

**LEEDS DOMESTIC WATER USERS ASSOCIATION
(NONPROFIT ORGANIZATION)**

**AUDITED FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION
AND COMPLIANCE REPORTS**

FOR THE YEAR ENDED DECEMBER 31, 2010

LEEDS DOMESTIC WATER USERS ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Leeds Domestic Water Users Association
Leeds, Utah

We have audited the accompanying statement of financial position of Leeds Domestic Water Users Association (a nonprofit organization) as of December 31, 2010, and the related statements of activities; schedule of functional expenses; and statement of cash flows for the year then ended. These financial statements are the responsibility of Leeds Domestic Water Users Association management. Our responsibility is to express an opinion of these financial statements based on our audit.

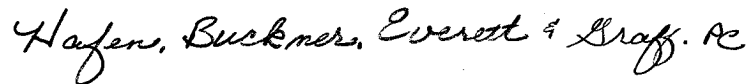
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the 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 financial position of Leeds Domestic Water Users Association as of December 31, 2010, and the changes in net assets and its cash flows 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 September 15, 2011, on our consideration of Leeds Domestic Water Users Association'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 integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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.

Sincerely,

A handwritten signature in cursive script that reads "Hafen, Buckner, Everett & Graff, PC".

Hafen, Buckner, Everett, & Graff, PC

September 15, 2011

LEEDS DOMESTIC WATER USERS ASSOCIATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010

ASSETS

Current Assets:		
Cash (Note 2)		\$ 476,045
Accounts Receivable (Note 3)	27,536	
Less Allowance for Doubtful Accounts	<u>(9,548)</u>	17,988
Prepaid Assets		<u>2,476</u>
Total Current Assets		<u>496,509</u>
Noncurrent Assets:		
Cash (Note 2)		72,000
Fixed Assets: (Note 4)		
Water System	1,160,877	
Vehicle	18,102	
Software	4,195	
Less: Accumulated Depreciation	<u>(26,187)</u>	1,156,987
Land		130,000
Water Stock/Rights (Note 5)		<u>2,346,174</u>
Total Noncurrent Assets		<u>3,705,161</u>
TOTAL ASSETS		<u><u>\$ 4,201,670</u></u>

LIABILITIES & NET ASSETS

Current Liabilities:		
Accounts Payable		\$ 95,851
Accrued Interest Payable		4,968
Note Payable		<u>5,000</u>
Total Current Liabilities		<u>105,819</u>
Noncurrent Liabilities:		
Water Revenue Bond Payable		688,000
Water Rights Note Payable		<u>2,031,200</u>
Total Noncurrent Liabilities		<u>2,719,200</u>
Total Liabilities		<u>2,825,019</u>
Net Assets:		
Invested in capital assets, net of related debt		598,987
Unrestricted		637,816
Temporarily Restricted		139,848
Permanently Restricted		<u>-</u>
Total Net Assets		<u>1,376,651</u>
TOTAL LIABILITIES & NET ASSETS		<u><u>\$ 4,201,670</u></u>

The accompanying notes are an integral part of the financial statements.

LEEDS DOMESTIC WATER USERS ASSOCIATION
STATEMENT OF ACTIVITIES
DECEMBER 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue:				
Grants	\$ 442,000	\$ -	\$ -	\$ 442,000
Water Fees	139,550	-	-	139,550
Impact Fees	1,500	-	-	1,500
Interest/Dividend Income	959	-	-	959
Connection Fees	6,200	-	-	6,200
Emergency Repairs	32,433	-	-	32,433
Project Upgrade	55,915	-	-	55,915
Other Income	3,731	-	-	3,731
Net Assets Released from Restriction	-	-	-	-
Total Revenue	682,288	-	-	682,288
Expenses:				
Program Services:	50,122	-	-	50,122
	50,122	-	-	50,122
Supporting Services:				
Management & General	80,308	-	-	80,308
Fund-raising	-	-	-	-
Total Expenses	130,430	-	-	130,430
Change in Net Assets	551,858	-	-	551,858
Net Assets at Beginning of Year	824,793	-	-	824,793
Net Assets at End of Year	\$ 1,376,651	\$ -	\$ -	\$ 1,376,651

The accompanying notes are an integral part of the financial statements.

