COUNTY OF SANTA CLARA

Single Audit Reports

Basic Financial Statements with
Federal Compliance Section

For the Year Ended June 30, 2010

COUNTY OF SANTA CLARA
Single Audit Reports
For the Year Ended June 30, 2010

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

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2010, 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 the 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, 2010:

Opinion Unit	Assets	Net Assets	Revenues
Governmental activities	3.4%	6.3%	4.2%
Business-type activities	0.6%	1.5%	0.3%
Aggregate discretely presented component units and remaining fund information	3.7%	4.1%	0.5%

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the County as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1(o) to the financial statements, the County adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.*

In accordance with *Government Auditing Standards,* we have also issued our dated December 23, 2010, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, schedules 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 (SEFA) 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 SEFA does not include expenditures of federal awards received by the Housing Authority of the County of Santa Clara (Housing Authority). The Housing Authority's federal expenditures are separately audited in accordance with OMB Circular A-133. The SEFA has been subjected to the auditing procedures applied by us and other auditors 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 23, 2010

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, 2010. 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 $1.62 billion (*net assets*) for the year. Of this amount, $595.5 million (*unrestricted net assets*) may be used to meet the County's ongoing obligations to its citizens and creditors and $135.7 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 $890.0 million. (See further detail in Table 1 on page 6).

- The County's total net assets decreased by $120.4 million for the year. (See further detail in Table 2 on page 9).

- At June 30, 2010, the County's governmental funds reported combined fund balances of $643.6 million, a decrease of $148.3 million from the prior year. Approximately 78.8 percent of the combined fund balances, $507.3 million, is available to meet the County's current and future needs (*unreserved fund balance*), which represents a $164.9 million decrease from the prior year.

- The County's investments in capital assets increased by $135.1 million or 8.4 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 $36.1 million and bond refunding of $52.8 million for the year, decreased by $23.4 million or 1.3 percent during the current fiscal year. (See further detail in Table 6 on page 18).

- At June 30, 2010, the County's unreserved fund balance for the General Fund was $231.6 million or 11.8 percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

The government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues *(governmental activities)* from other functions that are intended to recover all or significant portion of their costs through user fees and charges *(business-type activities)*. The governmental activities of the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education and recreation and culture. The business-type activities of the County include a hospital—Santa Clara Valley Medical Center (SCVMC), three airports (Reid Hillview, Palo Alto and South County) and a sanitation district (County Sanitation District 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 24 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 obligations and retirees' healthcare. The internal service funds have been allocated between the governmental activities and business-type activities based on the relative percentage of use of the internal service funds in these activities.

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

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

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

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

Notes to the Basic Financial Statements
The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 35 - 100 of this report.

Required Supplementary Information
The required supplementary information is presented concerning the County's progress in funding its obligation to provide pension and other postemployment benefits (OPEB) to its employees and the County General Fund budgetary comparison schedule. The County adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget. Required supplementary information can be found on pages 101 - 115 of this report.

Combining Statements and Schedules
The combining and individual fund statements and schedules referred to earlier provide information for discrete component units, nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and certain fiduciary funds and are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 117 - 177 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The County's assets exceeded its liabilities by $1.62 billion at June 30, 2010. 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	
	2009	2010	2009, as restated	2010	2009, as restated	2010	Dollar Change	Percent Change
Current and other assets	$ 1,976,886	$ 1,784,134	$ 632,409	$ 569,743	$ 2,609,295	$ 2,353,877	$ (255,418)	(9.8%)
Capital assets	969,832	1,035,660	631,813	701,042	1,601,645	1,736,702	135,057	8.4%
Total assets	2,946,718	2,819,794	1,264,222	1,270,785	4,210,940	4,090,579	(120,361)	(2.9%)
Deferred outflows on derivative instrument	-	-	10,441	16,122	10,441	16,122	5,681	54.4%
Total assets and deferred outflows	2,946,718	2,819,794	1,274,663	1,286,907	4,221,381	4,106,701	(114,680)	(2.7%)
Current and other liabilities	288,902	244,154	127,652	139,144	416,554	383,298	(33,256)	(8.0%)
Long-term liabilities	1,413,366	1,460,492	639,419	625,602	2,052,785	2,086,094	33,309	1.6%
Noncurrent derivative instrument liabilities	-	-	10,441	16,122	10,441	16,122	5,681	54.4%
Total liabilities	1,702,268	1,704,646	777,512	780,868	2,479,780	2,485,514	5,734	0.2%
Net assets:								
Invested in capital assets, net of related debt	725,107	801,069	151,827	211,047	876,934	889,972	13,038	1.5%
Restricted net assets	107,018	133,627	403,978	329,913	160,996	135,684	(25,312)	(15.7%)
Unrestricted net assets	412,325	180,452	(58,654)	(34,921)	703,671	595,531	(108,140)	(15.4%)
Total net assets	$ 1,244,450	$ 1,115,148	$ 497,151	$ 506,039	$ 1,741,601	$ 1,621,187	$ (120,414)	(6.9%)

In accordance with GASB guidance, the County reclassified $327.9 million of the primary government's total net assets amounts from restricted to unrestricted and $122.1 million from invested in capital assets, net of related debt to unrestricted. Additional information on the presentation can be found in Note 11 on page 82 of this report. The 2009 fiscal year amounts include a restatement of $10.4 million of derivative assets and liabilities to comply with GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*.

Assets

The County's total assets and deferred outflows on derivative instruments decreased by $114.7 million or 2.7 percent primarily due to the following:

Governmental activities. Total assets for the governmental activities decreased by $126.9 million or 4.3 percent. The current and other assets decreased by $192.8 million. The primary reasons were reductions of $154.0 million of unrestricted cash and $66.3 million in security lending collateral. These reductions were offset by an increase of $23.6 million of restricted cash collected for debt service purposes. The reductions in unrestricted cash were due to a decrease of $91.9 million of cash in the General Fund as available cash was used to fund ongoing operations, a $39.1 million partial payment towards the County's irrevocable trust with the California Employer's Retiree Benefit Trust (CERBT) used to fund its retiree healthcare annual required contributions, and a $24.0 million purchase of land and buildings for a future medical clinic in downtown San Jose. The reduction in security lending assets was due to less overnight cash available to provide for this type of investment.

Capital assets used to support governmental activities increased by $65.8 million or 6.8 percent; depreciable capital assets increased by $137.4 million, while non-depreciable capital assets decreased by $71.6 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 $12.2 million or 1.0 percent—a $62.7 million decrease in current and other assets, a $69.2 million increase in capital assets, and a $5.7 million increase in deferred outflows on derivative instruments. The decrease in current and other assets was mainly due to reductions in restricted cash and investments of $101.1 million as bond proceeds were used to pay for capital projects and in security lending amounts of $5.2 million. These decreases were offset by a net increase in amounts due from outside parties of $53.3 million. Changes in capital assets will be discussed in the Capital Assets section on page 17. Deferred outflows on derivative instruments of $16.1 million as of June 30, 2010 represent the deferred outflow of the negative fair value in the interest rate swap agreement related to the 2008 Series M Lease Revenue Bonds. A corresponding liability of the same amount has also been recorded to reflect that the agreement was an effective hedge at June 30, 2010.

Liabilities

The County's total liabilities increased by $5.7 million or 0.2 percent mainly due to the following:

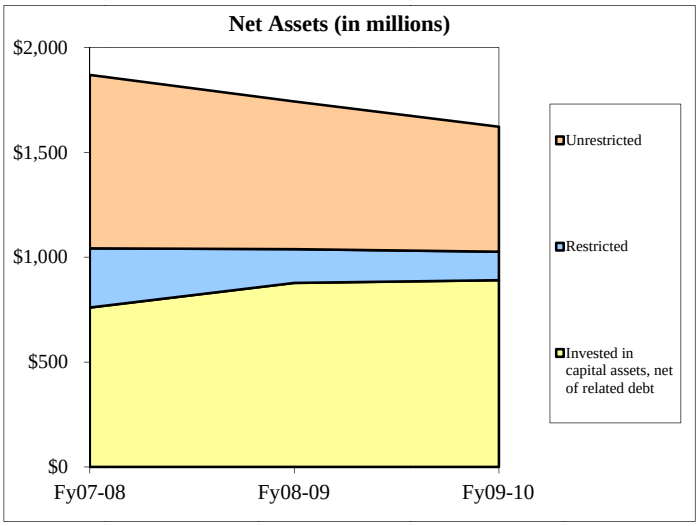
Governmental activities. Total liabilities for the governmental activities increased by $2.4 million or 0.1 percent due to a reduction of current and other liabilities of $44.7 million which was offset by an increase of $47.1 million in noncurrent liabilities. The reduction in current and other liabilities is mainly due to a $66.2 million decrease in security lending collateral, which offsets an equal amount recorded as an asset as mentioned above. This reduction was offset by increases of $11.3 million of unearned revenue resulting from the Social Services Agency review and adjustment of its outstanding balances from overpayments to clients and $14.9 million in higher accrued liability amounts due mainly from a liability in the amount of $7.5 million for repayment of property tax collection fees to local governments in comparison to last fiscal year. The increase in noncurrent liabilities results primarily from an addition of $38.2 million in the County's OPEB liability. The County deferred paying 100% of its OPEB annual required contribution in fiscal year 2010 as compared to prior years. The County chose to fund 70% of this contribution in order to maintain its working capital in light of the State's budget crisis.

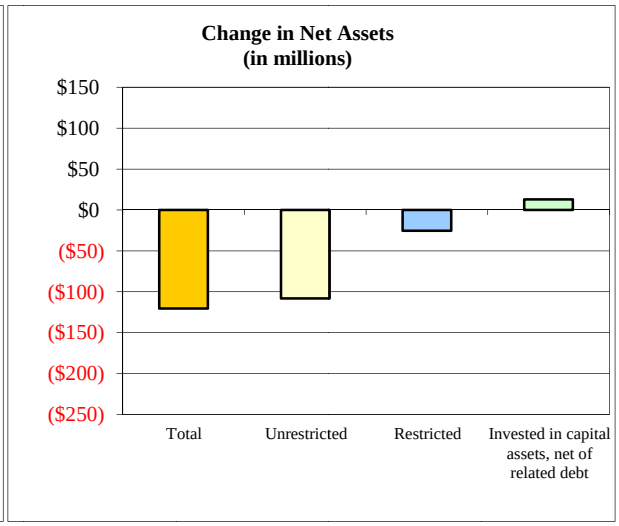
Business-type activities. Total liabilities for the business-type activities increased by $3.4 million or 0.4 percent from increases of $11.5 million in current and other liabilities and $5.7 million in derivatives, which were offset by $13.8 million in long-term liabilities. The increase in current and other liabilities was mainly due to a increases in third party payer settlements. The increase in derivatives reflects the negative fair value change related to an increasing spread between the variable rate interest and the synthetic fixed rate derived from the derivative agreement. The $13.8 million decrease in long-term liabilities was due to scheduled debt service payments.

Net Assets

The County's unrestricted net assets of $595.5 million (36.7 percent) may be used to meet the County's ongoing obligations to citizens and creditors. The largest portion of the County's net assets of $890.0 million (54.9 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 $135.7 million (8.4 percent) of the County's net assets represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the County reported positive balances in all categories of net assets for its governmental activities. For business-type activities, a negative balance of $34.9 million existed for the unrestricted net asset category.



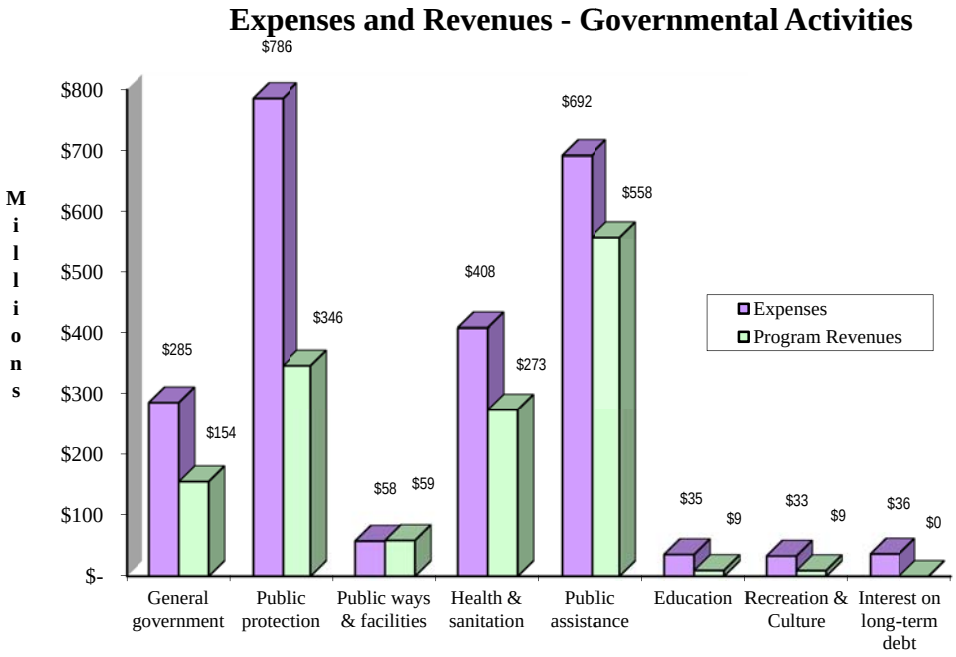


The County's net assets decreased by $120.4 million or 6.9 percent for the year. This change in net assets is explained below in the context of the County's governmental and business-type activities.

Governmental activities

The governmental activities decreased the County's net assets by $129.3 million. Revenues exceeded expenses by $66.7 million. In addition, net transfers of $196.0 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 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:

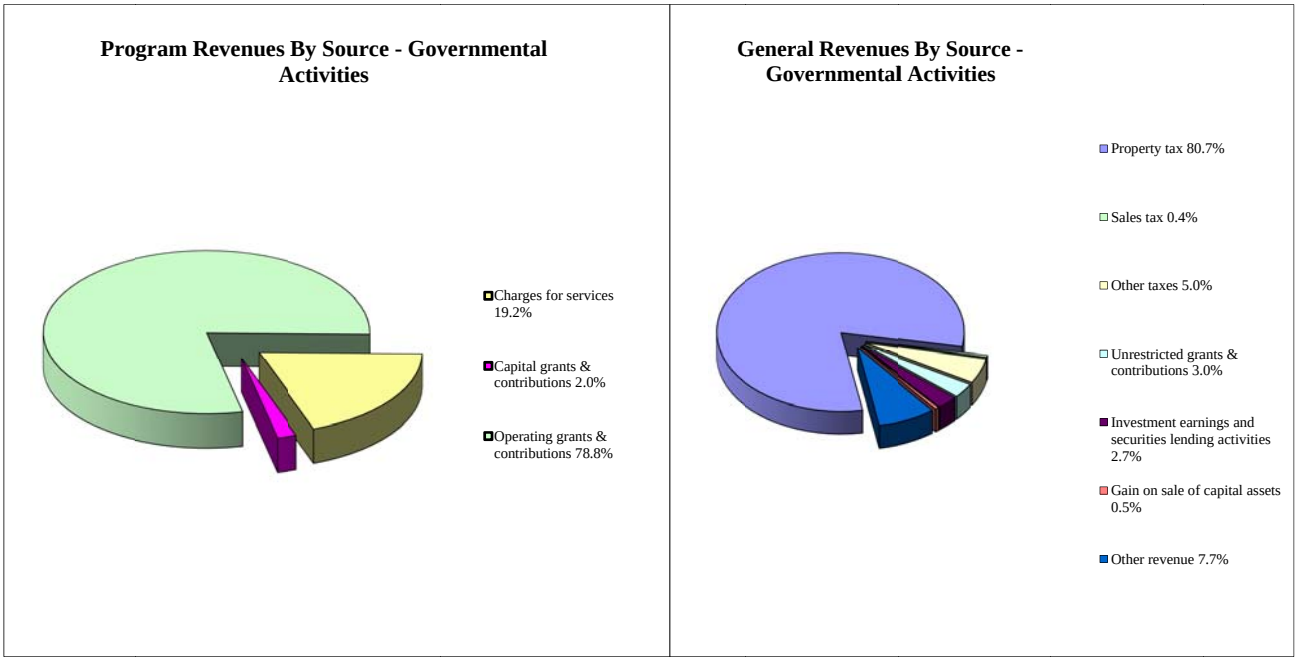
Table 2—The Change in Net Assets (in thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	2009	2010	2009	2010	2009	2010	Dollar Change	Percent Change
Revenues:								
Program revenues:								
Charges for services	$ 287,170	$ 270,534	$ 782,230	$ 821,702	$ 1,069,400	$ 1,092,236	$ 22,836	2.1%
Operating grants and contributions	1,099,534	1,109,374	8,261	17,810	1,107,795	1,127,184	19,389	1.8%
Capital grants and contributions	7,061	28,488	8,778	7,811	15,839	36,299	20,460	129.2%
General revenues:								
Property taxes	781,914	800,803	-	-	781,914	800,803	18,889	2.4%
Sales and use taxes	5,028	4,058	9,025	8,692	14,053	12,750	(1,303)	(9.3%)
Other taxes	53,315	49,645	-	-	53,315	49,645	(3,670)	(6.9%)
Unrestricted grants and contributions	30,927	29,292	-	-	30,927	29,292	(1,635)	(5.3%)
Unrestricted investment income	(5,294)	26,575	9,011	4,640	3,717	31,215	27,498	739.8%
Securities lending activities	269	16	37	5	306	21	(285)	100.0%
Gain on sale of capital assets		4,969	-	-		4,969	4,969	100.0%
Other revenue	80,565	76,362	-	-	80,565	76,362	(4,203)	(5.2%)
Total revenues	2,340,489	2,400,116	817,342	860,660	3,157,831	3,260,776	102,945	3.3%
Program expenses:								
General government	260,666	284,992	-	-	260,666	284,992	24,326	9.3%
Public protection	770,776	785,520	-	-	770,776	785,520	14,744	1.9%
Public ways and facilities	64,907	57,614	-	-	64,907	57,614	(7,293)	(11.2%)
Health and sanitation	419,663	408,223	-	-	419,663	408,223	(11,440)	(2.7%)
Public assistance	677,714	692,011	-	-	677,714	692,011	14,297	2.1%
Education	31,687	35,499	-	-	31,687	35,499	3,812	12.0%
Recreation and culture	32,070	33,032	-	-	32,070	33,032	962	3.0%
Interest on long-term liabilities	23,296	36,499	-	-	23,296	36,499	13,203	56.7%
SCVMC	-	-	997,496	1,041,980	997,496	1,041,980	44,484	4.5%
Airport	-	-	3,713	3,729	3,713	3,729	16	0.4%
Sanitation District	-	-	2,672	2,597	2,672	2,597	(75)	(2.8%)
Total expenses	2,280,779	2,333,390	1,003,881	1,048,306	3,284,660	3,381,696	97,036	3.0%
Excess (deficiency) before transfers	59,710	66,726	(186,539)	(187,646)	(126,829)	(120,920)	5,909	(4.7%)
Transfers	(541,771)	(196,028)	541,771	196,028	-	-	-	n/a
Increase (decrease) in net assets	(482,061)	(129,302)	355,232	8,382	(126,829)	(120,920)	5,909	(4.7%)
Net assets, beginning of year, as previously reported	1,726,511	1,244,450	142,806	497,151	1,869,317	1,741,601	(127,716)	(6.8%)
Prior period adjustment	-	-	(887)	506	(887)	506	1,393	(157.0%)
Net assets, beginning of year, as restated	1,726,511	1,244,450	141,919	497,657	1,868,430	1,742,107	(126,323)	(6.8%)
Net assets, end of year	$ 1,244,450	$ 1,115,148	$ 497,151	$ 506,039	$ 1,741,601	$ 1,621,187	$ (120,414)	(6.9%)

Revenues

The County's revenue for its governmental activities increased $59.6 million or 2.5 percent to $2.4 billion. The program revenues increased by $14.6 million or 1.0 percent, while general revenues increased by $45.0 million or 4.8 percent. Over the past three years, the County's program revenues from its governmental activities have contributed about 59.6 percent of the cost of running those governmental programs. The general revenues support the programs by covering the remaining 40.4 percent of the costs.

The largest source of program revenues for the County's governmental activities is federal and state grants and contributions, both operating and capital. These revenues amount to about 80.8 percent of the County's program revenues and about 47.4 percent of its total revenues. For the year, revenues from grants and contributions increased by $31.2 million or 2.8 percent, while revenues from charges for services fell by $16.6 million or 5.8 percent. The grant and contribution amounts incurred increases of $9.8 million in operating grants and $21.4 million in capital grants. The reasons for these changes will be discussed in the governmental funds area. Revenues from charges for services decreased due to the elimination of a property tax collection fee in reaction to a court decision disallowing this fee ($4.8 million); a reclassification of tax assessments collected by the County Library as these amounts were recorded as charges in services in prior fiscal years ($5.7 million); and reduction in services or goods provided from the Registrar of Voters for holding elections for local agencies ($2.4 million), Department of Correction for housing Federal prisoners ($2.6 million), and Mental Health Department for Medi-Cal drug reimbursements ($1.0 million).



The general revenues of County's governmental activities increased by $45.0 million or 4.8 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 $854.5 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 86.2 percent of the general revenues and 35.6 percent of the total current year revenues. These general revenues provide the Board of Supervisors (the Board) with most of its discretionary spending ability.

Investment earnings increased by $31.9 million due primarily to increases in the valuation of investments held by the Retiree Healthcare Internal Service Fund, which recognized a $38 million unrealized gain compared to the prior fiscal year. This was a recovery of losses suffered in the prior fiscal years. These amounts were offset by lower interest earnings as the average interest rate for FY 2010 fell to 1.1 percent from 2.5 percent for the prior year and cash balances decreased in comparison to the prior fiscal year.

Property tax revenues increased by $18.9 million or 2.4 percent from the prior year. This increase was primarily due to an increase in tax assessments of $36.2 million to cover general obligation bonds that were issued in 2009. These amounts were offset by $17.0 million of reductions in property tax collections due to supplemental tax and secured property tax roll decreases. These topics will be discussed in General Fund Revenue and the Economic Factors sections on pages 14 and 18, respectively.

Gain on sale of capital assets increased by $5.0 million due from the sale of County owned property in the City of Mountain View.

Other revenues decreased by $4.2 million or 5.2%. This decrease is mainly due to a $3.4 million reduction in tobacco settlement revenue and $1.4 million in lower reimbursements received from the State of California.

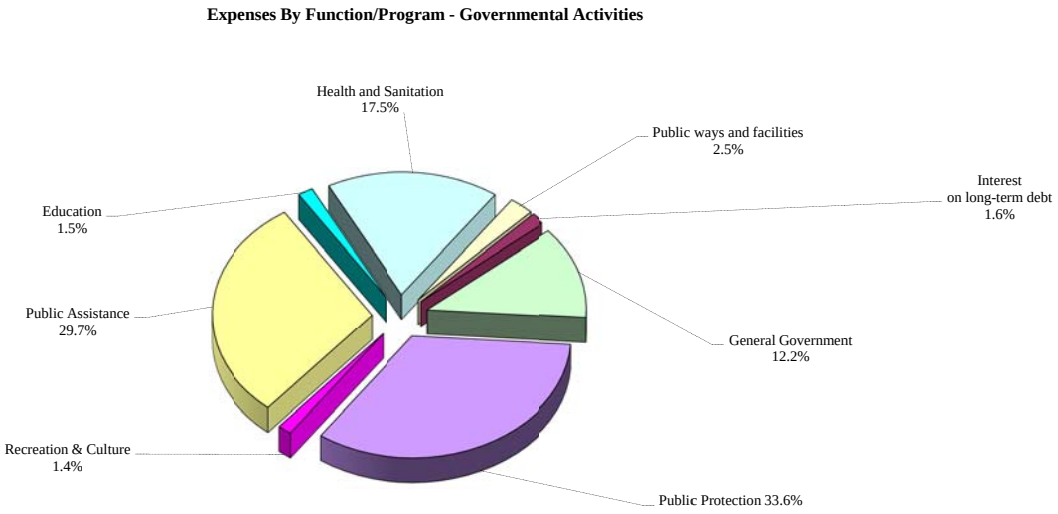
Other taxes decreased by $3.7 million due to a reduction in motor vehicle license fees collected and allocated by the State as the economy continued its stagnation from prior years.

Expenses

Expenses for the governmental activities increased by $52.6 million or 2.3 percent and transfers to the business-type activities decreased by $345.7 million or 63.8 percent. For governmental activities the categories that experienced higher costs were general government, public protection, public assistance, education, recreation, and interest on long-term debt. All other categories had lower costs for the year. Primary reasons for changes in expenses and transfers are explained below:

- Transfers decreased by $345.7 million to $196.0 million is due primarily to the issuance and transfer of $350.0 million in general obligation bond proceeds to SCVMC in FY 2009. A similar transfer was not made this fiscal year.
- General government costs increased by $24.3 million or 9.3 percent as services and supply cost rose by $12.8 million and expense reimbursements fell by $12.1 million. The services and supply costs increase resulted from $10.7 in reimbursable grant costs incurred by the County Executive's Office and County Communications and $2.8 million in increased maintenance and repair expenses for County facilities. In addition, during the fiscal year the County reduced other governmental functions' cost reimbursement requirements in the amount of $12.1 million
- Public assistance program costs increased by $14.3 million or 2.1 percent. This is a result of the Social Services Agency's increased reimbursable expenditures funded from the American Recovery and Reinvestment Act.
- Higher payroll, pension and health insurance costs and the addition of thirteen full-time equivalents (FTE) contributed to increased public protection expenses of $14.7 million or 1.9 percent.
- Interest on long-term debt rose by $13.2 million or 56.7 percent due mainly to an increase of $16.1 million interest expense on the general obligation bonds that were issued in 2009. This was offset by lower interest expenses of $2.9 million on other bond issues.
- Education expenses grew by $3.8 million or 12.0 percent in comparison to the prior year due to a $1.9 million nonrecurring expenditure abatement related to the County Library in fiscal year 2009 and $1.2 million increase in non-capitalizable costs related to the conversion of bar code technology to radio frequency identification for the County Library's entire collection.
- Health and sanitation costs decreased by $11.4 million or 2.7 percent. This reduction was due to decreases of $7.3 million from the elimination of 118 FTEs, $3.7 million reduction in contract services for the Department of Alcohol and Drugs and pharmacy costs for the Health Department, and $5.7 million in reduction of cost reimbursements for all health related programs. These amounts were offset by $3.4 million of increased costs for the County's H1N1 emergency response activities.
- Public ways and facilities decreased by $7.3 million or 11.2 percent due to the reduction in the number of capital projects funded by the Measure B Transportation Improvement Program. The sales tax funding for the Measure B Transportation Program ended in March 2006 and its final projects are now being completed.

