

San Diego Regional Building Authority

*A Blended Component Unit of
the County of San Diego*

Financial Statements

For the Fiscal Year Ended June 30, 2016

Independent Auditor’s Report1

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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, 2016, 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, 2016, 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.

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 9, 2016 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 9, 2016

STATEMENT OF NET POSITION

June 30, 2016

| | Governmental Activities |
|---|------------------------------------|
| ASSETS | |
| Pooled cash and investments | \$ 5,632,093 |
| Interest receivable | 8,118 |
| Restricted assets: | |
| Investments with fiscal agents | 987,235 |
| Leases receivable | 180,005,853 |
| Total assets | 186,633,299 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Unamortized loss on refunding of long-term debt | 46,434,897 |
| Total deferred outflows of resources | 46,434,897 |
| LIABILITIES | |
| Interest payable | 1,447,989 |
| Long-term debt principal outstanding | |
| Due within one year | 7,087,441 |
| Due in more than one year | 132,425,635 |
| Total liabilities | 140,961,065 |
| NET POSITION | |
| Restricted for: | |
| Creditors-debt service | 5,143,695 |
| Unrestricted | 86,963,436 |
| Total net position | \$ 92,107,131 |

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|--------------------------------------|---------------------|-------------------------|---------------------------------------|-------------------------------------|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary Government: | | | | | |
| General government | \$ 769,322 | | | | (769,322) |
| Rental income | | 2,162,576 | | | 2,162,576 |
| Repairs and maintenance | 2,362,228 | | | | (2,362,228) |
| Interest expense | 5,903,785 | | | | (5,903,785) |
| Total governmental activities | \$ 9,035,335 | 2,162,576 | - | - | (6,872,759) |
| General Revenues: | | | | | |
| Investment earnings | | | | | 92,392 |
| Total general revenues | | | | | 92,392 |
| Change in net position | | | | | (6,780,367) |
| Net position at beginning of year | | | | | 98,887,498 |
| Net position at end of year | | | | | 92,107,131 |

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2016

| | General Fund | Debt Service Fund | Total Governmental Funds |
|--|------------------|--------------------|--------------------------|
| ASSETS | | | |
| Pooled cash and investments | \$ 35,738 | 5,596,355 | 5,632,093 |
| Interest receivable | 24 | 8,094 | 8,118 |
| Restricted assets: | | | |
| Investments with fiscal agents | | 987,235 | 987,235 |
| Leases receivable | | 180,005,853 | 180,005,853 |
| Total assets | 35,762 | 186,597,537 | 186,633,299 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue | | 180,005,853 | 180,005,853 |
| Total deferred inflows of resources | - | 180,005,853 | 180,005,853 |
| FUND BALANCES | | | |
| Restricted for: | | | |
| Creditors-debt service | | 6,591,684 | 6,591,684 |
| Unassigned | 35,762 | | 35,762 |
| Total fund balances | 35,762 | 6,591,684 | 6,627,446 |
| Total deferred inflows of resources and fund balances | \$ 35,762 | 186,597,537 | 186,633,299 |

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE
STATEMENT OF NET POSITION
June 30, 2016**

| | |
|--|----------------------|
| Total fund balances - governmental funds | \$ 6,627,446 |
| 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. | (117,180,000) |
| Unamortized loss on refunding, net of accumulated amortization, is not reported in the governmental funds. | 46,434,897 |
| Other long-term assets are not available to pay current period expenditures, and, therefore, are reported as unavailable revenue in the governmental funds and recognized as revenue in the statement of activities. | 180,005,853 |
| Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expense when due. | (1,447,989) |
| 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, premiums are amortized as interest over the life of the corresponding certificates of participation and bonds. | (22,333,076) |
| Net position of governmental activities | <u>\$ 92,107,131</u> |

