



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, 2013

giving direction to your future

RAFTER J IMPROVEMENT AND SERVICE DISTRICT
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Year Ended June 30, 2013

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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, 2013, and the related notes to the financial statements, which collectively comprise the District'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 opinions 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 *Governmental Auditing Standards*. 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 involves 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 the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. 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 presentation of the financial statements.

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

Opinions

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, 2013, 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

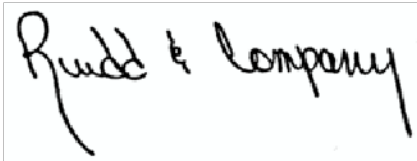
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 16 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain 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 internal control over financial reporting or on compliance. That report is an intergral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

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

Rexburg, Idaho
August 30, 2013

Basic Financial Statements

RAFTER J IMPROVEMENT AND SERVICE DISTRICT
Statement of Net Assets
Year Ended June 30, 2013

Assets

Current Assets

Cash and investments	\$ 743,407
Inventory	10,883
Prepays	8,852
Receivables:	
Trade receivable	<u>25,380</u>
Total Current Assets	<u>788,522</u>

Noncurrent Assets

Capital Assets:

Depreciable capital assets	6,767,180
Accumulated depreciation and amortization	<u>(629,261)</u>

Total Noncurrent Assets 6,137,919

Total Assets 6,926,441

Liabilities

Current Liabilities

Accounts payable	32,327
Accrued interest	10,054
Current portion of long-term obligations	<u>5,541</u>

Total Current Liabilities 47,922

Noncurrent Liabilities

Noncurrent portion of long-term obligations	<u>159,459</u>
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Total Liabilities 207,381

Net Assets

Invested in capital assets, net of related debt	5,962,865
Unrestricted	<u>756,195</u>

Total Net Assets \$ 6,719,060

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, 2013

Program Expenses	
Maintenance and Operations of District:	
General and administrative	\$ 100,206
Interest	37,030
Road, water, and sewer system repairs	119,930
Depreciation and amortization	448,810
Professional services	85,211
Miscellaneous	903
Total Program Expenses	<u>792,090</u>
Program Revenues	
Charges for Services:	
Property tax assessments	453,504
Water fees	124,070
Other revenues	80,000
Total Program Revenues	<u>657,574</u>
Net Program Revenues (Loss)	<u>(134,516)</u>
General Revenues	
Interest income	11,306
Loan fees	(4,344)
Realized loss on investments	(5,288)
Valuation change	(762)
Total General Revenues	<u>912</u>
Decrease in Net Assets	(133,604)
Total Net Assets - Beginning of Year	<u>6,852,664</u>
Total Net Assets - End of Year	<u>\$ 6,719,060</u>

The Accompanying Notes are an Integral Part of the Financial Statements

RAFTER J IMPROVEMENT AND SERVICE DISTRICT
Balance Sheet – Governmental Fund
June 30, 2013

Assets

Cash and investments	\$	743,407
Inventory		10,883
Prepays		8,852
Receivables:		
Trade receivable		<u>25,380</u>
Total Assets	\$	<u>788,522</u>

Liabilities and Fund Equity

Accounts payable	\$	<u>32,327</u>
Fund balances:		
Nonspendable		10,883
Committed		72,298
Assigned		139,975
Unassigned		<u>533,039</u>
Total fund balance		<u>756,195</u>
Total Liabilities and Fund Balance	\$	<u>788,522</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, 2013

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

Total Fund Balance - Governmental Fund	\$ 756,195
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of assets is \$6,767,180 and the accumulated depreciation and amortization is \$629,261.	6,137,919
Certain liabilities are not financial resources and are reported as Noncurrent Liabilities	<u>(175,054)</u>
Total Net Assets - Governmental Activities	<u>\$ 6,719,060</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, 2013

Revenues	
Property taxes - special assessment	453,504
Other revenues	80,000
Interest income	11,306
Water fees	<u>124,070</u>
Total Revenues	<u>668,880</u>
Expenditures	
Capital improvements	18,872
Loan principal payments	1,351,262
General and administrative	100,206
Road, water, and sewer system repairs	119,930
Interest	50,703
Professional services	85,211
Miscellaneous	<u>903</u>
Total Expenditures	<u>1,727,087</u>
Excess of Expenditures over Revenues	<u>(1,058,207)</u>
Other Financing Sources (Uses)	
Realized loss on investments	(5,288)
Valuation change	<u>(762)</u>
Total Other Financing Sources	<u>(6,050)</u>
Excess of Revenues and Other Sources over Expenditures and Other Uses	(1,064,257)
Fund Balance at Beginning of Year	<u>1,820,452</u>
Fund Balance at End of Year	<u>\$ 756,195</u>

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, 2013

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

Net Changes in Fund Balances - Total Governmental Funds \$(1,064,257)

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	18,872
Depreciation and amortization expense	(448,810)

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	1,351,262
Loan fees due to payoff of debt	(4,344)
Accrued interest	<u>13,673</u>

Change in Net Assets of Governmental Activities \$ (133,604)

RAFTER J IMPROVEMENT AND SERVICE DISTRICT
Notes to Financial Statements
June 30, 2013

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, 2013

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, 2013

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, 2013. 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, 2013, the carrying amount of the District’s deposits was \$671,207 and the respective bank balances totaled \$675,748. 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, 2013, \$425,748 of the District’s total deposits of \$675,748 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, 2013, the District invested \$72,200 in certificate of deposit accounts. Fair market was substantially equal to the carrying amount of the investments. The certificate of deposit account of \$72,200 has a maturity date of September 4, 2013.

