San Diego Regional Building Authority

A Blended Component Unit of the County of San Diego

Financial Statements

For the Fiscal Year Ended June 30, 2023

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

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

Opinions

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, California as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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 Authority, as of June 30, 2023, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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 19, 2023, 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 19, 2023

STATEMENT OF NET POSITION

June 30, 2023

	Governmental Activities
ASSETS	
Pooled cash and investments	$ 4,313,281
Interest receivable	40,193
Restricted assets:	
Investments with fiscal agent	9,685
Lease receivable	52,482,828
Receivable from County of San Diego	108,571,375
Capital assets:	
Right-to-use land, net of accumulated amortization	51,865,818
Total assets	217,283,180
DEFERRED OUTFLOWS OF RESOURCES	
Unamortized loss on refunding of long-term debt	28,157,829
Total deferred outflows of resources	28,157,829
LIABILITIES	
Interest payable	831,719
Long-term debt principal outstanding:	
Due within one year	6,084,299
Due in more than one year	140,124,709
Total liabilities	147,040,727
DEFERRED INFLOWS OF RESOURCES	
Ground lease	52,482,828
Total deferred inflows of resources	52,482,828
NET POSITION	
Restricted for:	
Creditors-debt service	3,475,227
Unrestricted	42,442,227
Total net position	$ 45,917,454

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2023

Functions/Programs		Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Primary Government:						
General government	$	7,717				(7,717)
Rental activities		6,053,591	7,290,131			1,236,540
Amortization expense		818,898				(818,898)
Interest expense		6,043,844				(6,043,844)
Total governmental activities	$	12,924,050	7,290,131			(5,633,919)
General Revenues:						
Investment earnings						178,633
Total general revenues						178,633
Change in net position						(5,455,286)
Net position at beginning of year						51,372,740
Net position at end of year						45,917,454

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2023

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Pooled cash and investments	$ 55,680	4,257,601	4,313,281
Interest receivable	533	39,660	40,193
Restricted assets:			
Investment with fiscal agents		9,685	9,685
Lease receivable	52,482,828		52,482,828
Receivable from County of San Diego		108,571,375	108,571,375
Total assets	52,539,041	112,878,321	165,417,362
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
DEFERRED INFLOWS OF RESOURCES			
Ground lease	52,482,828		52,482,828
Unavailable revenue		108,571,375	108,571,375
Total deferred inflows of resources	52,482,828	108,571,375	161,054,203
FUND BALANCES			
Restricted for:			
Creditors-debt service		4,306,946	4,306,946
Unassigned	56,213		56,213
Total fund balances	56,213	4,306,946	4,363,159
Total deferred inflows of resources and fund balances	$ 52,539,041	112,878,321	165,417,362

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
June 30, 2023

Total fund balances - governmental funds	$	4,363,159
Capital assets (including Right-To-Use Land) used in governmental activities are not current financial resources and, therefore, are not reported in the balance sheet. This amount represents Right-To-Use Land net of accumulated amortization.		51,865,818
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.		(132,327,828)
Unamortized loss on refunding is not reported in the governmental funds.		28,157,829
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.		108,571,375
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expense when due.		(831,719)
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.		(13,881,180)
Net Position of governmental activities	$	45,917,454

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

For the Year Ended June 30, 2023

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues:			
Charges for services	$ 6,053,591		6,053,591
Rental income	1,307,769	8,277,271	9,585,040
Investment earnings	1,185	177,448	178,633
Total revenues	7,362,545	8,454,719	15,817,264
Expenditures:			
Repairs and maintenance	6,053,591		6,053,591
Administrative		7,717	7,717
Debt service:			
Principal	479,649	4,250,000	4,729,649
Interest	828,120	4,098,500	4,926,620
Total expenditures	7,361,360	8,356,217	15,717,577
Net change in fund balances	1,185	98,502	99,687
Fund balances at beginning of year	55,028	4,208,444	4,263,472
Fund balances at end of year	$ 56,213	4,306,946	4,363,159

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, 2023

Net change in fund balances - total governmental funds	$	99,687
In the statement of activities Right-To-Use assets are allocated over their estimated useful lives and reported as amortization expense.		(818,898)
Repayment of bond and lease 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 and lessors.		4,729,649
Lease 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 lease receivable during the fiscal year.		(8,348,500)
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.		(1,117,224)
Change in net position - governmental activities	$	(5,455,286)

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. Financed purchases, right to use leases and proceeds of long-term debt 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.

Authority Leased Property

The Authority is a lessor of real property. The Authority recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements for leases with an initial, individual value of $250 thousand or more.

At the commencement of a lease, the Authority initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the Authority determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

The Authority uses its estimated incremental borrowing rate as the discount rate for the leases, using the appropriate rate under the BVAL Municipal AAA curve.