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

For the Year Ended June 30, 2016

| | General Fund | Debt Service Fund | Special Revenue Fund | Total Governmental Funds |
|---|------------------|--------------------|----------------------|--------------------------|
| Revenues: | | | | |
| Investment earnings | \$ 129 | 87,591 | 4,672 | 92,392 |
| Rental income | 2,362,228 | 13,217,628 | | 15,579,856 |
| Total revenues | 2,362,357 | 13,305,219 | 4,672 | 15,672,248 |
| Expenditures: | | | | |
| Repairs and maintenance | 2,362,228 | | | 2,362,228 |
| Administrative | | 7,919 | | 7,919 |
| Debt service: | | | | |
| Principal | | 6,500,000 | | 6,500,000 |
| Interest | | 6,917,282 | | 6,917,282 |
| Bond issuance costs | | 761,403 | | 761,403 |
| Payment to refunded bond escrow agent | | 12,480,621 | | 12,480,621 |
| Total expenditures | 2,362,228 | 26,667,225 | - | 29,029,453 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 129 | (13,362,006) | 4,672 | (13,357,205) |
| Other financing sources (uses): | | | | |
| Issuance of bonds and loans: | | | | |
| Payment to refunded bond escrow agent | | (122,533,256) | | (122,533,256) |
| Refunding bonds issued | | 105,330,000 | | 105,330,000 |
| Premium on issuance of refunding bonds | | 22,162,836 | | 22,162,836 |
| Transfers In | | 2,526,752 | | 2,526,752 |
| Transfers Out | | | (2,526,752) | (2,526,752) |
| Total other financing sources (uses): | - | 7,486,332 | (2,526,752) | 4,959,580 |
| Net change in fund balances | 129 | (5,875,674) | (2,522,080) | (8,397,625) |
| Fund balances at beginning of year | 35,633 | 12,467,358 | 2,522,080 | 15,025,071 |
| Fund balances at end of year | \$ 35,762 | 6,591,684 | - | 6,627,446 |

**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, 2016**

| | | |
|---|----|--------------------|
| Net change in fund balances - total governmental funds | \$ | (8,397,625) |
| Repayment of bond and certificates of participation principal is 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, 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. | | 6,500,000 |
| Leases receivable reported in 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. This is the change to leases receivable during the fiscal year. | | (43,918,597) |
| The issuance of long-term debt (e.g. bonds, notes, and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. | | 38,022,358 |
| 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. | | 1,013,497 |
| Change in net position - governmental activities | \$ | <u>(6,780,367)</u> |

NOTE 1

Summary of Significant Accounting Policies

The accounting policies of the San Diego Regional Building Authority (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 (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 2016, the Authority issued the San Diego Regional Building Authority Lease Revenue Refunding Bonds (County Operations Center) Series 2016A to advance refund the San Diego Regional Building Authority Lease Revenue Bonds (County Operations Center and Annex Redevelopment Project) Series 2009A. The Series 2009A bonds were used 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 construction was completed in September 2015.

Principal and Interest payments on the refunding bonds are secured by base rental payments to be made by the County pursuant to the Facility Lease dated March 1, 2016 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 No. 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 resources 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 San Diego Regional Building Authority Lease Revenue Bonds Series 2009A issuance which funded the construction and development of the County Operations Center and Annex Project. Construction on the project was completed in September 2015 and all remaining residual balances in the fund have been transferred as directed by the trust indenture.

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.

Governmental Accounting Standards Board Statement No. 72 (GASB 72) Fair Value Measurement and Application establishes a hierarchy of inputs to valuation techniques used to measure fair value and requires disclosures to be made about investment fair value measurements, the level of fair value hierarchy, and valuation techniques.

According to GASB 72, an investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash.

Investments not measured at fair value continue to include, for example, money market mutual funds which are valued at net asset value of \$1 dollar per share (amortized cost).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement.

The Authority categorizes its fair value measurements within the fair value hierarchy established by GASB 72. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and,

- Level 3: Investments reflect prices based upon unobservable sources.

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, 2016.

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 2016, the Authority had \$180,993,088 in restricted assets: \$987,235 in investments held with the trustee bank; and, \$180,005,853 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, 2016

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.

| | | |
|------------------------------------|----|---------------|
| 2003 Refunding Lease Revenue Bonds | \$ | (3,180,000) |
| 2011 Certificates of Participation | | (8,670,000) |
| 2016 Lease Revenue Refunding Bonds | | (105,330,000) |
| | \$ | (117,180,000) |

Unamortized loss on refunding, net of accumulated amortization, is not reported in the governmental funds.

| | | |
|------------------------------------|----|------------|
| 2003 Refunding Lease Revenue Bonds | \$ | 352,046 |
| 2011 Certificates of Participation | | 1,889,377 |
| 2016 Lease Revenue Refunding Bonds | | 44,193,474 |
| | \$ | 46,434,897 |

Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the governmental funds and recognized as revenue in the statement of activities.

