REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

February 5, 2013

To the Board of Commissioners of Coos County:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Coos County, Oregon (the County) as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, and have issued our report thereon dated February 5, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Coos County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Coos County’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses; and therefore there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected in a timely manner. However, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses in internal control over financial reporting as described in the schedule of findings and questioned costs as item 2012-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Coos County’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.
We noted certain matters that we have reported to the management of Coos County in a separate letter dated February 5, 2013.

This report is intended solely for the information and use of management; Coos County Board of Commissioners, the State of Oregon, Secretary of State, Division of Audits; and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hough, MacAdam & Wartnik, LLC
Certified Public Accountants
Audit Report Requirements

Oregon Administrative Rules 162-10-0000 through 162-10-0330 of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments, and disclosures required in audit reports. The required schedules, comments, and disclosures not included in the preceding section of this report are as follows:

Accounting Systems and Internal Controls

Coos County's accounting systems are adequate and the accounting records are properly maintained. The majority of internal controls for the County are operating as designed, however, we noted material weaknesses as reported in our report on Internal Control Over Financial Reporting. We noted certain matters that we have reported to the management of Coos County in a separate letter dated February 3, 2012.

Collateral

Based on the results of our tests, throughout the year and at fiscal year-end balances on deposit with financial institutions were secured in accordance with the requirements of ORS 295.015.

Indebtedness

Based on the results of our tests, the County has not exceeded its legal debt limitation as provided by ORS 328.245. The County was in compliance with all debt covenants and all payments were made on a timely basis.

Budget

We reviewed the preparation, adoption, and execution of the budget for the current year and the preparation and adoption of the ensuing year's budget.

The resolution authorizing appropriations for each fund sets the level by which expenditures cannot exceed appropriations. The level of control for the General Fund, Public Works, and the Mental Health Special Revenue Fund is by department, while the level of control in all other Special Revenue Funds, Debt Service and Proprietary Funds is by total personnel services, materials and services, support of schools, capital outlay, debt service, contingency and other expenditures.

Based on the results of our tests, the County has complied with statutory requirements for the current and ensuing year's budgets, except as follows:

Expenditures exceeded appropriations in the following amounts:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Expenditure Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Grants Fund</td>
<td>Capital outlay</td>
<td>$10,608</td>
</tr>
<tr>
<td>CCAT</td>
<td>Personal services</td>
<td>$2,485</td>
</tr>
<tr>
<td></td>
<td>Materials and services</td>
<td>$10,852</td>
</tr>
</tbody>
</table>

Deficit net assets - The Waste Disposal Fund ended the year with deficit net asset balance of ($3,189,592). Management expects this deficit balance to be reduced in future years by an increase in revenues and transfers into the fund in excess of total expenditures.
Insurance and Fidelity Bonds

The County is in compliance with the legal requirements pertaining to insurance and fidelity bond coverage. We are not competent by training to state whether the insurance policies covering County owned property in force at June 30, 2012, are adequate.

Based on the results of our tests the County has complied with the provisions of ORS 332.525 regarding the bonding of County personnel.

Investments

Based on the results of our tests, the County was in compliance with legal requirements of ORS 294 pertaining to investment of public funds.

Public Contracts and Purchasing

Based on the results of our tests and our review of the minutes, the County appears to be in compliance with the provisions of ORS 279 pertaining to the awarding of public contracts and the construction of public improvements.

Programs Funded from Outside Sources

We selected and tested, to the extent deemed appropriate, transactions, records, and reports relative to programs funded wholly or partially by other governmental agencies.

The results of our tests indicate, for the items tested, the County complied with the laws, rules, and regulations pertaining to programs funded wholly or partially by other governmental agencies, and, for the items tested, financial reports and related data were in agreement with and supported by the accounting records.

Separate reports have been issued to report on compliance with appropriate laws and regulations pertaining to Federal Financial Assistance with Programs funded from Outside Sources.

Highway Funds

The County is in compliance with legal requirements pertaining to the use of revenue from taxes on motor vehicle use fuel and road funds.

Statement of Accountability for Independently Elected Officials

<table>
<thead>
<tr>
<th></th>
<th>Assessor</th>
<th>Clerk</th>
<th>Commissioners</th>
<th>District Attorney</th>
<th>Sheriff</th>
<th>Surveyor</th>
<th>Treasurer</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand July 1, 2011</td>
<td>$50</td>
<td>$100</td>
<td>$125</td>
<td>$20,250</td>
<td>$50</td>
<td>$54,972,359</td>
<td>$54,992,934</td>
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<tr>
<td>Receipts</td>
<td>113,420</td>
<td>766,505</td>
<td>1,233,552</td>
<td>242,765</td>
<td>1,797,285</td>
<td>17,343</td>
<td>91,118,807</td>
<td>95,289,677</td>
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<tr>
<td>Turnovers and disbursements:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To County Treasurer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>and to others</td>
<td>(113,420)</td>
<td>(766,505)</td>
<td>(1,233,552)</td>
<td>(242,765)</td>
<td>(1,797,285)</td>
<td>(17,343)</td>
<td>(93,311,002)</td>
<td>(97,481,872)</td>
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<tr>
<td>Cash on hand June 30, 2012</td>
<td>$50</td>
<td>$100</td>
<td>$125</td>
<td>$20,250</td>
<td>$50</td>
<td>$52,780,164</td>
<td>$52,800,739</td>
<td></td>
</tr>
</tbody>
</table>

Consists of:

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<tr>
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<th>Sheriff</th>
<th>Surveyor</th>
<th>Treasurer</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change and revolving funds</td>
<td>$50</td>
<td>$100</td>
<td>$125</td>
<td>$20,250</td>
<td>$50</td>
<td>$2,347</td>
<td>$22,922</td>
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<td>Deposits w/County Treasurer</td>
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<td></td>
<td></td>
<td>52,777,817</td>
<td>52,777,817</td>
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</tr>
<tr>
<td>Total</td>
<td>$50</td>
<td>$100</td>
<td>$125</td>
<td>$20,250</td>
<td>$50</td>
<td>$52,780,164</td>
<td>$52,800,739</td>
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