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

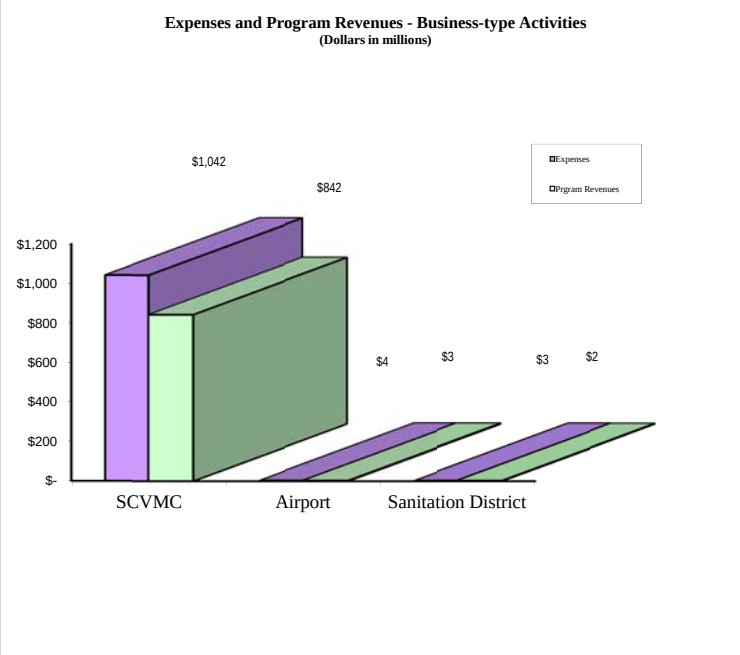


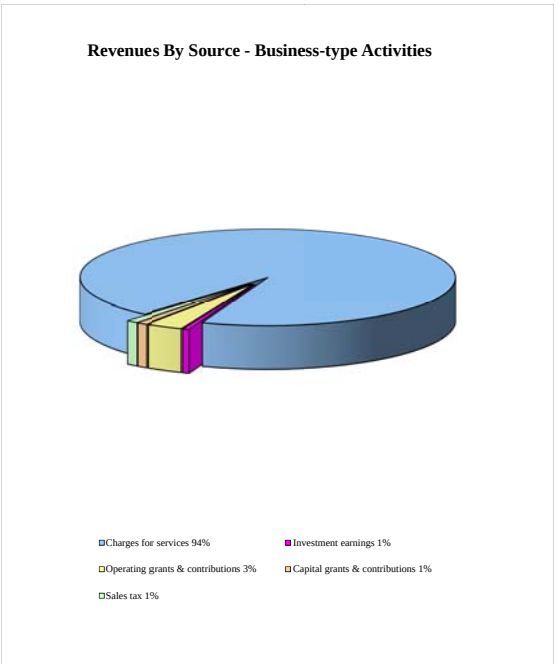
Business-type activities

Business-type activities increased the County's net assets by $8.4 million. The business-type activities had a net loss before transfers of $187.6 million, which was offset by net transfers of $196.0 million.

The largest of the County's business-type activities, SCVMC, had $1.04 billion in expenses and $841.9 million in program revenues for the year. This is about 99.4 percent of the program revenues of all business-type activities. Its program revenues increased by $49.1 million primarily due to increase in patient service revenues of $39.6 million as revenues increased from Medi-Cal Waiver, AB 915, and Medi-Cal Managed Care Intergovernmental Transfers. SCVMC's expenses increased by $43.9 million due primarily to $34.5 million in higher personnel costs from negotiated salary agreements and $6.6 million from higher depreciation due to the completion and full operation of new medical facilities (Valley Health Centers in Sunnyvale and Gilroy and the Valley Specialty Center).

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, 2010, the County's governmental funds reported total fund balances of $643.6 million, a decrease of $148.3 million or 18.7 percent from the prior year. Approximately 78.8 percent of the combined fund balances, $507.3 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 - $78.2 million; b) reflect inventories and other assets that are long-term in nature and thus do not represent available spendable resources - $20.6 million; and c) liquidate contractual commitments of the period - $37.5 million.

For its governmental funds, the County's total revenues for the current fiscal year were $2.35 billion—an increase of $10.1 million or 0.4 percent over the last year. Total governmental fund expenditures increased by $56.6 million or 2.5 percent to $2.33 billion for the year. Primary reasons for these changes in revenues and expenditures for the governmental funds are explained in the framework of individual funds.

The General Fund is the chief operating fund of the County. Its unreserved and undesignated fund balance was $141.0 million at June 30, 2010, while its total fund balance was $257.3 million, a $157.0 million decrease from the prior year. This was mainly due to an excess of revenues over expenditures of $6.7 million for the fiscal year, which was offset by $163.6 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 11.8 percent and 13.1 percent of the total General Fund expenditures, respectively. The percentages for the prior year were 19.9 percent and 21.5 percent for unreserved fund balance and the total fund balance, 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 $257.3 million General Fund total fund balance, $90.6 million or 35.2 percent is designated for future expenditures. The fund balance designations are listed below:

Fund balance designated for:	Amount (Millions)
- Fiduciary activities and contingencies	$ 11.9
- Transportation improvement projects funded by Measure B (one-half percent Countywide sales tax) revenues	11.5
- Litigation Reserve	2.5
- Various contingencies designated by the Board of Supervisors	64.7
Total General Fund designated fund balance	$ 90.6

General Fund revenues and expenditures for the year were $1.98 billion and $1.97 billion, respectively. While its revenues decreased by $59.8 million or 2.9 percent for the year, its expenditures increased by $41.4 million or 2.1 percent. The Fund's revenues by sources and expenditures by function as well as changes from the prior fiscal year are presented below:

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

	FY 2009		FY 2010		Increase/(Decrease)	
Revenues by source	Amount	Percent	Amount	Percent	Amount	Percent
Taxes	$ 658,185	32.3%	$ 642,514	32.6%	$ (15,671)	(2.4%)
Licenses and permits	14,557	0.7%	12,355	0.6%	(2,202)	(15.1%)
Fines, forfeitures and penalties	64,671	3.2%	67,432	3.4%	2,761	4.3%
Intergovernmental revenues	1,101,227	54.0%	1,080,160	54.7%	(21,067)	(1.9%)
Interest and investment income	14,539	0.7%	11,699	0.6%	(2,840)	(19.5%)
Security lending activities	85	0.0%	(8)	0.0%	(93)	(109.4%)
Charges for services	150,395	7.4%	134,656	6.8%	(15,739)	(10.5%)
Other	31,169	1.5%	26,225	1.3%	(4,944)	(15.9%)
Total	$ 2,034,828	100.0%	$ 1,975,033	100.0%	$ (59,795)	(2.9%)

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

	FY 2009		FY 2010		Increase/(Decrease)	
Expenditures by function	Amount	Percent	Amount	Percent	Amount	Percent
General government	$ 181,717	9.5%	$ 206,009	10.6%	$ 24,292	13.4%
Public protection	658,363	34.2%	669,851	34.0%	11,488	1.7%
Public ways and facilities	11,731	0.6%	6,860	0.3%	(4,871)	(41.5%)
Health and sanitation	388,387	20.2%	378,430	19.2%	(9,957)	(2.6%)
Public assistance	664,790	34.5%	679,910	34.4%	15,120	2.3%
Capital Outlay	3,325	0.2%	3,771	0.2%	446	13.4%
Debt service						
Principal retirement	9,918	0.4%	10,799	0.4%	881	8.9%
Interest and fiscal charges	8,740	0.5%	12,742	0.6%	4,002	45.8%
Totals	$ 1,926,971	100.0%	1,968,372	100.0%	$ 41,401	2.1%

General Fund revenues from fines, forfeitures, and penalties increased for the year. Its expenditures for general government; public protection; public assistance; capital outlay; principal retirement; and interest and fiscal charges also increased.

Our discussion on the County's governmental activities identified key reasons for changes in its revenues and expenditures that also help explain significant changes in the General Fund because it is the chief operating fund of the County, and its revenues and expenditures respectively cover 84.2 percent and 84.7 percent of the County's total current year revenues and expenditures of all governmental funds. For this reason, we will briefly mention the points that were elaborated in our earlier discussion on the countywide revenues and expenses. This section will elaborate only those points that were not included in our earlier discussion.

- Net revenues from intergovernmental sources decreased by $21.1 million or 1.9 percent. For the year, State revenues fell by $24.2 million. For this source, Short Doyle deficiency payments increased by $3.3 million, while reductions of $3.6 million in motor vehicle in lieu revenue, $8.3 million for In Home Support Services, $3.5 million in Public Safety taxes, $2.2 million for the Public Assistance Program from Health & Welfare Realignment sales tax, and $9.3 million in Public Assistance Administrations also occurred. Other governmental agencies revenues decreased by $58.9 million due to reduced payments from the San Jose Redevelopment Agency. The County, the San Jose Redevelopment Agency, and the City of San Jose entered into a tax sharing agreement in 1983 that has been amended over the years. Due to economic

conditions and State mandates, the San Jose Redevelopment Agency has been unable to pay the County for the past two years and for the foreseeable future. The parties are currently in discussions exploring ways to address this issue. These reductions were offset by an increase of $62.0 million from the Federal government. Federal revenues increased by $26.1 million for Health Administration (mostly from the MediCal Federal Financial Participation and Mental Health Programs), $35.6 million from the American Recovery and Reinvestment Act, $3.8 million from a public safety communications system grant, and $4.9 million in increased Cal Works revenue. These amounts were offset by reductions of $5.9 million in Federal Medical Assistance Percentage amounts for the In Home Support Services Program and $3.7 million in Public Assistance Administration reimbursements.

- Revenues from charges for services decreased by $15.7 million or 10.5 percent. Reductions occurred in the following areas: $4.8 million for discontinuing the Property Tax Collection and Administrative Fee as the courts determined that this fee should not be charged by counties to cities in their area, $5.7 million from a change in revenue accounts to record tax assessments collected by the County Library (previously these amounts were recorded as charges for services rather than tax assessments), $2.6 million from a decrease in Federal reimbursements for holding Federal prisoners, and $2.4 million due to decreased election activities for local agencies.

- Tax revenues decreased by $15.7 million or 2.4 percent. This was due to a reduction in supplemental taxes of $8.1 million as assessed valuation decreased from the depressed real property markets, both residential and commercial. In addition, secured property taxes decreased by $7.6 million as the secured property tax roll declined into negative territory from roll corrections made throughout the year and a disproportionate shift in property tax increments to local redevelopment agencies.

- Other income decreased by $4.9 million or 15.9 percent mainly due to $3.4 million less in tobacco settlement revenue as the State of California and tobacco manufacturers disagreed on amounts to be paid and $1.4 million related to the Social Services Agency from reimbursements from the State of California in fiscal year 2009 that were not replicated this fiscal year.

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

The fund balances for the nonmajor governmental funds increased by $8.7 million or 2.3 percent to $386.3 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, 2010, the County's net assets in its enterprise funds were $548.0 million. The investment in capital assets net of depreciation and related debt was $211.0 million. The restricted net assets of the enterprise funds were $329.9 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, 2010 were $7.0 million.

The net assets of the County's enterprise funds increased by $20.4 million for the year. Primary reasons for change in net assets are explained in the framework of individual enterprise funds.

SCVMC is the largest enterprise fund and its revenues and expenses comprise 99.4 percent of the total revenues and expenses for all enterprise funds. The other two enterprise funds—Airport and Sanitation District—are very small in comparison.

Net assets for SCVMC increased by $21.2 million. Operating revenues increased by $49.2 million or 6.3 percent and operating expenses rose by $43.9 million or 4.6 percent. The net transfers were $203.5 million for the year. The primary reason for increased revenues and expenses were discussed in the business-type activities section. The net assets of SCVMC were $524.9 million with unrestricted net assets of a negative $0.3 million. The restricted net assets of SCVMC were $329.6 million and the net assets invested in capital assets, net of related debt were $195.5 million. There were no significant changes to the net assets for the airport and sanitation districts during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The County's final budget appropriations for FY 2010 were $2.5 billion, which is $185.6 million or 8.0 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 $194.7 million or 8.6 percent. All revenue sources, except for Fines, Forfeitures & Penalties and Other Financing Sources came in lower than estimates. Final budgetary appropriations exceeded actual expenditures by $295.5 million or 11.7 percent for the year. The bulk of these cost savings resulted from unspent appropriations of a) $140.0 million in contingency reserves; b) $17.9 million in salaries and benefits costs due to elimination and or non-filling of vacant positions; c) $123.9 million in services and supplies costs for government programs – general government, public protection, public assistance, health and sanitation, and Measure B programs; d) $3.4 million in inter-fund transfers set aside for Measure B transportation improvement projects to Roads Department; $3.4 million in amounts loaned to the Gilroy Union School District to assist with bond payments; and $3.0 million from Special Program amounts originally designated for the Healthy Kids program; e) $2.8 million debt service payments; and f) $0.8 million in capital assets.

The General Fund budgetary comparison schedule starts on page 104 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, 2010 was $1.74 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 2009	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	Change	Change
Land	$ 198,143	$ 241,703	$ 6,310	$ 6,310	$ 204,453	$ 248,013	$ 43,560	21.3%
Buildings & improvements	290,037	424,708	446,089	429,730	736,126	854,438	118,312	16.1%
Infrastructure	168,679	170,045	-	-	168,679	170,045	1,366	0.8%
Equipment and vehicles	42,133	43,515	26,230	29,557	68,363	73,072	4,709	6.9%
Leasehold improvements	-	-	778	674	778	674	(104)	(13.4%)
Construction in progress	270,840	155,689	152,406	234,771	423,246	390,460	(32,786)	(7.7%)
Total	$ 969,832	$ 1,035,660	$ 631,813	$ 701,042	$ 1,601,645	$ 1,736,702	$ 135,057	8.4%

The County's net capital assets increased $135.1 million or 8.4 percent for the year. Net capital assets for the governmental activities increased by 6.8 percent, while the business-type activities' net capital assets increased by 11.0 percent. Changes in capital assets by activity type were as follows:

Governmental activities

The County's capital assets for its governmental activities rose by $65.8 million as follows:

- Land increased by $43.5 million due to acquisitions made by the Parks and Recreation Department, including purchase of the Calero Rancho San Vicente property, and the renovation of a site in downtown San Jose for a future clinic.
- Buildings and improvements increased by $134.7 million mainly due to the completion of the District Attorney's Crime Lab and the Morgan Hill Courthouse.
- Infrastructure increased by $1.4 million. This was due to improvements made to Parks and Recreation Department properties.
- Equipment rose by $1.4 million primarily due to furnishing the District Attorney's Crime Lab.
- Construction in progress activities decreased by $115.2 million as $101.6 million in construction occurred during the fiscal year and $216.7 million was transferred to the other capital asset categories: building and improvements completed by the Facilities and Fleet Department ($147.8 million), land acquisitions mentioned above ($43.6 million), infrastructure projects completed by the Roads and Parks and Recreation Departments ($11.3 million), various projects at Valley Medical Center ($11.1 million), and equipment ($2.9 million).

Business-type activities

Net capital assets for business-type activities increased by $69.2 million for the year. This increase was mainly due to construction for the seismic upgrade project ($61.3 million), Valley Health Center in Milpitas ($13.8 million), other renovations ($8.0 million), and equipment acquisition ($3.3). These amounts were offset by the retirement of certain structures on the Valley Medical Center campus ($16.4 million).

Commitment of Resources for Construction Work in Progress

At June 30, 2010, the County had committed $25.4 million of its net assets from the governmental activities and $49.9 million of its net assets from the business-type activities for various uncompleted capital projects included in the construction in progress.

Additional information on the County's capital assets can be found in Note 6 on page 60 of this report.

Long-term debt

The County's long-term outstanding debt as of June 30, 2010 was $1.72 billion as shown in Table 6 below:

TABLE 6-Outstanding Debt (in thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	Dollar Change	Percent Change
Lease revenue bonds, net	$ 278,260	$ 260,951	$ 576,982	$ 560,006	$ 855,242	820,957	$ (34,285)	(4.0%)
Pension obligation bonds	400,044	404,895	-	-	400,044	404,895	4,851	1.2%
Certificates of participation	4,279	4,110	-	-	4,279	4,110	(169)	(3.9%)
Capital lease obligations	652	278	-	-	652	278	(374)	(57.4%)
Capital appreciation bonds	117,544	124,575	-	-	117,544	124,575	7,031	6.0%
General obligation bonds	362,173	361,754	-	-	362,173	361,754	(419)	100.0%
Total	$ 1,162,952	$ 1,156,563	$ 576,982	$ 560,006	$ 1,739,934	$ 1,716,569	$ (23,365)	(1.3%)

For its outstanding lease revenue bonds and certificates of participation, the County has maintained an AA rating from the Standard & Poor's (S&P) and an Aa2 rating from the Moody's Investors Service. S&P has also maintained the County's general obligation bond rating of AA+ and Moody's rating of Aa1. This combination of S&P and Moody's ratings are the highest rating any large California County has ever achieved since Proposition 13 was passed in 1978. 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.

The County's long-term debt decreased by $23.4 million due to increases in accreted interest on its capital appreciation bonds of $7.0 million in Tobacco Settlement Asset-Backed bonds and $4.9 million in pension obligation bonds, offset by debt service payoffs, net of bond refundings, of $34.3 million.

Additional information on the County's long-term debt can be found in Note 9 on page 65 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In the midst of one of the greatest economic downturns since the Great Depression of the 1930's, fiscal challenges have multiplied for the County as well as other public and private entities. Although some positive signs have blossomed, the economic downturn has been very resilient and has created uncertainty and complexity for our organization. The following economic factors were considered in the County's 2011 budget:

- Despite six straight months of job growth, the County's unemployment rate for June 2010 was 11.4 percent. This is an improvement from June 2009 when the unemployment rate was 11.8 percent. In comparison, the statewide unemployment rate for June 2010 was 12.3 percent, an increase of 0.7 percent from the prior year.

- The real per capita income (a measure of wealth creation) as of June 2008 (most current available data) decreased from $59,338 to $58,531. Despite this decrease, this amount is much higher than the national level of $40,166.

- Home foreclosures continue to fall as the County incurred its sixth consecutive month that default notices declined from year earlier levels. Median home prices have steadily climbed 23.7 percent compared to the same time last year. However, with the expiration of the federal homebuyer tax credits, home sales are lower in comparison to last year and fell in recent months after several months of increasing sales earlier in the year.

- Venture capital investment, a leading indicator of innovation and long-term development, was down in the first nine months of FY 2010. In contrast, during the last three months of the fiscal year, the Silicon Valley region doubled to $2.9 billion and accounted for 45 percent of the national total. With clean

technology investments leading the way, Silicon Valley had the four largest fundings and seven of the top ten startups for the period. Other areas of funding included biotechnology, medical devices and equipment, and health-related information technology.

- Research and development (R&D), office, and warehouse space occupancy, which are leading indicators of economic activity, have dropped in comparison to one year ago. The vacancy rate for R&D space was 20.3 percent in June 2010 versus 18.6 percent a year ago. The office space vacancy rate was 17.5 percent in June 2010 compared to 16.7 percent in June 2009. The vacancy rate for warehouse space increased from 11.6 percent in 2009 to 12.2 percent in June 2010.

- Assessed values for the secured property tax roll, which fell 1.0 percent, partly contributing to decrease of $7.6 million in current secured property tax revenue. The unsecured personal property value increased by 3.2 percent with a tax increase of $0.70 million. The property tax delinquencies on secured property decreased from 3.0 percent in FY 2009 to 2.0 percent in FY 2010. Property tax transfer tax revenues increased by $1.8 million from an increase in real estate transactions. Supplemental tax revenues decreased by $8.1 million due to lower supplemental roll and associated taxes. The FY 2011 budget assumes a 1.5 percent decrease in secured property assessed values, which corresponds to a decrease of $11.6 million in property tax revenue.

The FY 2011 Countywide budget of $4.4 billion included over $223.2 million of deficit reduction solutions, in addition to the $1.8 billion deficit solutions the County has already implemented since FY 2003. The budget deficit will be met by $84.8 million in service/cost reductions and revenue increases and $138.4 million in one-time resources.

The FY 2011 budget sets aside $91.1 million in contingency reserves. Operating reserve designations and the strategic reserve designations are part of the financial resources that are available to address unanticipated revenue shortfalls or unforeseen expenditures. These designations provide a primary defense against deficit spending and help maintain liquidity when budgeted draw downs become necessary.

SCVMC has contributed to the balancing of the FY 2011 budget. New strategies have enabled SCVMC to continue providing high quality care to County residents during continued years of declining revenue. Promoting wellness and providing access to primary and specialty care improves health and reduces more expensive care. The medical system will continue to be challenged by residents losing jobs and their health or medical insurance as well as an aging population. The outpatient visits were 747,454 or 2.1 percent higher than last year. Although, the average daily census was 319.9 or 2.9 percent below last year's average of 329.4, SCVMC anticipates the average daily census to increase in future years due to process improvements. The FY 2011 budget includes a General Fund subsidy of $123.0 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.

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.

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COUNTY OF SANTA CLARA

Statement of Net Assets

June 30, 2010
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets and Deferred Outflows:				
Assets:				
Cash and investments	$ 682,739	$ 7,746	$ 690,485	$ 121,359
Securities lending collateral	8,424	4,342	12,766	-
Receivables, net of allowance for uncollectibles	67,265	132,628	199,893	3,864
Internal balances	81,162	(81,162)	-	-
Due from other governmental agencies	458,574	87,921	546,495	6,882
Due from related parties	-	-	-	22,173
Receivable from component unit	8,220	-	8,220	-
Inventories	3,790	12,452	16,242	-
Net pension asset	361,650	-	361,650	14,420
Other assets	28,275	5,892	34,167	4,505
Restricted cash and investments	84,035	399,924	483,959	4,551
Capital assets:				
Nondepreciable	397,392	241,081	638,473	27,871
Depreciable, net of accumulated depreciation	638,268	459,961	1,098,229	36,992
Total assets	2,819,794	1,270,785	4,090,579	242,617
Deferred outflows on derivative instruments	-	16,122	16,122	-
Total assets and deferred outflows	2,819,794	1,286,907	4,106,701	242,617
Liabilities:				
Accounts payable	66,896	38,448	105,344	8,057
Accrued salaries and benefits	63,082	35,488	98,570	229
Accrued liabilities	70,347	13,236	83,583	48
Securities lending collateral - due to borrowers	8,424	4,342	12,766	-
Estimated third-party payer settlements	-	31,130	31,130	-
Due to others	-	-	-	2,928
Due to other governmental agencies	4,899	13,081	17,980	317
Unearned revenue	30,506	3,419	33,925	1,818
Other liabilities	-	-	-	9,592
Payable to primary government	-	-	-	8,220
Noncurrent liabilities:				
Due within one year	82,127	31,425	113,552	240
Due in more than one year	1,378,365	594,177	1,972,542	22,354
Derivative instruments liabilities	-	16,122	16,122	-
Total liabilities	1,704,646	780,868	2,485,514	53,803
Net assets (see Note 11(a)):				
Invested in capital assets, net of related debt	801,069	211,047	889,972	41,013
Restricted for:				
Capital facilities	-	327,856	-	-
Debt service	12,237	2,057	14,294	-
Housing programs	8,804	-	8,804	-
Roads	52,652	-	52,652	-
Other purposes	59,934	-	59,934	77,501
Unrestricted	180,452	(34,921)	595,531	70,300
Total net assets	$ 1,115,148	$ 506,039	$ 1,621,187	$ 188,814

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, 2010
(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	$ 317,539	$ (32,547)	$ 85,579	$ 68,797	$ -
Public protection	783,308	2,212	134,143	211,837	59
Public ways and facilities	56,898	716	1,826	32,056	24,780
Health and sanitation	397,594	10,629	35,714	237,152	-
Public assistance	688,663	3,348	1,823	556,004	-
Education	34,837	662	6,552	2,886	-
Recreation and culture	31,874	1,158	4,897	642	3,649
Interest on long-term liabilities	36,499	-	-	-	-
Total governmental activities	2,347,212	(13,822)	270,534	1,109,374	28,488
Business-type activities:					
SCVMC	1,028,371	13,609	816,558	17,810	7,519
Airport	3,516	213	2,994	-	292
Sanitation District	2,597	-	2,150	-	-
Total business-type activities	1,034,484	13,822	821,702	17,810	7,811
Total primary government	$ 3,381,696	$ -	$ 1,092,236	$ 1,127,184	$ 36,299
Component units	$ 292,979		$ 12,928	$ 280,953	$ -

General revenues:
- Property taxes
- Sales and use taxes
- Other taxes
- Unrestricted motor vehicle in lieu of taxes
- Grants/contributions not restricted to specific programs
- Investment income
- Securities lending activities:
  - Securities lending income
  - Securities lending expenses
- Gain on sale of capital assets
- Other:
  - Penalties on delinquent taxes
  - Tobacco settlement revenues
  - Miscellaneous revenues

Transfers

Total general revenues and transfers

Change in net assets

Net assets, beginning of year, as previously reported
Prior period adjustment

Net assets, beginning of year, as restated

Net assets, end of year

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

Net (Expense) Revenue and Changes in Net Assets				
Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	
				Function/program activities:
				Primary government:
				Governmental activities:
$ (130,616)	$ -	$ (130,616)	$ -	General government
(439,481)	-	(439,481)	-	Public protection
1,048	-	1,048	-	Public ways and facilities
(135,357)	-	(135,357)	-	Health and sanitation
(134,184)	-	(134,184)	-	Public assistance
(26,061)	-	(26,061)	-	Education
(23,844)	-	(23,844)	-	Recreation and culture
(36,499)	-	(36,499)	-	Interest on long-term liabilities
(924,994)	-	(924,994)	-	Total governmental activities
				Business-type activities:
-	(200,093)	(200,093)	-	SCVMC
-	(443)	(443)	-	Airport
-	(447)	(447)	-	Sanitation District
-	(200,983)	(200,983)	-	Total business-type activities
(924,994)	(200,983)	(1,125,977)	-	Total primary government
-	-	-	902	Component units
				General revenues:
800,803	-	800,803	-	Property taxes
4,058	8,692	12,750	-	Sales and use taxes
289	-	289	-	Other taxes
49,356	-	49,356	-	Unrestricted motor vehicle in lieu of taxes
29,292	-	29,292	-	Grants/contributions not restricted to specific programs
26,575	4,640	31,215	2,775	Investment income
				Securities lending activities:
102	23	125	-	Securities lending income
(86)	(18)	(104)	-	Securities lending expenses
4,969	-	4,969	-	Gain on sale of capital assets
				Other:
45,883	-	45,883	-	Penalties on delinquent taxes
17,043	-	17,043	-	Tobacco settlement revenues
13,436	-	13,436	970	Miscellaneous revenues
(196,028)	196,028	-	-	**Transfers**
795,692	209,365	1,005,057	3,745	Total general revenues and transfers
(129,302)	8,382	(120,920)	4,647	Change in net assets
1,244,450	497,151	1,741,601	184,167	Net assets, beginning of year, as previously reported
-	506	506	-	Prior period adjustment
1,244,450	497,657	1,742,107	184,167	Net assets, beginning of year, as restated
$ 1,115,148	$ 506,039	$ 1,621,187	$ 188,814	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, 2010
(In thousands)

