

**DRAPER IRRIGATION COMPANY  
AND SUBSIDIARY**

**INDEPENDENT AUDITORS' REPORT  
AND  
CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008 AND 2007**

**HANSEN, BARNETT & MAXWELL, P.C.**

A Professional Corporation  
CERTIFIED PUBLIC ACCOUNTANTS

**DRAPER IRRIGATION COMPANY  
AND SUBSIDIARY**

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders  
Draper Irrigation Company  
Draper, Utah

We have audited the accompanying consolidated balance sheets-income tax basis of Draper Irrigation Company (a non-profit corporation) and subsidiary as of December 31, 2008 and 2007, and the related consolidated statements of income-income tax basis, stockholders' equity-income tax basis, and cash flows-income tax basis for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the Company prepares its financial statements on the accrual method of accounting used for federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Draper Irrigation Company and subsidiary as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended on the basis of accounting described in Note 1.

*Hansen, Barnett & Maxwell, P.C.*

HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah  
February 17, 2009

**DRAPER IRRIGATION COMPANY AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS – INCOME TAX BASIS**  
**DECEMBER 31, 2008 AND 2007**  
**ASSETS**

<i>December 31,</i>	2008	2007
<b>Current Assets</b>		
Cash and cash equivalents	\$ 865,340	\$ 438,029
Investment in certificates of deposit	5,657,155	7,374,911
Investment in securities available for sale	5,167,860	6,268,289
Accounts receivable	451,327	508,841
Accrued interest receivable	26,490	54,300
Inventory	280,413	207,911
<b>Total Current Assets</b>	<b>12,448,585</b>	<b>14,852,281</b>
<b>Property and Equipment</b>		
Property and Equipment	55,318,012	50,125,705
Less: accumulated depreciation	(11,237,026)	(10,116,263)
<b>Net Property and Equipment</b>	<b>44,080,986</b>	<b>40,009,442</b>
<b>Other Assets</b>		
Water Rights	1,256,605	1,225,611
Cash surrender value of life insurance policies	19,495	-
Other	212,329	242,923
<b>Total Other Assets</b>	<b>1,488,429</b>	<b>1,468,534</b>
<b>Total Assets</b>	<b>\$ 58,018,000</b>	<b>\$ 56,330,257</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>Current Liabilities</b>		
Accounts payable	\$ 270,914	\$ 601,711
Accrued expenses	301,863	400,271
Accrued interest payable	224,151	260,843
Current portion of notes payable	654,262	627,610
<b>Total Current Liabilities</b>	<b>1,451,190</b>	<b>1,890,435</b>
<b>Long-Term Debt</b>		
Notes payable, net of current portion	9,624,156	10,230,458
<b>Total Liabilities</b>	<b>11,075,346</b>	<b>12,120,893</b>
<b>Stockholders' Equity</b>		
Class A common stock; \$6 par value; 20,000 shares authorized; 17,730 shares issued and outstanding in 2008 and 2007	106,380	106,380
Class B common stock; \$50 par value; 12,000 shares authorized; 5,243 issued and outstanding in 2008 and 2007	262,150	262,150
Class A paid in capital	129,220	129,220
Class B paid in capital	134,800	134,800
Treasury stock at cost, 3,859 and 2,811, respectively	(1,913,265)	(1,035,815)
Receivable related to treasury stock	-	(807)
Retained earnings	48,223,369	44,613,436
<b>Total Stockholders' Equity</b>	<b>46,942,654</b>	<b>44,209,364</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 58,018,000</b>	<b>\$ 56,330,257</b>

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

**DRAPER IRRIGATION COMPANY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME – INCOME TAX BASIS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