The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

The Authority monitors changes in circumstances that would require a measurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Lease Obligations

The Authority is a lessee for real property. The Authority recognizes a lease liability and a right-to-use asset in the government-wide financial statements. The Authority recognizes lease liabilities for leases with an initial, individual value of $250 thousand or more.

At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The right-to-use asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the right-to-use asset is amortized on a straight-line basis over the shorter of the lease term or its useful life.

Key estimates and judgments related to leases include how the Authority determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. Future lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease. However, if the implicit rate is not readily determinable then the incremental borrowing rate may be used. Therefore, the Authority uses the Incremental Borrowing Rate as its discount rate.

The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Authority is reasonably certain to exercise.

The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the right-to-use asset and lease liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Right-to-use assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

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, 2023.

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, 2023, the Authority had $161,063,888 in restricted assets: $9,685 in investments held with the trustee bank; and, $161,054,203 in receivables from the County for the financed purchase of property and the ground lease.

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, 2023

Capital assets (including Right-To-Use Land) used in governmental activities are not current financial resources and, therefore, are not reported in the balance sheet. This amount represents Right-To-Use Land, net of accumulated amortization.		
Right-To-Use Land		51,865,818
	$	51,865,818
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		(79,845,000)
Ground lease		(52,482,828)
	$	(132,327,828)
Unamortized loss on refunding is not reported in the governmental funds.		
2016 Lease Revenue Refunding Bonds		28,157,829
	$	28,157,829
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:		
Receivable from County of San Diego		108,571,375
	$	108,571,375
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		(831,719)
	$	(831,719)
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		(13,881,180)
	$	(13,881,180)

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, 2023

In the statement of activities right-to-use assets are allocated over their estimated useful lives and reported as amortization expense.				
Amortization expense				(818,898)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities			$	(818,898)
Repayment of bond and lease 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 and lessors.				
2016 Lease Revenue Refunding Bonds				4,250,000
Ground Lease				479,649
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities			$	4,729,649
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.				(8,348,500)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities			$	(8,348,500)
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 ($1,117,224) difference are as follows:				
Accrued interest				
2016 Lease Revenue Refunding Bonds	$	44,266		
				44,266
Amortization of premium				
2016 Lease Revenue Refunding Bonds	$	1,129,317		
				1,129,317
Amortization of deferred amount on refunding				
2016 Lease Revenue Refunding Bonds	$	(2,290,807)		
				(2,290,807)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities			$	(1,117,224)

NOTE 4

Pooled Cash and Investments

The Authority's cash and cash equivalents totaling $4,313,281 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, 2023.

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, 2023 of $4,313,281 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 Agent

The Authority has funds totaling $9,685 held by a trustee/fiscal agent to be used for the payment or security of certain bonds. 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.

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.

Table 3

Authorized Investment Types	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	None	None
Local Agency Obligations	5 years	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper, Prime Quality	270 days	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.

The Authority has funds held by a trustee/fiscal agent totaling $9,685 that are invested in U.S. Treasury Money Market mutual funds that mature in one year or less.

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.

The minimum legal rating for U.S. Treasury money market mutual funds required by the California Government Code, the Authority's investment policy, or debt agreements is AAAm. The Fidelity Investments Money Market Government Portfolio - Class III investment held with the trustee/fiscal agent totaling $9,685 is rated Aaa-mf by Moody's, AAAm by Standard & Poors, and is not rated by Fitch.

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.

The Fidelity Investments Money Market Government Portfolio - Class II investment held with the trustee/ fiscal agent totaling $9,685 represents 100% of the Authority's investments with fiscal agents as of June 30, 2023.

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, 2023, the Authority's investment in the U.S. Treasury money market mutual funds were held by the same broker-dealer (counterparty) that was used by the Authority to buy the securities.

As of June 30, 2023, 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, 2023, of $4,313,281, 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.

Investments with fiscal agents (money market mutual funds) as of June 30, 2023, were valued at net asset value of $1 dollar per share (amortized cost).

NOTE 6

Receivable – County of San Diego

On March 1, 2016, the Authority entered into an agreement with the County for land and buildings relating to the 2016A Bonds. Pursuant to the agreement, the County will sublease from the Authority, 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 and 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 payments to the Authority. The payments received will be used to pay the debt service on the 2016A Bonds.

NOTE 7

Authority Property on Lease to Others

As of June 30, 2023, the Authority's lease receivables totaled $52,482,828 consisting of a land lease. The term of the lease is 99 years and the remaining lease term is 63.5 years. The interest rate on the lease is 1.57%. The interest rate on the lease is calculated using the appropriate rate under the Bloomberg Valuation Service (BVAL) Municipal AAA curve. During the fiscal year 2023, the Authority recognized $479,649 in lease revenue and $828,120 in interest revenue.

