

City of Medford, Wisconsin

MANAGEMENT COMMUNICATIONS

December 31, 2018

City of Medford, Wisconsin

DECEMBER 31, 2018

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To the Honorable Mayor and City Council
City of Medford, Wisconsin

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 Medford, Wisconsin (the "City") as of and for the year ended December 31, 2018. The City's financial statements, including our report thereon dated April 26, 2019, are presented in a separate audit report document. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITIES UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS AND GOVERNMENT AUDITING STANDARDS

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements are fairly presented, in all material respects, in conformity 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 responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters.

SIGNIFICANT AUDIT FINDINGS

Consideration of Internal Control

FINANCIAL STATEMENTS

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control. Our report on internal control over financial reporting and on compliance and other matters is presented on pages 57 - 58 of the annual report.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the following deficiencies in the City's internal control to be significant deficiencies:

Finding 2018-001	Preparation of Annual Financial Report
Finding 2018-002	Adjustments to the City's Financial Records

These findings are described in detail in the schedule of findings and responses on pages 59 - 60 of the annual report.

The City's written response to the significant deficiencies identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 3.H to the financial statements, the City changed accounting policies related to postemployment benefits by adopting Statement of Governmental Accounting Standards Board (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in 2018. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the statement of activities. The City also blended the financial statements of the Community Development Authority, a component unit of the City, during 2018. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. To the best of our knowledge, all significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected. The most sensitive estimates included in the financial statements were:

- ▶ Management's estimate of the other postemployment benefits is based on an actuarial report. We evaluated the key factors and assumptions used to develop the other postemployment benefits in determining that it is reasonable in relation to the financial statements taken as a whole.
- ▶ Management's estimate of the depreciable life of the capital assets is based upon analysis of the expected useful life of the capital assets. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the depreciable life in determining that it is reasonable in relation to the financial statements taken as a whole.
- ▶ Management's estimate of the fair value of the investments is based on ending market values as of December 31, 2018 as reported by the investment managers. We evaluated the key factors and assumptions used in valuing the investments in determining that they are reasonable in relation to the financial statements taken as a whole.

- ▶ Management's estimate of accumulated sick leave is based upon analysis of the employees sick leave balance. We evaluated key factors and assumptions and the consistency in these factors and assumptions used to develop the liability in determining that it is reasonable in relation to the financial statements taken as a whole.
- ▶ Management's estimate of the net pension liability (asset) and related deferred outflows/inflows of resources is based on information received from the Wisconsin Retirement System. We evaluated the key factors and assumptions used to develop the net pension liability (asset) and related deferred outflows/inflows of resources in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Copies of the audit adjustments are available from management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

The following material audit adjustments detected as a result of our procedures were corrected by management.

- ▶ Recorded debt issuance
- ▶ Recorded municipal contributed water and sewer utility assets

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 26, 2019. The management representation letter follows this communication.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants. We were informed by management that there were no consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and, to the best of our knowledge, our responses were not a condition to our retention.

In addition, during our audit, we noted certain other matters that are presented for your consideration. We will review the status of these comments during our next audit engagement. Our comments and recommendations are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these matters in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized in the comments and observations section of this report.

Other Matters

We applied certain limited procedures to the schedules relating to pensions and other postemployment benefits, 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, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared 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 the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information, which accompanies 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.

Restriction on Use

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



CliftonLarsonAllen LLP

Green Bay, Wisconsin
April 26, 2019

Summary Financial Information

GOVERNMENTAL FUND BALANCES

Presented below is a summary of the City's governmental fund balances on December 31, 2018 and 2017. This information is provided for assessing financial results for 2018 and for indicating financial resources available at the start of the 2019 budget year.