Unavailable revenue:

| | | |
|------------------------------------|----|-------------|
| 2003 Refunding Lease Revenue Bonds | \$ | 3,558,450 |
| 2011 Certificates of Participation | | 9,414,550 |
| 2016 Lease Revenue Refunding Bonds | | 167,032,853 |
| | \$ | 180,005,853 |

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expense when due.

Interest payable:

| | | |
|------------------------------------|----|-------------|
| 2003 Refunding Lease Revenue Bonds | \$ | (73,575) |
| 2011 Certificates of Participation | | (64,267) |
| 2016 Lease Revenue Refunding Bonds | | (1,310,147) |
| | \$ | (1,447,989) |

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, premiums are amortized as interest over the life of the corresponding certificates of participation and bonds.

Premiums:

| | | |
|------------------------------------|----|--------------|
| 2003 Refunding Lease Revenue Bonds | \$ | (61,636) |
| 2011 Certificates of Participation | | (485,043) |
| 2016 Lease Revenue Refunding Bonds | | (21,786,397) |
| | \$ | (22,333,076) |

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, 2016

Repayment of bond and certificates of participation principal is 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, 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.

| | |
|---|---------------------|
| 2003 Refunding Lease Revenue Bonds | \$ 715,000 |
| 2009 Lease Revenue Bonds | 3,565,000 |
| 2011 Certificates of Participation | 2,220,000 |
| Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities | <u>\$ 6,500,000</u> |

Leases receivable reported in 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. This is the change to leases receivable during the fiscal year.

| | |
|---|------------------------|
| 2003 Refunding Lease Revenue Bonds | \$ (892,537) |
| 2011 Certificates of Participation | (2,650,000) |
| 2016 Lease Revenue Refunding Bonds | (40,376,060) |
| Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities | <u>\$ (43,918,597)</u> |

The issuance of long-term debt (e.g. bonds, notes, and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

| | |
|---|----------------------|
| Debt issued or incurred | |
| Refunding bonds issued | \$ (105,330,000) |
| Plus: Premiums | (22,162,836) |
| Payment to refunded bond escrow agent | 135,013,877 |
| Deferred loss on refunding due to a change in lease provisions from the issuance of the 2016A bonds | 30,501,317 |
| Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities | <u>\$ 38,022,358</u> |

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 the governmental funds. The details of this \$1,013,497 difference are as follows:

| | |
|---|---------------------|
| Accrued interest | |
| 2003 Refunding Lease Revenue Bonds | \$ 15,194 |
| 2011 Certificates of Participation | 14,800 |
| 2016 Lease Revenue Refunding Bonds | 1,318,913 |
| | <u>1,348,907</u> |
| Amortization of premium | |
| 2003 Refunding Lease Revenue Bonds | \$ 17,612 |
| 2009 Lease Revenue Bonds | 29,005 |
| 2011 Certificates of Participation | 145,513 |
| 2016 Lease Revenue Refunding Bonds | 376,439 |
| | <u>568,569</u> |
| Amortization of deferred amount on refunding | |
| 2003 Refunding Lease Revenue Bonds | \$ (100,584) |
| 2011 Certificates of Participation | (566,813) |
| 2016 Lease Revenue Refunding Bonds | (236,582) |
| | <u>(903,979)</u> |
| Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities | <u>\$ 1,013,497</u> |

NOTE 4

Pooled Cash and Investments

The Authority's cash and cash equivalents totaling \$5,632,093 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, 2016.

Fair Value Measurement

Deposits and withdrawals in the County's cash and investment pool are made on the basis of \$1 and not fair value. Accordingly, the Authority's proportionate share of investments in the pool at June 30, 2016 of \$5,632,093 is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input on the GASB Statement No. 72 fair value hierarchy.

