San Diego Regional Building Authority

A Blended Component Unit of
the County of San Diego

Financial Statements

For the Fiscal Year Ended June 30, 2014

CONTENTS

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

COMMERCIAL ACCOUNTING & TAX SERVICES
433 N. CAMDEN DR., SUITE 730
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.670.1689
www.mlhcpas.com

GOVERNMENTAL AUDIT SERVICES
5800 E. HANNUM, SUITE E
CULVER CITY, CA 90230
TEL: 310.670.2745
FAX: 310.670.1689
www.mlhcpas.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Regional Building Authority
San Diego, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the San Diego Regional Building Authority (Authority), a component unit of the County of San Diego, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority'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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the San Diego Regional Building Authority, as of June 30, 2014, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Change in Accounting Principle

For the fiscal year ended June 30, 2014, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities,* Statement No. 66, *Technical Correction-2012,* Statement No. 67, *Financial Reporting for Pension Plans,* and Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule of the General Fund on page 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2014 on our consideration of the Authority's internal control over financial reporting and 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 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 Authority's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
December 4, 2014

STATEMENT OF NET POSITION

June 30, 2014

		Governmental Activities
ASSETS		
Pooled cash and investments	$	14,363,110
Interest receivable		14,220
Restricted assets:		
Investments with fiscal agents		996,694
Leases receivable		237,406,231
Total assets		252,780,255
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunding of long-term debt		3,576,217
Total deferred outflows of resources		3,576,217
LIABILITIES		
Accounts payable		1,600
Interest payable		2,883,179
Long-term debt principal outstanding:		
Due within one year		6,516,632
Due in more than one year		140,173,947
Total liabilities		149,575,358
NET POSITION		
Restricted for:		
Creditors-Capital projects		2,645,955
Creditors-Debt service		9,807,766
Unrestricted		94,327,393
Total net position	$	106,781,114

Statement of Activities

For the Year Ended June 30, 2014

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Primary Government:					
General government	$ 19,324				(19,324)
Rental income		1,596,986			1,596,986
Repairs and maintenance	1,867,498				(1,867,498)
Interest expense	7,767,308				(7,767,308)
Total governmental activities	$ 9,654,130	1,596,986			(8,057,144)
General Revenues:					
Investment earnings					63,497
Total general revenues					63,497
Change in net position					(7,993,647)
Net position at beginning of year (restated, see Note 8 to the financial statements)					114,774,761
Net position at end of year					106,781,114

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	Debt Service Fund	Special Revenue Fund	Total Governmental Funds
ASSETS				
Pooled cash and investments	$ 35,491	11,684,265	2,643,354	14,363,110
Interest receivable	33	11,586	2,601	14,220
Restricted assets:				
Investments with fiscal agents		996,694		996,694
Leases receivable		237,406,231		237,406,231
Total assets	35,524	250,098,776	2,645,955	252,780,255
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable		1,600		1,600
Total liabilities		1,600		1,600
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue		237,406,231		237,406,231
Total deferred inflows of resources		237,406,231		237,406,231
FUND BALANCES				
Restricted for:				
Creditors-Capital projects			2,645,955	2,645,955
Creditors-Debt service		12,690,945		12,690,945
Unassigned	35,524			35,524
Total fund balances	35,524	12,690,945	2,645,955	15,372,424
Total liabilities, deferred inflows of resources and fund balances	$ 35,524	250,098,776	2,645,955	252,780,255

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
June 30, 2014

Total fund balances - governmental funds.	$	15,372,424
Long-term liabilities applicable to the Authority's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, current and long-term, are recorded in the statement of net position.		(144,875,000)
Unamortized loss on refundings (to be amortized as interest expense).		3,576,217
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds and recognized as revenue in the statement of activities.		237,406,231
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expense when due.		(2,883,179)
Certificates of participation and bond premiums are recognized as other financing sources in governmental funds in the year of sale. In the government-wide statements, the premiums are amortized as interest over the life of the corresponding certificates of participation and bonds.		(1,815,579)
Net position of governmental activities	$	106,781,114

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2014

		General Fund	Debt Service Fund	Special Revenue Fund	Total Governmental Funds
Revenues:					
Investment earnings	$	133	47,603	15,761	63,497
Rental income		1,867,498	13,161,857		15,029,355
Total revenues		1,867,631	13,209,460	15,761	15,092,852
Expenditures:					
Repairs and maintenance		1,867,498			1,867,498
Administrative			19,324		19,324
Debt service:					
Principal			6,060,000		6,060,000
Interest			7,372,369		7,372,369
Total expenditures		1,867,498	13,451,693		15,319,191
Net change in fund balances		133	(242,233)	15,761	(226,339)
Fund balances at beginning of year		35,391	12,933,178	2,630,194	15,598,763
Fund balances at end of year	$	35,524	12,690,945	2,645,955	15,372,424