	General Fund	Other Governmental Funds	Total
Assets:			
Cash and investments:			
Unrestricted	$ 73,024	$ 338,837	$ 411,861
Restricted with fiscal agents	-	15,230	15,230
Other restricted	1,410	66,896	68,306
Securities lending collateral	2,791	4,350	7,141
Receivables:			
Property taxes	2,935	-	2,935
Other, net of allowance for uncollectibles	15,701	39,424	55,125
Due from other funds	44,540	1,607	46,147
Due from other governmental agencies	432,381	25,663	458,044
Inventories	1,797	727	2,524
Other assets	18,108	-	18,108
Total assets	$ 592,687	$ 492,734	$ 1,085,421
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	$ 54,969	$ 8,276	$ 63,245
Accrued salaries and benefits	52,889	8,580	61,469
Other accrued liabilities	42,553	12,090	54,643
Securities lending collateral - due to borrowers	2,791	4,350	7,141
Due to other funds	1,181	4,058	5,239
Due to other governmental agencies	3,972	685	4,657
Advances from other funds	-	24,040	24,040
Deferred revenue	177,007	44,381	221,388
Total liabilities	335,362	106,460	441,822
Fund balances:			
Reserved for:			
Encumbrances	5,833	31,685	37,518
Inventories and other assets	19,905	727	20,632
Debt service	-	78,152	78,152
Unreserved, reported in:			
General fund:			
Designated	90,632	-	90,632
Undesignated	140,955	-	140,955
Special revenue funds	-	203,856	203,856
Capital projects funds	-	71,802	71,802
Permanent fund	-	52	52
Total fund balances	257,325	386,274	643,599
Total liabilities and fund balances	$ 592,687	$ 492,734	$ 1,085,421

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, 2010
(In thousands)

Fund balances - total governmental funds (page 24)		$ 643,599
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		1,027,437
Bond issuance costs are expended in the governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets.		6,023
Other long-term receivables are not available to pay for current period expenditures and therefore are deferred in the funds.		190,884
Long-term receivables with matching long term liabilities, including receivables from the Housing Authority, are not current financial resources and therefore are not reported in the governmental funds.		8,220
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.		151,177
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Bonds payable (excludes Pension Funding Bonds recorded in internal service funds)	$ (751,390)	
Accrued vacation and sick leave	(126,312)	
Capital lease obligations	(183)	
Accrued interest payable	(8,243)	
Arbitrage liabilities	(242)	
Net OPEB obligations - Santa Clara Central Fire Protection District	(23,322)	
Accrued litigation liability	(2,500)	(912,192)
Net assets - governmental activities (page 21)		$ 1,115,148

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, 2010
(In thousands)

	General Fund	Other Governmental Funds	Total
Revenues:			
Taxes	$ 642,514	$ 164,843	$ 807,357
Licenses and permits	12,355	14,109	26,464
Fines, forfeitures, and penalties	67,432	8,578	76,010
Interest and investment income	11,699	6,971	18,670
Securities lending activities:			
Securities lending income	25	17	42
Securities lending expenditures	(33)	(10)	(43)
Intergovernmental revenues	1,080,160	134,149	1,214,309
Charges for services	134,656	37,324	171,980
Other revenue	26,225	5,189	31,414
Total revenues	1,975,033	371,170	2,346,203
Expenditures:			
Current:			
General government	206,009	131	206,140
Public protection	669,851	93,881	763,732
Public ways and facilities	6,860	45,903	52,763
Health and sanitation	378,430	25,939	404,369
Public assistance	679,910	3,887	683,797
Education	-	33,729	33,729
Recreation and culture	-	31,773	31,773
Capital outlay	3,771	103,084	106,855
Debt service:			
Principal retirement	10,799	5,146	15,945
Interest and fiscal charges	12,625	13,007	25,632
Cost of issuance	117	363	480
Total expenditures	1,968,372	356,843	2,325,215
Excess (deficiency) of revenues over (under) expenditures	6,661	14,327	20,988
Other financing sources (uses):			
Proceeds from sale of capital assets	11,492	2,107	13,599
Capital lease financing	-	186	186
Bond premium	730	3,318	4,048
Proceeds of refunding bonds	11,948	35,240	47,188
Payment to bond refunding escrow	(13,943)	(38,632)	(52,575)
Transfers in	59,117	59,864	118,981
Transfers out	(232,979)	(67,720)	(300,699)
Total other financing sources (uses)	(163,635)	(5,637)	(169,272)
Net change in fund balances	(156,974)	8,690	(148,284)
Fund balances, beginning of year	414,299	377,584	791,883
Fund balances, end of year	$ 257,325	$ 386,274	$ 643,599

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, 2010
(In thousands)

Net change in fund balances - total governmental funds (page 26)		$ (148,284)
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	$ 111,934	
Net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, donations)	(4,630)	
Transfer of capital assets to business-type activities	(11,181)	
Less current year depreciation	(28,620)	67,503
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. Capital leases are not revenues in the statement of activities but rather constitute long-term liabilities in the statement of net assets.		(186)
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	480	
Amortization of bond issuance costs	(245)	235
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		48,004
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.		(39,196)
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.		1,339
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		16,291
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	613	
Change in accrued interest payable	(5,128)	
Change in accreted interest - Tobacco Settlement Asset-Backed Bonds	(7,031)	
Change in arbitrage liabilities	679	
Change in net OPEB obligations - Santa Clara Central Fire Protection District	(10,861)	
Change in accrued litigation liability	500	
Change in long-term compensated absences	(1,025)	(22,253)
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.		(52,755)
Change in net assets of governmental activities (page 23)		$ (129,302)

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, 2010

(In thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	SCVMC	Other	Total	Internal Service Funds
Assets and Deferred Outflows:				
Assets:				
Current assets:				
Cash and investments:				
Unrestricted	$ -	$ 7,746	$ 7,746	$ 270,878
Restricted with fiscal agent	-	729	729	-
Other restricted	399,195	-	399,195	499
Securities lending collateral	4,249	93	4,342	1,283
Receivables:				
Patient accounts receivable, net of estimated uncollectables	131,078	-	131,078	-
Other	1,476	74	1,550	9,205
Due from other funds	4,650	-	4,650	-
Due from other governmental agencies	87,920	1	87,921	530
Inventories	12,452	-	12,452	1,266
Prepaid rent/insurance	1,930	-	1,930	1,577
Total current assets	642,950	8,643	651,593	285,238
Noncurrent assets:				
Advances to other funds	-	-	-	24,040
Net pension asset	-	-	-	361,650
Other assets	3,785	177	3,962	2,567
Capital assets:				
Nondepreciable	236,245	4,836	241,081	-
Depreciable, net of accumulated depreciation	444,450	15,511	459,961	8,223
Total noncurrent assets	684,480	20,524	705,004	396,480
Total assets	1,327,430	29,167	1,356,597	681,718
Deferred outflows on derivative instruments	16,122	-	16,122	-
Total assets and deferred outflows	1,343,552	29,167	1,372,719	681,718
Liabilities:				
Current liabilities:				
Accounts payable	38,187	261	38,448	3,651
Accrued salaries and benefits	35,425	63	35,488	1,613
Accrued liabilities	13,077	159	13,236	7,461
Securities lending collateral - due to borrowers	4,249	93	4,342	1,283
Due to other funds	43,870	-	43,870	1,688
Due to third-party payers	31,130	-	31,130	-
Due to other governmental agencies	13,081	-	13,081	-
Unearned revenue	3,319	100	3,419	2
Current portion of insurance claims	-	-	-	35,977
Current portion of accrued vacation and sick leave	10,848	11	10,859	207
Current portion of capital lease obligations	-	-	-	95
Current portion of bonds payable	20,407	159	20,566	2,020
Total current liabilities	213,593	846	214,439	53,997
Noncurrent liabilities:				
Noncurrent portion of insurance claims	-	-	-	73,987
Noncurrent portion of accrued vacation and sick leave	54,611	126	54,737	3,386
Noncurrent portion of bonds payable	534,322	5,118	539,440	402,875
Net OPEB obligation	-	-	-	38,238
Total noncurrent liabilities	588,933	5,244	594,177	518,486
Derivative instruments liabilities	16,122	-	16,122	-
Total liabilities	818,648	6,090	824,738	572,483
Net assets:				
Invested in capital assets, net of related debt	195,537	15,510	211,047	8,128
Restricted:				
Capital facilities	327,856	-	327,856	-
Debt service	1,768	289	2,057	-
Unrestricted	(257)	7,278	7,021	101,107
Total net assets	$ 524,904	$ 23,077	547,981	$ 109,235
Adjustment to reflect the consolidation of internal service fund activities to enterprise funds			(41,942)	
Net assets of business-type activities			$ 506,039	

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, 2010
(In thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	SCVMC	Other	Total	Internal Service Funds
Operating revenues:				
Charges for services	$ 816,558	$ 5,134	$ 821,692	$ 204,946
Other program revenues	17,810	-	17,810	-
Net operating revenues	834,368	5,134	839,502	204,946
Operating expenses:				
Salaries and benefits	677,645	1,402	679,047	161,655
Services and supplies	125,406	1,137	126,543	21,793
General and administrative	96,908	-	96,908	3,661
Professional services	32,416	403	32,819	1,235
Depreciation	35,924	885	36,809	3,521
Amortization of net pension asset	-	-	-	(5,409)
Leases and rentals	7,138	-	7,138	37
Utilities	10,394	-	10,394	-
Insurance claims and premiums	10,554	23	10,577	72,295
Other	3,732	2,163	5,895	-
Total operating expenses	1,000,117	6,013	1,006,130	258,788
Operating loss	(165,749)	(879)	(166,628)	(53,842)
Nonoperating revenues (expenses):				
Taxes	8,692	-	8,692	-
Investment income	4,559	81	4,640	15,574
Interest expense	(19,807)	(256)	(20,063)	(24,073)
Securities lending activities:				
Securities lending income	23	-	23	60
Securities lending expenses	(18)	-	(18)	(43)
Gain (loss) on disposal of capital assets	(806)	-	(806)	352
Other, net	(9,230)	(4)	(9,234)	283
Total nonoperating revenues (expenses), net	(16,587)	(179)	(16,766)	(7,847)
Loss before capital contributions and transfers	(182,336)	(1,058)	(183,394)	(61,689)
Capital contributions	7,519	292	7,811	-
Capital contributions transferred in from other County funds	11,181	-	11,181	-
Transfers in	200,179	11	200,190	519
Transfers out	(15,343)	-	(15,343)	(3,648)
Change in net assets	21,200	(755)	20,445	(64,818)
Net assets, beginning of year, as previously reported	503,704	23,326	527,030	174,053
Prior period adjustment	-	506	506	-
Net assets, beginning of year, as restated	503,704	23,832	527,536	174,053
Net assets, end of year	$ 524,904	$ 23,077	$ 547,981	$ 109,235
Change in net assets of enterprise funds			$ 20,445	
Adjustment to reflect the consolidation of internal service funds to enterprise funds.			(12,063)	
Change in net assets of business-type activities			$ 8,382	

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, 2010
(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	$ 799,911	$ 5,217	$ 805,128	$ 203,960
Cash payment to suppliers for goods and services	(279,872)	(3,765)	(283,637)	(27,187)
Cash payment to employees for services	(670,681)	(1,402)	(672,083)	(31,711)
Cash payment for retirement benefits	-	-	-	(91,597)
Cash payment for judgments and claims	-	-	-	(68,368)
Other payments	(9,230)	(14)	(9,244)	-
Other receipts	-	10	10	283
Net cash provided by (used in) operating activities	(159,872)	46	(159,826)	(14,620)
Cash flows from noncapital financing activities:				
Cash receipts from state grants - taxes realignment	8,610	-	8,610	-
Cash receipts from short term borrowings to other funds	-	-	-	752
Cash payments to other funds	(9,589)	-	(9,589)	(24,157)
Principal paid on pension obligation bonds	-	-	-	(1,130)
Interest paid on pension obligation bonds	-	-	-	(18,035)
Transfers in	200,179	11	200,190	519
Transfers out	(15,343)	-	(15,343)	(3,648)
Net cash provided by (used in) noncapital financing activities	183,857	11	183,868	(45,699)
Cash flows from capital and related financing activities:				
Proceeds from bonds	1,224	-	1,224	-
Repayment of capital leases	-	-	-	(214)
Cash payment for arbitrage	(1,557)	-	(1,557)	-
Bond issuance costs paid	(35)	-	(35)	-
Principal paid on bonds	(18,909)	(160)	(19,069)	-
Interest paid	(21,658)	(254)	(21,912)	(24)
Acquisition of capital assets	(97,387)	(368)	(97,755)	(1,846)
Proceeds from sale of capital assets	-	-	-	352
Capital contributions received	8,271	292	8,563	-
Net cash used in capital and related financing activities	(130,051)	(490)	(130,541)	(1,732)
Cash flows from investing activities:				
Purchases of investments	-	-	-	(18,774)
Proceeds from sale of investments	17,445	-	17,445	73,348
Investment income received	4,987	81	5,068	17,882
Investment expenses paid	(18)	-	(18)	(97)
Net cash provided by investing activities	22,414	81	22,495	72,359
Net change in cash and cash equivalents	(83,652)	(352)	(84,004)	10,308
Cash and cash equivalents, beginning of year	482,847	8,827	491,674	120,229
Cash and cash equivalents, end of year	$ 399,195	$ 8,475	$ 407,670	$ 130,537
Cash and cash equivalents:				
Cash and investments:				
Unrestricted	$ -	$ 7,746	$ 7,746	$ 270,878
Restricted with fiscal agents	-	729	729	-
Other restricted	399,195	-	399,195	499
Less deposits and investments not meeting the definition of cash and cash equivalents	-	-	-	(140,840)
Total cash and cash equivalents	$ 399,195	$ 8,475	$ 407,670	$ 130,537

(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, 2010
(In thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	SCVMC	Other	Total	Internal Service Funds
Reconciliation of operating loss to net cash provided by (used in) operating activities:				
Operating loss	$ (165,749)	$ (879)	$ (166,628)	$ (53,842)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	35,924	885	36,809	3,521
Amortization of net pension assets	-	-	-	(5,409)
Provision for bad debts	53,484	-	53,484	-
Miscellaneous nonoperating revenues (expenses), net	(9,230)	(4)	(9,234)	283
Decrease (increase) in assets:				
Receivables	(47,122)	15	(47,107)	(992)
Due from other governmental agencies	(25,910)	44	(25,866)	13
Inventories	3,503	-	3,503	(154)
Prepaid rent/insurance	(191)	-	(191)	-
Other assets	-	6	6	(137)
Increase (decrease) in liabilities:				
Accounts payable	3,033	(35)	2,998	(170)
Accrued salaries and benefits	3,802	4	3,806	-
Accrued liabilities	330	(10)	320	138
Due to third-party payers	(15,291)	-	(15,291)	-
Accrued vacation and sick leave	3,163	(4)	3,159	(36)
Insurance claims	-	-	-	3,927
Unearned revenue	382	24	406	-
Net OPEB obligation	-	-	-	38,238
Net cash provided by (used in) operating activities	$ (159,872)	$ 46	$ (159,826)	$ (14,620)
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	$ 11,181	$ -	$ 11,181	$ -
Capitalized interest expense	3,401	-	3,401	-
Payment to refunded bond escrow agent from refunding bond proceeds	1,914	-	1,914	-
Acquisition of capital assets through accounts payable	11,863	-	11,863	-
Amortization of discounts, premiums and deferred loss on refunding	1,207	-	1,207	-
Amortization of deferred charges	330	-	330	-
Retirement of discounts, deferred loss on refunding and other costs due to refunding	1,083	-	1,083	-
Noncash investing activities:				
Capitalized interest revenue	250	-	250	-
Decrease in rebatable arbitrage	278	-	278	-
Net change in fair value of investments not considered cash and cash equivalents	60	-	60	2,194
Noncash noncapital financing activities				
Accretion of interest on capital appreciation bonds	-	-	-	5,981

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, 2010
(In thousands)

	Investment Trust Funds	Private Purpose Trust Fund	Agency Funds
Assets:			
Cash and investments:			
Unrestricted	$ 2,625,388	$ 49,820	$ 94,318
Other restricted	5	597	1,159
Securities lending collateral	29,439	596	284
Receivables:			
Property taxes	-	-	118,986
Interest	9,019	176	9,028
Other	-	86	143
Due from other governmental agencies	-	-	390
Other assets	-	29,433	4,985
Total assets	2,663,851	80,708	$ 229,293
Liabilities:			
Accounts payable	-	37,029	$ -
Securities lending collateral - due to borrowers	29,439	596	284
Due to other governmental agencies	-	252	100,901
Deposits from others	-	29,518	-
Fiduciary liabilities	-	-	128,108
Total liabilities	29,439	67,395	$ 229,293
Net assets:			
Net assets held in trust for investment pool participants/private-purpose trust	$ 2,634,412	$ 13,313	

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, 2010
(In thousands)

	Investment Trust Funds	Private-Purpose Trust Fund
Additions:		
Contributions to pooled investments	$ 24,720,088	$ 1,752
Interest and investment income	24,178	104
Securities lending activities:		
Securities lending income	118	3
Securities lending expenses	(76)	(2)
Total additions	24,744,308	1,857
Deductions:		
Distributions and administrative expenses	24,894,545	305
Change in net assets	(150,237)	1,552
Net assets held in trust, beginning of year	2,784,649	11,761
Net assets held in trust, end of year	$ 2,634,412	$ 13,313

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, 2009 and May 31, 2010. 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, other special districts and other agencies which use the County Treasury as their depository, as well as account for separate investments acquired for the Palo Alto Unified School District, Foothill De Anza Community College District, and West Valley Mission Community College District.
- *Private Purpose Trust Funds* are used to account for resources for conservatees managed by the public guardians and administrators. These resources are restricted to a specified purpose that benefits individuals.
- *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 360 days of the end of the current fiscal period. During the year ended June 30, 2010, the County changed its availability period from 180 days to 360 days and recognized an additional $16.0 million of revenues in its General Fund. 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 Pool

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

(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 63% 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, 2010, to support the value of shares in the pool.

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

Separate Investments

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

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

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

Investment Income

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

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

(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, $100 for internally generated software, and $5 for equipment and vehicles with an estimated useful life in excess of one year. Donated capital assets are valued at their estimated fair market value on the date donated. Capital assets used in operations are depreciated or amortized (assets under capital leases and other intangible assets) using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary fund statements. Certain assets, for which actual historical costs are not available, have been valued using methods that approximate their historical costs. Depreciation of exhaustible capital assets is charged as an expense against the County's operations, over their estimated useful lives in the government-wide statements and proprietary fund statements.

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

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

(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, and Deferred Losses on Refunding

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

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

(m) Leases

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

(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

Effective July 1, 2009, the County adopted the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This Statement establishes standards for the recognition and measurement of intangible assets including easements and computer software. The statement requires all capitalized intangible assets be classified as capital assets and recognized in the Statement of Net Assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated, and internally generated computer software. This Statement also establishes guidance specific to intangible assets related to amortization. The implementation of GASB Statement No. 51 did not have an impact on the County for the year ended June 30, 2010.

Effective July 1, 2009, the County adopted the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. It also provides reporting guidelines for hedging derivative instruments and investment derivative instruments.

The County entered into interest rate swaps agreements to hedge the interest payments on its variable rate 2008 Series M Lease Revenue Bonds. The County determined the hedging relationship between the variable rate bonds and the related interest rate swaps to be effective as of June 30, 2010. Therefore, the negative fair value impact have been deferred and the adoption of the provisions of GASB Statement No. 53 did not have an impact on beginning net assets. At June 30, 2010, the County recorded a derivative instruments liability and an offsetting deferred outflow on derivative instruments of $16,122, representing the negative fair value of the interest rate swap hedging the variable rate bonds as of June 30, 2010. Required disclosures related to the County's interest rate swaps are discussed in Note 9.

(1) Summary of Significant Accounting Policies (Continued)

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

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Application of this Statement is effective for the County's fiscal year ending June 30, 2011.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. Application of this Statement is effective for the County's fiscal year ending June 30, 2011.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. Common examples of SCAs include long-term arrangements in which a government ("transferor") engages a company or another government ("operator") to operate a major capital asset in return for the right to collect fees from users of the capital asset. Application of this Statement is effective for the County's fiscal year ending June 30, 2013.

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

(p) Use of Estimates

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

(2) Stewardship, Compliance and Accountability

Deficit Net Assets

At June 30, 2010, the Workers' Compensation and the Pension Obligation Internal Service Funds have net deficits of $29,278, and $49,257, respectively. The deficits are expected to be eliminated in future years through rate increases.

(3) Cash and Investments

(a) Description

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

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

(b) Investment Policies

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

(3) Cash and Investments (Continued)

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

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

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

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

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

(3) Cash and Investments (Continued)

(c) Summary of Cash and Investments

Total County cash and investments are reported as follows:

	Unrestricted	Restricted	Securities Lending Collateral	Total
Primary Government	$ 690,485	$ 483,959	$ 12,766	$ 1,187,210
Component Units	121,359	4,551	-	125,910
Investment Trust Funds	2,625,388	5	29,439	2,654,832
Private-Purpose Trust Fund	49,820	597	596	51,013
Agency Funds	94,318	1,159	284	95,761
Total cash and investments	$ 3,581,370	$ 490,271	$ 43,085	$ 4,114,726

The County's cash and investments are as follows:

Cash and deposits:	
Cash on hand	$ 89
Deposits of the County	14,771
Restricted deposits	4,294
Deposits with component units:	
Housing Authority	17,057
FIRST 5	5,528
Total cash and deposits	41,739
Investments:	
With Treasurer	3,908,797
With fiscal agents	29,394
With Housing Authority	27,807
With FIRST 5	63,904
With Securities Lending Program	43,085
Total investments	4,072,987
Total cash, deposits and investments	$ 4,114,726

(d) Custodial Credit Risk – Deposits

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

(3) Cash and Investments (Continued)

(e) Investment Composition

As of June 30, 2010, the major classes of the County's cash and investments consisted of the following:

				Investment Maturities (in years)				
	Interest Rates	Par Value	Fair Value	0 - 1	1 - 3	3 - 5	5 - 10	10 - 30
With Treasurer:								
Commingled pool:								
U.S. Treasury Notes	1.00% - 2.375%	$ 125,000	$ 125,581	$ 100,425	$ 25,156	$ -	$ -	$ -
U.S. Treasury Bills	0.00%	35,000	34,991	34,991	-	-	-	-
U.S. Agencies - Coupon								
Not on securities loan	0.35% - 5.38%	1,163,260	1,176,675	437,218	721,754	17,703	-	-
Loaned securities for cash collateral	1.25% - 1.88%	41,801	42,216	-	42,216	-	-	-
U.S. Agencies - Discount	0.21% - 0.52%	685,000	684,374	684,374	-	-	-	-
Medium-term corporate notes	1.80% - 7.90%	586,930	593,862	311,545	267,384	14,933	-	-
Asset Backed Securities	1.10%	20,000	20,006	-	20,006	-	-	-
Municipal Bonds	0.28% - 1.25%	15,000	15,008	15,008	-	-	-	-
Commercial paper	0.25% - 0.60%	370,034	369,757	369,757	-	-	-	-
Negotiable Certificates of Deposit	0.33%	150,000	149,986	124,986	25,000	-	-	-
Money Market Mutual Funds	0.01% - 0.20%	327,776	327,776	327,776	-	-	-	-
State Local Agency Investment Fund	0.95%	40,000	40,066	40,066	-	-	-	-
Subtotal commingled pool		3,559,801	3,580,298	2,446,146	1,101,516	32,636	-	-
Separate investments:								
U.S. Treasury Notes		49,845	54,843	3,541	10,924	8,888	24,092	7,398
U.S. Agencies - Coupon		74,113	78,708	24,462	20,204	-	5,014	29,028
U.S. Agencies - Discount		580	570	-	570	-	-	-
Medium-term corporate notes		27,467	28,494	1,012	8,406	7,016	6,674	5,386
Municipal bonds		30,750	30,791	30,268	-	523	-	-
Money market mutual funds		126,271	126,271	126,271	-	-	-	-
Stock mutual funds:								
Vanguard 500 Index Fund		11,016	8,822	8,822	-	-	-	-
Subtotal separate investments		320,042	328,499	194,376	40,104	16,427	35,780	41,812
Subtotal with Treasurer		3,879,843	3,908,797	2,640,522	1,141,620	49,063	35,780	41,812
With fiscal agents:								
U.S. Treasury Notes		2,145	2,251	-	1,642	609	-	-
U.S. Agencies - Coupon		15,050	16,095	427	13,879	1,789	-	-
U.S. Agencies - Discount		580	580	580	-	-	-	-
Medium-term corporate notes		3,200	3,337	-	2,337	1,000	-	-
Money market mutual funds		7,131	7,131	7,131	-	-	-	-
Subtotal with fiscal agents		28,106	29,394	8,138	17,858	3,398	-	-
With Housing Authority:								
U.S. Agencies		19,885	19,885	6,255	284	13,346	-	-
Money market mutual funds		442	442	442	-	-	-	-
State Local Agency Investment Fund		7,480	7,480	7,480	-	-	-	-
Subtotal with Housing Authority		27,807	27,807	14,177	284	13,346	-	-
With FIRST 5:								
U.S. Treasury Notes		7,888	7,888	-	7,888	-	-	-
U.S. Agencies - Coupon		32,061	32,061	7,045	10,021	14,995	-	-
Medium-term corporate notes		18,466	18,466	3,282	8,834	6,350	-	-
Money market funds		5,489	5,489	5,489	-	-	-	-
Subtotal with FIRST 5		63,904	63,904	15,816	26,743	21,345	-	-
Securities Lending Collateral received and invested:								
Money market funds		43,085	43,085	43,085	-	-	-	-
Total investments		$ 4,042,745	$ 4,072,987	$ 2,721,738	$ 1,186,505	$ 87,152	$ 35,780	$ 41,812

(3) Cash and Investments (Continued)

Custodial Credit Risk – Investments

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

Interest Rate Risk

Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by limiting the weighted average maturity of its commingled pool to eighteen months. At June 30, 2010, the County's weighted average maturity of its commingled pool is 334 days. The County invested in callable Federal Agency ($437,664 of the County's U.S. Agencies coupon position of $1,218,891) and Corporate Bonds ($3,047 of the County's Corporate Bonds position of $593,862) issues within its commingled pool. These issues are highly sensitive to interest rate changes and are callable at par prior to maturity based on these rate changes. All of the cash collateral received for securities lending is invested in the Money Market Funds with duration of 1 day.

