



**RUDD & COMPANY** PLLC  
*certified public accountants* | *business consultants*

## **RAFTER J IMPROVEMENT AND SERVICE DISTRICT**

**Basic Financial Statements  
with  
Independent Auditors' Report**

**Year Ended June 30, 2011**

*giving direction to your future*

**RAFTER J IMPROVEMENT AND SERVICE DISTRICT**  
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**Year Ended June 30, 2011**

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## INDEPENDENT AUDITORS' REPORT

To the Directors  
Rafter J Improvement and Service District  
Jackson, Wyoming

We have audited the accompanying financial statements of the governmental activities and the major fund of Rafter J Improvement and Service District as of and for the year ended June 30, 2011, which collectively comprise Rafter J Improvement and Service District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Rafter J Improvement and Service District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

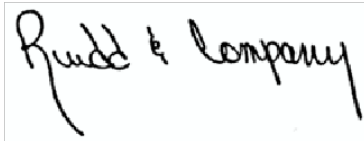
We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Rafter J Improvement and Service District as of June 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2011 on our consideration of the Rafter J Improvement and Service District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of the report is to describe the scope of our 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* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, as listed in the table of contents, 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.

Management of Rafter J Improvement and Service District has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by 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. Our opinion on the basic financial statements is not affected by this missing information.

A rectangular box containing a handwritten signature in cursive script that reads "Rudd & Company".

December 22, 2011

## **Basic Financial Statements**

**RAFTER J IMPROVEMENT AND SERVICE DISTRICT**  
**Statement of Net Assets**  
**June 30, 2011**

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**Assets**

Current Assets

Cash and investments	\$ 2,137,817
Inventory	4,095
Receivables:	
Trade receivable	<u>2,602</u>
Total Current Assets	<u>2,144,514</u>

Noncurrent Assets

Capital Assets:

Construction in progress	5,551,936
Depreciable capital assets	463,718
Loan origination fee	7,500
Accumulated depreciation and amortization	<u>(120,974)</u>
Total Noncurrent Assets	<u>5,902,180</u>

Total Assets	<u>8,046,694</u>
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**Liabilities**

Current Liabilities

Accounts payable	7,076
Current portion of long-term obligations	<u>151,136</u>
Total Current Liabilities	158,212

Noncurrent Liabilities

Noncurrent portion of long-term obligations	<u>1,478,900</u>
Total Liabilities	<u>1,637,112</u>

**Net Assets**

Invested in capital assets, net of related debt	4,272,144
Unrestricted	<u>2,137,438</u>
Total Net Assets	<u>\$ 6,409,582</u>

The Accompanying Notes are an Integral Part of the Financial Statements

**RAFTER J IMPROVEMENT AND SERVICE DISTRICT**  
**Statement of Activities and Changes in Net Assets**  
**Year Ended June 30, 2011**

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Program Expenses

Maintenance and Operations of District:

General and administrative	\$ 92,556
Interest	109,133
Water system maintenance	36,443
Depreciation and amortization	27,090
Professional services	8,079
Sewer system maintenance	25,066
Road maintenance	6,690
Insurance	7,894
Miscellaneous	6,165
Total Program Expenses	<u>319,116</u>

Program Revenues

Charges for Services:

Property tax assessments	440,091
Water fees	11,838
Other revenues	15,488

Capital Grants and Contributions:

State grants	<u>192,279</u>
Total Program Revenues	<u>659,696</u>

Net Program Revenues 340,580

General Revenues

Interest income	34,408
Valuation change	112
Total General Revenues	<u>34,520</u>

Increase in Net Assets 375,100

Total Net Assets - Beginning of Year 6,034,482

Total Net Assets - End of Year \$ 6,409,582

The Accompanying Notes are an Integral Part of the Financial Statements

**RAFTER J IMPROVEMENT AND SERVICE DISTRICT**  
**Balance Sheet – Governmental Fund**  
**June 30, 2011**

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**Assets**

Cash and investments	\$ 2,137,817
Inventory	4,095
Receivables:	
Trade receivable	<u>2,602</u>
Total Assets	<u>\$ 2,144,514</u>