	<u>12/31/18</u>	<u>12/31/17</u>
General Fund		
Nonspendable for		
Advances to other funds	\$ 3,205,410	\$ 3,143,833
Noncurrent receivables	42,511	46,082
Inventories and prepaid items	379	23,059
Restricted for:		
Gas tax replacement	-	8,289
Committed for:		
Assigned	1,032,605	1,051,563
Unassigned	2,223,298	1,813,073
Total General Fund Balance	<u>6,504,203</u>	<u>6,085,899</u>
Debt Service Fund		
Restricted for debt service	<u>777,520</u>	<u>698,044</u>
Special Revenue Funds		
Room tax	10,459	-
Landfill		
Restricted	5,968	5,908
Committed	182,079	175,329
Library	377,946	198,535
CDBG	165,029	171,911
Community Development Authority	220,750	220,342
Parks	15,248	13,248
Medford Fire and Rescue	324,301	447,255
Police Department	61,376	55,610
Fire Department Membership Fund	42,819	62,166
Total Special Revenue Funds	<u>1,405,975</u>	<u>1,350,304</u>
Capital Projects Funds		
Construction	218,191	350,248
TIF No. 5	(140,305)	(141,479)
TIF No. 6	(514,239)	(603,941)
TIF No. 7	(232,663)	(222,963)
TIF No. 8	(549,497)	(546,925)
TIF No. 10	(455,127)	(465,600)
TIF No. 11	18,129	8,857
TIF No. 12	(786,304)	(1,410,331)
TIF No. 13	(238,745)	(334,033)
Total Capital Projects Funds	<u>(2,680,560)</u>	<u>(3,366,167)</u>
Total Governmental Fund Balances	<u>\$ 6,007,138</u>	<u>\$ 4,768,080</u>

Significant results of the above governmental funds follow on the next page.

General Fund

Overall, the City's general fund increased from \$6,085,899 to \$6,504,203 as of December 31, 2018. The City's general fund is segregated into nonspendable, restricted, committed, assigned and unassigned components.

Nonspendable fund balance represents financial resources which are not available for spending or legal restrictions exist on spending these resources. The largest portion of the City's nonspendable general fund balance is its advances to other funds totaling \$2,859,989 as of December 31, 2018 as summarized below:

Tax Incremental Districts	
TIF No. 5	\$ 211,637
TIF No. 6	712,083
TIF No. 7	288,469
TIF No. 8	631,997
TIF No. 10	455,127
TIF No. 12	776,125
TIF No. 13	273,029
Water Utility	111,189
	<hr/>
Total advances	\$ 3,459,656

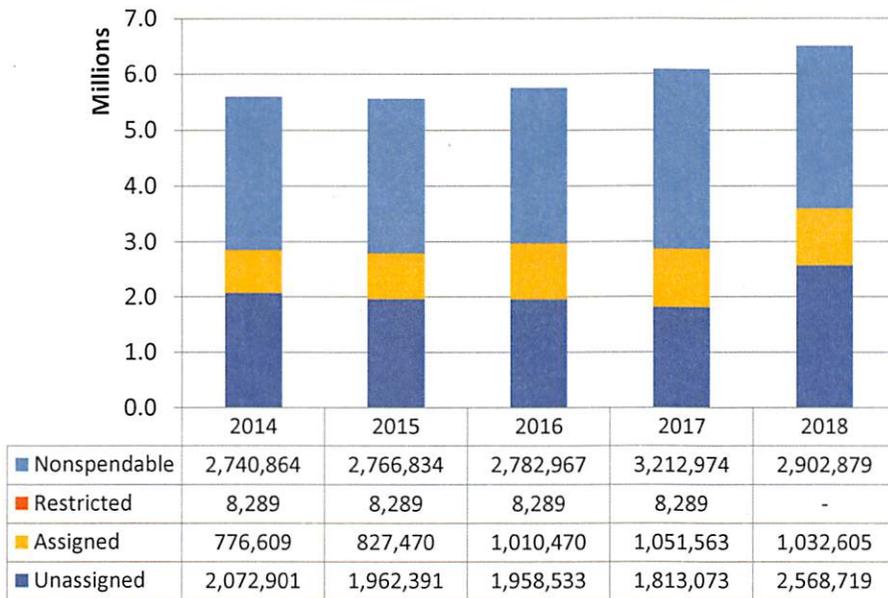
Since the long-term advances are not expected to be repaid in 2019, the City's general fund is listed as nonspendable for the amount of the advances at year end. When the City's tax incremental districts generate positive cash flows in future years, the amount of the advance will be reduced increasing the City's unassigned fund balance.

