INTRODUCTORY SECTION

Garfield County

Finance Department
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Glenwood Springs, Colorado 81601
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June 11, 2012

To the Citizens, Board of County Commissioners and the County Manager of Garfield County:

I am pleased to present to you the Comprehensive Annual Financial Report (CAFR) of Garfield County, Colorado for the fiscal year ended December 31, 2011. This report was prepared in accordance with generally accepted accounting principles (GAAP) by the Finance Department of Garfield County. Responsibility for both the accuracy of the presented data and the completeness and fairness of presentation, including all disclosures, rests with the County. We believe the data, as presented, is accurate in all material aspects. It is presented in a manner designed to fairly set forth the financial activity of the various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the County's financial affairs have been included.

This report is the result of the cooperative effort between the Finance Department and McMahan and Associates, L.L.C., our independent auditors. Colorado law requires that the financial statements of Garfield County be audited by an independent, external certified public accountant. Accordingly, the auditor's opinion has been included in the financial section of this report.

Garfield County is required to undergo an annual single audit in conformity with the provisions of the Federal Single Audit Act of 1996 and the U.S. Office of Management and Budget's Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Information related to this single audit, including the schedule of expenditures of federal awards, the independent auditor's reports on the internal control and compliance with applicable laws, regulations, contracts, and grants is included in the single audit section located after the Statistical Section.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and an analysis to accompany the basic financial statements. This narrative is in the form of the Management's Discussion and Analysis (MD&A) and can be found immediately following the report of the independent auditors. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

REPORTING ENTITY

The County, for financial reporting purposes, includes all funds of the primary government, as well as all of its component units. Component units are legally separate entities which the primary government must disclose in its financial statements.

Blended component units are, from an accounting perspective, part of the primary government's operation and are included as part of the primary government. Garfield County

has two blended component units: Garfield County Building Corporation and Garfield County Finance Authority.

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 compliment that MD&A and should be read in conjunction with it. Garfield County's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF GARFIELD COUNTY

Geography

Garfield County is located approximately 158 miles west of Denver and 88 miles east of Grand Junction. Garfield County resides both in the magnificent Colorado Rocky Mountains to the east and the plateaus to the west. It encompasses 2,958 square miles and has an estimated population of 57,900. Approximately 60 percent of the land is publicly owned and is controlled primarily by the U.S. Forest Service and the U.S. Bureau of Land Management. The County seat is located in Glenwood Springs.

Operating Structure

Garfield County, incorporated February 10, 1883, is a statutory county, defined as a service arm of the State, and derives its elected official structure and its powers from the State through enabling legislation. The three-member Board of County Commissioners serves as the legislative, policy-making and administrative body governing the unincorporated area of Garfield County. Commissioners are elected at large from one of three geographical districts and serve staggered four-year terms. In addition to having the power to levy taxes, the authority to represent the County, the responsibility for the care of County property and the management of its affairs, the Board has the exclusive responsibility and power to adopt the annual budget for operation of County government, including all offices, boards, commissions and other spending agencies funded in whole or in part by County appropriations.

Services

Garfield County provides the full range of services contemplated by State statute. These include:

- General government functions
- Public protection and safety
- Road and bridge operations
- Public health
- Human services
- Culture and recreation
- Planning and zoning
- Solid waste landfill disposal facility
- Airport operations

Budgeting

The annual budget serves as the foundation for the County's financial planning and control. All activities, departments and funds of the County are prepared in compliance with State statute and generally accepted accounting principles. Supplemental appropriations are approved by the Board of County Commissioners as needed throughout the year. The objective of budgetary control is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board of County Commissioners. Expenditures may not legally exceed appropriations at the fund or elected official level. Detailed line item records provide management the capability to monitor budgets for all areas. Budgetary control is exercised through the use of system controls which restrict payments exceeding the budget.

Internal Control

The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that:

(1) The cost of a control should not exceed the benefits likely to be derived; and
(2) The valuation of costs and benefits requires estimates and judgments by management.

