

**DRAPER IRRIGATION COMPANY**

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

**DECEMBER 31, 2011 and 2010**



**HANSEN, BARNETT & MAXWELL, P.C.**  
Certified Public Accountants

## DRAPER IRRIGATION COMPANY

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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, 2011 and 2010, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 addition, as discussed in Note 1 to the financial statements, the useful lives of property and equipment follow Utah State Public Utilities Commission guidelines, which is a departure from the income-tax basis of accounting.

In our opinion, except for the departure noted above, 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, 2011 and 2010, 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  
March 20, 2012

**DRAPER IRRIGATION COMPANY**  
**Consolidated Balance Sheets – Income Tax Basis**  
**December 31, 2011 and 2010**

**ASSETS**

<i>December 31,</i>	<b>2011</b>	<b>2010</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 610,373	\$ 486,901
Investment in securities available for sale - at cost	2,691,854	2,766,304
Accounts receivable	426,870	448,987
Accrued interest receivable	5,776	21,574
Inventory	220,809	231,057
<b>Total Current Assets</b>	<b>3,955,682</b>	<b>3,954,823</b>
<b>Property and Equipment</b>		
Property and Equipment	65,657,107	64,797,690
Less: accumulated depreciation	(14,698,047)	(13,309,353)
<b>Net Property and Equipment</b>	<b>50,959,060</b>	<b>51,488,337</b>
<b>Other Assets</b>		
Investment in certificates of deposit	1,471,269	2,552,313
Water Rights	1,256,605	1,256,605
Cash surrender value of life insurance policies	180,994	113,849
Investment in Utah Lake Water Users Association	1,448,149	-
Other	53,713	31,431
<b>Total Other Assets</b>	<b>4,410,730</b>	<b>3,954,198</b>
<b>Total Assets</b>	<b>\$ 59,325,472</b>	<b>\$ 59,397,358</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>Current Liabilities</b>		
Accounts payable	\$ 254,479	\$ 335,548
Accrued expenses	819,596	651,550
Current portion of notes payable	768,016	744,253
<b>Total Current Liabilities</b>	<b>1,842,091</b>	<b>1,731,351</b>
<b>Long-Term Liabilities</b>		
Notes payable, net of current portion	7,351,303	8,118,997
<b>Total Liabilities</b>	<b>9,193,394</b>	<b>9,850,348</b>
<b>Stockholders' Equity</b>		
Class A common stock; \$6 par value; 20,000 shares authorized; 17,874 shares issued and outstanding at December 31, 2011 and 2010		
	106,380	106,380
Class B common stock; \$50 par value; 12,000 shares authorized; 7,088 and 7,007 issued and outstanding at December 31, 2011 and 2010		
	354,400	350,350
Paid-in capital	183,270	183,270
Treasury stock at cost, 2,220 and 2,317, respectively	(1,921,065)	(1,982,565)
Receivable related to treasury stock	(8,701)	(5,963)
Retained earnings	51,417,794	50,895,538
<b>Total Stockholders' Equity</b>	<b>50,132,078</b>	<b>49,547,010</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 59,325,472</b>	<b>\$ 59,397,358</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, 2011 and 2010**

<i>For the years ended December 31,</i>	<b>2011</b>	<b>2010</b>
<b>Revenue and Sales</b>		
Base sales	\$ 5,612,167	\$ 5,920,602
Wholesale culinary	7,000	8,000
Connection fees	112,785	133,550
<b>Total Revenue and Sales</b>	<b>5,731,952</b>	<b>6,062,152</b>
<b>Costs and Expenses</b>		
Direct costs	992,477	993,845
Direct professional expenses	474,009	404,489
Contract operating expenses	2,675,293	2,767,799
Depreciation	1,557,552	1,557,572
<b>Total Costs and Expenses</b>	<b>5,699,331</b>	<b>5,723,705</b>
<b>Income from Operations</b>	<b>32,621</b>	<b>338,447</b>
<b>Other Income and Expenses</b>		
Interest income	110,757	95,236
Interest expense	(343,710)	(372,207)
Contributed water distribution lines	316,937	212,919
Gain (loss) on disposal of property and equipment	(10,439)	28,500
Gain on sale of other assets	-	62,638
Other income	181,356	102,884
Reservoir reserve	179,224	216,377
System buy-in fees	55,510	63,920
<b>Net Other Income and Expenses</b>	<b>489,635</b>	<b>410,267</b>
<b>Net Income</b>	<b>\$ 522,256</b>	<b>\$ 748,714</b>