NOTE 5

Investments with Fiscal Agents

The Authority has funds totaling \$987,235 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.

| 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 | 25% | 10% |
| 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 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, which shows the distribution of the Authority's investments by maturity:

Table 4

| Investment Type | Totals | Remaining Maturity (in Months) | | | | | |
|----------------------------|-------------------|--------------------------------|-----------------|-----------------|--------------|--------------|---------------------|
| | | 12 Months or Less | 13 to 24 Months | 25 to 36 Months | 37-48 Months | 49-60 Months | More than 60 Months |
| Held by Trustee | | | | | | | |
| U.S. Treasury Money Market | \$ 987,235 | \$ 987,235 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total | \$ 987,235 | \$ 987,235 | \$ - | \$ - | \$ - | \$ - | \$ - |

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 | \$ 967,050 | AAAm | Aaa-mf | AAAmf | AAAm |
| Fidelity Investments Government Portfolio - Class III | 20,183 | AAAm | AAA-mf | N/A | AAAm |
| Invesco Treasury Portfolio | 2 | AAAm | Aaa-mf | AAAmf | AAAm |
| U.S. Treasury Money Market Total | 987,235 | | | | |
| Total | \$ 987,235 | | | | |

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, 2016 are shown in Table 6.

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.

Table 6

| Concentration of Credit Risk | | |
|--|-------------------|---------|
| Issuer | Debt Service Fund | Percent |
| First American Treasury Obligations Fund | \$ 967,050 | 98 |

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

As of June 30, 2016, the Authority has all of its deposits pooled with the County. As of June 30, 2016 the Authority's investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the Authority to buy the securities:

| Investment Type | Totals |
|----------------------------|-------------------|
| U.S. Treasury Money Market | \$ 987,235 |
| Total | \$ 987,235 |

NOTE 6

Changes in Long-Term Debt

Long-term liability activities for the year ended June 30, 2016 were as follows:

| Changes in Long-Term Liabilities | | | | | |
|---|--------------------------------------|--------------------|--------------------|------------------------------------|--------------------------------|
| | Beginning Balance at July 1, 2015 | Additions | Reductions | Ending Balance at June 30, 2016 | Amounts Due Within One Year |
| 2003 Refunding Lease Revenue Bonds | \$ 3,895,000 | | 715,000 | 3,180,000 | \$ 740,000 |
| 2009 Lease Revenue Bonds | 123,780,000 | | 123,780,000 | | |
| 2011 Certificates of Participation | 10,890,000 | | 2,220,000 | 8,670,000 | 2,340,000 |
| 2016 Lease Revenue Refunding Bonds | | 105,330,000 | | 105,330,000 | 2,715,000 |
| Total long-term debt principal outstanding | 138,565,000 | 105,330,000 | 126,715,000 | 117,180,000 | 5,795,000 |
| Unamortized issuance premiums | 1,608,947 | 22,162,836 | 1,438,707 | 22,333,076 | 1,292,441 |
| Total | \$ 140,173,947 | 127,492,836 | 128,153,707 | 139,513,076 | \$ 7,087,441 |

NOTE 7

Long-Term Debt

Metropolitan Transit System (MTS) Tower 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 (Certificates). The 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 1.00% with fixed rates ranging to 5.00%.

The 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

Fair Value Measurement

The Authority does not value any of its investments using Level 1, Level 2 or Level 3 inputs within the fair value hierarchy established by GASB Statement No. 72.

Investments with fiscal agents (all money market mutual funds) as of June 30, 2016, were valued at net asset value of \$1 dollar per share (amortized cost).

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 Tower 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, 2016 the outstanding balance was \$8,670,000.

The future minimum debt service requirements for the Certificates 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 | |
| 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 | 8,670,000 | \$ 744,550 | \$ 9,414,550 | |
| Add: | | | | |
| Unamortized issuance premium | 485,043 | | | |
| Total | \$ 9,155,043 | | | |

**San Miguel Consolidated Fire Protection District
2003 Refunding Lease Revenue Bonds**

On October 7, 2003, the Authority issued \$10.005 million of Refunding Lease Revenue Bonds, Series 2003 (SM Bonds) pursuant to a trust agreement between trustee (U.S. Bank National Association) to advance refund \$13.095 million of the 1993A Refunding Lease Revenue Bonds issued on September 1, 1993. 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 the 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 SM Bonds pay various interest rates ranging from 2.00% to 4.50%. Interest represented by the SM Bonds is payable on July 1 and January 1 of each year commencing on July 1, 2004. The SM Bonds mature on various dates beginning on January 1, 2005, with a final maturity date of January 1, 2020.