ECONOMIC CONDITION

Environment

The County provides a full range of traditional county services, including assessment and property tax administration; recording of vital documents and automobile registration; sheriff patrol and jail administration; court facilities; land use planning and building inspections; road maintenance and construction; welfare and public health services; a solid waste landfill disposal facility; airport operations; fairgrounds; and environmental health protection. The economy in the County continues to be dominated by energy development, tourism, ranching and farming.

Similar to other entities across the country, Garfield County is experiencing decreased demand for construction services, tourism, and recreation activity. As a result, sales tax is down almost 9% from 2010 and 32% from 2009. Although building permits increased 45% in 2011, they are down 40% from the high in 2007.

Similarly, due to the national recession, there has been a decline in natural gas production and price. With the gas industry as a primary driver of the local economy and the top ten taxpayers in Garfield County all coming from the industry, the financial health of Garfield County is significantly dependent upon and affected by the gas industry. Property tax dropped by 34% from $70M in 2010 to $46.6M in 2011. However, in preparation for this dramatic reduction in revenues, the County re-evaluated and prioritized its capital improvement projects, revisited all vacancies prior to the position being filled, and opted to

withhold employee performance pay increases. In 2012, property tax revenues are forecast to rebound slightly with a projected increase of 11% to $51.5m.

According to the Colorado Department of Labor and Employment, the unemployment rate for Garfield County at December 31, 2011 was 7.7%, which was equal to the state unemployment rate of 7.7% but lower than the national rate of 8.5%. Garfield County's unemployment rate at the end of 2010 was 9.5% indicating that Garfield County has experienced the affects of the national recession and downturn in the economy over the last few years.

LONG-TERM FINANCIAL PLANNING

In order to meet emergency obligations, avoid interruptions in cash flow, generate interest income, and maintain a sound bond rating, the County maintains an unassigned fund balance in its general fund plus its oil and gas mitigation fund of at least one third of the County's total general fund expenditures. The unassigned fund balance in these two funds is 108% of the County's total general fund expenditures at the end of 2011. The County's unassigned fund balance in the general fund is 60% of regular general fund operating revenues, which also falls above the policy guidelines set by the Board of County Commissioners for budgetary and planning purposes (i.e., between 5 and 15 percent of total general fund revenues). Due to the volatile economy driven by the oil and gas industry, Garfield County strives to maintain an unassigned fund balance in the general fund in excess of these recommendations.

The general fund had an excess of revenues over expenditures of approximately $10.5 million in 2011 and had an ending fund balance of approximately $36.8 million. This fund balance should provide the County with sufficient working capital to meet the 2012 goals and objectives.

The County assiduously works to maintain a strong, diverse revenue base recognizing that a dependence upon any individual revenue source would cause revenues to become more vulnerable to economic cycles. Revenues are conservatively projected using trend analysis, estimates based on known assumptions, evaluation of the local economy and the primary drivers of that economy, and estimates from other governments (i.e., state and federal). Garfield County is forecasting a slow recovery in revenues over the next several years, primarily as a result from the stagnation in natural gas production and prices. Approximately 50% of the County's total revenue is related to property tax, and almost three quarters of property tax revenue is associated with the gas industry. Because of this, Garfield County has built up a healthy fund balance to assure stable levels of service to Garfield County citizens, stable employment and benefits for employees, and a strong assurance there is no need to return to tax payers for fee or tax increases to pay for the growing needs of the County during the downturn in our local economy.

The Citizens of Garfield County
Board of County Commissioners
County Manager

RELEVANT FINANCIAL POLICIES

Updated Investment Policy

Garfield County updated their investment policy to accommodate the changing economy and the statutory rating requirements on investments. The updated policy includes more flexibility in the ratings of our investments and a change in the bank selection credit criteria.

