 07050430					
Personal Services	7/7/07 to 6/30/08	$ 436,083	$ 436,083	$ -	$ 436,083	$ -
Total		$ 436,083	$ 436,083	$ -	$ 436,083	$ -
High Technology Theft Apprehension & Prosecution	HT 06070430					
Personal Services	7/1/06 to 6/30/07	$ 635,672	$ -	$ -	$ -	$ 635,672
Operating Expenses		1,793,213	10,776	-	10,776	1,782,437
Equipment		5,691	5,691	-	5,691	-
Total		$ 2,434,576	$ 16,467	$ -	$ 16,467	$ 2,418,109

(Continued)

Note 11 - Schedules of the Office of Emergency Services (OES), California Victims Compensation & Governmen Claims Board, and California Department of Justice grant expenditures (Continued)

Program Title and Expenditure Category	Grant Award Number/Period	Budget	Actual Non-match	Actual Match	Actual Total	Variance
High Technology Theft Apprehension & Prosecution	HT 07080430					
Personal Services	7/1/07 to 6/30/08	$ 1,188,056	$ 701,141	$ 486,915	$ 1,188,056	$ -
Operating Expenses		1,238,144	1,238,144	-	1,238,144	-
Equipment		8,376	8,376	-	8,376	-
Total		$ 2,434,576	$ 1,947,661	$ 486,915	$ 2,434,576	$ -
High Technology Theft Apprehension & Prosecution	HD 07070430					
Personal Services	7/1/07 to 6/30/08	$ 232,695	$ 176,505	$ 56,190	$ 232,695	$ -
Operating Expenses		469,684	385,398	84,286	469,684	-
Total		$ 702,379	$ 561,903	$ 140,476	$ 702,379	$ -

California Victims Compensation & Government Claims Board grant expenditures

The following represents the California Victims Compensation & Government Claims Board grant expenditures for the fiscal year ended June 30, 2008. This information is included in the County's single audit report at the request of the California Victims Compensation & Government Claims Board.

Program Title and Expenditure Category	Grant Award Number/Period	Budget	Actual Non-match	Actual Match	Actual Total	Variance
Victim Witness Assistance - BOC	VCGC7059					
Personal Services	7/1/07 to 6/30/08	$ 957,375	$ 875,375	$ -	$ 875,375	$ 82,000
Operating Expenses		173,738	155,738	-	155,738	18,000
Total		$ 1,131,113	$ 1,031,113	$ -	$ 1,031,113	$ 100,000
Victim Witness Restitution for Crime Victims	VCGC7077					
Personal Services	7/1/07 to 6/30/08	$ 176,211	$ 176,211	$ -	$ 176,211	$ -
Operating Expenses		2,050	2,050	-	2,050	-
Total		$ 178,261	$ 178,261	$ -	$ 178,261	$ -
Santa Clara County Parole Advocacy program	PA06010430					
Operating Expenses	11/1/06 to 9/30/08	$ 158,828	$ 116,683	$ -	$ 116,683	$ 42,145
Equipment		27,250	-	-	-	27,250
Total		$ 186,078	$ 116,683	$ -	$ 116,683	$ 69,395

California Department of Justice grant expenditures:

The following represents the California Department of Justice grant expenditures for the fiscal year ended June 30, 2008. This information is included in the County's single audit report at the request of the California Department of Justice.

