



FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

**To the Board of County Commissioners
Garfield County, Colorado**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Garfield County, Colorado, (the "County"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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**To the Board of County Commissioners
Garfield County, Colorado**

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Garfield County, Colorado as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis in Section B be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The budgetary comparison information in section E is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements taken as a whole. The introductory section, combining fund financial statements, individual fund budgetary information, the Local Highway Finance Report, and the statistical section listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the County's financial statements. The combining fund financial statements, the individual fund budgetary information, and the Local Highway Finance Report are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

**To the Board of County Commissioners
Garfield County, Colorado**

Additionally, the Schedule of Expenditures of Federal Awards included in the Single Audit section are presented for the purpose of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the County's financial statements. Such information has been subjected to the auditing procedures applied audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 05, 2013 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

McMahan and Associates, L.L.C.

**McMahan and Associates, L.L.C.
Avon, Colorado
June 5, 2013**

Garfield County, Colorado
Management's Discussion and Analysis
December 31, 2012

This section of Garfield County's (the County) Comprehensive Annual Financial Report (CAFR) presents narrative discussion and analysis of the financial activities of the County for the fiscal year ended December 31, 2012. This information should be considered in conjunction with that furnished in the letter of transmittal, which can be found preceding this narrative, and with the County's financial statements and notes to the financial statements, which follow.

FINANCIAL HIGHLIGHTS

- As of December 31, 2012, the County's total assets were \$476.0 million, and total liabilities and deferred inflow of resources were \$62.2 million. The total net position was therefore \$413.8 million, an increase of 1.6 percent (\$6.6 million) over 2011.
- Total net position comprises the following:
 - (1) Capital assets including property and equipment, net of related debt and accumulated depreciation, of \$294.6 million
 - (2) Restricted net position of \$50.5 million, which is constrained for specific purposes by external providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation
 - (3) Unrestricted net position of \$68.7 million, which represents the portion available to maintain the County's continuing obligations to its citizens and creditors.
- Total governmental fund revenues in 2012 were \$117.6 million, a 16.1 percent (\$16.3 million) increase over 2011.
- Total governmental fund expenditures in 2012 were \$121.9 million, a 36.7 percent (\$32.7 million) increase over 2011.
- As of December 31, 2012, the County's governmental funds reported combined ending fund balances of \$113.6 million. This compares to the prior year ending fund balances of \$117.8 million, a decrease of 3.6 percent (\$4.3 million) during 2012. Approximately \$40.0 million (35.2 percent) is unassigned fund balance.
- At the end of 2012, fund balance for the General Fund was \$43.6 million, amounting to 88.7 percent of total General Fund expenditures. This compares to the prior year ending fund balance of \$36.8 million with an increase of 18.4 percent (\$6.8 million) during 2012.
- During 2012, the County retired two series of certificates of participation issued in 2001 and 2006. The County has no bonded debt or long-term financial commitments.

The above financial highlights are explained in more detail in the financial analysis section of this document.

Garfield County, Colorado
Management's Discussion and Analysis
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OVERVIEW OF THE FINANCIAL STATEMENTS

This Management Discussion and Analysis document introduces the County's basic financial statements. The basic financial statements include:

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

The County also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The County's annual report includes two government-wide financial statements. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and elimination or reclassification of activities between funds. The two statements are:

The **statement of net position** presents all of the County's assets, liabilities and deferred outflows and inflows, with the difference between reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County as a whole is improving or deteriorating. Evaluation of the overall health of the County should extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of County infrastructure, in addition to the financial information provided in this report.

The **statement of activities** reports how the County's net position changed during the fiscal year. All current year revenues and expenditures are included regardless of when cash is received or payments are made. An important purpose of the design of the statement of activities is to show the financial reliance of the County's distinct activities or functions on revenues provided by the County's taxpayers.

Both government-wide financial statements distinguish governmental activities of the County that are principally supported by property and sales taxes and from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government; public safety; health and welfare; culture and recreation; and maintenance and improvement of transportation, infrastructure, buildings, grounds, and public works. Business-type activities include the solid waste disposal operations (landfill) and the County's motor pool.

The government-wide financial statements are presented on pages C1 and C2 of this report.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts used to maintain control over resources segregated for specific activities or objectives. The County, like other state and local governments, uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Fund financial statements focus on the County's most significant funds, known as major funds, rather than the County as a whole. Major funds are reported separately while all others are combined into a single, aggregated presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report.

All the funds of the County fall into one of three types: governmental funds, proprietary funds, and fiduciary funds.

Garfield County, Colorado
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Governmental funds. Most of the services provided by the County are accounted for in governmental funds. Governmental funds are used to account for essentially the same functions, which are reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, however, the governmental funds financial statements focus on the use of spendable resources during the year and the balances available at the end of the year for future spending. Such information is useful in determining whether there will be adequate financial resources available to meet the current and near-term needs of the County.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The County's governmental funds are comprised of a general fund, a capital projects fund and eleven special revenue funds. Five governmental funds, the General Fund, the Road and Bridge Fund, the Human Services Fund, the Oil and Gas Mitigation Fund and the Capital Expenditures Fund are considered major funds for financial reporting purposes. Each of the major funds is presented in a separate column in the governmental fund financial statements presented on pages C3 through C6 of this report. Individual fund information for non-major governmental funds is found in combining statements in a later section of this report.

Proprietary funds. Services for which the County charges customers a fee are accounted for in proprietary funds. The two County proprietary funds are the Solid Waste Disposal Fund and the Motor Pool Fund. The Solid Waste Disposal Fund is an enterprise fund, which encompasses the same functions reported as business-type activities in the government-wide statements. The Motor Pool Fund is an internal service fund which reports activities that provide services to the County's other programs and activities on a cost reimbursement basis. For reporting purposes, the Motor Pool Fund is included in the governmental activities in the government-wide financial statements. The basic proprietary fund financial statements are presented on pages C7 through C9 of this report.

Fiduciary funds. Assets held in a trustee or agency on behalf of another legally separate party or entity are accounted for in fiduciary funds. Since the resources of these funds are not available to support the County's own programs, they are not reflected in the government-wide financial statements and only balance sheet accounts are used. The County has no trustee funds. The County agency fund information is presented on pages C10 and F16 of this report.