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

**DRAPER IRRIGATION COMPANY**  
**Consolidated Statements of Stockholders' Equity – Income Tax Basis**  
**For the Years Ended December 31, 2010 and 2011**

	Common Stock				Paid-In Capital	Treasury Stock	Receivable Related to Treasury Stock	Retained Earnings	Total Stockholders' Equity
	Class A Shares	Amount	Class B Shares	Amount					
<b>Balance - December 31, 2009</b>	17,874	\$ 106,380	6,927	\$ 346,350	\$ 183,270	\$ (1,949,465)	\$ -	\$ 50,146,824	\$ 48,833,359
Issuance of 80 shares of Class B common shares for new connections	-	-	80	4,000	-	-	-	-	4,000
Purchase of 105 shares of Treasury Stock	-	-	-	-	-	(74,500)	-	-	(74,500)
Sale of 12 shares of Treasury Stock for cash	-	-	-	-	-	10,800	-	-	10,800
Sale of 24 shares of Treasury Stock in exchange for 6 shares of East Jordan water stock	-	-	-	-	-	21,600	-	-	21,600
Sale of 10 shares of Treasury Stock for receivables	-	-	-	-	-	9,000	(9,000)	-	-
Cash collected on Receivable issued for Treasury Stock	-	-	-	-	-	-	3,037	-	-
Net income	-	-	-	-	-	-	-	748,714	748,714
<b>Balance - December 31, 2010</b>	17,874	106,380	7,007	350,350	183,270	(1,982,565)	(5,963)	50,895,538	49,547,010
Issuance of 81 shares of Class B common shares for new connections	-	-	81	4,050	-	-	-	-	4,050
Purchase of 61 shares of Treasury Stock	-	-	-	-	-	(42,700)	-	-	(42,700)
Sale of 106 shares of Treasury Stock for cash	-	-	-	-	-	94,300	-	-	94,300
Sale of 11 shares of Treasury Stock for receivables	-	-	-	-	-	9,900	(9,900)	-	-
Cash collected on Receivable issued for Treasury Stock	-	-	-	-	-	-	7,162	-	7,162
Net income	-	-	-	-	-	-	-	522,256	522,256
<b>Balance - December 31, 2011</b>	17,874	\$ 106,380	7,088	\$ 354,400	\$ 183,270	\$ (1,921,065)	\$ (8,701)	\$ 51,417,794	\$ 50,132,078

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

**DRAPER IRRIGATION COMPANY AND SUBSIDIARY**  
**Consolidated Statements of Cash Flows – Income Tax Basis**  
**For the Years Ended December 31, 2011 and 2010**

<i>For the years ended December 31,</i>	<b>2011</b>	<b>2010</b>
<b>Cash Flows From Operating Activities</b>		
Net Income	\$ 522,256	\$ 748,714
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,557,552	1,557,572
Contributed lines	(316,937)	(212,919)
(Gain) Loss on disposal of property and equipment	10,439	(28,500)
Gain on sale of other assets	-	(62,638)
Issuance of Class B common stock at no cost	4,050	4,000
Changes in certain assets and liabilities:		
Accounts receivable	22,117	(13,382)
Accrued interest receivable	15,798	10,249
Inventory	10,248	(13,233)
Other assets	(22,282)	15,708
Accounts payable	(81,069)	50,014
Accounts payable, related party	-	(381,284)
Accrued expenses	168,047	130,479
<b>Cash Flows from Operating Activities</b>	<b>1,890,219</b>	<b>1,804,780</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from maturity of certificates of deposits	1,081,044	1,059,544
Cash surrender value of life insurance policies	(67,145)	(30,581)
Proceeds from the sale of property and equipment	28,358	-
Proceeds from the sale of other assets	-	263,318
Purchase of property and equipment	(750,136)	(2,477,666)
Purchase of Investment in Utah Lake Water Users Association	(1,448,149)	-
Purchase of securities available for sale	-	(1,775,000)
Proceeds from interest on securities available for sale	(80,664)	(13,333)
Proceeds from the sale of securities available for sale	155,114	1,447,000
<b>Cash Flows From Investing Activities</b>	<b>(1,081,578)</b>	<b>(1,526,718)</b>
<b>Cash Flows From Financing Activities</b>		
Proceeds from short term financing	1,100,000	500,000
Principal payments on short term financing	(1,100,000)	-
Principal payments on long-term debt	(743,931)	(1,221,098)
Purchase of treasury stock	(42,700)	(74,500)
Proceeds from sale of treasury stock	94,300	10,800
Payments received on receivable related to Treasury Stock	7,162	3,037
<b>Cash Flows From Financing Activities</b>	<b>(685,169)</b>	<b>(781,761)</b>
<b>Net Change In Cash and Cash Equivalents</b>	<b>123,472</b>	<b>(503,699)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>486,901</b>	<b>990,600</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 610,373</b>	<b>\$ 486,901</b>