Program Title and Expenditure Category	Grant Award Number/Period	Budget	Actual Non-match	Actual Match	Actual Total	Variance
Spousal Abuser Prosecution Program	07SA14B030					
Personal Services	7/1/07 to 6/30/08	$ 64,816	$ 44,400	$ 20,416	$ 64,816	$ -
Other		57,680	57,680	-	57,680	-
Total		$ 122,496	$ 102,080	$ 20,416	$ 122,496	$ -

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2008

Section I – Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Qualified for CFDA No. 14.239
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

CFDA No. 14.218	Community Development Block Grants/ Entitlement Grants
CFDA No. 14.239	HOME Investment Partnership Program
CFDA No. 93.558	Temporary Assistance for Needy Families (TANF)
CFDA No. 93.658	Foster Care – Title IV-E
CFDA No. 93.667	Social Services Block Grant
CFDA No. 93.778	Medical Assistance Program (Medicaid: Title XIX)
CFDA No. 93.959	Block Grants for Prevention and Treatment of Substance Abuse
CFDA No. 97.008/ 97.067	Homeland Security Cluster

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

Significant Deficiency #1 – Item 2008-A
Coordination of the County's Accounting Standard Implementations

The Santa Clara County Central Fire Protection District (Central Fire), a component unit of the County, engages another audit firm to complete its audit. Central Fire has a separate defined benefit postemployment healthcare plan from the County. Based on our review of the Central Fire's stand alone audited financial statements, we noted that the Central Fire did not implement Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*¸ for the fiscal year ended June 30, 2008 along with the rest of the County. Although the County recorded its net other postemployment benefit obligations (OPEB) in accordance with GASB Statement No. 45 at June 30, 2008 for its employees covered by the defined benefit postemployment healthcare plan administrated by the Employee Services Agency, the County under reported the Central Fire's OPEB by approximately $12 million.

The County should work with Central Fire and all of their other auditors in coordinating the accounting standards to be implemented and presented in their stand alone financial statements at least annually so that these statements meet the County's comprehensive financial reporting requirements. In addition, the County should review the stand-alone draft financial reports to ascertain whether the information provided for consolidation into the County's Comprehensive Annual Financial Report is prepared in accordance with the required standards.

Management Response from the Finance Department

We concur with the recommendation, and will develop a checklist to help staff review the audit reports of all component units for compliance with GASB requirements. We will discuss all new reporting requirements with our external auditors at the 'Entrance Conference' held in May each year and also communicate those requirements to our component units and their independent auditors. The Controller-Treasurer Department routinely monitors all GASB pronouncements for any new accounting and reporting requirements or changes to the existing standards. We communicate those requirements to the departments and component units on a periodic basis. In addition, we provide training and information on major GASB pronouncements to departments and component units at our quarterly fiscal officers' meetings. Annually, we communicate the upcoming deadlines for new GASB requirements to independent auditors of all component units. The new checklist and annual discussion with external auditors will enhance our ability to ensure the component units' are coordinated with the County in its compliance with all GASB reporting requirements.

Section II – Financial Statement Findings (Continued)

Significant Deficiency #2 – Item 2008-B
Financial Reporting of Net Pension Asset

In May 2005, the State's Public Employees' Retirement System (PERS) agreed to restructure the County's pension contribution for the 2004-05 fiscal year-end and defer $35 million of the scheduled payment. Since May 2005, interest in the amount of $7.2 million has accumulated and was added to the liability. In fiscal year 2007-08, the County issued taxable pension funding bonds in order to refinance this obligation and to prepay other amounts arising from enhanced retirement benefits accruing to County employees totaling $386.6 million.

During the fiscal year, the County did not reduce the deferred amount and cumulative accrued interest in the amount of $42.2 million at June 30, 2008 against the prepayment of $386.6 million, thereby overstating the County's net pension obligation and related net pension asset. This overstatement also caused the net pension asset amortization schedules to be incorrectly computed. As a result, an audit adjustment was recorded to reduce the County's obligation in the amount of $42.2 million, reduce the net pension asset in the amount of $29.7 million and increase net assets by $12.5 million.

As the County enters into complex transactions, the Finance Agency staff should continue dialogue between affected parties (e.g., finance and benefits staff) and timely record these transactions in the accounting system to ensure accurate financing reporting.