LEEDS DOMESTIC WATER USERS ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
DECEMBER 31, 2010

Expenses:	Program	General & Administrative	Total
Accounting and Auditing	\$ 1,178	\$ -	\$ 1,178
Automobile	2,779	-	2,779
Bad Debt Expense	9,548	-	9,548
Contract Labor	337	-	337
Depreciation	8,259	-	8,259
Insurance	-	2,287	2,287
Interest Expense	4,968	-	4,968
Office Supplies	450	7,375	7,825
Other	21	-	21
Other Employee Benefits	-	7,000	7,000
Payroll	-	57,446	57,446
Payroll Taxes	-	6,187	6,187
Rent	5,460	-	5,460
Repairs & Maintenance	3,424	-	3,424
Supplies	3,681	-	3,681
Travel	-	13	13
Utilities	10,018	-	10,018
	<u>\$ 50,122</u>	<u>\$ 80,308</u>	<u>\$ 130,430</u>

The accompanying notes are an integral part of the financial statements.

**LEEDS DOMESTIC WATER USERS ASSOCIATION
STATEMENT OF CASH FLOWS
DECEMBER 31, 2010**

Cash Flows from Operating Activities:	
Change in Net Assets	\$ 551,858
Adjustments needed to reconcile change in net assets to net cash provided by operating activities:	
Depreciation Expense	8,259
(Increase)/Decrease in A/R	(4,016)
(Increase)/Decrease in Prepaid Assets	(2,476)
Increase/(Decrease) in Accounts Payable	90,443
Increase/(Decrease) in Accrued Liabilities	4,968
Net Cash Provided by Operating Activities	<u>649,036</u>
Cash Flows from Investing Activities:	
Purchase of Equipment, Furniture and Fixtures	(1,004,108)
Net Cash (Used in) Investing Activities	<u>(1,004,108)</u>
Cash Flows from Financing Activities:	
Water Revenue Bond Proceeds	688,000
Note Payable	(5,000)
Net Cash (Used in) Investing Activities	<u>683,000</u>
Net Increase in Cash and Cash Equivalents	327,928
Cash and Cash Equivalents, Beginning of Year	<u>220,117</u>
Cash and Cash Equivalents, End of Year	<u>\$ 548,045</u>
Other Cash Flow Information:	
Interest Paid	4,968
Income Taxes Paid	-

The accompanying notes are an integral part of the financial statements.

LEEDS DOMESTIC WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

A. Background

Leeds Domestic Water Users Association (the Association) was organized in 1932 and incorporated under the laws of the state of Utah. The Association was organized to provide water to the Leeds area. The governing body of the Association consists of an administrative control board of five members elected by the shareholders within the Leeds area. The mission of the Association is to provide culinary water distribution to all shareholders of the Leeds area and to ensure that the water quality meets Federal and State requirements.

B. General

The accompanying financial statements of the Association have been prepared in accordance with generally accepted accounting principles which require the use of management estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

C. Basis of Presentation

The Association has adopted Statement of the Financial Accounting Standards (SFAS) No. 117, *“Financial Statements of Not-for-Profit Organizations .”* Under SFAS No. 117, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

D. Basis of Accounting

The Association uses the accrual basis of accounting. Accordingly , revenues are recognized when earned and expenses are recognized when incurred.

Support and other gifts are recorded as restricted if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are released from restrictions.

Restricted funds may only be utilized in accordance with the purpose established by the source of such funds. Currently the Association has designated temporarily restricted funds as described in Note 7.

LEEDS DOMESTIC WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Functional Allocation of Expenses

The costs of providing water services and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program and supporting services benefited.

F. Contributions

In accordance with SFAS No. 116, "Accounting for Contributions Received and Contributions Made," contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions.

G. Income Taxes

No provision has been made for Federal income taxes because the Association is exempt from Federal income tax as a not-for-profit organization that was organized under Section 501(c)(3) of the Internal Revenue Code. There was no unrelated business income for the year ended December 31, 2010.

H. Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Association. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from non-exchange transactions or ancillary activities.

I. Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable accounts receivable. The allowance for doubtful accounts at December 31, 2010 was \$9,548.

LEEDS DOMESTIC WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

J. Inventory

The Association has no significant amounts of inventory or supplies. Purchases of such items are charged as expenses when purchased. Inventory consists of materials that are used for repair, maintenance, and construction of the water system. Inventory is stated at cost which is not in excess of market.

NOTE 2: CASH AND CASH EQUIVALENTS

The cash and cash equivalents are considered to be cash-on-hand, demand deposits and short-term investments with maturity dates of less than three months. Fair value approximates carrying amounts.

