

**COUNTY OF SANTA CLARA**

Single Audit Reports

Basic Financial Statements with  
Federal Compliance Section

For the Fiscal Year Ended June 30, 2014



**COUNTY OF SANTA CLARA**  
Single Audit Reports  
For the Fiscal Year Ended June 30, 2014

*Table of Contents*

	<i>Page</i>
<b>FINANCIAL SECTION:</b>	
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis (Required Supplementary Information – Unaudited).....	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position .....	23
Statement of Activities.....	24
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet .....	26
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Position – Governmental Activities .....	27
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	28
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-wide Statement of Activities – Governmental Activities .....	29
Proprietary Funds:	
Statement of Fund Net Position .....	30
Statement of Revenues, Expenses, and Changes in Fund Net Position .....	31
Statement of Cash Flows.....	32
Fiduciary Funds:	
Statement of Fiduciary Net Position .....	34
Statement of Changes in Fiduciary Net Position .....	35
Notes to the Basic Financial Statements.....	37
Required Supplementary Information (Other than Management’s Discussion and Analysis - Unaudited):	
Schedules of Funding Progress .....	107
Budgetary Comparison Schedule - General Fund - Budgetary Basis .....	109
Notes to Required Supplementary Information.....	119

**COUNTY OF SANTA CLARA**  
Single Audit Reports  
For the Fiscal Year Ended June 30, 2014

***Table of Contents (Continued)***

	<b><i>Page</i></b>
<b>FEDERAL COMPLIANCE SECTION:</b>	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	121
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133.....	123
Schedule of Expenditures of Federal Awards.....	127
Notes to the Schedule of Expenditures of Federal Awards .....	131
Schedule of Findings and Questioned Costs .....	136
Status of Prior Year’s Findings and Questioned Costs .....	143

**Independent Auditor’s Report**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Santa Clara, California (County), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County’s basic financial statements as listed in the table of contents.

**Management’s Responsibility for the Financial Statements**

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

**Auditor’s Responsibility**

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

Opinion Unit	Assets	Net Position/	
		Fund Balances	Revenues/ Additions
Governmental activities	3.5%	16.7%	4.2%
Business-type activities	0.5%	0.9%	0.2%
Aggregate discretely presented component units	100.0%	100.0%	100.0%
Aggregate remaining fund information	1.9%	2.2%	1.0%

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Santa Clara County Health Authority, the Santa Clara County Tobacco Securitization Corporation, and the South Santa Clara County Fire District were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

#### ***Change in Accounting Principles***

As described in Note 1(p) to the basic financial statements, effective July 1, 2013, the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*; Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statement No. 10 and No. 62*; and Statement No. 70, *Accounting and Financial for Nonexchange Financial Guarantees*.

#### ***Deficit Net Positions***

As discussed in Note 2, several County internal service funds have deficit net positions at June 30, 2014, which include the Workers' Compensation, Retiree Healthcare, and Pension Obligation internal service funds with deficit net positions of \$45.4 million, \$190.3 million, and \$47.4 million, respectively.

Our opinion is not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of funding progress and the budgetary comparison schedule – General Fund – budgetary basis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2014 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

*Macias Gini & O'Connell LLP*

Walnut Creek, California

December 30, 2014, except for our report on the schedule of expenditures of federal awards, as to which the date is March 30, 2015

**This Page is Intentionally Left Blank.**

**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, 2014. 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 and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources by \$1.53 billion (*net position*) at June 30, 2014. Of this amount, \$94.4 million (*unrestricted net position*) may be used to meet the County's ongoing obligations to its citizens and creditors and \$457.4 million (*restricted net position*) may be used for the County's ongoing obligations related to programs with external restrictions. The County's net investment in capital assets was \$982.4 million. (See further detail in Table 1 on page 8).

The County's total net position decreased by \$72.1 million for the year. (See further detail in Table 2 on page 12).

At June 30, 2014, the County governmental funds reported combined fund balances of \$883.1 million, an increase of \$12.7 million from the prior year. Approximately 48.9 percent of the combined fund balances, \$431.6 million, is available to meet the County's current and future needs.

The County's investments in capital assets increased by \$138.2 million or 6.5 percent. (See further detail in Table 5 on page 19).

The County's total long-term debt, net of retirements of \$85.0 million and additions of \$28.8 million for the year, decreased by \$56.2 million or 2.5 percent during the current fiscal year. (See further detail in Table 6 on page 20).

At June 30, 2014, the County's unassigned fund balance for the General Fund was \$237.9 million, 11.5 percent of total General Fund expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-wide Financial Statements**

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

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

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

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 healthcare operations (a hospital—Santa Clara Valley Medical Center (SCVMC) and a health plan (Valley Health Plan)), airport operations (3 airports - Reid Hillview, Palo Alto and South County), and sanitation operations (County Sanitation District No. 2-3 of Santa Clara County).

Component units are included in the basic financial statements and consist of legally separate entities for which the County is financially accountable. Because of the governing board relationship and the exclusivity of County services, the financial operations of some component units are blended in the County's basic financial statements. These component units are the Santa Clara County Central Fire Protection District, South Santa Clara County Fire District, Los Altos Hills County Fire District, Santa Clara County Library, Santa Clara County Vector Control District, County Sanitation District No. 2-3 of Santa Clara County, Santa Clara County Financing Authority, Santa Clara County—El Camino Hospital District Hospital Facilities Authority, Santa Clara County Tobacco Securitization Corporation and the Silicon Valley Tobacco Securitization Authority. The Housing Authority of Santa Clara County, Santa Clara County Health Authority, 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 23 – 25 of this report.

### **Fund Financial Statements**

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

#### ***Governmental funds***

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

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 26 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund. Data from other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these 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 26 – 29 of this report.

### ***Proprietary funds***

The County maintains two kinds of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for one hospital—Santa Clara Valley Medical Center (SCVMC), one health plan (Valley Health Plan), three airports (Reid Hillview, Palo Alto, and South County), and one sanitation operation (County Sanitation District No. 2-3 of Santa Clara County). *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County’s various functions. The County uses internal service funds to account for its information services, fleet management, insurance, printing services, unemployment insurance, workers’ compensation, employee benefits, pension obligations, and retirees’ healthcare. The internal service funds have been allocated between the governmental activities and business-type activities based on the relative percentage of use of the internal service funds in these activities.

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

The proprietary funds financial statements can be found on pages 30 – 33 of this report.

### ***Fiduciary funds***

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

The fiduciary funds financial statements can be found on pages 34 – 35 of this report.

### **Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 37 – 106 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 107 – 120 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 121 – 185 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The County's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$1.53 billion (*net position*) at June 30, 2014. As stated earlier, net position 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 Position (in thousands)**

	Governmental Activities		Business-type Activities		Total		Total	
	2013	2014	2013	2014	2013	2014	Dollar Change	Percent Change
<b>Assets</b>								
Current and other assets	\$ 2,195,267	\$ 2,057,137	\$ 710,132	\$ 696,259	\$ 2,905,399	\$ 2,753,396	\$ (152,003)	-5.2%
Capital assets	1,114,725	1,157,137	1,018,161	1,113,980	2,132,886	2,271,117	138,231	6.5%
<b>Total assets</b>	<b>3,309,992</b>	<b>3,214,274</b>	<b>1,728,293</b>	<b>1,810,239</b>	<b>5,038,285</b>	<b>5,024,513</b>	<b>(13,772)</b>	<b>-0.3%</b>
Deferred outflows of resources	-	886	17,007	26,529	17,007	27,415	10,408	61.2%
<b>Liabilities</b>								
Current and other liabilities	332,505	295,313	172,032	326,629	504,537	621,942	117,405	23.3%
Long-term liabilities	2,271,166	2,242,289	641,082	622,661	2,912,248	2,864,950	(47,298)	-1.6%
Noncurrent derivative instrument liabilities	-	-	17,007	16,976	17,007	16,976	(31)	-0.2%
<b>Total liabilities</b>	<b>2,603,671</b>	<b>2,537,602</b>	<b>830,121</b>	<b>966,266</b>	<b>3,433,792</b>	<b>3,503,868</b>	<b>70,076</b>	<b>2.0%</b>
Deferred inflows of resources	15,236	13,870	-	-	15,236	13,870	(1,366)	-9.0%
<b>Net position:</b>								
Net investment in capital assets	897,189	959,157	498,066	617,486	928,872	982,361	53,489	5.8%
Restricted	438,990	456,393	494,390	363,612	440,029	457,431	17,402	4.0%
Unrestricted	(645,094)	(751,862)	(77,277)	(110,596)	237,363	94,398	(142,965)	-60.2%
<b>Total net position</b>	<b>\$ 691,085</b>	<b>\$ 663,688</b>	<b>\$ 915,179</b>	<b>\$ 870,502</b>	<b>\$ 1,606,264</b>	<b>\$ 1,534,190</b>	<b>\$ (72,074)</b>	<b>-4.5%</b>

In accordance with GASB guidance, the County reclassified \$362.6 million of the primary government's total net position amounts from restricted to unrestricted and \$594.3 million from net investment in capital assets to unrestricted. Additional information on the presentation can be found in Note 11 on page 84 of this report.

### Assets and Deferred Outflows of Resources

The County's total assets and deferred outflows of resources decreased \$3.5 million or 0.1 percent primarily due to the following:

*Governmental activities.* Total assets and deferred outflows of resources for the governmental activities decreased by \$94.8 million or 2.9 percent. Current and other assets decreased by \$138.1 million. The primary reasons were from decreases of \$72.4 million in net receivables, \$50.2 million in due from other government agencies, and \$37.7 million in restricted cash and investments in comparison to the prior year. These decreases were offset by an increase of \$43.5 million in unrestricted cash and investments.

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

- Decrease by \$72.4 million in net receivable was mainly due to a \$70.8 million receivable related to the Teeter Plan Obligation issued in prior year for the purpose of assisting the County in funding its obligation to distribute tax levies to participating taxing agencies. This obligation was paid off in September 11, 2013, which correlated to the decrease in the related receivable.
- Decrease by \$50.2 million in the net amount reported in due from other government agencies due primarily to an increase in an allowance to provide for Short Doyle Medi-Cal audits.
- Decrease in restricted cash and investments by \$37.7 million was primarily due to the final debt service payment on the 1985 Series A & B Adjustable Convertible Extendable Securities (ACES) bonds from reserve and other restricted accounts made on August 1, 2013 and additional bond payments related to 2013 Series B General Obligation Bonds made from restricted accounts.
- Increase in unrestricted cash by \$43.5 million resulted from improvements in the cash positions of numerous County programs. This includes \$9.0 million one-time revenues from successor agencies to the former redevelopment agencies and \$35.2 million increase from Measure A, which passed in November 2012 to increase sales tax by one-eighth of a cent.

Capital assets increased \$42.4 million or 3.8 percent. Non-depreciable capital assets increased by \$45.7 million; whereas, depreciable capital assets decreased by \$3.3 million. Changes in capital assets will be discussed in the Capital Assets section on page 19 and Note 6 on page 61.

*Business-type activities.* Total assets and deferred outflows of resources for the business-type activities increased by \$91.4 million or 5.2 percent. Current and other assets decreased \$13.9 million and capital assets increased \$95.8 million. In addition, deferred outflow of resources increased \$9.5 million due primarily to the reclassification of deferred loss on refunding of debt from a contra liability pursuant to GASB Statement No. 65.

The decrease in current and other assets by \$13.9 was primarily a result of the use of cash and cash equivalents in rebuilding and improving the seismically deficient medical facilities.

Changes in capital assets will be discussed in the Capital Assets section on page 19 and Note 6 on page 62.

### **Liabilities and Deferred Inflows of Resources**

The County's total liabilities and deferred inflows of resources increased by \$68.7 million or 2.0 percent mainly due to the following:

*Governmental activities.* Total liabilities and deferred inflows of resources for the governmental activities decreased by \$67.4 million or 2.6 percent due to decreases of current and other liabilities of \$37.2 million and noncurrent liabilities of \$28.9 million.

The decreases in current and other liabilities of \$37.2 million occurred in the following account balances:

- Increase of \$12.8 million in accrued liabilities primarily due to the timing of the payment of prior year contract services provided for Mental Health programs supporting mentally disabled citizens.
- Increase of \$28.9 million in due to other government agencies primarily from a \$25.3 million increase from Local Revenue Fund 2011 Realignment for Protective Services programs such as Foster Care, KinGap, and Adoption as well as Calworks programs that are owed to State for advances received.
- Increase of \$5.3 million in unearned revenue mainly due to Wraparound services contracts.
- Decrease of \$85.0 million in short-term debt payable as the County did not issue short-term Teeter financing in FY2014.

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

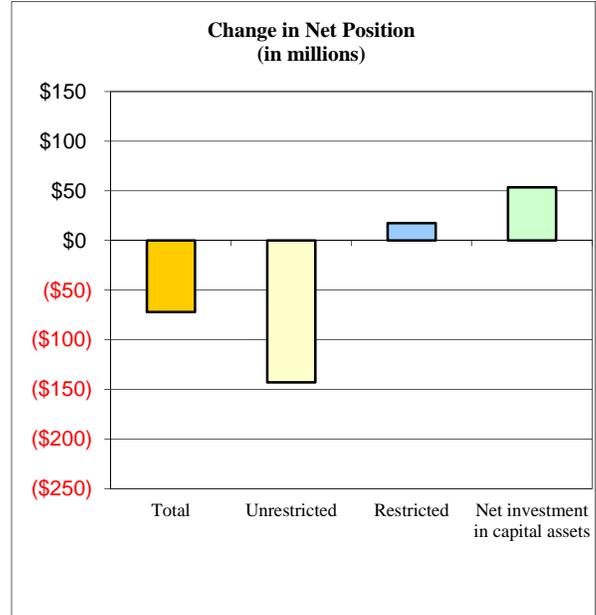
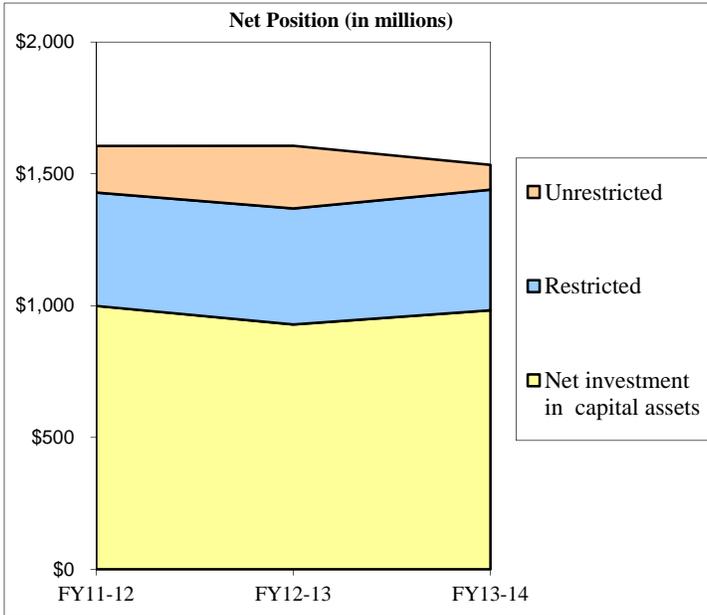
*Business-type activities.* Total liabilities for the business-type activities increased by \$136.1 million or 16.4 percent from increase of \$154.6 million in current and other liabilities which was offset by \$18.4 million decrease in long term liabilities. The increase in current and other liabilities resulted from increased liabilities for third party settlements and due to other governmental agencies primarily due to Disproportionate Share Hospital (DSH) overpayments received from the State Department of Health Care Services. The decrease in long term liabilities was due to the repayment of the 1985 Series A & B ACES and 1997 Series A lease revenue bonds.

### **Net Position**

The County's unrestricted net position of \$94.4 million (6.2 percent) may be used to meet the County's ongoing obligations to citizens and creditors. The largest portion of the County's net position of \$982.4 million (64.0 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 \$457.4 million (29.8 percent) of the County's net position represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the County reported positive balances in all categories of net position for its governmental activities and for its business-type activities with the exception of negative balances of \$751.9 million and \$110.6 million in unrestricted net position category of its governmental activities and business-type activities respectively. The negative unrestricted net position balances were offset on the County-wide level through reclassifications of \$362.6 million from restricted and \$594.3 million from net investment in capital assets.

The County's net position decreased by \$72.1 million or 4.5 percent for the year. This change in net position is explained below in the context of the County's governmental and business-type activities.

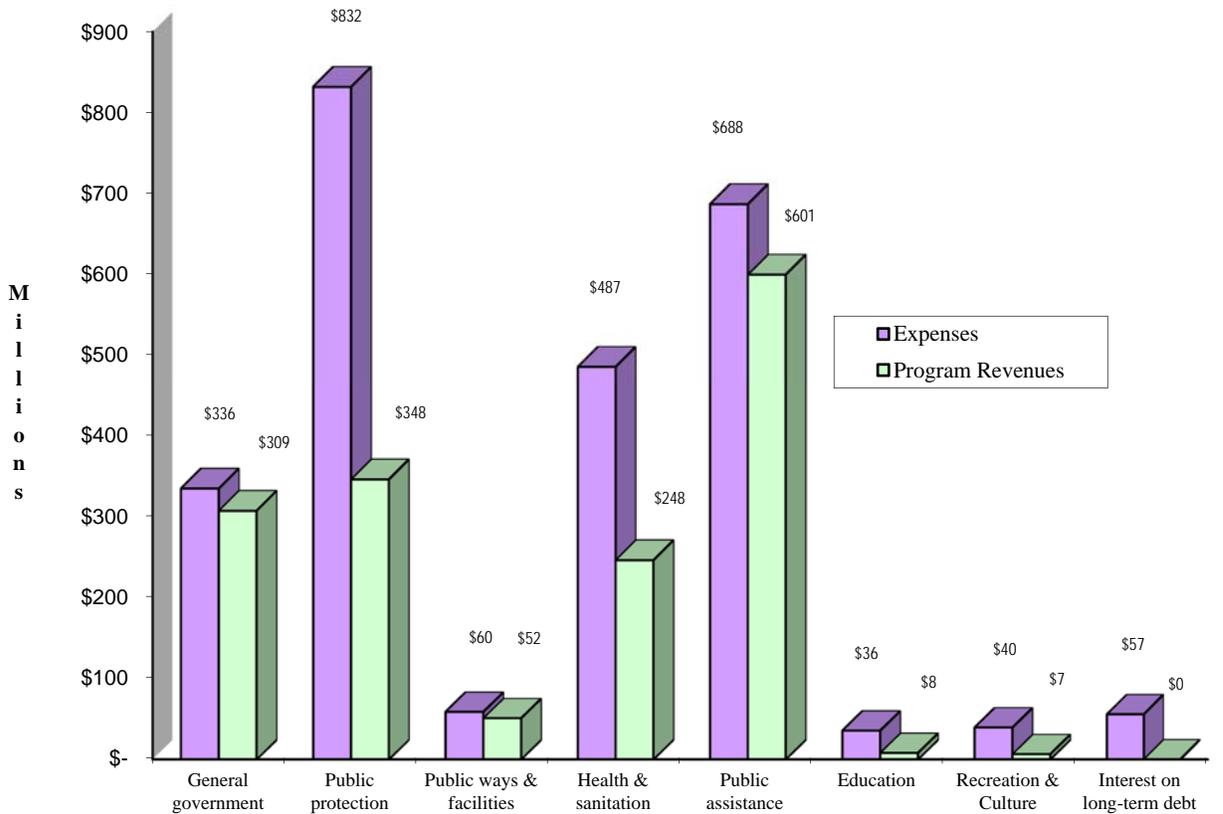


**Governmental activities**

The governmental activities decreased the County’s net position by \$27.4 million. Revenues exceeded expenses by \$144.0 million. In addition, due to the implementation of GASB Statement No. 65, deferred charges were written off in the amount of \$11.8 million as prior period adjustments. Furthermore, net transfers of \$159.6 million were made to the business-type activities primarily for operating subsidies of the County’s healthcare programs.

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

**Expenses and Revenues - Governmental Activities**



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

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

	Governmental Activities		Business-type Activities		Total		Total	
	2013	2014	2013	2014	2013	2014	Dollar Change	Percent Change
Revenues:								
Program revenues:								
Charges for services	\$ 264,719	\$ 264,674	\$ 860,359	\$ 1,015,340	\$ 1,125,078	\$ 1,280,014	\$ 154,936	13.8%
Operating grants and contributions	1,220,593	1,300,352	119,451	108,809	1,340,044	1,409,161	69,117	5.2%
Capital grants and contributions	9,482	6,799	7,234	7,234	16,716	14,033	(2,683)	(16.1%)
General revenues:								
Property taxes	824,370	919,612	-	-	824,370	919,612	95,242	11.6%
Sales and use taxes	14,487	49,537	8,692	5,553	23,179	55,090	31,911	137.7%
Other taxes	37,651	35,597	-	-	37,651	35,597	(2,054)	(5.5%)
Unrestricted grants & contributions	17,179	15,765	-	-	17,179	15,765	(1,414)	(8.2%)
Unrestricted investment income	7,041	8,391	1,177	3,680	8,218	12,071	3,853	46.9%
Gain on sale of capital assets	4,424	-	-	-	4,424	-	(4,424)	(100.0%)
Other revenue	69,539	79,837	-	-	69,539	79,837	10,298	14.8%
Total revenues	2,469,485	2,680,564	996,913	1,140,616	3,466,398	3,821,180	354,782	10.2%
Program expenses:								
General government	302,106	336,205	-	-	302,106	336,205	34,099	11.3%
Public protection	783,619	832,030	-	-	783,619	832,030	48,411	6.2%
Public ways and facilities	30,712	60,332	-	-	30,712	60,332	29,620	96.4%
Health and sanitation	450,147	487,010	-	-	450,147	487,010	36,863	8.2%
Public assistance	637,603	687,503	-	-	637,603	687,503	49,900	7.8%
Education	32,179	36,294	-	-	32,179	36,294	4,115	12.8%
Recreation and culture	36,956	40,270	-	-	36,956	40,270	3,314	9.0%
Interest on long-term liabilities	45,059	56,922	-	-	45,059	56,922	11,863	26.3%
Healthcare	-	-	1,141,759	1,332,671	1,141,759	1,332,671	190,912	16.7%
Airport	-	-	3,581	3,810	3,581	3,810	229	6.4%
Sanitation	-	-	1,954	1,818	1,954	1,818	(136)	(7.0%)
Total expenses	2,318,381	2,536,566	1,147,294	1,338,299	3,465,675	3,874,865	409,190	11.8%
Excess (deficiency) before transfers	151,104	143,998	(150,381)	(197,683)	723	(53,685)	(54,408)	(7525.3%)
Transfers	(574,489)	(159,557)	574,489	159,557	-	-	-	
Change in net position	(423,385)	(15,559)	424,108	(38,126)	723	(53,685)	(54,408)	(7525.3%)
Net position, beginning of year, as restated	1,114,470	679,247	491,071	908,628	1,605,541	1,587,875	(17,666)	(1.1%)
Net position, end of year	\$ 691,085	\$ 663,688	\$ 915,179	\$ 870,502	\$ 1,606,264	\$ 1,534,190	\$ (72,074)	-4.49%

**Revenues**

The County’s governmental activities’ revenues increased \$211.1 million or 8.5 percent to \$2.7 billion. The program revenues increased by \$77.0 million or 5.2 percent, while general revenues increased by \$134.0 million or 13.8 percent. Over the past three years, the County’s program revenues from its governmental activities have contributed about 63.6 percent of the cost of running those governmental programs. The general revenues support the programs by covering the remaining 36.4 percent of costs.

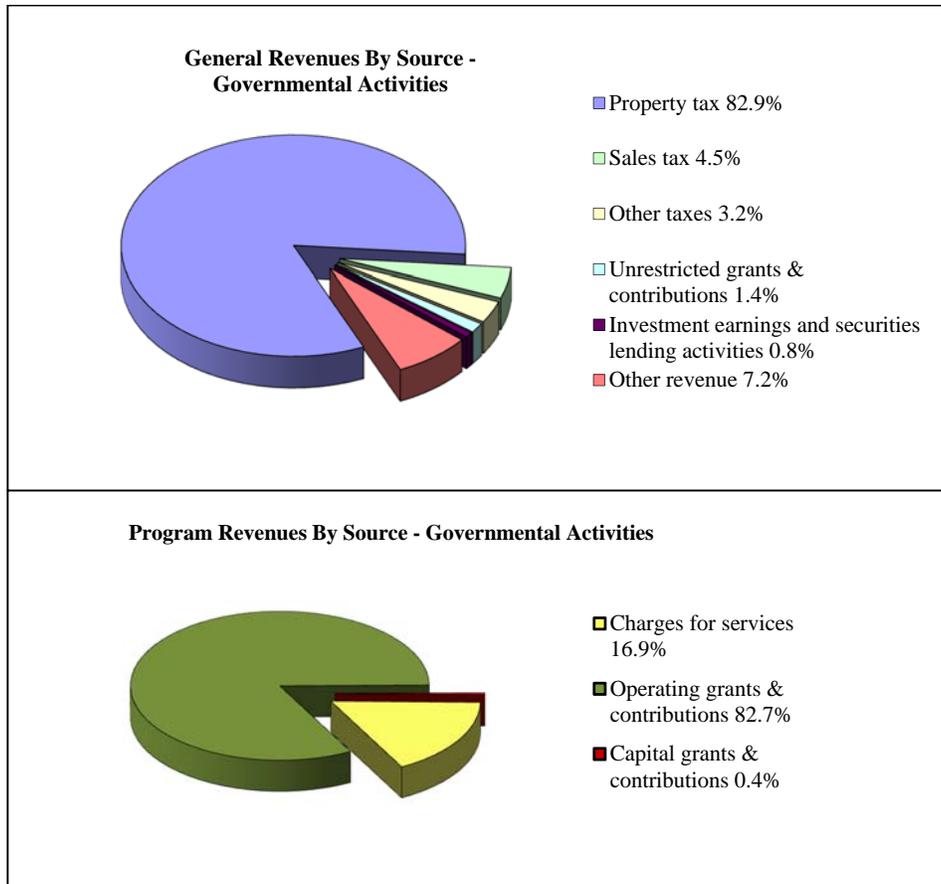
The largest source of program revenues for the County’s governmental activities is Federal and State grants and contributions, both operating and capital. These revenues amount to 83.2 percent of the County’s program revenues and 48.8 percent of its total revenues. For the year, operating grants increased by \$79.8 million, while capital grants fell by \$2.7 million. The net result was an increase in the Federal and State grants and contributions of \$77.1 million. The reasons for these changes will be discussed in the governmental funds area.

The County’s governmental activities’ general revenues increased by \$134.0 million or 13.8 percent. General revenues are not directly related to governmental programs and include: taxes (property, business, and sales), unrestricted grants, investment income, gain on sale of capital assets, and other revenue. General revenues support government programs by defraying costs, which those programs cannot cover from their own revenues. Tax revenues are the County’s second largest revenue source - grants and contributions being the largest. The County earned \$1.0 billion in tax revenues (property tax, sales and use tax, and other taxes) for the current year. This is approximately 90.6 percent of the general revenues and 37.5 percent of the total revenues. These general revenues provide the Board of Supervisors (the Board) with most of its discretionary spending ability. The reasons for these changes will be discussed in the governmental funds area.

The County’s general revenues increased mainly due to:

- An increase of \$95.2 million in property taxes primarily due to an 8.4 percent increase in total property assessed values. This increase resulted from an increase in secured property tax collection of \$40.3 million, \$15.3 million in property tax in lieu of vehicle license fee, and \$25.7 million in property taxes – retired benefit levy. In addition, there was an increase of \$3.8 million in distribution of residual Redevelopment Property Tax Trust Fund (RPTTF) and \$9.0 million increase from Low and Moderate Income Housing Funds (LMIHF) due to wind down of municipal redevelopment agencies.
- An increase of \$35.1 million in sales taxes mainly from Measure A which passed in November 2012 and increased sales tax for the county by one-eighth of a cent.

These topics will be discussed in Financial Analysis of the County’s Funds section on page 16.



Expenses and Transfers

Expenses for governmental activities increased by \$218.2 million or 9.4 percent. All categories experienced higher costs than in the prior year. The primary reasons for the changes are explained below:

General Government increased by \$34.1 million or 11.3 percent for a variety of reasons including:

- Increased by \$13.5 million in salaries and benefits mainly due to filling of vacant positions in FY 2014, 2.0 percent countywide salary increase, increase in employee retirement plan.
- Increased by \$12.9 million in expenditures related to property tax retiree benefit levy due to a 9.0 percent growth received in FY2014.
- Increased by \$5.4 million from increased expenses for Homeland Security and Urban Areas Security Initiative (UASI) grants to support security enhancements for the County.
- Increased by \$4.9 million from implementing multi-phased regional interoperable radio and data communication projects in FY2014.

Public Protection increased by \$48.4 million or 6.2 percent due to increases in staffing, salary amounts from union contracts, health insurance rates, and retiree medical insurance and retirement benefit contributions.

Public Ways and Facilities increased by \$29.6 million or 96.4 percent mainly due to bridge and road repairs and maintenance, pedestrian and bicycle route improvements, and Measure B improvement projects which included widening and landscaping of highways.

Health and sanitation increased \$36.9 million or 8.2 percent due to the following:

- \$12.5 million increase in salaries and benefits resulting from 8.0 percent increase in positions, 2.0 percent salary increase, and additional contributions towards retiree medical and employee retirement and health insurance contributions.
- \$3.8 million increased primarily due to contract services related to Alcohol and Drug services as new funding was received from Drug Medi-Cal for adults program, Probation for Pathway Ranch, California Department of Corrections and Rehabilitation (CDCR), and AB109 funding for housing parole violator in County jail.
- \$18.1 million increased in contracts for mental health treatment of adult and children.

Public Assistance increased by \$49.9 million or 7.8 percent primarily due to the following:

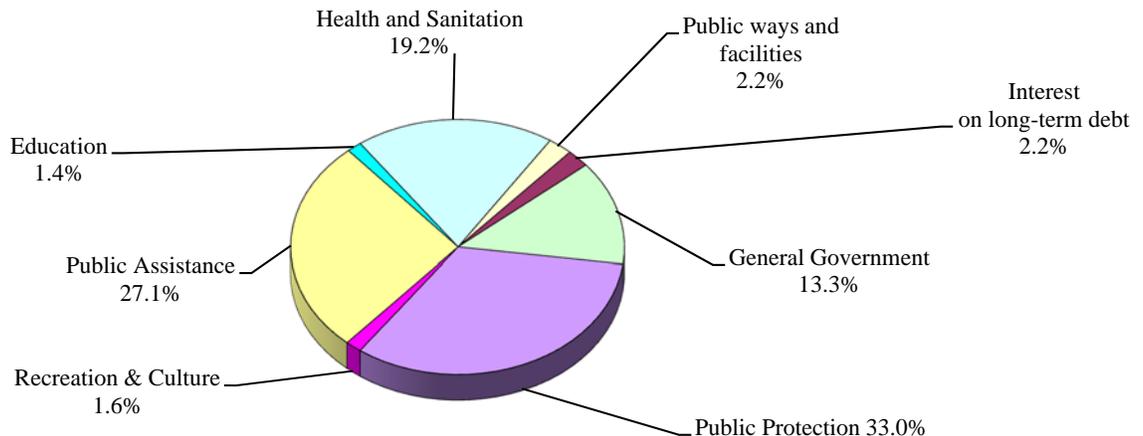
- \$34.7 million increase in salaries and benefits due to increases in staffing by 5.0 percent, salary amounts from union contracts, health insurance rates, and retiree medical insurance and retirement benefit contributions.
- \$3.9 million increase in contract services due to the implementation of the Affordable Care Act Health Care Reform.
- \$4.1 million increase in services charged by Employment Services Agency (ESA) due to transfer of Social Services Agency’s Human Resources and Equal Opportunity Department to ESA to enhance efficiencies, standardize processes, and provide for adequate supervision.
- \$5.8 million increase in insurance premiums for eligible independent providers in In Home Support Services.

Interest on Long-Term Debt increased by \$11.9 million or 26.3 percent mainly due from the issuance of the 2013 Series B general obligation bonds.

Transfers decreased by \$414.9 million was primarily due to the issuance and transfer of \$490.4 million in general obligation bond proceeds to SCVMC in the prior fiscal year and a higher General Fund subsidy by \$89.0 million to SCVMC this fiscal year.

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

**Expenses By Function/Program - Governmental Activities**



**Business-type activities**

Business-type activities decreased the County’s net position by \$44.7 million, of which \$6.5 million was related to the implementation of GASB Statement No. 65. The business-type activities had a net loss before transfers of \$197.7 million, which was partially offset by net transfers of \$159.6 million.