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds	$	(226,339)
Repayments of bond and certificates of participation principal are reported as an expenditure in governmental funds and thus has the effect of reducing fund balance because current financial resources have been used. For the Authority as a whole, however, the principal payments reduce the liabilities in the statement of net position and do not result in an expense in the statement of activities. The Authority's long-term debt was reduced by the amount of principal payments made to bond and certificates of participation holders.		6,060,000
Leases receivable reported in the governmental funds, offset by deferred inflows of resources, are not available to pay current expenditures. Likewise, when leases are collected, they are reflected as revenue.		(13,432,369)
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.		(394,939)
Change in net position - governmental activities	$	(7,993,647)

NOTE 1

Summary of Significant Accounting Policies

The accounting policies of the San Diego Regional Building Authority (the "Authority") conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

The following is a summary of the more significant policies.

The Reporting Entity

The Authority, created under a Joint Powers Agreement between the County of San Diego (the "County") and the San Diego Metropolitan Transit Development Board ("MTDB"), dated August 27, 1987, is a separate entity constituting a public instrumentality of the State of California. As of 2003, the MTDB is renamed the San Diego Metropolitan Transit System ("MTS"). The Authority is an independent legal entity governed by a commission of three members who receive no compensation. Per the Joint Powers Authority, one of the three members is appointed by the "MTS", a second member is the County Supervisor who sits on the Trolley Board, and the third member is the County Supervisor who sits on the MTS Board.

The Authority was originally formed to develop, construct, and contract for the operation of a ten-story office complex containing approximately 180,000 square feet which is situated over a light rail trolley transfer station which includes a parking garage and a freestanding clock tower. This facility is located within the City of San Diego.

In addition, the Authority entered into an agreement with the San Miguel Consolidated Fire Protection District during fiscal year 1991 to finance the design, acquisition, and construction of a fire station. The construction was completed in December 1991.

In fiscal year 2009, the Authority issued the San Diego Regional Building Authority Lease Revenue Bonds (County Operations Center and Annex project) Series 2009A to finance the acquisition, construction and improvement of County facilities, including facilities to be used as an operations center by the County of San Diego. The overall development of the project is referred to as the "COC Project".

Principal and Interest payments on these bonds are secured by base rental payments to be made by the County pursuant to the Facility Lease dated February 1, 2009 by and between the Authority and the County.

Financial Reporting Structure

Basic Financial Statements

The basic financial statements include both government-wide financial statements and fund financial statements. The reporting model based on GASB Statement 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*", was developed to make annual reports of state and local governments easier to understand and more useful to the people who use governmental financial information to make decisions.

Government-wide Financial Statements

The government-wide financial statements (statement of net position and statement of activities) display information about the Authority and the change in aggregate financial position resulting from the activities of the fiscal period.

In the statement of net position, the governmental activities are presented on a consolidated basis and are reflected on a full accrual, economic resource basis, which incorporates long-term debt. The net position of the Authority is categorized as restricted and unrestricted.

The statement of activities reports expenses and revenues in a format that focuses on the cost of each of the Authority's functions and demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues for the Authority consist of rental income. Other items not properly included among program revenues are reported as general revenues; which for the Authority, consist of investment earnings.

Fund Financial Statements

The fund financial statements are presented after the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements and are presented on a current financial resources and modified accrual basis of accounting.

GASB Statement No. 34 requires that the Authority's major governmental type funds be identified and presented separately in the fund financial statements.

Major funds are defined as funds that have assets, liabilities, revenues, or expenditures equal to or greater than ten percent of their fund-type total and five percent of the grand total.

The Authority reported the following major governmental funds in the accompanying financial statements:

General Fund - This fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund is the Authority's operating fund.

Debt Service Fund - The Debt Service Fund was established to pay maturing principal and interest on the Refunding Lease Revenue Bonds and the Certificates of Participation. The lease payments received from the lessees for each project are used to pay the debt service.

Special Revenue Fund - The Special Revenue Fund was established to account for the proceeds of the 2009 Series A issuance which will fund the construction and development of the COC Project. Even though the fund incurs expenditures to fund project activities, these expenditures recorded in this fund do not result in assets being capitalized on the statement of net position of the Authority.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are susceptible to accrual when measurable and available. Investment earnings and charges for services are accrued when their receipt occurs within 180 days following the end of the fiscal year. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. General principal payments are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

When both *restricted and unrestricted resources* are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance

Cash and Investments

Investments are reported at fair value which is determined using various methods. Short-term investments are reported at cost, which approximates fair value. Investments in government obligations are valued on over-the-counter bid quotations available at fiscal year-end. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

Leased Property

The Authority has entered into direct financing leases of property with the County, MTS and the San Miguel Consolidated Fire Protection District. Capitalized lease receivables are shown as restricted assets on the government-wide statement of net position and the governmental funds balance sheet. Revenue from these financing leases is reported in the applicable government-wide statement of activities and governmental funds statements of revenues, expenditures, and changes in fund balances.