See Note 9 for supplementary cash flows information.

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

**DRAPER IRRIGATION COMPANY**  
**Notes to the Consolidated Financial Statements – Income Tax Basis**  
**December 31, 2011 and 2010**

**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, marketable securities are recorded at cost rather than fair value, there is no allowance for bad debts but accounts receivable are written off when there is no ability to collect, and property and equipment is depreciated based on useful lives and methods dictated by the tax code.

**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.

At December 31, 2011, the Company had cash and cash equivalents and certificates of deposits balances in excess of federal depository insurance. The Company has not experienced any losses relating to the uninsured amounts and believes that the risk is low.

**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. Because the Company reports on an income tax basis, accounts receivable are written off directly to bad debt expense when management determines that collection efforts are no longer successful. No allowance for bad debt is recorded. Bad debt expense for the years ended December 31, 2011 and 2010 was \$0 and \$5,461, respectively.

**Revenue Recognition** — Revenue for base water fee services is recognized on a monthly basis and any additional fees for usage is billed to customers on a monthly basis upon consumption.

**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**  
**Notes to the Consolidated Financial Statements – Income Tax Basis**  
**December 31, 2011 and 2010**

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

Distribution pipes	50 years
Building and improvements	35 years
Wells	25 years
Equipment and vehicles	5-15 years

Depreciation expense was \$1,557,552 and \$1,557,572 years ended December 31, 2011 and 2010, 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. WaterPro is subject to U.S. federal tax examinations for tax years beginning and including December 31, 2008. The Company has identified no uncertain tax positions for its net operating losses as of December 31, 2011.

***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, 2011 and 2010, all reservoir reserve amounts collected have been expended for purposes intended.

***Subsequent Events*** — The Company has evaluated subsequent events through March 20, 2012, the date these financial statements were available to be issued.

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

The Company’s investments consist of shares of East Jordan Irrigation Company (“East Jordan”) and mutual funds.

***East Jordan Shares*** — During 2011 and 2010, the Company owned a total of 182.25 shares with a historical cost of \$477,100 at December 31, 2011 and 2010, respectively.

***Mutual Funds*** — At December 31, 2011 and 2010, the Company held mutual funds at cost of \$2,214,754 and \$2,289,204. These funds are held on the cost basis because the Company prepares these financial statements on the income tax basis.

**NOTE 3 – OTHER INVESTMENTS**

During the year ended December 31, 2011, the Company purchased an 6.89% ownership in the Utah Lake Water Users Association (“Association”), which gives the Company one vote in management decisions of the Association for cash of \$348,149. In addition, the Company made an additional contribution for the construction of new equipment in the amount of \$1,100,000, which increased the Company’s basis, however the capital contribution did not change the its ownership percentage. The investment is being accounted for on the cost method. The fair value of the investment has not been

**DRAPER IRRIGATION COMPANY**  
**Notes to the Consolidated Financial Statements – Income Tax Basis**  
**December 31, 2011 and 2010**

estimated because the Company has not identified events or changes in circumstances that may have a significant effect on the fair value of the investment and the Company has determined that it is not practicable to estimate fair value of the investment.