As of June 30, 2016 the outstanding balance was \$3,180,000.

The future minimum debt service requirements for the SM 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 | |
| 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 | 3,180,000 | \$ 378,450 | \$ 3,558,450 | |
| Add: | | | | |
| Unamortized issuance premium | 61,636 | | | |
| Total | \$ 3,241,636 | | | |

**County Operations Center
2016 Lease Revenue Refunding Bonds**

In March 2016, the Authority issued \$105.330 million of fixed rate lease revenue bonds titled, "San Diego Regional Building Authority Lease Revenue Refunding Bonds (County Operations Center), Series 2016A" (the 2016A Bonds). The 2016A Bonds were issued at fixed interest rates ranging from 3.00% to 5.00% with maturity dates ranging from October 15, 2016 to October 15, 2035.

The 2016A Bonds were issued with a premium of \$22.163 million. Bond proceeds of \$127.493 million along with \$12.481 million of funds held by the San Diego Regional Building Authority Lease Revenue Bonds (County Operations Center and Annex Redevelopment Project), Series 2009A (Series 2009A Bonds) Trustee (Trustee) were distributed as follows: 1) approximately \$135.014 million (consisting of new 2016A Bond proceeds and funds held on hand with the Trustee) was transferred to an escrow agent to advance refund the entire \$120.215 million of outstanding Series 2009A Bonds; 2) \$4.178 million to fund a 2016A Bonds reserve fund; and, 3) approximately \$782 thousand was set aside to pay certain costs of issuance.

The \$135.014 million transfer referred to above was placed in an irrevocable trust with an escrow agent to provide for the payment of the remaining principal and interest due on the Series 2009A Bonds. As a result, the Series 2009A Bonds are considered legally defeased and the liability has been removed from the government-wide statement of net position governmental activities' liabilities due within one year and due in more than one year. This advance refunding will result in reducing the Authority's principal and interest payments by \$19.791 million

over the next 20 years to obtain an economic gain of \$17.189 million (i.e. difference between the present value of the debt service payments on the refunded debt and the refunding debt).

As of June 30, 2016 the outstanding balance was \$105,330,000.

The future minimum debt service requirements for the 2016A Bonds are as follows:

| Table 11 | | | |
|--|----------------|---------------|----------------|
| County Operations Center (COC) | | | |
| 2016 Lease Revenue Refunding Bonds | | | |
| Debt Service Requirements to Maturity | | | |
| Fiscal Year Ended June 30 | Principal | Interest | Total |
| 2017 | \$ 2,715,000 | 5,639,528 | \$ 8,354,528 |
| 2018 | 3,415,000 | 4,939,125 | 8,354,125 |
| 2019 | 3,535,000 | 4,817,200 | 8,352,200 |
| 2020 | 3,675,000 | 4,673,000 | 8,348,000 |
| 2021 | 3,850,000 | 4,503,250 | 8,353,250 |
| 2022-2026 | 22,405,000 | 19,346,375 | 41,751,375 |
| 2027-2031 | 28,780,000 | 12,980,250 | 41,760,250 |
| 2032-2036 | 36,955,000 | 4,804,125 | 41,759,125 |
| Subtotal | 105,330,000 | \$ 61,702,853 | \$ 167,032,853 |
| Add: | | | |
| Unamortized issuance premium | 21,786,397 | | |
| Total | \$ 127,116,397 | | |

Prior Year Defeasance of Long-Term Debt

In March 2016 the Authority defeased the San Diego Regional Building Authority Lease Revenue Bonds (County Operations Center and Annex Redevelopment Project) Series 2009A (2009A LRBs) by placing proceeds of the refunding bonds, along with monies from the original issue, in an irrevocable trust to provide for all future debt service payments on the 2009A LRBs. Accordingly, the trust account assets and the liabilities for the defeased obligations are not included in the Authority's financial statements. At June 30, 2016, \$120.215 million of the 2009A LRBs were legally defeased and remain outstanding.