All funds are deposited into checking and deposit accounts which are insured by NCUA or FDIC. On December 31, 2010, the carrying amount of The Association deposits totaled \$548,045 and the bank balances were \$501,547. All of the bank balances were covered by NCUA or FDIC.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2010 was \$27,536. This amount consisted of charges to customers for water usage.

NOTE 4: FIXED ASSETS

Expenses for physical properties are stated at cost. Donated assets are recorded at their estimated fair market values at the date of donation.

The Association does not have a formal policy for capitalizing expenditures for property, furniture, fixtures and office equipment. Depreciation of physical properties is calculated on the straight line basis over the asset's estimated useful life. At December 31, 2010 the Association's fixed assets were comprised mainly of the water system with a useful life of 30 years, a company vehicle with a useful life of 7 years, and utility billing software with a useful life of 5 years.

The net fixed asset balance has been recorded as a separate component in unrestricted net assets.

In 2010, The Association began replacing its existing water system. The entire system replacement should be completed in 2011.

**LEEDS DOMESTIC WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 5: WATER RIGHTS

Water Rights as of December 31, 2010 consisted of 442 acre-feet of Culinary Water Rights, with Culinary water shares issued to 332 Active Taps and 69 Standby Taps within the Association's Culinary Water Service Distribution area. The total water rights of the Association are divided by the five-year rolling average per connection to determine the maximum number of connections that may be supplied by the existing water rights. Any year in which water was rationed because of a water shortage shall not be a viable year for purposes of calculating the rolling average. If the five-year rolling average is less than .85 acre feet per connection, the Association shall use .85 acre feet to determine the maximum connections authorized. To ensure reasonable water use management, the maximum number of new connections in one calendar year shall not exceed 50% of the surplus connections.

In August 2010, the Association entered into an agreement with Francis Family LLC, William F. Fairbanks, Roger J. Sanders, P.C., Richard Schanz, and Silver Reef Investment Holdings, LLC (sellers) to purchase an additional 406.24-acre-feet of culinary water rights. The sellers agreed to defer payment for Water Rights until such time in the future as Developers pay the Association for them. When a Developer purchases water rights which LDWA acquired from the sellers, it acquires a right to water service, but acquires no title or interest in the water rights except as a shareholder in LDWA. Water rights are valued at \$5,000 per acre foot for a total value of \$2,031,200.

NOTE 6: LONG-TERM DEBT

Loan or Bond	Loan #	Original Issue Amount	Original Issue Date	Original Maturity Date	Int. Rate	Beg. Bal. 12/31/2009	ADD.	RET.	End Bal. 12/31/2010	Due within One Year
UT State Div of Finance	3F066P	15,000	2009	2011	0.00%	\$ 10,000	\$ -	\$ 5,000	\$ 5,000	\$ 5,000
UT State Div of Finance series 2010A Bonds	3F138	1,104,000	2010	2040	3.60%	-	688,000	-	688,000	21,000
Water Rights Note Payable	N/A	2,031,200	2010	N/A	0.00%	-	2,031,200	-	2,031,200	-
						\$ 10,000	\$ 2,719,200	\$ 5,000	\$ 2,724,200	\$ 26,000

The water revenue bonds require the Association to establish and make deposits to the following funds:

Emergency Fund – deposit monthly an amount of \$5.00 per active or standby tap as an emergency repair fee.

Project Upgrade – deposit monthly an amount of \$20.00 per shareholder as project upgrades.

LEEDS DOMESTIC WATER USERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

The annual debt service requirements to retire the long-term debt as of December 31, 2010 are as follows:

Maturities Date January 1st	Principal Amount	Interest Amount	Total Payments
2011	\$ 26,000	\$ 39,744	\$ 65,744
2012	22,000	38,988	60,988
2013	23,000	38,196	61,196
2014	23,000	37,368	60,368
2015	24,000	36,540	60,540
2016-2020	135,000	169,020	304,020
2021-2025	161,000	142,920	303,920
2026-2030	192,000	111,744	303,744
2031-2035	229,000	74,592	303,592
2036-2040	274,000	30,276	304,276
2041-2045	-	-	-
	<u>\$ 1,109,000</u>	<u>\$ 719,388</u>	<u>\$ 1,828,388</u>

The final payment is due by January 1, 2041.

NOTE 7: TEMPORARILY RESTRICTED NET ASSETS

Included as temporarily restricted net assets as of December 31, 2010 are \$72,000 held in an escrow agreement by Zion's Bank to be used as a fidelity bond, \$50,000 fidelity bond with Hunt/Leavitt Insurance, and \$17,848 of unspent impact fees.