Notes to the Basic Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin on page D1 of this report.

Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information on the County's annual budget. The County adopts a budget appropriated for each fund. Budgetary comparison statements are included as Required Supplementary Information for the General Fund, the Road and Bridge Fund, the Human Services Fund, and the Oil and Gas Mitigation Fund on pages E1 – E4. Budgetary comparison schedules for all other governmental funds including the capital projects fund type can be found in the Supplementary Information section of this report on pages F1, and F6 through F13. The proprietary funds budgetary comparison schedules are on pages F14 and F15. These statements and schedules demonstrate compliance with the County's adopted and amended budget.

Garfield County, Colorado
Management's Discussion and Analysis
December 31, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Summary of Net Position

An analysis of net position may serve as a useful indicator of a government's financial health. Total assets for the County on December 31, 2012 were \$476.0 million, total liabilities were \$8.2 million, and deferred inflows of resources were \$53.9 million. The County's net position is therefore \$413.8 million, an increase of 1.6 percent over December 31, 2011. The following provides a summary of the County's net position (as presented on page C1):

SUMMARY OF NET POSITION (\$)						
	Governmental Activities		Business-type Activities		TOTAL	
	2012	2011	2012	2011	2012	2011
Assets:						
Current assets	\$176,498,437	\$180,104,797	\$4,899,356	\$5,130,190	\$181,397,793	\$185,234,987
Restricted assets	-	1,715,852	-	-	-	1,715,852
Non-current assets	-	480,956	-	-	-	480,956
Capital assets	292,192,199	296,398,459	2,390,059	2,147,857	294,582,258	298,546,313
Total Assets	468,690,636	478,700,064	7,289,415	7,278,044	475,980,051	485,978,108
Liabilities:						
Current liabilities	5,939,934	8,063,974	176,769	122,954	6,116,703	8,186,928
Non-current liabilities	1,382,205	17,452,730	727,182	697,679	2,109,387	18,150,409
Total Liabilities	7,322,139	25,516,704	903,951	820,633	8,226,090	26,337,337
Total Deferred Inflow of Resources	53,966,761	52,440,577	-	-	53,966,761	52,440,577
Net Position:						
Capital assets	292,192,199	280,838,459	2,390,059	2,147,854	294,582,258	282,986,313
Restricted	50,496,906	82,885,831	-	-	50,496,906	82,885,831
Unrestricted	64,712,631	37,018,493	3,995,405	4,309,557	68,708,036	41,328,050
Total Net Position	\$407,401,736	\$400,742,783	\$6,385,464	\$6,457,411	\$413,787,200	\$407,200,194

The County continues to maintain very strong current ratios. The current ratio compares current assets to current liabilities and is an indication of the ability to pay obligations within one year. The current ratio for governmental activities is 3:1 and 28:1 for business-type activities. For the County overall, the current ratio is 3:1 meaning assets are three times greater than liabilities.

The County reported positive balances in net position for both governmental and business-type activities. Net position increased \$6.7 million for governmental activities and decreased by \$72 thousand for business-type activities. The County's overall total net position increased during 2012 by \$6.6 million. The growth in net position is primarily due to increases in revenues from property tax, the retirement of certificates of participation and a reduction in accounts payable.

As of December 31, 2012, the County's governmental activities reported a combined ending net position of \$407.4 million, an increase of 1.7 percent (\$6.7 million) over the prior year. Of this, 15.9 percent (\$64.7 million) is unrestricted and constitutes available funds for spending in the coming year at the County's discretion. Legally restricted net position includes \$1.5 million restricted to public health, \$23.3 million restricted to road and bridge, \$9.0 million restricted to human services, \$3.3 million restricted to emergency reserve, and \$13.2 million restricted to capital projects.

Approximately three-quarters of the governmental activities' net position is invested in capital assets. Capital assets are tangible property used in the operation of the County such as land, roads and bridges, buildings, machinery, furnishings and equipment. The County uses these capital assets to provide services to its citizens. For business-type activities, 37.4 percent of its net position is invested in capital assets providing facilities and equipment for the Solid Waste Disposal Fund.

Garfield County, Colorado
Management's Discussion and Analysis
December 31, 2012

Summary of Changes in Net Position

Governmental activities and business-type activities increased the County's net position by \$6.6 million or 1.6 percent.

The following table provides a summary of the County's changes in net position for governmental and business-type activities in 2012 and 2011:

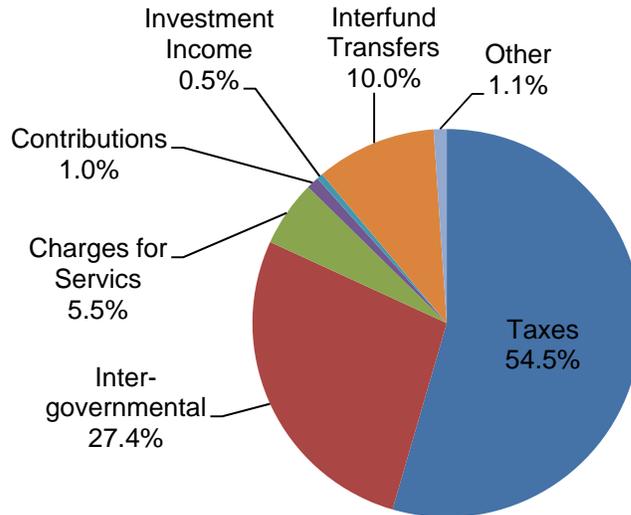
SUMMARY OF CHANGES IN NET POSITION						
	Governmental Activities		Business-type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program:						
Charges for services	\$ 6,078,566	\$ 5,776,902	\$ 1,101,790	\$ 1,295,525	\$ 7,180,356	\$ 7,072,427
Operating grants	30,523,566	24,503,184	3,340	30,508	30,526,906	24,533,692
Capital grants and contributions	2,377,253	5,420,767	-	-	2,377,253	5,420,767
General:						
Taxes	66,249,425	60,278,224	-	-	66,249,425	60,278,224
Other	(212,891)	840,967	-	-	(212,891)	840,967
Total Revenues	105,015,919	96,820,044	1,105,130	1,326,033	106,121,049	98,146,077
Program Expenses:						
General government	26,171,545	22,744,858	-	-	26,171,545	22,744,858
Public safety	22,492,864	21,947,452	-	-	22,492,864	21,947,452
Public works	25,950,121	18,576,728	-	-	25,950,121	18,576,728
Health and welfare	21,440,584	21,315,277	-	-	21,440,584	21,315,277
Culture and recreation	1,536,630	1,194,341	-	-	1,536,630	1,194,341
Interest	696,848	757,738	-	-	696,848	757,738
Solid waste	-	-	1,245,451	1,315,655	1,245,451	1,315,655
Total Expenses	98,288,592	86,536,394	1,245,451	1,315,655	99,534,043	87,852,049
Excess (Deficiency)	6,727,327	10,283,650	(140,321)	10,378	6,587,006	10,294,028
Transfers	(68,374)	(42,387)	68,374	42,387	-	-
Change in Net Position	6,658,953	10,241,263	(71,947)	52,765	6,587,006	10,294,028
Beginning Net Position	400,742,783	389,354,433	6,457,411	6,404,646	407,200,194	395,759,079
Prior Period Adjustment	-	1,147,087	-	-	-	1,147,087
Beg. Net Position (Restated)	400,742,783	390,501,520	6,457,411	6,404,646	407,200,194	396,906,166
Ending Net Position	\$ 407,401,736	\$ 400,742,783	\$ 6,385,464	\$ 6,457,411	\$ 413,787,200	\$ 407,200,194

