

January 23, 2020

To the Honorable Mayor and City Council
City of Gladstone, Oregon

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gladstone, Oregon as of and for the year ended June 30, 2019, and have issued our report thereon dated January 23, 2020. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated July 8, 2019, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of City of Gladstone solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by City of Gladstone is included in Note 1 to the financial statements. As described in Note 16 to the financial statements, the City of Gladstone implemented one new accounting pronouncement issued by the Governmental Accounting Standards Board (GASB). The pronouncement was:

- GASB Statement No. 88 Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are described below.

Management's estimate of the accumulated depreciation is based on historical cost or estimated historical cost if purchased or constructed and donated capital assets are recorded at estimated fair market value at the date of donation.

Management's estimate of the compensated absences payable is based on current wages.

Management's estimate of the net pension liability and other post-employment benefits liability/asset are calculated based on information that was determined by an actuary.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting City of Gladstone's financial statements relate to:

The disclosure of Capital Assets in Note 5 to the financial statements summarizes the changes in capital assets for the year ended June 30, 2019.

The disclosure of Long Term Debt Obligations in Note 8 to the financial statements summarizes the changes in long term debt for the year ended June 30, 2019.

The disclosure of the Joint Venture in Note 6 to the financial statements summarizes the joint venture known as the North Clackamas County Water Commission.

The disclosure of the City's Pension Plan in Note 9 to the financial statements describes the City's Pension Plan benefits, contributions, pension assets, liabilities, expense, deferred outflows/inflows of resources, and actuarial assumptions/projections.

The disclosure of the City's OPEB Plan in Note 10 to the financial statements describes the City's OPEB Plan benefits, contributions, OPEB assets, liabilities, expense, deferred outflows/inflows of resources, and actuarial assumptions/projections.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We noted known and likely uncorrected misstatements of the financial statements with a total financial statement effect of \$17,688. Management has determined that the effect of the uncorrected misstatements is immaterial, both individually and in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to City of Gladstone's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, in a separate letter dated January 23, 2020.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with City of Gladstone, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that

may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as City of Gladstone's auditors.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, the schedule of the proportionate share of the net pension liability, schedule of contributions, schedule of proportionate share – RHIA, schedule of contributions – RHIA, schedule of changes in total OPEB liability and related ratio's, and schedule of contributions – implicit rate subsidy which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit management's discussion and analysis, the schedule of the proportionate share of the net pension liability, schedule of contributions, schedule of proportionate share – RHIA, schedule of contributions – RHIA, schedule of changes in total OPEB liability and related ratio's, and schedule of contributions – implicit rate subsidy and do not express an opinion or provide any assurance on this information.

We were engaged to report on the schedule of revenues, expenditures and changes in fund balances – budget and actual, as listed in the table of contents under RSI, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

We were engaged to report on the other supplementary information, as listed in the table of contents, which accompany the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section, which accompany the financial statements but is not RSI. We did not audit or perform other procedures on this other information, and we do not express an opinion or provide any assurance on it.

This report is intended solely for the information and use of the Honorable Mayor, City Council, and management of City of Gladstone and is not intended to be and should not be used by anyone other than these specified parties.

If you should have any questions or comments, we would be pleased to discuss this report with you at your convenience.

Respectfully,

Merina+Co

Merina+Co

Tualatin, Oregon

Focused on Your Wants and Understanding Your Needs