NOTE 8: DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through September 15, 2011, the date that the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY
INFORMATION

**LEEDS DOMESTIC WATER USERS ASSOCIATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2010**

FEDERAL OR PASS THROUGH GRANTOR/ PROGRAM TITLE	Title	Major Program	Federal CFDA #	Total Expenditures
<u>U.S. Environmental Protection Agency</u>				
	ARRA-Capitalization Grants for Drinking Water State Revolving Funds	*	66.468	806,951
	Total U.S. Environmental Protection Agency			<u>806,951</u>
	Total Expenditures of Federal Awards			<u><u>806,951</u></u>

See Accompanying Notes to This Schedule

LEEDS DOMESTIC WATER USERS ASSOCIATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2010

NOTE 1 General

The schedule of expenditures of federal awards presents the activity all federal award programs of The Association . The Association reporting entity is defined in Note 1 to the Association 's financial statements. All federal awards received directly from federal agencies as well as federal awards passed through from other government agencies are included on the schedule.

NOTE 2 Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting for assistance received by governmental fund types, which is described in Note 1 to the Association 's financial statements.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure -driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

NOTE 3 Relationship to Association's Financial Statement

Federal awards expended on the schedule of expenditures of federal awards for the year ended December 31, 2010 are reconciled to the amounts reported in the Association 's financial statements as federal government expenditures.

**LEEDS DOMESTIC WATER USERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2010**

I. Summary of Auditor's Results.

- A. Type of audit report issued on the financial statements: Unqualified Opinion
- B. Internal control over financial reporting:
Material weakness identified: Two.
Significant deficiencies identified that were not considered to be material weaknesses: One.
- C. Instances of noncompliance material to the financial statements: None
- D. Internal control over major programs: None
Material weakness identified: None
Significant deficiencies identified that were not considered to be material weaknesses: None
- E. Type of report issued on compliance for major programs: Unqualified Opinion
- F. Audit findings required to be reported under paragraph .510(a): None
- G. Major programs:

<u>Program</u>	<u>CFDA</u>	<u>Amount</u>
ARRA-Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 806,951
- H. Dollar threshold used to distinguish between Type A and B programs, as described in paragraph .520(b): \$300,000
- I. Leeds Domestic Water Users Association does not qualify as a low-risk auditee under paragraph .530.

II. Findings related to the financial statements which are required to be reported in accordance with Generally Accepted Governmental Auditing Standards.

Finding: See findings 2010-1 and 2010-4.

III. Findings and questioned costs for Federal awards as defined in paragraph .510(a)

<u>Finding</u>	<u>Questioned Costs</u>
2010-5	None

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*

Board of Directors
Leeds Domestic Water Users Association
Leeds, Utah

We have audited the financial statements of the business -type activities, of Leeds Domestic Water Users Association, as of and for the year ended December 31, 2010, which collectively comprise the Association's basic financial statements and have issued our report thereon dated September 15, 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 the Association'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 the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association'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 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. We consider the following deficiency in the Association's internal control to be a material weakness:

- The Association did not record the balance or activity of the water equity escrow account. See finding 2010-1.
- No detailed records of capital assets including depreciation were kept. See finding 2010-4.

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. We consider the following deficiencies in the Association's internal control to be significant deficiencies: See findings 2010-2, 2010-3, 2010-5, 2010-6, and 2010-7.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are noted in the accompanying management letter.

We noted certain matters that we reported to management of the Association in a separate letter dated September 15, 2011.

The Association's response to the findings identified in our audit is described in the accompanying management letter. We did not audit the Association's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board, others within the entity, 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.

Hafen Buckner, Everett & Graff, PC

HAFEN, BUCKNER, EVERETT & GRAFF, PC
ST GEORGE, UT
September 15, 2011

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

Governing Board
Leeds Domestic Water Users Association
Leeds, Utah

Compliance

We have audited Leeds Domestic Water Users Association's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended December 31, 2010. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Association's management. Our responsibility is to express an opinion on the Association's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Association's compliance with those requirements.

In our opinion, Leeds Domestic Water Users Association, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Association's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, the Board, others within the entity, 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.