Management Response from the Finance Department

We agree with the recommendation, and have already taken steps to improve communication among staff performing different aspects of certain complex financial transactions. For all future bond issuances, the debt administration staff will meet with the accounting and reporting staff to update on all pertinent financial aspects of the debt (issue or refunding) transaction upon completion of such transaction. This will ensure timely and accurate reporting of such transactions in the County's financial statements.

Section III – Federal Award Findings and Questioned Costs

Finding No. 2008-1 U.S. Department of Housing and Urban Development
CFDA No. 14.239 – HOME Investment Partnerships Program
Program Income

Criteria:
Program income is gross income received that is directly generated by the federally funded project during the grant period, and includes payments of principal and interest on loans made with grant funds. In accordance with the Code of Federal Regulations Title 24 Housing and Urban Development, section 85.25 *Program Income*, program income shall ordinarily be deducted from total allowable costs to determine the net allowable costs and should be used for current costs unless the federal agency authorizes otherwise.

The U.S. Department of Housing and Urban Development (HUD) has also published Notice CPD 97-09 to provide guidance to HOME participating jurisdictions on the requirements governing program income. The notice specifies that participating jurisdictions must maintain records which adequately identify the source and application of their HOME funds (including program income) as part of the financial transactions of their HOME program, consistent with generally accepted accounting principles. Furthermore, program income must be used to the extent available before additional HOME allocation funds are drawn down. A participating jurisdiction may not draw down HOME allocation funds while allowing program income to accumulate in its local account.

Condition/Context:
During the performance of our testwork over this federal compliance requirement, we noted the County received program income in the amount of $44,272 for payments of principal and interest on loans made with HOME grant funds. The County did not factor in the program income received during the fiscal year when it requested for draw down of HOME funds through the HUD's Integrated Disbursement and Information System (IDIS).

Effect:
The County is at risk of non-compliance with program income requirements.

Questioned Costs:
$44,272

Recommendation:
HUD has designed the IDIS for participating jurisdictions to enter, maintain, and report on projects and activities for its Office of Community Planning and Development (CPD) grant programs. The County already uses IDIS to draw down HOME funds and to submit information in compliance with program requirements. The IDIS User Manual provides specific instructions on the IDIS program income process and identifies the various reports which can be generated. We recommend the County utilize IDIS to report the receipt of program income at reasonable periodic intervals such that program income is abated against subsequent drawdowns to ensure compliance with program income requirements.

Views of Responsible Officials and Planned Correction Plan:
The management agrees with the recommendation. Effective in FY09, OAH has implemented a procedure to enter HOME program income in IDIS quarterly and maintain a log of program income receipts to ensure it is used to the extent available before HOME funds are drawn down.

Corrective Action Plan Contact Person:
Neena Batallones, Accountant III, Office of Affordable Housing

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

Finding No. 2008-2 U.S. Department of Health and Human Services
CFDA No. 93.778 – Medical Assistance Program (Medicaid: Title XIX)
Passed-through the State of California Department of Health Services
Passed-through the State of California Department of Social Services
Eligibility

Criteria:
In accordance with OMB A-133, a grantee is responsible for documenting eligibility determinations. Under the Medical Assistance Program eligibility requirements, all forms used for eligibility determination should be properly documented, re-evaluated and approved.

Under Medical Assistance Program compliance guidelines, the County should document qualified alien status if the applicant or recipient is not a U.S. citizen (42 USC 1320b-7d) using the State of California Department of Health Services' MC-13 form. This form is used by eligibility workers to document the applicant's citizenship or immigration status declaration and verification of immigration status for non-citizens who claim satisfactory immigration status.

Condition/Context:
During the performance of our testwork over this federal compliance requirement, we noted that in two out of the forty cases tested (out of a population of 145,866), the County did not document the eligibility determination with a MC-13 form in the case file for theses two non U.S. citizen applicants.

Effect:
The lack of documentation indicating the applicant's citizenship and immigration status may result in inadequate eligibility determinations, thus benefits could be disbursed to ineligible participants.