Garfield County, Colorado
Management's Discussion and Analysis
December 31, 2012

GOVERNMENTAL REVENUES

Total governmental revenues for 2012 were \$117.6 million compared to \$101.3 million in 2011, an increase of 16.0 percent. The source of revenues is as follows:

Governmental Revenues by Source 2012	
Taxes	\$64,104,264
Intergovernmental	32,177,069
Charges for Services	6,461,865
Contributions	1,219,142
Investment Income	610,398
Interfund Transfers	11,766,872
Other	1,275,275
Total	\$117,614,885



The County is heavily reliant on taxes and intergovernmental revenues to support governmental operations and capital improvements.

Property taxes are the largest source of revenue with \$52.4 million accounting for 44.5 percent of total revenues. Sales taxes of \$9.1 million represent 7.7 percent of revenues.

Intergovernmental revenues of \$32.2 million represent 27.4 percent of the County's total governmental revenues. This includes \$16.7 million from human services programs, \$5.5 million was received from the Department of Local Affairs for the West Parachute I70 Interchange construction, \$3.2 million was received from the State Highway Users Tax Fund for road and bridge purposes, \$2.1 million was distributed in federal mineral severance taxes, and \$0.6 million relates to a grant received from the FAA for the runway upgrade.

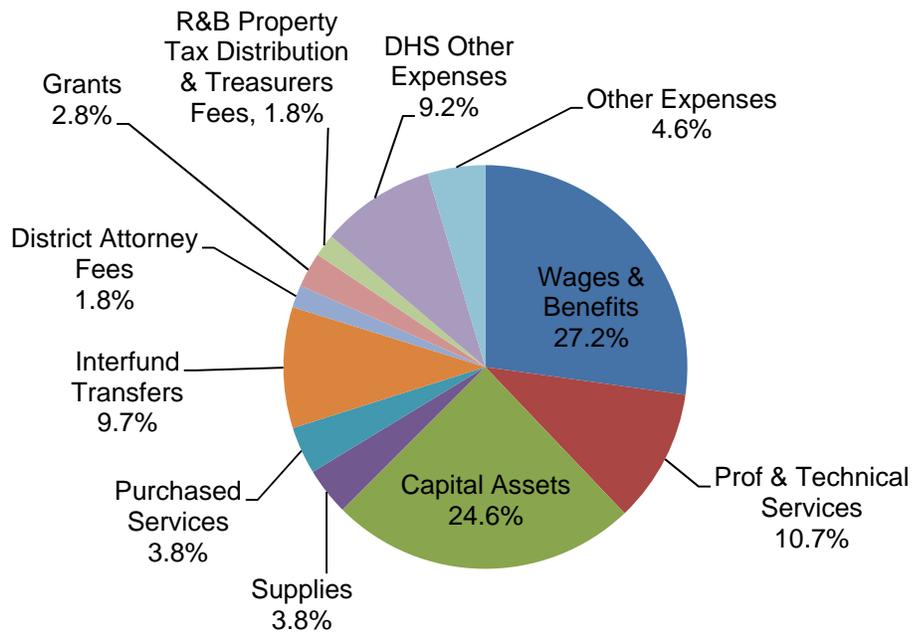
During 2012, the County's cash and investments returned \$0.6 million in interest earnings to support governmental activities.

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Management's Discussion and Analysis
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GOVERNMENTAL EXPENDITURES

Total governmental expenditures for 2012 were \$121.9 million compared with \$89.2 million in 2011, an increase of 36.7 percent. Expenditures by classification are as follows:

Governmental Expenditures by Classification 2012	
Wages and Benefits	\$33,166,963
Professional and Technical Services	13,058,456
Capital Assets	29,992,672
Supplies	4,605,740
Purchased Services	4,625,081
Interfund Transfers	11,835,246
District Attorney Fees	2,134,097
Grants	3,397,980
R&B Property Tax Distribution and Treasurers Fees	2,139,015
DHS Other Expenses	11,173,702
Other Expenses	5,739,891
Total	\$121,868,843