Deferred Outflows and Inflows of Resources

The Authority reports deferred outflows and inflows of resources. A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period. A deferred inflow of resources represents an acquisition of net position that is applicable to a future period.

Under the modified accrual basis of accounting, it is not enough that revenue has been earned if it is to be recognized as a revenue of the current period. Revenue must also be susceptible to accrual; it must be both measurable and available to finance expenditures of the current fiscal period. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding deferred inflow of resources. This type of deferred inflow is unique to governmental funds, since it is tied to the modified accrual basis of accounting, which is used only in connection with governmental funds.

Occasionally, the Authority refunds some of its existing debt. When this occurs, the difference between the funds required to retire (reacquisition price of) the refunded debt and the net carrying amount of refunded debt results in a deferred amount on refunding. If there is an excess of the reacquisition price of refunded debt over its net carrying amount, it is treated as a deferred outflow of resources (a deferred loss on refunding). If there is an excess net carrying value amount of refunded debt over its reacquisition price, it is treated as a deferred inflow of resources (a deferred gain on refunding).

Long-Term Obligations

General long-term liabilities are not reported as liabilities in governmental funds but are reported in the governmental activities column in the government-wide statement of net position. Long-term liabilities reported in the statement of net position include the amount due in one year (current) and the amount due in more than one year (noncurrent).

Debt may be issued at par (face) value, with a premium (applicable to debt issued in excess of face value) or at a discount (applicable to debt issued at amounts less than the face value). In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the governmental fund financial statements, bond premiums and discounts are recognized during the current period. The face amount of the debt issued and premiums are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

General Budget Policies

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (USGAAP). Each fiscal year, the Authority's board adopts an operating budget for the General Fund on the modified accrual basis and in a manner consistent with USGAAP. Annual budgets are not required to be adopted for the Authority's Special Revenue Fund.

Fund Balance

In the fund financial statements, governmental funds report fund balance in classifications that comprise a hierarchy based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in the Authority funds can be spent. These classifications include: nonspendable; restricted; and the unrestricted classifications of committed, assigned and unassigned. When both restricted and unrestricted resources are available for use, fund balance is generally depleted by restricted first, followed by unrestricted resources in the following order: committed, assigned and unassigned.

The fund balance classifications are defined as follows:

Nonspendable fund balance - amounts that cannot be spent because they are either (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 and prepaid amounts.

Restricted fund balance - amounts with constraints placed on their use that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (the Board of Commissioners of the San Diego Regional Building Authority). Those committed amounts cannot be used for any other purpose unless the Authority removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned fund balance - amounts that are constrained by the Authority's *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by the highest level of decision making authority (the Board of Commissioners of the San Diego Regional Building Authority), or by a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. In the Authority, this intent is generally expressed by the Board of Commissioners.

Unassigned fund balance - the residual classification that may only be used by the General Fund. The classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The Authority does not have nonspendable, committed, or assigned fund balances at June 30, 2014.

Net Position

In the government-wide financial statements, net position is reported in two categories: restricted net position and unrestricted net position. Restricted net position represents assets restricted by parties outside of the Authority (such as creditors, grantors, contributors, laws, and regulations of other governments).

Unrestricted net position consists of net position that does not meet the definition of restricted net position.

Estimates

The preparation of 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 amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2

Restricted Assets

Restricted assets include monies or other resources required to be set aside to repay principal and interest under debt covenants. For fiscal year 2014, the Authority had $238,402,925 in restricted assets: $996,694 in investments held with the trustee bank; and, $237,406,231 in leases receivable from the County, MTS and the San Miguel Consolidated Fire Protection District for the financing leases of property.

