

**OTAY MESA ENHANCED INFRASTRUCTURE
FINANCING DISTRICT**

**Governed by the Otay Mesa Enhanced
Infrastructure Financing District
Public Financing Authority**
(A Component Unit of the City of San Diego)

Independent Auditor's Reports and Financial
Statements

For the Fiscal Year Ended June 30, 2019



Certified
Public
Accountants

OTAY MESA ENHANCED INFRASTRUCTURE FINANCING DISTRICT
Governed by the Otay Mesa Enhanced Infrastructure Financing District Public Financing Authority
(A Component Unit of the City of San Diego)

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Independent Auditor's Report

To the Members of the Governing Board
Otay Mesa Enhanced Infrastructure Financing District Public Financing Authority
City of San Diego, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Otay Mesa Enhanced Infrastructure Financing District (the District) as governed by the Otay Mesa Enhanced Infrastructure Financing District Public Financing Authority (the Authority), a component unit of the City of San Diego, California (the City), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of June 30, 2019, and the respective changes in financial position thereof 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 the 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 the missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 issued our report dated May 19, 2020 on our consideration of the Authority's internal control over the District's 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance related to the District. 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 related to the District.



San Diego, California
May 19, 2020

OTAY MESA ENHANCED INFRASTRUCTURE FINANCING DISTRICT
Governed by the Otay Mesa Enhanced Infrastructure Financing District Public Financing Authority
(A Component Unit of the City of San Diego)
Statement of Net Position - Governmental Activities and Balance Sheet - Governmental Funds
June 30, 2019

	Governmental Funds			Reconciling Items and Eliminations	Governmental Activities
	Special Revenue Fund	Capital Projects Fund			Statement of Net Position
ASSETS:					
Cash and Investments	\$ 53,716	\$ 369,048	\$ -	\$ 422,764	
Receivables:					
Taxes - Net of Allowance for Uncollectibles	10,723	-	-	10,723	
Accrued Interest	1,486	-	-	1,486	
Total assets	\$ 65,925	\$ 369,048	\$ -	\$ 434,973	
FUND BALANCES/NET POSITION:					
Restricted for capital projects	\$ -	\$ 369,048	\$ -	\$ 369,048	
Committed	65,925	-	(65,925)	-	
Unrestricted	-	-	65,925	65,925	
Total Fund Balances/Net Position	\$ 65,925	\$ 369,048	\$ -	\$ 434,973	

See accompanying notes to the basic financial statements.

OTAY MESA ENHANCED INFRASTRUCTURE FINANCING DISTRICT
Governed by the Otay Mesa Enhanced Infrastructure Financing District Public Financing Authority
(A Component Unit of the City of San Diego)
Statement of Activities - Governmental Activities
and Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds
For the Fiscal Year Ended June 30, 2019

	<u>Governmental Funds</u>			<u>Governmental Activities</u>
	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Reconciling Items and Eliminations</u>	<u>Statement of Activities</u>
GENERAL REVENUES:				
Property Taxes	\$ 571,445	\$ -	\$ -	\$ 571,445
Interest Income	8,545	-	-	8,545
Total Revenues	<u>579,990</u>	<u>-</u>	<u>-</u>	<u>579,990</u>
EXPENDITURES/EXPENSES:				
General Government and Support	145,017	-	-	145,017
Excess of Revenues Over Expenditures	<u>434,973</u>	<u>-</u>	<u>-</u>	<u>434,973</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	369,048	369,048	-
Transfers Out	<u>(369,048)</u>	<u>-</u>	<u>(369,048)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(369,048)</u>	<u>369,048</u>	<u>-</u>	<u>-</u>
Change in Fund Balances/Net Position	65,925	369,048	-	434,973
FUND BALANCES/NET POSITION:				
Fund Balances/Net Position, Beginning of Year	-	-	-	-
Fund Balances/Net Position, End of Year	<u>\$ 65,925</u>	<u>\$ 369,048</u>	<u>\$ -</u>	<u>\$ 434,973</u>

See accompanying notes to the basic financial statements.

OTAY MESA ENHANCED INFRASTRUCTURE FINANCING DISTRICT
Governed by the Otay Mesa Enhanced Infrastructure Financing District Public Financing Authority
(A Component Unit of the City of San Diego)
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Note 1 – Financial Reporting Entity

The City Council of the City of San Diego, California (the City) adopted Resolution R-310937 on February 13, 2017 stating its intent to form the Otay Mesa Enhanced Infrastructure Financing District (the District) as amended per Resolution R-310971 on March 7, 2017. In addition, the City Council also adopted Resolution R-310938 on February 13, 2017 to establish the Otay Mesa Enhanced Infrastructure Financing District Public Financing Authority (the Authority or OMPFA) to act as the governing board of the District. The District was formally established by OMPFA -2 (a resolution of the Authority) on July, 24, 2017, to facilitate economic development and improve the quality of life of Otay Mesa residents through certain public infrastructure and community benefit projects authorized under the Enhanced Infrastructure Financing District (EIFD) Law authorized pursuant to California Government Code Sections 53398.50 through 53398.88. The Otay Mesa EIFD governing board consists of three members of the City of San Diego City Council and two members of the public, all of whom are appointed by the City Council.