**Liabilities and Fund Equity**

Accounts payable	<u>\$ 7,076</u>
Fund balances:	
Nonspendable	4,095
Committed	1,459,528
Assigned	79,776
Unassigned	<u>594,039</u>
Total fund balance	<u>2,137,438</u>
Total Liabilities and Fund Balance	<u>\$ 2,144,514</u>

The Accompanying Notes are an Integral Part of the Financial Statements



**RAFTER J IMPROVEMENT AND SERVICE DISTRICT**  
**Reconciliation of The Balance Sheet of the Governmental Fund**  
**to the Statement of Net Assets**  
**Year Ended June 30, 2011**

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Amounts reported for governmental activities in the statement of net assets are different because:

Total Fund Balance - Governmental Fund	\$2,137,438
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of assets is \$6,023,154 and the accumulated depreciation and amortization is \$120,974.	5,902,180
Certain liabilities are not financial resources and are reported as Noncurrent Liabilities	<u>(1,630,036)</u>
Total Net Assets - Governmental Activities	<u>\$6,409,582</u>

The Accompanying Notes are an Integral Part of the Financial Statements

**RAFTER J IMPROVEMENT AND SERVICE DISTRICT**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Fund**  
**Year Ended June 30, 2011**

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Revenues	
State grants	192,279
Property taxes - special assessment	440,091
Other revenues	15,488
Interest income	34,408
Water fees	11,838
	<hr/>
Total Revenues	694,104
	<hr/>
Expenditures	
Capital improvements	325,746
Loan principal payments	1,050,042
General and administrative	92,555
Road, water, and sewer system repairs	68,199
Interest	119,817
Professional services	8,079
Insurance	7,894
Miscellaneous	6,166
	<hr/>
Total Expenditures	1,678,498
	<hr/>
Excess of Expenditures over Revenues	(984,394)
	<hr/>
Other Financing Sources (Uses)	
Clean water loan	33,305
WWDC tank loan	4,848
Valuation change	112
	<hr/>
Total Other Financing Sources	38,265
	<hr/>
Excess of Revenues and Other Sources over Expenditures and Other Uses	(946,129)
	<hr/>
Fund Balance at Beginning of Year	3,083,567
	<hr/>
Fund Balance at End of Year	\$ 2,137,438
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The Accompanying Notes are an Integral Part of the Financial Statements

**RAFTER J IMPROVEMENT AND SERVICE DISTRICT**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**of the Governmental Fund to the Statement of Activities**  
**Year Ended June 30, 2011**

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Amounts reported for governmental activities in the statement of activities are different because:

Net Changes in Fund Balances - Total Governmental Funds \$ (946,129)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays are reduced by depreciation in the current period.

Capital expenditures capitalized as fixed assets	325,746
Depreciation and amortization expense	(27,090)

Expenses in the Statement of Activities that do not provide current financial resources are not reported as expenses in the funds.

Principal payments on loan	1,050,042
Accrued interest	10,684

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Clean water loan	(33,305)
WWDC tank loan	(4,848)

Change in Net Assets of Governmental Activities \$ 375,100

**RAFTER J IMPROVEMENT AND SERVICE DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2011**

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**1. Summary of Significant Accounting Policies**

The financial statements of Rafter J Improvement and Service District (ISD) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the Rafter J Improvement and Service District are described below.

**Reporting Entity**

Rafter J Improvement and Service District was created in 1998 as a separate legal entity to provide for improvements and services of local necessity and convenience for the Rafter J Subdivision located in Teton County, Wyoming. These improvements are funded through grants and property tax levies on the Rafter J Subdivision residents.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities and changes in net assets) report information on all of the non-fiduciary activities of the Primary Government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**RAFTER J IMPROVEMENT AND SERVICE DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2011**

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**1. Summary of Significant Accounting Policies (continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement, arbitrage rebates, and post employment healthcare benefits, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be accrued as revenue of the current period. All other revenue items are considered to be measurable and available only when Rafter J ISD receives cash.