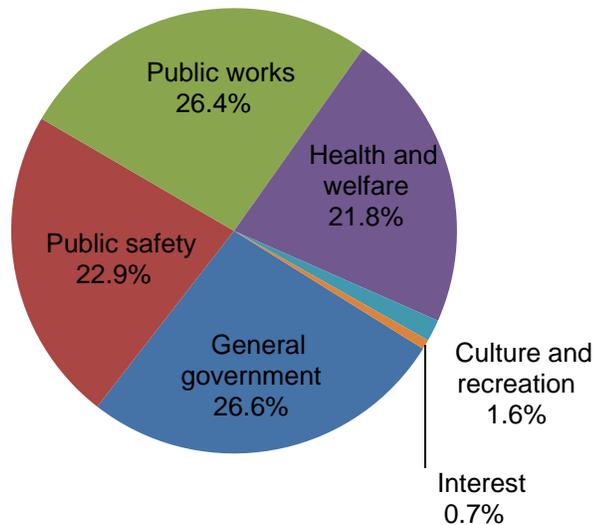
Garfield County, Colorado
Management's Discussion and Analysis
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GOVERNMENT-WIDE – GOVERNMENTAL ACTIVITIES – FUNCTION/PROGRAM ANALYSIS

Program revenues such as charges for services, operating and capital grants and contributions, cover 39.7 percent of governmental activities expenses. This is a very high percentage and largely relates to the social services grants and other grants mentioned above. This means that the government's taxpayers and the County's other general governmental revenues fund 60.3 percent of the governmental activities. As a result, the general economy and the County businesses have a major impact on the County's revenue streams.

Total governmental activities expenses by function or program are as follows:

Governmental Activities Expenses by Function/Program 2012	
General government	\$26,171,545
Public safety	22,492,864
Public works	25,950,121
Health and welfare	21,440,584
Culture and recreation	1,536,630
Interest	696,848
Total	\$ 98,288,592

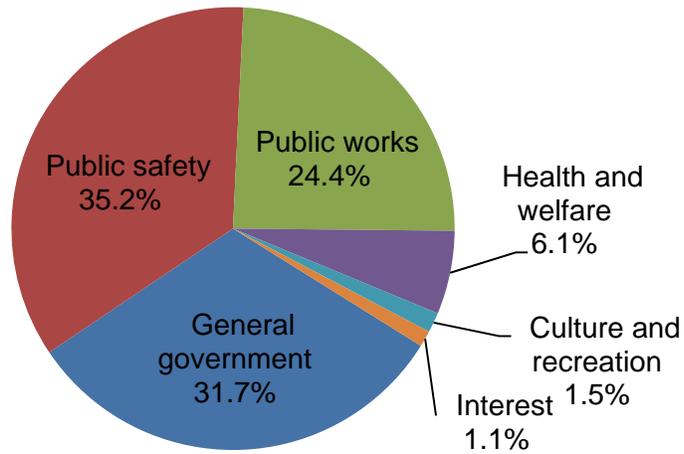


The general government, public safety, public works, and health and welfare functions account for 97.7 percent of governmental activities expenses.

Garfield County, Colorado
Management's Discussion and Analysis
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Each of these functions generates some form of revenue. The following table presents the net cost of the functions, i.e. the expenses less revenues generated by the activities. The net costs illustrate the financial burden placed on the County's taxpayers by each of these functions.

Net Cost of Governmental Activities by Function/Program 2012	
General government	\$ 18,778,998
Public safety	20,877,265
Public works	14,475,319
Health and welfare	3,613,738
Culture and recreation	867,039
Interest	696,848
Total	\$ 59,309,207

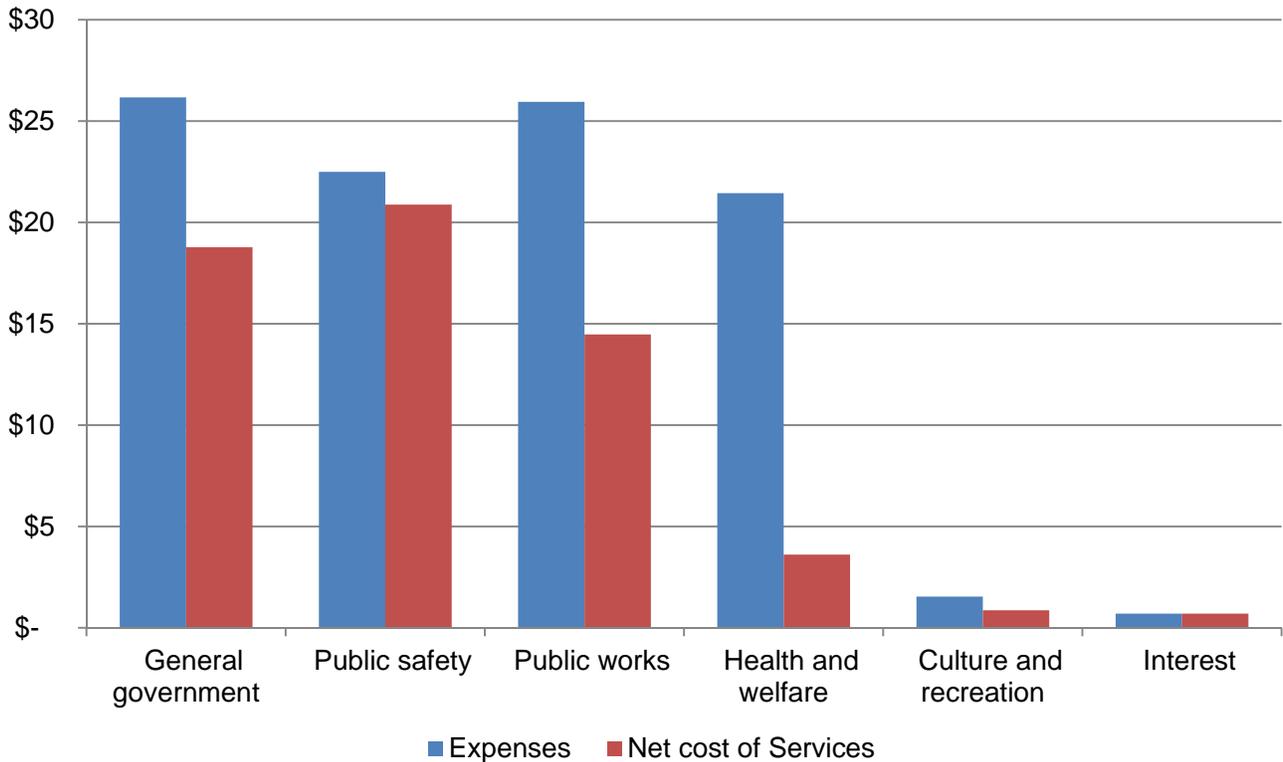


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Total net cost of governmental activities of \$59.3 million is 60.3 percent of total cost of governmental activities of \$98.3 million. This means 60.3 percent of governmental activities are paid for with taxpayer dollars and 39.7 percent are funded with program revenues such as charges/fees for services, grants and contributions.