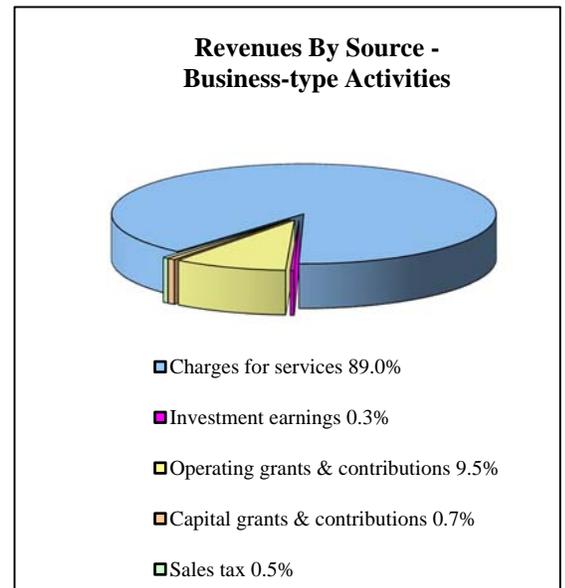
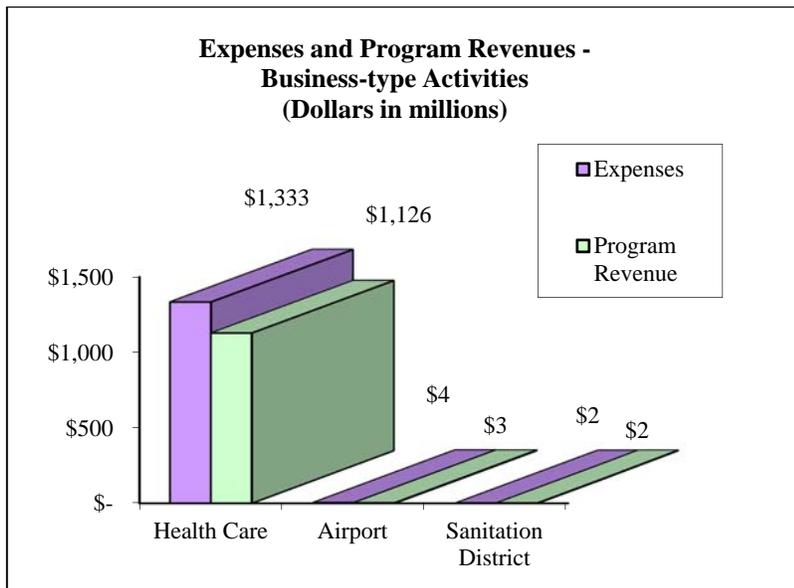
The largest of the County’s business-type activities, healthcare operations, had \$1.3 billion in expenses and \$1.1 billion in program revenues for the year. This is about 99.5 percent of the program revenues of all business-type activities.

Healthcare operations program revenues increased by \$144.0 million or 14.6 percent which was mainly the result of increases in net patient revenues. This increase was the result of new programs that generated additional revenues and increased census of 6.0 percent and patient visits of 11.0 percent compared to the prior fiscal year. In addition, Medicaid Covered Expansion (MCE) patients are now reimbursed at full cost.

Healthcare operations program expenses increased by \$190.9 million or 16.7 percent due higher software maintenance for new systems, legal fees due to acquisition activities, outside medical costs from increased patient volume, and professional services for implementation of the “EPIC” system and other service contracts.

Transfers in decreased by \$414.9 million primarily due to the issuance and transfer of general obligation bond proceeds in prior year. Similar transfer did not occur in the most recent fiscal year.

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



## FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

### **Governmental funds**

The general government's functions are reported in the general, special revenue, debt service, and capital project funds. The focus of these *governmental funds* is to provide information on near-term inflows, outflows, and balances of *unrestricted resources*. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance at the end of the fiscal year can serve as a useful measure of the County's net resources available for spending.

At June 30, 2014, the County's governmental funds reported total fund balances of \$883.1 million, an increase of \$12.7 million or 1.5 percent from the prior year. Approximately 48.9 percent of the combined fund balances, \$431.6 million, constitutes fund balance that is available to meet the County's current and future needs (committed, assigned and unassigned). The remainder of the fund balance totaling \$451.5 million is either in nonspendable form or restricted for specific spending. This includes \$10.4 million of items that are not expected to be converted to cash (for example: inventories, prepaid amounts, and long-term notes receivable) and \$441.1 million restricted for programs or other purposes.

For its governmental funds, the County's total revenues for the current fiscal year were \$2.7 billion—an increase of \$265.4 million or 11.1 percent from the last year. Total governmental fund expenditures increased by \$238.0 million or 10.6 percent to \$2.5 billion for the year. Primary reasons for these changes in revenues and expenditures for the governmental funds are explained in the framework of individual funds.

The General Fund is the chief operating fund of the County. Its unassigned fund balance was \$237.9 million, at June 30, 2014, while its total fund balance was \$365.0 million, a \$41.1 million increase from the prior year. This was mainly due to an excess of revenues over expenditures of \$184.7 million for the fiscal year, which was offset by \$143.5 million in transfers to other County funds and other financing sources. As a measure of the General Fund's liquidity, it may be useful to compare both the unassigned fund balance and the total fund balance to total fund expenditures. The unassigned fund balance and the total fund balance represent 11.5 percent and 17.6 percent of the total General Fund expenditures at June 30, 2014, respectively.

The nonspendable and restricted portions of the General Fund's fund balance were \$9.8 million and \$60.5 million, respectively. The remaining fund balance constitutes the spendable portion, which was \$294.6 million. Of this amount, \$237.9 million was unassigned fund balance. The remaining portions of spendable fund balance included \$44.8 million of committed fund balance and \$11.9 million of assigned fund balance. The committed portion represents amounts set aside by the County's highest level of decision-making authority, the Board of Supervisors, for specific purposes. The assigned amounts include items earmarked by County management and include litigation reserves, amounts encumbered for future purchases, and amounts to be used for future operations.

General Fund revenues and expenditures for the year were \$2.26 billion and \$2.07 billion, respectively. While its revenues increased by \$273.6 million or 13.8 percent for the year, its expenditures increased by \$170.5 million or 9.0 percent. The General Fund's revenues by sources and expenditures by function as well as changes from the prior fiscal year are presented below:

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

Revenues by source	FY 2013		FY 2014		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
Taxes	\$ 688,233	34.7%	\$ 811,660	36.0%	\$ 123,427	17.9%
Licenses and permits	13,251	0.7%	13,922	0.6%	671	5.1%
Fines, forfeitures and penalties	52,834	2.7%	52,401	2.3%	(433)	(0.8%)
Interest and investment income	5,809	0.3%	8,732	0.4%	2,923	50.3%
Intergovernmental revenues	1,077,021	54.4%	1,217,760	54.0%	140,739	13.1%
Charges for services	109,425	5.5%	109,258	4.9%	(167)	(0.2%)
Other revenue	34,802	1.8%	41,290	1.8%	6,488	18.6%
Total	\$ 1,981,375	100.0%	\$ 2,255,023	100.0%	\$ 273,648	13.8%

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

Expenditures by function	FY 2013		FY 2014		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
General government	\$ 197,631	10.4%	\$ 240,782	11.6%	\$ 43,151	21.8%
Public protection	630,552	33.2%	673,700	32.5%	43,148	6.8%
Public ways and facilities	2,402	0.1%	5,329	0.3%	2,927	121.9%
Health and sanitation	416,674	21.9%	451,786	21.8%	35,112	8.4%
Public assistance	627,102	33.0%	675,223	32.6%	48,121	7.7%
Capital outlay	1,814	0.1%	996	0.1%	(818)	(45.1%)
Principal retirement	9,332	0.5%	10,056	0.5%	724	7.8%
Interest and fiscal charges	14,375	0.8%	12,487	0.6%	(1,888)	(13.1%)
Totals	\$ 1,899,882	100.0%	\$ 2,070,359	100.0%	\$ 170,477	9.0%

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 84.7 percent and 83.1 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.

Intergovernmental revenues increased by \$140.7 million or 13.1 percent. This was mainly due to an increase in Mental Health MediCal revenues by \$58.8 million. Effective January 1, 2014, the Health Care Reform Medical Expansion was implemented to include low income health plan clients. Furthermore, the State Realignment for Health and Welfare increased by \$16.5 million, Child Welfare Support Realignment increased by \$7.6 million, and Public Safety Realignment increased by \$28.0 million due to increases in sales tax collection from an improved economy. There was also an increase in Medical Administration reimbursements from State by \$9.0 million and Federal by \$10.0 million due to the implementation of the Affordable Care Act. The County increased its resources due to this implementation which increase the reimbursements from both Federal and State. Lastly, the revenues increased due to SB90 State reimbursements by \$6.2 million as the State's financial stability brightened allowing it to pay SB90 claims due from prior years.

Tax revenues increased by \$123.4 million or 17.9 percent. This was mainly due to an approximately 8.4 percent increase in total property assessed values which led to an increase in secured property tax revenues of \$27.5

million, \$15.1 million increase in property tax in-lieu of vehicle license fees, and \$25.7 million increase in property taxes - retired benefit levy. In addition, real estate transactions increased which led to increase in supplemental taxes of \$5.4 million and \$2.7 million in real property transfer tax. Furthermore, FY 2014 included a \$3.8 million increase from the residual distributions from the Redevelopment Property Tax Trust Fund (RPTTF) and \$9.0 increase from the former redevelopment agencies' Low and Moderate Income Housing Funds due to the wind down of redevelopment agencies located in the County pursuant to the Redevelopment Dissolution Act. Lastly, Measure A which increases sales tax by one-eighth of a cent passed in November 2012; thus, the County only collected one quarter of this tax in prior year. A full year of sales tax collections contributed to an increase of \$35.2 million in FY 2014.

Other revenue increased by \$6.5 million or 18.6 percent. This was mainly due to a receipt of \$2.3 million for regional interoperable radio and communications project reimbursements from the participating cities. Additionally, there was an excess in Educational Revenue Augmentation Funds apportionment which resulted to an increase in revenue by \$2.0 million to the County.

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

### **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, 2014, the County's net position in its enterprise funds was \$982.2 million. The net investment in capital assets was \$617.5 million. The restricted net position of the enterprise funds were \$363.6 million. These assets represent resources that are subject to external restrictions on how they may be used. The unrestricted net position as of June 30, 2014 was \$1.1 million. The net position of the County's enterprise funds decreased by \$25.2 million for the year, of which \$6.6 million was from the implementation of GASB Statement No. 65. Primary reasons for the change in net position are explained in the framework of individual enterprise funds.

SCVMC is the largest enterprise fund and its revenues and expenses comprise 77.8 percent of the total operating revenues and 80.8 percent of the total operating expenses for all enterprise funds. The other three enterprise funds— Airport, Sanitation District, and Valley Health Plan—are very small in comparison.

The net position for SCVMC decreased by \$39.6 million. Operating revenues increased by \$242.2 million or 31.8 percent and operating expenses increased by \$329.1 million or 38.5 percent. The net capital contributions and transfers were \$151.3 million for the year. The primary reason for the changes in revenues and expenses were discussed in the business-type activities section. The net position of SCVMC was \$939.7 million with a negative unrestricted net position of \$19.2 million. The restricted net position of SCVMC was \$363.3 million and the net investment in capital assets was \$595.7 million. On July 1, 2013, the SCVMC transferred \$15.3 million to establish the Valley Health Plan fund in order to separately account for the County's health insurance program to Medi-Cal members. There were no significant changes to the net position for the Airport, Sanitation District, and the Valley Health Plan during the year.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The County's final budget appropriations for FY 2014 were \$2.6 billion, which was \$79.2 million or 3.1 percent higher than the original budget adopted by the Board. Occasionally, unexpected events may cause the County to commit its one-time reserves or use ongoing resources to pay for those unplanned events. Differences between the original and final budgets represent supplemental appropriations approved by the Board for various new grants received by the County or to pay for increased service level that was not expected when the original budget was approved.

General Fund revenues and expenditures were less than the budgetary estimates for the year. Estimated revenues for the year exceeded actual revenues by \$259.3 million or 10.0 percent. Fines, Forfeitures, and Penalties, Intergovernmental Revenues, and Interfund Transfers came in lower than estimates. Final budgetary appropriations exceeded actual expenditures by \$338.2 million or 12.8 percent for the year. These cost savings resulted from unspent appropriations of: a) \$45.8 million in salaries and benefits costs due to eliminating or not filling vacant positions; b) \$140.6 million in services and supplies costs for government programs – general government, health and sanitation, public assistance, and public protection; c) \$1.7 million in lower debt service payments; d) \$1.5 million in capital outlay; e) \$9.0 million from Special Program amounts designated for the Healthy Kids program and \$2.5 million Cash Reserve approved by the Board of Supervisors; \$2.3 million in inter-fund transfers set aside related to system re-engineering by the Assessor’s Office; \$1.9 million from PG&E rebates set aside payable to Qualified Energy Conservation Bonds; and f) \$132.2 million remaining in contingency reserves.

The General Fund budgetary comparison schedule starts on page 110 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, 2014 was \$2.27 billion.

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

	Governmental Activities		Business-type Activities		Total		Dollar Change	Percent Change
	FY2013	FY 2014	FY2013	FY 2014	FY2013	FY 2014		
Land	\$ 258,272	\$ 260,592	\$ 6,310	\$ 6,310	\$ 264,582	\$ 266,902	\$ 2,320	0.9%
Construction in progress	91,479	134,851	457,900	574,180	549,379	709,031	159,652	29.1%
Infrastructure	194,420	199,290	-	-	194,420	199,290	4,870	2.5%
Buildings & improvements	517,259	512,356	461,135	417,708	978,394	930,064	(48,330)	(4.9%)
Equipment, software, and vehicles	53,295	50,048	92,454	115,524	145,749	165,572	19,823	13.6%
Leasehold improvements	-	-	362	258	362	258	(104)	(28.7%)
<b>Total</b>	<b>\$ 1,114,725</b>	<b>\$ 1,157,137</b>	<b>\$ 1,018,161</b>	<b>\$ 1,113,980</b>	<b>\$ 2,132,886</b>	<b>\$ 2,271,117</b>	<b>\$ 138,231</b>	<b>6.5%</b>

The County’s net capital assets increased by \$138.2 million or 6.5 percent for the year. Net capital assets for the governmental activities increased by \$42.4 million or 3.8 percent, while the business-type activities’ net capital assets increased by \$95.8 or 9.4 percent. Changes in capital assets by activity type were as follows:

### *Governmental activities*

The County’s capital assets for its governmental activities rose by \$42.4 million mainly due to:

- Land increased by \$2.3 million from the acquisition of Madonna-Della Maggiora Property for \$2.6 million offset by the sale of Central Fire District’s two fire stations’ parcels for \$0.3 million.
- Construction in progress increased by \$43.4 million due to the continuance of the following projects:
  - San Jose Downtown Health Center building for \$16.4 million
  - County Library new headquarters for \$4.3 million.
  - Various Road projects including bridge rehabilitation, Intelligent Transportation System, and road maintenance for \$6.4 million
  - Various park projects for \$15.2 million

- Buildings and improvements decreased by \$4.9 million attributable to a relatively higher depreciation of \$15.7 million compared to the total addition to buildings and improvements of \$11.1 million. The additions are due to the completion of the following projects:
  - Renovation of the Juvenile Hall detention buildings for \$4.0 million
  - Repairs at the Elmwood and Main Jail correctional facilities for \$3.5 million
  - \$2.7 million in projects completed by various departments
- Infrastructure increased by \$4.9 million due the completion of major capital projects by Roads and Airports and Parks Departments.
- Equipment, vehicles and software decreased by \$3.2 million primarily due to the retirement of old vehicles and equipment.

### ***Business-type activities***

Net capital assets for business-type activities increased by \$95.8 million for the year. This increase was due to the current year addition in construction in progress by \$116.3 million, which includes seismic compliance capital program of SCVMC buildings and facilities and \$23.1 million increase in equipment and vehicles purchases. These increases were offset by a reduction of \$43.4 million in building and improvements from an increase in accumulated depreciation of \$18.6 million and a reclassification of improvements to equipment of \$25.0 million.

### ***Commitment of Resources for Construction Work in Progress***

At June 30, 2014, the County had committed \$22.8 million of its net position from the governmental activities and \$18.0 million of its net position from the business-type activities for various uncompleted capital projects included in the construction in progress.

Additional information on the County’s capital assets can found in Note 6 on page 61 of this report.

### **Long-term debt**

The County’s long-term outstanding debt as of June 30, 2014 was \$2.2 billion as shown in Table 6 below:

**Table 6—Outstanding Debt (in thousands)**

	Governmental Activities		Business-type Activities		Total		Dollar Change	Percent Change
	FY2013	FY 2014	FY2013	FY 2014	FY2013	FY 2014		
Taxable pension funding bonds	\$ 416,066	\$ 418,337	\$ -	\$ -	\$ 416,066	\$ 418,337	\$ 2,271	0.5%
General obligation bonds	857,704	854,825	-	-	857,704	854,825	(2,879)	(0.3%)
Lease revenue bonds	258,683	230,797	587,292	551,068	845,975	781,865	(64,110)	(7.6%)
Capital appreciation bonds	148,309	157,191	-	-	148,309	157,191	8,882	6.0%
Certificates of participation	3,575	3,387	-	-	3,575	3,387	(188)	(5.3%)
Capital lease obligations	491	272	-	-	491	272	(219)	(44.6%)
Total	\$ 1,684,828	\$ 1,664,809	\$ 587,292	\$ 551,068	\$ 2,272,120	\$ 2,215,877	\$ (56,243)	(2.5%)

The County’s long-term debt decreased by \$56.2 million mainly due to the repayment of the 1985 Series A & B ACES and 1997 Series A lease revenue bonds. These were offset by \$8.9 million and \$7.3 million increases in accreted interest on Tobacco Settlement Asset-Backed bonds and Taxable Pension Funding bonds, respectively.

Additional information on the County’s long-term debt can be found in Note 9 on page 67 of this report.

For its outstanding debt, the Standard & Poor’s (S&P) raised its rating from AA to AA+ on the County’s existing lease revenue bonds and pension obligation bonds. In addition, S&P also raised its rating on County’s general obligation from AA+ to AAA. This rating is the highest possible long-term rating. Additional information on the County’s ratings changes on its long term debt can be found in Note 16 on page 106.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The County continues to recover from one of the greatest economic downturns since the Great Depression. This is indicative of the County's budget for the upcoming year, which projected a 5.0 percent increase in revenue and 3.6 percent increase in net expenditure. The budgeted expenditures exceed budgeted revenue by \$180.9 million in the FY 2015. The deficit is expected to be covered by available FY 2014 fund balance. On the surface this relatively low increase in cost comparing to the greater increase in revenue indicate a solid step into financial stability. The following economic factors, some pointing to a long awaited recovery, were considered in the County's 2015 budget:

- The County's unemployment rate continues to improve as the rate for June 2014 was 5.4 percent. This is an improvement from June 2013 when the unemployment rate was 6.8 percent. In comparison, the statewide unemployment rate for June 2014 was 7.3 percent, a decrease of 1.6 percent from the prior year at 8.9 percent.
- The real per capita income (a measure of wealth creation) as of March 2013 (most current available data) increased from \$61,028 to \$65,679. The real per capita income on a national level was \$45,188, an increase of \$2,019 from the prior year. These increases are signs of an improving economy.
- After several years of declining valuations, the housing prices continued to grow for a third straight year. This was demonstrated by the median price for single family homes, which increased to \$808,000, a 14.6 percent increase from a year ago. This increase was fueled by tight inventory of homes for sale, low mortgage interest rates, and investor demand.
- Venture capital investment, a leading indicator of innovation and long-term development, rebounded from a decrease in 2012, up 45.5 percent in FY 2014 compared to FY 2013, an increase of \$12.2 billion. Silicon Valley and San Francisco regions, taken together, accounted for 48.6 percent of the national total and 86.5 percent of the state's total. High technology including software, networking and equipment, telecommunication, IT services, and semiconductors attracted the largest funding.
- Research and development, office, and warehouse space occupancy, which are leading indicators of economic activity, showed improved results compared to the past year. The vacancy rate for research and development space was 12.2 percent in 2014 versus 13.0 percent a year ago. The office space vacancy rate was 10.3 percent in 2014 compared to 12.4 percent last year. The vacancy rate for warehouse space dropped from 13.5 percent in June 2013 to 7.3 percent in June 2014.
- Assessed value for real property, which increased by 8.4 percent, contributed to an increase of \$27.5 million in current secured property tax revenue. The current unsecured property value decreased by 4.0 percent with a tax decrease of \$1.4 million. The property tax delinquencies on secured property decreased from 0.8 percent in FY 2013 to 0.7 percent in FY 2014. Property transfer tax revenue increased by 12.0 percent or \$2.6 million. Supplemental tax revenues increased by 64.0 percentage or 5.4 million due to significant market improvement and negative supplemental tax in prior years being absorbed. The FY 2015 budget assumes a 6.4 percent in secured property assessed value, which corresponds to an increase of \$44.6 million in property tax value.

The FY 2015 Countywide budget of \$4.9 billion included a 6.8 percent increase in comparison to the prior year's budget. This increase was due to the restoration and enhancement of administrative infrastructure, improving access and capacity to prepare for the Affordable Care Act, and continued commitment towards the country's physical and technological infrastructure.

The FY 2015 budget sets aside \$112.7 million in contingency reserves. Operating reserve designations and the strategic reserve designations are part of the financial resources that are available to address unanticipated revenue shortfalls or unforeseen expenditures. These designations provide a primary defense against deficit spending and help maintain liquidity when budgeted draw-downs become necessary.

**This page intentionally left blank.**

# **Basic Financial Statements**

**This page intentionally left blank.**

**COUNTY OF SANTA CLARA**

Statement of Net Position

June 30, 2014

(In thousands)

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Total</b>	
<b>Assets:</b>				
Cash and investments	\$ 1,057,948	\$ 170,064	\$ 1,228,012	\$ 156,307
Receivables, net of allowance for uncollectibles	96,656	132,266	228,922	77,457
Internal balances	115,792	(115,792)	-	-
Due from other governmental agencies, net	315,194	70,246	385,440	17,007
Receivables from related parties and component units	7,635	-	7,635	58,262
Inventories	4,177	19,403	23,580	-
Net pension asset	377,513	-	377,513	-
Other assets	11,058	4,632	15,690	23,332
Restricted cash and investments	71,164	415,440	486,604	22,723
Capital assets:				
Nondepreciable	395,443	580,490	975,933	55,162
Depreciable, net of accumulated depreciation	761,694	533,490	1,295,184	345,077
Total assets	<u>3,214,274</u>	<u>1,810,239</u>	<u>5,024,513</u>	<u>755,327</u>
<b>Deferred outflows of resources:</b>				
Unamortized loss on refunding debt	886	9,553	10,439	-
Deferred outflows on derivative instruments	-	16,976	16,976	-
Other	-	-	-	16,576
Total deferred outflows of resources	<u>886</u>	<u>26,529</u>	<u>27,415</u>	<u>16,576</u>
<b>Liabilities:</b>				
Accounts payable	107,292	64,442	171,734	50,283
Accrued salaries and benefits	34,874	21,347	56,221	135
Accrued liabilities	67,677	46,391	114,068	35,959
Estimated third-party payer settlements	-	114,937	114,937	-
Due to related parties	-	-	-	11,098
Due to other governmental agencies	40,945	74,073	115,018	4,636
Unearned revenue	44,525	5,439	49,964	214
Payable to primary government	-	-	-	7,635
Noncurrent liabilities:				
Due within one year	84,038	38,390	122,428	9,917
Due in more than one year	2,158,251	584,271	2,742,522	304,219
Derivative instruments liabilities	-	16,976	16,976	-
Total liabilities	<u>2,537,602</u>	<u>966,266</u>	<u>3,503,868</u>	<u>424,096</u>
<b>Deferred inflows of resources:</b>				
Deferred service concession arrangement receipts	13,870	-	13,870	-
Other	-	-	-	2,501
Total deferred inflows of resources	<u>13,870</u>	<u>-</u>	<u>13,870</u>	<u>2,501</u>
<b>Net position (see Note 11(a)):</b>				
Net investment in capital assets	959,157	617,486	982,361	84,884
Restricted for:				
Capital facilities	-	362,574	-	-
Debt service	21,248	1,038	22,286	-
Parks	72,332	-	72,332	-
Housing programs	79,450	-	79,450	-
Roads	56,482	-	56,482	-
Mental health	98,119	-	98,119	-
Other purposes	128,762	-	128,762	21,208
Unrestricted	<u>(751,862)</u>	<u>(110,596)</u>	<u>94,398</u>	<u>239,214</u>
Total net position	<u>\$ 663,688</u>	<u>\$ 870,502</u>	<u>\$ 1,534,190</u>	<u>\$ 345,306</u>

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

**COUNTY OF SANTA CLARA**

Statement of Activities

For the Fiscal Year Ended June 30, 2014

(In thousands)

	<b>Program Revenues</b>				
	<b>Expenses</b>	<b>Indirect Expenses Allocation</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Function/program activities:</b>					
Primary government:					
Governmental activities:					
General government	\$ 369,922	\$ (33,717)	\$ 100,062	\$ 208,821	\$ -
Public protection	829,829	2,201	97,169	250,353	-
Public ways and facilities	59,648	684	2,534	42,642	6,799
Health and sanitation	478,469	8,541	46,993	201,139	-
Public assistance	684,040	3,463	5,205	595,460	-
Education	35,849	445	6,689	1,393	-
Recreation and culture	39,344	926	6,022	544	-
Interest on long-term liabilities	56,922	-	-	-	-
Total governmental activities	<u>2,554,023</u>	<u>(17,457)</u>	<u>264,674</u>	<u>1,300,352</u>	<u>6,799</u>
Business-type activities:					
Healthcare	1,315,269	17,402	1,009,930	108,809	7,234
Airport	3,755	55	3,039	-	-
Sanitation	1,818	-	2,371	-	-
Total business-type activities	<u>1,320,842</u>	<u>17,457</u>	<u>1,015,340</u>	<u>108,809</u>	<u>7,234</u>
Total primary government	<u>\$ 3,874,865</u>	<u>\$ -</u>	<u>\$ 1,280,014</u>	<u>\$ 1,409,161</u>	<u>\$ 14,033</u>
Component units	<u>\$ 734,694</u>		<u>\$ 720,120</u>	<u>\$ 19,129</u>	<u>\$ 10,770</u>
<b>General revenues:</b>					
Property taxes					
Sales and use taxes					
Other taxes					
Unrestricted motor vehicle in lieu of taxes					
Grants/contributions not restricted to specific programs					
Investment income					
Other:					
Penalties on delinquent taxes					
Tobacco settlement revenues					
Miscellaneous revenues					
<b>Transfers</b>					
Total general revenues and transfers					
Change in net position					
Net position, beginning of year, as previously reported					
Prior period adjustments					
Net position, beginning of year, as restated					
Net position, end of year					

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

**Net (Expense) Revenue and Changes in Net Position**

<b>Primary Government</b>			
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
\$ (27,322)	\$ -	\$ (27,322)	\$ -
(484,508)	-	(484,508)	-
(8,357)	-	(8,357)	-
(238,878)	-	(238,878)	-
(86,838)	-	(86,838)	-
(28,212)	-	(28,212)	-
(33,704)	-	(33,704)	-
(56,922)	-	(56,922)	-
<u>(964,741)</u>	<u>-</u>	<u>(964,741)</u>	<u>-</u>
-	(206,698)	(206,698)	-
-	(771)	(771)	-
-	553	553	-
<u>-</u>	<u>(206,916)</u>	<u>(206,916)</u>	<u>-</u>
<u>(964,741)</u>	<u>(206,916)</u>	<u>(1,171,657)</u>	<u>-</u>
-	-	-	15,325
919,612	-	919,612	-
49,537	5,553	55,090	-
433	-	433	-
35,164	-	35,164	-
15,765	-	15,765	-
8,391	3,680	12,071	3,883
35,392	-	35,392	-
15,688	-	15,688	-
28,757	-	28,757	7,485
<u>(159,557)</u>	<u>159,557</u>	<u>-</u>	<u>-</u>
<u>949,182</u>	<u>168,790</u>	<u>1,117,972</u>	<u>11,368</u>
<u>(15,559)</u>	<u>(38,126)</u>	<u>(53,685)</u>	<u>26,693</u>
691,085	915,179	1,606,264	318,698
<u>(11,838)</u>	<u>(6,551)</u>	<u>(18,389)</u>	<u>(85)</u>
<u>679,247</u>	<u>908,628</u>	<u>1,587,875</u>	<u>318,613</u>
<u>\$ 663,688</u>	<u>\$ 870,502</u>	<u>\$ 1,534,190</u>	<u>\$ 345,306</u>

**Function/program activities:**

Primary government:

Governmental activities:

- General government
- Public protection
- Public ways and facilities
- Health and sanitation
- Public assistance
- Education
- Recreation and culture
- Interest on long-term liabilities
- Total governmental activities

Business-type activities:

- SCVMC
- Airport
- Sanitation District
- Total business-type activities
- Total primary government

Component units

**General revenues:**

- Property taxes
- Sales and use taxes
- Other taxes
- Unrestricted motor vehicle in lieu of taxes
- Grants/contributions not restricted to specific programs
- Investment income
- Other:
  - Penalties on delinquent taxes
  - Tobacco settlement revenues
  - Miscellaneous revenues

**Transfers**

- Total general revenues and transfers
- Change in net position
- Net position, beginning of year, as previously reported
- Prior period adjustments
- Net position, beginning of year, as restated
- Net position, end of year

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

**COUNTY OF SANTA CLARA**

Balance Sheet  
Governmental Funds

June 30, 2014  
(In thousands)

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Assets:</b>			
Cash and investments:			
Unrestricted	\$ 407,708	\$ 482,294	\$ 890,002
Restricted with fiscal agents	-	682	682
Other restricted	69	55,725	55,794
Receivables:			
Property taxes	2,886	-	2,886
Other, net of allowance for uncollectibles	20,031	61,461	81,492
Due from other funds	5,181	2,767	7,948
Due from other governmental agencies, net	301,503	12,061	313,564
Inventories	2,165	613	2,778
Other assets	7,038	610	7,648
Advances to other funds	607	-	607
Total assets	<u>\$ 747,188</u>	<u>\$ 616,213</u>	<u>\$ 1,363,401</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances:</b>			
Liabilities:			
Accounts payable	\$ 84,048	\$ 14,437	\$ 98,485
Accrued salaries and benefits	27,866	6,055	33,921
Other accrued liabilities	30,896	12,921	43,817
Due to other funds	1,024	1,945	2,969
Due to other governmental agencies	40,268	663	40,931
Advances from other funds	-	607	607
Unearned revenue	42,365	2,160	44,525
Total liabilities	<u>226,467</u>	<u>38,788</u>	<u>265,255</u>
Deferred inflows of resources:			
Unavailable revenue	155,762	59,254	215,016
Fund balances:			
Nonspendable	9,810	613	10,423
Restricted	60,506	380,616	441,122
Committed	44,842	99,745	144,587
Assigned	11,945	37,197	49,142
Unassigned	237,856	-	237,856
Total fund balances	<u>364,959</u>	<u>518,171</u>	<u>883,130</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 747,188</u>	<u>\$ 616,213</u>	<u>\$ 1,363,401</u>

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

**COUNTY OF SANTA CLARA**

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

June 30, 2014  
(In thousands)

<b>Fund balances - total governmental funds (page 26)</b>	\$	883,130
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		1,148,246
Prepaid bond insurance costs and loss on bond refundings are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net position.		1,307
Other long-term receivables are not available to pay for current period expenditures and therefore are recorded as deferred inflows of resources in the funds.		215,016
Long-term receivables from the Housing Authority with matching long term liabilities and service concession arrangements are not current financial resources and therefore are not reported in the governmental funds.		14,872
Deferred inflows of resources related to the receivable and capital assets from the service concession arrangements are not due and payable in the current period and therefore are not reported in the governmental funds.		(13,870)
Internal service funds are used by management to charge the costs of management of information services, fleet management, insurance, printing, unemployment insurance, workers' compensation, employee benefits, retiree healthcare and pension obligation to individual funds. The assets and liabilities are included in governmental activities in the statement of net position.		(128,727)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Bonds payable (excludes Pension Funding Bonds recorded in the internal service funds)	\$ (1,246,200)	
Accrued vacation and sick leave	(140,986)	
Capital lease obligations	(272)	
Accrued interest payable	(16,606)	
Net OPEB obligations - Santa Clara Central Fire Protection District	(40,236)	
Pollution remediation obligation	(6,330)	
Accrued litigation liability	(5,656)	
	<hr/>	<hr/>
<b>Net Position - governmental activities (page 23)</b>	\$	<u>663,688</u>

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

**COUNTY OF SANTA CLARA**

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

For the Fiscal Year Ended June 30, 2014  
(In thousands)