Credit Risk

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

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	3.5%	16.7%	7.7%	0.0%	12.3%
U.S. Treasury Bills	Exempt	1.0%	0.0%	0.0%	0.0%	0.0%
U.S. Agencies	Exempt	0.0%	0.4%	0.0%	0.0%	0.0%
U.S. Agencies	Aaa	22.5%	23.5%	56.7%	71.5%	50.2%
U.S. Agencies	P1	30.6%	0.2%	0.0%	0.0%	0.0%
Asset Backed Securities	Aaa	0.6%	0.0%	0.0%	0.0%	0.0%
Municipal bonds	Aaa	0.0%	2.4%	0.0%	0.0%	0.0%
Municipal bonds	Aa	0.0%	0.2%	0.0%	0.0%	0.0%
Municipal bonds	A	0.3%	0.0%	0.0%	0.0%	0.0%
Municipal bonds	MIG1	0.0%	2.1%	0.0%	0.0%	0.0%
Municipal bonds	Exempt	0.1%	4.6%	0.0%	0.0%	0.0%
Medium-term corporate notes	Aaa	9.0%	1.2%	8.3%	0.0%	2.8%
Medium-term corporate notes	Aa	5.4%	1.9%	3.1%	0.0%	8.6%
Medium-term corporate notes	A	1.8%	4.9%	0.0%	0.0%	17.5%
Medium-term corporate notes	Baa	0.0%	0.7%	0.0%	0.0%	0.0%
Medium-term corporate notes	Not rated	0.4%	0.0%	0.0%	0.0%	0.0%
Commercial paper	P-1	9.6%	0.0%	0.0%	0.0%	0.0%
Commercial paper	Not rated	0.7%	0.0%	0.0%	0.0%	0.0%
Negotiable Certificate of Deposits	Aa	0.7%	0.0%	0.0%	0.0%	0.0%
Negotiable Certificate of Deposits	Not rated	3.5%	0.0%	0.0%	0.0%	0.0%
Money market mutual funds	Aaa	9.2%	38.5%	24.2%	1.6%	0.0%
Money market funds	Not rated	0.0%	0.0%	0.0%	0.0%	8.6%
State Local Agency Investment Fund	Not rated	1.1%	0.0%	0.0%	26.9%	0.0%
Stock Mutual Fund	Not applicable	0.0%	2.7%	0.0%	0.0%	0.0%
Total Investments		100.0%	100.0%	100.0%	100.0%	100.0%

(3) Cash and Investments (Continued)

Government Code Section 16429.1 authorizes each local government agency to invest funds in the State Treasurer's Local Agency Investment Fund (LAIF) administered by the California State Treasurer. The total amount recorded by all public agencies in LAIF at June 30, 2010 was approximately $23.2 billion. Of that amount, 94.59% was invested in non-derivative financial products and 5.41% in structured notes and asset backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the County's position in the pool.

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer. The County diversifies its portfolio by limiting the percentage of the portfolio that can be invested in any one issuer's name. U.S. Treasury and Agency securities are not subject to this limitation.

More than 5% of the County's pooled investments are invested in Federal Home Loan Bank notes, Federal National Mortgage Association notes, Federal Home Loan Mortgage Corporation notes, and General Electric's corporate bonds and commercial paper, which represent 18.7%, 18.7%, 11.7%, and 6.2%, respectively, of the County's pooled investments.

More than 5% of the Housing Authority's investments are invested in Federal National Mortgage Association notes and Federal Home Loan Mortgage Corporation notes, which represent 43.8% and 26.7%, respectively, of the Housing Authority's investments.

More than 5% of the FIRST 5's investments are invested in Federal National Mortgage Association notes, Federal Home Loan Mortgage Corporation notes and Federal Home Loan Bank notes, which represent 32.0%, 12.6%, and 5.6%, respectively, of the First 5's investments.

(3) Cash and Investments (Continued)

Securities Lending Activity

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

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

The loaned securities, as of June 30, 2010, consisted of U.S. government agency securities. In return, the County receives collateral in the form of cash equal to at least 102% of the transferred securities plus accrued interest for reinvestment. The County authorized Bank of New York Mellon Corporation (BONY), the County's Custodian, to invest only in Approved Investments, such as U.S. Treasury and Government Agency bills, notes or bonds, repurchase agreements with primary dealers or financial institutions, negotiable Certificates of Deposits, commercial paper, medium term corporate notes or deposit notes, and money market funds no more than 20% of the Treasury's funds. Depending on the type of securities, there are restrictions in amount and time imposed by the County. All of the County's collaterals were invested in money market funds, with a weighted average maturity of one day as of June 30, 2010. The County does not match the maturities of investments made with cash collateral with the securities on loan. As of June 30, 2010, the underlying securities loaned by the County's investment pool approximated to $42.2 million. The cash collateral provided by the counterparty was $43.1 million, or 102% of the fair value of the securities lent, and was invested in the Dreyfus Institutional Preferred money market fund. The cash collateral provided met the 102% collateralization policy as of June 30, 2010. The County has no exposure to credit risk related to securities lending transactions as of June 30, 2010 because the market value of the invested cash collateral exceeds that of the borrowed securities.

(3) Cash and Investments (Continued)

(f) 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, 2010:

Assets:	
U.S. Treasury Notes	$ 180,424
U.S. Treasury Bills	34,991
U.S. Agencies - Coupon	1,297,599
U.S. Agencies - Discount	684,944
Medium-term corporate notes	622,356
Asset Backed Securities	20,006
Municipal bonds	45,799
Commercial paper	369,757
Negotiable Certificates of Deposit	149,986
Money market mutual fund	454,047
State Local Agency Investment Fund	40,066
Stock mutual funds	8,822
Total investments	3,908,797
Other assets (Interest receivable)	12,370
Total assets	$ 3,921,167
Net Assets:	
Equity of internal pool participants	$ 1,286,760
Equity of individual investment accounts	169,382
Equity of external pool participants	2,465,025
Total net assets	$ 3,921,167
Statement of Changes in Net Assets	
Net assets at July 1, 2009	$ 4,282,104
Net change in investments by pool participants	(360,937)
Net assets at June 30, 2010	$ 3,921,167
Net assets composition of the equity of external pool participants is as follows:	
Participants units outstanding ($1 par)	$ 2,468,739
Undistributed and unrealized loss	(3,714)
Net assets at June 30, 2010	$ 2,465,025
Participants net asset value at fair value price per share ($2,465,025 divided by 2,468,739 units)	$ 0.9985

(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	$ 2,935	$ -	$ -	$ 2,935
Loans receivable	-	37,669	-	37,669
Other	141,394	2,030	9,205	152,629
Gross receivables	144,329	39,699	9,205	193,233
Less: allowance for uncollectibles	(125,693)	(275)	-	(125,968)
Total receivables, net	$ 18,636	$ 39,424	$ 9,205	$ 67,265

Receivables - Business-type Activities	SCVMC	Nonmajor Enterprise Funds	Total Business-type Activities
Patient accounts receivable	$ 611,437	$ -	$ 611,437
Other	1,476	74	1,550
Gross receivables	612,913	74	612,987
Less allowance for uncollectibles	(480,359)	-	(480,359)
Total receivables, net	$ 132,554	$ 74	$ 132,628

Loan receivables from housing programs in the amount of $37,669 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, 2010, 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	$ 147,021	$ -
Other receivables	-	2,248
Other miscellaneous assets including cash deposits	-	27,738
Nonmajor governmental funds:		
Due from other governmental agencies	6,360	124
Other receivables	37,503	22
Other miscellaneous assets including cash deposits	-	372
Internal Service Funds	-	2
Total governmental activities	$ 190,884	$ 30,506
Business-type activities:		
SCVMC	$ -	$ 3,319
Nonmajor enterprise funds	-	100
Total business-type activities	$ -	$ 3,419

(4) Receivables (Continued)

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

Milpitas Redevelopment Agency Elmwood Sale

In June 2003, the Milpitas Redevelopment Agency (the MRDA) entered into an agreement 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 prior to June 30, 2009	(57,750)	(419)	(44,000)	-	(102,169)
Receivable at June 30, 2009	-	-	71,000	28,000	99,000
Less amount received during current year	-	-	(4,000)	-	(4,000)
Receivable at June 30, 2010	$ -	$ -	$ 67,000	$ 28,000	$ 95,000

At June 30, 2010, the County's General Fund receivable balance of $95,000 represents the remaining estimated future cash flow related to the sale of the Elmwood surplus lands. During the year ended June 30, 2010, the County recognized proceeds from the sale in the amount of $4,000 as revenue in its General Fund. At June 30, 2010, the deferred revenue balance related to this balance is $95,000.

(4) Receivables (Continued)

San Jose Redevelopment Agency

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

In September 2009, the Agency informed the County that due to the State's Supplemental Educational Revenue Augmentation Funds (SERAF) requirement and insufficient tax increment revenues, it did not have sufficient unrestricted funds to make the fiscal year 2009-2010 pass-through payment. The Agency further informed the County that it has reserved restricted funds for the fiscal year 2008-2009 pass-through payments ($21.3 million) pending negotiations regarding the payment. The parties have participated in mediation and have been meeting to attempt to resolve the issue of funds owed by the Agency to the County pursuant to the 2001 Amended Agreement.

At June 30, 2010, the County has recorded a receivable under the Amended Agreement from the Agency in the amount of $45.2 million, which included the fiscal year 2008-2009 pass-through amount of $21.3 million, the fiscal year 2009-2010 amount of $19.2 million and interest of $4.7 million. In addition, at June 30, 2010, the County has recorded a receivable from the Agency for other administration fees in the amount of $2.1 million. Under the modified accrual basis of accounting, the unavailable revenues are not permitted to be recognized as revenues in the governmental fund financial statements until the revenues are available to the County. In the government-wide financial statements, the revenues were recognized in the fiscal years for which they were earned.

Borrowing of Property Tax Revenue (Prop 1A)

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

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority (California Communities), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the

(4) Receivables (Continued)

Proposition 1A receivables and issued bonds (Prop 1A Bonds) to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. Most of the County's funds participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The amount of this borrowing pertaining to the County (excluding the Santa Clara County Central Fire Protection District, the Los Altos Hills County Fire District and the Santa Clara County Library) was $45.4 million. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

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

(5) Interfund Transactions

Interfund receivables, payables, and transfers as of and for the fiscal year ended June 30, 2010, by individual fund/fund type are summarized as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	SCVMC	$ 42,852
General Fund	Internal Service Funds	1,688
Nonmajor Governmental Funds	General Fund	566
Nonmajor Governmental Funds	Nonmajor Governmental Funds	23
Nonmajor Governmental Funds	SCVMC	1,018
SCVMC	General Fund	615
SCVMC	Nonmajor Governmental Funds	4,035
Total		$ 50,797

The SCVMC Fund is due $4,035 from Nonmajor Governmental Funds to reimburse capital project costs incurred, while the General Fund is due $42,852 from SCVMC for current borrowings for working capital. The General Fund is due $1,688 from Internal Service Funds for current borrowings for working capital. In addition, the Nonmajor Governmental Funds is due $1,018 from the SCVMC Fund to reimburse costs incurred for capital projects.

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.

(5) Interfund Transactions (Continued)

Advance from/to other funds:

In December 2009, the Board approved an interfund loan for the purchase of the Former San Jose Medical Center in the amount of $24,040. The loan is structured as a single loan with an interest rate commensurate with the interest that would have otherwise been earned by the Retiree Healthcare Internal Service Fund had it invested these funds. The terms of the loan include a maturity of December 31, 2015 and interest at 2.84% per annum. Interest on the loan is payable annually on December 31st of each year commencing on December 31, 2010.

Transfer in/out between funds:

During the fiscal year ended June 30, 2010, the County's governmental activities funded from the General Capital Improvement Fund transferred the accumulated costs in the amount of $11,181 related to the active construction projects involving the Valley Health Centers, Valley Specialty Center, and other health facility improvements to SCVMC. These amounts were not reported in the governmental funds as the amounts did not involve the transfer of financial resources and are reported as capital contributions transferred in from other County funds in the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

(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	$ 197,775	Transfer funds for operating subsidy.
General Fund	SCVMC	560	Transfer funds for Mental Health Department's Don Lowe project.
General Fund	Nonmajor Enterprise funds	11	Transfer funds to cover rent for the Animal Rescue Clinic.
Nonmajor Governmental funds	SCVMC	1,800	Transfer unspent funds to SCVMC for the Valley Specialty Center and Valley Health Center projects.
Nonmajor Governmental funds	SCVMC	44	Transfer funds to refund 1998 Series A bonds and issue 2010 Series N bonds.
SCVMC	General Fund	1,233	Transfer funds to refund 1998 Series A bonds and issue 2010 Series N bonds.
SCVMC	General Fund	1,000	Transfer funds for the Coverage Initiative Program.
SCVMC	General Fund	929	Transfer funds to the General Fund to recognize Mental Health Department's share of revenues for mental health services that were provided at the SCVMC clinics and billed by SCVMC.
SCVMC	Nonmajor Governmental Funds	11,591	Transfer bond proceeds to General Capital Improvement Nonmajor fund for the Valley Specialty Center and Valley Health Center projects.
SCVMC	Nonmajor Governmental Funds	590	Transfer funds to Multiple Facilities Construction Nonmajor fund for the new Fleet Facility at Junction Avenue.
Subtotal Between Governmental and Business-type Activities:		215,533	
Between Funds within the Governmental or Business-type Activities*:			
General Fund	Nonmajor Governmental Funds	93	Transfer funds to Roads Nonmajor fund for school crossing guard program.
		51	Transfer funds to the County Library Nonmajor fund towards annual contribution per Joint Power Authority (JPA) agreement.
		762	Transfer funds to pay debt service for Hospital Facilities Authority Bonds.
		32,148	Transfer funds to finance various Facilities and Fleet Department capital projects.
		151	Transfer funds to the Roads Nonmajor fund for Measure B Transportation Improvement Program projects.
		106	Transfer funds to the Tobacco Securitization Corporation for operations.
		553	Transfer funds to the County Library for operations.
		500	Transfer funds to support the Affordable Housing program.
		34,364	
Nonmajor Governmental Funds	General Fund	144	Transfer funds from the Vital Statistics Nonmajor fund for specified ongoing operations.
		9,144	Return funds to General Fund for County's other operation uses.
		379	Transfer funds to General Fund to expedite unforeseen emergency repair projects.
		99	Return unspent funds to Sheriff's Court Security Reserves for the Secured Judicial Parking Downtown Superior Courts and Hall of Justice Courts upon project completion.
		150	Transfer funds to refund 1998 Series A bonds and issue 2010 Series N bonds.
		601	Transfer funds to pay contract services for a 10 year plan to address chronic homelessness in the County.
		282	Transfer funds for Proposition 36 Nonmajor fund for substance abuse prevention program.
		38,693	Transfer funds for Proposition 63 Nonmajor fund for operations.
		1,000	Transfer funds to General Fund to pay for 2008 Series L's bond interest expense.
		2,000	Transfer funds to General Fund to pay for 2006 Series I's bond interest expense.
		52,492	
Nonmajor Governmental Funds	Nonmajor Governmental Funds	2,717	Transfer funds to Facilities and Fleet Department for alterations to new Vector Control Building.
		111	Return unspent funds from the Facilities and Fleet Department to the Vector Control Department for alterations to new Vector Control Building.
		20	Return unspent funds to the Multiple Facilities Construction Nonmajor fund for the Valley Specialty Center and Valley Health Center projects.
		1,127	Transfer funds to the Parks Department for Parks Capital Projects.
		460	Transfer funds to refund 2000 Series B bonds and issue 2010 Series N bonds.
		1,250	Transfer bond proceeds to the General Capital Improvement Nonmajor fund for the Charcot project.
		806	Transfer bond proceeds to the General Capital Improvement Nonmajor fund for the Crime Lab/Courhouse Seismic projects.
		6,267	Transfer bond proceeds to the General Capital Improvement Nonmajor fund for the Fleet Building and Courthouse Seismic project.
		1	Transfer funds from project accounts to interest accounts for 2007 Series K bonds.
		375	Transfer funds from interest accounts to project accounts for 2007 Series K bonds.
		13,134	
Internal Service Fund	General Fund	3,324	Return funds to the General Fund due to overcharges for services and supplies provided by the Facilities and Fleet Department.
		84	Transfer funds from Information Service Department relating to video production equipment for the Board Meeting Broadcasting project.
		55	Transfer funds to close out balances of contributed Capital Projects Fund to the General Fund.
		3,463	
Internal Service Fund	Nonmajor Governmental funds	185	Transfer funds from the Internal Service Funds (Fleet Management) to the Facilities and Fleet Department relating to the Fleet Maintenance Facility Renovation project.
General Fund	Internal Service Funds	269	Transfer funds from General Fund to the Facilities and Fleet Department to purchase ten law enforcement vehicles.
Nonmajor Governmental Funds	Internal Service Funds	250	Transfer funds from the Facilities and Fleet Department to the Information Services Department for server room remodel project.
Total Between Funds within Governmental or Business-type Activities:		104,157	
	Total Transfers:	$ 319,690	

* 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, 2010 was as follows:

	Balance, July 1, 2009	Additions	Reductions/ Adjustments	Transfers	Balance, June 30, 2010
Governmental activities					
Capital assets, not being depreciated:					
Land	$ 198,143	$ -	$ -	$ 43,560	$ 241,703
Construction in progress	270,840	102,627	(1,017)	(216,761)	155,689
Total capital assets, not being depreciated	468,983	102,627	(1,017)	(173,201)	397,392
Capital assets, being depreciated:					
Infrastructure	243,926	-	-	11,314	255,240
Buildings and improvements	679,905	797	(8,704)	147,635	819,633
Equipment and vehicles	155,470	10,356	(5,978)	3,071	162,919
Total capital assets, being depreciated	1,079,301	11,153	(14,682)	162,020	1,237,792
Less accumulated depreciation for:					
Infrastructure	(75,247)	(9,948)	-	-	(85,195)
Buildings and improvements	(389,868)	(10,274)	5,217	-	(394,925)
Equipment and vehicles	(113,337)	(11,919)	5,852	-	(119,404)
Total accumulated depreciation	(578,452)	(32,141)	11,069	-	(599,524)
Total capital assets, being depreciated, net	500,849	(20,988)	(3,613)	162,020	638,268
Governmental activities, capital assets, net	$ 969,832	$ 81,639	$ (4,630)	$ (11,181)	$ 1,035,660
Business-type activities					
Capital assets, not being depreciated:					
Land	$ 6,310	$ -	$ -	$ -	$ 6,310
Construction in progress	152,406	90,090	-	(7,725)	234,771
Total capital assets, not being depreciated	158,716	90,090	-	(7,725)	241,081
Capital assets, being depreciated:					
Buildings and improvements	679,515	5,213	(4,451)	7,606	687,883
Equipment and vehicles	84,419	360	(6,713)	11,300	89,366
Leasehold improvements	2,274	-	(201)	-	2,073
Total capital assets, being depreciated	766,208	5,573	(11,365)	18,906	779,322
Less accumulated depreciation for:					
Buildings and improvements	(233,426)	(28,656)	3,929	-	(258,153)
Equipment and vehicles	(58,189)	(8,049)	6,429	-	(59,809)
Leasehold improvements	(1,496)	(104)	201	-	(1,399)
Total accumulated depreciation	(293,111)	(36,809)	10,559	-	(319,361)
Total capital assets, being depreciated, net	473,097	(31,236)	(806)	18,906	459,961
Business-type activities, capital assets, net	$ 631,813	$ 58,854	$ (806)	$ 11,181	$ 701,042

(6) Capital Assets (Continued)

Capital asset activity for the Housing Authority for the fiscal year ended June 30, 2010 was as follows:

	Balance, July 1, 2009	Additions	Reductions/ Adjustments	Balance, June 30, 2010
Capital assets, not being depreciated:				
Land	$ 20,015	$ -	$ -	$ 20,015
Construction in progress	871	4,669	(42)	5,498
Total capital assets, not being depreciated	20,886	4,669	(42)	25,513
Capital assets, being depreciated:				
Buildings and improvements	55,692	21	(78)	55,635
Furniture and equipment	3,398	255	120	3,773
Total capital assets, being depreciated	59,090	276	42	59,408
Less accumulated depreciation for:				
Buildings and improvements	(20,712)	(1,801)	120	(22,393)
Furniture and equipment	(2,849)	(278)	(120)	(3,247)
Total accumulated depreciation	(23,561)	(2,079)	-	(25,640)
Total capital assets, being depreciated, net	35,529	(1,803)	42	33,768
Housing Authority capital assets, net	$ 56,415	$ 2,866	$ -	$ 59,281

Capital asset activity for the FIRST 5 for the fiscal year ended June 30, 2010 was as follows:

	Balance, July 1, 2009	Additions	Reductions/ Adjustments	Balance, June 30, 2010
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	-	(119)	4,265
Furniture and equipment	146	6	119	271
Total capital assets, being depreciated	4,530	6	-	4,536
Less accumulated depreciation for:				
Buildings and improvements	(833)	(214)	-	(1,047)
Furniture and equipment	(249)	(16)		(265)
Total accumulated depreciation	(1,082)	(230)	-	(1,312)
Total capital assets, being depreciated, net	3,448	(224)	-	3,224
FIRST 5 capital assets, net	$ 5,806	$ (224)	$ -	$ 5,582

(6) Capital Assets (Continued)

Depreciation

Depreciation expense was charged to governmental functions for the year ended June 30, 2010 as follows:

General government	$	12,573
Public protection		3,854
Public ways		9,340
Health and sanitation		404
Public assistance		605
Education		1,025
Recreation		819
Amount reported in the internal service funds		3,521
Total depreciation expense - governmental functions	$	32,141

Depreciation expense was charged to the business-type functions for the year ended June 30, 2010 as follows:

SCVMC	$	35,924
Airport		855
Sanitation District		30
Total depreciation expense - business-type functions	$	36,809

Capital Projects Commitments

As of June 30, 2010, the SCVMC and the Airport have active construction projects that include construction of the Valley Health Center (VHC) in Milpitas, Gilroy, and Fair Oaks; seismic compliance for SCVMC buildings; Ambulatory Electronic Medical Record System; Siemens Information System; and infrastructure and facility improvement of Reid Hillview Airport and South County Airport projects.

The County's commitments for business-type activities as of June 30, 2010 are as follows:

Projects	Expended to June 30, 2010	Committed as of June 30, 2010
Hospital Projects:		
VHC Milpitas	$ 62,226	$ 2,438
Seismic Safety	110,649	37,036
Renovations and equipment	60,471	10,180
Airport Projects	1,425	242
Total	$ 234,771	$ 49,896

(6) Capital Assets (Continued)

Nonmajor governmental funds (Special Revenue and Capital Projects Funds) also have active construction projects as of June 30, 2010. They are as follows:

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

- Parks projects include Almaden Quicksilver toxic mitigation; Santa Teresa County Park and Coyote Lake County Park Development Projects; Alviso Boat Launch Project; Casa Grande Restoration Implementation; and improvement of County Parks' facilities.

- General capital projects include the construction of the New Fleet Facility at Junction Avenue; continued renovation and improvement of the Juvenile Hall Housing detention buildings and jail facilities; the remodeling of County buildings; repair and replacement of County's facilities; the upgrade of County buildings' security system; and the renovation of the former San Jose Medical Clinic in downtown area of San Jose.

The County's governmental activities commitments at June 30, 2010 are as follows:

Projects	Expended to June 30, 2010	Committed as of June 30, 2010
Road projects	$ 18,549	$ 10,067
Park projects	24,149	2,365
General capital projects	112,991	12,927
Total	$ 155,689	$ 25,359

(7) Capital Leases

The County leases certain vehicles and equipment, obtained under various lease financing agreements. The leases expire at various times through the fiscal year 2015.

As of June 30, 2010, governmental activities' capital assets and accumulated depreciation under capital leases are as follows:

Description		
Equipment and vehicles	$	2,826
Less accumulated depreciation		(2,425)
Net capital assets	$	401

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

Fiscal year ending June 30,		
2011	$	135
2012		38
2013		38
2014		38
2015		35
Total		284
Amount representing interest at rates from 0.84% to 3.99%		(6)
Present value of future minimum lease payments	$	278

(8) Short-Term Debt

(a) Tax and Revenue Anticipation Notes (TRANS)

On July 16, 2009, County issued Tax and Revenue Anticipation Notes (TRANS) in the amount of $177,000 with interest at a fixed rate of 2.00% per annum. The purpose of the issue is to help the County meet its short term cash flow requirements. The proceeds were used by the County for any purpose for which the County is authorized to expend funds from the General Fund of the County. The County repaid the TRANS in June 2010.

(b) Housing Authority Line of Credit

The Housing Authority maintains an unsecured $5,000 line of credit, which provides the Housing Authority with a ready means of short-term financing. The line of credit bears interest at a rate of prime rate minus 0.5% and is at 3.25% at June 30, 2010, which is payable monthly. The line of credit matures at April 1, 2011. During the year ended June 30, 2010, the Housing Authority increased its short-term borrowings in the amount of $4,259 and at June 30, 2010, the liability balance is $4,759 and is recorded with other liabilities.

(9) Long-Term Liabilities

As of June 30, 2010, 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, 2010
Governmental activities:					
Taxable Pension Funding Bonds	8/1/10 - 8/1/36	5.34 - 6.11%	$2,020 - $51,560	$ 389,485	$ 388,045
2009 A General Obligation Bonds	8/1/10 - 8/1/39	0.65% - 5.00%	$1,000 - $32,500	350,000	350,000
El Camino Hospital District Hospital Facilities Authority:					
1985 ACES Lease Revenue Bonds Series A & B	8/1/10 - 8/1/15	(1)	$765 - $8,000	19,205	13,260
Financing Authority:					
1994 Lease Revenue Bonds Series A & B	11/15/10 - (2)	(3)	$107 - $262	2,060	965
1997 Lease Revenue Bonds Series A	11/15/12 - 11/15/13	4.70% - 6.00%	$1,513 - $1,632	16,649	3,145
2003 Lease Revenue Bonds Series C	5/15/11 - 5/15/23	3.00% - 5.00%	$975 - $1,645	20,025	16,435
2006 Lease Revenue Bonds Series I	5/15/11 - 5/15/31	3.50% - 5.00%	$2,523 - $5,927	87,575	83,255
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	11/15/10 - 11/15/22	3.00% - 5.00%	$161 - $1,364	5,579	4,407
2008 Lease Revenue Bonds Series L	5/15/11 - 5/15/36	3.00% - 5.25%	$1,015 - $4,445	59,800	57,765
2010 Lease Revenue Bonds Series N	5/15/11 - 5/15/17	3.00% - 5.00%	$5,135 - $10,047	47,188	47,188
Housing Authority:					
2004 Lease Revenue Bonds Series A	9/1/10 - 9/1/29	(4)	$85 - $255	3,550	3,195
2006 Lease Revenue Bonds	9/1/10 - 9/1/38	5.00%	$50 - $510	5,125	5,025
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	6/1/11 - 6/1/27	3.75 - 6.50%	$165 - $330	4,495	3,965
Total governmental activities				$ 1,135,421	$ 1,101,335
Business-type activities					
SCVMC:					
El Camino Hospital District Hospital Facilities Authority:					
1985 ACES Lease Revenue Bonds Series A&B	8/1/10 - 8/1/15	(1)	$4,035 - $5,527	$ 55,795	$ 24,440
Financing Authority:					
1994 Lease Revenue Bonds Series A & B	11/15/10 - (2)	(3)	$7,353 - $17,938	256,435	66,035
1997 Lease Revenue Bonds Series A	11/15/10 - 11/15/13	4.70% - 6.00%	$10,057 - $10,633	171,756	20,690
2005 Lease Revenue Bonds Series E	5/15/11 - 5/15/11	4.00%	$3,855	11,110	3,855
2006 Lease Revenue Bonds Series I	5/15/11 - 5/15/31	3.50% - 5.00%	$1,767 - $4,153	62,165	58,335
2007 Lease Revenue Bonds Series K	5/15/11 - 5/15/37	4.00% - 5.00%	$1,395 - $4,565	70,885	70,885
2008 Lease Revenue Bonds Series A	11/15/10 - 11/15/22	3.00% - 5.00%	$1,076 - $15,657	120,831	119,692
2008 Lease Revenue Bonds Series L	5/15/11 - 5/15/36	3.00% - 5.25%	$9,530 - $11,750	53,040	53,040
2008 Lease Revenue Bonds Series M	5/15/11 - 5/15/35	(5)	$535 - $8,300	143,105	142,585
2010 Lease Revenue Bonds Series N	5/15/11 - 5/15/17	3.00% - 5.00.%	$1,418 - $1,503	2,922	2,922
Total SCVMC				948,044	562,479
Airport:					
ABAG Lease Revenue Bonds Series 2002-1	7/1/10 - 7/1/32	4.00 - 5.00%	$155 - $355	6,780	5,295
Total business-type activities				$ 954,824	$ 567,774

(1) Variable rate, 0.23% effective as of June 30, 2010.
(2) Series A: 11/15/11 and Series B: 11/15/25.
(3) Series A: fixed rate of 7.75% and Series B: variable rate, 0.21% effective as of June 30, 2010.
(4) Variable rate, 0.24% effective as of June 30, 2010.
(5) Variable rate, 0.22% effective as of June 30, 2010.

