

*San Diego Regional Building Authority*

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

*Financial Statements*

*For the Fiscal Year Ended June 30, 2021*

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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 San Diego Regional Building Authority (Authority), a component unit of the County of San Diego, California as of and for the fiscal year ended June 30, 2021, 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. 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.

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## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the San Diego Regional Building Authority, as of June 30, 2021, 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 of the General Fund on page 20 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 16, 2021, 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, LLP  
Culver City, California  
December 16, 2021

## STATEMENT OF NET POSITION

June 30, 2021

	Governmental Activities
<b>ASSETS</b>	
Pooled cash and investments	\$ 4,484,965
Accounts Receivable	10,883
Interest receivable	8,271
Restricted assets:	
Lease receivable	125,270,750
<b>Total assets</b>	<b>129,774,869</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Unamortized loss on refunding of long-term debt	32,739,440
<b>Total deferred outflows of resources</b>	<b>32,739,440</b>
<b>LIABILITIES</b>	
Interest payable	918,125
Long-term debt principal outstanding:	
Due within one year	5,174,317
Due in more than one year	99,105,494
<b>Total liabilities</b>	<b>105,197,936</b>
<b>NET POSITION</b>	
Restricted for:	
Creditors-debt service	3,525,883
Unrestricted	53,790,490
<b>Total net position</b>	<b>\$ 57,316,373</b>

## STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2021

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	\$ 17,436				(17,436)
Rental activities	5,080,409	4,904,061			(176,348)
Interest expense	5,624,636				(5,624,636)
<b>Total governmental activities</b>	<b>\$ 10,722,481</b>	<b>4,904,061</b>			<b>(5,818,420)</b>
General Revenues:					
Investment earnings					29,197
<b>Total general revenues</b>					<b>29,197</b>
Change in net position					(5,789,223)
Net position at beginning of year					63,105,596
<b>Net position at end of year</b>					<b>57,316,373</b>

<b>BALANCE SHEET</b>			
<b>GOVERNMENTAL FUNDS</b>			
June 30, 2021			
	General Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>			
Pooled cash and investments	\$ 49,194	4,435,771	4,484,965
Accounts receivable	10,883		10,883
Interest receivable	34	8,237	8,271
Restricted assets:			
Lease receivable		125,270,750	125,270,750
<b>Total assets</b>	<b>60,111</b>	<b>129,714,758</b>	<b>129,774,869</b>
<b>DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue		125,270,750	125,270,750
<b>Total deferred inflows of resources</b>		<b>125,270,750</b>	<b>125,270,750</b>
<b>FUND BALANCES</b>			
Restricted for:			
Creditors-debt service		4,444,008	4,444,008
Unassigned	60,111		60,111
<b>Total fund balances</b>	<b>60,111</b>	<b>4,444,008</b>	<b>4,504,119</b>
<b>Total deferred inflows of resources and fund balances</b>	<b>\$ 60,111</b>	<b>129,714,758</b>	<b>129,774,869</b>

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE  
STATEMENT OF NET POSITION  
June 30, 2021**

Total fund balances - governmental funds	\$ 4,504,119
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.	(88,140,000)
Unamortized loss on refunding is not reported in the governmental funds.	32,739,440
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.	125,270,750
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expense when due.	(918,125)
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 bonds.	(16,139,811)
<b>Net position of governmental activities</b>	<b>\$ 57,316,373</b>



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

For the Year Ended June 30, 2021

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues:			
Investment earnings	\$ (518)	29,715	29,197
Rental income	5,093,468	8,163,843	13,257,311
Total revenues	5,092,950	8,193,558	13,286,508
Expenditures:			
Repairs and maintenance	5,080,409		5,080,409
Payment of residual monies from the 2011 Certificates of Participation to the County of San Diego and Metropolitan Transit System		5,633	5,633
Administrative	2,176	9,627	11,803
Debt service:			
Principal		3,850,000	3,850,000
Interest		4,503,250	4,503,250
Total expenditures	5,082,585	8,368,510	13,451,095
Net change in fund balances	10,365	(174,952)	(164,587)
Fund balances at beginning of year	49,746	4,618,960	4,668,706
Fund balances at end of year	\$ 60,111	4,444,008	4,504,119

**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, 2021**

Net change in fund balances - total governmental funds	\$	(164,587)
Repayment of bond 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 holders.		3,850,000
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.		(8,353,250)
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.		(1,121,386)
Change in net position - governmental activities	\$	<u>(5,789,223)</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 (USGAAP) 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 Agreement, 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 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 of all fund types.