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>Revenues:</b>			
Taxes	\$ 811,660	\$ 167,705	\$ 979,365
Licenses and permits	13,922	23,445	37,367
Fines, forfeitures, and penalties	52,401	9,332	61,733
Interest and investment income	8,732	4,970	13,702
Intergovernmental revenues	1,217,760	155,539	1,373,299
Charges for services	109,258	35,364	144,622
Other revenue	41,290	9,491	50,781
	<hr/>	<hr/>	<hr/>
Total revenues	2,255,023	405,846	2,660,869
<b>Expenditures:</b>			
Current:			
General government	240,782	204	240,986
Public protection	673,700	136,610	810,310
Public ways and facilities	5,329	57,854	63,183
Health and sanitation	451,786	29,404	481,190
Public assistance	675,223	2,323	677,546
Education	-	35,093	35,093
Recreation and culture	-	37,387	37,387
Capital outlay	996	66,988	67,984
Debt service:			
Principal retirement	10,056	17,319	27,375
Interest and fiscal charges	12,487	36,290	48,777
Advance refunding escrow	-	1,090	1,090
Cost of issuance	-	308	308
	<hr/>	<hr/>	<hr/>
Total expenditures	2,070,359	420,870	2,491,229
Excess of revenues over expenditures	<hr/>	<hr/>	<hr/>
	184,664	(15,024)	169,640
<b>Other financing sources (uses):</b>			
Proceeds from sale of capital assets	5,008	264	5,272
Bond premium	-	909	909
Proceeds of refunding bonds	-	11,715	11,715
Payment to bond refunding escrow	-	(12,310)	(12,310)
Transfers in	79,140	60,909	140,049
Transfers out	(227,679)	(74,887)	(302,566)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(143,531)	(13,400)	(156,931)
<b>Net change in fund balances</b>	41,133	(28,424)	12,709
Fund balances, beginning of year	323,826	546,595	870,421
Fund balances, end of year	<hr/>	<hr/>	<hr/>
	\$ 364,959	\$ 518,171	\$ 883,130

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, 2014  
(In thousands)

<b>Net change in fund balances - total governmental funds (page 28)</b>	\$	12,709
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	\$	83,912
Net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, donations)		(402)
Less current year depreciation		<u>(44,426)</u>
		39,084
Prepaid bond insurance costs are expended in governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for the purposes of the statement of activities.		
Amortization of prepaid bond insurance costs		(114)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		(7,840)
Revenues recognized in the governmental funds that were earned and recognized in previous years and are reported as beginning net position in the statement of activities.		
		(5,000)
Issuance and refunding of bonds are reported as other financing sources in governmental funds and thus contribute to the change in fund balances. However, bonds issuance changes long-term liabilities in the statement of net position and do not affect the statement of activities.		
		(12,624)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		40,775
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Amortization of bond premium		3,021
Amortization of loss on refunding debt		(300)
Change in accrued interest payable		(1,676)
Change in accreted interest - Tobacco Settlement Asset-Backed Bonds		(8,882)
Change in net OPEB obligations - Santa Clara Central Fire Protection District		(2,014)
Change in pollution remediation obligations		(430)
Change in accrued litigation liability		(3,156)
Change in long-term compensated absences		<u>(4,792)</u>
		(18,229)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of the internal service funds is reported with governmental activities.		
		<u>(64,320)</u>
<b>Change in net position of governmental activities (page 25)</b>	\$	<u><u>(15,559)</u></u>

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

**COUNTY OF SANTA CLARA**

Statement of Fund Net Position

Proprietary Funds

June 30, 2014

(In thousands)

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>SCVMC</b>	<b>Other</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>Assets:</b>				
Current assets:				
Cash and investments:				
Unrestricted	\$ 114,472	\$ 55,592	\$ 170,064	\$ 167,946
Restricted with fiscal agent	-	775	775	14,177
Other restricted	414,665	-	414,665	511
Receivables:				
Patient accounts receivable, net of estimated uncollectables	129,218	-	129,218	-
Other	2,321	727	3,048	5,041
Due from other funds	900	1,370	2,270	21
Due from other governmental agencies	70,246	-	70,246	1,630
Inventories	19,403	-	19,403	1,399
Prepaid rent/insurance	4,610	-	4,610	2,018
Total current assets	<u>755,835</u>	<u>58,464</u>	<u>814,299</u>	<u>192,743</u>
Noncurrent assets:				
Net pension asset	-	-	-	377,513
Other assets	-	22	22	971
Capital assets:				
Nondepreciable	576,308	4,182	580,490	1,295
Depreciable, net of accumulated depreciation	511,258	22,232	533,490	7,596
Total noncurrent assets	<u>1,087,566</u>	<u>26,436</u>	<u>1,114,002</u>	<u>387,375</u>
Total assets	<u>1,843,401</u>	<u>84,900</u>	<u>1,928,301</u>	<u>580,118</u>
<b>Deferred outflows of resources:</b>				
Unamortized loss on refunding debt	9,553	-	9,553	-
Deferred outflows on derivative instruments	16,976	-	16,976	-
Total deferred outflows of resources	<u>26,529</u>	<u>-</u>	<u>26,529</u>	<u>-</u>
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable	39,883	24,559	64,442	8,807
Accrued salaries and benefits	20,971	376	21,347	953
Accrued liabilities	40,947	5,444	46,391	7,254
Due to other funds	5,420	936	6,356	914
Due to third-party payers	114,937	-	114,937	-
Due to other governmental agencies	74,073	-	74,073	14
Unearned revenue	-	5,439	5,439	-
Current portion of insurance claims	-	-	-	40,722
Current portion of accrued vacation and sick leave	12,481	80	12,561	339
Current portion of bonds payable	25,610	219	25,829	5,950
Total current liabilities	<u>334,322</u>	<u>37,053</u>	<u>371,375</u>	<u>64,953</u>
Noncurrent liabilities:				
Noncurrent portion of insurance claims	-	-	-	101,147
Noncurrent portion of accrued vacation and sick leave	58,012	1,020	59,032	5,173
Noncurrent portion of bonds payable	520,873	4,366	525,239	412,387
Net OPEB obligation	-	-	-	236,891
Derivative instruments liabilities	16,976	-	16,976	-
Total noncurrent liabilities	<u>595,861</u>	<u>5,386</u>	<u>601,247</u>	<u>755,598</u>
Total liabilities	<u>930,183</u>	<u>42,439</u>	<u>972,622</u>	<u>820,551</u>
<b>Net position:</b>				
Net investment in capital assets	595,657	21,829	617,486	8,891
Restricted:				
Capital facilities	362,574	-	362,574	-
Debt service	705	333	1,038	-
Unrestricted	(19,189)	20,299	1,110	(249,324)
Total net position	<u>\$ 939,747</u>	<u>\$ 42,461</u>	<u>982,208</u>	<u>\$ (240,433)</u>
Adjustment to reflect the consolidation of internal service fund activities to enterprise funds.			(111,706)	
Net position of business-type activities			<u>\$ 870,502</u>	

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

**COUNTY OF SANTA CLARA**

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

For the Fiscal Year Ended June 30, 2014  
(In thousands)

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>SCVMC</b>	<b>Other</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>Operating revenues:</b>				
Charges for services	\$ 895,971	\$ 286,993	\$ 1,182,964	\$ 280,519
Other program revenues	108,809	-	108,809	-
Net operating revenues	1,004,780	286,993	1,291,773	280,519
<b>Operating expenses:</b>				
Salaries and benefits	762,135	12,155	774,290	221,029
Services and supplies	103,899	266,505	370,404	30,877
General and administrative	-	-	-	4,256
Professional services	239,640	510	240,150	1,321
Depreciation	46,283	891	47,174	2,296
Amortization of net pension asset		-	-	(3,635)
Leases and rentals	6,921	-	6,921	28
Utilities	10,520	-	10,520	-
Insurance claims and premiums	9,091	43	9,134	88,480
Other	6,250	1,220	7,470	-
Total operating expenses	1,184,739	281,324	1,466,063	344,652
Operating income (loss)	(179,959)	5,669	(174,290)	(64,133)
<b>Nonoperating revenues (expenses):</b>				
Taxes	5,553	-	5,553	-
Investment income	3,407	273	3,680	2,960
Interest expense	(20,557)	(227)	(20,784)	(26,119)
Gain (loss) on disposal of capital assets	(79)	(189)	(268)	167
Other, net	667	4	671	366
Total nonoperating revenues (expenses), net	(11,009)	(139)	(11,148)	(22,626)
Income (loss) before capital contributions and transfers	(190,968)	5,530	(185,438)	(86,759)
Capital contributions	7,234	-	7,234	-
Transfers in	181,246	17,445	198,691	2,960
Transfers out	(37,134)	(2,000)	(39,134)	-
<b>Change in net position</b>	<b>(39,622)</b>	<b>20,975</b>	<b>(18,647)</b>	<b>(83,799)</b>
Net assets, beginning of year, as previously reported	985,920	21,486	1,007,406	(155,377)
Prior period adjustment	(6,551)	-	(6,551)	(1,257)
Net position, beginning of year, as restated	979,369	21,486	1,000,855	(156,634)
Net position, end of year	\$ 939,747	\$ 42,461	\$ 982,208	\$ (240,433)
Change in net position of enterprise funds			\$ (18,647)	
Adjustment to reflect the consolidation of internal service funds to enterprise funds.			(19,479)	
Change in net position of business-type activities:			\$ (38,126)	

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, 2014  
(In thousands)

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>SCVMC</b>	<b>Other</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>Cash flows from operating activities:</b>				
Cash receipts from customers and users	\$ 1,159,913	\$ 287,427	\$ 1,447,340	\$ 284,148
Cash payment to suppliers for goods and services	(354,917)	(248,075)	(602,992)	(33,635)
Cash payment to employees for services	(753,696)	(11,887)	(765,583)	(39,912)
Cash payment for retirement benefits	-	-	-	(227,893)
Cash payment for judgments and claims	-	-	-	(64,556)
Other receipts	667	4	671	366
Net cash provided by (used in) operating activities	<u>51,967</u>	<u>27,469</u>	<u>79,436</u>	<u>(81,482)</u>
<b>Cash flows from noncapital financing activities:</b>				
Cash receipts from state grants - taxes realignment	5,251	-	5,251	-
Cash receipts from borrowings to other funds	-	-	-	105
Cash payments to other funds	(23,609)	(1,370)	(24,979)	-
Principal paid on pension obligation bonds	-	-	-	(3,576)
Interest paid on pension obligation bonds	-	-	-	(18,968)
Transfers in	181,246	32,537	213,783	2,960
Transfers out	(52,226)	(2,000)	(54,226)	-
Net cash provided by (used in) noncapital financing activities	<u>110,662</u>	<u>29,167</u>	<u>139,829</u>	<u>(19,479)</u>
<b>Cash flows from capital and related financing activities:</b>				
Principal paid on bonds	(34,397)	(185)	(34,582)	-
Interest paid	(21,175)	(227)	(21,402)	(3)
Acquisition of capital assets	(150,800)	(9,447)	(160,247)	(5,632)
Proceeds from sale of capital assets	-	-	-	175
Capital contributions received	74	-	74	-
Net cash used in capital and related financing activities	<u>(206,298)</u>	<u>(9,859)</u>	<u>(216,157)</u>	<u>(5,460)</u>
<b>Cash flows from investing activities:</b>				
Proceeds from sale of investments	-	-	-	126,160
Investment income received	2,826	273	3,099	9,594
Investment expenses paid	-	-	-	(32)
Net cash provided by investing activities	<u>2,826</u>	<u>273</u>	<u>3,099</u>	<u>135,722</u>
Net change in cash and cash equivalents	(40,843)	47,050	6,207	29,301
Cash and cash equivalents, beginning of year	569,980	9,317	579,297	151,863
Cash and cash equivalents, end of year	<u>\$ 529,137</u>	<u>\$ 56,367</u>	<u>\$ 585,504</u>	<u>\$ 181,164</u>
Cash and cash equivalents:				
Cash and investments:				
Unrestricted	\$ 114,472	\$ 55,592	\$ 170,064	\$ 167,946
Restricted with fiscal agents	-	775	775	14,177
Other restricted	414,665	-	414,665	511
Less deposits and investments not meeting the definition of cash and cash equivalents	-	-	-	(1,010)
Total cash and cash equivalents	<u>\$ 529,137</u>	<u>\$ 56,367</u>	<u>\$ 585,504</u>	<u>\$ 181,624</u>

(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, 2014  
(In thousands)

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>SCVMC</b>	<b>Other</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>				
Operating income (loss)	\$ (179,959)	\$ 5,669	\$ (174,290)	\$ (64,133)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	46,283	891	47,174	2,296
Amortization of net pension asset	-	-	-	(3,635)
Provision for bad debts	40,856	-	40,856	-
Miscellaneous nonoperating revenues, net	667	4	671	366
Decrease (increase) in assets:				
Receivables	(73,569)	(565)	(74,134)	526
Due from other funds	-	-	-	2,432
Due from other governmental agencies	35,456	-	35,456	(1,208)
Receivables from component units	27,272	-	27,272	-
Inventories	(526)	-	(526)	(195)
Prepaid rent/insurance	542	-	542	(165)
Other assets	-	141	141	-
Increase (decrease) in liabilities:				
Accounts payable	2,784	19,028	21,812	3,011
Accrued salaries and benefits	-	119	119	-
Accrued liabilities	27,043	1,034	28,077	357
Due to third-party payers	68,201	-	68,201	-
Accrued vacation and sick leave	-	149	149	1,342
Insurance claims	-	-	-	23,937
Due to other governmental agencies	57,317	-	57,317	13
Due to other funds	-	-	-	170
Unearned revenue	(400)	999	599	-
Net OPEB obligation	-	-	-	(46,596)
Net cash provided by (used in) operating activities	<u>\$ 51,967</u>	<u>\$ 27,469</u>	<u>\$ 79,436</u>	<u>\$ (81,482)</u>
<b>Supplemental disclosure of noncash investing, capital and related financing activities:</b>				
Noncash capital and related financing activities:				
Acquisition of capital assets through accounts payable	\$ 6,335	\$ -	\$ 6,335	\$ -
Amortization of bond discounts	29	-	29	-
Amortization of bond premiums	(1,671)	-	(1,671)	-
Amortization of loss on refunding debt	1,269	-	1,269	-
Amortization of prepaid insurance costs	30	-	30	-
Decrease in rebatable arbitrage	21	-	21	-
Transfer of current assets from (to) other funds	(49)	49	-	-
Transfer of capital assets from (to) other funds	(32)	32	-	-
Transfer of current liabilities from (to) other funds	(14,413)	14,413	-	-
Transfer of noncurrent liabilities from (to) other funds	(760)	760	-	-
Noncash investing activities:				
Net change in fair value of investments not considered cash and cash equivalents	-	-	-	(6,602)
Noncash noncapital financing activities:				
Accretion of interest on capital appreciation bonds	-	-	-	7,311

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

**COUNTY OF SANTA CLARA**  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2014  
(In thousands)

	<u>Investment Trust Funds</u>	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
<b>Assets:</b>			
Cash and investments:			
Unrestricted	\$ 2,945,723	\$ 39,861	\$ 219,004
Other restricted	5	347	259
Receivables:			
Property taxes	-	-	64,812
Interest	12,852	226	6,432
Other	-	85	245
Due from other agency funds	-	-	57,595
Due from other governmental agencies	-	-	975
Other assets	-	74,243	2,468
Total assets	<u>2,958,580</u>	<u>114,762</u>	<u>351,790</u>
<b>Liabilities:</b>			
Accounts payable	-	39,150	-
Other accrued liabilities	-	372	-
Due to other funds	-	-	57,595
Due to other governmental agencies	-	574	1,210
Deposits from others	-	74,332	-
Fiduciary liabilities	-	-	292,985
Total liabilities	<u>-</u>	<u>114,428</u>	<u>351,790</u>
<b>Net position:</b>			
Net position held in trust	<u>\$ 2,958,580</u>	<u>\$ 334</u>	<u>\$ -</u>

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

**COUNTY OF SANTA CLARA**  
Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2014  
(In thousands)

	<b>Investment Trust Funds</b>	<b>Private-Purpose Trust Fund</b>
<b>Additions:</b>		
Contributions to pooled investments	\$ 10,542,342	\$ -
Interest and investment income	9,470	41
Total additions	10,551,812	41
<b>Deductions:</b>		
Distributions and administrative expenses	10,447,882	14
<b>Change in net position</b>	103,930	27
Net position held in trust, beginning of year	2,854,650	307
Net position held in trust, end of year	\$ 2,958,580	\$ 334

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

**This page intentionally left blank.**

# COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements  
June 30, 2014  
(Dollars in thousands)

## (1) Summary of Significant Accounting Policies

### (a) *Description of the Reporting Entity*

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

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

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

For financial reporting purposes, the County's basic financial statements include all financial activities that are controlled by or are dependent upon actions taken by the County's Board. The financial statements of the individual component units may be obtained from the County's Controller-Treasurer Department located at 70 West Hedding Street, 2<sup>nd</sup> 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 serves as the governing board of the County's blended component units. In addition, the Santa Clara County Financing Authority, the Santa Clara County – El Camino Hospital District Hospital Facilities Authority, the Silicon Valley Tobacco Securitization Authority, and the Santa Clara County Tobacco Securitization Corporation provide services entirely or almost entirely to the County.

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(1) Summary of Significant Accounting Policies (Continued)**

The following component units are blended in the County’s basic financial statements:

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

In January 2014, the County entered into a termination agreement with the Santa Clara County – El Camino Hospital District Hospital Facilities Authority upon the payment of the related bonds and all other indebtedness incurred to construct the project on August 1, 2013 (see Note 9).

***Discretely Presented Component Units***

The FIRST 5 Santa Clara County (FIRST 5) was created on March 30, 1999, under the provisions of the California Children and Families Act of 1998 (the Act). The Act became law in 1998 when California voters approved Proposition 10, authorizing the State to levy a tax on tobacco products to pay for programs to promote the healthy development of young children. FIRST 5’s board consists of nine members, two of whom are officers of the County, while the remaining seven are appointed by the Board. FIRST 5 does not provide a financial benefit nor impose a financial burden on the County. FIRST 5 is financially accountable to the County as the County appoints a voting majority of FIRST 5’s governing board, and the County is able to impose its will on FIRST 5. Due to the nature and significance of FIRST 5’s relationship with the County, FIRST 5 is a discretely presented component unit of the County. Complete financial statements for FIRST 5 can be obtained directly from its administrative office at 4000 Moorpark Avenue, Suite 200, San Jose, California 95117.

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

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

### (1) Summary of Significant Accounting Policies (Continued)

The Board appoints a voting majority of the Housing Authority's Board of Commissioners and can remove appointed members at will. The Housing Authority is presented as a discretely presented component unit of the County. The Housing Authority's governing body is not substantially the same as that of the County, and the Housing Authority does not provide services entirely or almost entirely to the County. The financial data included for the Housing Authority represents the aggregated data of its business-type activities and its component units. The Housing Authority has formed twelve non-profit organizations and one for-profit corporation to further facilitate its goals. During the year ended June 30, 2014, the Housing Authority had changes in its reporting entity resulting in a restatement in the beginning net position in the amount of \$85. Complete financial statements for the Housing Authority can be obtained directly from its administrative office at 505 W. Julian Street, San Jose, CA 95110.

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

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

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

### (b) Basis of Presentation

#### *Government-wide Financial Statements*

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

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2014

(Dollars in thousands)

### (1) Summary of Significant Accounting Policies (Continued)

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 position is 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.

The County reports the following major governmental and enterprise funds:

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

The County reports the following additional fund types:

- *Internal Service Funds* provide for information technology, vehicle and maintenance, and printing services provided to County departments; life and dental insurance benefits, workers' compensation, unemployment, retirement healthcare, and pension financing costs for County employees; and other liability claims against the County.

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2014

(Dollars in thousands)

### (1) Summary of Significant Accounting Policies (Continued)

- *Investment Trust Funds* account for commingled pool assets held in trust for schools, other special districts and other agencies which use the County Treasury as their depository, as well as account for separate investments acquired for the Mountain View – Los Altos School District, Palo Alto Unified School District, San Jose-Evergreen Community College District, and West Valley Mission Community College District.
- *Private Purpose Trust Funds* are used to account for resources for conservatees managed by the public guardians and administrators. These resources are restricted to a specified purpose that benefits individuals.
- *Agency Funds* are custodial in nature and do not involve measurement of results of operations and account for assets held by the County as an agent for various local governments and individuals. Included are funds for child support payments; bail money posted for the Superior Court; employees' long-term disability and supplemental life insurance premiums; and apportioned taxes for other local governmental agencies.

#### (c) *Basis of Accounting*

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

Governmental funds are reported using the current financial measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when "susceptible to accrual" (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means that revenues are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenues are recognized in the current year if they are collected within 60 days of year-end. For all other revenues, the County considers revenues to be available if they are collected within 120 days of the end of the current fiscal period. Revenues not considered available are recorded as deferred inflows of resources. The County's other primary revenue sources: investment income, intergovernmental revenues, and charges for services have been treated as "susceptible to accrual" under the modified accrual basis. Licenses and permits, fines, forfeitures and penalties, and other revenue are not considered "susceptible to accrual" under the modified accrual basis and are recorded as revenues when received. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when payment is due.

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

### (1) Summary of Significant Accounting Policies (Continued)

#### (d) *Federal, State, and Local Grant Funds*

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

#### (e) *County Commingled Investment Pool*

The County Treasurer manages a common cash and investment pool for the County, school and community college districts, special districts, and other local public agencies. Investments made by the Treasurer are regulated by the California Government Code and by a County investment policy approved annually by the Board after receiving recommendations from the County Treasury Oversight Committee. Adherence to the statutes and policies is monitored by the Board and the Treasury Oversight Committee.

The pool consists of cash and investments that are either unrestricted or legally restricted to certain trust, bond issue, and specific expenditure purposes. The pool is not registered with the SEC as an investment company. State law requires that the County and its public school districts invest with the County Treasury. These involuntary external members' shares comprise 61% of the pool.

Investments of the pool are stated at fair value. The County 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, 2014 to support the value of shares in the pool.

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

#### **Separate Investments**

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

The Santa Clara County Financing Authority maintains restricted cash and investments in separate bank accounts.

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

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2014

(Dollars in thousands)

### (1) Summary of Significant Accounting Policies (Continued)

#### **Investment Income**

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

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

#### **(f) Statement of Cash Flows**

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

#### **(g) Inventories**

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

#### **(h) Loans Receivable**

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

#### **(i) Capital Assets**

The County defines capital assets as assets with an initial, individual cost of more than \$150 for infrastructure and buildings and improvements, \$100 for internally generated software, and \$5 for equipment and vehicles with an estimated useful life in excess of one year. Donated capital assets are stated at their estimated fair market value on the date donated. Capital assets used in operations are depreciated or amortized (assets under capital leases and other intangible assets) using the straight-line method over the capital lease period or their estimated useful lives in the government-wide statements and proprietary fund statements. Certain assets, for which actual historical costs are

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(1) Summary of Significant Accounting Policies (Continued)**

not available, have been reported using methods that approximate their historical costs. Depreciation of exhaustible capital assets is charged as an expense against the County’s operations, over their estimated useful lives in the government-wide statements and proprietary fund statements.

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

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

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

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

The State’s Constitution, Article XIII A provides that the combined maximum ad valorem property tax rate on any given property may not exceed 1% of its assessed value except for rates levied to pay principal and interest on general obligation debt. Such debt shall have voter approval unless incurred prior to June 6, 1978. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased no more than 2% per year unless the property is sold or transferred. Whenever there are changes in ownership, completed construction, or demolition, properties are subject to supplemental assessment based on the change in assessed valuation. Supplemental taxes are levied on the value change and prorated for the balance of the tax year. The State Legislature, through Assembly Bill 8 of 1979 and subsequent legislation, defined the methodology for distributing the 1% tax levy and collections among the County, cities, schools, and other local jurisdictions such as districts providing water, fire and library services.

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

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

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

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2014

(Dollars in thousands)

### (1) Summary of Significant Accounting Policies (Continued)

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

#### (k) *Interfund Transactions*

Interfund transactions are reflected as loans, services provided, reimbursements or transfers. Loans reported as receivables and payables, as appropriate, are subject to elimination upon consolidation. The fund financial statements referred to these loans as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the noncurrent portion of interfund loans). Any residual balances outstanding between the *governmental activities* and the *business-type activities* are reported in the government-wide statements as "internal balances." Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

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

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

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

#### (m) *Leases*

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

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2014

(Dollars in thousands)

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

#### (o) *Deferred Outflows/Inflows of Resources*

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

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

#### (p) *Effects of New Pronouncements*

During the year ended June 30, 2014, the County implemented the following GASB Statements:

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is intended to clarify the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The statement also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

As of July 1, 2013, the County adopted the provisions of GASB Statement No. 65 and restated the beginning net positions of its governmental activities, business-type activities, proprietary funds and internal service funds in the amount of \$10,957, \$3,188, \$3,188 and \$1,257, respectively, to write off unamortized bond issuance costs. The County also restated the beginning net positions of its governmental activities, business-type activities, and proprietary funds in the amount of \$881, \$3,363 and \$3,363, respectively, to write off unamortized bond issuance costs included in the loss on refunding debt balance. In addition, the remaining balance of the loss on refunding debt was reclassified from a contra liability to a deferred outflows of resources in the government-wide and proprietary funds statements of net position. The County also reclassified revenues totaled \$228,321 at July 1, 2013 that are unavailable in governmental funds to deferred inflow of resources.

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

### (1) Summary of Significant Accounting Policies (Continued)

The adoption of this Statement changed the presentation of the Housing Authority's financial statements to reclassify items from assets to deferred outflows of resources and liabilities to deferred inflows of resources for the year ended June 30, 2014.

In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012 - An Amendment of GASB Statements No. 10 and No. 62*. This statement resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This statement amends Statement No. 10, *Codification of Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state or local government's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current servicing fee rate. Implementation of this statement did not have a significant impact on the County for the fiscal year ended June 30, 2014.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The statement establishes accounting and financial reporting standards for governments that offer or receive financial guarantees that are nonexchange transactions. The new standard is effective for periods beginning after June 15, 2013. Implementation of this statement did not have a significant impact on the County for the fiscal year ended June 30, 2014.

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

In June 2012, GASB issued two new standards, GASB Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* to improve the guidance for accounting and reporting on the pensions that governments provide to their employees. In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which clarifies reporting for contributions made after the measurement date of the pension liability.

Key changes include the following:

- Separating the determination of accounting and financial reporting from how pensions are funded.
- Employers with defined benefit pension plans will recognize a net pension liability, as defined by the standard, in their government-wide, proprietary and fiduciary fund financial statements.

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

### (1) Summary of Significant Accounting Policies (Continued)

- Incorporating ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes into projections of benefit payments, if an employer's past practice and future expectations of granting them indicate they are essentially automatic.
- Using a discount rate that applies (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments, and (b) the yield or index rate on tax-exempt 20-year general obligation municipal bonds with an average rating of AA/Aa or higher to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.
- Adopting a single actuarial cost allocation method – entry age normal – rather than the current choice among six actuarial cost methods.
- Requiring more extensive note disclosures and required supplementary information.

The statements relate to accounting and financial reporting and do not apply to a government's approach for funding of its pension plan. At present, there generally is a close connection between the ways many governments fund pensions and how they account for and report information about them in financial statements. The statements would separate how the accounting and financial reporting is determined from how pensions are funded. The County does not report a pension trust fund and as such the implementation of Statement No. 67 did not have an impact on the County for the fiscal year ended June 30, 2014. Application of Statements Nos. 68 and 71 must be simultaneously and are effective for the County's fiscal year ending June 30, 2015.

The County is also currently analyzing its accounting practices to determine the potential impact on the financial statements for GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. The statement establishes accounting and financial reporting standards for governments that combine or dispose of their operations. The new standard is effective for periods beginning after December 15, 2013. Application of this statement is effective for the County's fiscal year ending June 30, 2015.

#### (q) Use of Estimates

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

### (2) Stewardship, Compliance and Accountability

#### *Deficit Net Position*

At June 30, 2014, the Workers' Compensation, Retiree Healthcare, and Pension Obligation Internal Service Funds have deficit net position of \$45,353, \$190,329, and \$47,354, respectively. For the Workers' Compensation Internal Service Fund, beginning with the annual contribution for 2014-15 fiscal year, the County implemented a 6-year funding plan to bring program assets to the actuarial determined required level by June 30, 2020. The County has developed a funding plan to reduce its deficit in the Retiree Health Care Internal Service Fund by increasing funding over the next four years to attain the Annual Required Contribution (ARC) level in fiscal year 2018 and maintaining ARC payments over the next 30 years. The deficit for the Pension Obligation Internal Service Fund is expected to be eliminated through rate increases for repayment of the 2007 Taxable Pension Funding Bonds.

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2014

(Dollars in thousands)

### (3) Cash and Investments

#### (a) *Description*

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

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

#### (b) *Investment Policies*

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

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(3) Cash and Investments (Continued)**

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>	<u>Credit Ratings Minimum (2 Ratings)</u>
U.S. Treasury Obligations	5 years	None	None	N/A
U.S. Agency Securities	5 years	None	None	N/A
State Local Agency Investment Fund (LAIF)	N/A	None	\$50 million	N/A
Repurchase Agreements	92 days	None	None	N/A
Reverse Repurchase Agreements	92 days	20%	\$90 million *	None
Securities Lending	92 days	20% *	None	N/A
Collateralized Bank Deposits	5 years	None	None	None
Negotiable Certificates of Deposit	5 years	30%	5%	A-1/P-1/F1 *
Bankers' Acceptances	180 days	40%	5%	A-1/P-1/F1 *
Commercial Paper	270 days	40%	5%	A-1/P-1/F1 *
Medium-Term Corporate Notes	5 years	30%	5%	Aa3/AA-/AA-*
Municipal Obligations	5 years	10% *	None	MIG-1/SP-1/F1 A3/A-/A-
Money Market Funds - Taxable	N/A	20%	10%	Aaa/AAA/AAA
Money Market Funds - Tax-Exempt	N/A	20%	10%	Aaa/AAA/AAA **
Federal Agency Mortgage Backed Securities	5 years	20% *	None	None
Asset Backed Securities	5 years	20%	None	A3/A-/A- for issuer, Aa3/AA-/AA- for security

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

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

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

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

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(3) Cash and Investments (Continued)**

**(c) Summary of Cash and Investments**

Total County cash and investments are reported as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Primary Government	\$ 1,228,012	\$ 486,604	\$ 1,714,616
Component Units	156,307	22,723	179,030
Investment Trust Funds	2,945,723	5	2,945,728
Private-Purpose Trust Fund	39,861	347	40,208
Agency Funds	<u>219,004</u>	<u>259</u>	<u>219,263</u>
Total cash and investments	<u>\$ 4,588,907</u>	<u>\$ 509,938</u>	<u>\$ 5,098,845</u>

The County's cash and investments are as follows:

Cash and deposits:		
Cash on hand		\$ 77
Deposits of the County		170,787
Restricted deposits		2,028
Deposits with component units:		
Housing Authority		54,024
FIRST 5		1,450
Health Authority		<u>28,266</u>
Total cash and deposits		<u>256,632</u>
Investments:		
With Treasurer		4,731,289
With Treasurer - FIRST 5		1,574
With Treasurer - Health Authority		10,231
With fiscal agents		15,632
With Housing Authority		19,830
With FIRST 5		<u>63,657</u>
Total investments		<u>4,842,213</u>
Total cash, deposits and investments		<u>\$ 5,098,845</u>

**(d) Custodial Credit Risk – Deposits**

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

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

**(3) Cash and Investments (Continued)**

**(e) Investment Composition**

As of June 30, 2014, the major classes of the County's investments consisted of the following:

	Interest Rates	Par Value	Fair Value	Investment Maturities (in years)			
				0 - 1	1 - 3	3 - 5	5 - 10
With Treasurer:							
Commingled pool:							
U.S. Treasury Notes	0.25% - 0.63%	\$ 235,000	\$ 235,401	\$ 75,145	\$ 160,256	\$ -	\$ -
U.S. Agencies - Coupon	0.11% - 5.05%	3,042,164	3,052,087	1,153,555	1,888,209	10,323	-
U.S. Agencies - Discount	0.05% - 0.18%	245,000	244,953	244,953	-	-	-
Medium-term corporate notes	0.50% - 2.25%	168,500	169,205	73,699	95,506	-	-
Asset Backed Securities	0.18% - 1.98%	200,046	200,238	53,839	128,347	18,052	-
Municipal Bonds	1.25% - 8.3%	56,895	59,842	1,074	39,329	19,439	-
Repurchase Agreements	0.04% - 0.06%	125,000	125,000	125,000	-	-	-
Commercial paper	0.20%	100,000	99,775	99,775	-	-	-
Negotiable Certificates of Deposit	0.19% - 0.65%	200,000	200,022	185,009	15,013	-	-
Money Market Mutual Funds	0.03%	240,777	240,776	240,776	-	-	-
LAIF	0.23%	40,000	40,000	40,000	-	-	-
Subtotal commingled pool		4,653,382	4,667,299	2,292,825	2,326,660	47,814	-
Separate investments:							
U.S. Treasury Notes		24,500	24,715	13,443	11,272	-	-
U.S. Agencies - Coupon		14,600	14,528	10,053	-	4,475	-
Municipal bonds		20,470	23,080	100	8,961	11,251	2,768
Money market mutual funds		13,473	13,472	13,472	-	-	-
Subtotal separate investments		73,043	75,795	37,068	20,233	15,726	2,768
Subtotal with Treasurer		4,726,425	4,743,094	2,329,893	2,346,893	63,540	2,768
With fiscal agents:							
U.S. Treasury Notes		4,240	4,251	-	1,961	2,290	-
U.S. Agencies - Coupon		7,400	7,478	1,962	3,321	2,195	-
Medium-term corporate notes		1,430	1,459	102	833	524	-
Asset Backed Securities		879	880	-	234	646	-
Money market mutual funds		1,564	1,564	1,564	-	-	-
Subtotal with fiscal agents		15,513	15,632	3,628	6,349	5,655	-
With Housing Authority:							
Money market mutual funds		26	26	26	-	-	-
LAIF		19,804	19,804	19,804	-	-	-
Subtotal with Housing Authority		19,830	19,830	19,830	-	-	-
With FIRST 5:							
U.S. Treasury Notes		13,723	13,715	-	6,730	6,985	-
U.S. Agencies - Coupon		26,750	27,108	759	16,929	9,420	-
Medium-term corporate notes		16,155	16,356	3,283	5,626	7,447	-
Money market funds		358	358	358	-	-	-
Asset Backed Securities		4,871	4,876	2,068	1,542	1,266	-
Commercial paper		1,245	1,244	1,244	-	-	-
Subtotal with FIRST 5		63,102	63,657	7,712	30,827	25,118	-
Total investments		\$ 4,824,870	\$ 4,842,213	\$ 2,361,063	\$ 2,384,069	\$ 94,313	\$ 2,768

**Custodial Credit Risk – Investments**

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

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2014

(Dollars in thousands)

### (3) Cash and Investments (Continued)

#### 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, 2014, the County's weighted average maturity of its commingled pool is 416 days. The County invested in callable Federal Agency Bonds (\$526,549 of the County's U.S. Agencies coupon position of \$3,052,087) and Corporate Bonds (\$50,124 of the County's Corporate Bonds position of \$169,205) within its commingled pool. These investments are highly sensitive to interest rate changes and are callable at par prior to maturity based on these rate changes.