A comparison of the expenses on governmental activities and the net cost of governmental activities, by function, is as follows:

**Governmental Expenses and Net Cost of Governmental Activities by Function
2012**



Garfield County, Colorado
Management's Discussion and Analysis
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BUSINESS-TYPE ACTIVITIES

The Solid Waste Disposal Fund, which accounts for the activities of the landfill, is the only business-type activity of the County. In 2012, the fund accounted for a reduction in the County's net position of \$71,947 primarily due to capital improvements.

Operating revenues of the fund were \$1.1 million and operating expenses were \$1.2 million. At 99.6 percent, charges for services (tipping fees) accounted for the majority of revenues. Other revenues included an interfund transfer from the General Fund for cost reimbursement.

Wages and benefits accounted for 39.9 percent of expenses and the remaining 60.1 percent was for other operating expenses.

ANALYSIS OF THE COUNTY'S GOVERNMENTAL FUNDS

As previously discussed the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the County's governmental funds is to provide information on near-term inflows, outflows and balance of resources. This information is useful in assessing the County's financing requirements.

Overall, governmental fund revenues totaled approximately \$105.8 million in 2012, an increase of 9.2 percent over the prior year. Taxes, primarily property tax, increased by 9.9 percent (\$5.8 million) and intergovernmental revenues were up 13.3 percent (\$3.8 million) due to grants received for the West parachute interchange project. Modest increases and decreases took place in other revenue sources.

In 2012, expenditures for governmental funds totaled \$110.0 million, an increase of 29.8 percent (\$25.3 million). \$23.2 million of the increase took place in the Capital Expenditures fund of which \$15.6 million was due to the cost of retiring the certificates of participation. Public works also saw a substantial increase of 40.7 percent (\$6.6 million) reflecting greater investment in road and bridge projects in 2012.

Information on the County's major funds is as follows:

General Fund

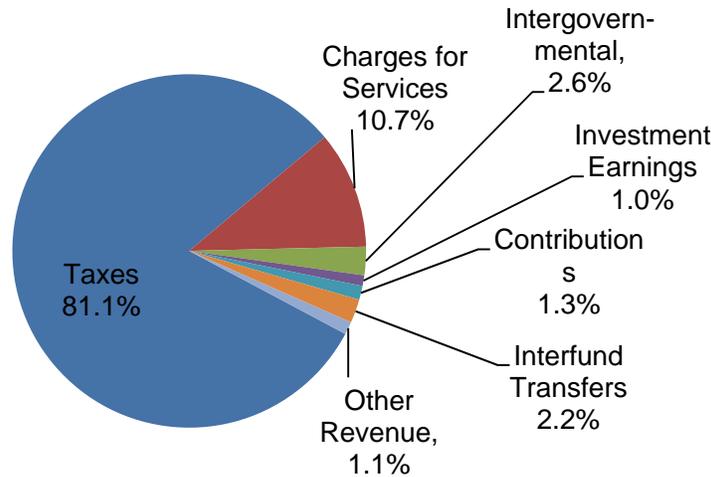
The General Fund is the primary operating fund for the County and the largest source of day-to-day service delivery.

The General Fund's fund balance increased by 18.4 percent (\$6.8 million) in 2012 to \$43.6 million. While revenues exceeded expenditures by \$10.4 million other financing uses (interfund transfers out) reduced this margin. 91.7 percent (\$40.0 million) constitutes unassigned fund balance available for spending in the coming year at the County's discretion. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 90.3 percent of total General Fund expenditures and total fund balance represents 98.5 percent of expenditures.

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In 2012, total revenues for the General Fund were \$55.9 million, an increase of 0.2 percent over the prior year. Taxes generated more than half this revenue, followed by charges and fees for services, and intergovernmental revenues. The following represents General Fund revenues by classification in 2012, which was similar to the prior year:

General Fund Revenues 2012	
Taxes	\$45,299,058
Charges for Services	5,997,821
Intergovernmental	1,451,997
Investment Earnings	540,451
Contributions	710,866
Interfund Transfers	1,210,000
Other Revenue	647,727
Total	\$55,857,920



General Fund revenues were 4.5 percent above the amended budget in 2012. The primary reason was the additional sales tax collected which did not include sales tax refunds expected to be deducted by the State Department of Revenue.

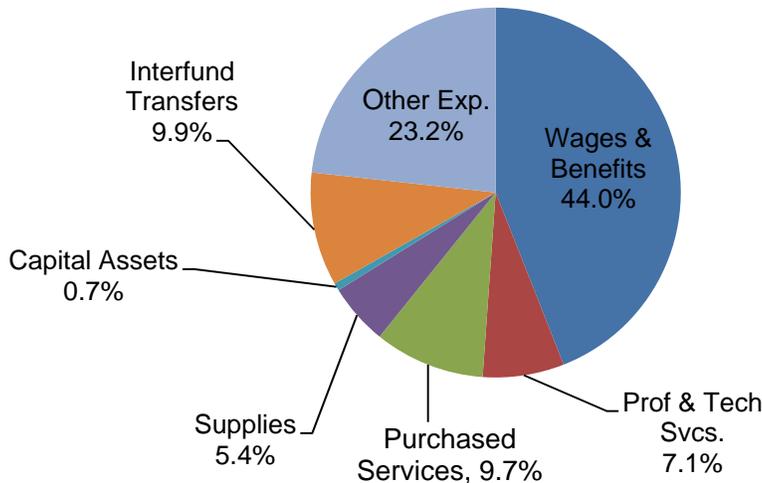
General Fund Revenues Budgetary Comparison					
	2012 Adopted Budget	2012 Amended Budget	2012 Actual	Amount Over/(Under) Amended	% Over/(Under) Amended
Taxes	\$43,047,911	\$43,047,911	\$45,299,058	\$2,251,147	5.2%
Charges for Services	5,734,860	5,691,260	5,997,821	306,561	5.4%
Intergovernmental	1,175,595	1,225,005	1,451,997	226,992	18.5%
Investment Income	602,326	602,326	540,451	(61,875)	(10.3%)
Interfund Transfers	900,000	1,210,000	1,210,000	0	0.0%
Other Revenue	1,652,091	1,686,307	1,358,593	(327,714)	(19.4%)
Totals	\$53,112,783	\$53,462,809	\$55,857,920	\$2,395,111	4.5%

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Total expenditures for the General Fund in 2012 (including interfund transfers to other funds) were \$49.0 million, a 4.0 percent increase over 2011. The majority of the increase is accounted for by an increase in interfund transfers out of \$1.1 million, an increase in sales tax distributions to other entities of \$466 thousand, and an increase in public safety expenditures of \$533 thousand.