NOTE 3

Reconciliation of Government-Wide and Fund Financial Statements

Balance Sheet/Net Position

Explanations of certain differences between the governmental funds balance sheet and the government-wide statement of net position are detailed below:

Table 1

Governmental Fund Balance Sheet / Government-Wide Statement of Net Position Reconciliation At June 30, 2014

Long-term liabilities applicable to the Authority's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, current and long-term, are recorded in the statement of net position.		
2011 Certificates of Participation	$	(13,090,000)
2003 Refunding Lease Revenue Bonds		(4,575,000)
2009 Lease Revenue Bonds		(127,210,000)
	$	(144,875,000)
Deferred outflows of resources (loss on refunding of long-term debt, net of accumulated amortization) are not reported in the governmental funds.		
2011 Certificates of Participation	$	3,023,004
2003 Refunding Lease Revenue Bonds		553,213
	$	3,576,217
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example receivables) are offset by deferred inflows of resources in the governmental funds and thus are not included in fund balance.		
Deferred inflows of resources (unavailable revenue):		
2011 Certificates of Participation	$	14,782,950
2003 Refunding Lease Revenue Bonds		5,337,425
2009 Lease Revenue Bonds		217,285,856
	$	237,406,231
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expense when due.		
Interest payable:		
2011 Certificates of Participation	$	(93,733)
2003 Refunding Lease Revenue Bonds		(103,219)
2009 Lease Revenue Bonds		(2,686,227)
	$	(2,883,179)
Certificates of participation premium and bond premiums are recognized as other financing sources in governmental funds in the year of sale. In the government-wide statements, the premiums are amortized as interest over the life of the corresponding certificates of participation and bonds.		
Premiums:		
2011 Certificates of Participation	$	(776,069)
2003 Refunding Lease Revenue Bonds		(96,860)
2009 Lease Revenue Bonds		(942,650)
	$	(1,815,579)

Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities

Explanations of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities are detailed below:

Table 2

Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities Reconciliation
For the Year Ended June 30, 2014

Repayment of bond and certificates of participation principal are reported as expenditures in governmental funds and thus have the effect of reducing fund balance because current financial resources have been used. For the Authority as a whole, however, the principal payments reduce the liabilities in the statement of net position and do not result in an expense in the statement of activities. The Authority's long-term debt was reduced by the amount of principal payments made to bond and certificates of participation holders.				
2011 Certificates of Participation			$	2,085,000
2009 Lease Revenue Bonds				3,320,000
2003 Refunding Lease Revenue Bonds				655,000
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities			$	6,060,000
Leases receivable reported in the governmental funds offset by unavailable revenue are not available to pay current expenditures. Likewise, when the leases are collected, they are reflected as revenue. This is the change to leases receivable during the fiscal year.				
2011 Certificates of Participation			$	(2,668,250)
2009 Lease Revenue Bonds				(9,874,844)
2003 Refunding Lease Revenue Bonds				(889,275)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities			$	(13,432,369)
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. The details of this $(394,939) difference are as follows:				
Accrued interest				
2011 Certificates of Participation	$	6,950		
2003 Refunding Lease Revenue Bonds		13,918		
2009 Lease Revenue Bonds		44,958		
			$	65,826
Amortization of premium				
2011 Certificates of Participation	$	145,513		
2003 Refunding Lease Revenue Bonds		17,612		
2009 Lease Revenue Bonds		43,507		
			$	206,632
Amortization of deferred loss on refunding				
2011 Certificates of Participation	$	(566,813)		
2003 Refunding Lease Revenue Bonds		(100,584)		
			$	(667,397)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities			$	(394,939)

NOTE 4

Pooled Cash and Investments

The Authority's cash and cash equivalents totaling $14,363,110 are reported on the balance sheet and statement of net position as "Pooled Cash and Investments". The County maintains a cash and investment pool that is available for use by all funds of the County and other agencies for which the County treasury is the depository. Interest earned on the pooled funds is accrued in a pooled interest apportionment fund and is allocated quarterly based on the average daily cash balances of the participating funds. It is adjusted to reflect fair value per GASB Statement No. 31.

Further disclosures regarding the County's cash and investment pool and investment policy are included in the notes to the County's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014.

NOTE 5

Investments with Fiscal Agents

The Authority has funds totaling $996,694 held by a trustee/fiscal agent to be used for the payment or security of certain bonds. California Government Code Section 53601 provides these funds, in the absence of specific statutory provisions governing the issuance of bonds, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its trustees or fiscal agents may make.

These ordinances, resolutions, and indentures are generally more restrictive than the Authority's general investment policy. In no instance have additional types of investments, not permitted by the Authority's general investment policy, been authorized.