#### Credit Risk

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

Investment	Moody's Rating	% of Commingled Pool investments with the Treasury	% of Separate investments with the Treasury	% of investments with fiscal agents	% of investments with Housing Authority	% of investments with FIRST 5
U.S. Treasury	Aaa	5.0%	32.6%	27.2%	0.0%	21.5%
U.S. Agencies- Discount	Aaa	5.2%	0.0%	0.0%	0.0%	0.0%
U.S. Agencies- Coupon	Aaa	65.4%	19.2%	47.8%	0.0%	42.6%
Asset Backed Securities	Aaa	2.3%	0.0%	0.0%	0.0%	4.8%
Asset Backed Securities	P-1	0.4%	0.0%	0.0%	0.0%	0.0%
Asset Backed Securities	Unrated	1.6%	0.0%	0.0%	0.0%	2.8%
Municipal bonds	Aaa	0.0%	8.9%	0.0%	0.0%	0.0%
Municipal bonds	Aa1	0.0%	18.5%	0.0%	0.0%	0.0%
Municipal bonds	Aa2	0.0%	3.0%	0.0%	0.0%	0.0%
Municipal bonds	Aa3	1.3%	0.1%	0.0%	0.0%	0.0%
Medium-term corporate notes	Aaa	1.0%	0.0%	1.3%	0.0%	0.0%
Medium-term corporate notes	Aa1	0.1%	0.0%	2.3%	0.0%	2.4%
Medium-term corporate notes	Aa2	0.6%	0.0%	2.6%	0.0%	2.9%
Medium-term corporate notes	Aa3	1.0%	0.0%	3.2%	0.0%	1.3%
Medium-term corporate notes	A1	0.9%	0.0%	0.0%	0.0%	11.5%
Medium-term corporate notes	A2	0.0%	0.0%	0.0%	0.0%	7.6%
Commercial paper	P-1	1.1%	0.0%	5.6%	0.0%	2.0%
Commercial paper	Unrated	1.1%	0.0%	0.0%	0.0%	0.0%
Negotiable Certificate of Deposits	P-1	0.5%	0.0%	0.0%	0.0%	0.0%
Negotiable Certificate of Deposits	Aa2	0.3%	0.0%	0.0%	0.0%	0.0%
Negotiable Certificate of Deposits	Unrated	3.4%	0.0%	0.0%	0.0%	0.0%
Repurchase Agreement	Aaa	2.7%	0.0%	0.0%	0.0%	0.0%
Money market funds	Aaa	5.2%	0.1%	10.0%	0.0%	0.2%
Money market funds	Unrated	0.0%	17.6%	0.0%	0.1%	0.4%
State Local Agency Investment Fund	Unrated	0.9%	0.0%	0.0%	99.9%	0.0%
<b>Total Investments</b>		<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

### (3) Cash and Investments (Continued)

Government Code Section 16429.1 authorizes each local government agency to invest funds in the State Treasurer's Local Agency Investment Fund (LAIF) administered by the California State Treasurer. The total amount recorded by all public agencies in LAIF at June 30, 2014, was approximately \$21.1 billion. LAIF is part of the State's Pooled Money Investment Account (PMIA). PMIA has a total of approximately \$64.8 billion as of June 30, 2014. Of that amount, 98.14% was invested in non-derivative financial products and 1.86% in structured notes and asset backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the County's position in the pool.

#### **Concentration of Credit Risk**

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

More than 5% of the County's pooled investments are invested with the Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal Farm Credit Bank, which represent 24.2%, 17.4%, 16.4%, and 12.7%, respectively, of the County's pooled investments.

More than 5% of the FIRST 5's investments are invested with the Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, Federal National Mortgage Association, and Federal Farm Credit Bank which represent 11.9%, 11.5%, 11.2%, and 6.0%, respectively, of the First 5's investments.

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

**(3) Cash and Investments (Continued)**

*(f) Condensed Financial Information*

In lieu of separately issued financial statements for the external pool, condensed financial information is presented below as of and for the year ended June 30, 2014:

Assets:	
U.S. Treasury Notes	\$ 260,116
U.S. Agencies - Coupon	3,066,615
U.S. Agencies - Discount	244,953
Medium-term corporate notes	169,205
Asset Backed Securities	200,238
Municipal bonds	82,922
Repurchase Agreements	125,000
Commercial paper	99,775
Negotiable Certificates of Deposit	200,022
Money market mutual fund	254,248
State Local Agency Investment Fund	40,000
Total investments	4,743,094
Other assets (Interest receivable)	12,852
Total assets	\$ 4,755,946
Net Position	
Equity of internal pool participants	\$ 1,797,366
Equity of individual investment accounts	36,727
Equity of external pool participants	2,921,853
Total net position	\$ 4,755,946
Statement of Changes in Net Position	
Net position at July 1, 2013	\$ 4,745,607
Net change in investments by pool participants	10,339
Net position at June 30, 2014	\$ 4,755,946
Net position composition of the equity of external pool participants is as follows:	
Participants units outstanding (\$1 par)	\$ 2,928,708
Undistributed and unrealized loss	(6,855)
Net position at June 30, 2014	\$ 2,921,853
Participants net position value at fair value price per share (\$2,921,853 divided by 2,928,708 units)	
	\$ 0.9977

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

**(4) Receivables**

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

Receivables - Governmental Activities	General Fund	Nonmajor Governmental Funds	Internal Service Funds	Government-Wide Service Concession Arrangement	Total Governmental Activities
Property tax	\$ 2,886	\$ -	\$ -	\$ -	\$ 2,886
Loans receivable	-	59,184	-	-	59,184
Other	190,563	2,562	5,041	7,237	205,403
Gross receivables	193,449	61,746	5,041	7,237	267,473
Less: allowance for uncollectibles	(170,532)	(285)	-	-	(170,817)
Total receivables, net	<u>\$ 22,917</u>	<u>\$ 61,461</u>	<u>\$ 5,041</u>	<u>\$ 7,237</u>	<u>\$ 96,656</u>

Receivables - Business-type Activities	SCVMC	Nonmajor Enterprise Funds	Total Business-type Activities
Patient accounts receivable	\$ 851,179	\$ -	\$ 851,179
Other	2,321	727	3,048
Gross receivables	853,500	727	854,227
Less allowance for uncollectibles	(721,961)	-	(721,961)
Total receivables, net	<u>\$ 131,539</u>	<u>\$ 727</u>	<u>\$ 132,266</u>

Net loan receivables from housing programs in the amount of \$58,899 are not expected to be collected within the subsequent year. The other receivables of General Fund in the amount of \$190,563 represent receivables of various County departments and majority of the balances were allowed for at year-end.

At June 30, 2014, the General Fund’s due from other governmental agencies is net of allowances for uncollectible accounts in the amount of \$233,730.

Governmental funds report deferred inflows of resources in connection with receivables for revenues not considered available to liquidate liabilities of the current period. At June 30, 2014, the deferred inflows of resources balance consists of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Due from other governmental agencies	\$ 149,008	\$ -	\$ 149,008
Other receivables	6,754	59,254	66,008
Total deferred inflows of resources	<u>\$ 155,762</u>	<u>\$ 59,254</u>	<u>\$ 215,016</u>

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(4) Receivables (Continued)**

The “unavailable” due from other governmental agencies for General Fund includes the following significant receivables:

**Milpitas Redevelopment Agency Elmwood Sale**

In June 2003, the Milpitas Redevelopment Agency (the MRDA) entered into an agreement to purchase and sell approximately 35 acres of Elmwood surplus land in the amount of (1) \$135,000 payable in installments over a 20-year period; (2) the aggregate sum of the developer negotiated value for all parcels comprising the property; and (3) 10 years of additional payments, estimated at \$3,500 per year, negotiated under the Sales and Use Tax Sharing Agreement based on 50% of the sales tax revenue generated by the additional redevelopment project area together with the Elmwood commercial area. In August 2003, the County approved the agreement with KB Home South Bay, Inc. (KB Home) for the base land value of \$57,750 (developer negotiated value) enabling the County’s disposition of the Elmwood surplus lands and the MRDA’s purchase and re-sale of the property.

On June 28, 2011, Assembly Bill X1 26 (AB X1 26) was enacted. This legislation is referred to herein as the Redevelopment Dissolution Law. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26 and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. As such the obligation of MRDA transferred to the Successor Agency to the Milpitas Redevelopment Agency and the enforceable obligation was approved by its Oversight Board and updated to increase the additional payments by another 2 years through 2033. The following table shows the estimated cash flows related to the sale of the Elmwood surplus lands:

Fiscal year ending June 30,	Developer Negotiated Value	Other	Milpitas Redevelopment Agency		Total
			Installment Payments	Additional Payments	
From Fiscal Year 2013 and prior	\$ 57,750	\$ 419	\$ 60,000	\$ -	\$ 118,169
2014	-	-	5,000	-	5,000
2015	-	-	5,000	-	5,000
2016	-	-	5,000	-	5,000
2017	-	-	5,000	-	5,000
2018	-	-	29,000	-	29,000
2019-2023	-	-	6,000	-	6,000
2024-2028	-	-	-	17,500	17,500
2029-2033	-	-	-	17,500	17,500
<b>Total</b>	<b>57,750</b>	<b>419</b>	<b>115,000</b>	<b>35,000</b>	<b>208,169</b>
Less amount received prior to June 30, 2013	(57,750)	(419)	(60,000)	-	(118,169)
Receivable at June 30, 2013	-	-	55,000	35,000	90,000
Less amount received during current year	-	-	(5,000)	-	(5,000)
<b>Receivable at June 30, 2014</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 50,000</b>	<b>\$ 35,000</b>	<b>\$ 85,000</b>

At June 30, 2014, the County’s General Fund receivable balance of \$85,000 represents the remaining estimated future cash flow related to the sale of the Elmwood surplus lands. During the year ended June 30, 2014, the County recognized proceeds from the sale in the amount of \$5,000 as revenue in its General Fund. At June 30, 2014, the deferred inflows of resources balance related to this balance is \$85,000.

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2014

(Dollars in thousands)

### (4) Receivables (Continued)

#### San Jose Redevelopment Agency

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

In September 2009, the SJFDA informed the County that due to the State's Supplemental Educational Revenue Augmentation Funds requirement and insufficient tax increment revenues, it did not have sufficient unrestricted funds to make the fiscal year 2009-2010 County Pass-Through Payment. The SJFDA further informed the County that it has held funds for the fiscal year 2008-2009 County Pass-Through Payments pending negotiations regarding the payment. At June 30, 2010, the County recorded a receivable from the SJFDA in the amount of \$45.2 million, which included the fiscal years 2008-2009 and 2009-10 County Pass-Through Payments, accumulated interest and other administration fees.

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

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(5) Interfund Transactions**

Interfund receivables, payables, and transfers as of and for the fiscal year ended June 30, 2014, by individual fund/fund type are summarized as follows:

**Due to/from other funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 1,943
General Fund	SCVMC	1,558
General Fund	Nonmajor Enterprise Funds	936
General Fund	Internal Service Funds	744
Nonmajor Governmental Funds	General Fund	102
Nonmajor Governmental Funds	Nonmajor Governmental Funds	2
Nonmajor Governmental Funds	SCVMC	2,493
Nonmajor Governmental Funds	Internal Service Funds	170
SCVMC	General Fund	900
Nonmajor Enterprise Funds	General Fund	1
Nonmajor Enterprise Funds	SCVMC	1,369
Internal Service Funds	General Fund	21
Total		<u>\$ 10,239</u>

The General Fund is due \$1,943 from Nonmajor Governmental Funds to reimburse for Mental Health Service Act expenditures incurred by the General Fund and \$1,558 from the SCVMC for current borrowings for working capital. The Nonmajor Governmental Funds are due \$2,493 from the SCVMC to reimburse costs incurred for capital projects. In addition, the interfund balances of \$57,595 between the County's Agency Funds represent current borrowings for working capital expected to be repaid during the following year.

All remaining interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Advance from/to other funds:**

In February 2013, the Board approved an interfund loan from the General Fund to the Child Support nonmajor special revenue fund for tenant improvements in the amount of \$1,000 to be repaid over the ten-year term of the lease. The actual amount of the loan was \$693. The terms of the loan include a maturity of June 30, 2023 and interest is based on the quarterly rate of return of the County Commingled Pool. At June 30, 2014, the advance balance was \$607.

**Payable to primary government:**

As described in Note 9(a), the Housing Authority reported its lease obligations to the County in the amount of \$7,635 as a payable to primary government on its statement of net position.

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

**(5) Interfund Transactions (Continued)**

**Transfer in/out between funds:**

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

**Between Governmental and Business-type Activities:**

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	SCVMC	\$ 176,231	Transfer funds for operating subsidy.
General Fund	SCVMC	5,015	Transfer funds to reimburse payment of retiree benefits.
General Fund	Nonmajor Enterprise Fund	2,000	Transfer funds to provide SVC for Covered California.
General Fund	Nonmajor Enterprise Fund	11	Transfer funds to cover rent costs for the animal rescue clinic.
General Fund	Nonmajor Enterprise Fund	88	Transfer funds to reimburse payment of retiree benefits.
SCVMC	General Fund	1,033	Transfer funds to reimburse services rendered from community health service.
SCVMC	General Fund	4,389	Transfer funds to pay for FQHC Clinic service provided by Mental Health Department.
SCVMC	Nonmajor Governmental Fund	2,495	Transfer funds to increase SCVMC services and supplies and capital budgets.
SCVMC	Nonmajor Enterprise Fund	15,346	Transfer funds for the establishment of a nonmajor enterprise fund previously accounted for in the SCVMC major enterprise fund.
SCVMC	Nonmajor Governmental Funds	13,871	Transfer bond proceeds to the General Capital Improvement fund for Valley Health Center Project.
Nonmajor Enterprise Fund	General Fund	2,000	Transfer funds to increase the Valley Health Plan budget for enrollment increases in FY14.
<b>Subtotal Between Governmental and Business-type Activities:</b>		<u><b>222,479</b></u>	

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

General Fund	Internal Service Fund	2,440	Transfer funds to reimburse payment of retiree benefits.
		<u>520</u>	Transfer funds to add positions within the Information Services Department.
		<u><b>2,960</b></u>	
General Fund	Nonmajor Governmental Fund	834	Transfer funds to pay debt service for Hospital Facilities Authority bonds.
		36,960	Transfer funds to finance Facilities and Fleet Department capital projects.
		20	Transfer funds to the Fire Districts for fireworks education.
		51	Transfer funds to the County Library fund for annual contribution per Joint Power Authority agreement.
		174	Transfer funds to reimburse household waste program.
		112	Transfer funds to the Roads Department for school crossing guard project.
		119	Transfer funds to pay for operating expenses of the tobacco fund.
		385	Transfer to the Roads fund for Measure B Transportation Projects.
		200	Transfer to the Roads fund for the 2014 circulation and planning study.
		1,111	Transfer funds to reimburse payment of retiree benefits.
		1,408	Transfer bonds proceeds to Morgan Hill Courthouse.
		<u>41,374</u>	
Nonmajor Governmental funds	General Fund	121	Transfer funds to General Fund to pay for various debt services.
		144	Transfer fund from the Vital Statistic fund for specified ongoing operations.
		538	Transfer funds from Department of Child Support Services to reimburse moving costs.
		65,673	Transfer funds for Proposition 63 nonmajor fund for planning administrative, and program costs for the mental health services programs.
		4,703	Transfer funds for technology project reimbursements.
		256	Transfer unspent funds to Sheriff Department.
		76	Transfer funds to enable payment of retiree benefits.
		206	Transfer funds to Housing and Community Development Department to enable the Housing Fast Program.
		<u>1</u>	Transfer of funds to enable county-wide environmental training.
		<u><b>71,718</b></u>	
Nonmajor Governmental Fund	Nonmajor Governmental Fund	950	Transfer funds to the Parks Department for Parks Capital Projects.
		<u>2,219</u>	Transfer QECB proceeds to fund qualified facilities and fleet capital projects.
		<u><b>3,169</b></u>	
<b>Subtotal: Between Funds within Governmental or Business-type Activities:</b>		<u><b>119,221</b></u>	

**Total Transfers: \$ 341,700**

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

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

**(6) Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance, July 1, 2013	Additions	Reductions/ Adjustments	Transfers	Balance, June 30, 2014
<b>Governmental activities</b>					
<i>Capital assets, not being depreciated:</i>					
Land	\$ 258,272	\$ -	\$ (323)	\$ 2,643	\$ 260,592
Construction in progress	91,479	76,417	-	(33,045)	134,851
Total capital assets, not being depreciated	<u>349,751</u>	<u>76,417</u>	<u>(323)</u>	<u>(30,402)</u>	<u>395,443</u>
<i>Capital assets, being depreciated:</i>					
Infrastructure	313,474		-	17,381	330,855
Buildings and improvements	949,120	230	(76)	10,696	959,970
Equipment, software and vehicles	203,735	12,897	(9,989)	2,325	208,968
Total capital assets, being depreciated	<u>1,466,329</u>	<u>13,127</u>	<u>(10,065)</u>	<u>30,402</u>	<u>1,499,793</u>
<i>Less accumulated depreciation for:</i>					
Infrastructure	(119,054)	(12,511)	-	-	(131,565)
Buildings and improvements	(431,861)	(15,791)	38	-	(447,614)
Equipment, software and vehicles	(150,440)	(18,420)	9,940	-	(158,920)
Total accumulated depreciation	<u>(701,355)</u>	<u>(46,722)</u>	<u>9,978</u>	<u>-</u>	<u>(738,099)</u>
Total capital assets, being depreciated, net	<u>764,974</u>	<u>(33,595)</u>	<u>(87)</u>	<u>30,402</u>	<u>761,694</u>
Governmental activities, capital assets, net	<u>\$ 1,114,725</u>	<u>\$ 42,822</u>	<u>\$ (410)</u>	<u>\$ -</u>	<u>\$ 1,157,137</u>
<b>Business-type activities</b>					
<i>Capital assets, not being depreciated:</i>					
Land	\$ 6,310	\$ -	\$ -	\$ -	\$ 6,310
Construction in progress	457,900	133,814	(189)	(17,345)	574,180
Total capital assets, not being depreciated	<u>464,210</u>	<u>133,814</u>	<u>(189)</u>	<u>(17,345)</u>	<u>580,490</u>
<i>Capital assets, being depreciated:</i>					
Buildings and improvements	818,556	97	(58)	(24,972)	793,623
Equipment and vehicles	175,381	9,350	(7,274)	42,317	219,774
Leasehold improvements	2,073	-	-	-	2,073
Total capital assets, being depreciated	<u>996,010</u>	<u>9,447</u>	<u>(7,332)</u>	<u>17,345</u>	<u>1,015,470</u>
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	(357,421)	(33,688)	58	15,136	(375,915)
Equipment and vehicles	(82,927)	(13,382)	7,195	(15,136)	(104,250)
Leasehold improvements	(1,711)	(104)	-	-	(1,815)
Total accumulated depreciation	<u>(442,059)</u>	<u>(47,174)</u>	<u>7,253</u>	<u>-</u>	<u>(481,980)</u>
Total capital assets, being depreciated, net	<u>553,951</u>	<u>(37,727)</u>	<u>(79)</u>	<u>17,345</u>	<u>533,490</u>
Business-type activities, capital assets, net	<u>\$ 1,018,161</u>	<u>\$ 96,087</u>	<u>\$ (268)</u>	<u>\$ -</u>	<u>\$ 1,113,980</u>

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

**(6) Capital Assets (Continued)**

Capital asset activity for the Housing Authority for the fiscal year ended June 30, 2014, was as follows:

	Balance, July 1, 2013	Additions	Reductions/ Adjustments	Balance, June 30, 2014
<i>Capital assets, not being depreciated:</i>				
Land	\$ 17,229	\$ -	\$ -	\$ 17,229
Construction in progress	321	415	-	736
Total capital assets, not being depreciated	<u>17,550</u>	<u>415</u>	<u>-</u>	<u>17,965</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	16,840	-	-	16,840
Furniture and equipment	3,537	96	-	3,633
Total capital assets, being depreciated	<u>20,377</u>	<u>96</u>	<u>-</u>	<u>20,473</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(6,109)	(533)	-	(6,642)
Furniture and equipment	(3,154)	(117)	-	(3,271)
Total accumulated depreciation	<u>(9,263)</u>	<u>(650)</u>	<u>-</u>	<u>(9,913)</u>
Total capital assets, being depreciated, net	<u>11,114</u>	<u>(554)</u>	<u>-</u>	<u>10,560</u>
Housing Authority's business-type activity	28,664	<u>\$ (139)</u>	<u>\$ -</u>	28,525
Housing Authority's discrete component units' capital assets, as of December 31, 2013, except for Poco Way Associates which is as of May 31, 2014	<u>365,161</u>			<u>363,374</u>
Housing Authority capital assets, net	<u>\$ 393,825</u>			<u>\$ 391,899</u>

A copy of each of the Housing Authority's component units' separately issued audited financial statements can be obtained from the Housing Authority's management.

Capital asset activity for the FIRST 5 for the fiscal year ended June 30, 2014, was as follows:

	Balance, July 1, 2013	Additions	Reductions/ Adjustments	Balance, June 30, 2014
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,358	\$ -	\$ -	\$ 2,358
Construction in progress	-	65	-	65
Total capital assets, not being depreciated	<u>2,358</u>	<u>65</u>	<u>-</u>	<u>2,423</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	4,265	-	-	4,265
Furniture and equipment	277	-	-	277
Total capital assets, being depreciated	<u>4,542</u>	<u>-</u>	<u>-</u>	<u>4,542</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(1,687)	(213)	-	(1,900)
Furniture and equipment	(268)	(1)	-	(269)
Total accumulated depreciation	<u>(1,955)</u>	<u>(214)</u>	<u>-</u>	<u>(2,169)</u>
Total capital assets, being depreciated, net	<u>2,587</u>	<u>(214)</u>	<u>-</u>	<u>2,373</u>
FIRST 5 capital assets, net	<u>\$ 4,945</u>	<u>\$ (149)</u>	<u>\$ -</u>	<u>\$ 4,796</u>

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(6) Capital Assets (Continued)**

Capital asset activity for the Health Authority for fiscal year ended June 30, 2014, was as follows:

	<u>Balance, July 1, 2013</u>	<u>Additions</u>	<u>Reductions/ Adjustments</u>	<u>Balance, June 30, 2014</u>
<i>Capital assets, not being depreciated:</i>				
Constuction in progress	\$ -	\$ 3,061	\$ -	\$ 3,061
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	6,364	260	-	6,624
Leasehold improvements	381	31	-	412
Total capital assets, being depreciated	<u>6,745</u>	<u>291</u>	<u>-</u>	<u>7,036</u>
<i>Less accumulated depreciation for:</i>				
Furniture and equipment	(5,858)	(312)	-	(6,170)
Leasehold improvements	(379)	(4)	-	(383)
Total accumulated depreciation	<u>(6,237)</u>	<u>(316)</u>	<u>-</u>	<u>(6,553)</u>
Total capital assets, being depreciated, net	<u>508</u>	<u>(25)</u>	<u>-</u>	<u>483</u>
Health Authority capital assets, net	<u>\$ 508</u>	<u>\$ 3,036</u>	<u>\$ -</u>	<u>\$ 3,544</u>

**Depreciation**

Depreciation expense was charged to governmental functions for the year ended June 30, 2014, as follows:

General government	\$ 25,278
Public protection	3,835
Public ways	11,747
Health and sanitation	459
Public assistance	969
Education	365
Recreation	1,773
Amount reported in the internal service funds	2,296
Total depreciation expense - governmental functions	<u>\$ 46,722</u>

Depreciation expense was charged to the business-type functions for the year ended June 30, 2014 as follows:

SCVMC	\$ 46,283
Airport	845
Sanitation District	37
Valley Health Plan	9
Total depreciation expense - business-type functions	<u>\$ 47,174</u>

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(6) Capital Assets (Continued)**

**Capital Projects Commitments**

As of June 30, 2014, the SCVMC and the Airport have active construction projects that include construction of the seismic compliance for SCVMC buildings and infrastructure and facility improvement of airport projects.

The County's commitments for business-type activities as of June 30, 2014, are as follows:

Projects	Expended to June 30, 2014	Committed as of June 30, 2014
Hospital Projects	\$ 573,409	\$ 17,961
Airport Projects	771	-
Total	\$ 574,180	\$ 17,961

Nonmajor governmental funds (Special Revenue and Capital Projects Funds) also have active construction projects as of June 30, 2014. They are as follows:

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

The County's governmental activities commitments at June 30, 2014, are as follows:

Projects	Expended to June 30, 2014	Committed as of June 30, 2014
Road projects	\$ 31,185	\$ 9,852
Park projects	36,621	10,442
Fire district projects	363	-
General capital projects	66,682	2,523
Total	\$ 134,851	\$ 22,817

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

**(7) Capital Leases**

The County leases certain vehicles and equipment, obtained under various lease financing agreements. The leases expire at various times through fiscal year 2017. As of June 30, 2014, the governmental activities' capital assets and accumulated depreciation under capital leases are:

Description	
Equipment and vehicles	\$ 602
Less accumulated depreciation	(199)
Net capital assets	<u>\$ 403</u>

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

Fiscal year ending June 30,	
2015	\$ 124
2016	88
2017	<u>77</u>
Total	289
Amount representing interest at rates from 0.43% to 6.48%	<u>(18)</u>
Present value of future minimum lease payments	<u>\$ 271</u>

**(8) Short-Term Debt**

**(a) Teeter Plan Obligation Commercial Paper Notes**

As discussed in Note 1(j), in 1994 the Board adopted the Teeter Plan. The Teeter Plan provides for a tax distribution procedure in which secured roll (exclusive of the supplemental roll) taxes are distributed to participating taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections. Taxing entities that maintain funds in the County Treasury are included in the Teeter Plan; other taxing entities may elect to be included in the Teeter Plan. Taxing entities that do not elect to participate in the Teeter Plan (City of Sunnyvale and Town of Los Gatos) are paid as taxes are collected.

On June 25, 2013, the Teeter notes of \$109,285 were rolled over in the amount of \$85,000 with initial maturity dates ranging from August 15, 2013 through September 11, 2013 and interest rates of 0.10% to 0.13%. On September 11, 2013, the County paid off these notes and discontinued the Teeter financing program.

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(8) Short-Term Debt (Continued)**

**(b) Tax and Revenue Anticipation notes (TRANS)**

On September 4, 2013, the County issued Tax and Revenue Anticipation Notes (TRANS) in the amount of \$118,000 with a premium of \$1,036 that bear fixed interest at 1.25% per annum. The purpose of the TRANS is to assist the County in meeting 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. The County repaid the TRANS in June 2014.

**(c) Housing Authority Line of Credit**

The Housing Authority maintains a \$3,000 line of credit, which provides the Housing Authority with a ready means of short-term financing. On June 30, 2014 the maturity date was extended to June 29, 2015. The line of credit, payable monthly, bears interest at the prime rate, which was 3.25% at June 30, 2014.

**(d) Short-Term Debt Activity**

	Primary Government	Component Units
Balance, beginning of year	\$ 85,000	\$ 224
Additions	119,036	-
Reductions	<u>(204,036)</u>	<u>(224)</u>
Balance, end of year	<u>\$ -</u>	<u>\$ -</u>

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

**(9) Long-Term Liabilities**

As of June 30, 2014, 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, 2014
<b>Governmental activities:</b>					
2007 Taxable Pension Funding Bonds	8/1/14 - 8/1/36	5.786% - 6.111%	\$3,975 - \$51,560	\$ 389,485	\$ 375,419
2009 Series A General Obligation Bonds	8/1/14 - 8/1/39	3.00% - 5.00%	\$1,100 - \$32,500	350,000	314,700
2013 Series B General Obligation Bonds	8/1/14 - 8/1/43	3.00% - 5.00%	\$4,420 - \$29,340	490,000	490,000
Financing Authority:					
1994 Series B Lease Revenue Bonds	11/15/23 - 11/15/25	(1)	\$233 - \$262	742	742
2006 Series I Lease Revenue Bonds	5/15/15 - 5/15/31	4.00% - 5.00%	\$2,949 - \$5,927	87,575	72,545
2007 Series K Lease Revenue Bonds	5/15/15 - 5/15/37	4.00% - 5.00%	\$525 - \$1,460	22,655	20,755
2008 Series A Lease Revenue Bonds	11/15/14 - 11/15/22	5.00%	\$161 - \$238	5,579	1,778
2008 Series L Lease Revenue Bonds	5/15/15 - 5/15/36	4.00% - 5.25%	\$1,125 - \$4,600	59,800	53,535
2010 Series N Lease Revenue Bonds	5/15/15 - 5/15/17	4.54% - 5.00%	\$5,605 - 5,915	47,188	17,385
2011 Series A Lease Revenue Bonds	2/1/15 - 2/1/26	5.90%	\$871 - \$2,153	20,368	16,618
2011 Series B Lease Revenue Bonds	2/1/15 - 2/1/26	4.91%	\$247 - \$282	3,639	3,166
2012 Series A Lease Revenue Bonds	2/1/15 - 2/1/24	4.00% - 5.00%	\$1,460 - \$2,180	19,315	17,910
2014 Series O Lease Revenue Bonds	5/15/15 - 5/15/23	3.00% - 4.00%	\$1,120 - \$1,490	11,715	11,715
Housing Authority:					
2004 Series A Lease Revenue Bonds	9/1/14 - 9/1/29	(2)	\$110 - \$255	3,550	2,820
2006 Series A Lease Revenue Bonds	9/1/14 - 9/1/38	5.00%	\$55 - \$510	5,125	4,815
Silicon Valley Tobacco Securitization Authority:					
Tobacco Settlement Asset-Backed Bonds	6/1/36 - 6/1/56	5.63% - 6.85%	\$4,408 - \$43,604	102,030	102,030
2006 Series TT Vector Control COP	6/1/15 - 6/1/27	3.75% - 6.50%	\$190 - \$330	4,495	3,275
Total governmental activities				<u>\$ 1,623,261</u>	<u>\$ 1,509,208</u>
<b>Business-type activities</b>					
SCVMC:					
Financing Authority:					
1994 Series B Lease Revenue Bonds	11/15/23 - 11/15/25	(1)	\$15,967 - \$17,938	\$ 50,758	\$ 50,758
2006 Series I Lease Revenue Bonds	5/15/15 - 5/15/31	4.00% - 5.00%	\$2,066 - \$4,153	62,165	50,830
2007 Series K Lease Revenue Bonds	5/15/15 - 5/15/37	4.00% - 5.00%	\$1,640 - \$4,565	70,885	64,960
2008 Series A Lease Revenue Bonds	11/15/14 - 11/15/22	3.00% - 5.00%	\$10,674 - \$15,657	120,831	117,502
2008 Series L Lease Revenue Bonds	5/15/32 - 5/15/36	5.25%	\$9,530 - \$11,750	53,040	53,040
2008 Series M Lease Revenue Bonds	5/15/14 - 5/15/35	(3)	\$4,450 - \$8,300	143,105	129,650
2012 Series A Lease Revenue Bonds	2/1/15 - 2/1/24	4.00% - 5.00%	\$5,110 - \$7,630	67,605	62,690
Total SCVMC				<u>568,389</u>	<u>529,430</u>
Airport:					
ABAG Series 2002-1 Lease Revenue Bonds	7/1/14 - 7/1/32	4.50% - 5.00%	\$220 - \$355	6,780	4,600
Total business-type activities				<u>\$ 575,169</u>	<u>\$ 534,030</u>

(1) Variable rate, 0.06% effective as of June 30, 2014.