Questioned Costs:
Not applicable. The County was only responsible for assisting the State of California in determining eligibility and received reimbursements for administrative costs only. Direct Medi-Cal expenditures are not included in the SEFA.

Recommendation:
We recommend that the Social Service Agency (SSA) strengthen its monitoring controls over the eligibility determination process to ensure the completion and maintenance of required documentation. Eligibility workers should be held responsible for filing all required documentation and supervisors should review and monitor the process of adequately documenting eligibility determinations.

Views of Responsible Officials and Planned Correction Plan:
SSA agrees with the recommendation on the missing MC-13 forms for non-citizens. As part of our current application procedures, the MC-13 form is part of the Intake packet of forms given to the applicant when he/she submits a Medi-Cal application. These forms are reviewed and explained in detail with the applicant by the eligibility worker and all necessary forms are signed and scanned into our Integrated Document Management (IDM) system. An Agency Memorandum will be issued to all eligibility staffs, reminding them to obtain an MC-13 form for all non-citizen applicants and requiring supervisors to review all cases transferred to the Continuing Units to ensure the completed MC-13 forms are scanned into IDM. In addition, our Agency's Staff Development continues to offer training in various Medi-Cal topics, including the application requirements.

Corrective Action Plan Contact Person:
Tomás Dolcini, Application and Decision Support Manager, Social Service Agency.

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

Finding No. 2008-3 U.S. Department of Housing and Urban Development
CFDA No. 14.239 – HOME Investment Partnerships Program
Special Tests & Provisions – Housing Quality Standards

Criteria:
Under the requirements of the Single Audit Act and OMB Circular A-133, the participating jurisdiction has the responsibility to comply with the Housing Quality Standards inspection requirements. During the period of affordability (i.e., the period for which the non-Federal entity must maintain subsidized housing) for HOME assisted rental housing, the County, as the participating jurisdiction, must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners no less than:

- Every three years for projects containing 1 to 4 units;
- Every two years for projects containing 5 to 25 units; and
- Every year for projects containing 26 or more units.

The County must also perform on-site inspections of rental housing occupied by tenants receiving HOME-assisted tenant-based rental assistance to determine compliance with housing quality standards and to assure that any needed repairs are completed timely.

Condition/Context:
During the performance of our testwork over this federal compliance requirement, we noted that out of the 9 projects tested (out of a population of 29 projects), the Office of Affordable Housing (OAH) did not perform the housing quality inspection performed for 8 projects within the required timeframe. Subsequent to the required timeframe, the OAH has performed and completed housing quality standards inspection on all 8 projects in question.

Effect:
Non-compliance with housing quality requirements should result in immediate corrective action by the borrower. Continued non-compliance by the borrower after notification by the County may potentially result in the calling of the HOME funded loan. In addition, should HUD determine that the County has not met its burden in verifying continued compliance in the HOME program it may possibly result in increased oversight by HUD and reduced annual allocation of HOME funding for future projects.

Questioned Costs:
Not applicable, as the County has subsequently performed and completed the housing quality standards inspection on all 8 projects in question.

Recommendation:
We recommend the OAH evaluate and reinforce existing procedures over housing quality inspections to ensure timely inspections. Adequate controls should include procedures to proactively identify and track inspection due dates ensuring that on-site inspections are scheduled in advance of the due dates to allow sufficient time for the site reviews. In addition, procedures should be implemented to obtain approved deadline extensions for instances when inspections are expected to be delayed. The approved extensions should be documented within the inspection files to demonstrate compliance with program requirements.

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

Finding No. 2008-3 (Continued)

Views of Responsible Officials and Planned Correction Plan:

OAH concurs with the recommendation. OAH now understands that inspections are required within the calendar from the prior inspection rather than by fiscal year.