The District will be funded through property tax increment, including property tax in-lieu of vehicle license fee increment otherwise allocable to the City, and may also be funded through governmental or private loans, grants, bonds or any combination of these funding sources. As the District's governing board is substantially the same as the City and management of the City has operational responsibility for the District, the District is an integral part of the City and the accompanying financial statements of the District are included as a blended component unit of the basic financial statements of the City.

Note 2 – Summary of Significant Accounting Policies

The District's accounting policies and financial reporting conform to accounting principles generally accepted in the United States of America and are based upon the Governmental Accounting Standard Board (GASB) pronouncements. The following is a summary of the significant policies:

Government-Wide and Fund Financial Statements

The District's government-wide financial statements (i.e., the statement of net position and statement of activities) report information on all of the activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable to a specific function or segment. Direct expenses reported within the general government and support function include administrative and overhead charges. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Property taxes, interest income and other items that do not qualify as program revenues are reported instead as general revenues. There were no program revenues recorded for the District for the fiscal year ended June 30, 2019.

OTAY MESA ENHANCED INFRASTRUCTURE FINANCING DISTRICT
Governed by the Otay Mesa Enhanced Infrastructure Financing District Public Financing Authority
(A Component Unit of the City of San Diego)
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2019

The fund financial statements (i.e., balance sheet and statement of revenues, expenditures and change in fund balance) report information on the Special Revenue and Capital Projects Funds of the District.

As the amounts presented in the District's balance sheet and statement of net position are the same, they are presented as one financial statement. Similarly, as the amounts presented in the District's statement of revenues, expenditures and change in fund balances and the statement of activities are the same, they are also presented as one financial statement.

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. Property taxes are recognized as revenues in the year for which they are levied. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year-end. Expenditures are recognized in the accounting period in which the related fund liability is incurred.

Substantially all taxes and interest, including the net increase (decrease) in the fair value of investments, are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The District reports the following major governmental funds:

Special Revenue fund is used to account for the proceeds of specific revenue sources, other than those for debt service or capital projects, that are restricted for specified purposes.

Capital Projects fund is used to account for and report financial resources that are restricted to expenditure for the acquisition or construction of capital facilities.

Those funds were established to finance certain public infrastructure and community benefit projects authorized under the EIFD Law Government Code sections 53398.50 through 53398.88.

OTAY MESA ENHANCED INFRASTRUCTURE FINANCING DISTRICT
Governed by the Otay Mesa Enhanced Infrastructure Financing District Public Financing Authority
(A Component Unit of the City of San Diego)
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2019

Property Taxes

The County of San Diego, California (the County) assesses, bills, and collects property taxes on behalf of numerous special districts and incorporated cities, including the District. The District receives via the City the current year's taxes through periodic apportionments from the County.

The County's tax calendar is from July 1 to June 30. Property taxes attach as a lien on property on January 1. Taxes are levied on July 1, based on the assessed value as of the lien date, are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

At the government-wide level, property tax revenue is recognized in the fiscal year for which the taxes have been levied. Property taxes received after the fiscal year which do not meet the 60 day availability criterion are not considered available as a resource that can be used to finance the current year operation of the District, and therefore, would be recorded as deferred inflows of resources in the governmental funds. However, all property taxes were received by the District within the District's measurable and available period as of June 30, 2019.

There is no allowance for the District's taxes receivables recorded for the fiscal year ended June 30, 2019.

Net Position

In the government-wide financial statements, Net Position is categorized as follows:

Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation, reduced by outstanding debt and deferred outflows/inflows of resources attributed to the acquisition, construction or improvement of these capital assets. There was no net investment in capital assets reported by the District as of June 30, 2019.

Restricted consists of that portion of net position which is restricted as to use by external parties, grantors, contributors, or laws and regulations of other governments. The District follows the City's policy, which is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position components are available. There was \$369,048 restricted net position for capital projects as of June 30, 2019.

Unrestricted consists of that portion of net position that does not meet the definition of Net Investment in Capital Assets or Restricted Net Position. There was \$65,925 unrestricted net position reported by the District as of June 30, 2019.

OTAY MESA ENHANCED INFRASTRUCTURE FINANCING DISTRICT
Governed by the Otay Mesa Enhanced Infrastructure Financing District Public Financing Authority
(A Component Unit of the City of San Diego)
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2019

Fund Balance

As prescribed by Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to observe constraints imposed on the use of the resources or on the specific purposes for which amounts in the funds can be spent.

Fund balance for governmental funds are made up of the following:

- Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.
- Restricted Fund Balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action of the District’s highest level of decision-making authority. Commitments may be changed or lifted only by the Authority of the District taking the same formal action that imposed the constraint originally.
- Assigned Fund Balance – comprises amounts intended to be used by the District for specific purposes that are neither restricted, committed, or nonspendable. Intent is expressed by the Authority of the District to which the Authority has delegated the authority to assign amounts to be used for specific purposes.
- Unassigned Fund Balance – includes amounts for all remaining purposes not reported as restricted, committed or assigned.