(9) Long-Term Liabilities (Continued)

The following is a summary of long-term liabilities transactions for the fiscal year ended June 30, 2010:

	Balance, July 1, 2009	Additions	Retirements	Balance, June 30, 2010	Amounts Due Within One Year
Governmental activities:					
Lease Revenue Bonds	$ 276,044	$ 47,188	$ (65,937)	$ 257,295	$ 16,458
Unamortized premium	3,135	4,048	(347)	6,836	696
Unamortized deferred loss on refunding	(919)	(2,423)	162	(3,180)	(371)
Tobacco Settlement Asset-Backed Bonds	102,030	-	-	102,030	-
Accreted interest on capital appreciation bonds	15,514	7,031	-	22,545	-
Pension Funding Bonds	389,175	-	(1,130)	388,045	2,020
Accreted interest on capital appreciation bonds	10,869	5,981	-	16,850	-
Certificates of Participation	4,125	-	(160)	3,965	165
Unamortized premium	154	-	(9)	145	9
General Obligation Bonds	350,000	-	-	350,000	15,100
Unamortized premium	12,173	-	(419)	11,754	419
Subtotal governmental bonds	1,162,300	61,825	(67,840)	1,156,285	34,496
Capital Lease Obligations (Note 7)	652	186	(560)	278	132
Accrued litigation liability	3,000	-	(500)	2,500	-
Insurance claims (Note 13)	106,037	72,296	(68,369)	109,964	35,977
Net other postemployment benefits obligation (Notes 12(e) and 12(f))	12,461	49,099	-	61,560	-
Accrued vacation & sick leave	128,916	92,003	(91,014)	129,905	11,522
Total governmental activities	$ 1,413,366	$ 275,409	$ (228,283)	$ 1,460,492	$ 82,127
Business-type activities:					
SCVMC Lease Revenue Bonds	$ 581,155	$ 2,922	$ (21,598)	$ 562,479	$ 21,473
Unamortized discount	(674)	-	287	(387)	(173)
Unamortized premium	12,988	216	(926)	12,278	976
Unamortized deferred loss on refunding	(21,923)	(308)	2,590	(19,641)	(1,869)
Subtotal SCVMC bonds	571,546	2,830	(19,647)	554,729	20,407
Airport Lease Revenue Bonds	5,455	-	(160)	5,295	160
Unamortized discount	(19)	-	1	(18)	(1)
Subtotal Airport bonds	5,436	-	(159)	5,277	159
Accrued vacation & sick leave	62,437	57,699	54,540	65,596	10,859
Total business-type activities	$ 639,419	$ 60,529	$ 34,734	$ 625,602	$ 31,425
Component Units:					
Housing Authority:					
Notes payable	$ 4,380	$ -	$ (1,402)	$ 2,978	$ 3
Bracher HDC, Inc.	1,363	16	-	1,379	-
S.P.G. Housing, Inc.	4,672	45	(38)	4,679	40
Villa Garcia, Inc.	2,630	36	(88)	2,578	95
Villa San Pedro HDC, Inc.	6,899	17	(60)	6,856	62
Rotary Plaza/HACSC HDC, Inc.	127	6	-	133	-
Payment in lieu of taxes	2,171	60	-	2,231	-
Accrued vacation & sick leave	960	1,597	(1,498)	1,059	40
Other net other postemployment benefits obligations	1,230	-	(1,230)	-	-
Accreted interest payable	485	24	-	509	-
Total Housing Authority	24,917	1,801	(4,316)	22,402	240
FIRST 5:					
Accrued vacation & sick leave	203	-	(11)	192	-
Total component units	$ 25,120	$ 1,801	$ (4,327)	$ 22,594	$ 240

(9) Long-Term Liabilities (Continued)

(a) Governmental Activities

2007 Taxable Pension Funding Bonds

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

2009 General Obligation Bonds Series A

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

On May 27, 2009, the County issued 2009 General Obligation Bonds Series A (2009 GO Bonds) in the amount of $350,000. The 2009 GO Bonds bear fixed interest rates ranging from 0.65% to 5.00% which are payable semi-annually commencing February 1, 2010 and have a final maturity of August 1, 2039.

Hospital Facilities Authority

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

The 1985 Adjustable Convertible Extendable Securities (ACES) Lease Revenue Bonds were issued by the Hospital Facilities Authority to provide financing for the acquisition, construction, and renovation of various Santa Clara Valley Health and Hospital System projects, including the Valley Health Center, 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.

(9) Long-Term Liabilities (Continued)

In connection with the issuance of the 1985 ACES Lease Revenue Bonds, the Hospital Facilities Authority obtained an irrevocable letter of credit as a credit facility with State Street Bank and Trust Company. At June 30, 2010, the letter of credit was set to expire on July 1, 2013. The Hospital Facilities Authority's repayment of unreimbursed draws made on the credit facility bears interest at rates as defined in the reimbursement agreement up to 12% per annum with the principal due at July 1, 2013. The Authority is required to pay State Street Bank and Trust Company an annual commitment fee of 0.45% based on the outstanding principal amount of the bonds supported by the credit facility. The letter of credit is reduced pro rata as principal payments are made. The amount of the irrevocable letter of credit agreement, as of June 30, 2010 was approximately $38,382.

Silicon Valley Tobacco Securitization Authority

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

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

In the event of a decline in the tobacco settlement revenues for any reason, including the default or bankruptcy of a participating cigarette manufacturer, resulting in a decline in the tobacco settlement revenues and possible default on the Tobacco Securitization debt, neither the JPA, 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.

(9) Long-Term Liabilities (Continued)

2003 Lease Revenue Bonds Series C - On December 18, 2003, the County through the Financing Authority issued 2003 Series C Lease Revenue Bonds in the amount of $20,025. These bonds were issued to embark on a number of long-term capital projects including the construction of a new courthouse in the City of Morgan Hill.

2010 Lease Revenue Bonds Series N – On February 18, 2010, the Financing Authority issued $50,110 of 2010 Series N Lease Revenue Bonds on behalf of the County and its SCVMC. The bond proceeds including premiums of $4,264 were used to current refund the outstanding 1998 Series A and 2000 Series B Lease Revenue Bonds. The 2010 Series N bonds bear fixed interest rates ranging from 3.00% to 5.00% and have a final maturity date of May 15, 2017. 2010 Series N bonds net proceeds and amounts available from the refunded bonds were used to establish a refunding escrow. The 1998 Series A in the amount of $15,595, were redeemed on February 19, 2010, while the 2000 Series B bonds in the amount of $37,245, were redeemed on May 15, 2010.

The refunding of 1998 Series A and 2000 Series B bonds resulted in the accounting recognition of a deferred loss of $2,731 for the fiscal year ended June 30, 2010. The Financing Authority in effect reduced its aggregate debt service payments by approximately $4,867 over the next 7 years and obtained a net economic gain (difference between the present values of the old and new debt service payments) of $4,514.

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

In connection with the issuance of the 2004 Series A Lease Revenue Bonds, the County obtained an irrevocable letter of credit as a credit facility with U.S. Bank N.A. for these bonds. At June 30, 2010, the letter of credit was set to expire on September 1, 2012. The County's repayment of unreimbursed draws made on the credit facility bears interest at rates as defined in the reimbursement agreement up to LIBOR plus 4% per annum with the principal due at September 1, 2012. The County is required to pay U.S. Bank N.A. an annual commitment fee of 1.50% effective September 1, 2009 (1.00% before September 1, 2009) based on the outstanding principal amount of the bonds supported by the credit facility and for the year ended June 30, 2010, the Housing Authority paid an annual commitment fee in the amount of $49.

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

(9) Long-Term Liabilities (Continued)

2006 Vector Control Certificates of Participation Series TT

During November 2006, the County issued 2006 Series TT Certificates of Participations in the amount of $4,495 through California Special Districts Association Finance Corporation to finance the acquisition of an office building. The Certificates of Participations bear fixed interest rates ranging from 3.50% to 6.50% and have a final maturity date of June 1, 2027.

(b) Business-type Activities

SCVMC

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

Financing Authority Lease Revenue Bonds

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

Series A, initially issued for $206,995, consists of serial and term bonds that can be redeemed early at specific dates at call rates varying from 100% to 102% of the face value of bonds maturing after November 15, 2004. The 1994 Series A bonds are covered by indemnity insurance. On October 1, 1997, the Financing Authority issued lease revenue bonds to advance refund and defease $146,975 of outstanding 1994 Lease Revenue Series A Bonds.

The Series B bonds, issued for $51,500, bear interest at variable rates set daily, weekly, semi-annually, or on a term basis, as determined by the remarketing agent. Series B bonds also contain an early redemption provision, allowed at call rates of 100% of the bonds' face value, plus accrued interest. The 1994 Series B bonds are secured by an irrevocable letter of credit (credit facility) pursuant to a Standby Bond Purchase Agreement with JP Morgan Chase Bank N.A. dated November 1, 2000. At June 30, 2010, the irrevocable letter of credit amount is $52,126 and the expiration date is November 1, 2011. The Financing Authority's repayment of unreimbursed draws made on the credit facility bear interest at rates as defined in the Standby Bond Purchase Agreement up to 12% per annum with the principal due at November 1, 2011. The Financing Authority is required to pay JP Morgan Chase Bank N.A. an annual commitment fee of 0.25% based on the outstanding principal amount of the bonds supported by the credit facility and for the year ended June 30, 2010 paid an annual commitment fee in the amount of $159.

(9) Long-Term Liabilities (Continued)

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

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% at issuance and have a final maturity date of May 15, 2011.

2006 Lease Revenue Bonds Series I - On March 2, 2006, the County through the Financing Authority issued Lease Revenue Bonds 2006 Series I in the amount of $149,740. The bonds were issued to finance the construction costs of the County Crime Laboratory Facility; the Valley Health Clinics at Fair Oaks and Gilroy; and seismic retrofitting costs of Santa Clara Courthouse. The 2006 Series I bonds, bear fixed interest rates ranging from 3.50% to 5.00% and have a final maturity date of May 15, 2031.

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

2008 Lease Revenue Bonds Series L - On May 22, 2008, the Financing Authority issued $112,840 of 2008 Series L Lease Revenue Bonds on behalf of the County and SCVMC to refund the County's outstanding 2003 Series D and 2005 Series H, and SCVMC's outstanding 2006 Series J Lease Revenue Bonds. The 2008 L bonds bear fixed interest rates ranging from 3.00% to 5.25% and have a final maturity date of May 15, 2036.

(9) Long-Term Liabilities (Continued)

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

In connection with the issuance of the 2008 Series M Lease Revenue Bonds, the Financing Authority obtained an irrevocable letter of credit as a credit facility with Bank of America, N.A. for these bonds. At June 30, 2010, the letter of credit was set to expire on May 29, 2011. If Bank of America, N.A. elects not to extend the expiration date, the variable rate bonds would convert to Bank Bonds with repayments made in accordance with the maturity schedule provided in the Trust Agreement and these Bank Bonds would bear interest at the Bank Rate which is up to 12% per annum. The Financing Authority is required to pay Bank of America, N.A. an annual commitment fee of 0.45% based on the outstanding principal amount of the bonds supported by the credit facility and for the year ended June 30, 2010 paid an annual commitment fee in the amount of $667.

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 be repaid. Under the swaps, the Financing Authority pays the counterparty a fixed payment of 3.185% and receives a variable payment computed as 56.5% of USD-LIBOR-BBA plus 0.33%.

(9) Long-Term Liabilities (Continued)

Fair Value. The swaps had a combined aggregate negative fair value of $16,122 as of June 30, 2010. Since coupons on the Financing Authority's variable rate securities adjust to changing interest rates, they do not have a corresponding fair value increase. The fair value is the net present value of the swaps using market data and the terms of the swaps, which include the expectations of the probability of occurrence of certain underlying events as defined in the swaps' documentation.

Credit Risk. The aggregate fair value of the swaps represented the Financing Authority's credit exposure to the counterparties as of June 30, 2010. 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, 2010, the Financing Authority was not exposed to credit risk because the swaps had a negative fair value of $16,122. 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, 2010, Citibank's ratings were A1 by Moody's, A+ by Standard and Poor's, and A+ by Fitch Ratings.

Basis Risk. The Financing Authority has chosen a variable index based on a percentage of LIBOR plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Financing Authority is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. As a result of changing basis between LIBOR and the rate on the Financing Authority's bonds during the course of the year, the synthetic fixed rates for the fiscal year ended June 30, 2010 were 2.877%.

Termination Risk. The Financing Authority or Citibank may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may be terminated by the Financing Authority if Citibank's credit rating of long-term, unsecured, unenhanced senior debt obligations is withdrawn, suspended or falls below "Baa1" as determined by Moody's Investors Service, or "BBB+" as determined by Standard and Poor's, or fail to have any rated long-term, unsecured, unenhanced senior debt obligations. The swaps may be terminated by Citibank if the County's rating of long-term, unsecured, unenhanced senior debt obligations or lease obligations of the County is withdrawn, suspended or falls below "Baa3" as determined by Moody's Investors Service, or "BBB-" as determined by Standard and Poor's, or the County fails to have any rated long-term, unsecured, unenhanced senior debt obligations or lease obligations.

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

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

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

(9) Long-Term Liabilities (Continued)

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

Swap Payments and Associated Debt Service Payments. Using rates as of June 30, 2010, debt service requirements of the 2008 Series M bonds and net swap payments, assuming current interest rates remain the same for the term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Year Ending June 30,	Principal (1)	Variable Interest (2)	Net Swap Interest (3)	Total Interest
2011	$ -	$ 313	$ 3,781	$ 4,094
2012	3,950	312	3,769	4,081
2013	4,150	303	3,660	3,963
2014	4,300	294	3,551	3,845
2015	4,450	284	3,430	3,714
2016 - 2020	24,400	1,269	15,329	16,598
2021 - 2025	28,450	982	11,862	12,844
2026 - 2030	33,325	648	7,827	8,475
2031 - 2035	39,025	256	3,092	3,348
	$ 142,050	$ 4,661	$ 56,301	$ 60,962

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

(2) Variable interest on the 2008 Series M is estimated using interest rate at June 30, 2010 of 0.22%.

(3) Net swap interest on the 2008 Series M is estimated using USD-LIBOR-BBA rate at June 30, 2010 of .350%. Net swap interest at June 30, 2010 is calculated as follows: 3.185% minus (0.35% * 56.5% + 0.33%) equals to 2.657%.

Impact on Financial Statements. The impact of the interest rate swaps on the financial statements for the year ended June 30, 2010 is as follows:

	Deferred outflows on derivative instrument	Derivative instrument liabilities
Balance at July 1, 2009	$ 10,441	$ 10,441
Change in fair value	5,681	5,681
Balance at June 30, 2010	$ 16,122	$ 16,122

Derivative instrument liabilities of $16,122 as of June 30, 2010 represent the fair value of the interest rate swap agreements in accordance with GASB Statement No. 53. Deferred outflows on derivative instrument of $16,122 as of June 30, 2010 represent deferred outflow of resources offsetting interest rate swap liabilities in accordance with GASB Statement No. 53.

(9) Long-Term Liabilities (Continued)

Division of the Lease Revenue Bonds

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

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

Airport

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

(c) Repayment Requirements

As of June 30, 2010, 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	Lease Revenue Bonds (1)		Tobacco Securtization Asset-Backed Bonds		Certificates of Participation		Taxable Pension Funding Bonds		General Obligation Bond	
ending June 30:	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 16,458	$ 11,850	$ -	$ -	$ 165	$ 185	$ 2,020	$ 17,950	$ 15,100	$ 16,097
2012	17,673	10,744	-	-	170	179	2,990	17,812	18,100	15,867
2013	13,072	9,966	-	-	175	173	4,040	17,617	1,000	15,671
2014	13,735	9,381	-	-	180	167	3,576	18,969	1,100	15,640
2015	13,338	8,649	-	-	190	160	3,975	19,479	1,100	15,607
2016-2020	53,940	35,936	-	-	1,075	667	24,447	107,625	9,600	77,259
2021-2025	42,273	26,782	-	-	1,365	373	29,342	130,475	22,500	73,518
2026-2030	51,134	16,285	-	-	645	49	46,435	145,937	48,500	64,988
2031-2035	30,922	4,997	-	-	-	-	172,895	57,675	89,300	48,058
2036-2040	4,750	411	43,604	178,571	-	-	98,325	6,044	143,700	19,008
2041-2045	-	-	11,339	66,321	-	-	-	-	-	-
2046-2050	-	-	18,025	158,675	-	-	-	-	-	-
2051-2055	-	-	-	-	-	-	-	-	-	-
2056	-	-	29,062	648,788	-	-	-	-	-	-
Total	$ 257,295	$ 135,001	$ 102,030	$ 1,052,355	$ 3,965	$ 1,953	$ 388,045	$ 539,583	$ 350,000	$ 361,713

(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, 2010 of 0.23%, 0.21%, 0.24%, and 0.22%, respectively.

(9) Long-Term Liabilities (Continued)

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

Business-type Activities

Fiscal year ending June 30:	SCVMC Lease Revenue Bonds (1) Principal	SCVMC Lease Revenue Bonds (1) Interest	Airport Lease Revenue Bonds Principal	Airport Lease Revenue Bonds Interest
2011	$ 21,473	$ 17,146	$ 160	$ 252
2012	22,195	16,194	170	246
2013	22,588	15,384	180	239
2014	23,955	14,636	185	231
2015	24,357	14,131	220	222
2016-2020	107,305	59,179	860	989
2021-2025	132,357	38,150	1,100	748
2026-2030	84,276	27,252	1,400	437
2031-2035	103,308	16,399	1,020	78
2036-2039	20,665	1,291	-	-
Total	$ 562,479	$ 219,762	$ 5,295	$ 3,442

(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, 2010 of 0.23%, 0.21%, and 0.22%, respectively.

(d) Pledged Revenues for Bonds

The lease revenue bonds issued by the Hospital Facilities Authority and the Financing Authority (Financing Authorities) are payable by a pledge of revenues from the base rental payments payable by the County and SCVMC, pursuant to the Master Facility Lease Agreements between the County and the Financing Authorities for the use of facilities acquired or constructed by the Financing Authorities. Under California law, the County and SCVMC cannot make lease payments until the County and SCVMC has constructive use or occupancy of the property being financed. Once construction is completed, the leases act like direct financing leases with lease payments equal to debt service payments. Total debt service requirements remaining on the lease revenue bonds is $1,174,537 payable through May 15, 2037. For the fiscal year ended June 30, 2010, the total lease payments made by the County and SCVMC and total debt service payments paid by the Financing Authorities totaled to $67,695.

The County's Series 2007 Tobacco Settlement Asset-Backed Bonds are secured by the pledge of future tobacco settlement revenues made by participating cigarette manufacturers to the County. Tobacco settlement revenues due to the County on and after January 1, 2026 have been pledged until June 1, 2056, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately $1,154,385. The County did not receive any tobacco settlement revenues for the bonds nor made any debt service payments on these bonds during the fiscal year ended June 30, 2010.

(9) Long-Term Liabilities (Continued)

The County's Series 2009 GO Bonds are payable from pledged ad valorem property taxes until August 1, 2039, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately $711,713. For the fiscal year ended June 30, 2010, the County collected $35,932 in ad valorem property taxes and made total debt service payments in the amount of $10,944.

The Airport's lease revenue bonds are secured by the pledge of revenues generated by the Airport and paid to ABAG as lease payment. The leases act like direct financing leases with lease payments received by ABAG equal to debt service payments made by the Airport. These revenues have been pledged until July 1, 2032, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately $8,737. For the fiscal year ended June 30, 2010, the total principal and interest payment made by the Airport totaled to $414.

(e) Legal Debt Margin

As of June 30, 2010, the County's legal debt limit (1.25% of the total assessed secured valuation) was $3.79 billion. At June 30, 2010, the County has debt in the amount of $350.0 million applicable to the limit outstanding and the legal debt margin was $3.44 billion.

(f) Arbitrage Rebate Payable

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

A consulting firm calculates annual computation of all rebate requirements. Amounts in excess of allowable investment earnings are held pursuant to the Trust Indentures. At June 30, 2010, arbitrage rebate payable in the amount of $242 has been accrued in the government-wide statements – governmental activities under the "Due to other governmental agencies" financial statement caption, while $984 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.

(9) Long-Term Liabilities (Continued)

(g) 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, 2010
Notes payable:					
City of San Jose (Lucretia Gardents)	8/1/2038	0.00%	(4)	$ 1,114	$ 1,114
City of San Jose (Julian Gardens)	8/1/2038	0.00%	(4)	319	189
Redevelopment Agency of the City of Santa Clara (Deborah & Miramer)	6/20/2035	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	7
City of San Jose (Morrone Gardens)	9/23/2024	4.00%	(4)	973	973
				3,151	2,978
Bracher HDC, Inc.					
Redevelopment Agency of the City of Santa Clara (principal)	8/1/2033	2.00%	(4)	1,246	1,246
Accrued interest				-	133
				1,246	1,379
S.P.G. Housing, Inc.					
Citibank Mortgage #1	10/1/2026	8.79%	(1)	919	828
Citibank Mortgage #2	12/1/2022	3.75%	(1)	337	205
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				-	756
				4,146	4,679
Villa Garcia, Inc.					
HUD Flexible Subsidy Notes	11/1/2022	1.00%	(4)	1,416	1,416
Capmark	3/1/2012	7.00%	(1)	1,254	218
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				-	330
				3,284	2,578
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	132
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	692
Accrued interest				-	1,075
				6,858	6,856
Rotary Plaza/HACSC, HDC, Inc					
County of Santa Clara Note (principal)	5/29/2033	6.00%	(4)	95	95
Accrued interest				-	38
				95	133
Total Housing Authority				$ 18,780	$ 18,603

(1) Monthly amortization

(2) 25% of Net Cash Flow

(3) Deferred for 21 years

(4) Deferred until maturity

(9) 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:

Fiscal year ending June 30:	Notes Payable	
	Principal	Interest
2011	$ 3	$ 43
2012	3	43
2013	2	43
2014	-	43
2015	-	43
2016-2020	-	216
2021-2025	1,397	170
2026-2030	-	-
2031-2035	270	-
2036-2039	1,303	-
Total	$ 2,978	$ 601

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 December 31:	Bracher HDC, Inc.		S.P.G. Housing, Inc.		Villa Garcia, Inc.	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	$ -	$ -	$ 40	$ 64	$ 95	$ 15
2011	-	-	42	62	104	6
2012	-	-	45	59	119	-
2013	-	-	47	57	-	-
2014	-	-	50	53	-	-
2015-2019	-	-	302	217	-	-
2020-2024	-	-	1,769	110	514	-
2025-2029	-	-	138	9	-	-
2030-2034	1,246	-	-	-	-	-
2035-2039	-	-	-	-	-	-
2040-2044	-	-	-	-	-	
2045-2048	-	-	1,490	-	-	-
Total	$ 1,246	$ -	$ 3,923	$ 631	$ 832	$ 21

Fiscal year ending December 31:	Villa San Pedro, Inc.		Rotary Plaza, Inc.	
	Principal	Interest	Principal	Interest
2010	$ 62	$ 3	$ -	$ -
2011	64	1	-	-
2012	6	-	-	-
2013	-	-	-	-
2014	-	-	-	-
2015-2019	-	-	-	-
2020-2024	-	-	-	-
2025-2029	-	-	-	-
2030-2034	-	-	95	-
2035-2039	4,157	-	-	-
2040-2043	692	-	-	-
Total	$ 4,981	$ 4	$ 95	$ -

(10) 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, 2010 as follows:

Patient service revenues	$ 2,620,772
Contractual allowances	(1,750,730)
Bad debts provision	(53,484)
Net patient service revenues	$ 816,558

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 54% of net patient service revenue (excluding the effects of bad debts provision) for the fiscal year ended June 30, 2010. Revenue from the Medicare program represents approximately 16% of net patient service revenue (excluding the effects of bad debts provision) for the fiscal year ended June 30, 2010. Reimbursement for services provided under these programs is currently based on various contractual arrangements (see Note 14(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 implementing State legislation (S.B. 1100) was enacted by the Legislature in September 2005. 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 2009-10. 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). The federal medical assistance percentage (FMAP) which establishes the matching amount, for the FFS cost-based reimbursement is provided at 61.59% for July 1, 2009 through June 30, 2010.

(10) Hospital Program Revenues (Continued)

The FMAP for DSH remains at 50%. 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. It is therefore possible for one hospital to receive the federal match that results from another hospital's CPE. In this situation, the first hospital is referred to as a "recipient" hospital, while the second is referred to as a "donor" hospital. A recipient hospital is required to "retain" the FFP amounts resulting from donated CPEs. All CPEs reported by each hospital will be subject to State and federal audit and final reconciliation. If at the end of the final reconciliation process, it is determined that a hospital's claimed CPEs resulted in an overpayment of federal funds to the State, the hospital may be required to return the overpayment whether or not the County's hospital received the federal matching funds.

The Demonstration authorized the State of California to create a Health Care Coverage Initiative in ten selected counties during fiscal year 2007-08 through fiscal year 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 Initiative. 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

Senate Bill 1732 (SB 1732) provides qualifying hospitals reimbursement for a portion of the debt service of qualified capital projects, in addition to their Medi-Cal contract reimbursement. SB1732 revenues are classified as capital contributions for 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, 2010, based on the cost incurred to perform these services, is as follows:

Charity care, at cost	$	199,656
Percentage of operating expenses		19%

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

(11) Net Assets/Fund Balances

(a) Net Assets Classifications

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

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

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

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

During fiscal year 2007, the County, through the JPA and Corporation, issued $102.0 million of Tobacco Settlement Asset-Backed Bonds and during fiscal year 2009, the County issued $350.0 million in general obligation bonds. Proceeds received were used for the purpose of rebuilding and improving the seismic deficiencies of its medical facilities and the restricted bond proceeds were deposited in the SCVMC fund. These restricted debt proceeds are reported as part of restricted net asset in the County's business-type activities. However, the debt service will be paid with governmental revenues and as such these bonds are reported with unrestricted net assets in the County's governmental activities. In accordance with GASB guidance, the County reclassified restricted proceeds at year end in the amount of $327.9 million of total net assets from restricted for capital facilities to unrestricted and reclassified capital assets funded by these bond issues in the amount of $122.1 million from net assets invested in capital assets, net of related debt to unrestricted to reflect the primary government as a whole perspective.