<i>For the years ended December 31,</i>	<b>2008</b>	<b>2007</b>
<b>Revenue and Sales</b>		
Base sales	\$ 5,957,839	\$ 6,156,093
Raw water sales	72,535	78,477
Wholesale culinary	13,600	31,700
Connection fees	185,015	372,585
Product and service sales	129,832	153,109
<b>Total Revenue and Sales</b>	<b>6,358,821</b>	<b>6,791,964</b>
<b>Costs and Expenses</b>		
Direct costs	1,003,064	1,078,309
Direct professional expenses	400,077	279,835
Contract operating expenses	2,502,357	2,353,471
Depreciation	1,230,976	1,266,849
<b>Total Costs and Expenses</b>	<b>5,136,474</b>	<b>4,978,464</b>
<b>Income from Operations</b>	<b>1,222,347</b>	<b>1,813,500</b>
<b>Other Income and Expenses</b>		
Interest income	560,319	785,757
Interest expense	(370,027)	(467,834)
Contributed water distribution lines	863,372	1,384,946
Gain on sale of assets	692,151	447,471
System rental income	28,400	17,827
Other income	38,267	63,118
Reservoir reserve	410,850	745,114
System buy-in fees	106,120	250,950
<b>Net Other Income and Expenses</b>	<b>2,329,452</b>	<b>3,227,349</b>
<b>Income Before Income Taxes</b>	<b>3,551,799</b>	<b>5,040,849</b>
<b>Benefit (Provision) for Income Taxes</b>	<b>58,134</b>	<b>(92,135)</b>
<b>Net Income</b>	<b>\$ 3,609,933</b>	<b>\$ 4,948,714</b>

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

**DRAPER IRRIGATION COMPANY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - INCOME TAX BASIS**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2008**

	Common Stock		Class A Shares	Class B Shares	Amount	Class A Paid-In Capital	Class B Paid-In Capital	Treasury Stock	Receivable Related to Treasury Stock	Retained Earnings
	Class A Shares	Class B Shares								
<b>Balance - December 31, 2006</b>	17,730	5,243	\$ 106,380	5,243	\$ 262,150	\$ 129,220	\$ 134,800	\$ (964,315)	\$ (5,544)	\$ 39,664,722
Purchase of 274 shares Treasury Stock	-	-	-	-	-	-	-	(192,600)	-	-
Acquisition of 913 shares Treasury Stock for water rights	-	-	-	-	-	-	-	-	-	-
Sale of 150 shares of Treasury Stock for cash	-	-	-	-	-	-	-	121,100	-	-
Cash collected on Receivable issued for Treasury Stock	-	-	-	-	-	-	-	-	4,737	-
Net income	-	-	-	-	-	-	-	-	-	4,948,714
<b>Balance - December 31, 2007</b>	17,730	5,243	106,380	5,243	262,150	129,220	134,800	(1,035,815)	(807)	44,613,436
Purchase of 1,171 shares of Treasury Stock	-	-	-	-	-	-	-	(949,600)	-	-
Sale of 123 shares of Treasury Stock for cash	-	-	-	-	-	-	-	72,150	-	-
Cash collected on Receivable issued for Treasury Stock	-	-	-	-	-	-	-	-	807	-
Net income	-	-	-	-	-	-	-	-	-	3,609,933
<b>Balance - December 31, 2008</b>	17,730	5,243	\$ 106,380	5,243	\$ 262,150	\$ 129,220	\$ 134,800	\$ (1,913,265)	\$ -	\$ 48,223,369

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

**DRAPER IRRIGATION COMPANY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS – INCOME TAX BASIS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