The City has further assigned portions of its general fund balance for amounts for non-lapsing reserves authorized by a City resolution as detailed below:

Accounting software	\$ 27,895
Capital construction	155,429
Chamber building maintenance	25,000
City office equipment	27,403
Citywide assessment revaluation	87,135
Election equipment	17,205
Fire department - vehicles	24,662
Geographical Information System (GIS)	5,468
Land acquisition	31,459
Park development	48,453
Police vehicles	25,378
Public works equipment	314,484
Public works sand, salt and rental	199,093
Recreation	10,417
Swimming pool	31,774
Website development	1,350
	<hr/>
Total assigned general fund balance	\$ 1,032,605

The City's unassigned general fund balance is \$2,223,298 at December 31, 2018. In our opinion, municipalities similar to the City generally should maintain an unassigned general fund balance of between 30% and 40% of its annual general fund operating expenditure budget. We feel an unassigned fund balance is necessary to allow the City to maintain current operations, finance unplanned contingencies, and provide additional cash flow due to the lag in receiving tax revenues and state aids due the City. In addition, an unassigned fund balance can be used to stabilize the City's tax rate. Currently, the City's unassigned fund balances represent approximately 85% of the City's general fund expenditures.

Presented below is a graph displaying the City's general fund balance for fiscal years 2014-2018. This information is presented to assist City management in assessing fund balance levels at the end of fiscal year 2018 and the trend over the past four years.



Summary Comment

The City's general fund is in excellent financial condition entering the 2019 budget year. The City could consider assigning portions of the City's general fund balance in excess of the 30 to 40% of its annual general fund expenditures for specific projects. In our opinion, assigning fund balance for specific one-time projects is a more effective method to reduce fund balance than applying surpluses in subsequent year budgets because significant applications of fund balance make balancing subsequent year budgets more difficult while eliminating borrowing for these one-time projects which reduces interest paid by the City.

Medford Fire and Rescue

The financial transactions of the Medford Fire and Rescue Joint Ownership District, a joint venture with the City and seven townships, is recorded in a special revenue fund of the City. At December 31, 2018, the fund reports fund balance of \$324,301.

Debt Service Fund

The balance increased due to debt service levies issued for TID district debt; accordingly, the amount advanced to District No. 8 of \$254,246 is currently not available to be used for debt retirement.

Tax Incremental Districts

The City has established eight separate Tax Increment Financing Districts (TID) created by the City in accordance with Section 66.1105 of the Wisconsin Statutes. At the time the TIDs were created, the property tax base within each TID was "frozen" and increment taxes resulting from increases to the property tax base are used to finance TID improvements, including principal and interest on long-term debt issued by the City to finance such improvements.

Since creation of the above TIDs, the City has provided various financing sources to each TID and has also recorded eligible TID project costs in other funds of the City. The foregoing amounts are not recorded as liabilities in the TID capital project funds but can be recovered by the City from any future excess tax increment revenues. Detail of the amounts recoverable by the City as of December 31, 2018 from future excess tax increment revenues follows:

	Advance / Due from Other Funds	Advances from Component Unit	Portion of General Obligation Debt	Deficit or (Available Resources)	Total
T ID No. 5	\$ 211,637	\$ -	\$ -	\$ (71,332)	\$ 140,305
T ID No. 6	712,083	-	-	(197,844)	514,239
T ID No. 7	288,469	-	-	(55,806)	232,663
T ID No. 8	631,997	-	-	(82,500)	549,497
T ID No. 10	455,127	-	25,000	-	480,127
T ID No. 11	-	-	-	(18,129)	(18,129)
T ID No. 12	776,125	930,000	-	10,179	1,716,304
T ID No. 13	273,029	-	1,075,000	(34,284)	1,313,745
	<u>\$ 3,348,467</u>	<u>\$ 930,000</u>	<u>\$ 1,100,000</u>	<u>\$ (449,716)</u>	<u>\$ 4,928,751</u>

The deficit fund balance of the districts has been financed by general, debt service or sewer fund long-term cash advances as previously discussed. The City should project future project costs of each district, anticipated borrowing, either from external parties or the City's general fund and project revenues when evaluating the financial condition of the City.