Investments Authorized by Debt Agreements

Investments of debt proceeds held by a debt trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy. Table 3 identifies the investment types that are authorized for investments held by a debt trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Table 3

Authorized Investment Types	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	None	None
Local Agency Obligations	5 years	None	None
Bankers' Acceptances	180 Days	40%	30%
Commercial Paper, Prime Quality	270 Days	None	None
Medium Term Notes	5 years	30%	None
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Investment Agreements	5 years	None	None
Money Market Mutual Funds	N/A	None	None
Local Agency Investment Fund (State Pool)	N/A	None	None
Mortgage Pass-Through Securities	5 years	20%	None
Mortgage-Backed Securities	5 years	20%	None
Collateralized Mortgage Obligations	5 years	20%	None
San Diego County Pooled Investment Fund	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority's investments and those held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

Table 4

		Remaining Maturity (in Months)					
Investment Type	Totals	12 Months or Less	13 to 24 Months	25 to 36 Months	37 to 48 Months	49 to 60 Months	More than 60 Months
Held by Trustee							
U.S. Treasury Money Market	$ 996,694	$ 996,694	$ -	$ -	$ -	$ -	$ -
	$ 996,694	$ 996,694	$ -	$ -	$ -	$ -	$ -

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below in Table 5 is the minimum rating (where applicable) required by the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Table 5

Investment Type		Amount	Minimum Legal Rating	Ratings as of Fiscal Year End Moody's	Fitch	S&P
Held by Trustee						
U.S. Treasury Money Market						
First American Treasury Obligations Fund	$	996,694	N/A	Aaa-mf	AAAmmf	AAAm
U.S. Treasury Money Market Total		996,694				
	$	996,694				

Concentration of Credit Risk - Investments

This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. No general policies have been established to limit the amount of exposure to any one single issuer, however, monies held by trustees on behalf of the Authority may generally only be invested in permitted investments specified in trustee or indenture agreements. Instruments in any one issuer that represent 5% or more of the Authority's investments with fiscal agents by individual major funds at June 30, 2014 are shown in Table 6.

Table 6

Concentration of Credit Risk

Issuer		Debt Service Fund	Percent
First American Treasury Obligations Fund	$	996,694	100

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government 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 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 Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. 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 the Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2014, the Authority has all of its deposits pooled with the County. As of June 30, 2014, the Authority investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the Authority to buy the securities:

Table 7

Investment Type		Totals
U.S. Treasury Money Market	$	996,694
	$	996,694

NOTE 6

Changes in Long-Term Debt

Long-term liability activities for the year ended June 30, 2014 were as follows:

Table 8

Changes in Long-Term Liabilities

	Beginning Balance at July 1, 2013	Additions	Reductions	Ending Balance at June 30, 2014	Amounts Due Within One Year
2003 Refunding Lease Revenue Bonds	$ 5,230,000		655,000	4,575,000	$ 680,000
2009 Lease Revenue Bonds	130,530,000		3,320,000	127,210,000	3,430,000
2011 Certificates of Participation	15,175,000		2,085,000	13,090,000	2,200,000
Total long-term debt principal outstanding	150,935,000		6,060,000	144,875,000	6,310,000
Unamortized issuance premiums	2,022,211		206,632	1,815,579	206,632
Unamortized deferred loss on refunding (1)	(4,243,615)		4,243,615		
Total	$ 148,713,596		10,510,247	146,690,579	$ 6,516,632

(1) The reduction of the Unamortized deferred loss on refunding of $4,243,615 is due to the reclassification from Noncurrent Liabilities to Deferred Outflows of Resources on the Statement of Net Position to comply with Governmental Accounting Standards Board Statement No. 65

NOTE 7

Long-Term Debt

Metropolitan Transit (MTS) Towers Project

2011 Certificates of Participation

On May 3, 2011, the San Diego Regional Building Authority (SDRBA) issued $19.260 million of fixed rate serial Certificates of Participation titled, 2011 MTS Tower Refunding (the "Certificates"). These certificates have maturity dates beginning on November 1, 2011 with a final maturity of November 1, 2019. Each maturity date carries a different fixed interest rate beginning in November 2011 at a fixed rate of 1 percent with fixed rates ranging to 5 percent.

These Certificates were issued with a premium of $1.237 million. The $20.497 million in proceeds of the Certificates along with $3.437 million of funds held by the 2001 MTS Refunding trustee (trustee) were distributed as follows: 1) $22.211 million (consisting of $18.774 million of new Certificate proceeds plus $3.437 million of funds held by the trustee) was transferred to an escrow agent to advance refund the entire $22.115 million 2001 Metropolitan Transit System Towers Refunding Certificates of Participation outstanding and to pay future interest payments; 2) $1.359 million to fund a Certificate reserve fund; 3) $364 thousand was set aside to pay certain costs of issuance.

As of June 30, 2014 the outstanding balance was $13,090,000.