Hafen Buckner, Everett & Graff, PC

HAFEN, BUCKNER, EVERETT & GRAFF, PC
ST GEORGE, UT
September 15, 2011

AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

We have audited the accompanying financial statements of the business -type activities of the Leeds Domestic Water Users Association , for the year ended December 31, 2010, and have issued our report thereon dated September 15, 2011. As part of our audit, we have audited the Leeds Domestic Water Users Association 's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions as applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2010. The Association received the following major assistance programs from the State of Utah:

Grant (Utah Drinking Water Board)

Our audit also included test work on the Association 's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Other General Issues

The management of Leeds Domestic Water Users Association is responsible for the Association 's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Association 's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Our audit does not provide a legal determination on the Association 's compliance with these requirements.

The results of our audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Leeds Domestic Water Users Association, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended December 31, 2010.

The Association's written response to the findings identified in our audit is described in the accompanying management letter. We did not audit the Association's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the Association and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

Hafen Buckner, Everett & Graff, PC

Hafen, Buckner, Everett & Graff, PC
September 15, 2011

September 15, 2011

Board Members
Leeds Domestic Water Users Association
Leeds, Utah

We have audited the financial statements of the business -type activities of Leeds Domestic Water Users Association as of and for the year ended December 31, 2010, which collectively comprise the Association 's basic financial statements and have issued our report thereon dated September 15, 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. In planning and performing our audit, we considered the internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the effectiveness of the Association 's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association 's internal control over financial reporting.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Association 's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Association's financial statements that is more than inconsequential will not be prevented or detected by Association's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Association's internal control.

Our consideration of the 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. However, such study and evaluation disclosed the following conditions that we believe should be brought to your attention.

Current Year Findings :

WATER PROJECT EQUITY ESCROW ACCOUNT

Finding 2010-1: The Association did not record the balance or activity of the water equity escrow account at Wells Fargo Bank, NA.

Recommendation : We recommend that the Association implement procedures to make sure all activity is recorded accurately in the financial statements .

WATER ACCOUNTS RECEIVABLE

Finding 2010-2: The Association has not maintained and reconciled to the general ledger a detail of past due accounts at December 31, 2010.

Recommendation : We recommend that the Association implement procedures that will allow accurate tracking of all outstanding accounts and that it reconcile s the balance to the general ledger.

ACCOUNTS PAYABLE

Finding 2010-3: The Association does not record accounts payable for expenses that have been incurred but not yet paid.

Recommendation : We recommend the Association implement procedure to record accounts payable in accordance with GAAP.

CAPITAL ASSETS

Finding 2010-4: The Association has not maintained an accurate account of capital assets and the capital assets that were recorded were never depreciated.

Recommendation : We recommend the Association establish and maintain accurate capital asset records including tracking depreciation expense and accumulated depreciation.

PURCHASING, EMPLOYEE , & ETHICAL CONDUCT POLICIES

Finding 2010-5: We noted that the Association did not have a Board approved purchasing, employee, and ethical conduct policy.

Recommendation : We recommend the Association approve, adopt, and keep on file purchasing, employee , and ethical conduct policies that are representative of the operations of the Association .

BANK ACCOUNTS

Finding 2010-6: We noted that bank reconciliations were not being completed in a timely manner and a reviewer's signature was not present on the reconciliation. Bank reconciliations did not show detail for outstanding items or items in transit at year end.

Recommendation : We recommend the Association perform bank reconciliations on all bank accounts in a timely manner, clearly identifying any outstanding items. The Association should also appoint an individual to review and sign off on those bank reconciliations.

ACCOUNTING EXPERTISE

Finding 2010-7: We noted that there were inadequate controls over the selection and application of accounting principles in conformity with generally accepted accounting principles (GAAP). The Association does not have sufficient accounting expertise in selecting and applying accounting principles in accordance with GAAP.

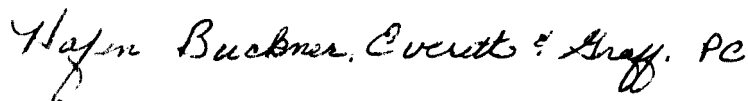
Recommendation : We recommend the Association implement controls over the selection and application of accounting principles in accordance with GAAP.

It is important to recognize that a letter of this type is intended to be constructive in nature, and that the absence of positive or complimentary comments is not intended to imply that the operation is not efficient or sound.

Because the above comments are not based on a special study of matters covered, further evaluation of our suggestions may be necessary on your part as a basis for implementation.

We appreciate the help and cooperation provided by the Association personnel during the course of our audit. We would be pleased to discuss these matters with you further at your convenience.

Yours truly,



Hafen, Buckner, Everett & Graff, PC

Management's response: "Management substantially agrees with all findings and will implement all recommendations."