**NOTE 4 – PROPERTY, PLANT AND EQUIPMENT**

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

	<b>2011</b>	<b>2010</b>
Reservoir	\$ 5,558,153	\$ 5,558,153
Well improvements	11,710,492	11,357,620
Pump stations	1,312,752	1,217,290
Treatment plant	10,837,188	10,837,188
Water distribution lines	33,513,321	32,945,263
Auto and trucks	485,692	579,020
Computer equipment	232,941	252,194
Heavy equipment	425,738	460,782
Office furniture	52,834	52,834
Buildings	1,447,996	1,457,346
	65,577,107	64,717,690
Accumulated depreciation	(14,698,047)	(13,309,353)
	50,879,060	51,408,337
Land	80,000	80,000
Total property, plant and equipment, net	\$ 50,959,060	\$ 51,488,337

**NOTE 5 – NOTE PAYABLE**

The notes payable consist of the following at December 31:

	<b>2011</b>	<b>2010</b>
State of Utah, Division of Finance, Water Resources C + D Loan, due in annual principal and interest payments ranging from \$455,133 to \$625,000 through 2023, fixed interest rate at 5%, secured by water rights.	\$ 4,939,550	\$ 5,194,803
State of Utah, Division of Finance, Water Resources Construction Loan, due in annual principal and interest payments of \$572,997 through 2018, fixed interest rate at 2.3%, secured by assets constructed and water rights.	3,179,769	3,668,447
	8,119,319	8,863,250
Less: Current portion	768,016	744,253
Long-Term portion	\$ 7,351,303	\$ 8,118,997

**DRAPER IRRIGATION COMPANY**  
**Notes to the Consolidated Financial Statements – Income Tax Basis**  
**December 31, 2011 and 2010**

As of December 31, 2011 and 2010, the cost of the water rights and constructed assets held as collateral for these notes payable was \$11,325,825 and \$11,325,825, and accumulated depreciation was \$1,884,241 and \$2,117,259, respectively, leaving carrying amounts of \$9,441,584 and \$9,208,566, respectively.

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

<b>December 31,</b>	
2012	\$ 768,016
2013	792,416
2014	818,487
2015	900,262
2016	931,525
Thereafter	3,908,613
<b>Total</b>	<b>\$ 8,119,319</b>

During the year ended December 31, 2011, the Company obtained a short term loan with a bank for \$1,100,000, which was used to purchase the investment in the Utah Lake Water Users Association. The loan was repaid during the year ended December 31, 2011 and the Company paid interest of \$17,099.

**NOTE 6 – OPERATING LEASES**

The Company leases several vehicles under operating leases. During the years ended December 31, 2011 and 2010, the Company paid \$27,543 and \$40,937 under these leases.

As of December 31, 2011, future minimum lease payments under these leases are:

<b>December 31,</b>	
2012	\$ 24,345
2013	17,173
2014	1,021
<b>Total</b>	<b>\$ 42,539</b>

**NOTE 7 – 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 cannot 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 \$44,068 and \$42,491 for the years ended December 31, 2011 and 2010, 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'

**DRAPER IRRIGATION COMPANY**  
**Notes to the Consolidated Financial Statements – Income Tax Basis**  
**December 31, 2011 and 2010**

beneficiary under the agreement, 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 the policies. Premiums paid by the Company during the years ended December 31, 2011 and 2010 were \$68,668 and \$33,537 and the cash surrender value of the policies were \$180,994 and \$113,849, respectively.

**NOTE 8 – SALE OF OTHER ASSETS**

During the year ended December 31, 2010, the Company sold other assets, which consisted of land in central Utah previously acquired upon foreclosure of a note receivable. The Company received cash proceeds of \$263,318 and recognized a gain on sale of \$62,638.

**NOTE 9 – SUPPLEMENTAL CASH FLOWS INFORMATION**

The Company paid cash of \$361,483 and \$372,207 for interest for the years ended December 31, 2011 and 2010, respectively.

The Company paid cash of \$0 and \$42,876 for income taxes for the years ended December 31, 2011 and 2010, respectively.

During the year ended December 31, 2011, the Company sold property and equipment with a cost basis of \$207,665 and accumulated depreciation of \$168,858 for cash proceeds of \$28,358, resulting in a loss on sale of \$10,439.