Rafter J ISD reports the following major governmental fund:

- The General Fund is the District’s primary operating fund and is used for all financial resources of the District.

**Property, Plant and Equipment**

Property, plant and equipment are defined as assets with an initial individual cost of more than \$5,000, and an estimated useful life in excess of two years. Depreciation is provided on property, plant and equipment using the straight-line method over the estimated useful lives of the related assets:

Infrastructure..... 20 years

**Budgetary Policy**

Rafter J ISD must prepare a budget showing in reasonable detail the various functions and matters proposed to be covered by the budget, establishing the estimated income and costs for the year. The budget shall be filed with and shall follow a format acceptable to the director of the State Audit Department. The Budgetary Comparison Schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. There were no budget amendments during the year.

**RAFTER J IMPROVEMENT AND SERVICE DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2011**

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**1. Summary of Significant Accounting Policies (continued)**

**Cash Equivalents**

Cash and investments are combined on the statement of net assets. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. For purposes of the statements of cash flows, cash and cash equivalents are all cash deposits and highly liquid investments with an original maturity of three months or less.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. Cash and Short-Term Investments**

The District adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures* for the year ended June 30, 2011. This statement establishes and modifies disclosure requirements related to investment and deposit risk; accordingly, the note disclosures on cash and investments are in conformity with the provisions of GASB Statement No. 40.

1. Deposits – At June 30, 2011, the carrying amount of the District’s deposits was \$1,921,045 and the respective bank balances totaled \$1,929,729. Of the bank balances \$250,000 were insured. The remaining balances were secured by pledged securities at Bank of Jackson Hole.
2. Custodial Credit Risk, Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned. As of June 30, 2011, \$1,679,729 of the District’s total deposits of \$1,929,729 was not covered by federal depository insurance. Bank of Jackson Hole has securities pledged to cover the remaining balances in the event that a failure occurs.
3. Investments – As of June 30, 2011, the District invested \$216,772 in certificate of deposit accounts and bonds. Fair market was substantially equal to the carrying amount of the investments. The certificate of deposit account of \$66,930 has a maturity date of September 4, 2013. The bonds of \$149,842 are all federal government and agency bonds rated at AAA to Aaa. They have the following maturities: \$-0- of 0-5 years, \$-0- of 6-15 years and \$149,842 of 16 or more years.

**RAFTER J IMPROVEMENT AND SERVICE DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2011**

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**2. Cash and Short-Term Investments (continued)**

4. Custodial Credit Risk, Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of the investments. The District has most of its funds in cash or cash equivalents which are secured by either federal depositor insurance or securities pledged by the bank.
5. Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from changes in interest rates, the District structures its portfolio so that securities mature to meet cash requirements for ongoing operations.
6. Credit Risk – Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. It is the District’s policy to limit investments to the safest types of securities and to diversify the District’s investment portfolio so that potential losses on securities will be minimized. The District follows Wyoming statute that outlines qualifying investment options.

The following is a reconciliation of the District’s deposit and investment balance as of June 30, 2011:

Cash and Investments reported on the statement of net assets	<u>\$ 2,137,817</u>
Deposits	\$ 1,921,045
Investments	<u>216,772</u>
Total cash and investments	<u>\$ 2,137,817</u>

**3. Property Taxes**

Property taxes of Rafter J ISD are based on the assessments against property owners. Tax levies on such assessed values are certified to the County prior to the commencement of the fiscal year. Taxes are collected by Teton County and remitted to the ISD throughout the year. Accordingly, the tax revenues for the fiscal year ended June 30, 2011, are based on a flat rate assessment. Such amounts will be recognized as revenues in the fiscal year they become available.