RAFTER J IMPROVEMENT AND SERVICE DISTRICT
Notes to Financial Statements
June 30, 2013

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, 2012:

Cash and Investments reported on the statement of net assets	<u>\$ 743,407</u>
Deposits	\$ 671,207
Investments	<u>72,200</u>
Total cash and investments	<u>\$ 743,407</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, 2013, 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, 2013

4. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Additions	Dispositions	Balance June 30, 2013
	<u>2012</u>	<u>Additions</u>	<u>Dispositions</u>	<u>2013</u>
Sewer System	\$ 1,517,535	\$ 1,119	\$ -	\$ 1,518,654
Drinking Water	3,053,221	-	-	3,053,221
Water System / Tanks / Wells	1,423,406	-	-	1,423,406
Roads	697,624	15,474	-	713,098
Other Improvements	56,522	-	-	56,522
Office Equipment	-	2,279	-	2,279
Loan Origination Fee	7,500	-	(7,500)	-
	<u>\$ 6,755,808</u>	<u>\$ 18,872</u>	<u>\$ (7,500)</u>	<u>\$ 6,767,180</u>
Accumulated Depreciation	<u>\$ 183,607</u>	<u>\$ 448,810</u>	<u>\$ (3,156)</u>	<u>\$ 629,261</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:

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. As of June 30, 2013 the District has borrowed the maximum loan available. The balance outstanding at June 30, 2013 was \$165,000.

RAFTER J IMPROVEMENT AND SERVICE DISTRICT
Notes to Financial Statements
June 30, 2013

5. Long-Term Obligations (continued)

Long-term obligations activity for the year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Additions	Dispositions	Balance June 30, 2013	Current Portion
Clean Water	\$ 696,148	\$ -	\$ (696,148)	\$ -	\$ -
Drinking Water	655,114	-	(655,114)	-	-
WWDC	165,000	-	-	165,000	5,541
Total long-term obligations	<u>\$ 1,516,262</u>	<u>\$ -</u>	<u>\$ (1,351,262)</u>	<u>\$ 165,000</u>	<u>\$ 5,541</u>

The following is a summary of maturities due on the long-term obligations as of June 30, 2013:

	Principal	Interest	Total
2014	\$ 5,541	\$ 12,838	\$ 18,379
2015	5,763	6,378	12,141
2016	5,993	6,148	12,141
2017	6,233	5,908	12,141
2018	6,482	5,659	12,141
Thereafter	134,988	46,687	181,675
Total	<u>\$ 165,000</u>	<u>\$ 83,618</u>	<u>\$ 248,618</u>

6. Subsequent Events

In preparing the financial statements, the District has evaluated events and transaction for potential recognition or disclosure through August 9, 2013, the date the financial statements were issued.

7. Budget

The District expenditures exceeded the budgeted amounts in the general fund during the year ended June 30, 2013.

RAFTER J IMPROVEMENT AND SERVICE DISTRICT
Notes to Financial Statements
June 30, 2013

8. 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	\$ 10,883
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Committed:

Infrastructure improvement project	98
WWDC project	72,200

Assigned:

Money market and checking	139,975
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Unassigned:

	<u>533,039</u>
Total fund balance	<u>\$ 756,195</u>

Required Supplementary Information

RAFTER J IMPROVEMENT AND SERVICE DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
June 30, 2013

	Original Budgeted Amount	Actual Amounts Budgetary Basis	Variance with Final Budget - Positive (Negative)
Revenues			
Assessments	\$ 457,766	\$ 453,504	\$ (4,262)
Water fees	138,874	124,070	(14,804)
Interest income	16,000	11,306	(4,694)
Other revenues	200,000	80,000	(120,000)
Total Revenues	<u>812,640</u>	<u>668,880</u>	<u>(143,760)</u>
Expenditures			
Capital improvements	12,000	18,872	(6,872)
Loan principal payments	154,863	1,351,262	(1,196,399)
General and administrative	100,719	100,206	513
Road, water, and sewer system repairs	209,700	119,930	89,770
Interest	33,318	50,703	(17,385)
Professional services	34,600	85,211	(50,611)
Miscellaneous	62,400	903	61,497
Total Expenditures	<u>607,600</u>	<u>1,727,087</u>	<u>(1,119,487)</u>
Operating Income	<u>205,040</u>	<u>(1,058,207)</u>	<u>(1,263,247)</u>
Other Financing Sources			
Realized loss on investments	-	(5,288)	(5,288)
Bond valuation change	-	(762)	(762)
Total Other Financing Sources	-	(6,050)	(6,050)
Excess of Revenues and Other Sources over Expenditures and Other Uses	205,040	(1,064,257)	(1,269,297)
Fund Balance at Beginning of Year	<u>1,820,452</u>	<u>1,820,452</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 2,025,492</u>	<u>\$ 756,195</u>	<u>\$ (1,269,297)</u>



Independent Auditor's 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, in accordance with the 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, the financial statements of the governmental activities and major fund of Rafter J Improvement and Service District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Rafter J Improvement and Service District's basic financial statements, and have issued our report thereon dated August 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rafter J Improvement and Service District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Rafter J Improvement and Service District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

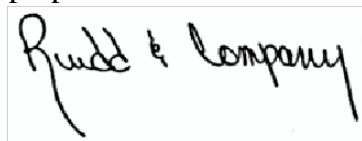
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rafter J Improvement and Service District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A rectangular box containing a handwritten signature in black ink that reads "Rudd & Company".

Rexburg, ID
August 30, 2013