<i>For the years ended December 31,</i>	2008	2007
<b>Cash Flows From Operating Activities</b>		
Net Income	\$ 3,609,933	\$ 4,948,714
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,230,976	1,266,849
Contributed lines	(863,372)	(1,384,945)
Gain on sale of land	(692,955)	(451,542)
(Gain)/loss on disposal of property and equipment	803	4,071
Changes in certain assets and liabilities:		
Accounts receivable	57,514	(92,352)
Accrued interest receivable	27,810	(52,672)
Inventory	(72,502)	58,719
Other assets	30,184	7,784
Accounts payable	(330,797)	340,495
Accrued expenses	(98,408)	(238,074)
Accrued interest payable	(36,692)	36,692
<b>Cash Flows from Operating Activities</b>	<b>2,862,494</b>	<b>4,443,739</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from principal payments on loans receivable	-	94,026
Purchase of certificates of deposit	(463,673)	(3,294,004)
Proceeds from maturity of certificates of deposits	2,181,429	103,794
Cash surrender value of life insurance policies	(19,495)	-
Proceeds from the sale of property and equipment	4,000	-
Proceeds from the sale of land	692,955	451,542
Purchase of water rights	(30,994)	-
Proceeds from sale of water rights	-	393,404
Purchase of property and equipment	(4,394,253)	(552,073)
Purchase of investment in securities available for sale	(650,000)	(2,629,853)
Proceeds from the sale of securities available for sale	1,750,429	1,000,000
<b>Cash Flows From Investing Activities</b>	<b>(929,602)</b>	<b>(4,433,164)</b>
<b>Cash Flows From Financing Activities</b>		
Principal payments on long-term debt	(628,938)	(624,537)
Purchase of treasury stock	(949,600)	(192,600)
Proceeds from sale of treasury stock	72,150	121,100
Proceeds from subscriptions receivable	807	4,737
<b>Cash Flows From Financing Activities</b>	<b>(1,505,581)</b>	<b>(691,300)</b>
<b>Net Change In Cash and Cash Equivalents</b>	<b>427,311</b>	<b>(680,725)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>438,029</b>	<b>1,118,754</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 865,340</b>	<b>\$ 438,029</b>

See Note 8 for supplementary cash flows information.

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

**DRAPER IRRIGATION COMPANY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – INCOME TAX BASIS**  
**DECEMBER 31, 2008 AND 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Reporting Entity* — Draper Irrigation Company (the “Company”) was established in 1888 when its founding members contributed their flow rights to five mountain streams for the benefit of all members. The Company was later incorporated under the laws of the State of Utah and is a mutual irrigation company under Section 501(c)(12) of the Internal Revenue Code. The Company provides pressure irrigation water and culinary water to its members located in the southeastern portion of Salt Lake County, Utah. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, WaterPro, Inc. Intercompany accounts and transactions have been eliminated. WaterPro is a for-profit entity subject to income tax, and provides management services to Draper Irrigation Company.

The Company operates as a mutual irrigation company whereby it provides water services to its members. Members are also stockholders in the Company. Revenue derived from members is exempt from income tax.

*Basis of Accounting* — The accompanying consolidated financial statements present financial results on the accrual basis of accounting used for federal income tax reporting which is a comprehensive basis of accounting other than generally accepted accounting principles. This basis differs from generally accepted accounting principles primarily because no gain is recognized on like-kind exchanges and marketable securities are recorded at cost rather than fair value.

*Cash Equivalents and Concentration of Risk* — For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Of the \$865,340 cash and cash equivalents balance at December 31, 2008, \$250,000 was insured by federal depository insurance. The Company has a concentration of risk relating to cash deposits in excess of federally insured limits.

Of the \$5,657,155 investment in certificates of deposits balance at December 31, 2008, \$250,000 was insured by federal depository insurance. The Company has a concentration of risk relating to cash deposits in excess of federally insured limits.

*Accounts Receivable and Credit Risk* — Accounts receivables are principally from members, construction contractors, and developers. The Company strives to limit credit risk through evaluation of customers’ credit status, limitations on the amount of credit granted to a particular customer and collection efforts. The Company currently has a shut off policy that states if any account is over 90 days it is subject to being shut off.

*Revenue Recognition* — Revenue for services is recognized at the time the service is performed.

*Property and Equipment* — Property and equipment which is purchased, is stated at historical cost. The Company receives significant contribution of property from contractors as new subdivisions are completed. The developers install the facilities for new subdivisions and deed the assets to the Company when the subdivision is complete. The donated assets are recorded at the estimated cost of construction.