(b) Fund Balances Classifications

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.

As of June 30, 2010, 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 and represent resources legally restricted for the retirement of long-term debt.

(11) Net Assets/Fund Balances (Continued)

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 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	Total Governmental Funds
Designated for:			
Measure B program	$ 11,472	$ -	$ 11,472
Litigation	2,500	-	2,500
Fiduciary activities/contingencies	11,929	-	11,929
Roads	-	5,096	5,096
County Library	-	10,547	10,547
Housing and Community Development	-	100	100
Fire Districts	-	13,263	13,263
Environmental Health	-	8,349	8,349
Vector Control	-	3,237	3,237
Other	64,731	-	64,731
Undesignated	140,955	235,118	376,073
Total	$ 231,587	$ 275,710	$ 507,297

(c) Restatement of Net Assets

During the fiscal year, the County Sanitation District No. 2 - 3 corrected an overstatement in its beginning accounts payable balance and restated the fund's and business-type activities beginning net assets in the amount of $506.

(12) Employee Benefit Plans

(a) California Public Employees' Retirement System – County

Plan Description

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

Effective with the June 30, 2003 valuation, PERS converted the Central Fire's Miscellaneous employees' defined benefit retirement plan from an agent multiple-employer to a cost sharing multiple-employer. The Central Fire's Miscellaneous employees' retirement plan is under the PERS Miscellaneous 2.7% at 55 Risk Pool. The County employees' plans (Miscellaneous and Safety) and the Central Fire Safety employees plan are agent multiple-employer defined benefit retirement plans. PERS acts as a common investment and administrative agent for various local and state governmental agencies within the state.

(12) Employee Benefit Plans (Continued)

Funding Policy

The contribution requirements of plan members and the County are established and may be amended by PERS. The County is required to contribute at an actuarially determined rate or prepay a discounted annual required contribution between July 1 and July 15. Based on the June 30, 2007 actuarial report, the required employer contribution for fiscal year 2010 was 12.879% for Miscellaneous employees and 22.948% for Safety employees. In addition, pursuant to the 2008 contract amendment between the County and its Miscellaneous employees, the Miscellaneous employees agreed to pay for its enhanced pension benefits (from 2% at 55 to 2.5% at 55) and contribute 2.761% of the County's required contributions. At June 30, 2010, all County employee participants are also required to contribute 8.0% (9.0% for Safety employees) of their annual covered salary. The County made 74.5% of the employees' required payroll contributions for fiscal year 2010.

Under the terms of the memorandum of agreement, effective December 1, 2008, Central Fire's Miscellaneous Plan members are not required to contribute a portion of the employer rate. Based on the June 30, 2007 actuarial report, the Central Fire required employer contribution for fiscal year 2010 was 19.915% for Miscellaneous employees and 26.490% for Safety employees. At June 30, 2010, all Central Fire employee participants are required to contribute 8% (9% for Safety employees) of their annual covered salary.

Annual Pension Costs

The required contributions were determined as part of the June 30, 2007 actuarial valuations using a modification of the Entry Age Normal Actuarial Cost Method. The actuarial assumptions include: (a) a rate of return on investments of 7.75%; (b) projected salary increases of 3.25% to 14.45% depending on age, service, and type of employment; (c) inflation of 3.00%; and (d) payroll growth of 3.25%. The actuarial value of the pension plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over 15 years. PERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The average remaining amortization period as of June 30, 2007 is as follows:

	County	Central Fire
Miscellaneous Plan	28 years	16 years
Safety Plan	28 years	31 years

(12) Employee Benefit Plans (Continued)

The County's changes in net pension asset for the year ended June 30, 2010, were as follows:

	County Miscellaneous	County Safety	Central Fire
Annual required contribution	$ 147,011	$ 39,932	$ 9,489
Interest on net pension asset	(20,509)	(7,099)	-
Amortization of net pension asset	16,492	5,708	-
Annual pension cost	142,994	38,541	9,489
Contributions made	(147,011)	(39,932)	(9,489)
Change in net pension asset	(4,017)	(1,391)	-
Net pension asset, beginning of year	(264,643)	(91,599)	-
Net pension asset, end of year	$ (268,660)	$ (92,990)	$ -

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

	County Miscellaneous			County Safety		
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2010	$ 142,994	103%	$ (268,660)	$ 38,541	104%	$ (92,990)
6/30/2009	137,928	103%	(264,643)	36,226	104%	(91,599)
6/30/2008	122,935	338%	(260,364)	33,006	398%	(90,118)

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2010	$ 9,489	100%	$ -
6/30/2009	9,250	100%	-
6/30/2008	7,372	100%	-

(12) Employee Benefit Plans (Continued)

Funded Status and Funding Progress

The PERS' Board of Administration adopted updated actuarial assumptions to be used beginning with the June 30, 2009 valuation. Nearly all of the demographic assumptions have changed, including salary increase assumptions (3.55% to 14.45% depending on Age, Service, and type of employment) and rates for mortality, disability, termination and retirement. As of the June 30, 2009 actuarial valuation, the change in assumptions resulted in an increase in the unfunded actuarial accrued liabilities $300,384 and $19,338 for the County Miscellaneous Plan and County Safety Plan, respectively.

In June 2009, the PERS' Board adopted changes to the asset smoothing method as well as changes to the Board policy on the amortization of gains and losses in order to phase in over a three year period the impact of the 24% investment loss experienced by PERS in fiscal year 2008-2009. The following changes were adopted:

- Increase the corridor limits for the actuarial value of assets from 80%-120% of market value to 60%-140% of market value on June 30, 2009.
- Reduce the corridor limits for the actuarial value of assets to 70%-130% of market value on June 30, 2010.
- Return to the 80%-120% of market value corridor limits for the actuarial value of assets on June 30, 2011 and thereafter.
- Isolate and amortize all gains and losses during fiscal year 2008-2009, 2009-2010, and 2010-2011 over fixed and declining 30-year periods (as opposed to the current rolling 30-year amortization).

As of the June 30, 2009 actuarial valuation, the change in "special" investment assumptions resulted in an increase in the unfunded actuarial accrued liabilities $89,106 and $44,848 for the County Miscellaneous Plan and County Safety Plan, respectively.

Summary of funding progress are as follows:

	County Miscellaneous Plan	County Safety Plan	Central Fire Safety Plan
Actuarial valuation date	6/30/09	6/30/09	6/30/08
Actuarial asset value	$ 5,047,923	$ 1,465,146	$ 275,530
Actuarial accrued liability - entry age	6,170,114	1,737,191	323,645
Unfunded actuarial accrued liability (UAAL)	$ 1,122,191	$ 272,045	$ 48,115
Funded ratio	81.8%	84.3%	85.1%
Covered payroll	$ 1,165,056	$ 190,802	$ 26,397
UAAL as percentage of covered payroll	96.3%	142.6%	182.3%

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.

(12) Employee Benefit Plans (Continued)

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

During the fiscal year 2009, the County established a defined contribution retirement plan (County of Santa Clara Supplemental Benefit Plan (the Supplemental Plan)). County employees hired or accepted written job offers before July 1, 2008 and with compensation in excess of the Internal Revenue Code (IRC) section 401(a)(17) limitations are eligible to participate in the Supplemental Plan. The Supplemental Plan is a tax-deferred plan that is subject to an annual contribution limit under the IRC and any supplemental benefits in excess of the IRC limit will be paid to the employee as taxable income. The County will contribute and deposit the supplemental benefits into the Supplemental Plan at the end of January, following the close of the plan's calendar year. Employer contributions become fully vested at the time of the County's contribution. The Supplemental Plan, which had 95 participants, had ending cash value of $5,859 at June 30, 2010. During the fiscal year ended June 30, 2010, the County contributed $2,738 to the Supplemental Plan.

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

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

Plan Description

All eligible Housing Authority employees participate in PERS, an agent multiple-employer defined benefit pension plan. PERS provides retirement, disability, and death benefits based on the employees' years of service, age and final compensation. Employees vest after five years of PERS-credited service and they are eligible for service retirement if they are 50 years old or over and have at least 5 years of PERS-credited service. These provisions and all other requirements are established by State statute and Authority resolutions. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy

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

In December 2009, the Housing Authority made a "lump sum" payment in the amount of $14,420 to PERS to fund its actuarially unfunded liability. As a result, the employer's contribution rate decreased from 19.562% (pre-payment rate) to 7.314% (post-payment rate). For the year ended June 30, 2010, the total employer contribution was $15,752.

(12) Employee Benefit Plans (Continued)

Annual Pension Cost

The Housing Authority's annual pension cost for CalPERS was 1,183% of the Housing Authority's required contributions and the actual contributions rates which was determined as part of the July 31, 2008 new agency actuarial valuation. This valuation was performed in order to set forth the actuarial assets and funding liabilities of the Housing Authority's plan as of July 31, 2008 and to establish the initial "fresh start" actuarially required contribution rates of this plan. The July 31, 2008 new agency actuarial valuation used the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases of 3.25% to 14.45% depending on age, service, and type of employment, and (c) 3% per year inflation adjustment. CalPERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period as of June 30, 2009 (the most recent actuarial valuation) is 10 years.

The Housing Authority's changes in net pension asset for the year ended June 30, 2010, were as follows:

Annual required contribution/Annual pension cost	$ 1,332
Contributions made	15,752
Change in net pension asset	(14,420)
Net pension asset, beginning of year	-
Net pension asset, end of year	$ (14,420)

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2010	$ 1,332	1183%	$ (14,420)
6/30/2009	1,154	100%	-
6/30/2008	n/a	n/a	n/a

Funded Status and Funding Progress

As discussed above, the CalPERS' Board of Administration adopted updated actuarial assumption to be used beginning with the June 30, 2009 valuation. The Housing Authority's summary of funding progress is as follows:

Actuarial valuation date	6/30/09
Actuarial asset value	$ 13,317
Actuarial accrued liability - entry age	29,305
Unfunded actuarial accrued liability (UAAL)	$ 15,988
Funded ratio	45.4%
Covered payroll	$ 12,875
UAAL as percentage of covered payroll	124.2%

(12) Employee Benefit Plans (Continued)

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

In November 2001, FIRST 5's board approved the implementation of an Internal Revenue Code (IRC) Section 401(a) retirement plan (the Plan) effective January 1, 2002 for all FIRST 5 employees. The Plan is a defined contribution plan administered by the Unified Trust Company. The Plan is open to all employees, excluding temporary employees who work less than 20 hours per week. Currently, 43 employees are enrolled in the Plan. The Plan provides retirement benefits based on the employee's salary and years of service.

Effective January 1, 2008, the Plan had three different types of employer contributions which vest 100% after three years of employment service. The Plan requires employer contributions of 7% of employees' annual salaries and wages. The employer's contributions under this requirement were $207 for the year ended June 30, 2010. Additional supplemental contributions may be made by the employer based on a compensation arrangement between employee and the employer. The contribution requirements of Plan members and First 5 are established by and may be amended by the Unified Trust Company.

(e) Postretirement Health Care Benefits – County

Plan Description

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

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

Funding Policy

The County's policy is to contribute the annual required contribution (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 9.5 % of annual covered payroll.

(12) Employee Benefit Plans (Continued)

The contribution requirements of plan members and the County are established and may be amended by the Board. For the year ended June 30, 2010, the County contributed less than 100% of its required contribution and contributed $90,249 or 70.2%, of the annual OPEB cost of $128,487. Of the total amount contributed, the County deposited $39,130 to the CERBT and paid $51,119 in premiums and administrative costs.

Annual required contribution	$ 127,980
Interest on net OPEB obligation	38
Adjustment to annual required contribution	469
Annual OPEB cost	128,487
Contributions made	(90,249)
Change in net OPEB obligation	38,238
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	$ 38,238

Annual OPEB Cost

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	$ 128,487	70.2%	$ 38,238
6/30/2009	123,772	100.0%	-
6/30/2008	125,328	100.0%	-

Funding Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	$ 1,399,865
Actuarial value of plan assets	141,418
Unfunded actuarial accrued liability (UAAL)	$ 1,258,447
Funded ratio (actuarial value of plan assests/AAL)	10.1%
Covered payroll (active plan members)	$ 1,267,398
UAAL as a percentage of covered payroll	99.3%

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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(12) Employee Benefit Plans (Continued)

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, 2009 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% investment rate of return, a 3.25% payroll growth, and an annual healthcare cost trend rate of 8.0% in fiscal year 2011, reduced by 0.5% in year 2011-2012, 0.5% from years 2012-2014, and 0.25% from years 2015-2020 to an ultimate rate of 5.0% by the year 2019-2020.

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

The Central Fire maintains a separate OPEB plan and uses the projected unit credit method; a level dollar amortization over a static 30 years; and interest cost, discount rate and compensation increase of 3% per annum to determine its OPEB obligation. The table below summarizes the position of the Central Fire's OPEB plan for the fiscal year ended June 30, 2010.

Annual required contribution	$ 14,263
Interest on beginning net OPEB obligation	365
Amortization of net OPEB obligation	(623)
Adjustment to annual required contribution	(314)
Annual OPEB cost	13,691
Contributions made	(2,830)
Change in net OPEB obligation	10,861
Net OPEB obligation, beginning of year	12,461
Net OPEB obligation, end of year	$ 23,322

The required contributions were determined as part of the June 30, 2009 valuation and was used to determine the ARC for the fiscal year ended June 30, 2010. The following table represents annual OPEB cost for the past two years, the percentage of annual OPEB cost contributed, and net OPEB obligations:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	$ 14,005	20.2%	$ 23,322
6/30/2009	14,593	14.6%	12,461

(12) Employee Benefit Plans (Continued)

As of June 30, 2009, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	$	176,569
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	$	176,569
Funded ratio (actuarial value of plan assets/AAL)		0%
Annual covered payroll	$	38,956
UAAL as a percentage of annual covered payroll		453%

Details of the Central Fire's OPEB plan may be found in its financial report for the fiscal year ended June 30, 2010. The report may be obtained by writing to the Santa Clara County Central Fire Protection District at 14700 Winchester Boulevard, Los Gatos, California, 95032.

(g) Postretirement Health Care Benefits – Housing Authority

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

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

(12) Employee Benefit Plans (Continued)

The required contributions were determined as part of the July 1, 2009 valuation. The table below summarizes the position of the Housing Authority's OPEB plan for the fiscal year ended June 30, 2010.

Annual required contribution	$	5,797
Interest on net OPEB obligation		95
Adjust to the annual required contribution		(1,325)
Annual pension cost		4,567
Contributions made		(5,797)
Change in net OPEB obligation		(1,230)
Net OPEB obligation, beginning of year		1,230
Net OPEB obligation, end of year	$	-

As of June 30, 2010, the Housing Authority deposited $5,724 to the CERBT and paid $73 in premiums and administrative costs.

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	$ 4,567	126.9%	$ -
6/30/2009	687	9.5%	1,230
6/30/2008	694	12.3%	609

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

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

Details of the Housing Authority's OPEB plan may be found in its financial report for the fiscal year ended June 30, 2010. 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.

(13) Risk Management

The County is exposed to various risks of loss related to torts; medical malpractice; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment; and health benefits to employees and retirees. The County is self-insured for its general liability, workers' compensation, unemployment, basic life insurance, dental, medical malpractice liability, and automobile liability. The County has chosen to establish risk financing internal service funds where assets are set aside for claim settlements associated with the above risks of loss up to certain limits. Excess coverage is provided by the California State Association of Counties' Excess Insurance Authority (Insurance Authority), a joint powers authority, whose purpose is to develop and fund programs of excess insurance and provide the joint purchase of coverage from independent third parties for its member entities. The Insurance Authority is governed by a Board of Directors consisting of representatives of its member entities.

Self-insurance and Insurance Authority limits are as follows:

Type of Coverage	Self-Insurance (per occurrence)	Self-Retained [1]	Purchase Insurance Policies (per occurrence)
Automobile	Up to $2,000	$8,706 per occurrence	$35,000
General Liability	Up to $2,000	$8,706 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 $9,000 aggregate	Up to $1,807,500 [3]
Earthquake	5% of property value $100 minimum deductible		Up to $472,500 [4]
Airport	Up to $5		$30,000
Crime Bond	Up to $25		$10,000
Pollution	Up to $500		$10,000

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

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

(3) Insured values are split between 3 schedules with limits of $602,500 each for a total of $1,807,500.

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

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.

(13) Risk Management (Continued)

The County computes its claims liability based on the expected value discounted at 4.5% for General and Automobile Liability claims and 5.0% for Malpractice and Workers' Compensation claims. Changes in the balances of claims liabilities during the past two fiscal years ended June 30 for the County's self-insurance internal service funds are as follows:

	2010	2009
Unpaid claims, beginning of year	$ 106,037	$ 106,633
Incurred claims and changes in estimate	72,296	63,675
Claim payments	(68,369)	(64,271)
Unpaid claims, end of year	$ 109,964	$ 106,037

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 $12,295 for the fiscal year ended June 30, 2010.

(14) Commitments and Contingencies

(a) Commitments

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

Fiscal year ending June 30,	Governmental Activities	Business-type Activities	Total
2011	$ 40,303	$ 6,689	$ 46,992
2012	40,634	6,833	47,467
2013	41,499	7,112	48,611
2014	38,971	7,404	46,375
2015	39,590	7,713	47,303
2016-2020	97,977	9	97,986
2021-2025	34,675	-	34,675
2026-2030	1,362	-	1,362
Total	$ 335,011	$ 35,760	$ 370,771

Rent expense for fiscal year 2010 was approximately $45,227 and $6,896 for the governmental activities and business-type activities, respectively.

(14) 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
2011	$ 3,795	$ 466	$ 4,261
2012	3,501	90	3,591
2013	3,587	92	3,679
2014	3,622	94	3,716
2015	3,712	96	3,808
2016-2020	17,597	507	18,104
2021-2025	19,555	-	19,555
2026-2030	21,757	-	21,757
Total	$ 77,126	$ 1,345	$ 78,471

Rent income for fiscal year 2010 was approximately $7,117 and $2,792 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, 2010, the County had accrued amounts which management believes are adequate to provide for claims and litigation, which arose during the normal course of activities. There are other outstanding claims and litigation for which County management believes the ultimate outcome of these claims and litigation will not significantly impact the County's financial position.

(c) Patient Service Revenue and Receivables

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

Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The SCVMC's Medicare and Medi-Cal cost reports have been audited by the fiscal intermediary through June 30, 2004 (pending a Notice of Program Reimbursement) and June 30, 2007, respectively. As such, the cost reports for certain other prior years are in various stages of review by third-party intermediaries and have not been settled as a result of certain unresolved reimbursement issues. The County believes it has adequately provided for any potential liabilities that may arise from the intermediaries' audits.

(14) Commitments and Contingencies (Continued)

Net receivables from patients and third-party payers at June 30, 2010, are summarized as follows:

Medicare	$	28,101
Medi-Cal		65,304
Insurance and other third-party payers		36,289
Private patients		1,384
Total	$	131,078

(d) Seismic Safety Building Standards

The County is affected by State of California Senate Bill 1953 (SB 1953), which requires certain seismic safety building standards for acute care hospital facilities. SCVMC has reviewed the SB 1953 compliance requirements and developed multiple plans of action to achieve such compliance, the estimated time frame for complying with such requirements, and the cost of performing necessary remediation of certain of the properties. SCVMC estimates the total remediation cost to make its facilities SB 1953-compliant will be approximately $1.4 billion. Costs incurred through June 30, 2010 were $160.6 million.

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

In fiscal year 2009, the County issued General Obligation Bonds Series 2009 A during May 2009. The proceeds from the sale in the amount of $350,000 were transferred to the SCVMC and are restricted to meeting the seismic requirements of SB 1953.

(e) Single and Multiple Family Mortgage Revenue Bonds

The County, acting as coordinator with certain cities, issued Tax-Exempt Mortgage Revenue Bonds with periodic maturities through May 2040. At June 30, 2010, the outstanding balance of these bonds is $41,744. Single family mortgage revenue bonds were issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing residences. The purpose of this program is to provide below market interest rate home mortgages to persons who are unable to qualify for conventional mortgages at market rates. Multiple family mortgage revenue bonds were issued to provide financing to developers of specified multiple family housing projects. These developers agree to rent a percentage of units to qualified families at below market rates. The bonds are not considered obligations of the County, and are payable solely from payments made on the related secured mortgage loans.

(f) Conduit Debt - Insured Revenue Bonds

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

(14) Commitments and Contingencies (Continued)

On May 15, 2008, the 2007 Insured Revenue Bonds were mandatory tendered at which time Series A ($49,175), Series B ($49,175), and Series C ($49,175) (collectively, "2007 Remarketed Insured Revenue Bonds") were remarketed as fixed interest rate bonds. The 2007 Remarketed Insured Revenue Bonds bear fixed interest rates ranging from 4.00% to 5.75%, and have a final maturity date of February 1, 2041. At June 30, 2010, the total outstanding balances of these conduit bonds were $142,350.

On March 30, 2009, the Financing Authority served as the conduit issuer of the 2009 Variable Rate Revenue Bonds (2009 Bonds) in the amount of $50,000 in order to provide funds for the El Camino Hospital Project. The 2009 Bonds bear variable interest rate based on Weekly Interest Rate as defined in the bond indenture. The 2009 Bonds have a final maturity date of February 1, 2044. At June 30, 2010, the total outstanding balance for the 2009 Bonds was $50,000.

The Financing Authority and the County have no obligation for these bonds as the bonds are secured under the provisions of the Indenture and will be payable solely from payments made by the El Camino Hospital under the Loan Agreements. These bonds are not payable from any revenues or assets of the County. Neither the faith and credit nor the taxing power of the County, the State or any political subdivision thereof are pledged for the payment of the principal or interest on the bonds.

(15) Pollution Remediation

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

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

In addition, on October 8, 2008, the San Francisco-Regional Water Quality Control Board (RWQCB) recommended approval of the Basin Plan Amendment, which was subsequently adopted by the State, to establish new water quality objectives, a total maximum daily load, and an implementation plan to remove mercury in the waters of the Guadalupe River watershed. In the spring 2009, the County received a §13267 order from RWQCB to conduct a site investigation by December 2010 evaluating the erosion potential of mercury mining waste and the potential for seeps to discharge mercury from mining waste to surface waters. In November 2009, the RWQCB issued a second §13267 order requiring that the County develop and participate in a coordinated watershed monitoring plan.

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

(16) Subsequent Events

(a) Teeter Plan Obligation Commercial Paper Notes

In Fiscal Year 1994-95, the County entered the Teeter program. This program entails the County fronting the total property tax payments to all of the tax receiving entities in the County (with exception of the City of Sunnyvale and the Town of Los Gatos who declined to participate in the Teeter program). The County is responsible for providing the funds which make up for any delinquency factor in the property taxes. Correspondingly the County receives all of the fines and penalties associated with the delinquent property taxes when redeemed. The amount of funds involved in the Teeter program is connected to the overall assessed valuation of the County and the annual delinquency rates.

On September 9, 2010, the County issued Teeter Plan Obligation Commercial Paper Notes, Series A not exceeding $120,000 under the authority of Section 4701 *et seq*. of the California Revenue and Taxation Code and the Trust Agreement dated September 1, 2010, by and between the County and U.S. Bank National Association. The Series A Notes are authorized to be issued from time to time to finance and refinance the County's obligation to make distributions of certain uncollected property tax levies. The Series A Notes will mature not more than 270 days after their respective date of issuance provide that no Series A Notes may have a maturity date later than the date which is five days prior to the expiration date of the Letter of Credit. The Series A Notes are payable from the County's General Fund and the County has also pledged the Series A Taxes to the payment of the Series A Notes; however, all payments on the Series A Notes will be made by draws on the Letter of Credit. The payment of principal of and interest, if any, on the Series A Notes is supported by an irrevocable direct pay letter of credit issued by J.P. Morgan. The Letter of Credit will expire on September 16, 2013 unless extended or earlier terminated.

On September 16, 2010 and October 6, 2010, the County issued $93,240 and $18,000, respectively, of the Series A notes with maturity dates ranging from January 3, 2011 to March 8, 2011 and interest rates from 0.28% to 0.30%.

(b) California's Bridge to Healthcare Reform (Waiver)

On November 2, 2010, Centers for Medicare & Medicaid Services (CMS) approved for California a new Medicaid Demonstration Project, entitled California's Bridge to Healthcare Reform (Waiver 11-W-00193/9) under the authority of section 1115(a) of the Social Security Act for the period November 1, 2010 through October 31, 2015. The agreement "waives" certain Medicaid requirements in order to test new strategies and demonstration projects that can improve care and care delivery.

Public hospital systems will provide the financing through their counties and lead the implementation of expanding coverage to low income people and transforming care so that it is more coordinated, efficient and patient-centered. Support for public hospital systems from the waiver falls into the areas of Coverage Expansion, Delivery System Reform Incentive Pool, Support Costs for Uncompensated Care and Managed Care for Seniors and Persons with Disabilities.

(16) Subsequent Events (Continued)

(c) Hospital Fee Program (HFP)

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

The legislation allows for fee-for-service and managed health care supplemental payments to private hospitals, designated public hospitals, and non-designated public hospitals. The designated public hospitals will also receive direct grants under the Program. The legislation also allows the State to retain and use a portion of the direct grants allocated to the designated public hospitals with a provision that the State allocates an equal amount of federal funds available under the Medi-Cal Hospital/Uninsured Care Demonstration Project to the designated public hospitals. The designated public hospital must have incurred sufficient expenditures so that the full amount allocated can be received as federal matching funds. On October 7, 2010, CMS approved the implementation of the Program with the exception of the managed health care supplemental payment plan, which was approved on December 22, 2010. SCVHHS projects to receive a total of $65 million from the Program in FY 2010-11.