(2) Variable rate, 0.08% effective as of June 30, 2014.

(3) Variable rate, 0.07% effective as of June 30, 2014.

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

**(9) Long-Term Liabilities (Continued)**

The following is a summary of long-term liabilities transactions for the fiscal year ended June 30, 2014:

	Balance, June 30, 2013 (as restated)	Additions	Retirements	Balance, June 30, 2014	Amounts Due Within One Year
<b>Governmental activities:</b>					
Lease Revenue Bonds	\$ 251,345	\$ 11,715	\$ (39,276)	\$ 223,784	\$ 15,336
Unamortized premium	7,338	909	(1,234)	7,013	1,016
Tobacco Settlement Asset-Backed Bonds	102,030	-	-	102,030	-
Accreted interest on capital appreciation bonds	46,279	8,882	-	55,161	-
Taxable Pension Funding Bonds	378,995	-	(3,576)	375,419	3,975
Accreted interest on capital appreciation bonds	37,071	7,311	(1,464)	42,918	1,975
Certificates of Participation	3,455	-	(180)	3,275	190
Unamortized premium	120	-	(8)	112	8
General Obligation Bonds	805,800	-	(1,100)	804,700	5,520
Unamortized premium	51,904	-	(1,779)	50,125	1,779
Subtotal governmental bonds	<u>1,684,337</u>	<u>28,817</u>	<u>(48,617)</u>	<u>1,664,537</u>	<u>29,799</u>
Capital Lease Obligations (Note 7)	491	-	(219)	272	114
Accrued litigation liability	2,500	3,156	-	5,656	-
Insurance claims (Note 13)	117,932	74,880	(50,943)	141,869	40,722
Net OPEB Obligation (Note 12(f) and 12(g))	321,709	2,014	(46,596)	277,127	-
Pollution Remediation Obligations (Note 15)	5,900	430	-	6,330	-
Accrued vacation & sick leave	140,364	100,365	(94,231)	146,498	13,403
Total governmental activities	<u>\$ 2,273,233</u>	<u>\$ 209,662</u>	<u>\$ (240,606)</u>	<u>\$ 2,242,289</u>	<u>\$ 84,038</u>
<b>Business-type activities:</b>					
SCVMC Lease Revenue Bonds	\$ 563,827	\$ -	\$ (34,397)	\$ 529,430	\$ 23,939
Unamortized discount	(29)	-	29	-	-
Unamortized premium	18,724	-	(1,671)	17,053	1,671
Subtotal SCVMC bonds	<u>582,522</u>	<u>-</u>	<u>(36,039)</u>	<u>546,483</u>	<u>25,610</u>
Airport Lease Revenue Bonds	4,785	-	(185)	4,600	220
Unamortized discount	(15)	-	-	(15)	(1)
Subtotal Airport bonds	<u>4,770</u>	<u>-</u>	<u>(185)</u>	<u>4,585</u>	<u>219</u>
Accrued vacation & sick leave	67,974	60,473	(56,854)	71,593	12,561
Total business-type activities	<u>\$ 655,266</u>	<u>\$ 60,473</u>	<u>\$ (93,078)</u>	<u>\$ 622,661</u>	<u>\$ 38,390</u>
<b>Component Units:</b>					
Housing Authority:					
Notes payable	\$ 1,398	\$ -	\$ -	\$ 1,398	\$ 20
Payment in lieu of taxes	39	45	-	84	8
Accrued vacation & sick leave	848	887	(849)	886	49
Long-term interest payable	578	23	-	601	-
Housing Authority's business type activity	<u>2,863</u>	<u>\$ 955</u>	<u>\$ (849)</u>	<u>2,969</u>	<u>77</u>
Housing Authority's discrete component units' long-term obligations as of December 31, 2013, except for Poco Way Associates which is as of May 31, 2014					
Notes, loans, and bonds payable	281,501	-	-	283,401	9,840
Long-term interest payable	24,904	-	-	27,601	-
Housing Authority's discrete component units	<u>306,405</u>	<u>-</u>	<u>-</u>	<u>311,002</u>	<u>9,840</u>
Total Housing Authority	<u>\$ 309,268</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 313,971</u>	<u>\$ 9,917</u>
<i>FIRST 5:</i>					
Accrued vacation & sick leave	\$ 178	\$ -	\$ (14)	\$ 164	\$ -

The June 30, 2013 balance was restated to reflect the impact of GASB Statement No. 65. The unamortized loss on refunding of debt was reclassified to deferred outflows of resources.

A copy of each of the Housing Authority's component units separately issued audited financial statements can be obtained from the Housing Authority's management.

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

### (9) Long-Term Liabilities (Continued)

#### (a) *Governmental Activities*

##### **2007 Taxable Pension Funding Bonds**

In July 2007, the County issued 2007 Taxable Pension Funding Bonds in the amount of \$389,485 to refinance a portion of the County's statutory obligations to make payments to the State of California Public Employees' Retirement System (PERS) for certain amounts arising as a result of retirement benefits accruing to County employees. The bonds were comprised of current interest bonds and capital appreciation bonds. The current interest bonds were issued for \$302,180 and bear fixed interest rates ranging from 5.56% to 6.11%, and have a final maturity date of August 1, 2036. The capital appreciation bonds were issued for \$87,305 with interest rates ranging from 5.74% to 6.14% and have a final maturity date of August 1, 2029.

##### **2009 Series A and 2013 Series B General Obligation Bonds**

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

On May 27, 2009, the County issued 2009 Series A General Obligation Bonds in the amount of \$350,000. The bonds bear fixed interest rates ranging from 3.00% to 5.00% which are payable semi-annually commencing February 1, 2010 and have a final maturity of August 1, 2039.

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

##### **Santa Clara County - El Camino Hospital District Hospital Facilities Authority**

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

The 1985 Series A and B Adjustable Convertible Extendable Securities (ACES) Lease Revenue Bonds were issued by the Hospital Facilities Authority to provide financing for the acquisition, construction, and renovation of various Santa Clara Valley Health and Hospital System projects, including the Valley Health Center, Patient Care Tower, Psychiatric Inpatient Facility, and Cogeneration Facility. On August 1, 2013, the Hospital Facilities Authority repaid all of its outstanding bonds payable in the amount of \$21,700 with cash and investments held by the Hospital Facilities Authority. The County terminated Hospital Facilities Authority in January 2014.

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

### (9) Long-Term Liabilities (Continued)

#### Financing Authority

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

**2003 Series C Lease Revenue Bonds** – On December 18, 2003, the County through the Financing Authority issued 2003 Series C Lease Revenue Bonds in the amount of \$20,025. These bonds were issued to embark on a number of long-term capital projects including the construction of a new courthouse in the City of Morgan Hill. The bonds were refunded on May 15, 2014 with proceeds from the 2014 Series O Lease Revenue Bonds.

**2010 Series N Lease Revenue Bonds** – On February 18, 2010, the Financing Authority issued \$50,110 of 2010 Series N Lease Revenue Bonds on behalf of the County and SCVMC. The bond proceeds including premiums of \$4,264 were used to current refund the outstanding 1998 Series A and 2000 Series B Lease Revenue Bonds. The bonds bear fixed interest rates ranging from 4.00% to 5.00% and have a final maturity date of May 15, 2017. The SCVMC portion of this debt of \$2,922 matured on May 15, 2012.

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

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

QECCBs are a form of taxable lease revenue bonds which receive a direct subsidy payment from the Federal government to help offset the cost of the borrowing. The subsidy is intended to promote qualified energy projects. The federal subsidy equates to approximately 70% of the interest cost of the financing. Effective March 1, 2013, due to the effect of sequester reductions, the Federal interest subsidy was reduced by 8.7% through September 30, 2013. Effective October 1, 2013 through September 30, 2014, the Federal interest subsidy will be reduced by 7.2%. Absent of Congressional action, the sequester reductions will continue through and including Federal's fiscal year ended September 30, 2021 and the sequester reduction percentage will vary between future years.

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2014

(Dollars in thousands)

### (9) Long-Term Liabilities (Continued)

Debt service payments for the QECBs are serviced by the General Fund. The actual savings will depend on the actual reduction in future utility costs as a result of the solar panel and energy efficient system projects.

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

In connection with the issuance of the 2004 Series A Lease Revenue Bonds, the County, on behalf of the Financing Authority, obtained an irrevocable letter of credit as a credit facility with U.S. Bank N.A. for these bonds. At June 30, 2014, the letter of credit was set to expire on September 1, 2015. The Financing Authority's repayment of unreimbursed draws made on the credit facility bears interest at rates as defined in the reimbursement agreement up to LIBOR plus 4% per annum with the principal due at September 1, 2015. The Financing Authority is required to pay U.S. Bank N.A. an annual commitment fee of 1.50% based on the outstanding principal amount of the bonds supported by the credit facility. For the year ended June 30, 2014, the Housing Authority paid an annual commitment fee in the amount of \$44.

The Business-type Activities section of this note at (b) describes the governmental activities portions of the Financing Authority's 1994, 1997, 2006, 2007, 2008, and 2012 Lease Revenue Bonds.

#### **Silicon Valley Tobacco Securitization Authority**

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

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2014

(Dollars in thousands)

### (9) Long-Term Liabilities (Continued)

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, County, nor Corporation has any liability to make up any such shortfall.

#### **2006 Series TT Vector Control Certificates of Participation**

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

### (b) *Business-type Activities*

#### **SCVMC**

#### **Financing Authority**

**1994 Series A & B Lease Revenue Bonds** - On December 15, 1994, the Financing Authority issued the 1994 Series A and B Lease Revenue Bonds. The proceeds financed the design, construction, remodeling, and equipping of existing and new medical facilities at the SCVMC. The County leases to, and then leases back from, the Financing Authority the projects financed along with the real property on which they are situated. Annual base rental payments from the County approximate the bonds' debt service requirements. If necessary, monies apportioned to the County in the State's Motor Vehicle License Fee Account can be used toward meeting the lease obligation. The 1994 Series A Lease Revenue Bonds matured on November 15, 2011.

The Series B bonds, issued for \$51,500, bear interest at variable rates set daily, weekly, semi-annually, or on a term basis, as determined by the remarketing agent. Series B bonds also contain an early redemption provision, allowed at call rates of 100% of the bonds' face value, plus accrued interest. The 1994 Series B bonds are secured by an irrevocable letter of credit (credit facility) pursuant to a Standby Bond Purchase Agreement with JP Morgan Chase Bank N.A. dated November 1, 2000. At June 30, 2014, the irrevocable letter of credit amount was \$52,126 and the expiration date is November 1, 2016. The Financing Authority's repayment of unreimbursed draws made on the credit facility bear interest at rates as defined in the Standby Bond Purchase Agreement

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2014

(Dollars in thousands)

### (9) Long-Term Liabilities (Continued)

up to 12% per annum with the principal due at November 1, 2016. The Financing Authority is required to pay JP Morgan Chase Bank N.A. an annual commitment fee of 1.15% effective July 6, 2012 and 0.625% effective November 1, 2013 based on the outstanding principal amount of the bonds supported by the credit facility. For the year ended June 30, 2014, the Financing Authority paid an annual commitment fee in the amount of \$424.

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

***2006 Series I Lease Revenue Bonds*** - On March 2, 2006, the County through the Financing Authority issued 2006 Series I Lease Revenue Bonds in the amount of \$149,740. The bonds were issued to finance the construction costs of the County Crime Laboratory Facility; the Valley Health Clinics at Fair Oaks and in Gilroy; and seismic retrofitting costs of the County Courthouse. The bonds bear fixed interest rates ranging from 4.00% to 5.00% and have a final maturity date of May 15, 2031.

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

***2008 Series L Lease Revenue Bonds*** - On May 22, 2008, the Financing Authority issued \$112,840 of 2008 Series L Lease Revenue Bonds on behalf of the County and SCVMC to refund the County's outstanding 2003 Series D and 2005 Series H bond, and SCVMC's outstanding 2006 Series J Lease Revenue Bonds. The 2008 Series L Lease Revenue Bonds bear fixed interest rates ranging from 4.00% to 5.25% and have a final maturity date of May 15, 2036.

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

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

### (9) Long-Term Liabilities (Continued)

In connection with the issuance of the 2008 Series M Lease Revenue Bonds, the Financing Authority obtained an irrevocable letter of credit as a credit facility with Bank of America, N.A. The letter of credit is set to expire on October 31, 2015. If Bank of America, N.A. elected not to extend the expiration date, the variable rate bonds would convert to Bank Bonds with repayments made in accordance with the maturity schedule provided in the Trust Agreement and these Bank Bonds would bear interest at the Bank Rate which is up to 12% per annum. The Financing Authority is required to pay Bank of America, N.A. an annual commitment fee of 0.60%, effective September 18, 2012 based on the outstanding principal amount of the bonds supported by the credit facility. For the year ended June 30, 2014, the Financing Authority paid an annual commitment fee in the amount of \$829.

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

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

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

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

**Fair Value.** The swaps had a combined aggregate negative fair value of \$16,976 as of June 30, 2014. 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.

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

### (9) Long-Term Liabilities (Continued)

**Credit Risk.** The aggregate fair value of the swaps represented the Financing Authority's credit exposure to the counterparties as of June 30, 2014. Should the counterparties fail to perform according to terms of the swap contracts, the Financing Authority faced a maximum possible loss equivalent to the aggregate fair value of the swaps. At June 30, 2014, the Financing Authority was not exposed to credit risk because the swaps had a negative fair value of \$16,976. 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, 2014, Citibank's ratings were A2 by Moody's, A by Standard and Poor's, and A by Fitch Ratings.

**Basis Risk.** The Financing Authority has chosen a variable index based on a percentage of LIBOR plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Financing Authority is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. As a result of changing basis between LIBOR and the rate on the Financing Authority's bonds during the course of the year, the synthetic fixed rate for the fiscal year ended June 30, 2014, was 2.837%.

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

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

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

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

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(9) Long-Term Liabilities (Continued)**

**Swap Payments and Associated Debt Service Payments.** Using rates as of June 30, 2014, debt service requirements of the 2008 Series M bonds and net swap payments, assuming current interest rates remain the same for the term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Year Ending June 30,	Principal	Variable Interest (1)	Net Swap Interest (2)	Total Interest
2015	\$ 4,450	\$ 90	\$ 3,558	\$ 3,648
2016	4,600	87	3,439	3,526
2017	4,700	84	3,320	3,404
2018	4,850	81	3,202	3,283
2019	5,050	77	3,044	3,121
2020-2024	27,600	332	13,123	13,455
2025-2029	32,275	229	9,052	9,281
2030-2034	37,825	108	4,269	4,377
2035-2035	8,300	6	198	204
	<u>\$ 129,650</u>	<u>\$ 1,094</u>	<u>\$ 43,205</u>	<u>\$ 44,299</u>

(1) Variable interest on the 2008 Series M is estimated using interest rate at June 30, 2014, of 0.07%.

(2) Net swap interest on the 2008 Series M is estimated using USD-LIBOR-BBA rate at June 30, 2014, of 0.153%. Net swap interest at June 30, 2014, is calculated as follows: 3.185% minus (0.155% \* 56.5% + 0.33%) equals to 2.767%.

**Impact on Financial Statements.** The impact of the interest rate swaps on the financial statements for the year ended June 30, 2014, is as follows:

	Deferred outflows of resources	Derivative instrument liabilities
Balance at July 1, 2013	\$ 17,007	\$ 17,007
Change in fair value	(31)	(31)
Balance at June 30, 2014	<u>\$ 16,976</u>	<u>\$ 16,976</u>

Derivative instrument liabilities of \$16,976 as of June 30, 2014, represent the fair value of the interest rate swap agreements and deferred outflows on resources of \$16,976 as of June 30, 2014, represent accumulated decreases in fair value of hedging derivatives.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

(9) Long-Term Liabilities (Continued)

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

**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 B	1.4%	98.6%
1997 Series A	9.4%	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%
2012 Series A	22.2%	77.8%

**Airport**

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

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

**(9) Long-Term Liabilities (Continued)**

**(c) Repayment Requirements**

As of June 30, 2014, the debt service requirements to maturity and the fund types from which principal payments will be made are as follows, excluding capital lease obligations, accrued litigation liability, insurance claims liabilities and accrued vacation and sick leave.

**Governmental Activities**

Fiscal year ending June 30:	Lease Revenue Bonds (1)		Tobacco Securitization Asset-Backed Bonds		Certificates of Participation		Taxable Pension Funding Bonds		General Obligation Bond	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 15,336	\$ 10,407	\$ -	\$ -	\$ 190	\$ 160	\$ 3,975	\$ 19,479	\$ 5,520	\$ 35,460
2016	15,960	9,712	-	-	195	152	4,326	20,074	6,595	35,179
2017	16,422	8,980	-	-	205	144	4,647	20,727	7,740	34,847
2018	9,583	8,218	-	-	215	134	4,924	21,461	8,955	34,463
2019	9,957	7,815	-	-	225	124	5,169	22,251	10,235	34,003
2020-2024	57,075	31,905	-	-	1,300	438	28,645	125,261	74,030	160,297
2025-2029	52,758	18,842	-	-	945	96	30,997	154,444	121,595	136,123
2030-2034	38,058	6,886	-	-	-	-	152,106	70,324	182,425	101,749
2035-2039	8,635	838	43,604	178,571	-	-	140,630	13,214	255,825	56,586
2040-2044	-	-	11,339	66,321	-	-	-	-	131,780	10,004
2045-2049	-	-	18,025	158,675	-	-	-	-	-	-
2050-2054	-	-	-	-	-	-	-	-	-	-
2055-2057	-	-	29,062	648,788	-	-	-	-	-	-
Total	\$ 223,784	\$ 103,603	\$ 102,030	\$ 1,052,355	\$ 3,275	\$ 1,248	\$ 375,419	\$ 467,235	\$ 804,700	\$ 638,711

(1) Variable interest on the 1994 Series B Lease Revenue Bonds, the 2004 Series A Lease Revenue Bonds, and the 2008 Series M Lease Revenue Bonds are estimated using interest rate at June 30, 2014, of 0.06%, 0.08%, and 0.07%, respectively.

Certificates of participation retirement and related interest payments are serviced by revenues generated by the Santa Clara County Vector Control District. Taxable Pension Funding Bonds are serviced by future charges to County departments. Capital Lease Obligations are serviced by Santa Clara County Central Fire Protection District and South Santa Clara County Fire District. Accrued litigation liability, insurance claims payable and accrued vacation and sick leave are generally liquidated by the General Fund.

**Business-type Activities**

Fiscal year ending June 30:	SCVMC		Airport	
	Lease Revenue Bonds (1) Principal	Interest	Lease Revenue Bonds Principal	Interest
2015	\$ 23,939	\$ 16,670	220	222
2016	24,978	15,767	155	213
2017	26,004	14,817	165	206
2018	27,154	13,798	170	198
2019	28,432	12,706	180	190
2020-2024	146,066	45,590	1,050	801
2025-2029	114,565	28,321	1,335	505
2030-2034	94,032	19,098	1,325	137
2035-2037	44,260	3,151	-	-
Total	\$ 529,430	\$ 169,918	\$ 4,600	\$ 2,472

(1) Variable interest on the 1994 Series B Lease Revenue Bonds, and the 2008 Series M Lease Revenue Bonds are estimated using interest rate at June 30, 2014, of 0.06%, 0.08%, and 0.07%, respectively.

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

### (9) Long-Term Liabilities (Continued)

#### (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, SCVMC, and the Housing Authority, pursuant to the Master Facility Lease Agreements between the County and the Financing Authorities and between the Housing Authority and the Financing Authority for the use of facilities acquired or constructed by the Financing Authorities. Under California law, the County, SCVMC, and the Housing Authority cannot make lease payments until the County, SCVMC, and the Housing Authority 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 \$1,026,735 payable through September 1, 2038. For the fiscal year ended June 30, 2014, the total lease payments made by the County, SCVMC, and the Housing Authority totaled to \$76,041 and total debt service payments paid by the Financing Authorities totaled to \$92,784.

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, 2014.

The County's Series 2009 General Obligation Bonds are payable from pledged ad valorem property taxes until August 1, 2039, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately \$613,135. For the fiscal year ended June 30, 2014, the County collected \$13,208 in ad valorem property taxes and made total debt service payments in the amount of \$16,740.

The County's Series 2013 General Obligation Bonds are payable from pledged ad valorem property taxes until August 1, 2043, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately \$830,275. The County will start collecting ad valorem property taxes for the bonds in fiscal year 2015 and has made total debt service payments in the amounts of \$18,023 during the fiscal year ended June 30, 2014.

The Airport's lease revenue bonds are secured by the pledge of revenues generated by the Airport and paid to ABAG as lease payments. The leases act like direct financing leases with lease payments received by ABAG equal to debt service payments made by the Airport. These revenues have been pledged until July 1, 2032, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately \$7,073. For the fiscal year ended June 30, 2014, the total principal and interest payment made by the Airport totaled to \$413.

#### (e) *Legal Debt Margin*

As of June 30, 2014, the County's legal debt limit (1.25% of the total assessed valuation) was \$4.18 billion. At June 30, 2014, the County has debt in the amount of \$804.7 million applicable to the limit outstanding and the legal debt margin was \$3.38 billion.

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

**(9) Long-Term Liabilities (Continued)**

**(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, 2014, the County did not accrue amounts for arbitrage rebate payable in the government-wide statements – governmental activities, while \$520 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.

**(g) Housing Authority Long-term Obligations**

Outstanding notes, loans, and bonds payable for the Housing Authority consisted of the following:

Type of indebtedness (purpose)	Maturity	Interest Rates	Principal Installments	Original Issue Amount	Outstanding at June 30, 2014
Business-type activity - notes payable:					
Redevelopment Agency of the					
City of Morgan Hill	6/15/2021	1.00%	(1)	\$ 425	\$ 425
City of San Jose (Morrone Gardens)	9/23/2024	4.00%	(1)	973	973
Subtotal business-type activity				<u>\$ 1,398</u>	<u>1,398</u>
Component units (as of December 31, 2013):					
AE Associates, Ltd.					4,662
Bascom HACSC Associates					12,760
Blossom River Associates					16,020
Clarendon Street, L.P.					22,465
Fairground Luxury Family Apartments, L.P.					40,387
Fairground Senior Apartments, L.P.					22,245
HACSC/Choices Family Associates					15,898
HACSC/Choices Senior Associates					11,347
Helzer Associates					21,598
Julian Street Partners, L.P.					40,023
Opportunity Center Associates					10,700
Poco Way Associates					219
Rincon Gardens Associates, L.P.					31,353
Rotary Placa/HACSC HDC, Inc.					8,324
S.P.G. Housing, Inc.					10,867
Thunderbird Associates					2,440
Villa San Pedro, Inc.					7,739
Willow/HACSC Associates					4,355
Subtotal component units					<u>283,402</u>
Total Housing Authority					<u>\$ 284,800</u>

<sup>(1)</sup> Deferred until maturity

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(9) Long-Term Liabilities (Continued)**

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

Fiscal year ending June 30:	Principal	Interest
2015	\$ 20	\$ 43
2016	-	43
2017	-	43
2018	-	43
2019	-	43
2020 - 2024	<u>1,378</u>	<u>213</u>
Total	<u>\$ 1,398</u>	<u>\$ 428</u>

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

**(10) Hospital Program Revenues**

**(a) Net Patient Service Revenue**

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

Net patient service revenues are calculated for the fiscal year ended June 30, 2014, as follows:

Patient service revenues	\$ 3,080,786
Contractual allowances	(2,143,959)
Bad debts provision	<u>(40,856)</u>
Net patient service revenues	<u>\$ 895,971</u>

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

A substantial portion of SCVMC’s patient service revenues are derived from services provided to patients eligible for benefits under the Medi-Cal and Medicare programs. Revenue from the Medi-Cal and Medicare programs represents approximately 57% of net patient service revenue (excluding the effects of bad debts provision) for the fiscal year ended June 30, 2014. 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, 2014. Reimbursement for services provided under these programs is currently based on various contractual arrangements (see Note 14(c)).

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

**(10) Hospital Program Revenues (Continued)**

**(b) Other Program Revenues**

Effective November 1, 2010, CMS and the State agreed on the standard terms and conditions of the 5 year renewal of the 1115 Medi-Cal waiver, officially called the California Bridge to Reform Demonstration. The funds available through the waiver will help California prepare for health care reform through investments in the safety net delivery system and expansion of coverage for adults between 0% and 200% of the Federal Poverty Level (FPL). The waiver establishes the Low Income Health Program (LIHP), which provides Federal matching funding for enrollees. The LIHP is the umbrella title for what is now a two component program:

- 1) Medicaid Coverage Expansion (MCE) covers adults with family incomes at or below 133% (FPL). These enrollees will be eligible for Medi-Cal in 2014 and the Federal matching funding is uncapped.
- 2) Health Care Coverage Initiative (HCCI) covers adults with family incomes between 134% and 200% FPL. These enrollees will be eligible for the State Exchange in 2014.

Effective November 1, 2010, the LIHP program will be managed by the County and will augment the California Medical Services Program (CMSP) for the medically indigent.

Additionally, as part of the renewed 1115 Waiver, CMS authorized California to invest savings generated through the Demonstration to achieve critical objectives, such as improved quality of care and better care coordination through safety net providers. Over 5 years, up to \$6.6 billion in federal funds will be available from a delivery system reform incentive pool (DSRIP), part of a \$15.3 billion safety net care pool. Many key concepts underlying federal health care reform will be tested, evaluated, and refined in California. As a result of participation in the DSRIP, SCVMC received \$55,000 in fiscal year 2014.

**(c) Capital Contributions**

Senate Bill 1732 (SB 1732) provides qualifying hospitals reimbursement for a portion of the debt service of qualified capital projects, in addition to their Medi-Cal contract reimbursement. SB 1732 revenues are classified as capital contributions for reporting purposes under accounting principles generally accepted in the United States of America. SB 1732 capital contributions as of June 30, 2014, are \$7,234.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

(10) Hospital Program Revenues (Continued)

(d) Charity Care

The SCVMC has a policy for providing charity care to patients who are otherwise unable to afford health care services. Generally, charity care recipients are those patients for which an indigency standard has been established and for which the patient qualifies. Inability to pay may be determined through an interview process by the SCVMC, by the Department of Revenue, or by an outside collection agency. Determination of charity care status may be made prior to or at the time of service, or any time thereafter. The total amount of such charity care provided by the SCVMC for the fiscal year ended June 30, 2014, based on the cost incurred to perform these services, is as follows:

Charity care, at cost	\$	190,678
Percentage of operating expenses		16%

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

(11) Net Position/Fund Balances

(a) Net Position Classifications

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

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

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

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

During fiscal year 2007, the County, through the JPA and Corporation, issued \$102,030 of Tobacco Settlement Asset-Backed Bonds. In addition, in fiscal years 2009 and 2013, the County issued \$350,000 and \$490,000, respectively, in general obligation bonds. Proceeds received were used for the purpose of rebuilding and improving the seismic deficiencies of its medical facilities and the restricted bond proceeds were deposited in the SCVMC fund. These restricted debt proceeds are reported as part of restricted net position in the County’s business-type activities. However, the debt service will be paid with governmental revenues and as such these bonds are reported with unrestricted net position in the County’s governmental activities. In accordance with GASB guidance, at June 30, 2014, the County reclassified \$362.6 million of the primary government’s total net position amounts from restricted to unrestricted and \$594.3 million from net investment in capital assets to unrestricted to reflect the primary government as a whole perspective.

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

### (11) Net Position/Fund Balances (Continued)

#### (b) *Fund Balances Classifications*

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2014, fund balances for government funds are made up of the following:

**Nonspendable Fund Balance** – This category represents amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

**Restricted Fund Balance** – This category represents amounts that can be spent only for specific purposes stipulated by external parties, constitutionally or through enabling legislation.

**Committed Fund Balance** – This category represents amounts that can only be used for the specific purposes determined by a formal action of the County’s highest level of decision-making authority. Commitments may be changed or lifted only by the County taking the same formal action that imposed the constraint originally. The Board is the County’s highest level of decision making. The highest level of formal action to commit resources is the passage of ordinances.

**Assigned Fund Balance** – This category represents amounts intended to be used by the County for specific purposes that are neither restricted nor committed. Intent is expressed by (a) the Board, (b) standing committees of the Board, or (c) Director of Finance. Assignments are established by the Board through resolutions and delegation to the Director of Finance to set aside amounts to cover purchase orders, contracts, and other commitment for the expenditures of monies for budgetary purposes.

**Unassigned Fund Balance** – This category represents the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classification, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(11) Net Position/Fund Balances (Continued)**

Fund balances for the governmental funds as of June 30, 2014, were distributed as follows:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b>Nonspendable:</b>			
Inventory	\$ 2,165	\$ 613	\$ 2,778
Advances to other fund	607	-	607
Prepaid items	7,038	-	7,038
Total nonspendable	<u>9,810</u>	<u>613</u>	<u>10,423</u>
<b>Restricted for:</b>			
Child support programs	-	802	802
Clerk recorder programs	-	11,766	11,766
Debt service	-	55,472	55,472
Energy efficient system projects	-	1,371	1,371
Health and human services	14,711	-	14,711
Housing and community development programs	-	20,196	20,196
Law enforcement	29,472	-	29,472
Library services	-	25,602	25,602
Mental health services	-	98,119	98,119
Parks acquisition and development projects	-	72,332	72,332
Public ways and facilities	-	56,482	56,482
Stanford trails	-	10,504	10,504
Technology projects	-	8,826	8,826
Vector control programs	-	14,433	14,433
Other purposes	16,323	4,711	21,034
Total restricted	<u>60,506</u>	<u>380,616</u>	<u>441,122</u>
<b>Committed to:</b>			
County parks operations	-	14,663	14,663
Environmental health services	-	19,669	19,669
Fire protection services	-	12,500	12,500
General capital improvement projects	-	51,403	51,403
Housing programs	11,410	-	11,410
Postemployment healthcare benefits	6,172	-	6,172
Public ways and facilities	555	593	1,148
Working capital	12,584	-	12,584
Other purposes	14,121	917	15,038
Total committed	<u>44,842</u>	<u>99,745</u>	<u>144,587</u>
<b>Assigned to:</b>			
Fire protection services	-	37,197	37,197
General liability	5,656	-	5,656
Other purposes	6,289	-	6,289
Total assigned	<u>11,945</u>	<u>37,197</u>	<u>49,142</u>
<b>Unassigned</b>			
	237,856	-	237,856
Total	<u>\$ 364,959</u>	<u>\$ 518,171</u>	<u>\$ 883,130</u>

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2014

(Dollars in thousands)

### (11) Net Position/Fund Balances (Continued)

**County's Contingency Reserve Policy.** The Board adopted a contingency reserve policy that set the reserve at 5 percent of the General Fund's revenues, net of pass-through. The contingency reserve can be used to support costs on a one-time basis for unanticipated and unforeseen events as stated in the policy or to support ongoing costs as a financing mechanism, when presented with critical program initiatives that have a time requirement that cannot be deferred. As of June 30, 2014, the County has a balance in its contingency reserve in the amount of \$106,784 reported as part of the General Fund's unassigned fund balance.

### (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 Central Fire District (Central Fire) and two plans (Miscellaneous and Safety) cover all remaining eligible County and Superior Court employees. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits based on the employees' years of service, age and final compensation. The provisions and all other requirements are established by State statute and County through contracts with PERS. Copies of PERS' annual financial report may be obtained from their executive office at 400 Q Street, Sacramento, California 95811. A separate report for the County's plan in 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 participating public entities within the state.

Public Employee' Pension Reform Act of 2013 (PEPRA) required that all state, school, and local government employers offer a reduced benefit formula and increased retirement ages to new public employees, who first became PERS members on or after January 1, 2013. The new defined benefit formula is 2% at age 62 for newly hired Miscellaneous employees and 2.7% at age 57 for newly hired Safety employees.

##### **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 before the first payroll reported to PERS of the new fiscal year and after June 30. The County also paid employees share of the required contribution pursuant to the collective bargaining arrangements with the County's employee unions ranging from 0% to 9% of their salary. Also, pursuant to the collective bargaining arrangements with the County's employee unions, employees contribute a portion of the County's annual required contribution ranging from 2.93% to 8% of an employee's salary.