As mentioned previously, the General Fund is the County's primary operating fund and consequently it contains a total of eighteen elected official offices and departments. Wages and benefits, therefore, make up 44.0% of total expenditures, while services provided for the County (professional and technical services, and purchased services) comprised 16.8% of the total. The following presents the total General Fund expenditures by classification:

General Fund Expenditures 2012	
Wages & Benefits	\$21,610,876
Professional and Technical Services	3,485,736
Purchased Services	4,749,307
Supplies	2,629,597
Capital Assets	330,483
Interfund Transfers	4,868,810
Other Expenses	11,424,197
Total	\$49,099,006



During 2012, there was a \$5.4 million (11.3 percent) increase in appropriations between the adopted and amended budgets for General Fund expenditures. The majority of the increase was interfund transfers of \$4.9 million and the transfer of Vegetation Management program to the General Fund from the Road & Bridge Fund for an increase of \$0.7 million.

General Fund expenditures were 8.3 percent (\$4.5 million) below the amended budget in 2012, which is the normal trend the County has experienced in previous years. There was a multitude of cost savings across the board with all departments and offices coming under budget. Notable variances include: lower than budgeted wages and benefits primarily due to vacancy savings of \$1.7 million and lower health insurance costs of \$690 thousand, reduced risk insurance costs of \$255 thousand as the County elected to join a partially self-funded program with a larger deductible option, and the Sheriff's

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office spent only 16% of the emergency management contingency and returned \$421 thousand to fund balance.

Other expenditures were over budget due to higher sales tax collections and corresponding sales tax distributions to other entities were \$1.3 million over budget.

General Fund Expenditures Budgetary Comparison

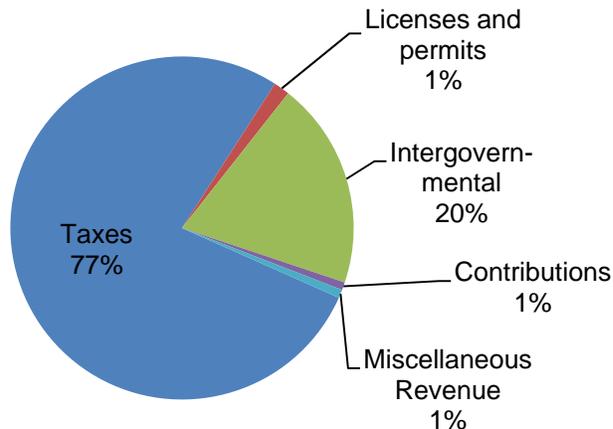
	2012 Adopted Budget	2012 Amended Budget	2012 Actual	Amount Over/(Under) Budget	% Over/ (Under) Budget
Wages & Benefits	\$24,204,822	\$24,119,190	\$21,610,876	\$(2,508,314)	(10.4%)
Professional & Technical Services	4,091,654	4,630,048	3,485,736	(1,144,312)	(24.7%)
Purchased Services	5,522,350	5,647,348	4,749,307	(898,041)	(15.9%)
Supplies	2,724,315	2,774,299	2,629,597	(144,702)	(5.2%)
Property & Capital Assets	350,664	388,881	330,483	(58,398)	(15.0)
Interfund Transfers	0	4,861,436	4,868,810	7,374	0.2%
Other Expenditures	11,238,271	11,132,271	11,424,197	291,926	2.6%
Totals	\$48,132,076	\$53,553,473	\$49,099,006	\$(4,454,467)	(8.3%)

Road and Bridge Fund

The Road and Bridge Fund is used to account for the construction, maintenance, and snow removal on all County roads and bridges. The fund balance increased by \$2.5 million in 2012 and has \$23.4 million available for future spending at the year-end. In 2012, total revenues in this fund (\$16.6 million) increased by 36.0 percent over 2011 and total expenditures (\$14.1 million) increased by 5.1 percent over 2011.

Road and Bridge Fund Revenues 2012

Taxes	\$12,847,115
Licenses and Permits	250,446
Intergovernmental	3,238,895
Contributions	121,327
Miscellaneous Revenue	130,963
Total	\$16,588,745

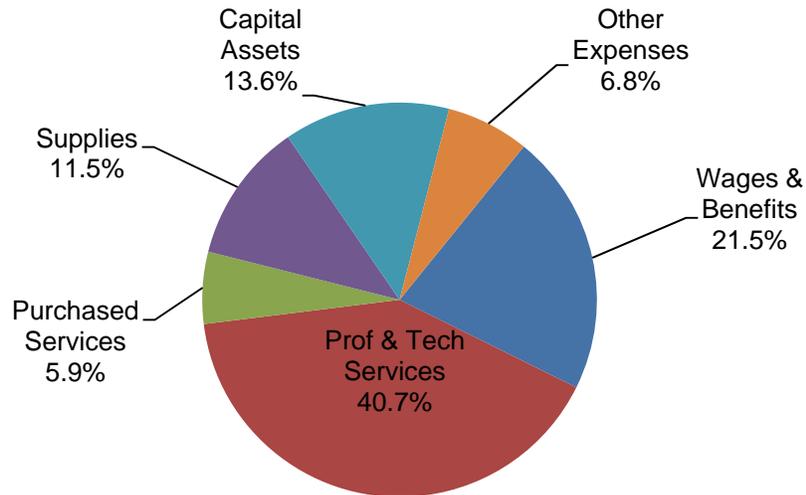


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In 2012, the mill levy for the Road and Bridge Fund increased from 10.74 to 18.51 resulting in \$4.5 million in additional property tax. This accounts for the majority of the increase in revenue for the fund in 2012. In addition, sales tax collections were higher than in the prior year. Intergovernmental revenues are from the State Highway Users Tax Fund and remained about the same as collected in 2011.

