

City of Oceanside California



**Comprehensive Annual
Financial Report
For the year ended June 30, 2007**

CITY OF OCEANSIDE, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
For the Year Ended June 30, 2007

Prepared by the Accounting Division, Financial Services Department

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David Crowe, Senior Management Analyst

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For the year ended June 30, 2007

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**INTRODUCTORY SECTION
(UNAUDITED)**

December 11, 2007

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, 2007.

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 Diehl, Evans & Company, LLP, 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, 2007. The independent auditor's report is presented as the first component of the financial section of this report.

The CAFR is divided into the following sections:

The Introductory section includes information about the organizational structure of the City, the City's economy, and major initiatives.

The Financial Section includes the Management Discussion & Analysis (MD&A), Basic Financial Statements, notes to the Basic Financial Statements and required supplementary information. GAAP requires 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. The Basic Financial Statements include the government-wide financial statements that report on all City financial operation, including fund financial statements, that present information for all City funds. The independent auditor's report on the Basic Financial Statements is also included.

The Statistical Section includes up to ten years of historical financial data and miscellaneous social and economic information that conforms to GASB standards for reporting – Statement No. 44. This section may be of special interest to prospective investors in our bonds.

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 173,303, making it the third largest city in San Diego County. The median household income for the City is \$62,454, just slightly behind the San Diego County median of \$69,300.

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.

Economic Outlook (Continued)

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. The City has invested heavily in infrastructure and recently completed a new Wastewater Treatment Facility to increase City capacity.

The City also anticipates a slowdown in the real estate tax revenue increases it has enjoyed over the past several years. In order to adjust to the changing financial climate, the City has initiated the development of a five-year projection for both revenue and expenditures to assist in long-range financial planning.

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

A number of public infrastructure projects began in 2007, including the Pacific Street Bridge and Downtown Parking structure. Both projects will enhance private development in the downtown area. New development includes the Wyndham Vacation Resorts, with timeshares, hotel rooms and restaurant and commercial space, scheduled to open in January of 2008. In addition, a 100 room Holiday Inn will open in fall of 2008. In the coming fiscal year, the City expects to receive approval for a new resort hotel. The project will contain over 300 hotel rooms, including almost 50 boutique hotel rooms along with timeshares and over 20,000 square feet in commercial space.

The City of Oceanside continues to invest in Neighborhood Services and in 2007 work continued on the El Corazon site. The City of Oceanside is proposing to redevelop the 465-acre City-owned property to contain the following mixture of land uses: natural open space (150 acres), park areas (160 acres), native open space greenbelt (46 acres), community public use (6 acres), Senior Citizen Center (6 acres), recreation center (6 acres), green waste facility (16 acres), trails and pathways (9 miles), infrastructure/other (20 acres), and commercial uses (55 acres).

The City has just completed work on a new Oceanside Museum of Art, which expands and enhances an important cultural resource in the Downtown area for both residents and visitors to the City. In addition, the City is working to enhance the Oceanside Surf Museum.

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.

Other Information (Continued)

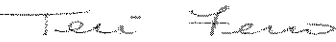
Financial Policies: The City made one change to financial policies that impacted this period's financial statements, change in revenue recognition. The City has recognized revenue that had been held in trust. The purpose of the revenue is to fund low-income housing. Both revenue and expenditures will now be recognized as part of the Housing Assistance Program Special Revenue Fund.

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, 2006. The City received this award for publishing an easily readable and efficiently organized CAFR that satisfied both GAAP and applicable legal 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,