The District establishes and modifies or rescinds fund balance commitments by passage of an ordinance or policy. This is typically done through the adoption and the amendment of a budget by the Authority. A fund balance commitment is further indicated in the budget as a designation or commitment of the fund, such as approved construction contracts. Assigned fund balance is established by the Authority of the District through the adoption or the amendment of the budget or future year budget plan as intended for a specific purpose.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, followed by the committed, assigned, and unassigned resources as they are needed.

Estimates

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

OTAY MESA ENHANCED INFRASTRUCTURE FINANCING DISTRICT
Governed by the Otay Mesa Enhanced Infrastructure Financing District Public Financing Authority
(A Component Unit of the City of San Diego)
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2019

Note 3 – Cash and Investments

The District's cash and investments are pooled with the City's cash and investments managed by the City Treasurer and therefore, do not represent specific identifiable investments. The City is not required to register the pool as an investment company with the Securities and Exchange Commission (SEC). The investment activities of the City Treasurer in managing the pool are governed by the California Government Code section 53601 and the City Treasurer's Investment Policy. Investments are categorized into its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are quote prices for similar assets in active markets; Level 3 inputs are significant unobservable inputs. Interest earned on pooled cash and investments are allocated to participating funds based upon their average daily cash balance during the allocation month. Fair value adjustments to the pool are recorded annually. The allocation of interest earned and fair value adjustment of the City's cash and investment pool to the District for the fiscal year ended June 30, 2019 are \$5,039 and \$3,506, respectively.

Investment policies and associated risk factors applicable to the District are those of the City and are included in the City's Comprehensive Annual Financial Report (CAFR). Refer to the City's CAFR for disclosures related to cash and investments, including those disclosures relating to interest rate risk, credit risk, custodial risk and concentration risk. The City's CAFR may be found on the City's website at <https://www.sandiego.gov/>.

Note 4 – Commitments and Contingencies

In the ordinary course of business, the District may be subject to various claims, investigation, proceedings, and legal actions from time to time arising out of the conduct of the District's operation. Management believes that, based on current knowledge, there are no such pending matters.

The District does not have any major contractual commitments or contingencies as of the year ended June 30, 2019.

Note 5 – Subsequent Events

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread throughout the United States, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many organizations, including ours. The outbreak could decrease spending resulting in lower revenue generated for the District, adversely affect demand and harm or mitigate our goals to facilitate economic development and provide for public improvements and facilities identified in the District's Infrastructure Financing Plan. It is impossible to predict the effect and ultimate impact of the COVID-19 pandemic at this time as the situation is rapidly evolving.

OTAY MESA ENHANCED INFRASTRUCTURE FINANCING DISTRICT
Governed by the Otay Mesa Enhanced Infrastructure Financing District Public Financing Authority
(A Component Unit of the City of San Diego)
Schedule of Revenues, Expenditures and Change in Fund Balance
Special Revenue Fund - Budget and Actual
For the Year Ended June 30, 2019

	<u>Budget</u>		<u>Actual</u>	<u>Variance from Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property Taxes	\$ 670,000	\$ 670,000	\$ 571,445	\$ 98,555
Interest Income	-	-	8,545	(8,545)
Total Revenues	<u>670,000</u>	<u>670,000</u>	<u>579,990</u>	<u>90,010</u>
EXPENDITURES/EXPENSES:				
General Government and Support	<u>300,952</u>	<u>300,952</u>	<u>145,017</u>	<u>155,935</u>
OTHER FINANCING SOURCES (USES):				
Transfers Out	<u>(369,048)</u>	<u>(369,048)</u>	<u>(369,048)</u>	<u>-</u>
Change in fund balance	<u>\$ -</u>	<u>\$ -</u>	65,925	<u>\$ 65,925</u>
Fund Balance, Beginning of year			<u>-</u>	
Fund Balance, End of year			<u>\$ 65,925</u>	

See accompanying note to required supplementary information.

OTAY MESA ENHANCED INFRASTRUCTURE FINANCING DISTRICT
Governed by the Otay Mesa Enhanced Infrastructure Financing District Public Financing Authority
(A Component Unit of the City of San Diego)
Note to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2019

Note 1 – Budgetary Data

The District adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America, and utilizes an encumbrance system as a management control technique to assist in controlling expenditures and enforcing revenue provisions. Under this system, the current year expenditures are charged against appropriations. Accordingly, actual revenues and expenditures can be compared with related budgetary amounts without any significant reconciling items. In addition, the legal level of budgetary control is at the fund level.



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

To the Members of the Governing Board
Otay Mesa Enhanced Infrastructure Financing District Public Financing Authority
City of 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 Otay Mesa Enhanced Infrastructure Financing District (the District) as governed by the Otay Mesa Enhanced Infrastructure Financing District Public Financing Authority (the Authority), a component unit of the City of San Diego, California (the City) as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated May 19, 2020.

Internal Control Over Financial Reporting

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

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 District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including Sections 53398.50 through 53398.98 of the California Government Code, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including the requirements of Sections 53398.50 through 53398.98 of the California Government Code.

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 Authority's internal control or on compliance related to the District. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance related to the District. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

San Diego, California

May 19, 2020