During the year ended December 31, 2010, the Company disposed of fully depreciated property and equipment with a cost basis of \$109,448. A portion of these assets were vehicles, with a cost basis of \$60,762, and were used as trade-ins for the purchase of new vehicles and received a trade-in value of \$28,500, which was recognized as gain on sale for the year ended December 31, 2010.

During the years ended December 31, 2011 and 2010, the Company issued 11 and 10 shares of treasury stock with a value of \$9,900 and \$9,000, respectively for receivables.

During the years ended December 31, 2010, the Company exchanged 24 shares of its treasury stock for 6 shares of East Jordan water stock. The East Jordan water shares were recorded at a fair value of \$21,600, which was equal to the fair value of the treasury stock sold.

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

During the years ended December 31, 2011 and 2010, the Company received personal property tax assessments from Salt Lake County on its water-related property and equipment, such as water distribution lines, treatment plant, well improvements and reservoirs for years from 2004-2010. The Company's assessment for these years, including interest and penalties, as of December 31, 2011 is approximately \$1,700,000. Historically, non-governmental utility companies have not been assessed personal property taxes on water-related property and equipment, however it was allowed under the Utah State Constitution. During 2010, the Utah State Legislature approved a bill clarifying that the personal property is tax-exempt and authorized a constitutional amendment to be placed on the November 2010 general election ballot. The constitutional amendment was approved by voters and the Company will no longer be subject to the personal property tax assessment on these assets. However, the prior assessed taxes were not reversed. The Company, along with other non-governmental utility companies in Utah, is appealing the assessments and is in settlement discussions with the County to reduce the amounts owing. As of December 31, 2011, the Company, with the assistance of legal counsel, has estimated its settlement

**DRAPER IRRIGATION COMPANY**  
**Notes to the Consolidated Financial Statements – Income Tax Basis**  
**December 31, 2011 and 2010**

amount for the payment of back property taxes in a range between \$200,000 to \$377,489. The Company has recorded a liability for the tax assessment in the amount of \$200,000, less amounts already paid of \$42,000, in anticipation of full settlement of all taxes assessed, including additional interest and penalties.

**NOTE 11 – RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2011 and 2010, the Company paid \$0 and \$37,698, respectively, to a company, owned by a board member, who provided general contracting services for the construction of a storage facility. The Company obtained bids on this project and the lowest bid was accepted and approved by the Board.

**SUPPLEMENTAL SCHEDULES**

**DRAPER IRRIGATION COMPANY AND SUBSIDIARY**  
**Consolidating Balance Sheet – Income Tax Basis**  
**December 31, 2011**

