

CITY OF OCEANSIDE CALIFORNIA



Comprehensive Annual
Financial Report
June 30, 2006



CITY OF OCEANSIDE, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
June 30, 2006

**Prepared by the Accounting Division, Financial Services Department
300 North Coast Highway Oceanside, CA 92054**

**Nita McKay, Director of Financial Services
Charles McBride, Accounting Manager
David Crowe, Senior Management Analyst**

City of Oceanside
Basic Financial Statements
For the year ended June 30, 2006

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CITY OF OCEANSIDE

ADMINISTRATIVE SERVICES DEPARTMENT
FINANCIAL MANAGEMENT DIVISION

December 15, 2006

Honorable Mayor, Members of the City Council, and Citizens of the City of Oceanside:

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Oceanside (the City) for the fiscal year ended June 30, 2006.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

The City's financial statements have been audited by Caporicci & Larson, CPAs, a firm of certified public accountants. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion on the City's financial statements for the fiscal year ended June 30, 2006. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the specific needs of the federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City's separately issued Single Audit Report.

GAAP require that management provide a narrative, introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Oceanside's MD&A can be found immediately following the report of the independent auditors.

City of Oceanside Profile

The City of Oceanside (City) is a general law city that was incorporated on January 3, 1888. It is located 35 miles north of San Diego and 83 miles south of Los Angeles. The City is located on the Pacific Ocean, offering a moderate climate that ranks as one of the most desirable in the nation. Oceanside boasts 3.5 miles of coastline, a harbor with over 900 boat slips, and one of the longest wooden piers on the West Coast, measuring 1,942 feet in length. The City occupies a land area of 42 square miles and provides a full range of services, including police, fire, library, water, sewer, street and other infrastructure construction and maintenance, parks and recreation services. The City also maintains an airport and a small craft harbor.

The population of Oceanside is estimated at 174,925, making it the third largest city in San Diego County. The median household income for the City is \$62,271, just slightly behind the San Diego County median of \$64,273.

The City operates under the council-manager form of government. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments.

The annual budget serves as the foundation for the City's financial planning and control. The City Manager presents the proposed two-year budget to the City Council for review prior to the beginning of the first fiscal year. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than June 30, the close of the City's fiscal year. The budget is prepared according to fund and department (e.g., police). City Manager approval is required when transferring appropriations within a department, between departments, and from an operating account to a capital account. City Council approval is required on transfer of appropriations between funds.

The financial activities of the four legally separate entities for which the City serves as the governing body are also included in this report; the Oceanside Community Development Commission, which includes the Redevelopment Agency of the City of Oceanside, the Oceanside Small Craft Harbor District, the Oceanside Building Authority and the Oceanside Public Financing Authority. Additional information on these entities is contained in Note 1 to the Financial Statements.

Economic Outlook

San Diego County enjoys close proximity to the major economic centers of Los Angeles and Mexico, and a prominent shipping industry assures ready access to Pacific Rim markets. Since the decline of the defense industry in the early nineties, the county has been able to diversify into high-technology commercial endeavors, with growth in areas such as telecommunications, electronics, computers, and biotechnology.

Despite a relatively favorable outlook for the San Diego economy, there are areas of concern that must be remedied. Traffic congestion, water supply, sewage treatment capacity and solid waste disposal are challenges that are being studied by both the public and private sectors.

As a well-established coastal community, Oceanside should continue to benefit from new development in the eastern portion of the City and the redevelopment efforts in the western portion.

Major Initiatives

In the coming fiscal year, the City expects to begin construction of the El Corazon Senior Citizen Community Center, the second such center in Oceanside. This Center is the first facility in a planned 465 acre park that will include a library, community aquatic center and numerous other recreational opportunities. Open space parkland is expected to be approximately 80% of the total park.

Oceanside prides itself on the many recreational opportunities afforded its residents. This year the City will commence development of the Mance Buchanon Park that will also include five soccer fields.