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Schedule of Funding Progress
June 30, 2010
(Dollars in thousands)

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

Actuarial Valuation Date	Actuarial Asset Value	Accrued Liability-Entry Age	Accrued Liability – UAAL	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
6/30/2009	$ 5,047,923	$ 6,170,114	$ 1,122,191	81.8%	$ 1,165,056	96.3%
6/30/2008	4,746,685	5,473,389	726,704	86.7%	1,147,150	63.3%
6/30/2007	4,072,831	4,972,306	899,475	81.9%	1,076,476	83.6%

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

Actuarial Valuation Date	Actuarial Asset Value	Accrued Liability-Entry Age	Accrued Liability – UAAL	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
6/30/2009	$ 1,465,146	$ 1,737,191	$ 272,045	84.3%	$ 190,802	142.6%
6/30/2008	1,398,644	1,603,444	204,800	87.2%	175,936	116.4%
6/30/2007	1,213,321	1,492,398	279,077	81.3%	164,100	170.1%

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

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability-Entry Age	Unfunded Actuarial Accrued Liability – UAAL	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2008	$ 275,530	$ 323,645	$ 48,115	85.1%	$ 26,397	182.3%
6/30/2007	259,099	304,726	45,627	85.0%	25,459	179.2%
6/30/2006	240,522	284,246	43,724	84.6%	24,204	180.6%

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

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability-Entry Age	Unfunded Actuarial Accrued Liability – UAAL	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2009	$ 13,317	$ 29,305	$ 15,988	45.4%	$ 12,875	124.2%
6/30/2008	n/a	n/a	n/a	n/a	n/a	n/a
6/30/2007	n/a	n/a	n/a	n/a	n/a	n/a

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Schedule of Funding Progress
June 30, 2010
(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
6/30/2009	$ 141,418	$ 1,399,865	$ 1,258,447	10.1%	$ 1,267,398	99.3%
6/30/2008	79,821	1,308,989	1,229,168	6.1%	1,255,578	97.9%
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
6/30/2009	$ -	$ 176,569	$ 176,569	0.0%	$ 38,956	453.3%
6/30/2008	-	165,398	165,398	0.0%	33,269	497.2%

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

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

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, 2010
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Budgetary fund balances, beginning of year	$ 414,299	$ 414,299	$ 414,299	$ -
Resources (inflows):				
Taxes	653,234	653,389	642,514	(10,875)
Licenses and permits	13,645	13,863	12,355	(1,508)
Fines, forfeitures, and penalties	42,315	51,327	67,432	16,105
Interest and investment income	15,181	16,860	11,691	(5,169)
Intergovernmental revenues	1,157,567	1,177,036	1,080,160	(96,876)
Charges for services	140,414	140,690	134,656	(6,034)
Other revenue	26,861	28,313	26,225	(2,088)
Other financing sources	15,210	18,510	24,170	5,660
Interfund transfers	83,417	152,985	59,117	(93,868)
Total resources (inflows) available for appropriation	2,147,844	2,252,973	2,058,320	(194,653)
Charges to appropriations (outflows):				
General government:				
Supervisorial District 1				
Salaries and benefits	1,012	1,012	945	67
Services and supplies	65	65	30	35
Total Supervisorial District 1	1,077	1,077	975	102
Supervisorial District 2				
Salaries and benefits	1,020	1,144	1,144	-
Services and supplies	56	20	19	1
Total Supervisorial District 2	1,076	1,164	1,163	1
Supervisorial District 3				
Salaries and benefits	1,020	975	974	1
Services and supplies	56	101	83	18
Expenditure reimbursements	-	-	4	(4)
Total Supervisorial District 3	1,076	1,076	1,061	15
Supervisorial District 4				
Salaries and benefits	1,020	969	956	13
Services and supplies	56	107	89	18
Total Supervisorial District 4	1,076	1,076	1,045	31
Supervisorial District 5				
Salaries and benefits	1,020	984	913	71
Services and supplies	56	92	89	3
Total Supervisorial District 5	1,076	1,076	1,002	74
Clerk - Board of Supervisors				
Salaries and benefits	3,019	3,309	3,167	142
Services and supplies	4,546	5,328	4,152	1,176
Fixed assets	-	116	115	1
Expenditure reimbursements	(355)	(355)	(164)	(191)
Total Clerk - Board of Supervisors	7,210	8,398	7,270	1,128

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2010
(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	9,519	10,084	9,884	200
Services and supplies	17,449	26,646	17,182	9,464
Expenditure reimbursements	(386)	(498)	(384)	(114)
Total Office of the County Executive	26,582	36,232	26,682	9,550
Controller-Treasurer				
Salaries and benefits	10,231	10,231	10,191	40
Services and supplies	5,834	14,896	14,303	593
Expenditure reimbursements	(35,182)	(35,182)	(35,194)	12
Interfund transfers	-	4,040	553	3,487
Total Controller-Treasurer	(19,117)	(6,015)	(10,147)	4,132
Tax Collector				
Salaries and benefits	5,365	5,365	5,284	81
Services and supplies	6,581	6,581	6,166	415
Expenditure reimbursements	(43)	(43)	-	(43)
Total Tax Collector	11,903	11,903	11,450	453
Office of the Assessor				
Salaries and benefits	26,100	26,401	25,507	894
Services and supplies	11,723	11,406	2,526	8,880
Total Office of the Assessor	37,823	37,807	28,033	9,774
Purchasing				
Salaries and benefits	3,530	3,097	3,097	-
Services and supplies	919	1,491	933	558
Expenditure reimbursements	(508)	(560)	(560)	-
Total Purchasing	3,941	4,028	3,470	558
Office of Budget and Analysis - Special Programs				
Salaries and benefits	-	3	2	1
Services and supplies	6,184	6,551	4,619	1,932
Interfund transfers	76,583	201,313	198,294	3,019
Total Office of Budget and Analysis - Special Programs	82,767	207,867	202,915	4,952
Office of the County Counsel				
Salaries and benefits	22,321	21,895	21,895	-
Services and supplies	5,121	7,111	7,060	51
Expenditure reimbursements	(17,677)	(17,677)	(17,112)	(565)
Total Office of the County Counsel	9,765	11,329	11,843	(514)

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2010
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
General government (continued):				
Personnel				
Salaries and benefits	10,588	10,562	10,433	129
Services and supplies	5,075	5,212	4,600	612
Fixed assets	-	11	11	-
Expenditure reimbursements	(4,603)	(4,603)	(4,625)	22
Total Personnel	11,060	11,182	10,419	763
Risk Management				
Salaries and benefits	1,649	1,714	1,714	-
Services and supplies	610	610	590	20
Expenditure reimbursements	(2,259)	(2,298)	(2,244)	(54)
Total Risk Management	-	26	60	(34)
Registrar of Voters				
Salaries and benefits	6,837	7,470	7,029	441
Services and supplies	6,966	7,581	6,021	1,560
Total Registrar of Voters	13,803	15,051	13,050	2,001
Information Services				
Salaries and benefits	5,646	5,622	5,289	333
Services and supplies	16,319	15,880	13,648	2,232
Fixed assets	-	432	426	6
Expenditure reimbursements	(1,506)	(1,506)	(1,389)	(117)
Total Information Services	20,459	20,428	17,974	2,454
Department of Revenue				
Salaries and benefits	7,124	7,180	7,122	58
Services and supplies	1,216	1,450	1,264	186
Total Department of Revenue	8,340	8,630	8,386	244
Communication				
Salaries and benefits	13,797	13,797	13,682	115
Services and supplies	5,157	10,878	8,733	2,145
Expenditure reimbursements	(5,295)	(5,295)	(4,992)	(303)
Total Communication	13,659	19,380	17,423	1,957

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2010
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
General government (continued):				
Department of Planning & Development				
Salaries and benefits	10,846	11,063	11,054	9
Services and supplies	4,757	4,535	3,679	856
Expenditure reimbursements	(437)	(437)	(347)	(90)
Total Department of Planning & Development	15,166	15,161	14,386	775
Facilities and Fleet Department				
Salaries and benefits	29,583	29,635	29,438	197
Services and supplies	71,148	73,801	69,449	4,352
Fixed assets	-	50	13	37
Expenditure reimbursements	(53,004)	(53,479)	(53,743)	264
Interfund transfers	24,900	32,708	32,708	-
Total Facilities and Fleet Department	72,627	82,715	77,865	4,850
General government - subtotals:				
Salaries and benefits	171,247	172,512	169,720	2,792
Services and supplies	169,894	200,342	165,235	35,107
Fixed assets	-	609	565	44
Expenditure reimbursements	(121,255)	(121,933)	(120,750)	(1,183)
Interfund transfers	101,483	238,061	231,555	6,506
Total general government	321,369	489,591	446,325	43,266
Public protection:				
Clerk Recorder				
Salaries and benefits	5,366	5,366	5,280	86
Services and supplies	588	755	701	54
Total Clerk Recorder	5,954	6,121	5,981	140
Department of Child Support Services				
Salaries and benefits	29,890	30,646	30,555	91
Services and supplies	6,603	6,703	6,541	162
Fixed assets	42	54	27	27
Total Department of Child Support Services	36,535	37,403	37,123	280

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2010
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Public protection (continued):				
District Attorney				
Salaries and benefits	81,225	80,636	80,635	1
Services and supplies	17,719	22,337	20,733	1,604
Fixed assets	-	45	45	-
Expenditure reimbursements	(13,232)	(14,638)	(14,762)	124
Total District Attorney	85,712	88,380	86,651	1,729
Public Defender				
Salaries and benefits	39,091	39,537	39,269	268
Services and supplies	5,200	5,233	4,960	273
Expenditure reimbursements	(336)	(449)	(452)	3
Total Public Defender	43,955	44,321	43,777	544
Pretrial Services				
Salaries and benefits	4,686	4,686	4,670	16
Services and supplies	1,171	1,088	880	208
Total Pretrial Services	5,857	5,774	5,550	224
Criminal Justice Support				
Services and supplies	47,104	47,104	46,493	611
Total Criminal Justice Support	47,104	47,104	46,493	611
Sheriff Administration				
Salaries and benefits	110,853	112,118	103,747	8,371
Services and supplies	14,169	16,349	14,646	1,703
Fixed assets	25	465	435	30
Expenditure reimbursements	(6,839)	(7,203)	(4,172)	(3,031)
Total Sheriff Administration	118,208	121,729	114,656	7,073
Sheriff - Department of Correction Services				
Salaries and benefits	108,255	114,509	114,509	-
Total Sheriff - Department of Correction Services	108,255	114,509	114,509	-

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2010
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Public protection (continued):				
Department of Correction				
Salaries and benefits	32,144	30,986	30,845	141
Services and supplies	47,322	48,641	47,919	722
Fixed assets	231	211	203	8
Expenditure reimbursements	(204)	(204)	(193)	(11)
Total Department of Correction	79,493	79,634	78,774	860
Probation Department				
Salaries and benefits	105,475	110,238	110,238	-
Services and supplies	20,033	20,579	17,216	3,363
Fixed assets	-	10	10	-
Expenditure reimbursements	(376)	(1,057)	(952)	(105)
Total Probation Department	125,132	129,770	126,512	3,258
Department of Agriculture/Weights & Measures/ Animal Control				
Salaries and benefits	5,486	5,668	5,583	85
Services and supplies	1,821	2,142	1,779	363
Interfund transfers	11	11	11	-
Expenditure reimbursements	(339)	(339)	(422)	83
Total Department of Agriculture/ Weights & Measures/Animal Control	6,979	7,482	6,951	531
Medical Examiner - Coroner				
Salaries and benefits	2,705	2,705	2,704	1
Services and supplies	680	764	735	29
Total Medical Examiner - Coroner	3,385	3,469	3,439	30
Public protection - subtotals:				
Salaries and benefits	525,176	537,095	528,035	9,060
Services and supplies	162,410	171,695	162,603	9,092
Fixed assets	298	785	720	65
Interfund transfers	11	11	11	-
Expenditure reimbursements	(21,326)	(23,890)	(20,953)	(2,937)
Total public protection	666,569	685,696	670,416	15,280
Public ways and facilities:				
Measure B				
Salaries and benefits	12	22	22	-
Services and supplies	6,711	8,344	6,837	1,507
Interfund transfers	3,534	3,534	151	3,383
Total Measure B	10,257	11,900	7,010	4,890

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2010
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Health and sanitation:				
Health Services Administration				
Salaries and benefits	43,944	45,508	45,082	426
Services and supplies	29,000	35,768	35,258	510
Fixed assets	122	436	265	171
Expenditure reimbursements	(1,982)	(2,384)	(4,500)	2,116
Total Health Services Administration	71,084	79,328	76,105	3,223
Mental Health Bureau				
Salaries and benefits	37,918	36,249	35,957	292
Services and supplies	211,083	227,947	214,046	13,901
Fixed assets	11	301	289	12
Expenditure reimbursements	(3,558)	(3,364)	(2,492)	(872)
Total Mental Health Bureau	245,454	261,133	247,800	13,333
Custody Health Services				
Salaries and benefits	35,695	37,845	37,746	99
Services and supplies	11,697	10,524	9,712	812
Fixed assets	57	578	140	438
Expenditure reimbursements	(47,288)	(48,786)	(47,335)	(1,451)
Total Custody Health Services	161	161	263	(102)
Bureau of Alcohol & Drug Programs				
Salaries and benefits	16,167	16,322	16,309	13
Services and supplies	26,355	26,855	25,777	1,078
Fixed assets	5	5	-	5
Expenditure reimbursements	(3,618)	(5,189)	(4,727)	(462)
Total Bureau of Alcohol & Drug Programs	38,909	37,993	37,359	634
Community Outreach Program				
Salaries and benefits	8,965	9,224	9,097	127
Services and supplies	6,220	6,452	6,089	363
Expenditure reimbursements	(3,041)	(3,120)	(1,985)	(1,135)
Total Community Outreach Program	12,144	12,556	13,201	(645)
Healthy Children				
Services and supplies	4,500	4,500	3,744	756
Total Healthy Children	4,500	4,500	3,744	756

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2010
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Health and sanitation - subtotals (continued):				
Salaries and benefits	142,689	145,148	144,191	957
Services and supplies	288,855	312,046	294,626	17,420
Fixed assets	195	1,320	694	626
Expenditure reimbursements	(59,487)	(62,843)	(61,039)	(1,804)
Total health and sanitation	372,252	395,671	378,472	17,199
Public assistance:				
In-House Support Services				
Services and supplies	80,458	80,218	74,407	5,811
Total In-House Support Services	80,458	80,218	74,407	5,811
Office of Affordable Housing				
Salaries and benefits	1,013	1,027	1,027	-
Services and supplies	506	492	432	60
Interfund transfers	500	500	500	-
Expenditure reimbursements	(886)	(886)	(1,064)	178
Total Office of Affordable Housing	1,133	1,133	895	238
Social Services Administration				
Salaries and benefits	262,668	265,735	260,675	5,060
Services and supplies	184,975	189,542	144,223	45,319
Fixed assets	-	1,317	1,269	48
Expenditure reimbursements	(412)	(412)	(310)	(102)
Total Social Services Administration	447,231	456,182	405,857	50,325
Nutrition Services to the Aged				
Salaries and benefits	824	878	876	2
Services and supplies	5,678	5,872	5,662	210
Total Nutrition Services to the Aged	6,502	6,750	6,538	212
Categorical Aids Payments				
Services and supplies	208,284	208,284	192,961	15,323
Total Categorical Aids Payments	208,284	208,284	192,961	15,323
Public assistance - subtotals:				
Salaries and benefits	264,505	267,640	262,578	5,062
Services and supplies	479,901	484,408	417,685	66,723
Fixed assets	-	1,317	1,269	48
Interfund transfers	500	500	500	-
Expenditure reimbursements	(1,298)	(1,298)	(1,374)	76
Total public assistance	743,608	752,567	680,658	71,909

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2010
(In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Debt service:				
County debt service				
Principal retirement	13,680	13,563	10,799	2,764
Interest and fiscal charges	12,625	12,625	12,625	-
Cost of issuance	-	117	117	-
Other financing uses	-	13,943	13,943	-
Interfund transfers	977	977	762	215
Total debt service	27,282	41,225	38,246	2,979
Reserves:				
OMB Special Programs				
General government	92,974	50,541	-	50,541
Total OMB Special Programs	92,974	50,541	-	50,541
Office of the County Counsel				
General government	850	-	-	-
Total Office of the County Counsel	850	-	-	-
Personnel				
General government	2,100	2,100	-	2,100
Total Personnel	2,100	2,100	-	2,100
Mental Health Bureau				
Health and sanitation	1	1	-	1
Total Mental Health Bureau	1	1	-	1
Social Services Administration				
Public assistance	803	2,197	-	2,197
Total Social Services Administration	803	2,197	-	2,197
Nutrition Services to the Aged				
Public assistance	-	820	-	820
Total Nutrition Services to the Aged	-	820	-	820
Appropriation Contingencies				
Total Appropriation Contingencies	93,025	84,331	-	84,331
Total reserves	189,753	139,990	-	139,990
Total charges to appropriations	$ 2,331,090	$ 2,516,640	$ 2,221,127	$ 295,513

(Continued)

COUNTY OF SANTA CLARA

Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2010
(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	$ 2,058,320
Differences - budget to GAAP:	
Proceeds from sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes	(11,492)
Proceeds from bonds issuance are inflows of budgetary resources but are not revenues for financial reporting purposes	(12,678)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(59,117)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - general fund	$ 1,975,033
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 2,221,127
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	(5,833)
Payment to bond refunding escrow are outflows of budgetary resources but are not expenditures for financial reporting purposes	(13,943)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(232,979)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - general fund	$ 1,968,372

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

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Budgets and Budgetary Accounting

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

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

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

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary accounting in the General Fund, special revenue funds, and capital projects funds. 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 Board of Supervisors
County of Santa Clara
San Jose, California

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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 year ended June 30, 2010, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 23, 2010. Our report includes a reference to other auditors. Our report also includes an explanatory paragraph indicating that the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* 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 the Los Altos Hills County Fire District (collectively, "Fire Districts"), as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2010-A that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 23, 2010.

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 23, 2010

Board of Supervisors
County of Santa Clara
San Jose, California

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

Compliance

We have audited the County of Santa Clara's, California (County), compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2010. 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 $252,151,846 in federal awards, which is not included in the schedule of expenditures of federal awards (SEFA) for the fiscal year ended June 30, 2010. 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 finding 2010-3 in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding special tests and provisions that are applicable to its Home Investment Partnerships Program (CFDA number 14.239). Compliance with such requirements is necessary, in our opinion, for the County to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed other 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 findings 2010-1 and 2010-2.

Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of County's internal control over compliance.

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 2010-3 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 2010-1 and 2010-2 to be significant deficiencies.

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

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

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California

March 30, 2011

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

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 Agriculture				
Inspection Grading and Standardization	10.162	8415		$ 698
Passed Through State Department of Social Services				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	07-65337	$ 341,245	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	04-35881	1,261,247	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	n/a	21,092,673	
ARRA - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	n/a	437,032	
Subtotal State Administrative Matching Grants for the Supplemental Nutrition Assistance Program				23,132,197
Passed Through State Department of Public Health				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	08-85470 10/1/08-09/30/09	881,637	
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	08-85470 10/1/09-09/30/10	2,813,889	
Subtotal Special Supplemental Nutrition Program for Women, Infants, and Children				3,695,526
Passed Through State Department of Education				
Child Nutrition Cluster:				
School Breakfast Program	10.553	43-10439-6066435-01	225,407	
National School Lunch Program	10.555	43-10439-6066435-01	337,465	
Subtotal of Child Nutrition Cluster				562,872
Total U.S. Department of Agriculture				**27,391,293**
U.S. Department of Commerce				
Passed Through State Department of Public Health				
Bioterrorism Hospital Preparedness Program	11.133L	n/a		310,794
CDC Public Health Emergency Response	11.206	n/a		3,737,549
Total U.S. Department of Commerce				**4,048,343**
U.S. Department of Housing and Urban Development				
Direct Programs				
CDBG - Entitlement Grants Cluster:				
Community Development Block Grants/Entitlement Grants	14.218	B-09-UY-060007	1,118,782	
Community Development Block Grants/Entitlement Grants	14.218	n/a	871,523	
ARRA - Community Development Block Grants ARRA Entitlement Grants (CDBG-R)	14.253	B-09-UY-06-0007	388,312	
Subtotal CDBG - Entitlement Grants Cluster				2,378,617
Supportive Housing Program	14.235	n/a		514,196
Home Investment Partnerships Program	14.239	M-09-UC060218	614,547	
Home Investment Partnerships Program	14.239	Prior Year Ending Loan Balance	10,207,180	
Subtotal HOME Investment Partnerships Program				10,821,727
ARRA - Homeless Prevention and Rapid Re-Housing Program	14.257	S-09-UY-06-007		240,025
Total U.S. Department of Housing and Urban Development				**13,954,565**
U.S. Department of Interior				
Direct Programs				
Save America's Treasures	15.929	06-08-ML-0708		59,578
Passed Through State Department of Parks and Recreation				
Cooperative Endangered Species Conservation Fund	15.615	P0330012		146,983
Total U.S. Department of Interior				**206,561**

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

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2010

Federal Grantor/Pass Through Entity/Grant Name	Federal CFDA No.	Pass Through Entity Number	Expenditures	
U.S. Department of Justice				
Direct Programs				
Juvenile Accountability Block Grants	16.523	CSA#176-07		$ 160,649
Community Capacity Development Office	16.595	2008-WS-QX-0142		127,805
State Criminal Alien Assistance Program	16.606	n/a		1,892,869
Forensic DNA Backlog Reduction Program	16.741	n/a		201,656
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants To Units of Local Government	16.804	2009-SB-B9-0976	$ 2,364,988	
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants To Units of Local Government	16.804	ZA09010430	30,414	
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants To Units of Local Government	16.804	ZM09010430	11,603	
Subtotal ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants To Units of Local Government				2,407,005
ARRA - Edward Byrne Memorial Competitive Grant Program	16.808	n/a		28,395
Subtotal Direct Programs				4,818,379
Passed Through California Emergency Management Agency				
Crime Victim Assistance	16.575	VW 08270430		294,184
ARRA - Violence Against Women Formula Grants	16.588	SU0901430	91,506	
ARRA - Violence Against Women Formula Grants	16.588	RV09010430	24,289	
Subtotal ARRA - Violence Against Women Formula Grants				115,795
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DC 08190430		732,746
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ08 06 0430		60,376
ARRA - State Victim Assistance Formula Grant Program	16.801	VS09010430		35,992
ARRA - Eward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	ZO09010430		1,637,371
Subtotal Passed Through California Emergency Management Agency				2,876,464
Passed Through California Department of Alchohol and Drug				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	n/a		115,021
Total U.S. Department of Justice				**7,809,864**

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

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2010

Federal Grantor/Pass Through Entity/Grant Name	Federal CFDA No.	Pass Through Entity Number	Expenditures	
U.S. Department of Transportation				
Direct Program				
Federal Aviation Administration:				
Airport Improvement Program	20.106	3-06-0229-07	$ 88,798	
Airport Improvement Program	20.106	3-06-0225-11	32,306	
Airport Improvement Program	20.106	3-06-0225-13	171,019	
Subtotal Airport Improvement Program				$ 292,123
Highway Planning and Construction Cluster:				
Passed Through State Department of Transportation				
Highway Planning and Construction	20.205	BRLO 5937 (047)	329,414	
Highway Planning and Construction	20.205	BRLO 5937 (046)	220,973	
Highway Planning and Construction	20.205	BHLO 5937 (096)	14,330	
Highway Planning and Construction	20.205	BRLS 5937 (077)	8,505	
Highway Planning and Construction	20.205	BRLS 5937 (107)	14,296	
Highway Planning and Construction	20.205	BRLS-5937 (109)	16,022	
Highway Planning and Construction	20.205	BHLO 5937 (093)	3,579	
Highway Planning and Construction	20.205	BRLS 5937 (124)	47,879	
Highway Planning and Construction	20.205	BRLO 5937 (106)	105,213	
Highway Planning and Construction	20.205	BRLS 5937 (123)	42,289	
Highway Planning and Construction	20.205	STPLZ 5937 (058)	126,014	
Highway Planning and Construction	20.205	BPMP 5937 (105)	27,003	
Highway Planning and Construction	20.205	STPL 5937 (125)	490,430	
Highway Planning and Construction	20.205	STPL 5937 (126)	691,233	
Highway Planning and Construction	20.205	TCSPLO8-5937 (128)	153,063	
Highway Planning and Construction	20.205	HSIPL 5937 (138)	6,041	
Highway Planning and Construction	20.205	HRRRL 5937 (129)	39,546	
Highway Planning and Construction	20.205	SR2SL 5937 (121)	358,200	
Highway Planning and Construction	20.205	HRRRL 5937 (113)	22,906	
Highway Planning and Construction	20.205	HRRRL 5937 (141)	45,602	
Highway Planning and Construction	20.205	HSIPL 5937 (117)	135,816	
Highway Planning and Construction	20.205	HSIPL 5937 (118)	16,935	
Highway Planning and Construction	20.205	BHLO 5937 (139)	23,004	
Highway Planning and Construction	20.205	BHLO 5937 (142)	21,848	
Highway Planning and Construction	20.205	BHLO 5937 (146)	11,674	
Highway Planning and Construction	20.205	BHLO 5937 (143)	24,414	
Highway Planning and Construction	20.205	BHLO 5937 (147)	13,117	
Highway Planning and Construction	20.205	BHLO 5937 (140)	25,265	
Highway Planning and Construction	20.205	BHLO 5937 (144)	10,435	
Highway Planning and Construction	20.205	BHLO 5937 (148)	13,038	
Highway Planning and Construction	20.205	BHLO 5937 (145)	17,424	
Highway Planning and Construction	20.205	BHLO 5937 (149)	12,349	
Highway Planning and Construction	20.205	BHLO 5937 (141)	31,209	
Highway Planning and Construction	20.205	BHLO 5937 (152)	413	
Highway Planning and Construction	20.205	HPLUL-5937 (116)	104,093	
Highway Planning and Construction	20.205	CML-5937 (130)	196,110	
ARRA - Highway Planning and Construction	20.205	ESPL 5937 (132)	2,660,191	
ARRA - Highway Planning and Construction	20.205	ESPL 5937 (133)	943,637	
Subtotal Highway Planning and Construction			7,023,509	
Passed Through State Department of Parks and Recreation				
Recreational Trails Program	20.219	RT-43-006	64,074	
Subtotal Highway Planning and Construction Cluster				7,087,583
Passed Through State Office of Traffic Safety				
State and Community Highway Safety:				
Senior Driver Traffic Safety	20.600	n/a	82,901	
Holiday DUI Enforcement/Avoid the 13 Campaign	20.600	AL0980	190,179	
Countywide Coordination of Traffic Safety	20.600	n/a	488,352	
Subtotal State and Community Highway Safety				761,432
Total U.S. Department of Transportation				**8,141,138**
U.S. Department of Energy				
Direct Programs				
Fossil Energy Research and Development	81.089	DE-FC26-06NT42812		67,568
Total U.S. Department of Energy				**67,568**