**ASSETS**

	<u>Draper Irrigation Company</u>		<b>Water Pro</b>	<b>Consolidated</b>
	<b>Irrigation</b>	<b>Culinary</b>		
<b>Current Assets</b>				
Cash and cash equivalents	\$ 2,127	\$ -	\$ 608,246	\$ 610,373
Investment in securities available for sale	622,065	-	2,069,789	2,691,854
Accounts receivable	116,537	306,877	3,456	426,870
Accrued interest receivable	5,776	-	-	5,776
Inventory	-	-	220,809	220,809
Intercompany receivable (payable)	(896,804)	47,523	849,281	-
<b>Total Current Assets</b>	<b>(150,299)</b>	<b>354,400</b>	<b>3,751,581</b>	<b>3,955,682</b>
<b>Property and Equipment</b>				
Property and Equipment	64,120,477	-	1,536,630	65,657,107
Less: accumulated depreciation	(13,498,414)	-	(1,199,633)	(14,698,047)
<b>Net Property and Equipment</b>	<b>50,622,063</b>	<b>-</b>	<b>336,997</b>	<b>50,959,060</b>
<b>Other Assets</b>				
Investment in certificates of deposit	1,471,269	-	-	1,471,269
Water Rights	1,256,605	-	-	1,256,605
Cash surrender value of life insurance policies	180,994	-	-	180,994
Investment in Utah Lake Water Users Association	1,448,149	-	-	1,448,149
Other	-	-	53,713	53,713
<b>Total Other Assets</b>	<b>4,357,017</b>	<b>-</b>	<b>53,713</b>	<b>4,410,730</b>
<b>Total Assets</b>	<b>\$ 54,828,781</b>	<b>\$ 354,400</b>	<b>\$ 4,142,291</b>	<b>\$ 59,325,472</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>Current Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ 254,479	\$ 254,479
Accrued expenses	206,378	-	613,218	819,596
Current portion of notes payable	768,016	-	-	768,016
<b>Total Current Liabilities</b>	<b>974,394</b>	<b>-</b>	<b>867,697</b>	<b>1,842,091</b>
<b>Long-Term Debt</b>				
Notes payable, net of current portion	7,351,303	-	-	7,351,303
<b>Total Liabilities</b>	<b>8,325,697</b>	<b>-</b>	<b>867,697</b>	<b>9,193,394</b>
<b>Stockholders' Equity</b>				
Class A common stock; \$6 par value; 20,000 shares authorized; 17,874 shares issued and outstanding in 2010 and 2009, respectively	106,380	-	-	106,380
Class B common stock; \$50 par value; 12,000 shares authorized; 7,007 and 6,927 issued and outstanding in 2010 and 2009, respectively	-	354,400	-	354,400
Class A paid-in capital	129,221	-	-	129,221
Class B paid-in capital	54,049	-	-	54,049
Treasury stock at cost, 2,317 and 2,273, respectively	(1,921,065)	-	-	(1,921,065)
Receivable related to treasury stock	(8,701)	-	-	(8,701)
Retained earnings	48,143,200	-	3,274,594	51,417,794
<b>Total Stockholders' Equity</b>	<b>46,503,084</b>	<b>354,400</b>	<b>3,274,594</b>	<b>50,132,078</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 54,828,781</b>	<b>\$ 354,400</b>	<b>\$ 4,142,291</b>	<b>\$ 59,325,472</b>

**Note:** These schedules are not presented in accordance with generally accepted accounting standards. The schedules are prepared for analysis only and the intercompany eliminating entries have been pushed back into the respective entities.

**DRAPER IRRIGATION COMPANY AND SUBSIDIARY**  
**Consolidating Statements Of Income – Income Tax Basis**  
**For the Year Ended December 31, 2011**

	<u>Draper Irrigation Company</u>			Water Pro	Consolidated
	Irrigation	Culinary			
<b>Revenue and Sales</b>					
Base sales	\$ 940,857	\$ 4,671,310	\$ -	\$ 5,612,167	
Wholesale culinary	-	7,000	-	7,000	
Connection fees	61,566	51,219	-	112,785	
<b>Total Revenue and Sales</b>	<b>1,002,423</b>	<b>4,729,529</b>	<b>-</b>	<b>5,731,952</b>	
<b>Costs and Expenses</b>					
Direct costs	278,022	714,455	-	992,477	
Direct professional expenses	258,121	215,888	-	474,009	
Contract operating expenses	797,801	1,877,492	-	2,675,293	
Depreciation	336,724	1,127,294	93,534	1,557,552	
<b>Total Costs and Expenses</b>	<b>1,670,668</b>	<b>3,935,129</b>	<b>93,534</b>	<b>5,699,331</b>	
<b>Income (Loss) from Operations</b>	<b>(668,245)</b>	<b>794,400</b>	<b>(93,534)</b>	<b>32,621</b>	
<b>Other Income and Expenses</b>					
Interest income	35,232	-	75,525	110,757	
Interest expense	(343,710)	-	-	(343,710)	
Contributed water distribution lines	316,937	-	-	316,937	
Loss on disposal of property and equipment	-	-	(10,439)	(10,439)	
System rental income (expense)	534,960	(534,960)	-	-	
Other income	58,741	122,615	-	181,356	
Reservoir reserve	-	179,224	-	179,224	
System buy-in fees	-	55,510	-	55,510	
<b>Net Other Income and Expenses</b>	<b>602,160</b>	<b>(177,611)</b>	<b>65,086</b>	<b>489,635</b>	
<b>Net Income (Loss)</b>	<b>\$ (66,085)</b>	<b>\$ 616,789</b>	<b>\$ (28,448)</b>	<b>\$ 522,256</b>	

**Note:** These schedules are not presented in accordance with generally accepted accounting standards. The schedules are prepared for analysis only and the intercompany eliminating entries have been pushed back into the respective entities.