OAH has revised its existing procedures for Housing Quality Inspections to ensure timely inspections are completed. The revised procedures included adequate controls which identify and track inspection due dates to ensure on-site inspections are scheduled in advance of the due dates to allow sufficient time for the site reviews. When an unforeseeable need for a deadline extension occurs, OAH will obtain the extension from HUD and document in the contract file to ensure that the County is in compliance with program requirements.

Corrective Action Plan Contact Person:
Angelina McCormick, Senior Management Analyst, Office of Affordable Housing

Finding No. 2008-4 **U.S. Department of Homeland Security**
CFDA No. 97.008/97.067 – Homeland Security Cluster
Passed-through the City of San Jose
Passed-through the City and County of San Francisco
Passed-through the State of California Office of Emergency Services
Subrecipient Monitoring

Criteria:
In accordance with OMB Circular A-133, grantees are required to ensure that subrecipients who ultimately expend $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period. The grantee is further required to issue a management decision on audit findings within 6 months after receipt of the subrecipient's audit report, and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition/Context:
During the performance of our testwork over this federal compliance requirement, we noted the Office of Emergency Services (OES) obtained and reviewed the subrecipients' invoices and supporting schedules before disbursing reimbursement funds to the subrecipients. However, the OES did not require its subrecipients receiving pass-through funding to submit single audit reports. The County did not identify the subrecipients in which single audits are performed, obtain and review the most recent single audit reports to determine if the subrecipients had a completed audit within the required time frame, nor ascertain if these subrecipients had findings or questioned costs related to the grants provided.

Effect:
The County is not in compliance with Subrecipient Monitoring requirements.

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

Finding No. 2008-4 (Continued)

Questioned Costs:
None, as the OES has obtained and reviewed the subrecipients' invoices and supporting schedules before disbursing reimbursement funds to the subrecipients.

Recommendation:
The OES should develop procedures to identify and determine which subrecipients are required to have a single audit, ensure that the subrecipients are audited within 9 months of the end of the subrecipient's audit period, and acquire the single audit reports from its subrecipients. In addition, the OES should follow up on any findings that arise as a result of these audits within 6 months after receipt of the subrecipient's audit report and take timely and appropriate corrective action on all related audit findings.

Views of Responsible Officials and Planned Correction Plan:
OES concurs that the County has responsibility as a grantee for monitoring subrecipient single audits, pursuant to OMB Circular A-133.

OES has requested copies of single audit reports from all subrecipients who expended (received) $500,000 or more in Federal grant funds for FY 2008 subsequent to year-end. Staff is in the process of review to determine if there are any findings related to Homeland Security Grant expenses. If there are any pertinent findings, OES will follow up with the subrecipients to monitor if appropriate corrective actions were made in a timely way.

Beginning with FY 2009:

1. The County will establish a procedure to identify which subrecipients are subject to single audit requirements. Procedure development will include consideration of options such as adding a clause in each MOU to submit a Single Audit report to OES if total federal grant funds exceed $500,000 during a fiscal year.

2. All such subrecipients will be required to provide a copy of the single audit report performed within 9 months of the end of the audit period to the OES Grants Program Manager. Copies of all reports will be maintained in County Homeland Security Grant program files.

3. If any findings have been made, relating to Homeland Security Grant expenses, for any subrecipient, the OES Grants Program Manager will follow up within 6 months of receipt of the single audit report, and take timely and appropriate corrective actions

Corrective Action Plan Contact Person:
Diane Stambaugh, Grants Program Manager, Santa Clara County Office of Emergency Services.

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

Finding No. 2008-5 U.S. Department of Health and Human Services
CFDA No. 93.558 - Temporary Assistance for Needy Families (TANF)
Passed-through the State of California Department of Social Services
Special Tests & Provisions –
Child Support Non Cooperation, Penalty for Refusal to Work

Criteria:
In accordance with OMB Circular A-133, a grantee is responsible for determining and documenting eligibility determinations. Specifically, the County is required to:

- Terminate or reduce assistance by at least 25 percent for child support non-cooperation;
- Reduce or terminate assistance for refusal to work subject to any good cause or exemption, such as unavailability of appropriate child care for an adult single custodial parent caring for a child under the age of six.