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 Lease Revenue Bonds. The refunding lease payments received from the lessees for each project are used to pay the debt service.

### **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 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 a direct financing lease of property with the County. The capitalized lease receivable is shown as a restricted asset on the government-wide statement of net position and the governmental funds balance sheet. Revenue from the financing lease 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.

## 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, 2021.

## **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. As of June 30, 2021, the Authority had \$125,270,750 in restricted assets comprised of \$125,270,750 in leases receivable from the County for the financing lease 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, 2021	
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.	
2016 Lease Revenue Refunding Bonds	(88,140,000)
	\$ (88,140,000)
Unamortized loss on refunding is not reported in the governmental funds.	
2016 Lease Revenue Refunding Bonds	32,739,440
	\$ 32,739,440
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:	
2016 Lease Revenue Refunding Bonds	125,270,750
	\$ 125,270,750
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expense when due.	
Interest payable:	
2016 Lease Revenue Refunding Bonds	(918,125)
	\$ (918,125)
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 bonds.	
Premiums:	
2016 Lease Revenue Refunding Bonds	(16,139,811)
	\$ (16,139,811)

## 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, 2021

Repayment of bond 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 holders.

2016 Lease Revenue Refunding Bonds	3,850,000
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities	\$ 3,850,000

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.

2016 Lease Revenue Refunding Bonds	(8,353,250)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities	\$ (8,353,250)

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 \$1,121,386 difference are as follows:

Accrued interest		
2016 Lease Revenue Refunding Bonds	\$ 40,104	40,104
Amortization of premium		
2016 Lease Revenue Refunding Bonds	\$ 1,129,319	1,129,319
Amortization of deferred amount on refunding		
2016 Lease Revenue Refunding Bonds	\$ (2,290,809)	(2,290,809)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities	\$	(1,121,386)

## NOTE 4

### Pooled Cash and Investments

The Authority's cash and cash equivalents totaling \$4,484,965 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 Annual Comprehensive Financial Report for the fiscal year ended June 30, 2021.

### 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, 2021 of \$4,484,965 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

California Government Code Section 53601 provides that 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. As of June 30, 2021 the Authority has no funds held by a trustee or fiscal agent outside of the aforementioned investment pool.

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. A local agency having moneys in a sinking fund (debt service reserve) or moneys in its treasury not required for the immediate needs of the local agency may invest any portion of the moneys that it deems wise or expedient in those investments. 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	\$75 Million
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.

Information about the sensitivity of the fair values of the investment pool's investments to market interest rate fluctuations is provided in the County of San Diego's (County's) Annual Comprehensive Financial Report (ACFR), Notes to the Basic Financial Statements, Note 3 Deposits and Investments.

## **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. Information about the investment pool's Credit Risk is provided in the County's ACFR, Notes to the Basic Financial Statements, Note 3 Deposits and Investments.

### **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. Information about the investment pool's Concentration of Credit Risk is provided in the County's ACFR, Notes to the Basic Financial Statements, Note 3 Deposits and Investments.

### **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, 2021, the Authority had all of its deposits pooled with the County. Information about the investment pool's Custodial Credit Risk is provided in the County's ACFR, Notes to the Basic Financial Statements, Note 3 Deposits and Investments.

### **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.

Deposits and withdrawals in the County's 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, 2021, of \$4,484,965, 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 6

### Changes in Long-Term Debt

Long-term liability activities for the year ended June 30, 2021 were as follows:

<b>Changes in Long-Term Liabilities</b>					
	Beginning Balance at July 1, 2020	Additions	Reductions	Ending Balance at June 30, 2021	Amounts Due Within One Year
2016 Lease Revenue Refunding Bonds	\$ 91,990,000		3,850,000	88,140,000	4,045,000
<b>Total long-term debt principal outstanding</b>	<b>91,990,000</b>		<b>3,850,000</b>	<b>88,140,000</b>	<b>4,045,000</b>
Unamortized issuance premiums	17,269,130		1,129,319	16,139,811	1,129,317
<b>Total</b>	<b>\$ 109,259,130</b>		<b>4,979,319</b>	<b>104,279,811</b>	<b>5,174,317</b>