NOTE 8

Future Lease Income

Direct Financing Leases

MTS Tower 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 Certificates, the building will be transferred to MTS. Similarly, upon final payment of principal and interest on the 2011 MTS Certificates, 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 2011 MTS Certificates.

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

| Table 12 | | | |
|--|---------------------|--------------|--------------|
| Metropolitan Transit System (MTS) Tower Project | | | |
| 2011 Certificates of Participation | | | |
| Minimum Lease Payments | | | |
| Fiscal Year Ended June 30 | County of San Diego | MTS | Total |
| 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 | \$ 6,815,193 | \$ 2,599,357 | \$ 9,414,550 |

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:

| San Miguel Consolidated Fire Protection District (SM) | |
|--|---------------------|
| 2003 Refunding Lease Revenue Bonds | |
| Minimum Lease Payments | |
| Fiscal Year Ended June 30 | Amount |
| 2017 | 887,150 |
| 2018 | 888,850 |
| 2019 | 888,975 |
| 2020 | 893,475 |
| Total minimum lease payments receivable | \$ 3,558,450 |

County Operations Center and Annex Project

On March 1, 2016 the Authority entered into a direct financing lease of land and buildings with the County relating to the 2016A Bonds. Pursuant to the Facility Lease, the County will sublease from the Authority the "Leased Property", which consists of "Real Property" - 57 acres of land and the County Operations Center and Annex - a central plant, eight 150,000 square foot office buildings, two multi-level parking structures, a conference center 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 2016A Bonds.

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

| County Operations Center (COC) | |
|--|-----------------------|
| 2016 Lease Revenue Refunding Bonds | |
| Minimum Lease Payments | |
| Fiscal Year Ended June 30 | Total |
| 2017 | 8,354,528 |
| 2018 | 8,354,125 |
| 2019 | 8,352,200 |
| 2020 | 8,348,000 |
| 2021 | 8,353,250 |
| 2022-2026 | 41,751,375 |
| 2027-2031 | 41,760,250 |
| 2032-2036 | 41,759,125 |
| Total minimum lease payments receivable | \$ 167,032,853 |

Operating Leases

County Operations Center and Annex Project

On March 1, 2016, a Site Lease was executed between the Authority (lessee) and the County (lessor), for the "Real Property" - that portion of land upon which the County Operations Center and Annex Redevelopment Project is constructed. The term of the lease is 19 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 March 1, 2016, the Authority paid to the County an advance rent of \$1 which constituted full payment over the term of the lease.

MTS Tower 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 15 | | |
|---|-----------|------------------|
| Metropolitan Transit System (MTS) Towers Project | | |
| 2011 Certificates of Participation | | |
| Minimum Operating Lease Payments | | |
| Fiscal Year Ended June 30 | \$ | Total |
| 2017 | \$ | 1 |
| 2018 | | 1 |
| 2019 | | 1 |
| 2020 | | 284,800 |
| 2021 | | 427,199 |
| 2022-2026 | | 2,135,997 |
| 2027-2031 | | 2,135,997 |
| 2032-2036 | | 2,135,997 |
| 2037-2041 | | 2,135,997 |
| 2042-2043 | | 569,599 |
| Total minimum payment required | \$ | 9,825,589 |

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

For the Year Ended June 30, 2016

| | Original Budget | Final Budget | Actual |
|------------------------------------|------------------|------------------|------------------|
| Revenues: | | | |
| Investment earnings | \$ | | 129 |
| Rental income | 2,362,228 | 2,362,228 | 2,362,228 |
| Total revenues | 2,362,228 | 2,362,228 | 2,362,357 |
| Expenditures: | | | |
| Repairs and maintenance | 2,362,228 | 2,362,228 | 2,362,228 |
| Total expenditures | 2,362,228 | 2,362,228 | 2,362,228 |
| Net change in fund balances | | | 129 |
| Fund balances at beginning of year | 35,633 | 35,633 | 35,633 |
| Fund balances at end of year | \$ 35,633 | 35,633 | 35,762 |

Note to Required Supplementary Information - Budget 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.



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**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, 2016, 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 9, 2016.

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

Moss, Levy & Hartzheim, LLP
Culver City, California
December 9, 2016