Teri Ferro
Director of Financial Services

PRINCIPAL OFFICIALS
AT
JUNE 30, 2007

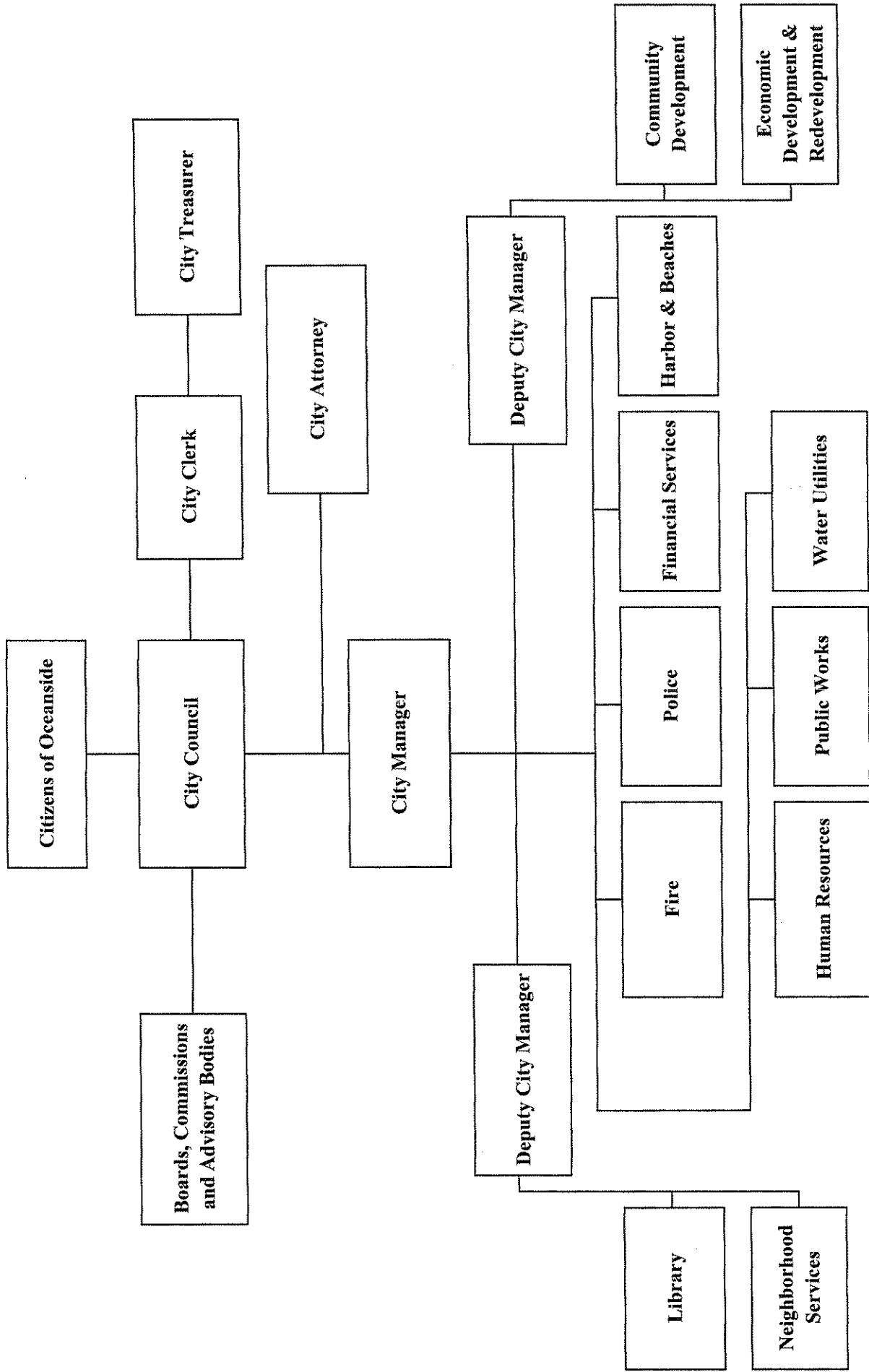
CITY COUNCIL

Jim Wood, Mayor
Rocky Chavez, Deputy Mayor
Jerome Kern, Council Member
Jack Feller, Council Member
Esther Sanchez, Council Member

ADMINISTRATION AND DEPARTMENT HEADS

Interim City Manager	Peter Weiss
City Attorney	John Mullen
City Clerk	Barbara Riegel Wayne
City Treasurer	Rosemary R. Jones
Deputy City Manager	Michael J. Blessing
Deputy City Manager	Michelle Skaggs Lawrence
Economic Development/Redevelopment Director	Jane D. McVey
Interim Financial Services Director	Paul Bussey
Interim Fire Chief	Terry Garrison
Harbor and Beaches Director	Donald L. Hadley
Housing & Neighborhood Services Director	Margery Pierce
Library Director	Deborah Polich
Personnel Director	Brian Kammerer
Police Chief	Frank McCoy
Deputy Public Works Director	Joseph Arranaga
Water Utilities Director	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, 2006

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.



A handwritten signature in black ink, appearing to read "Ronald H. Hahn".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director