**DRAPER IRRIGATION COMPANY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – INCOME TAX BASIS**  
**DECEMBER 31, 2008 AND 2007**

The stipulated depreciation has been provided using the straight-line method over their estimated service lives by type of asset as follows:

Distribution pipes	50 years
Building and improvements	35 years
Wells	25 years
Equipment and vehicles	5 - 10 years

Depreciation expense was \$1,230,976 and \$1,266,849 for the years ended December 31, 2008 and 2007, respectively.

*Inventory* — Inventory is stated at the lower of cost, determined by the FIFO method, or market.

*Use of Estimates* — The preparation of financial statements in conformity with the basis of accounting described in Note 1 requires management to make estimates and assumptions that affect the reported amounts of 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.

*Income Taxes* — Draper Irrigation Company is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. The Company's subsidiary, WaterPro, Inc., is a for profit company. Income taxes relate only to WaterPro, Inc.

*Reservoir Reserve* — A reservoir reserve is collected in conjunction with new connections to the system. This amount is collected for the purpose of funding current and future expansion of the system. As of December 31, 2008 and 2007, all reservoir reserve amounts collected have been expended for purposes intended.

**NOTE 2 – INVESTMENT IN SECURITIES AVAILABLE FOR SALE**

The Company's investments consist of shares of East Jordan Irrigation Company ("East Jordan"), U.S. Treasury Bonds and mutual funds.

*East Jordan Shares* — During 2008 and 2007, the Company owned a total of 176.25 and 176.25 shares with a historical cost of \$455,500 and \$455,500 at December 31, 2008 and 2007.

*U.S. Treasury Bonds* — At December 31, 2008 and 2007, the Company held U.S. Treasury Bonds in the amounts of \$0 and \$495,652, respectively.

*Mutual Funds* — At December 31, 2008 and 2007, the Company held mutual funds at market value of \$4,712,360 and \$5,317,137, respectively.

**DRAPER IRRIGATION COMPANY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – INCOME TAX BASIS**  
**DECEMBER 31, 2008 AND 2007**

**NOTE 3 – PROPERTY, PLANT AND EQUIPMENT**

The following is a summary of the property and equipment at December 31:

	2008	2007
Reservoir	\$ 5,558,153	\$ 4,971,374
Well improvements	5,336,673	1,768,271
Pump stations	1,131,678	1,131,678
Treatment plant	10,822,188	10,822,188
Water distribution lines	30,876,695	29,862,275
Auto and trucks	446,025	441,977
Computer equipment	159,058	148,578
Heavy equipment	401,866	397,223
Office furniture	58,531	54,996
Building	447,145	447,145
	55,238,012	50,045,705
Accumulated depreciation	(11,237,026)	(10,116,263)
	44,000,986	39,929,442
Land	80,000	80,000
	\$ 44,080,986	\$ 40,009,442

**NOTE 4 – NOTE PAYABLE**

The notes payable consist of the following at December 31:

	2008	2007
State of Utah, Division of Finance, Water Resources C + D Loan, due in annual principal and interest payments ranging from \$460,000 to \$625,000 through 2023, fixed interest rate at 5%, secured by water rights.	\$ 5,617,042	\$ 5,787,703
State of Utah, Division of Finance, Water Resources Construction Loan, due in annual principal and interest payments ranging from \$572,571 to \$584,312 through 2018, fixed interest rate at 2.3%, secured by assets constructed and water rights.	4,613,365	5,070,365
Note payable to bank for two company vehicles, due in monthly payments of \$1,046 through October 2013, fixed interest rate of 10.0%, secured by vehicles.	48,011	-
	10,278,418	10,858,068
Less: Current portion	654,262	627,610
Long-Term portion	\$ 9,624,156	\$ 10,230,458

**DRAPER IRRIGATION COMPANY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – INCOME TAX BASIS**  
**DECEMBER 31, 2008 AND 2007**

The future maturity of principal due over each of the next five years and beyond is as follows:

<b>December 31,</b>	
2009	\$ 654,262
2010	730,070
2011	754,164
2012	778,965
2013	802,474
Thereafter	6,558,483
	<b>\$ 10,278,418</b>

**NOTE 5 – OPERATING LEASES**

The Company leases several vehicles under operating leases. During the years ended December 31, 2008 and 2007, the Company paid \$36,919 and \$51,827 respectively, under these leases.