The annual future lease payments expected to be received are presented in Table 4.

Table 4

Leases to Maturity

Fiscal Year Ended June 30	Principal	Interest	Total
2024	484,982	822,787	1,307,769
2025	494,904	812,865	1,307,769
2026	502,730	805,038	1,307,768
2027	510,681	797,088	1,307,769
2028	516,591	791,178	1,307,769
2029-2033	2,717,181	3,821,663	6,538,844
2034-2038	2,939,003	3,599,841	6,538,844
2039-2043	3,178,936	3,359,907	6,538,843
2044-2048	3,436,823	3,102,021	6,538,844
2049-2053	3,719,281	2,819,562	6,538,843
2054-2058	4,022,932	2,515,912	6,538,844
2059-2063	4,351,377	2,187,467	6,538,844
2064-2068	4,705,725	1,833,119	6,538,844
2069-2073	5,091,077	1,447,767	6,538,844
2074-2078	5,506,745	1,032,099	6,538,844
2079-2083	5,956,355	582,489	6,538,844
2084-2087	4,347,505	120,705	4,468,210
Total	$ 52,482,828	30,451,508	82,934,336

NOTE 8

Capital Asset - Right-To-Use Land

At June 30, 2023, the Right-To-Use Land totaled $51,865,818 [$52,685,651 at July 1, 2022 less fiscal year 2022-2023 amortization of $818,898 and a $935 decrease related to the Right-To-Use Land lease modification]. The fiscal year 2022-2023 $818,898 amortization expense is shown on the Authority's Statement of Activities.

NOTE 9

Changes in Long-Term Debt

Long-term liability activities for the year ended June 30, 2023 were as follows:

Table 5

Changes in Long-Term Liabilities

		Beginning Balance at July 1, 2022	Additions	Reductions	Ending Balance at June 30, 2023	Amounts Due Within One Year
2016 Lease Revenue Refunding Bonds	$	84,095,000		4,250,000	79,845,000	4,470,000
Unamortized issuance premiums		15,010,497		1,129,317	13,881,180	1,129,317
Total bonds	$	99,105,497		5,379,317	93,726,180	5,599,317
Other long-term liabilities:						
Lease (1)		52,963,407		480,579	52,482,828	484,982
Total	$	152,068,904		5,859,896	146,209,008	6,084,299

(1) Includes land lease modification (decrease of $930).

NOTE 10

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, 2023 the outstanding balance was $79,845,000

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

Table 6

County Operations Center (COC)
2016 Refunding Lease Revenue Bonds
Debt Service Requirements to Maturity

Fiscal Year Ended June 30	Principal	Interest	Total
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	5,195,000	3,156,875	8,351,875
2028	5,460,000	2,890,500	8,350,500
2029-2033	31,810,000	9,952,750	41,762,750
2034-2036	23,270,000	1,784,250	25,054,250
Subtotal	79,845,000	28,726,375	108,571,375
Add:			
Unamortized issuance premium	13,881,180		
Total	$ 93,726,180		

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 11

Lease Obligations

Real Property Land Lease

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 remaining lease term is 63.5 years. The interest rate on the lease is 1.57%. The interest rate on the lease is calculated using the appropriate rate under the Bloomberg Valuation Service (BVAL) Municipal AAA curve; the incremental borrowing rate used by the County and the SDRBA as a component unit of the County.

The annual future lease payments are presented in Table 7.

Table 7

Real Property Lease Requirements to Maturity

Fiscal Year Ended June 30	Principal	Interest	Total
2024	$ 484,982	822,787	1,307,769
2025	494,904	812,865	1,307,769
2026	502,730	805,038	1,307,768
2027	510,681	797,088	1,307,769
2028	516,591	791,178	1,307,769
2029-2033	2,717,181	3,821,663	6,538,844
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2074-2078	5,506,745	1,032,099	6,538,844
2079-2083	5,956,355	582,489	6,538,844
2084-2087	4,347,505	120,705	4,468,210
Total	$ 52,482,828	30,451,508	82,934,336

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

For the Year Ended June 30, 2023

	Original Budget	Final Budget	Actual
Revenues:			
Charges for services	$ 6,053,591	6,053,591	6,053,591
Rental income			1,307,769
Investment earnings			1,185
Total revenues	6,053,591	6,053,591	7,362,545
Expenditures:			
Current:			
Repairs and maintenance	6,053,591	6,053,591	6,053,591
Debt service:			
Principal			479,649
Interest			828,120
Total expenditures	6,053,591	6,053,591	7,361,360
Net change in fund balances			1,185
Fund balances at beginning of year	55,028	55,028	55,028
Fund balances at end of year	$ 55,028	55,028	56,213

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, 2023, 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 19, 2023.

Report on 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 or significant deficiencies may exist that were not identified.

Report on 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 statements. 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 19, 2023