The future minimum debt service requirements for the MTS COPs are as follows:

Table 9

Metropolitan Transit System (MTS) Towers Project
2011 Certificates of Participation
Debt Service Requirements to Maturity

Fiscal Year Ended June 30	Principal	Interest	Total
2015	$ 2,200,000	518,400	$ 2,718,400
2016	2,220,000	430,000	2,650,000
2017	2,340,000	338,800	2,678,800
2018	2,450,000	243,000	2,693,000
2019	2,565,000	129,875	2,694,875
2020	1,315,000	32,875	1,347,875
Subtotal	$ 13,090,000	1,692,950	$ 14,782,950
Add:			
Unamortized issuance premium	776,069		
Total	$ 13,866,069		

San Miguel Consolidated Fire Protection District

On October 7, 2003, the Authority issued $10.005 million of Refunding Lease Revenue Bonds, Series 2003 pursuant to a trust agreement between trustee (U.S. Bank National Association) to advance refund $13.095 million of 1993A Refunding Lease Revenue Bonds issued on September 1, 1993. The gross proceeds of $10.291 million include the par amount of $10.005 million and a reoffering premium of $286 thousand. This amount plus the prior debt service reserve fund of $947 thousand and San Miguel Fire

Protection District contribution of $500 thousand were used as follows: $10.512 million was deposited into a trust with an escrow agent to provide for all future debt service payments on the 1993A Certificates of Participation, $894 thousand was deposited to a debt service reserve fund, and $332 thousand was used to pay costs of issuance, underwriter's discount, and bond insurance.

The 2003 Refunding Lease Revenue Bonds (Revenue Bonds) pay various interest rates ranging from 2.00% to 4.50%. Interest represented by the Revenue Bonds is payable on July 1 and January 1 of each year commencing on July 1, 2004. The Revenue Bonds mature on various dates beginning on January 1, 2005, with a final maturity date of January 1, 2020.

As of June 30, 2014 the outstanding balance was $4,575,000.

The future minimum debt service requirements for the Revenue Bonds are as follows:

Table 10

**San Miguel Consolidated Fire Protection District (SM)
2003 Refunding Lease Revenue Bonds
Debt Service Requirements to Maturity**

Fiscal Year Ended June 30	Principal	Interest	Total
2015	$ 680,000	206,438	$ 886,438
2016	715,000	177,537	892,537
2017	740,000	147,150	887,150
2018	775,000	113,850	888,850
2019	810,000	78,975	888,975
2020	855,000	38,475	893,475
Subtotal	$ 4,575,000	762,425	$ 5,337,425
Add:			
Unamortized issuance premium	96,860		
Total	$ 4,671,860		

San Diego Regional Building Authority Lease Revenue Bonds - County Operations Center and Annex Project

In February 2009, the Authority issued $136.885 million of fixed rate serial and term lease revenue bonds titled, "County Operations Center and Annex Project Series 2009 A" (the "Bonds"). These Bonds consist of $87.350 million Serial Series 2009 A Bonds issued at fixed interest rates ranging from 3.00% to 5.50% with maturity dates ranging from February 1, 2012 through February 1, 2030 and $49.535 million Term Bonds issued at a fixed rate of 5.38% with a maturity date of February 1, 2036.

These Bonds were issued with a premium of $1.175 million. Bond proceeds of $138.060 million along with County contributions of $66.243 million were distributed as follows: 1) $178.401 million to finance the acquisition, construction and improvement of certain County facilities, including facilities to be used as an operation center located in the Kearny Mesa community of San Diego County; 2) $14.492 million to fund capitalized interest to pay interest during the construction period; 3) $9.879 million to fund a Reserve Fund; 4) and $1.507 million to pay certain costs of issuance incurred in connection with these bonds; and $24 thousand was set aside to be used for various ongoing debt related costs.

As of June 30, 2014 the outstanding balance was $127,210,000.

The future minimum debt service requirements for the Revenue Bonds are as follows:

Table 11

**County Operations Center and Annex Project (COC)
2009 Lease Revenue Bonds
Debt Service Requirements to Maturity**

Fiscal Year Ended June 30	Principal	Interest	Total
2015	$ 3,430,000	6,446,944	$ 9,876,944
2016	3,565,000	6,309,744	9,874,744
2017	3,710,000	6,167,144	9,877,144
2018	3,860,000	6,018,744	9,878,744
2019	4,015,000	5,862,644	9,877,644
2020-2024	22,950,000	26,431,319	49,381,319
2025-2029	29,305,000	20,075,624	49,380,624
2030-2034	38,105,000	11,277,775	49,382,775
2035-2036	18,270,000	1,485,918	19,755,918
Subtotal	$ 127,210,000	90,075,856	$ 217,285,856
Add:			
Unamortized issuance premium	942,650		
Total	$ 128,152,650		

NOTE 8

Restatement

Change in Accounting Principle

Pursuant to GASB Statement Number 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, the Authority no longer amortizes the costs of debt issuance (deferred charges). These amounts should be expensed in the year they are incurred. The Authority made adjustments for the items as a cumulative effect of a change in accounting principle in 2014. The $116.428 million beginning net position for fiscal year 2014 was decreased by deferred charges of $1.653 million which resulted in a restatement of the beginning net position to $114.775 million.