CITY'S DEBT POSITION

At December 31, 2018, the City's general obligation debt totaled \$4,210,000 or 28% of the City's debt limit of \$15,164,545. The City's enterprise funds are responsible to repay \$2,470,000 of this balance. Annual principal and interest maturities of the outstanding general obligation debt on December 31, 2017 are allocated as follows:

Year Ended December 31,	Governmental Activities		Business-type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 415,000	\$ 47,275	\$ 150,000	\$ 82,730	\$ 565,000	\$ 130,005
2020	405,000	38,490	150,000	78,425	555,000	116,915
2021	180,000	29,040	155,000	73,925	335,000	102,965
2022	190,000	23,760	160,000	69,275	350,000	93,035
2023	190,000	17,830	165,000	63,775	355,000	81,605
2024-2028	360,000	20,400	925,000	229,375	1,285,000	249,775
2029-2032	-	-	765,000	58,528	765,000	58,528
	<u>\$ 1,740,000</u>	<u>\$ 176,795</u>	<u>\$ 2,470,000</u>	<u>\$ 656,033</u>	<u>\$ 4,210,000</u>	<u>\$ 832,828</u>

The City's Community Development Authority (CDA), a component unit of the City, has also borrowed funds for the implementation of project plan expenditures for District No. 12. The City has pledged to make sufficient payments to the CDA to cover the principal and interest maturities when due as follows:

Year Ended December 31,	Community Development Authority		
	Principal	Interest	Total
2019	\$ 225,000	\$ 31,880	\$ 256,880
2020	225,000	27,155	252,155
2021	240,000	21,530	261,530
2022	245,000	14,690	259,690
2023	215,000	7,095	222,095
	<u>\$ 1,150,000</u>	<u>\$ 102,350</u>	<u>\$ 1,252,350</u>

ELECTRIC UTILITY

A comparative summary of the Electric Utility's change in net position for the years ended December 31, 2018 and 2017 appears below:

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 10,220,850	\$ 10,072,652
Operating expenses		
Operation and maintenance	9,434,179	9,327,994
Depreciation	473,437	458,096
Taxes	73,680	68,849
Total operating expenses	<u>9,981,296</u>	<u>9,854,939</u>
Operating income	<u>239,554</u>	<u>217,713</u>
Nonoperating revenues (expenses)		
Interest revenue	42,928	18,192
Merchandising and jobbing (net)	(3,096)	(3,288)
Total nonoperating revenues	<u>39,832</u>	<u>14,904</u>
Income before contributions and transfers	279,386	232,617
Capital contributions	82,814	22,417
Transfers out	<u>(221,860)</u>	<u>(211,353)</u>
Change in net position	<u>\$ 140,340</u>	<u>\$ 43,681</u>

Rate of Return - The Public Service Commission of Wisconsin (PSC) determines rates charged to customers of the electric utility by calculating a rate of return on the Electric Utility's average net rate base. Presented below is the calculation of the rate of return for 2018 and 2017 for the electric utility based on the format used by the PSC. The PSC operating income differs from the above operating income by the following items:

- The PSC considers the property tax equivalent to be an expense in the year accrued while the property tax equivalent is considered an expense for financial reporting purposes in the year transferred to the City.
- The PSC no longer allows the Electric Utility to recover depreciation on contributed plant from current rates beginning in 2003; therefore, this depreciation expense is removed from PSC operating income.
- The adjustments related to the WRS pension required by GASB 68 and the Local Retiree Life Insurance Fund required by GASB 75 are not considered operating activities by the PSC.