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

**(12) Employee Benefit Plans (Continued)**

Below is a summary of the employee contribution rates, employer contribution rates and employees share paid by the County for fiscal year 2013-2014:

Plan	Employer Contribution Rate		Employee Contribution Rate		Employer Contributions		Employee Contributions	
	Classic	New Members	Classic	New Members	Employer Paid	Employee Paid	Employer Paid	Employee Paid
County Miscellaneous <sup>(1)</sup>	16.052%	16.052%	8.00%	6.50%	\$ 142,142	\$ 42,429	\$ 61,107	\$ 28,478
County Safety <sup>(1)</sup>	28.025%	28.025%	9.00%	10.75%	49,578	2,190	7,373	9,367
Central Fire Miscellaneous <sup>(2)</sup>	24.301%	6.700%	8.00%	6.50%	1,285	-	-	427
Central Fire Safety <sup>(2)</sup>	32.743%	32.743%	9.00%	11.25%	10,083	-	-	2,764

- (1) Contributions include one week of prior fiscal year and excludes last week of the current fiscal year.  
(2) Employer contributions include fiscal year-end accruals.

**Annual Pension Costs**

The following information is reflective as part of the June 30, 2011 and June 30, 2013 actuarial valuations:

Description	Method/Assumption	Method/Assumption
Actuarial valuation	6/30/2011	6/30/2013
Actuarial cost method	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Amortization method	Level Percent of Payroll	Level Percent of Payroll
Asset valuation method	15 Years Smoothed Market	Market Value
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases	3.30%-14.20%	3.30%-14.20%
Inflation	2.75%	2.75%
Payroll growth	3.00%	3.00%

The average remaining amortization period as of June 30, 2011 is as follows:

	County	Central Fire
Miscellaneous Plan	24 years	20 years
Safety Plan	31 years	32 years

The average remaining amortization period as of June 30, 2013 (2012 for Central Fire) is as follows:

	County	Central Fire
Miscellaneous Plan	*	19 years
Safety Plan	*	27 years

\* As June 30, 2013 actuarial valuations, initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year period with Direct Rate Smoothing with a 5-year ramp up/ramp down.

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

**(12) Employee Benefit Plans (Continued)**

The County's changes in net pension asset for the year ended June 30, 2014, were as follows:

	County Miscellaneous	County Safety	Central Fire
Annual required contribution	\$ 184,571	\$ 51,769	\$ 11,368
Interest on net pension asset	(20,901)	(7,234)	-
Amortization of net pension asset	19,134	6,623	-
Annual pension cost	182,804	51,158	11,368
Contributions made	(184,571)	(51,769)	(11,368)
Change in net pension asset	(1,767)	(611)	-
Net pension asset, beginning of year	(278,678)	(96,457)	-
Net pension asset, end of year	\$ (280,445)	\$ (97,068)	\$ -

Three-year trend information for the County's Miscellaneous and Safety Plan are as follows:

Fiscal Year Ended	County Miscellaneous			County Safety		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2014	\$ 182,804	101%	\$ (280,445)	\$ 51,158	101%	\$ (97,068)
6/30/2013	172,453	102%	(278,678)	46,032	102%	(96,457)
6/30/2012	167,814	102%	(275,729)	46,170	103%	(95,437)

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2014	\$ 11,368	100%	\$ -
6/30/2013	11,087	100%	-
6/30/2012	11,324	100%	-

**Funded Status and Funding Progress**

Summary of funding progress are as follows:

	County Miscellaneous Plan	County Safety Plan	Central Fire Safety Plan
Actuarial valuation date	6/30/2013	6/30/2013	6/30/2012
Actuarial asset value	\$ 5,670,790	\$ 1,572,741	\$ 344,225
Actuarial accrued liability - entry age	7,728,971	2,168,188	426,250
Unfunded actuarial accrued liability (UAAL)	\$ 2,058,181	\$ 595,447	\$ 82,025
Funded ratio	73.4%	72.5%	80.8%
Covered payroll	\$ 1,158,126	\$ 177,663	\$ 31,058
UAAL as percentage of covered payroll	177.7%	335.2%	264.1%

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

### (12) Employee Benefit Plans (Continued)

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

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

During the fiscal year 2009, the County established a defined contribution retirement plan (County of Santa Clara Supplemental Benefit Plan (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 110 participants, had ending cash value of \$19,193 at June 30, 2014. During the fiscal year ended June 30, 2014, the County contributed \$2,195 to the Supplemental Plan.

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

##### **Plan Description**

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 for "classic" members or 2% at age 62 for "new" members). PEPR defines classic members as those who are active PERS members prior to January 1, 2013 without a break in PERS service of greater than six months and new members as those who are active PERS members after January 1, 2013. 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. 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 Q Street, Sacramento, CA 95811.

##### **Funding Policy**

The contribution requirements of plan members and the Housing Authority are established and may be amended by PERS. Active plan members have an obligation to contribute a percentage of their annual covered salary to PERS. For classic employees (employees hired before January 1, 2013 or employees hired after January 1, 2013 and have been in the PERS system), the Housing Authority contributes the 7% employee portion on behalf of its employees since January 1, 2010. For new members (employees hired after January 1, 2013 and are new entrants to the PERS system), employees pay the 6.25% which is 50% of the total normal cost rate for the new benefit formula. The Housing Authority is required to contribute the actuarially determined remaining amounts necessary to fund the 2% at age 55 retirement plan benefits for its classic members and 2% at age 62 retirement plan benefits for its new members under PEPR provisions. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. Based on the PERS valuation report as

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(12) Employee Benefit Plans (Continued)**

of June 30, 2012, the required employer contribution rate for the classic members for the year ended June 30, 2014 was 7.531%. The required employer contribution rate for the new members for the year ended June 30, 2014 was 7.531%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS.

**Annual Pension Cost**

The Housing Authority’s actual contribution rates were determined as part of the June 30, 2011 actuarial valuation. The June 30, 2011 actuarial valuation used the entry age actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected annual salary increases of 3.30% to 14.20% depending on age, service, and type of employment, (c) overall payroll growth assumptions of 3.0%, and (d) 2.75% per year inflation adjustment. CalPERS’ unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period as of June 30, 2014 is 7 years.

The Housing Authority’s changes in deferred pension cost for the year ended June 30, 2014, were as follows:

Annual required contribution	\$ 820
Interest on net pension asset	(1,286)
Amortization of net pension asset	<u>2,685</u>
Annual pension cost	2,219
Contributions made	<u>820</u>
Change in deferred pension cost	1,399
Deferred pension cost, beginning of year	<u>(16,594)</u>
Deferred pension cost, end of year	<u><u>\$ (15,195)</u></u>

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Deferred Pension Cost
6/30/2014	\$ 2,219	37%	\$ (15,195)
6/30/2013	1,898	37%	(16,594)
6/30/2012	894	311%	(17,784)

**Funded Status and Funding Progress**

The Housing Authority’s June 30, 2012 actuarial valuation (the most recent valuation available) used the entry age actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.30% to 14.20% depending on age, service and type of employment, (c) overall payroll growth assumptions of 3.0%, and (d) 2.75% per year inflation adjustment. 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, 2014 is 7 years.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2014
(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

The Housing Authority's summary of funding progress is as follows:

Table with 2 columns: Description and Amount. Rows include Actuarial valuation date (6/30/12), Actuarial asset value (\$ 40,772), Actuarial accrued liability - entry age (40,858), Unfunded actuarial accrued liability (UAAL) (\$ 86), Funded ratio (99.8%), Covered payroll (\$ 10,911), and UAAL as percentage of covered payroll (0.8%).

(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, 38 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 \$206 for the year ended June 30, 2014. The employer also contributes a dollar for dollar match on the elective deferrals noted in the compensation plan to a maximum of 5% of each employee's annual compensation. The employer's contribution was \$131 for the year ended June 30, 2014. 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) Santa Clara County Health Authority Retirement Plans

Defined Contribution Plan

The Health Authority has a defined contribution plan under Sections 401(a) of the Internal Revenue Code. Under the 401(a) Plan, participants must contribute 6% of their gross compensation and the Health Authority must contribute 3% of the participants' gross compensation. The Health Authority contributes greater than 3% of gross compensation for senior staff level employees. In return, senior staff level employees contribute less than 6% of their gross compensation. Contributions by the Health Authority totaled \$264 for the year ended June 30, 2014.

Defined Benefit Retirement Plan Description

On April 1999, the Health Authority began participation in the PERS cost sharing multiple employer plan. The Health Authority belongs to the Miscellaneous 2% at 55 Risk Pool. These provisions and all other requirements are established by state statute. Copies of PERS' annual financial report may be obtained from their executive office: 400 Q Street, Sacramento, CA 95811.

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(12) Employee Benefit Plans (Continued)**

**Funding Policy**

Participating employees are required to contribute 7% of their monthly salaries to PERS. The Health Authority is required to contribute an actuarially determined rate. The employer contribution rate was 10.282% of annual covered payroll for the year ended June 30, 2014. The contribution requirements of the plan members and the Health Authority are established and may be amended by PERS.

**Annual Pension Cost**

The Health Authority’s annual pension cost for PERS was equal to its required and actual contributions, which were determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method.

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2014	\$ 989	100%	\$ -
6/30/2013	961	100%	-
6/30/2012	1,143	100%	-

**(f) Postemployment Health Care Benefits – County**

**Plan Description**

The County maintains a cost-sharing multiple-employer defined benefit postemployment healthcare plan (OPEB Plan), which covers substantially all (excluding Central Fire, Housing Authority and Health Authority) of its employees and certain employees of the Superior Court. Due to the relative insignificance of the other employer in the OPEB Plan, the County presents disclosure information for the OPEB Plan as if it were a single-employer plan. The County’s OPEB Plan provides healthcare benefits to eligible County (excluding Central Fire, Housing Authority and Health Authority) employees and their surviving spouses. Central Fire, Housing Authority and Health Authority employees have separate defined benefit postemployment healthcare plans. All County employees hired prior to August 12, 1996, with at least five years of service after attaining age 50 are covered under the County’s OPEB Plan upon retirement. For employees hired after August 12, 1996 and on or before June 18, 2006, the eligibility requirements were increased to a minimum of eight years of service after attaining age 50. For employees hired after June 19, 2006 and mostly on or before September 30, 2013, the eligibility requirements were increased to a minimum of ten years of service after attaining age 50. For a majority of the employees hired beginning in August 2013 (mostly on and after September 30, 2013), the eligibility requirements were increased to a minimum of fifteen (15) years of service and attaining age 50. For all of the above, employees must retire from PERS directly from the County.

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(12) Employee Benefit Plans (Continued)**

The County, Central Fire, Housing Authority, and Health Authority participate in the California Employers' Retiree Benefit Trust Fund Program (CERBT), an agent multiple-employer postemployment health plan, to fund other postemployment benefits through PERS. Copies of PERS' annual financial report may be obtained from their executive office at 400 Q Street, Sacramento, California 95811. A separate report for the County's plan in CERBT is not available.

**Funding Policy**

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

The ARC rate for the fiscal year 2014 calculated in the June 30, 2013 actuarial valuation is 12.96%. In fiscal year 2014, County contributed a total of \$227,893 towards OPEB. This amount included additional contributions of \$94,950 from the County Retiree Medical Trust Fund and \$2,224 contributed by employees. Of the total amount contributed in fiscal year 2014, the County made a deposit into the CERBT of \$150,067 and contributed \$77,826 towards benefit costs.

Annual required contribution	\$ 178,957
Interest on net OPEB obligation	19,117
Adjustment to annual required contribution	<u>(16,777)</u>
Annual OPEB cost	181,297
Contributions made	<u>(227,893)</u>
Change in net OPEB obligation	(46,596)
Net OPEB obligation, beginning of year	<u>283,487</u>
Net OPEB obligation, end of year	<u><u>\$ 236,891</u></u>

**Annual OPEB Cost**

The required contributions were determined as part of the June 30, 2013 actuarial valuation. Three year trend information for the County (excluding Central Fire, Housing Authority and Health Authority) is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 181,297	125.7%	\$ 236,891
6/30/2013	175,061	57.0%	283,487
6/30/2012	163,527	46.0%	208,161

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

**(12) Employee Benefit Plans (Continued)**

**Actuarial Methods and Assumptions**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of certain events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The significant actuarial methods and assumptions used to compute the actuarially determined OPEB annual required contributions and the funded status are as follows:

<u>Description</u>	<u>Method/Assumption</u> June 30, 2013	<u>Method/Assumption</u> June 30, 2014
Valuation date	June 30, 2013	June 30, 2014
Actuarial cost method	Entry age normal; Level percent of salary	Entry age normal; Level percent of salary
Amortization method for actuarial accrued liabilities	30 years, open, level percent of payroll	30 years, open, level percent of payroll
Remaining amortization period	30 years as of June 30, 2013	30 years as of June 30, 2014
Actuarial asset valuation method	Market value	Market value
Investment rate of return	6.74% *	6.45% *
Price inflation	2.75%	2.75%
Wage inflation	3.00%	3.00%
Projected payroll increases	Increase of 3.40% to 12.90% depending on age, service and type of employment.	Increase of 3.30% to 16.90% depending on age, service and type of employment.
Healthcare cost trend rate:		
Medical	8.00% before reflecting additional PPACA fees of 2% for Kaiser and Valley Health Plan, additional 2.47% for Health Net applied to 2013-14 plan year premiums to calculate 2014-15 plan year premiums, then 7.5% and graded down by 0.5% per year until 5.0% ultimate rate is reached.	7.00% applied to 2014-2015 plan year premiums to calculate 2015-2016 plan year premiums, then 6.75% and graded down by 0.25% per year until 5.00% ultimate rate is reached.

\* Determined as a blended rate of the expected long-term investment returns on plan assets and on the County's investments, based on the funded level of the plan at the valuation date. The discount rate used is a blended rate based on the expected return for assets invested with CERBT of 7.28% and 7.36% for valuations at June 30, 2014 and 2013, respectively and the expected return on the County's investments of 4.50% and 5.30% for valuations at June 30, 2014 and 2013, respectively. The expected return on the County's investments is 4.69%, which was developed by the County using a weighted average of returns from the County's commingled pool, historical returns from the Retiree Health Plan and the Treasury Bonds.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

Funding Status and Funding Progress

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

As of June 30, 2014, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$	2,430,157
Actuarial value of plan assets		<u>560,257</u>
Unfunded actuarial accrued liability (UAAL)	\$	<u><u>1,869,900</u></u>
Funded ratio (actuarial value of plan assests/AAL)		23.1%
Covered payroll (active plan members)	\$	1,462,928
UAAL as a percentage of covered payroll		127.8%

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

(g) *Postemployment Health Care Benefits – Santa Clara County Central Fire Protection District*

Plan Description

The Central Fire maintains a separate OPEB plan from the County. Under this plan, Central Fire provides for lifetime medical coverage to retirees who meet eligibility requirements. Currently, employees who retire directly from the Central Fire, have accrued seven years of service and were hired between January 1, 1995 and December 31, 2006, inclusive, or retire directly from the Central Fire, have accrued 10 years of service and were hired after December 31, 2006 are eligible. The Central Fire also provides lifetime medical insurance to retirees and his/her spouse if the retiree retired on or before January 1, 1978. The Central Fire will pay for the spouse’s coverage so long as the retiree maintains eligibility. An employee who retires after January 1, 1978 may include his/her dependent on the plan at the retiree's cost.

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(12) Employee Benefit Plans (Continued)**

**Funding Policy and Annual OPEB Cost**

Central Fire began prefunding with the CERBT in 2011/2012. The Central Fire’s annual required contribution for the year 2013-14 is determined based on the June 30, 2013 actuarial valuation. The table below summarizes the position of the Central Fire’s OPEB plan for the fiscal year ended June 30, 2014.

Annual required contribution	\$ 6,105
Interest on beginning net OPEB obligation	2,675
Amortization of net OPEB obligation	<u>(2,253)</u>
Annual OPEB cost	6,527
Contributions made	<u>(4,513)</u>
Change in net OPEB obligation	2,014
Net OPEB obligation, beginning of year	<u>38,222</u>
Net OPEB obligation, end of year	<u><u>\$ 40,236</u></u>

The following table represents annual OPEB cost for the past three years, the percentage of annual OPEB cost contributed, and net OPEB obligations:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 6,527	69%	\$ 40,236
6/30/2013	6,531	58%	38,222
6/30/2012	8,060	95%	34,982

**Actuarial Methods and Assumptions**

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

The actuarial cost method used in the Central Fire’s June 30, 2013 actuarial valuation was the modified Projected Unit Credit actuarial cost method. The actuarial assumptions included an annual discount rate of a 7.00%. The assumed annual healthcare trend rates for the various benefit types were initially between 5.00% and 8.50%, and each graded down to an ultimate rate of 4.50% by fiscal year 2021/2022. Medical/drug costs were based on combined active and retiree experience for the 36 months ending October 2013 with annual per-capital costs trended to 2014-15, adjusted from paid to incurred and then combining by taking a weighted average. All discount and trend rates included an assumed 3.0% general inflation assumption. The actuarial value of CERBT assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. For Central Fire’s calculation of annual required contribution, the unfunded liability was amortized as a level percentage of projected payroll on a closed basis using an assumed aggregate payroll increase of 3.00% per year. The remaining amortization period at July 1, 2014 was 27 years.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2014
(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

Funding Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the funded status of the plan was as follows:

Table with 2 columns: Description and Amount. Rows include Actuarial accrued liability (AAL), Actuarial value of plan assets, Unfunded actuarial accrued liability (UAAL), Funded ratio (actuarial value of plan assets/AAL), Annual covered payroll, and UAAL as a percentage of annual covered payroll.

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

Details of the Central Fire's OPEB plan may be found in its financial report for the fiscal year ended June 30, 2014. The report may be obtained by writing to the Santa Clara County Central Fire Protection District at 14700 Winchester Boulevard, Los Gatos, California, 95032.

(h) Postemployment Health Care Benefits – Housing Authority

Plan Description

The Housing Authority maintains a separate OPEB plan. The Housing Authority provides eligible employees with post-retirement medical healthcare benefits. Upon retirement, qualified employees and spouses/domestic partners are eligible for continued medical coverage up to the Employer Coverage Cap in effect on the date of the employee's retirement.

Funding Policy

The contribution requirements of plan members and the Housing Authority are established and may be amended by the Board. The Housing Authority contributes the amounts necessary to fund the annual required contribution.

Annual OPEB Cost and Actuarial Methods and Assumptions

For the year ended June 30, 2014, the Housing Authority's annual OPEB cost equals to its ARC and based on the Housing Authority's most recent OPEB actuarial valuation that was performed as of July 1, 2013. In the Housing Authority's July 1, 2013 actuarial valuation, the entry age normal cost method was used.

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(12) Employee Benefit Plans (Continued)**

each individual included in the valuation is allocated as a level percent of expected salary for each year of employment between entry age (age of hire) and assumed exit (maximum retirement age). The actuarial assumptions included a 6.39% investment rate of return and an annual healthcare cost trend rate of 8.5% for 2015, reduced by decrements to an ultimate rate of 5.5% in year 2021 and beyond. The actuarial assumptions also include a 3.25% salary increase. The actuarial value of assets was determined using the market value of the assets. The Housing Authority’s unfunded actuarial accrued liability is being amortized over one year on a closed basis.

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	Deferred OPEB Cost
6/30/2014	\$ 185	232.4%	\$ (245)
6/30/2013	186	100.0%	-
6/30/2012	192	100.0%	-

**Funding Status and Funding Progress**

As of July 1, 2013, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 7,634
Actuarial value of plan assets	<u>6,921</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 713</u>
Funded ratio (actuarial value of plan assets/AAL)	90.7%
Annual covered payroll	\$ 8,970
UAAL as a percentage of annual covered payroll	7.9%

In July 2014, the Housing Authority paid \$713 to CERBT to fund its unfunded actuarial accrued liability. Details of the Housing Authority’s OPEB plan may be found in its financial report for the fiscal year ended June 30, 2013. The report may be obtained by writing to the Housing Authority at 505 W. Julian Street, San Jose, CA 95110.

**(i) Postemployment Health Care Benefits – Health Authority**

**Plan Description**

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

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2014
(Dollars in thousands)

(12) Employee Benefit Plans (Continued)

Annual OPEB Cost and Actuarial Methods and Assumptions

For the year ended June 30, 2014, the Health Authority’s annual OPEB cost equals to its ARC and based on the Health Authority’s most recent OPEB actuarial valuation that was performed as of June 30, 2014. The actuarial cost method for determining the benefit obligation is the projected unit credit cost method. In the June 30, 2014 actuarial valuation, the assumed health care cost trend rates was 5.25% for 2015, graded to 4.5% for 2083 and beyond and the discount rate was 6.50%. The Health Authority’s unfunded actuarial accrued liability is being amortized over 30 years.

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

Table with 4 columns: Fiscal Year Ended, Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed, Net OPEB Obligation. Rows for 6/30/2014, 6/30/2013, 6/30/2012.

Funding Status and Funding Progress

As of June 30, 2014, the most recent actuarial valuation date, the plan was 43.4% funded. The actuarial accrued liability for benefits was \$9,343 and the actuarial value of assets was \$4,055, resulting in an unfunded actuarial liability of \$5,288.

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

(13) Risk Management

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

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

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(13) Risk Management (Continued)**

Self-insurance and Insurance Authority limits are as follows:

Type of Coverage	Self-Insurance (per occurrence)	Self-Retained <sup>(1)</sup>	Purchase Insurance Policies (per occurrence)
Automobile	Up to \$2,000	\$0	\$33,000
General Liability	Up to \$2,000	\$0	\$33,000
Medical Malpractice	Up to \$500	\$1,500 per occurrence	\$20,000 \$50,000 annual aggregate
Workers' Compensation	Up to \$4,000	\$1,000 per occurrence	Statutory
Property Damage	Up to \$50 <sup>(2)</sup> (This is deductible)	\$3,000 per occurrence \$10,000 annual aggregate	Up to \$1,800,000 <sup>(3)</sup>
Earthquake	5% of property value \$100 minimum deductible		Up to \$560,000 <sup>(4)</sup>
Cyber Liability <sup>(5)</sup>	Up to \$100		\$2,000 \$20,000 annual aggregate
Airport	None		\$30,000
Crime Bond	Up to \$25		\$15,000
Pollution	Up to \$250		\$10,000

- (1) The self-retained layer is required by the insurance company and acts as an additional amount to pay claims before a loss is paid by the insurance company. This self-retained layer is contributed by the member entities and remains their assets. Once the self-retained layer is exhausted, the insurance company pays all claims above the County's self-insurance amount. Any funds left in the self-retained layer can be used to fund self-retained amounts in future years.
- (2) Deductible for the Fairgrounds is \$5 per occurrence. All properties are insured at full replacement value.
- (3) Insured values are split between 3 schedules with limits of \$600,000 each for a total of \$1,800,000.
- (4) Insured values are split between 3 schedules with limits of \$90,000 per tower shared with all other members in towers II, III and IV, plus a rooftop of \$290,000 shared with all member in towers I, II, III, IV and V for a total of \$560,000.
- (5) \$50 per claim for each member with total insurable value up to \$500 at the time of loss.  
 \$100 per claim for each member with total insurable value greater than \$500 at the time of loss.

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

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

**(13) Risk Management (Continued)**

The County computes its claims liability based on the expected value discounted at 1.0% for General and Automobile Liability claims, 2.0% for Malpractice claims and 2.0% for Workers' Compensation claims. Changes in the balances of claims liabilities during the past two fiscal years ended June 30 for the County's self-insurance internal service funds are as follows:

	2014	2013
Unpaid claims, beginning of year	\$ 117,932	\$ 116,721
Incurred claims and changes in estimate	74,880	57,550
Claim payments	<u>(50,943)</u>	<u>(56,339)</u>
Unpaid claims, end of year	<u>\$ 141,869</u>	<u>\$ 117,932</u>

Annual premiums are charged by each self-insurance fund using various allocation methods that include actual costs, trends in claims experience, and number of participants. Premiums paid by the self-insurance internal service funds totaled \$13,613 for the fiscal year ended June 30, 2014.

**(14) Commitments and Contingencies**

*(a) Commitments*

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

Fiscal year ended June 30,	Governmental Activities	Business-type Activities	Total
2015	\$ 32,551	\$ 5,579	\$ 38,130
2016	33,772	5,716	39,488
2017	35,041	5,878	40,919
2018	35,751	6,044	41,795
2019	36,395	6,216	42,611
2020-2024	198,405	33,830	232,235
2025-2029	226,402	38,925	265,327
2030-2034	<u>258,469</u>	<u>44,800</u>	<u>303,269</u>
Total	<u>\$ 856,786</u>	<u>\$ 146,988</u>	<u>\$1,003,774</u>

Rent expense for fiscal year 2014 was approximately \$37,519 and \$7,643 for the governmental activities and business-type activities, respectively.

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
 June 30, 2014  
 (Dollars in thousands)

**(14) Commitments and Contingencies (Continued)**

The County has entered into operating leases as lessor on various properties with businesses and other governmental agencies (accounted for principally in the General Fund). The future minimum payments to be received are as follows:

Fiscal year ending June 30,	Governmental Activities	Business-type Activities	Total
2015	\$ 3,838	\$ 465	\$ 4,303
2016	3,713	98	3,811
2017	3,718	100	3,818
2018	3,677	102	3,779
2019	3,675	104	3,779
2020-2024	19,007	406	19,413
2025-2029	20,399	-	20,399
2030-2034	19,928	-	19,928
Total	\$ 77,955	\$ 1,275	\$ 79,230

At June 30, 2014, the leased assets had a net book value of \$18,363. Rent income for fiscal year 2014 was approximately \$7,903 and \$2,773 for the governmental activities and business-type activities, respectively.

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

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

The County has no contractual obligation related to the facilities or obligations related to the maintenance of a minimum level of the service in connection with the operations of the facilities. In accordance with GASB Statement No. 60, the County recognized the present value of the future installment payments as a receivable, the fair value of newly constructed facilities or improvements as capital assets, and offset the balances with deferred inflows of resources. The capital assets are depreciated using the straight-line method based on the useful lives in accordance with the County's capital asset policy. Revenues are recognized over the term of the arrangements. At June 30, 2014, the governmental activities reported total deferred inflows of resources for the service concession arrangements of \$13,870, of which \$7,237 is related to the receivables and \$6,633 is related to the capital assets.

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

### (14) Commitments and Contingencies (Continued)

#### (b) *Litigation*

The County accounts for claims in the internal service funds and the General Fund. As of June 30, 2014, 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.

#### (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, 2014 were \$609.5 million.

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

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

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

**(14) Commitments and Contingencies (Continued)**

**(e) *Conduit Debt - Single and Multiple Family Mortgage Revenue Bonds***

The County, acting as coordinator with certain cities, issued Tax-Exempt Mortgage Revenue Bonds with periodic maturities through May 2040. At June 30, 2014, the outstanding balance of these bonds was \$25,325. 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).

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, 2014, the total outstanding balances of these conduit bonds were \$131,100.

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, 2014, the total outstanding balance for the 2009 Bonds was \$50,000.

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

## COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)  
June 30, 2014  
(Dollars in thousands)

### (14) Commitments and Contingencies (Continued)

#### (g) Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed by the County as an extension of formal budgetary accounting in the General Fund, Special Revenue Funds, and Capital Projects Funds. Encumbrances still open at year end are not accounted for as expenditures and liabilities but as part of assigned fund balance. At June 30, 2014, encumbrances totaled to \$4,907, \$16,388, and \$13,978 for the General Fund, Special Revenue Funds, and Capital Projects Funds, respectively.

### (15) Pollution Remediation

The Almaden Quicksilver County Park (Park) was established in the mid-1970s after the purchase of various properties in the Almaden foothills. From the mid 1800's to 1975, numerous companies that owned these properties extracted mercury from portions of these properties. One of the by-products of the mercury extraction process is a material called calcines. Calcines have been deposited in various areas in the Park and are considered by several regulatory agencies to be a source of mercury contamination in the watershed.

In 1987, the State Department of Toxic Substance Control issued a Remedial Action Order and required the Parks Department to remove calcine piles and re-work calcine and sediments containing mercury to allowable levels for human exposure. This work was completed by 2000. However, later in the year, the United States Department of Interior and California State Department of Fish and Game advised the County and Santa Clara Valley Water District that it intended to bring forth a Natural Resource Damage Assessment against both parties, as well as other potential responsible parties, for assessing damages for injuries to fish and bird life resulting from mercury contamination in Guadalupe River watershed. In 2005, these parties executed a Consent Decree that outlined specific obligations, including a calcines removal project at the Park. At this point in time, one of the projects concerning Jacques Gulch was completed but the second one for the Hacienda Deep Gulch cleanup is in the design and permitting stage and will not be done until 2016.

In November 2009, the State Water Resources Control Board approved a Basin Plan Amendment for the Guadalupe River Watershed, which established a total maximum daily load (TMDL) for mercury mine wash and sediment and included an implementation plan to reduce mercury in the waters of the Guadalupe River watershed. In June 2009, the County received a §13267 order from Regional Water Quality Control Board (RWQCB) to conduct a site investigation by December 2010 and evaluate the erosion potential of mercury mining waste and the potential for seeps to discharge mercury from mining waste to surface waters. In November 2009, the RWQCB issued a second §13267 order requiring that the County develop and participate in a coordinated watershed monitoring plan.

The County concluded the required evaluation for erosion potential of mercury mining waste. As of June 30, 2014, it is estimated that approximately \$6,330 will be spent during the next five years to repair and remediate damaged areas. Further repair costs may be necessary, but such amounts cannot be estimated nor has funding been identified at this time.

**COUNTY OF SANTA CLARA**

Notes to the Basic Financial Statements (Continued)

June 30, 2014

(Dollars in thousands)

**(16) Subsequent Events**

**2007 Silicon Valley Tobacco Securitization Authority Tobacco Settlement Asset-Backed Bonds-** On August 8, 2014, Fitch Rating service lowered the ratings of the Series 2007 Silicon Valley Tobacco Securitization Authority Tobacco Settlement Asset-Backed Bonds for the Santa Clara County Tobacco Securitization Corporation. The following reduction occurred: Series 2007A maturing June 1, 2036 from BB+ to BB; Series 2007A maturing June 1, 2041 from BB+ to BB; Series 2007A maturing June 1, 2047 from BB to BB-; Series 2007B maturing June 1, 2047 from BB- to B+; Series 2007C maturing June 1, 2056 from B+ to B; and Series 2007 D maturing June 1, 2056 from B to B-.

**Required Supplementary  
Information**

**This page intentionally left blank.**

**COUNTY OF SANTA CLARA**

Required Supplementary Information (Unaudited)  
Schedules of Funding Progress  
June 30, 2014  
(Dollars in thousands)

**PERS Defined Benefit Pension - County Miscellaneous Plan:**

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability-Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2013	\$ 5,670,790	\$ 7,728,971	\$ 2,058,181	73.4%	\$ 1,158,126	177.7%
6/30/2012	6,069,267	7,336,967	1,267,700	82.7%	1,143,618	110.9%
6/30/2011	5,741,951	6,930,682	1,188,731	82.8%	1,152,298	103.2%

**PERS Defined Benefit Pension - County Safety Plan:**

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability-Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2013	\$ 1,572,741	\$ 2,168,188	\$ 595,447	72.5%	\$ 177,663	335.2%
6/30/2012	1,700,830	2,068,173	367,343	82.2%	182,063	201.8%
6/30/2011	1,635,628	1,991,108	355,480	82.1%	197,330	180.1%

**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
6/30/2012	\$ 344,225	\$ 426,250	\$ 82,025	80.8%	\$ 31,058	264.1%
6/30/2011	330,808	412,761	81,953	80.1%	31,515	260.0%
6/30/2010	314,505	393,045	78,540	80.0%	32,467	241.9%

**PERS Defined Benefit Pension - Housing Authority:**

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2012	\$ 40,772	\$ 40,858	\$ 86	99.8%	\$ 10,911	0.8%
6/30/2011	37,178	38,573	1,395	96.4%	11,740	11.9%
6/30/2010	31,452	35,087	3,635	89.6%	13,363	27.2%

**COUNTY OF SANTA CLARA**

Required Supplementary Information (Unaudited)  
Schedules of Funding Progress  
June 30, 2014  
(Dollars in thousands)

**County Other Postemployment Benefits:**

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2014	\$ 560,257	\$ 2,430,157	\$ 1,869,900	23.1%	\$ 1,462,928	127.8%
6/30/2013	329,185	2,204,484	1,875,299	14.9%	1,401,851	133.8%
6/30/2012	264,139	2,121,600	1,857,462	12.4%	1,291,545	143.8%

**Santa Clara County Central Fire Protection District Other Postemployment Benefits:**

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2013	\$ 7,296	\$ 84,335	\$ 77,039	9.0%	\$ 37,233	207.0%
6/30/2011	-	76,556	76,556	0.0%	36,847	207.8%
6/30/2010	-	176,569	176,569	0.0%	38,956	453.3%

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

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
7/1/2013	\$ 6,921	\$ 7,634	\$ 713	90.7%	\$ 8,970	7.9%
7/1/2011	6,976	7,189	213	97.0%	11,845	1.8%
7/1/2009	-	5,124	5,124	0.0%	13,201	38.8%

**Santa Clara County Health Authority Other Postemployment Benefits:**

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio
6/30/2014	\$ 4,055	\$ 9,343	\$ 5,288	43.4%
6/30/2013	3,085	6,705	3,620	46.0%
6/30/2012	2,431	5,774	3,343	42.1%

## **COUNTY OF SANTA CLARA**

### **General Fund**

The General Fund is the general operating fund of the County. It accounts for all financial activities except those required to be accounted for in another fund. The accompanying Budgetary Comparison Schedule represents the primary expense classification of services provided by the County through the General Fund.