All expenditures in the Road and Bridge Fund are a public works function. Expenditures by classification were as follows:

Road and Bridge Fund Expenditures 2012	
Wages and benefits	\$3,034,562
Professional and technical services	5,748,467
Purchased services	828,275
Supplies	1,628,509
Capital expenditures	1,916,655
Other expenditures	963,698
Total	\$14,120,166



Human Services Fund

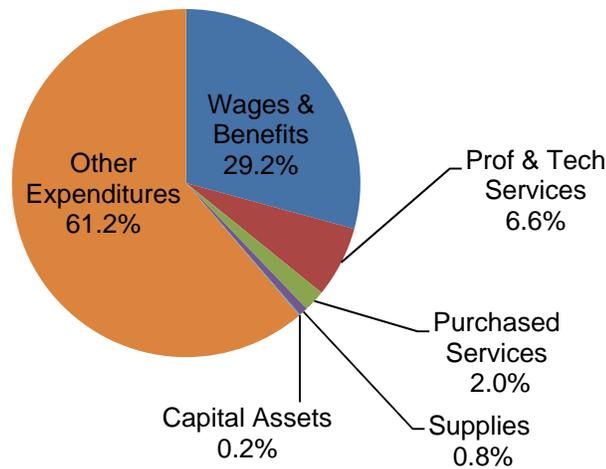
The Human Services Fund is used to account for a variety of State mandated social services including public assistance, child support, and family service programs. These are provided by the County's department of human services (DHS). In 2012, the Human Services Fund balance grew by 6.6 percent from \$8.7 million to \$9.3 million. Total revenues decreased by 2.1 percent (\$405 thousand) from 2011, as the mill levy and property tax collected was reduced by 22.2 percent for the fund in 2012. The majority of revenues (88.2 percent) come from intergovernmental revenues sources and these increased by 2.3 percent over the prior year.

Total expenditures increased by 1.3 percent (\$235 thousand) compared with 2011. While there were reductions in some areas this was caused by a substantial increase in the Food Assistance Benefits program.

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All expenditures in the Human Services Fund are a Health and Welfare function. Expenditures by classification were as follows:

Human Services Fund Expenditures 2012	
Wages and benefits	\$5,352,355
Professional and technical services	1,216,445
Purchased services	370,913
Supplies	146,242
Capital expenditures	22,853
Other expenditures	11,226,599
Total	\$18,335,407



Of the \$11.2 million categorized as other expenditures, \$1.5 million was spent on Child Welfare Block Grant programs, \$8.2 million on the Food Benefits Assistance program, \$859 thousand for the OLD Age Pension program and \$372 thousand on Child Care Assistance program.

Oil and Gas Mitigation Fund

The Oil and Gas Mitigation Fund was established by the BOCC in 2006 for the purpose of the receipt and expenditure of specifically designated monies to be used to mitigate adverse property, social, and environmental impacts of oil and gas related activities. The fund balance decreased by \$4.7 million in 2012 and stands at \$17.9 million at December 31, 2012. In 2012, there were no revenues for the fund as the County established a Federal Mineral Leasing District to which Federal Mineral Leasing funds were diverted. In 2012, there were two expenditures: \$256 thousand towards infrastructure improvements for the Rifle Energy Innovation Center and \$25 thousand for CSU Air Monitoring Study. There was an interfund transfer out to the capital fund, for \$4.5 million, to reimburse half of the cost of retirement of the 2006 series of Certificates of Participation.

Capital Expenditures Fund

The Capital Expenditures fund balance decreased by 34.3 percent from \$20.1 million in 2011 to \$13.2 million in 2012.

In 2012, fund revenues were \$20.4 million, including \$8.9 million in interfund transfers, \$2.1 million is severance tax, \$2.5 million in property taxes and \$8.2 million in intergovernmental grants. Of the latter,

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the largest grant was \$5.5 million from the Colorado Department of Local Affairs (DOLA) for the West Parachute Interchange construction. In addition, \$440 thousand was received for trail construction, \$140 thousand from the State Criminal Alien Assistance Program (SCAAP) for the Sheriff's Office's jail central control board to be installed in 2013. Contributions of \$300 thousand were from energy companies for the West Parachute Interchange construction. Interfund transfers were \$4.45 million each being transferred from the General Fund and the Oil and Gas Mitigation Fund. These transfers were made to retire the 2006 Certificates of Participation.

Total expenditures were \$27.3 million, as follows:

Capital Expenditures Fund Expenditures 2012	
Land:	
- Purchase of 201 8th Street, GWS	\$2,524,973
Land Improvements:	
- GWS DDA pocket park	56,103
- Fairgrounds irrigation system replacement	28,081
Building:	
- Purchase of 1102 Grand Avenue, GWS	210,000
Building Improvements:	
- Fairgrounds building improvements	133,931
- Fairgrounds riding arena ceiling fans and lighting	31,123
- GWS courtrooms video arraignment	150,332
- Rifle courtrooms video arraignment	41,603
Infrastructure:	
- W. Parachute I70 interchange - construction	7,357,462
Machinery and Equipment:	
- GWS Courthouse and admin building generators	168,972
- GWS Courthouse energy improvements	25,036
- Clerk and Recorder batch scanners for elections	22,220
- Sheriff Office jail kitchen steamer kettles	20,975
Computer Hardware:	
- IT Network system upgrades & document storage	159,215
- GWS Courthouse video arraignment security equipment	35,528
- Sheriff Office jail central control board upgrade	48,623
Computer Software:	
- CAD GIS mapping software	9,264
- Vmware vSphere V5 Enterprise	30,735
- IT Microsoft 2010 Exchange e-mail upgrade	38,280
- DA email server upgrade	12,442
Furnishings:	
- GWS Sheriff's Office patrol room furniture	64,644
- GWS County Manager office remodel	6,163
Intangibles:	
- Purchase of Ruedi water rights	1,838
Rolling Stock:	
- Fairgrounds skidsteer loader buy back	3,597
- Fairgrounds water truck	42,000
Service and Treasurer Fees	69,890
Certificates of Participation payments	15,977,666
TOTAL	\$27,270,696

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CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets

The County's investment in capital assets, net of accumulated depreciation, for governmental (i.e., including the motor pool fund) and business-type activities as of December 31, 2012, was \$292.2 million and \$2.4 million respectively.