The third major initiative is the construction of two fire stations, one that replaces an existing facility that is no longer adequate. The new station in the northeast sector of the City will house two engine companies and a medic company.

Other Information

Spending Limitation: Proposition 4, known as the Gann Initiative, was passed in 1979 to limit government spending by capping the total proceeds of taxes that may be appropriated in a fiscal year. When a city exceeds the limit, excess tax revenue must be returned to the citizens through refunds, rebates, or other means. The City is well below the established Gann limit of \$261,266,128.

Risk Management: The City has initiated self-insurance programs to provide for general liability and workers' compensation claims. The City belongs to a joint powers authority insurance pool to provide insurance coverage for payment of claims beyond its self-insured retention. The fund revenues are primarily premium charges to other funds based on past loss histories, as well as refunds from insurance premiums based on the City's annual loss history.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Oceanside for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. The City received this award for publishing an easily readable and efficiently organized CAFR that satisfied both GAAP and applicable legal requirements.

The California Society of Municipal Finance Officers (CSMFO) awarded a Certificate of Award for Outstanding Financial Reporting to the City of Oceanside for the fiscal year ended June 2005. This award is designed to recognize and encourage excellence in financial reporting by state and local governments.

These awards are both valid for a period of one year only. We believe that our current CAFR continues to meet both programs' requirements.

The preparation and publication of this report would not have been possible without the dedication, professionalism, and teamwork of the entire staff of the Financial Services Department. I would like to express my appreciation to all members of the department who assisted in its preparation. The City Council has continued to extend its support to the Financial Services Department in the planning of responsible and progressive financial operations. I would like to thank the Mayor, City Council and City Manager for their continued support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,



Nita McKay
Director of Financial Services

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PRINCIPAL OFFICIALS

AT

JUNE 30, 2006

CITY COUNCIL

Jim Wood, Mayor
Shari Mackin, Deputy Mayor
Rocky Chavez, Council Member
Jack Feller, Council Member
Esther Sanchez, Council Member