MAJOR INITIATIVES

In 2010, Garfield County entered into an agreement with the Colorado Department of Transportation (CDOT); Department of Local Affairs (DOLA); Town of Parachute; and two energy industry companies to fund the Parachute Parkway for a cost of $2.8 million and the I-70 West Parachute Interchange for a cost of $14.8 million. The funding allocation between these partners is as follows: CDOT $6.0 million; DOLA $8.0 million; Garfield County $2.5 million; Town of Parachute $500 thousand and the two energy industry companies $600 thousand. The Parachute Parkway was constructed in 2011. The I-70 West Parachute Interchange began construction on March 19, 2012 and has an expected completion date of October 31, 2012. The scope of the project includes rehabilitation of an old US 6 bridge that crosses I-70; adding four new I-70 ramps with two roundabouts; resurfacing the road between the Parachute Parkway and Una Road; and installation of interchange lighting. The affect of this project will be to alleviate truck traffic from going through the Town of Parachute and cut down the amount of truck traffic using the current interchange.

AWARDS AND ACKNOWLEDGEMENTS

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Garfield County, Colorado for its comprehensive annual financial report for the fiscal year ended December 31, 2010. This was the third consecutive year that Garfield County has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

In addition, Garfield County also received the GFOA's Distinguished Budget Presentation Award for its budget document for the period beginning January 1, 2011. This was the second time Garfield County received this award. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient

in several categories, including a policy document, a financial plan, an operations guide and a communications device.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated service of the Garfield County Finance Department. In addition, as a staff we are grateful for the assistance we receive from our independent auditors, McMahan and Associates, L.L.C.

In closing, I wish to acknowledge the leadership of the Board of County Commissioners, the County Manager, and the cooperation of each of the County's departments and elected officials as we work together to conduct the County's financial operations. The Board supports prudent fiscal management and stewardship in a responsible and progressive manner, and the strong financial condition of Garfield County can be attributed to its positive leadership.

Respectfully submitted,

Ann Driggers
Senior Finance Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Garfield County Colorado

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2010

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.

Linda C. Davidson

President

Jeffrey P. Ener

Executive Director

ELECTED OFFICIALS

Commissioner, District # 1	Tom Jankovsky
Commissioner, District # 2	John Martin
Commissioner, District # 3	Mike Samson
County Assessor	Jim Yellico
County Clerk	Jean Alberico
County Coroner	Trey Holt
County Sheriff	Lou Vallario
County Surveyor	Scott Aibner
County Treasurer (Public Trustee)	Georgia Chamberlain

APPOINTED BY BOARD OF COUNTY COMMISSIONERS

County Attorney	Andrew Gorgey
County Manager	Ed Green

DEPARTMENT DIRECTORS

Assistant County Manager	Dale Hancock
Airport	Brian Condie
Criminal Justice	Rodney Hollandsworth
General Services	Dale Hancock
Building & Planning	Fred Jarman
Oil & Gas	Kirby Wynn
Public Works	Betsy Suerth
Engineering	Randy Withee
Facilities	Richard Alary
Fairgrounds	David Ebeler
Road & Bridge	Betsy Suerth
Administrative Services	Lisa Dawson
Finance	Lisa Dawson
Information Technology	Lisa Dawson
Procurement	Eugene Duran
Human Services	Mary Elliott Baydarian
Public Health	Mary Meisner
Human Resources	Katherine Ross