In 2012, major capital expenditures included:

- Fourteen road and bridge projects for \$1.1 million, of which four were completed and twelve were carried over to 2013. Of the four completed, two drainages in Battlement Mesa were reconstructed for \$223 thousand, County Road 137 Canyon Creek Flood Mitigation was completed for \$217 thousand, County Road 300/US Highway 6 & 24 intersection improvement was completed for \$39 thousand, and the Battlement Mesa Library Trail Phase III was completed for \$73 thousand
- \$498 thousand in heavy equipment for the Road and Bridge department including a motor grader for \$222 thousand less a trade-in of \$60 thousand
- Airport capital improvements include partial costs of a ten-year master plan update for \$330 thousand of which \$93 thousand was spent in 2012 and the remaining will be spent in 2013; this project will be reimbursed by the FAA and the state at 95 percent or \$315 thousand
- Land and building purchases of three parcels in Glenwood Springs east of the Courthouse (201 8th St.) for \$2.5 million and a building at 1102 Grand Avenue in Glenwood Springs for \$210 thousand
- Landfill dirt-moving project to mitigate methane in the cells for \$477 thousand.

Overall, the County saw a decrease of 1.3 percent in total assets. Note 3D Capital Assets on pages D9 and D10 provide additional information about changes in capital assets during the calendar year and outstanding at the end of the year. The following table provides a summary of capital asset activity:

	CAPITAL ASSETS					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Non-depreciable assets:						
Construction in progress	\$ 3,104,723	\$ 4,623,897	\$ 41,325	\$ -	\$ 3,146,048	\$ 4,623,897
Land	13,907,163	11,382,190	300,000	300,000	14,207,163	11,682,190
Total non-depreciable assets	\$ 17,011,886	\$ 16,006,087	\$ 341,325	\$ 300,000	\$ 17,353,211	\$ 16,306,087
Depreciable assets:						
Land improvements	52,061,202	51,578,062	1,912,817	1,307,754	53,974,019	52,885,816
Buildings	53,098,476	52,888,476	768,258	768,258	53,866,734	53,656,734
Building improvements	5,207,150	3,657,099	20,388	20,388	5,227,538	3,677,487
Machinery and equipment	23,824,243	22,621,828	1,974,097	1,974,097	25,798,340	24,595,925
Infrastructure	276,478,738	275,724,561	-	-	276,478,738	275,724,561
Total depreciable assets	410,669,809	406,470,026	4,675,560	4,070,497	415,345,369	410,540,523
Less accumulated depreciation	135,489,496	126,077,654	2,626,826	2,222,643	138,116,322	128,300,297
Book value - depreciable assets	275,180,313	280,392,372	2,048,734	1,847,854	277,229,047	282,240,226
Percentage depreciated	33%	31%	56%	55%	33%	31%
Book value - all assets	\$ 292,192,199	\$ 296,398,459	\$ 2,390,059	\$ 2,147,854	\$ 294,582,258	\$ 298,546,313

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At December 31, 2012, the depreciable capital assets for governmental activities were 33% depreciated. This compares with 31 percent at December 31, 2011. The County's business-type activities asset values were 56 percent depreciated by December 31, 2012 compared to 55 percent at December 31, 2011. During 2012, the County continued to replace its capital assets at a constant level and has accumulated another years worth of depreciation on its capital assets.

Long-term Obligations

During 2012, the County retired all of its certificates of participation totaling \$15,560,000. Landfill closure and post closure costs and compensated absences are the other long-term obligations of the County as follows:

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Certificates of participation	\$ -	\$ 15,560,000	\$ -	\$ -	\$ -	\$ 15,560,000
Landfill closure and post closure care	-	-	703,547	666,100	703,547	666,100
Compensated absences	1,842,940	1,836,530	31,513	31,579	1,874,453	1,868,109
Total	\$1,842,940	\$ 17,396,530	\$735,060	\$697,679	\$2,578,000	\$ 18,094,209

Additional information about the County's long-term obligations is available on pages D12 and D13.

ECONOMIC OUTLOOK AND 2013 BUDGET

Although the County's economy has seen areas of improvement, notably in retail spending and decline in foreclosures, it continues to deal with the after affects of the recession. Economic factors have a direct impact on the County's revenues and demand for services. The largest single source of revenue is taxes, which in 2012, comprised almost two-thirds of total revenues and consisted primarily of taxes on property. Of the County's property tax, 63.7 percent is derived from oil and gas production. The value of production is directly tied to the price of oil and gas sold which, after a significant drop in 2009, leveled off. Consequently, the County's property tax revenues remained stable for the three-year period from 2011 to 2013. In 2012, prices again experienced significant downward pressure meaning that assessed values in 2013 and property tax revenues in 2014 are forecasted to decline once again.

Although the economic environment continues to be challenging and the recovery remains sluggish at best, the 2013 budget was prepared to meet the needs of the County, while maintaining its financial health. The budget contains sufficient resources to continue current levels of operations, enhance services as needed, maintain and replace current capital assets as needed, utilize all current forms of revenue generation available to the County, and contains an emergency reserve equal to at least three percent of fiscal year spending, excluding bond service, as required by State Constitution. The County aims to maintain balances of at least \$100 million in its various operating and capital funds especially in light of the revenue forecast for 2014. A healthy fund balance assures stable and quality levels of services to customers, stable employment for staff, and assures there is no need to return to taxpayers for tax or fee increases.

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REQUESTS FOR INFORMATION

This financial report is designed to provide an overview of the County's financial activities for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to:

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