	<u>2018</u>	<u>2017</u>
Rate of Return	<u>0.93%</u>	<u>0.84%</u>

WATER UTILITY

A comparative summary of the Water Utility's change in net position for the years ended December 31, 2018 and 2017 appears below:

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 1,024,030	\$ 1,014,343
Operating expenses		
Operation and maintenance	376,400	372,371
Depreciation	245,605	220,218
Taxes	7,378	5,929
Total operating expenses	<u>629,383</u>	<u>598,518</u>
Operating income	<u>394,647</u>	<u>415,825</u>
Nonoperating revenues (expenses)		
Interest revenue	1,141	1,974
Interest and fiscal charges	(43,440)	(45,379)
Nonoperating grants	23,374	-
Total nonoperating expenses	<u>(18,925)</u>	<u>(43,405)</u>
Income before contributions and transfers	375,722	372,420
Capital contributions	151,227	1,132,378
Transfers out	<u>(176,231)</u>	<u>(167,732)</u>
Change in net position	<u>\$ 350,718</u>	<u>\$ 1,337,066</u>

Rate of Return - The Public Service Commission of Wisconsin (PSC) determines rates charged to customers of the water utility by calculating a rate of return on the Water Utility's average net rate base. Presented below is the calculation of the rate of return for 2018 and 2017 for the Water Utility based on the format used by the PSC. The PSC operating income differs from the above operating income by the following items:

- The PSC considers the property tax equivalent to be an expense in the year accrued while the property tax equivalent is considered an expense for financial reporting purposes in the year transferred to the City.
- The PSC no longer allows the Water Utility to recover depreciation on contributed plant from current rates beginning in 2003; therefore, this depreciation expense is removed from PSC operating income.
- The adjustments related to the WRS pension required by GASB 68 are not considered operating activities by the PSC.

	<u>2018</u>	<u>2017</u>
Rate of Return	<u>2.92%</u>	<u>3.79%</u>

The authorized rate of return for the Water Utility is 5%.

SEWER UTILITY

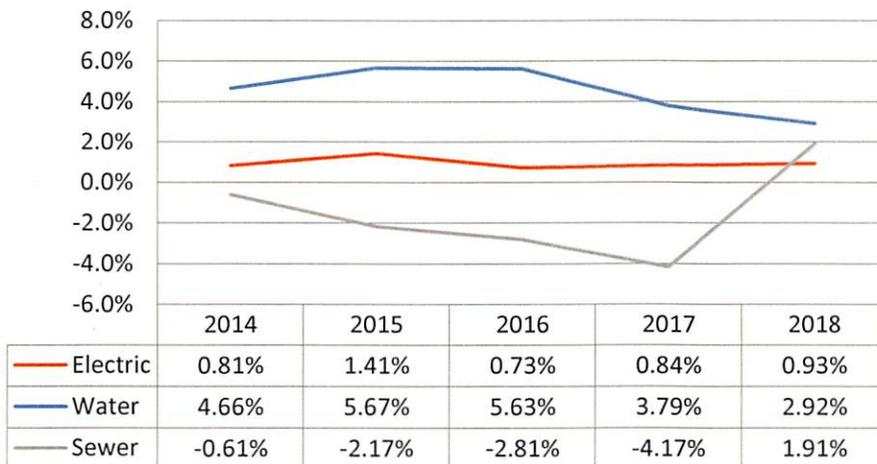
A comparative summary of the Sewer Utility’s change in net position for the years ended December 31, 2018 and 2017 appears below:

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 1,499,215	\$ 1,238,099
Operating expenses		
Operation and maintenance	784,298	818,814
Depreciation	830,130	824,054
Taxes	28,020	28,738
Total operating expenses	<u>1,642,448</u>	<u>1,671,606</u>
Operating loss	<u>(143,233)</u>	<u>(433,507)</u>
Nonoperating revenues		
Interest revenue	37,013	22,926
Interest and fiscal charges	(81,950)	-
Gain on sale of capital assets	14,604	3,130
Nonoperating grants	14,021	-
Total nonoperating revenues	<u>(16,312)</u>	<u>26,056</u>
Loss before contributions and transfers	(159,545)	(407,451)
Capital contributions	218,049	47,653
Transfers out	<u>(40,693)</u>	<u>-</u>
Change in net position	<u>\$ 17,811</u>	<u>\$ (359,798)</u>

Because the Sewer Utility is not regulated by the PSC and treatment plants are typically capital intensive with depreciation expense being a significant component of operating expenses, it is important to consider cash flows when evaluating the Sewer Utility operating results. For the year ended December 31, 2018, the cash generated by operating activities totaled \$863,535. As of December 31, 2018, the sewer utility has available cash and investments of \$4,283,623.