**COUNTY OF SANTA CLARA**

Budgetary Comparison Schedule  
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2014  
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Budgetary fund balances, beginning of year</b>	\$ 323,826	\$ 323,826	\$ 323,826	\$ -
<b>Resources (inflows):</b>				
Taxes	772,868	773,868	811,660	37,792
Licenses and permits	12,996	13,260	13,922	662
Fines, forfeitures, and penalties	41,760	53,866	52,401	(1,465)
Interest and investment income	7,973	8,568	8,732	164
Intergovernmental revenues	1,040,598	1,266,792	1,217,760	(49,032)
Charges for services	103,273	107,973	109,258	1,285
Other revenue	32,769	36,293	41,290	4,997
Other financing sources	4,100	4,100	5,008	908
Interfund transfers	312,758	333,734	79,140	(254,594)
Total resources (inflows) available for appropriation	<u>2,329,095</u>	<u>2,598,454</u>	<u>2,339,171</u>	<u>(259,283)</u>
<b>Charges to appropriations (outflows):</b>				
<b>General government:</b>				
Supervisorial District 1				
Salaries and benefits	1,145	1,167	1,049	118
Services and supplies	97	97	46	51
Total Supervisorial District 1	<u>1,242</u>	<u>1,264</u>	<u>1,095</u>	<u>169</u>
Supervisorial District 2				
Salaries and benefits	1,151	1,173	1,108	65
Services and supplies	91	91	55	36
Total Supervisorial District 2	<u>1,242</u>	<u>1,264</u>	<u>1,163</u>	<u>101</u>
Supervisorial District 3				
Salaries and benefits	1,145	1,204	1,180	24
Services and supplies	102	83	62	21
Total Supervisorial District 3	<u>1,247</u>	<u>1,287</u>	<u>1,242</u>	<u>45</u>
Supervisorial District 4				
Salaries and benefits	1,145	1,167	1,057	110
Services and supplies	97	97	40	57
Total Supervisorial District 4	<u>1,242</u>	<u>1,264</u>	<u>1,097</u>	<u>167</u>
Supervisorial District 5				
Salaries and benefits	1,151	1,142	1,117	25
Services and supplies	124	152	128	24
Total Supervisorial District 5	<u>1,275</u>	<u>1,294</u>	<u>1,245</u>	<u>49</u>
Clerk - Board of Supervisors				
Salaries and benefits	3,260	3,338	3,115	223
Services and supplies	3,923	3,923	2,829	1,094
Expenditure reimbursements	(115)	(115)	(48)	(67)
Total Clerk - Board of Supervisors	<u>7,068</u>	<u>7,146</u>	<u>5,896</u>	<u>1,250</u>

(Continued)

**COUNTY OF SANTA CLARA**

Budgetary Comparison Schedule  
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2014  
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>General government (continued):</b>				
Office of the County Executive				
Salaries and benefits	\$ 13,137	\$ 13,508	\$ 13,289	\$ 219
Services and supplies	19,279	25,905	17,104	8,801
Expenditure reimbursements	(662)	(699)	(508)	(191)
Total Office of the County Executive	<u>31,754</u>	<u>38,714</u>	<u>29,885</u>	<u>8,829</u>
Controller-Treasurer				
Salaries and benefits	11,564	11,814	10,984	830
Services and supplies	9,610	11,321	9,437	1,884
Expenditure reimbursements	(35,741)	(35,711)	(35,112)	(599)
Interfund transfers	-	1,793	1,793	-
Total Controller-Treasurer	<u>(14,567)</u>	<u>(10,783)</u>	<u>(12,898)</u>	<u>2,115</u>
Tax Collector				
Salaries and benefits	6,551	6,997	6,887	110
Services and supplies	17,412	18,410	17,178	1,232
Total Tax Collector	<u>23,963</u>	<u>25,407</u>	<u>24,065</u>	<u>1,342</u>
Office of the Assessor				
Salaries and benefits	29,761	30,472	29,317	1,155
Services and supplies	3,505	1,759	231	1,528
Interfund transfers	-	2,250	-	2,250
Total Office of the Assessor	<u>33,266</u>	<u>34,481</u>	<u>29,548</u>	<u>4,933</u>
Purchasing				
Salaries and benefits	4,380	4,472	4,203	269
Services and supplies	572	722	491	231
Expenditure reimbursements	(558)	(558)	(558)	-
Total Purchasing	<u>4,394</u>	<u>4,636</u>	<u>4,136</u>	<u>500</u>
Office of Budget and Analysis - Special Programs				
Services and supplies	4,757	5,757	3,407	2,350
Interfund transfers	172,814	196,758	187,186	9,572
Total Office of Budget and Analysis - Special Programs	<u>177,571</u>	<u>202,515</u>	<u>190,593</u>	<u>11,922</u>
Office of the County Counsel				
Salaries and benefits	24,842	24,761	24,761	-
Services and supplies	6,667	8,659	8,608	51
Expenditure reimbursements	(18,465)	(18,470)	(17,979)	(491)
Total Office of the County Counsel	<u>13,044</u>	<u>14,950</u>	<u>15,390</u>	<u>(440)</u>

(Continued)

**COUNTY OF SANTA CLARA**

Budgetary Comparison Schedule  
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2014  
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>General government (continued):</b>				
Personnel				
Salaries and benefits	\$ 17,816	\$ 18,136	\$ 18,025	\$ 111
Services and supplies	6,802	6,866	5,168	1,698
Capital outlay	-	11	8	3
Expenditure reimbursements	(8,547)	(8,547)	(8,057)	(490)
Total Personnel	<u>16,071</u>	<u>16,466</u>	<u>15,144</u>	<u>1,322</u>
Registrar of Voters				
Salaries and benefits	7,593	7,705	7,556	149
Services and supplies	6,993	6,993	6,172	821
Capital outlay	326	326	225	101
Total Registrar of Voters	<u>14,912</u>	<u>15,024</u>	<u>13,953</u>	<u>1,071</u>
Information Services				
Salaries and benefits	2,640	1,840	578	1,262
Services and supplies	45,259	44,301	28,700	15,601
Capital outlay	150	1,173	759	414
Expenditure reimbursements	(1,491)	(1,491)	(1,405)	(86)
Interfund transfers	-	520	521	(1)
Total Information Services	<u>46,558</u>	<u>46,343</u>	<u>29,153</u>	<u>17,190</u>
Department of Revenue				
Salaries and benefits	8,290	8,526	8,169	357
Services and supplies	1,906	1,869	1,367	502
Capital outlay	-	37	37	-
Total Department of Revenue	<u>10,196</u>	<u>10,432</u>	<u>9,573</u>	<u>859</u>
Communication				
Salaries and benefits	14,316	14,517	13,879	638
Services and supplies	13,427	14,854	11,988	2,866
Expenditure reimbursements	(10,468)	(10,696)	(9,162)	(1,534)
Total Communication	<u>17,275</u>	<u>18,675</u>	<u>16,705</u>	<u>1,970</u>
Department of Planning & Development				
Salaries and benefits	11,166	11,409	10,878	531
Services and supplies	3,261	3,247	2,817	430
Capital outlay	-	6	6	-
Expenditure reimbursements	(401)	(401)	(502)	101
Interfund transfers	-	200	200	-
Total Department of Planning & Development	<u>14,026</u>	<u>14,461</u>	<u>13,399</u>	<u>1,062</u>

(Continued)

**COUNTY OF SANTA CLARA**  
 Budgetary Comparison Schedule  
 General Fund - Budgetary Basis  
 For the Fiscal Year Ended June 30, 2014  
 (In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>General government (continued):</b>				
Facilities and Fleet Department				
Salaries and benefits	\$ 26,153	\$ 26,616	\$ 24,466	\$ 2,150
Services and supplies	68,799	68,746	64,945	3,801
Expenditure reimbursements	(50,047)	(47,110)	(45,661)	(1,449)
Interfund transfers	31,360	32,697	30,604	2,093
Total Facilities and Fleet Department	<u>76,265</u>	<u>80,949</u>	<u>74,354</u>	<u>6,595</u>
<b>General government - subtotals:</b>				
Salaries and benefits	187,206	189,964	181,618	8,346
Services and supplies	212,683	223,852	180,773	43,079
Capital outlay	476	1,553	1,035	518
Expenditure reimbursements	(126,495)	(123,798)	(118,992)	(4,806)
Interfund transfers	204,174	234,218	220,304	13,914
<b>Total general government</b>	<u>478,044</u>	<u>525,789</u>	<u>464,738</u>	<u>61,051</u>
<b>Public protection:</b>				
Clerk Recorder				
Salaries and benefits	5,401	5,482	5,403	79
Services and supplies	747	794	753	41
Total Clerk Recorder	<u>6,148</u>	<u>6,276</u>	<u>6,156</u>	<u>120</u>
District Attorney				
Salaries and benefits	87,364	90,024	88,841	1,183
Services and supplies	15,574	20,028	19,875	153
Capital outlay	308	422	291	131
Expenditure reimbursements	(5,845)	(9,417)	(8,605)	(812)
Total District Attorney	<u>97,401</u>	<u>101,057</u>	<u>100,402</u>	<u>655</u>
Public Defender				
Salaries and benefits	45,758	47,070	46,104	966
Services and supplies	4,961	7,211	6,275	936
Capital outlay	2,500	27	22	5
Expenditure reimbursements	(425)	(257)	(257)	-
Total Public Defender	<u>52,794</u>	<u>54,051</u>	<u>52,144</u>	<u>1,907</u>
Pretrial Services				
Salaries and benefits	4,869	4,968	4,820	148
Services and supplies	951	951	597	354
Expenditure reimbursements	(277)	(277)	(262)	(15)
Total Pretrial Services	<u>5,543</u>	<u>5,642</u>	<u>5,155</u>	<u>487</u>
Criminal Justice Support				
Services and supplies	46,938	44,876	43,545	1,331
Total Criminal Justice Support	<u>46,938</u>	<u>44,876</u>	<u>43,545</u>	<u>1,331</u>

(Continued)

**COUNTY OF SANTA CLARA**  
 Budgetary Comparison Schedule  
 General Fund - Budgetary Basis  
 For the Fiscal Year Ended June 30, 2014  
 (In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Public protection (continued):</b>				
Sheriff Administration				
Salaries and benefits	\$ 117,009	\$ 117,175	\$ 109,059	\$ 8,116
Services and supplies	19,450	21,237	19,775	1,462
Capital outlay	-	336	88	248
Expenditure reimbursements	(8,270)	(8,984)	(6,280)	(2,704)
Total Sheriff Administration	<u>128,189</u>	<u>129,764</u>	<u>122,642</u>	<u>7,122</u>
Sheriff - Department of Correction Services				
Salaries and benefits	116,189	118,361	118,220	141
Services and supplies	397	-	-	-
Total Sheriff - Department of Correction Services	<u>116,586</u>	<u>118,361</u>	<u>118,220</u>	<u>141</u>
Department of Correction				
Salaries and benefits	29,369	29,984	29,706	278
Services and supplies	47,417	47,803	47,448	355
Capital outlay	235	290	288	2
Expenditure reimbursements	(184)	(184)	(173)	(11)
Total Department of Correction	<u>76,837</u>	<u>77,893</u>	<u>77,269</u>	<u>624</u>
Probation Department				
Salaries and benefits	119,913	123,602	122,378	1,224
Services and supplies	26,115	26,521	16,697	9,824
Capital outlay	-	44	73	(29)
Expenditure reimbursements	(405)	(371)	(457)	86
Total Probation Department	<u>145,623</u>	<u>149,796</u>	<u>138,691</u>	<u>11,105</u>
Department of Agriculture/Weights & Measures/ Animal Control				
Salaries and benefits	6,688	6,812	6,727	85
Services and supplies	2,213	2,409	2,095	314
Capital outlay	26	39	36	3
Interfund transfers	185	495	495	-
Expenditure reimbursements	(1,311)	(1,311)	(1,223)	(88)
Total Department of Agriculture/ Weights & Measures/Animal Control	<u>7,801</u>	<u>8,444</u>	<u>8,130</u>	<u>314</u>
Medical Examiner - Coroner				
Salaries and benefits	3,164	3,239	3,174	65
Services and supplies	675	675	658	17
Total Medical Examiner - Coroner	<u>3,839</u>	<u>3,914</u>	<u>3,832</u>	<u>82</u>
<b>Public protection - subtotals:</b>				
Salaries and benefits	535,724	546,717	534,432	12,285
Services and supplies	165,041	172,505	157,718	14,787
Capital outlay	3,466	1,158	798	360
Interfund transfers	185	495	495	-
Expenditure reimbursements	(16,717)	(20,801)	(17,257)	(3,544)
<b>Total public protection</b>	<u>687,699</u>	<u>700,074</u>	<u>676,186</u>	<u>23,888</u>

(Continued)

**COUNTY OF SANTA CLARA**

Budgetary Comparison Schedule  
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2014  
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Public ways and facilities:</b>				
Measure B				
Services and supplies	\$ 3,426	\$ 5,364	\$ 5,329	\$ 35
Interfund transfers	1,016	1,016	385	631
Total Measure B	<u>4,442</u>	<u>6,380</u>	<u>5,714</u>	<u>666</u>
<b>Health and sanitation:</b>				
Health Services Administration				
Salaries and benefits	55,280	55,416	54,017	1,399
Services and supplies	37,547	36,140	29,345	6,795
Capital outlay	6	96	32	64
Expenditure reimbursements	(2,346)	(2,895)	(3,168)	273
Total Health Services Administration	<u>90,487</u>	<u>88,757</u>	<u>80,226</u>	<u>8,531</u>
Mental Health Bureau				
Salaries and benefits	49,612	50,722	46,098	4,624
Services and supplies	276,514	290,355	262,402	27,953
Interfund transfers	2,500	-	-	-
Expenditure reimbursements	(3,615)	(5,362)	(4,090)	(1,272)
Total Mental Health Bureau	<u>325,011</u>	<u>335,715</u>	<u>304,410</u>	<u>31,305</u>
Custody Health Services				
Salaries and benefits	36,792	35,121	34,245	876
Services and supplies	14,068	16,081	14,840	1,241
Capital outlay	637	637	56	581
Expenditure reimbursements	(46,124)	(46,124)	(44,302)	(1,822)
Total Custody Health Services	<u>5,373</u>	<u>5,715</u>	<u>4,839</u>	<u>876</u>
Bureau of Alcohol & Drug Programs				
Salaries and benefits	19,300	19,884	18,280	1,604
Services and supplies	29,231	30,693	27,981	2,712
Capital outlay	19	39	37	2
Expenditure reimbursements	(1,299)	(2,078)	(1,608)	(470)
Total Bureau of Alcohol & Drug Programs	<u>47,251</u>	<u>48,538</u>	<u>44,690</u>	<u>3,848</u>
Community Outreach Program				
Salaries and benefits	9,367	9,712	9,296	416
Services and supplies	6,373	6,771	5,778	993
Expenditure reimbursements	(2,013)	(2,180)	(1,061)	(1,119)
Total Community Outreach Program	<u>13,727</u>	<u>14,303</u>	<u>14,013</u>	<u>290</u>

(Continued)

**COUNTY OF SANTA CLARA**

Budgetary Comparison Schedule  
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2014  
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Health and sanitation (continued):</b>				
Healthy Children				
Services and supplies	\$ 4,500	\$ 4,500	\$ 3,606	\$ 894
Capital outlay	-	3,000	-	3,000
Total Healthy Children	<u>4,500</u>	<u>7,500</u>	<u>3,606</u>	<u>3,894</u>
<b>Health and sanitation - subtotals:</b>				
Salaries and benefits	170,351	170,855	161,936	8,919
Services and supplies	368,233	384,540	343,952	40,588
Capital outlay	662	3,772	125	3,647
Interfund transfers	2,500	-	-	-
Expenditure reimbursements	<u>(55,397)</u>	<u>(58,639)</u>	<u>(54,229)</u>	<u>(4,410)</u>
<b>Total health and sanitation</b>	<u>486,349</u>	<u>500,528</u>	<u>451,784</u>	<u>48,744</u>
<b>Public assistance:</b>				
In-House Support Services				
Services and supplies	<u>104,117</u>	<u>117,114</u>	<u>116,902</u>	<u>212</u>
Total In-House Support Services	<u>104,117</u>	<u>117,114</u>	<u>116,902</u>	<u>212</u>
Office of Affordable Housing				
Salaries and benefits	849	867	802	65
Services and supplies	148	2,482	267	2,215
Expenditure reimbursements	<u>(982)</u>	<u>(982)</u>	<u>(922)</u>	<u>(60)</u>
Total Office of Affordable Housing	<u>15</u>	<u>2,367</u>	<u>147</u>	<u>2,220</u>
Social Services Administration				
Salaries and benefits	273,772	293,948	277,826	16,122
Services and supplies	120,742	130,029	114,385	15,644
Capital outlay	-	610	602	8
Interfund transfers	-	4,255	4,255	-
Expenditure reimbursements	<u>(604)</u>	<u>(692)</u>	<u>(1,803)</u>	<u>1,111</u>
Total Social Services Administration	<u>393,910</u>	<u>428,150</u>	<u>395,265</u>	<u>32,885</u>
Nutrition Services to the Aged				
Salaries and benefits	1,049	1,071	1,045	26
Services and supplies	<u>6,123</u>	<u>6,216</u>	<u>6,078</u>	<u>138</u>
Total Nutrition Services to the Aged	<u>7,172</u>	<u>7,287</u>	<u>7,123</u>	<u>164</u>
Categorical Aids Payments				
Services and supplies	<u>194,469</u>	<u>193,833</u>	<u>160,303</u>	<u>33,530</u>
Total Categorical Aids Payments	<u>194,469</u>	<u>193,833</u>	<u>160,303</u>	<u>33,530</u>
<b>Public assistance - subtotals:</b>				
Salaries and benefits	275,670	295,886	279,673	16,213
Services and supplies	425,599	449,674	397,935	51,739
Capital outlay	-	610	602	8
Interfund transfers	-	4,255	4,255	-
Expenditure reimbursements	<u>(1,586)</u>	<u>(1,674)</u>	<u>(2,725)</u>	<u>1,051</u>
<b>Total public assistance</b>	<u>699,683</u>	<u>748,751</u>	<u>679,740</u>	<u>69,011</u>

(Continued)

**COUNTY OF SANTA CLARA**

Budgetary Comparison Schedule  
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2014  
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Debt service:</b>				
County debt service				
Principal retirement	\$ 10,991	\$ 10,369	\$ 10,056	\$ 313
Interest and fiscal charges	13,973	14,973	12,487	2,486
Interfund transfers	1,173	2,073	2,240	(167)
<b>Total debt service</b>	<u>26,137</u>	<u>27,415</u>	<u>24,783</u>	<u>2,632</u>
<b>Reserves:</b>				
OMB Special Programs				
General government	63,229	18,175	-	18,175
<b>Total OMB Special Programs</b>	<u>63,229</u>	<u>18,175</u>	<u>-</u>	<u>18,175</u>
Criminal Justice Support				
Public protection	7,527	4,589	-	4,589
<b>Total Criminal Justice Support</b>	<u>7,527</u>	<u>4,589</u>	<u>-</u>	<u>4,589</u>
Social Services Administration				
Public assistance	2,197	2,364	-	2,364
<b>Total Social Services Administration</b>	<u>2,197</u>	<u>2,364</u>	<u>-</u>	<u>2,364</u>
Nutrition Services to the Aged				
Public assistance	90	337	-	337
<b>Total Nutrition Services to the Aged</b>	<u>90</u>	<u>337</u>	<u>-</u>	<u>337</u>
Appropriation Contingencies				
Total Appropriation Contingencies	106,583	106,784	-	106,784
<b>Total reserves</b>	<u>179,626</u>	<u>132,249</u>	<u>-</u>	<u>132,249</u>
<b>Total charges to appropriations</b>	<u>2,561,980</u>	<u>2,641,186</u>	<u>2,302,945</u>	<u>338,241</u>
<b>Budgetary fund balances, end of year</b>	<u>\$ 90,941</u>	<u>\$ 281,094</u>	<u>\$ 360,052</u>	<u>\$ 78,958</u>

(Continued)

**COUNTY OF SANTA CLARA**

Budgetary Comparison Schedule  
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2014  
(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	\$ 2,339,171
Differences - budget to GAAP:	
Proceeds from sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes	(5,008)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(79,140)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u><u>\$ 2,255,023</u></u>

**Uses/outflows of resources**

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,302,945
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	(4,907)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(227,679)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u><u>\$ 2,070,359</u></u>

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

## COUNTY OF SANTA CLARA

Notes to Required Supplementary Information  
June 30, 2014  
(Dollars in thousands)

### **Budgets and Budgetary Accounting**

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

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

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

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

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

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

**This page intentionally left blank.**

# **Federal Compliance Section**

**This Page is Intentionally Left Blank.**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Santa Clara, California (County), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County’s basic financial statements, and have issued our report thereon dated December 30, 2014, except for our report on the schedule of expenditures of federal awards, as to which the date is March 30, 2015.

Our report includes emphasis of matters paragraphs discussing the County’s adoption of the provisions of Governmental Accounting Standards Board Statement Nos. 65, 66, and 70 and the deficit net positions of the Workers’ Compensation, Retiree Healthcare, and Pension Obligation internal service funds. Our report also includes a reference to other auditors who audited the financial statements of the Housing Authority of the County of Santa Clara; FIRST 5 Santa Clara County; the Santa Clara County Health Authority; the County Sanitation District 2 – 3 of Santa Clara County; the Santa Clara County Vector Control District; the Silicon Valley Tobacco Securitization Authority; the Santa Clara County Tobacco Securitization Corporation; and the Santa Clara County Central Fire Protection District, the South Santa Clara County Fire District, and the Los Altos Hills County Fire District (collectively, Fire Districts), as described in our report on the County’s basic financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Santa Clara County Health Authority, the Santa Clara County Tobacco Securitization Corporation, and the South Santa Clara County Fire District were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency.

### **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*.

### **County's Response to Findings**

The County's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Macias Gini & O'Connell LLP*

Walnut Creek, California  
December 30, 2014

**Independent Auditor’s Report on Compliance for Each Major Federal Program and  
Report on Internal Control Over Compliance Required by OMB Circular A-133**

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

**Report on Compliance for Each Major Federal Program**

We have audited the County of Santa Clara’s, California (County) compliance with the types of compliance requirements described in the *OMB 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, 2014. The County’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

The County’s basic financial statements include the operations of the Housing Authority of the County of Santa Clara (Housing Authority), which expended \$240,019,034 in federal awards, which is not included in the accompanying schedule of expenditures of federal awards, during the year ended June 30, 2014. Our audit, described below, did not include the operations of the Housing Authority because this entity engaged other auditors to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

***Management’s Responsibility***

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

***Auditor’s Responsibility***

Our responsibility is to express an opinion on compliance for each of the County’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County’s compliance.

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

As described in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding the Temporary Assistance for Needy Families Program (CFDA No. 93.558) as described in finding number 2014-004 for the Special Tests & Provisions – Child Support Non-Cooperation. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

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

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Temporary Assistance for Needy Families Program (CFDA No. 93.558) for the year ended June 30, 2014.

***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

***Other Matters***

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

**Report on Internal Control Over Compliance**

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

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal

program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-004 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-002 and 2014-003 to be significant deficiencies.

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

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

*Macias Gini & O'Connell LLP*

Walnut Creek, California  
March 30, 2015

**This Page is Intentionally Left Blank.**

**COUNTY OF SANTA CLARA**  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2014

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures
<b>U.S. Department of Agriculture</b>			
<u>Passed Through State Department of Social Services</u>			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	None	\$ 30,030,089
<u>Passed Through State Department of Public Health</u>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	11-10454	4,467,934
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	None	56,646
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	08-85173	360,587
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	13-20507	1,295,938
Subtotal State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			1,713,171
Subtotal Passed Through State Department of Public Health			6,181,105
<u>Passed Through State Department of Education</u>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	43-10439-6066435-01	126,088
National School Lunch Program	10.555	43-10439-6066435-01	194,955
Subtotal of Child Nutrition Cluster			321,043
<b>Total U.S. Department of Agriculture</b>			<b>36,532,237</b>
<b>U.S. Department of Housing and Urban Development</b>			
<u>Direct Programs</u>			
Community Development Block Grants/Entitlement Grants	14.218	--	2,108,271
Supportive Housing Program	14.235	--	680,564
Home Investment Partnerships Program	14.239	--	642,157
Subtotal Direct Programs			3,430,992
<u>Passed Through City of Sunnyvale</u>			
Home Investment Partnerships Program	14.239	1213-828750	116,505
<b>Total U.S. Department of Housing and Urban Development</b>			<b>3,547,497</b>
<b>U.S. Department of Interior</b>			
<u>Direct Program</u>			
Central Valley Project Improvement (CVPI) Anadromous Fish Restoration Program (AFRP)	15.648	--	44,493
<b>Total U.S. Department of Interior</b>			<b>44,493</b>
<b>U.S. Department of Justice</b>			
<u>Direct Programs</u>			
State Criminal Alien Assistance Program	16.606	--	760,691
Public Safety Partnership and Community Policing Grants	16.710	--	133,378
DNA Backlog Reduction Program	16.741	--	332,991
Second Chance Act Reentry Initiative	16.812	--	51,671
Subtotal Direct Programs			1,278,731
<u>Passed Through Board of State and Community Correction</u>			
Juvenile Accountability Block Grants	16.523	CSA #176-11	129,460
Juvenile Accountability Block Grants	16.523	CSA #209-11	103,983
Subtotal Juvenile Accountability Block Grants			233,443
<u>Passed Through City of San José</u>			
Missing Children's Assistance	16.543	None	5,482
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-2315	2,380
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0071	46,291
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			48,671
Subtotal Passed Through City of San José			54,153
<u>Passed Through City of Sunnyvale</u>			
Equitable Sharing Program	16.922	CA0431600	17,549
<u>Passed Through California Emergency Management Agency</u>			
Crime Victim Assistance	16.575	UV12030430	30,039
Crime Victim Assistance	16.575	UV13040430	82,970
Crime Victim Assistance	16.575	VW13320430	390,395
Subtotal Crime Victim Assistance			503,404

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

**COUNTY OF SANTA CLARA**  
Schedule of Expenditures of Federal Awards (Continued)  
For the Fiscal Year Ended June 30, 2014

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures
<b>U.S. Department of Justice (Continued)</b>			
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ12080430	\$ 8,030
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ13090430	26,842
Subtotal Paul Coverdell Forensic Sciences Improvement Grant Program			\$ 34,872
Subtotal Passed Through California Emergency Management Agency			538,276
<b>Passed Through Board of State and Community Correction</b>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	BSCC 630-12	108,126
Edward Byrne Memorial Justice Assistance Grant Program	16.738	BSCC 630-13	309,853
Edward Byrne Memorial Justice Assistance Grant Program	16.738	BSCC 673-12	4,066
Edward Byrne Memorial Justice Assistance Grant Program	16.738	BSCC 673-13	174,909
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			596,954
<b>Total U.S. Department of Justice</b>			<b>2,719,106</b>
<b>U.S. Department of Transportation</b>			
<b>Passed Through State Department of Transportation</b>			
Highway Planning and Construction	20.205	BHLO 5937 (144)	119,300
Highway Planning and Construction	20.205	BHLO 5937 (146)	3,468
Highway Planning and Construction	20.205	BHLO 5937 (147)	1,131
Highway Planning and Construction	20.205	BHLO 5937 (148)	163,897
Highway Planning and Construction	20.205	BHLO 5937 (149)	115,283
Highway Planning and Construction	20.205	BHLO 5937 (150)	1,278
Highway Planning and Construction	20.205	BHLO 5937 (174)	234,750
Highway Planning and Construction	20.205	BHLO 5937 (186)	17,275
Highway Planning and Construction	20.205	BHLO 5937 (193)	10,079
Highway Planning and Construction	20.205	BHLO 5937 (194)	8,352
Highway Planning and Construction	20.205	BHLO 5937 (195)	10,226
Highway Planning and Construction	20.205	BHLS 5937 (187)	3,904
Highway Planning and Construction	20.205	BPMP 5937 (151)	193,348
Highway Planning and Construction	20.205	BPMP 5937 (154)	80,637
Highway Planning and Construction	20.205	BPMP 5937 (155)	15,060
Highway Planning and Construction	20.205	BPMP 5937 (156)	21,783
Highway Planning and Construction	20.205	BPMP 5937 (157)	100,729
Highway Planning and Construction	20.205	BPMP 5937 (158)	16,400
Highway Planning and Construction	20.205	BPMP 5937 (159)	16,985
Highway Planning and Construction	20.205	BPMP 5937 (160)	16,326
Highway Planning and Construction	20.205	BPMP 5937 (161)	17,845
Highway Planning and Construction	20.205	BRLO 5937 (106)	138,055
Highway Planning and Construction	20.205	BRLO 5937 (107)	118,517
Highway Planning and Construction	20.205	BRLO 5937 (168)	16,635
Highway Planning and Construction	20.205	BRLO 5937 (176)	72,017
Highway Planning and Construction	20.205	BRLO 5937 (180)	5,298
Highway Planning and Construction	20.205	BRLO 5937 (182)	85,425
Highway Planning and Construction	20.205	BRLO-5937 (109)	133,124
Highway Planning and Construction	20.205	BRLS 5937 (123)	40,486
Highway Planning and Construction	20.205	BRLS 5937 (124)	283,684
Highway Planning and Construction	20.205	BRLS 5937 (169)	2,320
Highway Planning and Construction	20.205	CML 5937 (191)	94,160
Highway Planning and Construction	20.205	DEMO8L 5937 (137)	2,450,529
Highway Planning and Construction	20.205	HPLUL 5937 (163)	1,309,165
Highway Planning and Construction	20.205	HRRRL 5937 (188)	5,207
Highway Planning and Construction	20.205	HRRRL 5937 (189)	4,926
Highway Planning and Construction	20.205	HRRRL 5937 (190)	20,968
Highway Planning and Construction	20.205	SR2SL 5937 (185)	47,579
Subtotal Highway Planning and Construction			5,996,151
<b>Passed Through State Office of Traffic Safety</b>			
State and Community Highway Safety	20.600	None	76,106
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL1352	50,746
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL1419	73,256
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	None	114,669
Subtotal Minimum Penalties for Repeat Offenders for Driving While Intoxicated			238,671
Subtotal Passed Through State Office of Traffic Safety			314,777
<b>Total U.S. Department of Transportation</b>			<b>6,310,928</b>

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

**COUNTY OF SANTA CLARA**  
Schedule of Expenditures of Federal Awards (Continued)  
For the Fiscal Year Ended June 30, 2014