The effect of the adoption of GASB 65 on fiscal year 2013 is shown below in **Table 12.**

Table 12

Restatement of Beginning Net Position Government-Wide

Governmental Activities	2013 Previously Presented	Restatement	2013 Restatement
Deferred charges	$ 1,652,809	$ (1,652,809)	$
Net position	116,427,570	(1,652,809)	114,774,761
General government expenses	12,151,990	(116,522)	12,035,468
Changes in net position	(20,195,897)	116,522	(20,079,375)
Net position, beginning of year	136,623,467	1,769,331	134,854,136

NOTE 9

Future Lease Income

Direct Financing Leases

MTS Towers- Project

The Authority has entered into a direct financing lease of the land and building with the County. This lease is disclosed as long-term debt on the County's financial statements as the Authority is a blended component unit of the County of San Diego. Upon final payment of principal and interest on the 2011 MTS COPs, the building will be transferred to MTS. Similarly, upon final payment of principal and interest on the 2011 MTS COPs, 78.04% of the parking structure will transfer to the County of San Diego and 21.96% will transfer to MTS.

It is the obligation of the County to make the full lease payments to the Authority. However, the County subleases a portion of the building to MTS. The County's share of the lease payment is 72.39%, and MTS's portion is 27.61%. The lease payments received will be used to pay the debt service on the MTS COPs.

The total future minimum lease payments to be received are as follows:

Table 13

Metropolitan Transit System (MTS) Towers Project 2011 Certificates of Participation Minimum Lease Payments

Fiscal Year Ended June 30	County of San Diego	MTS	Total
2015	$ 1,967,850	750,550	$ 2,718,400
2016	1,918,335	731,665	2,650,000
2017	1,939,183	739,617	2,678,800
2018	1,949,463	743,537	2,693,000
2019	1,950,820	744,055	2,694,875
2020	975,727	372,148	1,347,875
Total minimum lease payments receivable	$ 10,701,378	4,081,572	$ 14,782,950

San Miguel Consolidated Fire Protection District

On October 1, 2003, the direct financing lease between the Authority and the San Miguel Consolidated Fire Protection District for the construction of the fire station was amended and restated relating to the $10.005 million Refunding Lease Revenue Bonds, Series 2003. The lease payments to be received will be used to pay the debt service on the Lease Revenue Bonds, Series 2003. The lease expires on January 1, 2020. This lease is disclosed as long-term debt on the County's financial statements as the Authority is a blended component unit of the County of San Diego.

The total future minimum lease payments to be received are as follows:

Table 14

San Miguel Consolidated Fire Protection District (SM) 2003 Refunding Lease Revenue Bonds Minimum Lease Payments

Fiscal Year Ended June 30	Amount
2015	$ 886,438
2016	892,537
2017	887,150
2018	888,850
2019	888,975
2020	893,475
Total minimum lease payments receivable	$ 5,337,425

County Operations Center and Annex Project

The Authority has entered into a direct financing lease of land and buildings with the County. Pursuant to the "Facility Lease", the County will sublease from the Authority the "Leased Property" which consists of the "Real Property"- 37.2 acres of land - and the "2009 Project"- a central plant, two 150,000 square-foot office buildings, a seven level parking structure and related improvements. The land and buildings are included in the County's Basic Financial Statements. This lease is disclosed as long-term debt on the County's financial statements as the Authority is a blended component unit of the County of San Diego.

It is the obligation of the County to make the full lease payments to the Authority. The lease payments received will be used to pay the debt service on the Lease Revenue Bonds.

The total future minimum lease payments to be received are as follows:

Table 15
County Operations Center and Annex Project (COC)
2009 Lease Revenue Bonds
Minimum Lease Payments

Fiscal Year Ended June 30		Total
2015	$	9,876,944
2016		9,874,744
2017		9,877,144
2018		9,878,744
2019		9,877,644
2020-2024		49,381,318
2025-2029		49,380,625
2030-2034		49,382,775
2035-2036		19,755,918
Total minimum lease payments receivable	$	217,285,856

Operating Leases

County Operations Center and Annex Project

On February 1, 2009, a Site Lease was executed between the Authority (lessee) and the County (lessor), for the "Real Property" - that portion of land upon which the 2009 Project is constructed. The term of the lease is 28 years and expires simultaneously with the Facility lease. The lease does not meet the criteria for capitalization under Governmental Accounting Standards Board (GASB) Statement No. 62, and is, therefore, accounted for as an operating lease. Operating leases do not give rise to property rights or lease obligations and, therefore, the result of this lease agreement is not reflected in the Authority's statements.