**RAFTER J IMPROVEMENT AND SERVICE DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2011**

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**4. Capital Assets**

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance June 30, 2010	Additions	Dispositions	Balance June 30, 2011
Sewer Lifts	\$ 85,789	\$ --	\$ --	\$ 85,789
Drinking Water System	372,570	5,359	--	377,929
Construction In Progress	5,231,549	320,387	--	5,551,936
Loan Origination Fee	7,500	--	--	7,500
	<u>\$ 5,697,408</u>	<u>\$ 325,746</u>	<u>\$ --</u>	<u>\$ 6,023,154</u>
Accumulated Depreciation	<u>\$ 93,884</u>	<u>\$ 27,090</u>	<u>\$ --</u>	<u>\$ 120,974</u>

There are no completed capital assets not being depreciated.

**5. Long-Term Obligations**

Rafter J Improvement and Service District's long-term debt consists of two notes to the Office of State Lands and Investments and one note to the Wyoming Water Development Commission. The Office of State Lands and Investments notes are for the Clean Water (sewer) and Drinking Water systems that Rafter J ISD is developing and are subject to Single Audit reporting requirements. The specifics on each loan are as follows:

Clean Water State Revolving Loan Fund. A maximum of \$850,000 with annual principal and interest at two and one-half (2.5) percent to begin not later than one year after substantial completion of the project. Beginning loan balance was \$816,695 and increased during the year by 33,305 and decreased during the year by \$76,552 to an end-of-year loan balance of \$773,448.

Drinking Water State Revolving Loan Fund. A maximum of \$1,500,000 with annual principal and interest at two and one-half (2.5) percent to begin no later than one year after substantial completion of the project. Beginning loan balance was \$799,897 and decreased during the year by \$73,489 to an end-of-year loan balance of \$726,408.



**RAFTER J IMPROVEMENT AND SERVICE DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2011**

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**5. Long-Term Obligations (continued)**

Wyoming Water Development Commission Loan Fund. A maximum of \$165,000 with annual principal and interest at four (4) percent to begin on the first anniversary of the date the Commission determines benefits accrue. Beginning loan balance was \$125,333 and increased during the year by \$4,848 and decreased during the year by \$1 to an end-of-year loan balance of \$130,180.

Joint Powers Act Loan. A maximum of \$900,000 with annual principal and interest at (6) percent payable over 15 years. Payments are due on December 1<sup>st</sup> of every year beginning December 1, 2010. The loan balance was paid in full in December of 2010.

Long-term obligations activity for the year ended June 30, 2011, was as follows:

	Balance June 30, 2010	Additions	Dispositions	Balance June 30, 2011
Clean Water	\$ 816,695	\$ 33,305	\$ 76,552	\$ 773,448
Drinking Water	799,897	--	73,489	726,408
WWDC	125,333	4,848	1	130,180
Joint Powers	<u>900,000</u>	<u>--</u>	<u>900,000</u>	<u>--</u>
Total long-term obligations	<u>\$ 2,641,925</u>	<u>\$ 38,153</u>	<u>\$ 1,050,042</u>	<u>\$ 1,630,036</u>

The following is a summary of maturities due on the long-term obligations as of June 30, 2011:

2012	\$ 151,136
2013	154,863
2014	158,681
2015	162,594
2016	166,603
Thereafter	836,159
Total	<u>\$ 1,630,036</u>

**6. Subsequent Events**

In preparing the financial statements, the District has evaluated events and transaction for potential recognition or disclosure through December 22, 2011, the date the financial statements were issued.

**RAFTER J IMPROVEMENT AND SERVICE DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2011**

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**7. Fund Balances**

Fund balance is classified depending on the relative strength of the spending constraints placed on the purposes for which resources can be used as follows:

**Nonspendable fund balance** – amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.

**Restricted fund balance** – amounts constrained to specific purposes externally imposed by creditors (such as through debt covenants), grantor and contributors, or laws, or regulations of other governments, or through constitutional provisions, or by enabling legislation.

**Committed fund balance** – amounts that can only be used for specific purposes, pursuant to constraints imposed by formal action of the government’s highest level of decision making authority.