## NOTE 7

### Long-Term Debt

#### 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 (the Series 2009A Bonds) 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, 2021 the outstanding balance was \$88,140,000

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

<b>County Operations Center (COC)</b>			
<b>2016 Refunding Lease Revenue Bonds</b>			
<b>Debt Service Requirements to Maturity</b>			
Fiscal Year Ended June 30	Principal	Interest	Total
2022	\$ 4,045,000	4,305,875	8,350,875
2023	4,250,000	4,098,500	8,348,500
2024	4,470,000	3,880,500	8,350,500
2025	4,700,000	3,651,250	8,351,250
2026	4,940,000	3,410,250	8,350,250
2027-2031	28,780,000	12,980,250	41,760,250
2032-2036	36,955,000	4,804,125	41,759,125
<b>Subtotal</b>	<b>88,140,000</b>	<b>37,130,750</b>	<b>125,270,750</b>
<b>Add:</b>			
Unamortized issuance premium	16,139,811		
<b>Total</b>	<b>\$ 104,279,811</b>		

Lease Revenue Bonds (LRBs) are secured by: a) (lease) base rental payments, for the use of certain facilities or equipment and b) encumbrances on the facilities. The leased premises are typically facilities or equipment purchased with proceeds of the LRBs. In the case of the SDRBA, base rental payments are made primarily from the County of San Diego's General Fund to the SDRBA. Under lease terms, the County is required to make the necessary annual

appropriations for lease payments, except to the extent those payments are eligible to be abated in accordance with the terms of the leases.

The LRBs evidence a pro rata share in a specific pledged revenue stream of lease payments, and investors in the bonds are entitled to receive a share in these lease payments from a particular project. Lease payments are passed through the lessor to the investors. The lessor assigns the lease and lease payments to a trustee, which distributes the lease payments to the investors.

Upon the occurrence of an event of default (as described in the Lease Revenue Bonds financing document), the Facility Leases provide that the San Diego Regional Building Authority (SDRBA), or its assignees must thereafter maintain the Facility Lease in full force and effect and may only recover rent and other monetary charges as they become due, all without terminating the County's right to possession of the leased property regardless of whether or not the County has abandoned the leased property. There is no available remedy of acceleration of the lease payments due over the term of the lease agreement. The lessors may not declare any lease payments not then in default to be immediately due and payable.

## NOTE 8

### Future Lease Income

#### Direct Financing Leases

##### 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:

<b>County Operations Center (COC)</b>			
<b>2016 Lease Revenue Refunding Bonds</b>			
<b>Minimum Lease Payments</b>			
Fiscal Year Ended June 30	Total		
2022	\$	8,350,875	
2023		8,348,500	
2024		8,350,500	
2025		8,351,250	
2026		8,350,250	
2027-2031		41,760,250	
2032-2036		41,759,125	
<b>Total minimum lease payments receivable</b>	<b>\$</b>	<b>125,270,750</b>	

### 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 were fully paid off on November 1, 2019.

Commencing on November 1, 2019 the minimum rent has been 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:

<b>Metropolitan Transit System (MTS) Tower Project</b>		
<b>Minimum Operating Lease Payments</b>		
Fiscal Year Ended June 30		Total
2022	\$	1,307,769
2023		1,307,769
2024		1,307,769
2025		1,307,769
2026		1,307,769
2027-2031		6,538,844
2032-2036		6,538,844
2037-2041		6,538,844
2042-2043		1,743,691
<b>Total minimum payment required</b>	<b>\$</b>	<b>27,899,068</b>

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

For the Year Ended June 30, 2021

	Original Budget	Final Budget	Actual
Revenues:			
Investment earnings	\$		(518)
Rental income	5,080,410	5,080,410	5,093,468
Total revenues	5,080,410	5,080,410	5,092,950
Expenditures:			
Administrative			2,176
Repairs and maintenance	5,080,410	5,080,410	5,080,409
Total expenditures	5,080,410	5,080,410	5,082,585
Net change in fund balances			10,365
Fund balances at beginning of year	49,746	49,746	49,746
Fund balances at end of year	\$ 49,746	49,746	60,111

**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. An annual budget is not required to be adopted for the Debt Service Fund.

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 USGAAP.

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 USGAAP 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, California as of and for the fiscal year ended June 30, 2021, 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 16, 2021.

**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) as a basis for designing 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 of financial statement. 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*.

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**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 16, 2021