

October 8, 2014

To the Honorable Mayor and City Council
City of The Dalles, 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 The Dalles, Oregon for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under general accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 15, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of The Dalles, Oregon are described in Note I to the financial statements. As described in Note IV.E to the financial statements, the City of The Dalles implemented one new accounting pronouncement issued by the Governmental Accounting Standards Board (GASB). This pronouncement includes:

GASB Statement No. 65 Items Previously Reported as Assets and Liabilities

We noted no transactions entered into by City of The Dalles, Oregon during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

There was one prior period adjustment that was included in the financial statements:

Bond Issuance Cost – Based on implementation of GASB Statement No. 65, the City restated the beginning net position for the Governmental Funds, Water Fund, Sewer Fund, and Airport Fund, which states that bond issuance costs are current period costs. The beginning net position was reduced by \$165,050, \$163,179, \$50,629 and \$198, respectively, the amount of the unamortized bond issuance costs reported on June 30, 2013.

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 affecting the City's financial statements were:

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 allowance for doubtful accounts is based on a percentage of total receivables.

Management's estimate of the Other Post Employment Benefits (OPEB) is based on an actuarial valuation.

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

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of Capital Assets in Note III.D to the financial statements summarizes the changes in capital assets for the year ended June 30, 2014.

The disclosure of Long-Term Obligations in Note III.E to the financial statements summarizes the changes in long-term obligations for the year ended June 30, 2014.

The disclosure of Commitments, Contingencies, and Subsequent Events in Note IV.D to the financial statements summarizes the City's commitments, contingencies, and subsequent events.

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 known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

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 auditor's report. We are pleased to report that 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 October 8, 2014.

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 City of The Dalles, Oregon's financial statements or a determination of the type of auditor's 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.

Other Audit Findings or Issues

We noted certain matters that we reported to management of the City of The Dalles, Oregon in a separate letter dated October 8, 2014.

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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and to the schedule of funding progress, which is 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 or the schedule of funding progress and do not express an opinion or provide any assurance on this information.

We were engaged to report on the other supplemental information, 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.

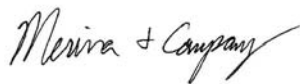
We were not engaged to report on the introductory section or statistical section, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of the Mayor and City Council and management of City of The Dalles, Oregon 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.

Very truly yours,

A handwritten signature in cursive script that reads "Merina & Company".

Merina & Company, LLP
Certified Public Accountants and Consultants