As of December 31, 2008, future minimum lease payments under these leases are:

<b>December 31,</b>	
2009	\$ 31,235
2010	25,889
2011	5,223
	<b>\$ 62,347</b>

**NOTE 6 – PENSION PLAN**

The Company has a pension and a profit sharing plan covering substantially all full-time employees. Contributions are decided by the board of directors each year, however, contributions can not exceed 15% of each covered employee's salary. The Company has a 401(k) feature of its profit sharing plan. The Company is required to make a matching contribution on behalf of eligible participants in the 401(k) feature, equal to 100% of the employee's deferred income not to exceed 5% of compensation. Total employer contributions under both plans were made in the amounts of \$41,767 and \$45,483 for the years ended December 31, 2008 and 2007, respectively. The participants vest in the employer's contribution immediately. The employer may terminate the pension and profit sharing plans at any time. The Company funds pension costs as incurred.

During the year ended December 31, 2008, the Company adopted a nonqualified deferred compensation plan, the Executive Income Continuation Plan (the "Plan"). Based on the number of years of service, upon retirement, the participating employee will receive up to \$250,000, payable in equal monthly installments over ten years. Upon the death of the employee, the benefit will be paid to the employees' family, in equal monthly installments. In order to fund the Plan, the Company purchased life insurance policies for the employees covered under the Plan for \$250,000 each. The Company is the beneficiary of

**DRAPER IRRIGATION COMPANY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – INCOME TAX BASIS**  
**DECEMBER 31, 2008 AND 2007**

the policies. Premiums paid by the Company during the year ended December 31, 2008, net of the cash surrender value of the policies was \$49,172.

**NOTE 7 – LAND SALE**

The Company is part of a consortium (the “consortium”) of water companies and cities, which owns land in Corner Canyon. During the year ended December 31, 2007, the Company’s ownership in the consortium increased from 46.7% to 80.4% due to a land exchange between the Company and two other members, Corner Canyon Water Company and Draper City. Upon the completion of land sales during the years ended December 31, 2008 and 2007, as described below, the consortium was dissolved. All remaining land owned by the Company in the Corner Canyon area is solely owned by the Company.

During the year ended December 31, 2008, a portion of Corner Canyon land, owned by members of the consortium, was sold to The Trust for Public Land for \$1,240,000 and the Company’s portion of the net cash proceeds from the land sale of \$692,955.

During the year ended December 31, 2007 a portion of Corner Canyon land, owned by members of the consortium, was sold to The Trust for Public Land for \$1,736,000 and the Company’s portion of the cash proceeds from the land sale of \$451,542.

**NOTE 8 – SUPPLEMENTAL CASH FLOWS INFORMATION**

The Company paid cash of \$406,719 and \$431,142 for interest for the years ended December 31, 2008 and 2007, respectively. The Company also paid cash of \$0 and \$20,320 related to income taxes for the years ended December 31, 2008 and 2007, respectively.

During the year ended December 31, 2007, the Company exchanged 910 acre-feet of water rights with a zero basis, for 731.18 acre-feet of water rights plus 913 shares of its Class A shares (returned as treasury stock). Because this exchange will not result in a significant change in the cash flows of the Company, the transaction was valued based on the carrying value of the assets given up, which was zero. Therefore, the assets acquired have a zero basis and no gain or loss was recognized on the exchange.

During the year ended December 31, 2008 and 2007, the Company disposed of property and equipment with a cost basis of \$114,606 and \$38,152 and accumulated depreciation of \$109,803 and \$34,081 for cash proceeds of \$4,000 and \$0, resulting in a loss on disposal of \$803 and \$4,071, respectively.

During the year ended December 31, 2008, the Company entered into two promissory notes for the purchase of two vehicles.

**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

As of December 31, 2008, the Company has two unused letters of credit for a total of \$283,514. These letters mature in December 2009 and February 2010, respectively and are collateralized by certificates of deposits.