The County has established policies and procedures to send out a notice of action (NOA) to participants who do not cooperate with child support or who refuse to work at least ten days before the effective date of the County imposing a sanction on the participants' benefits.

Condition/Context:
During the performance of our testwork over these federal compliance requirements, we noted the following:

- *Child Support Non Cooperation* – Two out of the forty cases tested (out of a population of 105 fiscal year 2008 cases) that had benefits reduced or terminated did not have a notice of action form in the case file.
- *Penalty for Refusal to Work* – One out of the forty cases tested (out of a population of 12,845 cases) that had benefits reduced did not have a notice of action form in the case file.

Effect:
The County is not in compliance with the Special Tests & Provisions compliance requirement. This may potentially allow the continuation of funding or over-funding to ineligible individuals.

Questioned Costs:
None, the County reduced or terminated the benefit payments for the cases noted above.

Recommendation:
We recognize that the Social Services Agency (SSA) has provided additional instructions to staff on steps to follow to ensure that the County is in compliance with the Federal and State regulations. We recommend the County continue to offer supplemental trainings so that its caseworkers could improve on their awareness of the regulations. Management should continue to strengthen control ensuing that all cases information is documented as required.

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

Finding No. 2008-5 (Continued)

Views of Responsible Officials and Planned Correction Plan:
SSA agrees with the above recommendations. SSA continues to provide training on a regular basis on client rights and responsibilities, as stated in the Santa Clara County CalWORKs Handbook of Policy and Procedures, which include the right to a 10-day Notice of Action (NOA) prior to a decrease or termination of benefits. In addition, our internal corrective action team reviews cases randomly for specific items and the 10-day NOA for child support non-cooperation and Welfare-to Work sanctions are among the items in their review. When an error is identified, the worker is instructed to take the necessary corrective actions and provide verification of the corrective action taken within a specified amount of time. A County Memorandum is also being issued by Management as a reminder to staff of the existing regulations and the 10-day NOA requirement.

Corrective Action Plan Contact Person:
Maria Candy Savin, CalWORKs Program Coordinator, Social Service Agency.

COUNTY OF SANTA CLARA
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2008

Federal Award Findings

Reference Number: **2007-1**

Federal Catalog Number: U.S. Department of Housing and Urban Development
14.218 Community Development Block Grants/Entitlement Grants
14.239 HOME Investment Partnerships Program

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

Status of Corrective Action: Appears corrected based on our testing of the programs in the current year.

Reference Number: **2007-2**

Federal Catalog Number: U.S. Department of Health and Human Services
Passed through the State of California, Department of Social Services
93.658 – Foster Care_Title IV-E

Audit Finding: Eligibility

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

Status of Corrective Action: Appears corrected based on our testing of the program in the current year.

Reference Number:	**2007-3**
Federal Catalog Number:	U.S. Department of Health and Human Services Passed through the State of California, Department of Social Services 93.658 – Foster Care_Title IV-E
Audit Finding:	Reporting The 3 monthly CA-237 reports selected for testing ranged from 2 to 9 days late and 1 out of 3 monthly CA-800 reports selected for testing was filed 20 days after the due date.
Status of Corrective Action:	Appears corrected based on our testing of the program in the current year.
Reference Number:	**2007-4**
Federal Catalog Number:	U.S. Department of Health and Human Services Passed through the State of California, Department of Social Services 93.558 - Temporary Assistance for Needy Families
Audit Finding:	Allowable Costs/Cost Principles Out of a sample size of 35, 5 employees did not have an approving signature from the department supervisor on the time cards. Without adequate internal controls over the approval of time entry, cash payments to the employees could not be readily verified as authorized.
Status of Corrective Action:	Appears corrected based on our testing of the program in the current year.