**Assigned fund balance** – amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed.

**Unassigned fund balance** – amounts that represent fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. In other governmental funds, it may be necessary to report a negative residual balance as unassigned.

Detail of constraints on fund balances of governmental funds:

Fund Balances:

**Nonspendable:**

Inventory	\$ 4,095
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**Committed:**

Infrastructure improvement project	1,392,598
WWDC project	66,930

**Assigned:**

Money market and checking	79,776
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**Unassigned:**

	594,039
Total fund balance	<u>\$ 2,137,438</u>

## **Required Supplementary Information**

**RAFTER J IMPROVEMENT AND SERVICE DISTRICT**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual**  
**June 30, 2011**

	<b>Original Budgeted Amount</b>	<b>Actual Amounts Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>Revenues</b>			
Joint powers loan	\$ 841,719	\$ -	\$ (841,719)
Assessments	450,000	440,091	(9,909)
State grants	366,473	192,279	(174,194)
Other revenues	156,214	27,326	(128,888)
Water tank loan	39,667	4,848	(34,819)
Clean water loan	33,305	33,305	-
Interest income	15,000	34,408	19,408
<b>Total Revenues</b>	<b>1,902,378</b>	<b>732,257</b>	<b>(1,170,121)</b>
<b>Expenditures</b>			
Loan principal payments	1,055,708	1,050,042	5,666
Roads - Const-ISD	856,558	194,729	661,829
WWDC - Const-ISD	264,666	14,690	249,976
Clean Water - Const-ISD	215,742	80,758	134,984
Interest	110,500	119,817	(9,317)
General and administrative	95,675	92,555	3,120
Water system maintenance	45,450	36,443	9,007
Sewer system maintenance	28,200	25,067	3,133
Professional services	25,500	8,079	17,421
Road maintenance	14,150	6,689	7,461
Miscellaneous	10,000	6,166	3,834
Liability insurance	5,000	7,894	(2,894)
Utilities	1,000	-	1,000
Drinking Water - Const-ISD	-	35,569	(35,569)
<b>Total Expenditures</b>	<b>2,728,149</b>	<b>1,678,498</b>	<b>1,049,651</b>
<b>Operating Income</b>	<b>(825,771)</b>	<b>(946,241)</b>	<b>(120,470)</b>
<b>Other Financing Sources</b>			
Bond valuation change	-	112	112
<b>Excess of Revenues and Other Sources over Expenditures and Other Uses</b>	<b>(825,771)</b>	<b>(946,129)</b>	<b>(120,358)</b>
<b>Fund Balance at Beginning of Year</b>	<b>3,221,459</b>	<b>3,083,567</b>	<b>(137,892)</b>
<b>Fund Balance at End of Year</b>	<b>\$ 2,395,688</b>	<b>\$ 2,137,438</b>	<b>\$ (258,250)</b>



**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**

To the Board of Directors  
Rafter J Improvement and Service District  
Jackson, Wyoming

We have audited the financial statements of the governmental activities and the major fund of Rafter J Improvement and Service District, as of and for the year ended June 30, 2011, which collectively comprise the Rafter J Improvement and Service District's basic financial statements and have issued our report thereon dated December 22, 2011. 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**

In planning and performing our audit, we considered Rafter J Improvement and Service District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rafter J Improvement and Service District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rafter J Improvement and Service District's internal control over financial reporting.

*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 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 on a timely basis.

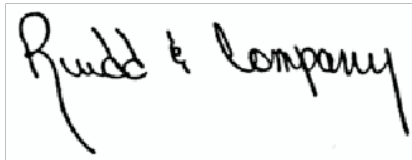
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Rafter J Improvement and Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 reported to the management of Rafter J Improvement and Service District, in a separate letter dated December 22, 2011.

This report is intended solely for the information and use of the management, the Board of Directors, 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.

A handwritten signature in black ink that reads "Rudd & Company". The signature is written in a cursive style and is contained within a rectangular box.

December 22, 2011