RATE OF RETURN

The Rate of Return for the Electric Utility, Water Utility, and Sewer Utility is presented below for the prior 5 years. This information is presented to assist management in analyzing the operating performance of the City's Utilities.



APPENDIX



April 26, 2019

CliftonLarsonAllen LLP
2200 Riverside Drive
P.O. Box 23819
Green Bay, WI 54305-3819

This representation letter is provided in connection with your audit of the financial statements of the City of Medford, Wisconsin (the "City"), which comprise the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of April 26, 2019, the following representations made to you during your audit of the financial statements as of and for the year ended December 31, 2018.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated December 4, 2018, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We acknowledge and have fulfilled our responsibility 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
5. Significant estimates have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Significant estimates are estimates at the financial statement date that could change materially within the next year.
6. Related party relationships and transactions, including, but not limited to, revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

7. No events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
8. We have not identified or been notified of any uncorrected financial statement misstatements. In addition, you have proposed adjusting journal entries that have been posted to the entity's accounts. We have reviewed and approved those adjusting journal entries and understand the nature of the changes and their impact on the financial statements. We are in agreement with those adjustments and accept responsibility for them.
9. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
10. Guarantees, whether written or oral, under which the entity is contingently liable, if any, have been properly recorded or disclosed in accordance with U.S. GAAP.
11. Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.
12. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the financial statement date and have been reduced to their estimated net realizable value.
13. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
14. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
15. We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefits (OPEB) liabilities and costs for financial accounting purposes are appropriate in the circumstances.
16. We do not plan to make frequent amendments to our pension or other postretirement benefit plans.

Information Provided

1. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others when the fraud could have a material effect on the financial statements.
5. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
6. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations and provisions of contracts and grant agreements, or abuse whose effects should be considered when preparing financial statements.
7. We are not aware of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments, that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
8. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.
9. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
10. The entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as made known to you and disclosed in the financial statements.
11. We have a process to track the status of audit findings and recommendations.
12. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
13. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
14. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the City of Medford, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
15. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
16. The entity has complied with all aspects of contractual or grant agreements that would have a material effect on the financial statements in the event of noncompliance.
17. We are responsible for determining whether we have received, expended, or otherwise been the beneficiary of any federal awards during the period of this audit. No federal award, received directly from federal agencies or indirectly as a subrecipient, was expended in an amount that cumulatively totals from all sources \$750,000 or

more. For this representation, "award" means financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, user grants, or contracts used to buy goods or services from vendors.

18. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
19. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures, jointly governed organizations, and other related organizations.
20. The financial statements properly classify all funds and activities.
21. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
22. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
23. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
24. Provisions for uncollectible receivables have been properly identified and recorded.
25. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
26. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
27. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
28. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly valued and disclosed.
29. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
30. We have appropriately disclosed the entity's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
31. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
32. We acknowledge our responsibility for presenting the nonmajor fund combining statements, (the supplementary information) in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditors' report thereon.

- 33. As part of your audit, you prepared the draft financial statements and related notes, annual TIF financial statements, state financial report, and Public Service Commission annual report. We have designated an individual who possesses suitable skill, knowledge, and/or experience to understand and oversee your services; have made all management judgments and decisions; and have assumed all management responsibilities. We have evaluated the adequacy and results of the service. We have reviewed, approved, and accepted responsibility for those financial statements and related notes, state financial report, and Public Service Commission annual report.
- 34. We agree with the findings of specialists in evaluating the other postemployment benefits, pension benefits, and incurred but not reported claims and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialist.
- 35. We have not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statements No. 84, *Fiduciary Activities*, and No. 87, *Leases*, as discussed in Note 3.H. The Utility is therefore unable to disclose the impact that adopting these GASB statement will have on its financial position and the results of its operations when the Statements are adopted.

Signature:  Title: City Coordinator
John Fales

Signature:  Title: Treasurer
Kevin Doberstein