Upon the execution and delivery of the Facility lease on February 1, 2009, the Authority paid to the County an advance rent of $1 which constituted full payment over the term of the lease.

MTS Towers Project

On November 1, 1987, a Ground Lease was executed between the Authority (lessee) and MTDB (lessor), for that portion of land upon which the office structure was constructed. The term of the lease is 99 years; however, the tenant has the option to terminate the lease on November 1, 2042, and each tenth anniversary thereafter. The lease does not meet the criteria for capitalization under Governmental Accounting Standards Board (GASB) Statement No. 62, and is, therefore, accounted for as an operating lease. Operating leases do not give rise to property rights or lease obligations and, therefore, the result of this lease agreement is not reflected in the Authority's statements.

Per an amendment to the Ground Lease, dated May 1, 2011, the minimum rent was adjusted to $1 per fiscal year as long as the Certificates of Participation (COPs) issued on May 3, 2011 and any additional Certificates, as defined in the Certificate Trust Agreement, remain outstanding. The May 3, 2011 COPs are currently scheduled to be paid off by November 1, 2019.

Commencing on November 1 when the last outstanding COPs are paid in full (November 1, 2019), the Authority shall pay monthly minimum lease payments of $32,164, adjusted on November 1, 2012 and November 1, 2017 (CPI Adjustment Date) by multiplying the rate of such minimum rent in effect immediately prior to the CPI Adjustment Date by a fraction, the numerator of which shall be the most recent Index available as of the CPI Adjustment Date, and the denominator of which shall be the most recent Index available as of November 1, 2007, for the November 1, 2012 CPI Adjustment Date and November 1, 2012, for the November 1, 2017 CPI Adjustment Date.

On November 1, 2012, the first CPI Adjustment Date, the monthly minimum lease payment was adjusted to $35,599.95. This adjustment is reflected in Table 15.

On November 1, 2019, the minimum rent shall be adjusted to eight percent (8%) of seventy percent (70%) of the fair market value of the premises, as mutually agreed upon by the MTDB and the Authority.

Future minimum rental payments, exclusive of future Consumer Price Index adjustments and renewal of the lease on November 1, 2042, are as follows:

Table 16

Metropolitan Transit System (MTS) Towers Project
2011 Certificates of Participation
Minimum Operating Lease Payments

Fiscal Year Ended June 30		Total
2015	$	1
2016		1
2017		1
2018		1
2019		1
2020-2024		1,993,597
2025-2029		2,135,997
2030-2034		2,135,997
2035-2039		2,135,997
2040-2043		1,423,998
Total minimum payment required	$	9,825,591

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES- BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual
Revenues:			
Investment earnings	$		133
Rental income	1,867,498	1,867,498	1,867,498
Total revenues	1,867,498	1,867,498	1,867,631
Expenditures:			
Repairs and maintenance	1,867,498	1,867,498	1,867,498
Total expenditures	1,867,498	1,867,498	1,867,498
Net change in fund balances			133
Fund balances at beginning of year	35,391	35,391	35,391
Fund balances at end of year	$ 35,391	35,391	35,524

Note To Required Supplementary Information - Budgetary Information

General Budget Policies

An operating budget is adopted each fiscal year by the Commission of the San Diego Regional Building Authority for the General Fund. Annual budgets are not required to be adopted for the Debt Service and Special Revenue funds.

The schedule of revenues, expenditures, and changes in fund balances - budget and actual for the General Fund that is presented as Required Supplementary Information was prepared in accordance with generally accepted accounting principles (GAAP).

The Original Budget consists of the adopted budget. The Final Budget includes the Original Budget plus amended budget changes occurring during the fiscal year.

The Actual column represents the actual amounts of revenue and expenditures reported on the GAAP basis which is the same basis that is used to present the aforementioned original and final budget.

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

COMMERCIAL ACCOUNTING & TAX SERVICES
433 N. CAMDEN DR., SUITE 730
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.670.1689
www.mlhcpas.com

GOVERNMENTAL AUDIT SERVICES
5800 E. HANNUM, SUITE E
CULVER CITY, CA 90230
TEL: 310.670.2745
FAX: 310.670.1689
www.mlhcpas.com

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

Board of Directors
San Diego Regional Building Authority
San Diego, 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 and each major fund of the San Diego Regional Building Authority (Authority), a component unit of the County of San Diego, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 4, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Moss, Levy & Hartzheim, LLP
Culver City, California
December 4, 2014