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures
<b>U.S. Department of Treasury</b>			
<u>Passed Through City of Sunnyvale Police Department</u>			
Treasury Forfeiture Fund Program	21.000	CA0431600	\$ 75,045
<b>Total U.S. Department of Treasury</b>			<b>75,045</b>
<b>Environmental Protection Agency</b>			
<u>Passed Through Association of Bay Area Governments (ABAG)</u>			
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436	None	18,253
<b>Total Environmental Protection Agency</b>			<b>18,253</b>
<b>U.S. Department of Health and Human Services</b>			
<u>Direct Programs</u>			
Projects for Assistance in Transition from Homelessness (PATH)	93.150	--	233,254
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	--	1,778,135
Adoption Opportunities	93.652	--	169,274
National Bioterrorism Hospital Preparedness Program	93.889	--	665,295
HIV Emergency Relief Project Grants	93.914	--	2,626,111
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	--	798,015
Block Grants for Community Mental Health Services	93.958	--	742,555
Subtotal Direct Programs			7,012,639
<u>Passed Through State Department of Public Health</u>			
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	None	627,310
Immunization Cooperative Agreements	93.268	13-20346	934,547
Refugee and Entrant Assistance _Discretionary Grants	93.576	12-43-90840-00	\$ 105,284
Refugee and Entrant Assistance _Discretionary Grants	93.576	13-43-90840-00	301,868
Subtotal Refugee and Entrant Assistance _Discretionary Grants			407,152
HIV Prevention Activities_Health Department Based	93.940	13-20253	450,723
Prevention and Public Health Fund (PPHF) Public Health Traineeships	93.964	201143 MCH	124,729
Prevention and Public Health Fund (PPHF) Public Health Traineeships	93.964	201143 AFLP	117,016
Prevention and Public Health Fund (PPHF) Public Health Traineeships	93.964	201143 BIH	210,442
Subtotal Prevention and Public Health Fund (PPHF) Public Health Traineeships			452,187
Maternal and Child Health Services Block Grant to the States	93.994	201143 MCH	671,081
Maternal and Child Health Services Block Grant to the States	93.994	201143 AFLP	73,751
Maternal and Child Health Services Block Grant to the States	93.994	201143 BIH	270,495
Subtotal Maternal and Child Health Services Block Grant to the States			1,015,327
Subtotal Passed Through State Department of Public Health			3,887,246
<u>Passed Through Council on Aging Silicon Valley</u>			
Aging Cluster:			
Special Programs for the Aging_ Title III, Part C_ Nutrition Services	93.045	AP-1314-14	1,470,301
Nutrition Services Incentive Program	93.053	AP-1314-14	844,352
Subtotal Aging Cluster			2,314,653
<u>Passed Through State Department of Education</u>			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CAPP-3064	1,491,531
<u>Passed Through State Department of Health Services</u>			
Public Health Emergency Preparedness	93.069	None	1,746,697
Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	CLPPP	97,509
PPHF: Community Transformation Grants - Small Communities Program financed solely by Public Prevention and Health Funds	93.737	None	468,669
Children's Health Insurance Program	93.767	CCS Admin	609,979
Medical Assistance Program:			
Medical Assistance Program	93.778	Foster Care	821,307
Medical Assistance Program	93.778	CHDP	651,028
Medical Assistance Program	93.778	CCS Admin	3,430,710
Medical Assistance Program	93.778	CCS PPC	34,009
Subtotal Medical Assistance Program			4,937,054
Subtotal Passed Through State Department of Health Services			7,859,908

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

**COUNTY OF SANTA CLARA**  
Schedule of Expenditures of Federal Awards (Continued)  
For the Fiscal Year Ended June 30, 2014

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures
<b>U.S. Department of Health and Human Services (Continued)</b>			
<u>Passed Through State Office of AIDS</u>			
HIV Care Formula Grants	93.917	13-20074	\$ 834,479
<u>Passed Through State Department of Child Support Services</u>			
Child Support Enforcement	93.563	IV-356	24,701,637
<u>Passed Through National Health Care for the Homeless Council</u>			
Health Care Innovation Awards (HCIA)	93.610	None	55,554
<u>Passed Through State Department of Alcohol and Drugs</u>			
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	None	618,517
Block Grants for Prevention and Treatment of Substance Abuse	93.959	None	10,631,265
Subtotal Passed Through State Department of Alcohol and Drugs			11,249,782
<u>Passed Through State Department of Social Services</u>			
Guardianship Assistance	93.090	None	458,901
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	None	1,763,254
Promoting Safe and Stable Families	93.556	None	1,046,159
Temporary Assistance for Needy Families	93.558	None	80,520,431
Refugee and Entrant Assistance_State Administered Programs	93.566	None	559,209
Refugee and Entrant Assistance_Discretionary Grants	93.576	TART1107	\$ 2,499
Refugee and Entrant Assistance_Discretionary Grants	93.576	TART1207	22,643
Refugee and Entrant Assistance_Discretionary Grants	93.576	TART1306	8,565
Refugee and Entrant Assistance_Discretionary Grants	93.576	TARL1307	11,240
Subtotal Refugee and Entrant Assistance_Discretionary Grants			44,947
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	TAFO1206	130,378
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	TAFO1306	186,817
Subtotal Refugee and Entrant Assistance_Targeted Assistance Grants			317,195
Community-Based Child Abuse Prevention Grants	93.590	None	319,281
Stephanie Tubbs Jones Child Welfare Services Program	93.645	None	1,288,284
Child Welfare Research Training or Demonstration	93.648	None	527,592
Foster Care_Title IV-E	93.658	None	32,172,761
Adoption Assistance	93.659	None	13,470,697
Social Services Block Grant	93.667	None	2,272,140
Chafee Foster Care Independence Program	93.674	None	444,868
Children's Health Insurance Program	93.767	None	13,979
Medical Assistance Program	93.778	None	68,147,046
Subtotal Passed Through State Department of Social Services			203,366,744
<b>Total U.S. Department of Health and Human Services</b>			<b>262,774,173</b>
<b>U.S. Department of Homeland Security</b>			
<u>Passed Through the California Emergency Management Agency</u>			
Emergency Management Performance Grants	97.042	2011-0048-0085-00000	428,829
Emergency Management Performance Grants	97.042	2013-0047-0085-00000	238,001
Subtotal Emergency Management Performance Grants			666,830
Homeland Security Grant Program	97.067	2012-SS-00123	1,204,539
Homeland Security Grant Program	97.067	2013-0010-0085-00000	63,884
Homeland Security Grant Program	97.067	Cal EMA 085-00000	2,616,320
Subtotal Homeland Security Grant Program			3,884,743
Subtotal Passed Through California Emergency Management Agency			4,551,573
<u>Passed Through City and County of San Francisco</u>			
Homeland Security Grant Program	97.067	075-95017	5,217,452
Homeland Security Grant Program	97.067	2013-00110	227,432
Subtotal Homeland Security Grant Program			5,444,884
<u>Passed Through San Diego Office of Homeland Security</u>			
Homeland Security Grant Program	97.067	2011-007	19,202
Homeland Security Grant Program	97.067	2012-00123	43,912
Subtotal Passed Through San Diego Office of Homeland Security			63,114
<b>Total U.S. Department of Homeland Security</b>			<b>10,059,571</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 322,081,303</b>

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

**COUNTY OF SANTA CLARA**

Notes to the Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2014

**Note 1 – General**

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the expenditures of all federal award programs of the County of Santa Clara, California (County), for the fiscal year ended June 30, 2014, except for the Housing Authority of the County of Santa Clara (Housing Authority) (see Note 4). The County’s reporting entity is defined in Note 1 to the County’s basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the SEFA.

**Note 2 – Basis of Accounting**

The accompanying SEFA is presented using the modified accrual basis of accounting for grants accounted for in the governmental fund types and the accrual basis of accounting for grants accounted for in the proprietary fund types, as described in Note 1 to the County’s basic financial statements.

**Note 3 – Relationship to the Financial Statements**

Expenditures of federal awards are reported in the County’s basic financial statements as expenditures in the General Fund and nonmajor special revenue funds, and as expenses for noncapital expenditures and as additions to capital assets for capital related expenditures in the enterprise funds. Federal award expenditures agree or can be reconciled with the amounts reported in the County’s basic financial statements.

**Note 4 – Housing Authority (Discretely Presented Component Unit) Federal Expenditures**

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

Federal Grantor/ Pass-through Grantor/ Program Title	CFDA Number	Grant/ Contract Number	Expenditures
<b>U.S. Department of Housing and Urban Development</b>			
<i>Direct Programs</i>			
Section 8 Project-Based Cluster:			
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	n/a	\$ 444,945
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856	n/a	<u>640,872</u>
Total Section 8 Project-Based Cluster			<u>1,085,817</u>
Continuum of Care	14.267	n/a	3,152,076
Housing Voucher Cluster:			
Section 8 Housing Choice Vouchers	14.871	n/a	6,544,667
Mainstream Vouchers	14.879	n/a	616,781
Family Unification Program (FUP)	14.880	n/a	<u>1,561,419</u>
Total Housing Voucher Cluster			<u>8,722,867</u>
Moving To Work Demonstration Program	14.881	n/a	<u>226,927,695</u>
Total Direct Programs			<u>239,888,455</u>
<i>Pass through from City of Sunnyvale</i>			
Home Investment Partnership Program	14.239	1011-828750	<u>130,579</u>
Total Expenditures of Federal Awards			<u>\$ 240,019,034</u>

**COUNTY OF SANTA CLARA**

Notes to the Schedule of Expenditures of Federal Awards (Continued)  
For the Fiscal Year Ended June 30, 2014

**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	\$ 199,416
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	313,376
Community Development Block Grants/Entitlement Grants	14.218	1,768,036
Supportive Housing Program	14.235	668,519
Home Investment Partnerships Program	14.239	557,499
Crime Victim Assistance	16.575	503,404
Edward Byrne Memorial Justice Assistance Grant Program	16.738	336,885
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	24,796
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	1,470,301
Nutrition Services Incentive Program	93.053	844,352
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	12,250
Projects for Assistance in Transition from Homelessness (PATH)	93.150	214,577
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	184,770
Refugee and Entrant Assistance_State Administered Programs	93.566	107,341
Refugee and Entrant Assistance_Discretionary Grants	93.576	21,395
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584	165,028
Community-Based Child Abuse Prevention Program	93.590	319,281
Chafee Foster Care Independence Program	93.674	338,646
National Bioterrorism Hospital Preparedness Program	93.889	467,462
HIV Emergency Relief Project Grants	93.914	954,618
HIV Care Formula Grants	93.917	699,174
HIV Prevention Activities_Health Department Based	93.940	65,000
Block Grants for Community Mental Health Services	93.958	103,178
Block Grants for Prevention and Treatment of Substance Abuse	93.959	3,819,138
Prevention and Public Health Fund (PPHF) Public Health Traineeships	93.964	117,016
Maternal and Child Health Services Block Grant to the States	93.994	57,591
Emergency Management Performance Grants	97.042	344,569
Homeland Security Grant Program	97.067	885,288

**COUNTY OF SANTA CLARA**

Notes to the Schedule of Expenditures of Federal Awards (Continued)  
For the Fiscal Year Ended June 30, 2014

**Note 6 – California Department of Aging (CDA) Grants**

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

Federal Grantor/ Pass-through Grantor/ Program Title	CFDA Number	Grant/ Contract Number	Expenditures	
			State	Federal
<b>U.S. Department of Health and Human Services</b>				
<i>Pass through the Council on Aging Silicon Valley</i>				
Special Programs for the Aging Title III, Part C				
Nutrition Services	93.045	AP-1314-14	\$ 362,507	\$ 1,470,301
Nutrition Services Incentive Program	93.053	AP-1314-14	-	844,352

**Note 7 – Program and Cluster Program Totals**

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

Program Title	CFDA Number	Expenditures
<b><i>State Administrative Matching Grants for the Supplemental Nutrition Assistance Program</i></b>		
Passed Through State Department of Social Services	10.561	\$ 30,030,089
Passed Through State Department of Public Health	10.561	1,713,171
Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program		<u>\$ 31,743,260</u>
<b><i>Home Investment Partnerships Program</i></b>		
Direct	14.239	\$ 642,157
Passed Through City of Sunnyvale	14.239	116,505
Total Home Investment Partnerships Program		<u>\$ 758,662</u>
<b><i>Edward Byrne Memorial Justice Assistance Grant Program</i></b>		
Passed Through City of San José	16.738	\$ 48,671
Passed Through Board of State and Community Correction	16.738	596,954
Total Edward Byrne Memorial Justice Assistance Grant Program		<u>\$ 645,625</u>
<b><i>Refugee and Entrant Assistance Discretionary Grants</i></b>		
Passed Through State Department of Public Health	93.576	\$ 407,152
Passed Through State Department of Social Services	93.576	44,947
Total Refugee and Entrant Assistance Discretionary Grants		<u>\$ 452,099</u>
<b><i>Children's Health Insurance Program</i></b>		
Passed Through State Department of Health Services	93.767	\$ 609,979
Passed Through State Department of Social Services	93.767	13,979
Total Children's Health Insurance Program		<u>\$ 623,958</u>
<b><i>Medical Assistance Program</i></b>		
Passed Through State Department of Health Services	93.778	\$ 4,937,054
Passed Through State Department of Social Services	93.778	68,147,046
Total Medical Assistance Program		<u>\$ 73,084,100</u>
<b><i>Homeland Security Grant Program</i></b>		
Passed Through the California Emergency Management Agency	97.067	\$ 3,884,743
Passed Through City and County of San Francisco	97.067	5,444,884
Passed Through San Diego Office of Homeland Security	97.067	63,114
Total Homeland Security Grant Program		<u>\$ 9,392,741</u>

**COUNTY OF SANTA CLARA**

Notes to the Schedule of Expenditures of Federal Awards (Continued)  
For the Fiscal Year Ended June 30, 2014

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

**California Emergency Management Agency grant expenditures:**

The following represents Federal grant expenditures for Department of Justice grants passed through the California Emergency Management Agency for the fiscal year ended June 30, 2014:

Program Title and Expenditure Category	Grant Award Number/Period	Award Amount	Actual Non-match	Actual Match	Actual Total	CFDA No. of Actual Non-match Amount
Underserved Victims Advocacy & Outreach Program	UV12030430					
Personnel Expenses	10/1/12-9/30/13		\$ -	\$ 7,811	\$ 7,811	
Operating Expenses			30,039	-	30,039	
Total		\$ 145,525	\$ 30,039	\$ 7,811	\$ 37,850	16.575
Underserved Victims Advocacy & Outreach Program	UV13040430					
Personnel Services	10/1/13-9/30/14		\$ -	\$ 23,438	\$ 23,438	
Operating Expenses			82,970	-	82,970	
Total		\$ 156,250	\$ 82,970	\$ 23,438	\$ 106,408	16.575
Victim Witness Assistance - Cal EMA	VW13320430					
Operating Expenses	7/1/13-6/30/14		\$ 390,395	\$ -	\$ 390,395	
Total		\$ 740,992	\$ 390,395	\$ -	\$ 390,395	16.575
Paul Coverdell Forensic Sciences Improvement Grant Program	CQ12080430					
Operating Expenses	10/1/12-12/31/13		\$ 8,030	\$ -	\$ 8,030	
Total		\$ 29,189	\$ 8,030	\$ -	\$ 8,030	16.742
Paul Coverdell Forensic Sciences Improvement Grant Program	CQ13090430					
Operating Expenses	10/1/13-8/31/14		\$ 26,842	\$ -	\$ 26,842	
Total		\$ 26,842	\$ 26,842	\$ -	\$ 26,842	16.742
Emergency Management Performance Grants	2011-0048-0085-00000					
Personnel Expenses	7/1/12-10/31/13		\$ 16,468	\$ -	\$ 16,468	
Operating Expenses			340,955	-	340,955	
Equipment			71,406	-	71,406	
Total		\$ 489,006	\$ 428,829	\$ -	\$ 428,829	97.042
Emergency Management Performance Grants	2013-0047-0085-00000					
Personnel Expenses	7/1/13-8/31/14		\$ 34,681	\$ -	\$ 34,681	
Operating Expenses			79,041	-	79,041	
Equipment			124,279	-	124,279	
Total		\$ 499,977	\$ 238,001	\$ -	\$ 238,001	97.042
Homeland Security Grant Program	Cal EMA 085-00000					
Personnel Expenses	11/18/11-7/31/14		\$ 312,856	\$ -	\$ 312,856	
Operating Expenses			1,256,708	-	1,256,708	
Equipment			1,046,756	-	1,046,756	
Total		\$ 2,740,348	\$ 2,616,320	\$ -	\$ 2,616,320	97.067
Homeland Security Grant Program	2012-SS-00123					
Personnel Services	8/29/13-8/15/14		\$ 94,818	\$ -	\$ 94,818	
Operating Expenses			41,577	-	41,577	
Equipment			1,068,144	-	1,068,144	
Total		\$ 1,415,843	\$ 1,204,539	\$ -	\$ 1,204,539	97.067
Homeland Security Grant Program	2013-0010-0085-00000					
Operating Expenses	8/29/13-5/31/15		\$ 63,664	\$ -	\$ 63,664	
Equipment			220	-	220	
Total		\$ 1,760,533	\$ 63,884	\$ -	\$ 63,884	97.067

**COUNTY OF SANTA CLARA**

Notes to the Schedule of Expenditures of Federal Awards (Continued)  
For the Fiscal Year Ended June 30, 2014

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

**California Victim Compensation and Government Claims Board grant expenditures:**

The following represents the California Victim Compensation and Government Claims Board non-Federal grant expenditures for the fiscal year ended June 30, 2014. This information is included in the County's single audit report at the request of the California Victim Compensation and Government Claims Board.

Program Title and Expenditure Category	Grant Award Number/Period	Award Amount	Actual Non-match	Actual Match	Actual Total
Victim Witness Assistance - BOC	VCGC2060				
Personnel Services	7/1/12-6/30/15		\$ 842,854	\$ -	\$ 842,854
Operating Expenses			159,330	-	159,330
Total		\$ 3,232,326	\$ 1,002,184	\$ -	\$ 1,002,184
Victim Witness Restitution for Crime Victims	VCGC3083				
Personnel Services	7/1/13-6/30/16		\$ 281,817	\$ -	\$ 281,817
Total		\$ 879,435	\$ 281,817	\$ -	\$ 281,817

**COUNTY OF SANTA CLARA**  
 Schedule of Findings and Questioned Costs  
 For the Fiscal Year Ended June 30, 2014

**Section I – Summary of Auditor’s Results**

***Financial Statements:***

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(cies) identified?	Yes
Noncompliance material to financial statements noted?	No

***Federal Awards:***

Internal control over major programs:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified?	Yes
Type of auditor’s report issued on compliance for major programs:	Unmodified for all major programs, except for CFDA No. 93.558, which was qualified.
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	
1. CFDA No. 20.205	Highway Planning and Construction
2. CFDA No. 93.045/93.053	Aging Cluster
3. CFDA No. 93.558	Temporary Assistance for Needy Families
4. CFDA No. 93.659	Adoption Assistance
5. CFDA No. 93.778	Medical Assistance Program
6. CFDA No. 93.959	Block Grants for Prevention and Treatment of Substance Abuse
Dollar threshold used to distinguish between Type A and Type B programs:	\$3,000,000
Auditee qualified as low-risk auditee?	No

**COUNTY OF SANTA CLARA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2014

**Section II – Financial Statement Findings**

**Item 2014-001 – Significant Deficiency**  
**Internal Controls Over the Financial Reporting Process**

*Criteria*

The U.S. Office of Management and Budget defines internal control as the steps an entity takes to provide reasonable assurance that the entity's objectives are achieved through 1) effective and efficient operations, 2) reliable financial reporting, and 3) compliance with laws and regulations. Over the years, the County has established an internal control assessment process, documented its controls for significant accounts and transactions, and evaluated the effectiveness of its internal control over financial reporting.

Internal controls should be continuously assessed and evaluated in order to adapt to the County's changes in its controls over initiating, recording, processing, and reconciling account balances, classes of transactions and disclosure and related assertions included in the financial statements; controls related to the initiation and processing of routine and non-routine transactions; and controls related to the selection and application of appropriate accounting policies.

*Condition/Context*

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

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

The County subsequently recorded these adjustments to properly reflect the reported balances at June 30, 2014.

*Cause and/or Effect*

The Santa Clara Valley Health & Hospital System (System) has had significant turnover in its fiscal leadership positions over the past three years. As such, the remaining personnel had to assume additional responsibilities, which resulted in incomplete analysis and reviews of significant accounts and financial transactions.

*Recommendation*

The System has made improvements over the past year in addressing the prior year's recommendation. The System should continue to evaluate the experience of professionals assigned to key roles in the preparation of the annual financial reports and ensure that there is a robust supervision and review process.

**COUNTY OF SANTA CLARA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2014

**Section II – Financial Statement Findings (Continued)**

**Item 2014-001 –Internal Controls Over the Financial Reporting Process (Continued)**

We also recommend the System's Finance Department provide a draft of the financial statements to the County's Finance Agency for review prior to the submission to its external auditors to improve the accuracy of the financial statements. In addition, the System's Finance Department should adjust and reconcile year-end balances recorded in the County's SAP Accounting System to the financial statements provided to the County's Finance Agency in a timely manner.

*Department's View and Corrective Action Plan*

Since the County's Finance Agency coordinates financial statement activities, it will work with the System to ensure that draft financial statements are presented to it prior to being given to the external auditors. The Finance Agency will also ensure that year-end balances in the County's SAP Accounting System are adjusted and reconciled to the SCVHHSEF's final financial statements.

**COUNTY OF SANTA CLARA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2014

**Section III – Federal Award Findings and Questioned Costs**

**Finding 2014-002      Allowable Costs/Cost Principles**

**Awarding Agency:** United States Department of Health and Human Services  
**Passed Through:** State of California Department of Health Services  
**Program Name:** Medical Assistance Program  
**CFDA Number:** 93.778  
**Award Number:** Not Available  
**Award Year:** July 1, 2013 through June 30, 2014

*Criteria*

U.S. Office of Management and Budget Circular A-102, *Grants and Cooperative Agreements with State and Local Governments* (Common Rule) requires that non-federal entities receiving federal awards (e.g., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

*Condition/Context*

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

*Questioned Costs*

Not applicable. Based on our review of the supporting documents provided for the 2 disbursements, the expenditures tested were determined to be allowable.

*Cause and/or Effect*

The County noted that the missing approval signatures were an oversight. The missing review and approval over hours charged to the program creates a risk that employee hours could be misclassified on time sheets and thus improperly charged to the grant programs.

*Recommendation*

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

*Department’s View and Corrective Action Plan*

Effectively immediately, the California Children Services (CCS) Division developed a corrective plan to ensure that all timesheets have a Manager/designee signature and date prior to submission to the timekeeper. A Timesheet Roster has been developed to make sure that all timesheets are received and signed by the Manager/designee. The timekeeper will check against the roster to ensure the timesheets are signed by the Manager/designee. Offsite Managers will ensure that timesheets are faxed or electronically scanned with their signature and date, before the timekeeper enters employee time in KRONOS.

**COUNTY OF SANTA CLARA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2014

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

**Finding 2014-003      Reporting**

**Awarding Agency:** United States Department of Health and Human Services  
**Passed Through:** State of California Department of Alcohol and Drugs  
**Program Name:** Block Grants for Prevention and Treatment of Substance Abuse  
**CFDA Number:** 93.959  
**Award Number:** None  
**Award Year:** October 1, 2012 through September 30, 2014

*Criteria*

The A-102 Common Rule (2 CFR part 215) requires non-Federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Recipients of Federal assistance under the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) program are required to report cumulative expenditures to the grantor. To fulfill this reporting requirement, the County is responsible for submitting a Quarterly Federal Financial Management Report (QFFMR) and to establish adequate internal control to ensure reports are complete, mathematically accurate, supported by the underlying data, and summarized in accordance with the required or stated criteria and methodology.

*Condition/Context*

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

*Questioned Costs*

Not applicable. Our procedures did not identify mathematical errors nor undocumented information for the 2 QFFMRs tested.

*Cause and/or Effect*

The County did not consider a secondary review to be necessary. The lack of secondary reviews creates a risk that reporting errors may not be prevented and detected and corrected on a timely basis.

*Recommendation*

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

*Department's View and Corrective Action Plan*

We agree with your recommendation. Effective immediately, a secondary review for accuracy or completeness of the QFFMR will be performed before final submission.

**COUNTY OF SANTA CLARA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2014

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

**Finding 2014-004      Special Tests & Provisions – Child Support Non-Cooperation**

**Awarding Agency:** United States Department of Health and Human Services  
**Passed Through:** State of California Department of Social Services  
**Program Name:** Temporary Assistance for Needy Families  
**CFDA Number:** 93.558  
**Award Number:** Not Available  
**Award Year:** July 1, 2013 through June 30, 2014

*Criteria*

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

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

*Condition/Context*

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

*Questioned Costs*

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

*Cause and/or Effect*

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

*Recommendation*

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

**COUNTY OF SANTA CLARA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2014

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

**Finding 2014-004      Special Tests & Provisions – Child Support Non-Cooperation (Continued)**

*Department's View and Corrective Action Plan*

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

- 1) Supplements were issued on these cases as there is no verification on file to indicate a legal and timely 10-day Notice of Action (NOA) was sent to these clients. On the active cases, a NOA has been sent informing them of the penalty being applied in the future month. On the closed cases, the penalty has been recorded and will be implemented if and when the client reapplies for CalWORKs.
- 2) Our CalWIN data systems unit is researching the reason why NOAs were not generated on the six cases in question. The issue will also be reported to the CalWIN Project for a resolution if necessary. Meanwhile, our agency continues to provide training and written instructions on the requirements of providing timely and adequate Notice of Actions whenever there is a change in the grant amount for a client. Additional instructions will be provided to staff reminding them to confirm that the NOAs are generated and sent by CalWIN in a timely manner. If for any reason a NOA is not auto generated by CalWIN, staff will be reminded to manually generate and send the appropriate NOA to the client.

**COUNTY OF SANTA CLARA**  
Status of Prior Year's Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2014

**Reference Number:** **Financial Statement Finding 2013-001 – Material Weakness**  
*Risk Assessment of Internal Controls Over the Financial Reporting Process*

**Audit Finding:** As part of our audit procedures, we assess an organization's environment, risk assessment and monitoring of controls and determine whether internal controls have been effective over financial reporting. During our audit, we noted the following internal control deficiencies:

- *Fiscal Leadership and Other Vacancies* – The System has had significant turnover including the chief financial officer position and vacancies in several other key positions including the assistant controller position. As such, the System has assigned major and complex financial duties and budgetary administration to the Controller and other personnel to perform in addition to their normal responsibilities.
- *Resolution of Revenue Clearing Accounts* – At June 30, 2013, the SCVHHSEF has over \$46.3 million recorded in its revenue clearing accounts. The accounts are used when the System does not timely apply cash receipts to receivables accrued or to the appropriate revenue accounts to close the temporary revenue clearing accounts.
- Throughout the year, the System utilizes Fund 059 – Capital Projects Subfund to capture its capital project expenditures. During our audit, we noted the System did not accrue project costs in the amount of \$17.0 million for costs incurred during fiscal year 2012-13. The County subsequently increased the capital assets and accounts payable to properly reflect the balances at June 30, 2013.

**Recommendation:** We recommend that the System develop a succession plan and improve the depth and breadth related to its accounting personnel so that the System's financial reporting activities are not dependent on a few individuals. In addition, the System should perform reviews and analysis of related party transactions, revenue clearing accounts, and project/payments contract status periodically to capture and record all significant transactions in the proper accounts and reporting period.

**Status** Partially implemented. During fiscal year 2014, the System has resolved outstanding amounts recorded in the revenue clearing accounts and was able to apply cash receipts to receivable or revenue accounts in a timely manner. The System also properly accrued project costs rendered during the proper period. In addition, a new chief financial officer was hired subsequent to year-end. See current year finding 2014-001 for comment on the System's deficiency in its internal control over the financial reporting process.

**COUNTY OF SANTA CLARA**

Status of Prior Year's Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2014

**Reference Number:** **Financial Statement Finding 2013-002 – Significant Deficiency**  
*Coordination of the County's Accounting Standards Implementations*

**Audit Finding:** The County adopted the provisions of GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* as of July 1, 2012. The County plans to implement GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities* as of July 1, 2013. During our audit, we noted the following:

- Separately audited financial statements for the Santa Clara County Vector Control District (Vector Control) showed that the Vector Control early implemented GASB Statement No. 65 and wrote off unamortized bond issuance cost of \$0.2 million as of July 1, 2012.
- Separately audited financial statements for the South Santa Clara County Fire District, the County Sanitation District 2 – 3 of Santa Clara County, the Silicon Valley Tobacco Securitization Authority, and the Santa Clara County Tobacco Securitization Corporation showed that these component units did not implement GASB Statement No. 63 as of July 1, 2012.

Furthermore, the Santa Clara County Central Fire Protection District's separately audited financial statement disclosures for its pension benefit plan had inconsistent and/or incomplete information resulting in reporting deficiency comments from the Government Finance Officers' Association on the County's financial statements.

**Recommendation:** We recommend the County develop a process to continually communicate and coordinate with the component units and their auditors to ensure that new accounting standards are adopted in the same fiscal year as the County and that accounting principles are consistently applied in the component units' standalone financial statements. In addition, the County should obtain and review the component units' draft financial statements to ascertain that the financial statements are prepared in accordance with applicable standards and all applicable information and disclosure are presented and available for inclusion in the County's basic financial statements

**Status:** Corrective action plan has been implemented.

**COUNTY OF SANTA CLARA**  
Status of Prior Year's Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2014

<b>Reference Number:</b>	<b>Federal Award Finding 2013-003 –</b> <i>Special Tests &amp; Provisions – Child Support Non-Cooperation</i>
Program Identification:	U.S. Department of Health and Human Services Passed Through State of California Department of Social Services CFDA No. 93.558 – Temporary Assistance for Needy Families
Audit Finding:	During our testing of 9 files out of a population of 26 individuals who did not cooperate with the State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual for the fiscal year, we noted the following: <ul style="list-style-type: none"><li>• 3 participant files did not have a Notice of Action form maintained with the client records, as such the reduced benefit payment was not communicated to the participant at least 10 days prior to the sanction; and</li><li>• 1 participant was improperly sanctioned, as there was no indication that the participant failed to cooperate with child support, and the Notice of Action form was not sent to the participant.</li></ul>
Recommendation:	We recommend the County establish internal control policies to ensure proper record keeping of all correspondence, including Notice of Action forms, to benefit receipts. We also recommend the County strengthen its internal control procedures over the benefit sanction process to ensure that sanctions are properly communicated to beneficiaries and only imposed when valid.
Status:	Not corrected. See current year finding 2014-004.
<b>Reference Number:</b>	<b>Federal Award Finding 2013-004 –</b> <i>Davis-Bacon Act</i>
Program Identification:	U.S. Department of Health and Human Services Direct program to the County's Health and Hospital System CFDA No. 93.703 – ARRA – Grants to Health Care Programs (HCP)
Audit Finding:	During our review of the County's compliance with the Davis-Bacon Act for the HCP program, we tested 8 items from a population of 28 certified payrolls for the HCP program. Our testing noted that the County did not document receipt of the certified payroll reports, so we were unable to verify whether the County paid the prime contractors after the County received the certified payroll reports.
Recommendation:	We recommend the County evaluate the effectiveness of its current internal control policies and review its grant agreements to ensure compliance with the Davis-Bacon Act requirements. In addition, we recommend that the County establish internal control policies and procedures to withhold release of contractor payments until receipt of certified payrolls.
Status:	Corrective action plan has been implemented.
<b>Reference Number:</b>	<b>Federal Award Finding 2013-005 –</b>

**COUNTY OF SANTA CLARA**  
Status of Prior Year's Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2014

*Eligibility*

Program Identification: U.S. Department of Health and Human Services  
Passed Through State of California Department of Social Services  
CFDA No. 93.658 – Foster Care, Title IV-E

Audit Finding: During our testing of the County's internal controls over compliance for eligibility requirements, we selected a sample of 40 participants from a population of approximately 11,470 participants. Our results identified one participant whose annual SOC 815 Form was not reviewed on a timely basis.

Recommendation: We recommend that the County's Social Services Agency strengthen its monitoring controls over the eligibility determination and re-determination process to ensure the timely completion and maintenance of required documentation. Program staff should be held responsible for filing documentation and supervisors should review and monitor the process of adequately documenting determinations and re-determinations.

Status: Corrective action plan has been implemented.

**Reference Number:** **Federal Award Finding 2013-006 –**  
*Davis-Bacon Act*

Program Identification: U.S. Department of Transportation  
Passed Through State of California Department of Transportation  
CFDA No. 20.205 – Highway Planning and Construction

Audit Finding: During our review of the County's compliance with the Davis-Bacon Act for the Highway Planning and Construction Program, we tested 40 items from a population of 675 certified payrolls. Our testing noted that the County was unable to locate one of the certified payrolls from our testing sample of 40 items.

Recommendation: We recommend the County evaluate the effectiveness of its current internal control activities. We also recommend the County provides adequate training for all employees to ensure that the personnel are aware of specific job responsibilities and County policies.

Status: Corrective action has been implemented.

**COUNTY OF SANTA CLARA**  
Status of Prior Year's Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2014

**Reference Number:** **Federal Award Finding 2013-007 –**  
*Allowable Costs/Cost Principles*

**Program Identification:** U.S. Department of Transportation  
Passed Through State of California Department of Transportation  
CFDA No. 20.205 – Highway Planning and Construction

**Audit Finding:** During our review of the County's internal controls over vendor disbursements, we noted 22 items out of 40 disbursements selected for testing (out of a population of 662 disbursements) did not have evidence of a review or an approval of the Principal Construction Inspector for payment.

In addition, during our review of the County's internal controls over payroll, we noted 1 item out of 40 payroll disbursements selected for testing (out of a population of 1,170 transactions) did not have evidence of a review or an approval of the the supervisor.

**Recommendation:** We recommend the County evaluate the effectiveness of its current internal controls over disbursements (payroll and non-payroll). We also recommend the County provides training for all supervisory employees to reinforce the County's disbursement policies and procedures.

**Status** Corrective action has been implemented.

**This Page is Intentionally Left Blank**