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

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2010

Federal Grantor/Pass Through Entity/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, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	n/a		$ 1,601,839
Enhance the Safety of Children Affected By Parental Methamphetamine or Other Substance Abuse	93.087	n/a		852,861
Child Support Enforcement Demonstrations and Special Projects	93.601	90FI010102		57,930
ARRA – Grants to Health Center Programs	93.703	n/a		49,468
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	n/a		788,364
Subtotal Direct Programs				3,350,462
Passed Through State Department of Public Health				
Immunization Grants Cluster:				
Immunization Grants	93.268	09-11299	$ 894,468	
ARRA - Immunization	93.712	09-11299	325,800	
Subtotal for Immunization Grants Cluster				1,220,268
Passed Through Council on Aging Silicon Valley				
Aging Cluster:				
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	AP-0910-10	1,160,254	
Nutrition Services Incentive Program	93.053	AP-0910-10	927,143	
ARRA - Aging Home-Delivered Nutrition Services for States	93.705	AP-0910-10	135,729	
ARRA - Aging Congregate Nutrition Services for States	93.707	AP-0910-10	274,455	
Subtotal Aging Cluster				2,497,581
Passed Through State Department of Education				
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	2243		1,709,417
Passed Through State Department of Health Services				
Public Health Emergency Preparedness	93.069	n/a		1,952,256
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	n/a		594,915
Projects for Assistance in Transition from Homelessness (PATH)	93.150	n/a		243,481
Centers for Disease Control and Prevention _ Investigations and Technical Assistance	93.283	n/a		875,320
Refugee and Entrant Assistance_Discretionary Grants	93.576	09-43-90841-00	40,000	
Refugee and Entrant Assistance_Discretionary Grants	93.576	09-43-90840-00	307,493	
Refugee and Entrant Assistance_Discretionary Grants	93.576	08-43-90840-1	99,570	
Refugee and Entrant Assistance_Discretionary Grants	93.576	08-43-90842-00	4,146	
Refugee and Entrant Assistance_Discretionary Grants	93.576	08-43-90840-A1	1,003	
Refugee and Entrant Assistance_Discretionary Grants	93.576	n/a	23,378	
Subtotal Refugee and Entrant Assistance_Discretionary Grants				475,590
Children's Health Insurance Program	93.767	n/a		362,144
Medical Assistance Program:				
Refugee Health Programs	93.778	Foster Care	820,116	
Refugee Health Programs	93.778	CHDP	574,510	
Refugee Health Programs	93.778	CLPPP	81,566	
Children Medical Services	93.778	CCS Admin	2,770,640	
Children Medical Services	93.778	PPC	37,340	
Subtotal Medical Assistance Program				4,284,172
National Bioterrorism Hospital Preparedness Program	93.889	PS0423		757,955
HIV Emergency Relief Project Grants	93.914	n/a		2,521,195
HIV Care Formula Grants	93.917	n/a		888,334
HIV Prevention Activities_Health Department Based	93.940	n/a		338,926
Public Health Traineeships	93.964	2009-43 MCH	121,255	
Public Health Traineeships	93.964	2009-43 AFLP	274,958	
Public Health Traineeships	93.964	2009-43 BIH	217,499	
Subtotal Public Health Traineeships				613,712

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

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2010

Federal Grantor/Pass Through Entity/Grant Name	Federal CFDA No.	Pass Through Entity Number	Expenditures	
U.S. Department of Health and Human Services (Continued)				
Maternal and Child Health Services Block Grant to the States	93.994	2009-43 MCH	$ 174,051	
Maternal and Child Health Services Block Grant to the States	93.994	2009-43 AFLP	97,611	
Maternal and Child Health Services Block Grant to the States	93.994	2009-43 BIH	302,547	
Subtotal Maternal and Child Health Services Block Grant to the States				$ 574,209
Subtotal Passed Through State Department of Health Services				14,482,209
Passed Through State Department of Child Support Services				
Child Support Enforcement	93.563	IV-356	20,111,701	
ARRA - Child Support Enforcement	93.563	IV-356	4,020,105	
Subtotal Child Support Enforcement				24,131,806
Passed Through State Department of Social Services				
Promoting Safe and Stable Families	93.556	n/a		1,421,526
Temporary Assistance for Needy Families (TANF) Cluster:				
Temporary Assistance for Needy Families	93.558	n/a	130,272,080	
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	n/a	24,281,818	
Subtotal TANF Cluster				154,553,898
Refugee and Entrant Assistance_State Administered Programs	93.566	n/a		1,253,393
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	n/a		438,669
Child Welfare Services_State Grants	93.645	n/a		1,460,778
ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724	n/a		136,628
Foster Care_Title IV-E	93.658	n/a	37,665,827	
ARRA - Foster Care_Title IV-E	93.658	n/a	1,069,045	
Subtotal Foster Care_Title IV-E				38,734,872
Adoption Assistance	93.659	n/a	12,423,936	
ARRA - Adoption Assistance	93.659	n/a	1,251,191	
Subtotal Adoption Assistance				13,675,127
Social Services Block Grant	93.667	n/a		9,431,567
Chafee Foster Care Independence Program	93.674	n/a		502,177
Medical Assistance Program	93.778	n/a		62,419,640
Subtotal Passed Through State Department of Social Services				284,028,275
Passed Through State Department of Mental Health				
Block Grants for Community Mental Health Services	93.958	n/a		728,547
Passed Through State Department of Alcohol and Drugs				
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	n/a		206,859
Block Grants for Prevention and Treatment of Substance Abuse	93.959	n/a		11,313,155
Subtotal Passed Through State Department of Alcohol and Drugs				11,520,014
Total U.S. Department of Health and Human Services				**343,668,579**
U.S. Department of Homeland Security				
Passed Through the City and County of San Francisco				
Urban Areas Security Initiative	97.008	2007-2008	92,900	
Urban Areas Security Initiative	97.008	n/a	1,583,122	
Subtotal Urban Area Security Initiative				1,676,022
Passed Through the California Emergency Management Agency				
Homeland Security Grant Program	97.067	2007	701,145	
Homeland Security Grant Program	97.067	2008-0006; OES ID#85	2,253,663	
Homeland Security Grant Program	97.067	2009-0019; Cal EMA ID#85	146,262	
Subtotal Homeland Security Grant Program				3,101,070
Emergency Management Performance Grants	97.042	2009		294,110
Buffer Zone Protection Program (BZPP)	97.078	n/a		202,080
Subtotal Passed Through California Emergency Management Agency				3,597,260
Total U.S. Department of Homeland Security				**5,273,282**
Total Expenditures of Federal Awards				**$ 410,561,193**

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

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COUNTY OF SANTA CLARA
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

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, 2010, except for the Housing Authority of the County of Santa Clara (Housing Authority) (see Note 4). The County's reporting entity is defined in Note 1 to the County's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the SEFA. Expenditures funded by the American Recovery and Reinvestment Act of 2009 are denoted by the prefix "ARRA" in the federal or pass-through grantor title.

Note 2 – Basis of Accounting

The accompanying SEFA is presented using the modified accrual basis of accounting for grants accounted for in the governmental fund types and the accrual basis of accounting for grants accounted for in the proprietary fund types, as described in Note 1 to the County's basic financial statements. In addition, the outstanding balance of prior year's loans that have significant continuing compliance requirements has been included in the total federal expenditures for the HOME Investment Partnerships program (see Note 6) and the total federal expenditures for the State Criminal Alien Assistance Program (SCAAP) includes the awarded funds as a one-time payment that is expended as of the date received pursuant to the *SCAAP Guidance and Application*.

Note 3 – Relationship to the Financial Statements

Expenditures of federal awards are reported in the County's basic financial statements as expenditures in the General Fund and nonmajor special revenue funds and as expenses 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/Pass-through 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	$ 65,040
Direct:			
Shelter Plus Care	14.238	n/a	2,740,652
Section 8 Project Based Cluster:			
Section 8 New Construction and Substantial Rehabilitation - New Construction	14.182	n/a	136,892
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	n/a	1,226,044
Subtotal Section 8 Project Based Cluster			1,362,936
Section 8 Moving To Work Demonstration Program	14.881	n/a	246,883,835
ARRA - Public Housing Capital Fund Stimulus (Formula) Recovvery Act Funded	14.885	CA39S05950109	1,099,383
Total Federal Expenditures			$ 252,151,846

Note 5 – Amounts Provided to Subrecipients

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

Program Title	CFDA Number	Amount Provided to Subrecipients
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	$ 107,933
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	217,262
Bioterrorism Hospital Preparedness Program	11.133L	270,256
Community Development Block Grants/Entitlement Grants	14.218	845,276
ARRA - Homeless Prevention and Rapid Re-Housing Program	14.257	221,191
Juvenile Accountability Block Grants	16.523	81,059
Crime Victim Assistance	16.575	294,184
ARRA - Violence Against Women Formula Grants	16.588	24,289
Edward Byrne Memorial Justice Assistance Grant Program	16.738	651,285
ARRA - State Victim Assistance Formula Grant Program	16.801	35,992
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants To Units of Local Government	16.804	2,131,492
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	1,160,254
Nutrition Services Incentive Program	93.053	927,143
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	64,995
Projects for Assistance in Transition from Homelessness (PATH)	93.150	242,498
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	28,460
Immunization Grants	93.268	263,724
Center for Disease Control and Prevention _ Investigations and Technical Assistance	93.283	263,264
Temporary Assistance for Needy Families	93.558	3,577,822
Refugee and Entrant Assistance_State Administered Programs	93.566	324,687
Refugee and Entrant Assistance_Discretionary Grants	93.576	23,378
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	325,223
Chafee Foster Care Independence Program	93.674	502,177
ARRA - Aging Home-Delivered Nutrition Services for States	93.705	135,729
ARRA - Aging Congregate Nutrition Services for States	93.707	274,455
ARRA - Emergency Continency Fund for TANF State Program	93.714	9,409,749
Medical Assistance Program	93.778	493,661
National Bioterrorism Hospital Preparedness Program	93.889	531,836
HIV Emergency Relief Project Grants	93.914	777,375
HIV Care Formula Grants	93.917	409,080
HIV Prevention Activities_Health Department Based	93.940	195,500
Block Grants for Community Mental Health Services	93.958	103,178
Block Grants for Prevention and Treatment of Substance Abuse	93.959	5,041,721
Public Health Traineeships	93.964	255,788
Maternal and Child Health Services Block Grant to the States	93.994	92,748
Urban Areas Security Initiative	97.008	81,727
Emergency Management Performance Grants	97.042	240,891
Homeland Security Grant Program	97.067	867,154
Buffer Zone Protection Program	97.078	9,286
Total		$ 31,503,722

Note 6 – Loans Outstanding

The County participates in certain federal award programs that sponsor revolving loan programs, which are administered by the County. These programs maintain servicing and trust arrangements with the County to collect loan repayments. The funds are returned to the programs upon repayment of the principal and interest. The federal government has imposed certain continuing compliance requirements with respect to the loans rendered under the HOME Investment Partnerships Program (HOME). As of June 30, 2010, the total amount of HOME loans outstanding subject to continuing compliance requirements was $10,207,180, which is included in the SEFA.

Note 7 – 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-0910-10	$ 217,766	$ 1,160,254
Nutrition Services Incentive Program	93.053	AP-0910-10	-	927,143
ARRA - Aging Home-Delivered Nutrition Services for States	93.705	AP-0910-10	-	135,729
ARRA - Special Programs for the Aging_Title III, Part C_Nutrition Services	93.707	AP-0910-10	-	274,455
Total Expenditures of State and Federal Awards			$ 217,766	$ 2,497,581

Note 8 – Program Totals

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

Passed Through California Emergency Management Agency	$	732,746
Passed Through California Department of Alcohol and Drug		115,021
Total CFDA Number 16.738 - Edward Byrne Memorial Justice Assistance Grant Program	$	847,767
CFDA Number 93.778 - Medical Assistance Program		
Passed Through State of California, Department of Social Services	$	62,419,640
Passed Through State of California, Department of Health Services		4,284,172
Total CFDA Number 93.778 - Medical Assistance Program	$	66,703,812

Note 9 – Homeland Security Cluster

The County is a recipient of 2007 and 2008 Urban Areas Security Initiative (UASI) grant awards (CFDA No. 97.008). Per the 2009 *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 CFDA numbers:

Program Title / Federal Grantor or Pass-Through Grantor		Federal Expenditures
CFDA Number 97.008 - Urban Area Security Initiative		
Passed through the City and County of San Francisco	$	1,676,022
CFDA Number 97.067 - Homeland Security Grant Program		
Passed through California Emergency Management Agency		3,101,070
Total Homeland Security Cluster	$	4,777,092

Note 10 - Schedules of the California Emergency Management Agency (Cal EMA)
Government Claims Board

California Emergency Management Agency grant expenditures:
The following represents grant expenditures for Department of Justice grants passed through the California Emergency Management Agency for the fiscal year ended June 30, 2010.

Program Title and Expenditure Category	Grant Award Number/Period	Award Amount	Actual Non-match	Actual Match	Actual Total
Crime Victim Assistance - Cal EMA	VW08270430				
Operating Expenses	7/1/09 to 6/30/10		$ 294,184	$ 340,412	$ 634,596
Total		$ 646,384	$ 294,184	$ 340,412	$ 634,596
ARRA - Violence Against Women Formula Grants	RV09010430				
Operating Expenses	7/1/09 to 9/30/10		$ 24,289	$ -	$ 24,289
Total		$ 24,461	$ 24,289	$ -	$ 24,289
ARRA - Violence Against Women Formula Grants	SU0901430				
Personnel Services	9/1/09 - 2/28/11		$ 67,366	$ -	$ 67,366
Operating Expenses	9/1/09 - 2/28/11		24,140	-	24,140
Total		$ 250,000	$ 91,506	$ -	$ 91,506
Edward Byrne Memorial Justice Assistance Grant	DC09200430				
Personnel Services	7/1/09 - 6/30/10		$ 192,587	$ -	$ 192,587
Operating Expenses	7/1/09 - 6/30/10		502,141	-	502,141
Equipment	7/1/09 - 6/30/10		38,018	-	38,018
Total		$ 732,746	$ 732,746	$ -	$ 732,746
Paul Coverdell Forensic Sciences Improvement Grant Program	CQ08060430				
Operating Expenses	10/1/08 - 11/30/10		$ 54,527	$ -	$ 54,527
Equipment	10/1/08 - 11/30/10		5,849	-	5,849
Total		$ 107,350	$ 60,376	$ -	$ 60,376
ARRA - State Victim Assistance Formula Grant Program	VS09010430				
Operating Expenses	7/1/09 - 9/30/10		$ 35,992	$ -	$ 35,992
Total		$ 36,318	$ 35,992	$ -	$ 35,992
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to States and Territories	ZO09010430				
Operating Expenses	3/1/09 - 2/28/13		$ 1,637,371	$ -	$ 1,637,371
Total		$ 1,981,602	$ 1,637,371	$ -	$ 1,637,371

(Note: The non-match expenditures of $294,184, $24,289, $91,506, $732,746, $60,376, $35,992 and $1,637,371 for grants VW 08270430, RV09010430, SU0901430, DC09200430, CQ08 06 0430, VS09010430, ZO09010430, respectively, are reported as federal expenditures in the SEFA under the following CFDA numbers: 16.575, 16.588, 16.738, 16.742, 16.801 and 16.803).

Note 10 - Schedules of the California Emergency Management Agency (Cal EMA) and California Victims Compensation & Government Claims Board (Continued)

California Emergency Management Agency grant expenditures (continued):
The following represents grant expenditures for U.S. Department of Homeland Security grants passed through the California Emergency Management Agency for the fiscal year ended June 30, 2010.

Program Title and Expenditure Category	Grant Award Number/Period	Award Amount	Actual Non-match	Actual Match	Actual Total
Homeland Security Grant Program	2007-0008; OES ID#85-00000				
Operating Expenses	10/9/04 - 3/31/10		$ 701,145	$ -	$ 701,145
Total		$ 701,145	$ 701,145	$ -	$ 701,145
Homeland Security Grant Program	2008-0006; OES ID#85-00000				
Personnel Services	10/23/08 - 5/31/11		$ 129,546	$ -	$ 129,546
Operating Expenses	10/23/08 - 5/31/11		2,124,117	-	2,124,117
Total		$ 4,188,404	$ 2,253,663	$ -	$ 2,253,663
Homeland Security Grant Program	2009-0019; Cal EMA ID#85-00000				
Personnel Services	10/1/09 - 4/30/12		$ 1,789	$ -	$ 1,789
Operating Expenses	10/1/09 - 4/30/12		144,473	-	144,473
Total		$ 4,064,764	$ 146,262	$ -	$ 146,262
Emergency Management Performance Grants	2009				
Personnel Services	7/1/09 - 6/30/10		$ 42,873	$ -	$ 42,873
Operating Expenses	7/1/09 - 6/30/10		251,237	-	251,237
Total		$ 294,110	$ 294,110	$ -	$ 294,110
Buffer Zone Protection Program (BZPP)	n/a				
Operating Expenses	7/1/09 - 6/30/10		$ 202,080	$ -	$ 202,080
Total		$ 386,060	$ 202,080	$ -	$ 202,080

(Note: The non-match expenditures of $701,145, $2,253,663, $146,262, $294,110 and $202,080 for grants 2007-0008; OES ID#85-00000, 2008-0006; OES ID#85-00000; 2009-0019; Cal EMA ID#85-00000; and 2009, respectively, are reported as federal expenditures in the SEFA under the following CFDA numbers: 97.067, 97.042 and 97.078).

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

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:	Unqualified except 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

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

Identification of major programs:

1. CFDA No. 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

2. CFDA No. 11.206 CDC Public Health Emergency Response

3. *CDBG – Entitlement Grants Cluster*
   CFDA No. 14.218 Community Development Block Grants/Entitlement Grants
   CFDA No. 14.253 ARRA – Community Development Block Grants ARRA Entitlement Grants (CDBG-R)

4. CFDA No. 14.239 Home Investment Partnerships Program

5. CFDA No. 16.804 ARRA – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants To Units of Local Government

6. *Highway Planning and Construction Cluster*
   CFDA No. 20.205 Highway Planning and Construction
   CFDA No. 20.219 Recreational Trails Program

7. *Aging Cluster*
   CFDA No. 93.045 Special Programs for the Aging_Title III, Part C_ Nutrition Services
   CFDA No. 93.053 Nutrition Services Incentive Program
   CFDA No. 93.705 ARRA – Aging Home-Delivered Nutrition Services for States
   CFDA No. 93.707 ARRA – Aging Congregate Nutrition Services for States

8. *Immunization Grants Cluster*
   CFDA No. 93.268 Immunization Grants
   CFDA No. 93.712 ARRA - Immunization

9. *Temporary Assistance for Needy Families (TANF) Cluster*
   CFDA No. 93.558 Temporary Assistance for Needy Families
   CFDA No. 93.714 ARRA – Emergency Contingency Fund for TANF State Programs

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 2010-A

Workers' Compensation Fund Deficit Net Assets Balance

Governments often use internal service funds to centralize certain services and then allocate the costs of those services within the government. U.S. generally accepted accounting principles (GAAP) permit the use of internal service funds to report any activity that provides goods or services to the government on a cost-reimbursement basis. That is, the goal of an internal service fund should be to measure the full cost of providing goods or services for the purpose of fully recovering that cost through fees or charges. Accumulating significant deficits or excess net assets are indicative of the internal service activity not being operated on a cost-reimbursement basis. Under such circumstances, it may no longer be appropriate to report the activity in an internal service fund under GAAP.

The County has established a Worker's Compensation Internal Service Fund (Fund) to account for disability, medical, and rehabilitation expenses and related costs associated with on-the-job injuries for County employees. However, the County has not set user fees to recover the full cost of these services. At June 30, 2010, the Fund has a deficit net assets balance in the amount of $29.3 million, an increase of $0.9 million when compared to prior year's deficit of $28.4 million. The financial statement impact of this situation is that the Fund is financing its past services and has subsidized the operations of several of the County's funds. It is therefore not acting as an internal service fund whereby the revenues earned are enough to cover its operating expenses, but more like a fund operating on a cash basis whereby the cash received from the other departments are enough to cover its current cash outflows.

Our review of the County's self-insured workers' compensation program actuarial study noted that the County's policy is to fund the workers' compensation liabilities at the discounted expected confidence level and the study was based on this assumption. However, the County budgeted to fund the fiscal year 2010/2011 workers' compensation program on a pay-as-you-go (cash basis). As a result, the County is not projected to significantly reduce this deficit in the upcoming year. If it is determined that funding the plan on an accrual basis is not feasible and that the County does not intend to or cannot recover the full cost of providing goods or services within a reasonable period of time, then the use of an internal service fund is no longer appropriate under GAAP and should not be used for financial reporting purposes.

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

Management Response:

Over the years, the County has been trying to recover the full cost of providing goods or services for each fiscal year, and the County intends to recover part of the deficit balance over time. The deficit as of fiscal year 2010 was caused by the increase in the discounted outstanding liabilities. Governmental Accounting Standards Board (GASB) Statement No. 10 requires the County to accrue a liability on its financial statements for the ultimate cost of claims and expenses associated with all reported and unreported claims including Allocated Loss Adjustment Expense (ALAE) and Unallocated Loss Adjustment Expense (ULAE). The discounted outstanding liabilities for fiscal year 2010 increased by $3.6 million, which was driven by adverse claim developments in fiscal year 2010.

The County has maintained its contribution to equal the estimated payouts for fiscal year 2011, and plan to offset the $3.6 million increase in deficit balance in fiscal year 2010 with the future contribution made in fiscal year 2012.

Section III – Federal Award Findings and Questioned Costs

Finding 2010-1 Schedule of Expenditures of Federal Awards Completeness

Program Identification

Awarding Agency:	U.S. Department of Justice
Passed Through:	California Emergency Management Agency
Program Name:	Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories
CFDA:	16.803
Award Number:	ZO09010430
Award Year:	FYE 6/30/2010

Awarding Agency:	U.S. Department of Justice
Program Name:	Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to Units of Local Government
CFDA:	16.804
Award Number:	All Awards
Award Year:	FYE 6/30/2010

Regulatory or other Criteria:
The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profits Organizations* (OMB A-133), requires that the County prepare a schedule showing total federal expenditures for the year for each federal program. Further, OMB Circular A-133 requires that the auditor identify and audit all high-risk Type A federal programs. The County's Type A programs are those with current year expenditures exceeding $3,000,000.

Condition Identified and Perspective:
During our audit, we noted that the County included the following misstatements in its draft schedule of expenditures of federal awards (SEFA):

- Catalog of Federal Domestic Assistance (CFDA) #16.804 ARRA – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government overstated expenditures by $1,304,863 due to the inclusion of duplicate amounts reported from various County departments. In addition, the County overstated the total program amounts by $1,637,371 with the inclusion of federal expenditures funded with a different CFDA number.

- CFDA #16.803 ARRA – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories was understated by $1,637,371. These expenditures were reported as federal expenditures under CFDA #16.804, as discussed above.

The County subsequently corrected the expenditure amounts reported in its fiscal year 2010 SEFA.

Effect:
The County's SEFA serves as the basis in determining the number of major programs required to be audited in a fiscal year. Inaccuracy in its SEFA reporting may result in high-risk Type A programs not captured for testing and Type B programs not subject to the required audit risk assessment.

Questioned Costs:
Not applicable.

Recommendation:
The County should improve its SEFA preparation and review processes over grant expenditures. To prevent duplication of reporting by multiple departments, the County should revise their SEFA reporting instruction to departments to clearly define reporting criteria. In addition, the Controller's Department should perform a reconciliation of all expenditures reported by departments.

Management Response and Corrective Action Plan:
The County concurs with the above recommendations and will implement immediately.

Finding 2010-2 Subrecipient Monitoring

Program Identification

Awarding Agency:	U.S. Department of Health and Human Services
Passed Through:	State Department of Public Health
Program Name:	Immunization Grants Cluster
CFDA:	93.268/93.712
Award Number:	09-11299
Award Year:	FYE 6/30/2010

Regulatory or other Criteria:
In accordance with OMB Circular A-133, the County is required to ensure that subrecipients who expend $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133. The County 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 County should take appropriate action using sanctions.

Condition Identified:
During our testwork over the subrecipient monitoring compliance requirements, we noted that the County's immunization program subawarded federal funds to its subrecipients. However, the County did not require its subrecipients to submit their single audit reports. The County did not identify the subrecipients in which single audits are performed, obtain and review the most recent single audit reports to determine if the subrecpients 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, relating to evaluation and analysis of subrecipients' single audit reports to ensure that all expenditures of federal awards were properly reported in their schedules of expenditures of federal awards.

Questioned Costs:
Not applicable

Recommendation:
The County should develop procedures to identify and determine which subrecipients are require 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 County 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.

Management Response and Corrective Action Plan:
We concur with the recommendation that the County has responsibility as a grantee for monitoring subrecipient single audits, pursuant to OMB A-133.

We have requested copies of single audit reports from all subrecipients who expended (received) $500,000 or more in Federal Grant funds subsequent to year-end.

Finding 2010-3 Special Tests & Provisions – Housing Quality Standards

Program Identification

Awarding Agency:	U.S. Department of Housing and Urban Development
Program Name:	HOME Investment Partnership Program
CFDA:	14.239
Award Number:	M-09UC060218
Award Year:	FYE 6/30/2010

Regulatory or other 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 Identified:
During the performance of our testing over the Housing Quality Standards compliance requirements, we noted that out of the 8 projects tested (out of a population of 28 projects), the Office of Affordable Housing (OAH) did not perform the housing quality inspection for 6 projects within the required timeframe. For the remaining 2 projects selected for testing, inadequate documentation was provided by OAH to support its completion of the required inspections.

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 requirement 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:
$10,207,180, which represents the total amount of HOME loans outstanding subject to continuing compliance requirements included in the SEFA as of June 30, 2010.

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.

Management Response and Corrective Action Plan:
OAH understands the seriousness of Finding 2010-3 and concurs that it is imperative to meet all HUD requirements regarding inspections of HOME funded housing units within the prescribed timeline.

Due to the emergency medical leave of the lead staff person for the HOME Program, OAH is unable to fully document HQS reporting for 2010. OAH will seek an extension of the deadline to June 30, 2011, and reassign HOME responsibilities to other staff to meet the HOME HQS inspections, documentation, and reports as required by HUD.

COUNTY OF SANTA CLARA
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2010

Financial Statement Findings

Reference Number: **2009-A –** *Accounting for Securities Lending Transactions*

Audit Finding: During our audit, we noted that the County did not report the collateral received and collateral due to borrowers on its statement of net assets/balance sheets nor did the County segregate the interest revenues and the cost of the securities lending transactions on its operating statements. As a result, the County's assets and liabilities were understated by $139.9 million, interest earnings from securities lending transactions were understated by $0.4 million and the cost of securities lending transactions were understated by $0.4 million. The County subsequently recorded an adjustment to correct these misstatements in the June 30, 2009 financial statements.

Recommendation: As the County enters into non-routine complex transactions, the County staff should obtain additional understanding of the background and nature of the transactions, perform extensive research, and document the County's accounting treatment on the transactions to ascertain proper accounting and disclosure of these transactions.

Status: Corrected. The County continued to enter into securities lending transactions with its custodian bank in fiscal year 2010 and properly recorded the transactions in the June 30, 2010 financial statements.

Reference Number: **2009-B –** ***Controls over Year-End Capital Projects Payable Accruals***

Audit Finding: Throughout the year, the SCVMC utilizes Fund 059 – Capital Projects Subfund to capture its capital project expenditures. During our audit, we noted the SCVMC did not accrue project costs in the amount $12.2 million rendered during the current fiscal year related to the Capital Projects Subfund project.

Recommendation: We recommend the SCVMC perform an expenditure and accrual analysis during its year-end financial reporting process in order to properly record expenditures in the period when a liability is incurred.

Status: Corrected.

Federal Award Findings

No matters were reported.