ADMINISTRATION AND DEPARTMENT HEADS

Interim City Manager

Interim City Attorney

City Clerk

City Treasurer

Deputy City Manager

Interim Community Development Director

Economic Development/Redevelopment Director

Financial Services Director

Interim Fire Chief

Harbor and Beaches Director

Housing & Neighborhood Services Director

Library Director

Personnel Director

Police Chief

Public Works Director

Interim Water Utilities Director

Barry Martin

John Mullen

Barbara Riegel Wayne

Rosemary R. Jones

Michael J. Blessing

Michael J. Blessing

Jane D. McVey

Nita Mckay

Jeffrey Bowman

Donald L. Hadley

Margery Pierce

Deborah Polich

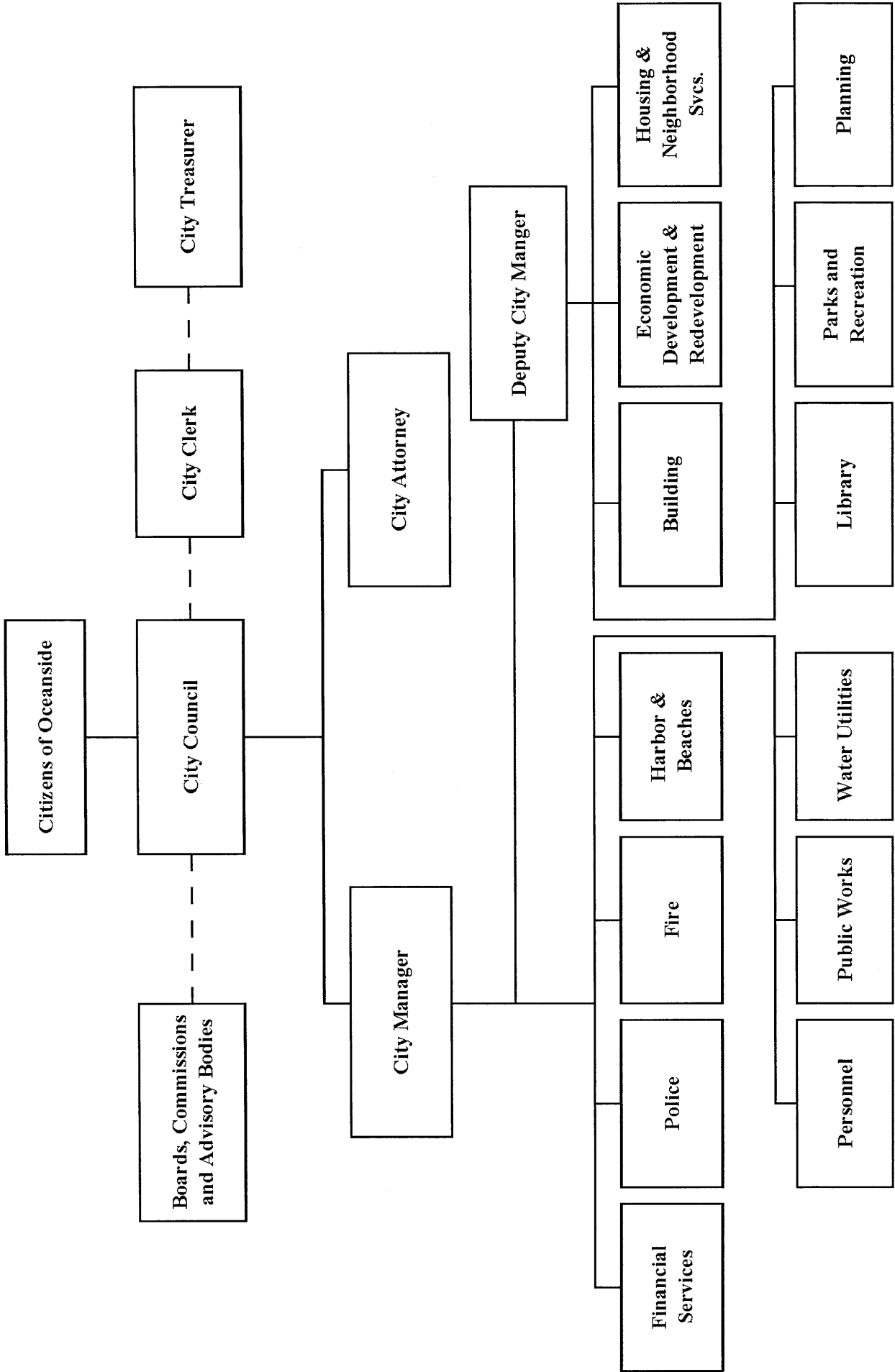
Brian Kammerer

Frank McCoy

Peter A. Weiss

Lonnie Thibodeaux

CITY OF OCEANSIDE ORGANIZATIONAL CHART



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Oceanside,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Fudge

President

Jeffrey R. Emer

Executive Director

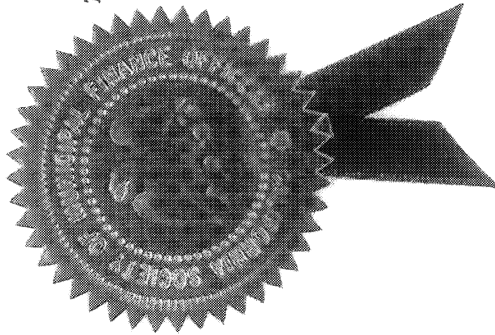
*California Society of
Municipal Finance Officers*

Certificate of Award

Outstanding Financial Reporting 2004-05

Presented to the

City of Oceanside



*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

February 24, 2006

William A. Stumpf

**Bill Thomas, Chair
Professional & Technical Standards Committee**

Dedicated to Excellence in Municipal Financial Management