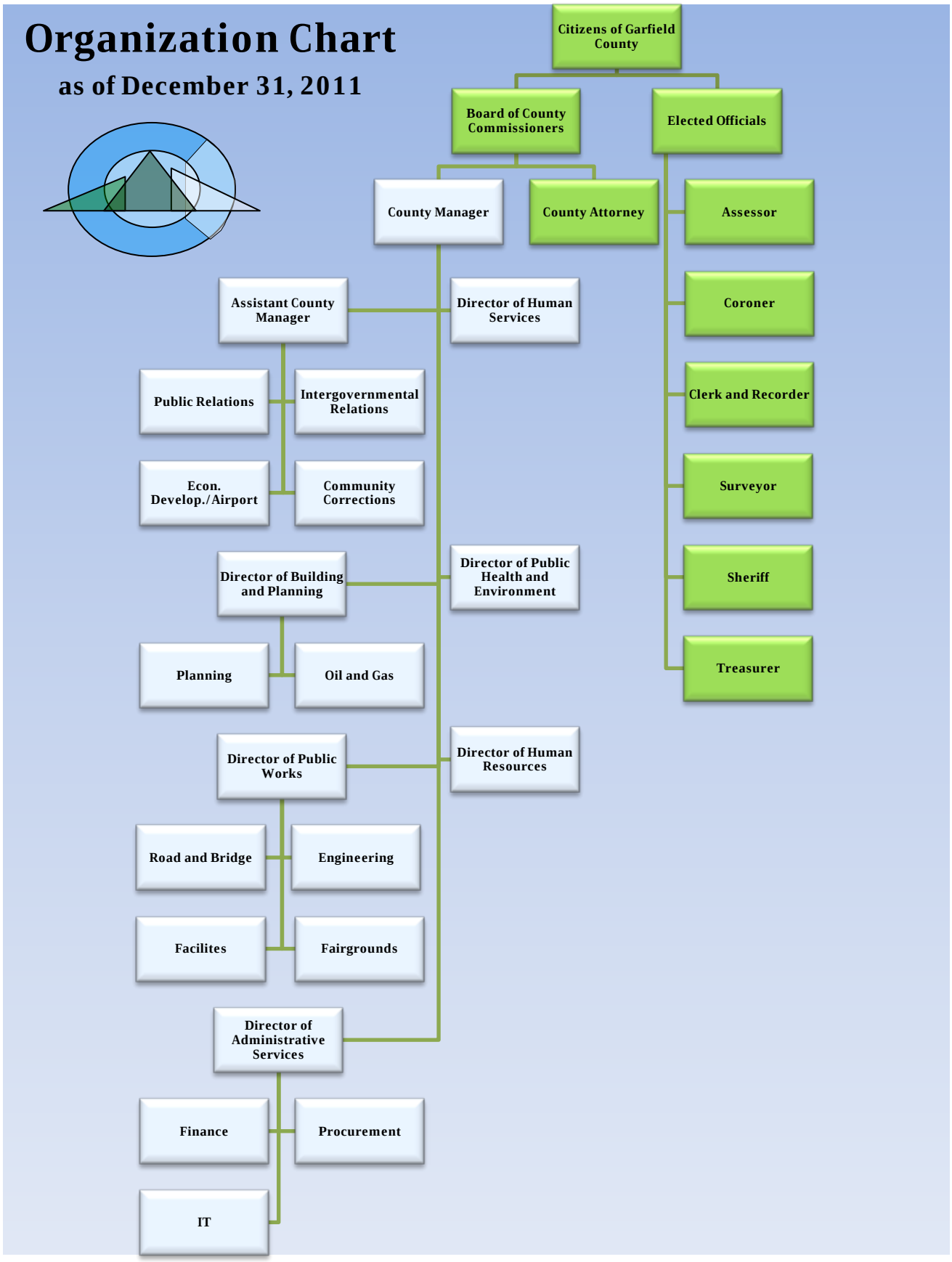
BOARD OF COUNTY COMMISSIONERS

John Martin

Tom Jankovsky

Mike Samson

Board of County Commissioners serve as both administrative and policy-making bodies for their counties. While, generally, boards have only those powers specifically conferred by the state general assembly, courts have held that they have such implied powers as may be necessary to carry out their specified powers. Constitutionally, the board also sits as the County Board of Equalization. The board also fills all vacancies in county offices other than those for county commissioners and for the public trustee. All powers of the county, as a legal entity, are exercised by the Board of County Commissioners and not by its individual members.

Organization Chart

as of December 31, 2011