

APPENDIX N

Consolidated Financial Statements

2021 Consolidated Financial Statement



Consolidated Financial Statements
December 31, 2021 and 2020

Draper Irrigation Company and Subsidiary

Draper Irrigation Company and Subsidiary

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December 31, 2021 and 2020

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Independent Auditor's Report

To the Shareholders
Draper Irrigation Company and Subsidiary
Draper, Utah

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of Draper Irrigation Company (a nonprofit organization) and Subsidiary, which comprise the consolidated balance sheets – income tax basis, as of December 31, 2021 and 2020, 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, and the related notes to the consolidated financial statements.

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and stockholders' equity of Draper Irrigation Company and Subsidiary as of December 31, 2021 and 2020, and its revenue and expenses, and changes in stockholders' equity for the years then ended in accordance with the basis of accounting Draper Irrigation Company and Subsidiary uses for income tax purposes, as described in Note 1 to the consolidated financial statements.

Basis for Qualified Opinion

As more fully described in Note 1 to the consolidated financial statements, the useful lives of property and equipment follow the State of Utah Public Service Commission guidelines, which is a departure from the accrual method of accounting used for federal income tax purposes. In our opinion, the accrual method of accounting used for federal income tax purposes requires that fixed assets be depreciated over lives approved by the Internal Revenue Service. The effect of this departure is an understatement of depreciation expense of approximately \$710,000, an understatement of accumulated depreciation of approximately \$17,891,000 and an overstatement of retained earnings of approximately \$17,181,000.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Draper Irrigation Company and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 of the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements are prepared on the basis of accounting Draper Irrigation Company and Subsidiary uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the income tax basis of accounting described in Note 1 to the consolidated financial statements; this includes determining that the income tax basis of accounting is an acceptable basis for the preparation of the consolidated financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Draper Irrigation Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Draper Irrigation Company and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Draper Irrigation Company and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating balance sheet – income tax basis as of December 31, 2021, and the consolidating statement of income – income tax basis for the year ended December 31, 2021, are presented for the purpose of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Management has elected to present intercompany elimination entries within the balances of the respective entities, rather than to present the respective entity financial statement amounts in accordance with the income tax basis of accounting and a separate presentation of the elimination entries. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

Salt Lake City, Utah
March 1, 2022

Draper Irrigation Company and Subsidiary

Consolidated Balance Sheets – Income Tax Basis

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,009,342	\$ 1,728,988
Investment in securities	3,466,235	1,939,191
Receivables		
Trade	493,506	504,326
Related party	2,827	7,000
Inventories	<u>280,102</u>	<u>276,751</u>
Total current assets	<u>5,252,012</u>	<u>4,456,256</u>
Property and Equipment	103,310,039	99,720,712
Less accumulated depreciation	<u>(33,979,554)</u>	<u>(31,647,184)</u>
Total property and equipment	<u>69,330,485</u>	<u>68,073,528</u>
Other Assets		
Water rights	1,932,609	1,932,609
Cash surrender value of life insurance policies	646,440	614,008
Investment in Utah Lake Water Users Association	1,526,149	1,526,149
Other	<u>19,355</u>	<u>19,355</u>
Total other assets	<u>4,124,553</u>	<u>4,092,121</u>
	<u><u>\$ 78,707,050</u></u>	<u><u>\$ 76,621,905</u></u>

Draper Irrigation Company and Subsidiary

Consolidated Balance Sheets – Income Tax Basis

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Liabilities and Stockholders' Equity		
Current Liabilities		
Current maturities of long-term debt	\$ 895,445	\$ 676,817
Accounts payable	427,875	377,873
Accrued liabilities	<u>401,790</u>	<u>406,717</u>
Total current liabilities	1,725,110	1,461,407
Long-Term Liabilities		
Long-term debt, less current maturities	<u>5,791,778</u>	<u>6,091,857</u>
Total liabilities	<u>7,516,888</u>	<u>7,553,264</u>
Stockholders' Equity		
Class A common stock: par value \$6 per share; authorized 20,000 shares; issued and outstanding, 17,874 shares at December 31, 2021 and 2020	106,380	106,380
Class B common stock: par value \$50 per share; authorized 12,000 shares; issued and outstanding, 8,443 and 8,333 shares at December 31, 2021 and 2020, respectively	422,150	416,650
Additional paid-in capital	183,270	183,270
Treasury stock at cost, 1,876 and 1,825 shares, at December 31, 2021 and 2020, respectively	(1,617,953)	(1,578,753)
Receivable related to treasury stock	(10,093)	(10,434)
Retained earnings	<u>72,106,408</u>	<u>69,951,528</u>
Total stockholders' equity	<u>71,190,162</u>	<u>69,068,641</u>
	<u><u>\$ 78,707,050</u></u>	<u><u>\$ 76,621,905</u></u>

Draper Irrigation Company and Subsidiary
Consolidated Statements of Income – Income Tax Basis
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenue		
Base sales	\$ 8,120,072	\$ 8,625,275
Wholesale culinary sales	11,000	11,750
Connection fees	<u>72,420</u>	<u>63,312</u>
Total revenue	<u>8,203,492</u>	<u>8,700,337</u>
Operating Expenses		
Direct costs	1,575,080	1,656,367
Direct professional expenses	424,859	384,216
Contract operating expenses	3,703,566	3,677,906
Depreciation	<u>2,402,118</u>	<u>2,297,262</u>
Total operating expenses	<u>8,105,623</u>	<u>8,015,751</u>
Operating Income	<u>97,869</u>	<u>684,586</u>
Other Income (Expense)		
Interest income	33,992	35,532
Interest expense	(91,551)	(194,087)
Contributed water distribution lines	806,850	841,369
Gain on sale of property, plant and equipment	22,000	255
Grants	403,500	380,950
Other income	153,153	133,060
Reservoir reserve	672,962	402,512
System buy-in fees	<u>56,105</u>	<u>54,385</u>
Total other income (expense)	<u>2,057,011</u>	<u>1,653,976</u>
Net Income	<u><u>\$ 2,154,880</u></u>	<u><u>\$ 2,338,562</u></u>

Draper Irrigation Company and Subsidiary
Consolidated Statements of Stockholders' Equity – Income Tax Basis
Years Ended December 31, 2021 and 2020

	Common Stock				Additional Paid-in Capital	Retained Earnings	Treasury Stock	Receivable Related to Treasury Stock	Total Stockholders' Equity
	Class A Shares	Amounts	Class B Shares	Amounts					
Balance, December 31, 2019	17,874	\$ 106,380	8,224	\$ 411,200	\$ 183,270	\$ 67,612,966	\$ (1,618,653)	\$ (9,386)	\$ 66,685,777
Net income	-	-	-	-	-	2,338,562	-	-	2,338,562
Issuance of 109 shares of Class B common shares for new connections	-	-	109	5,450	-	-	-	-	5,450
Purchase of 46 shares of Treasury Stock and 5 shares leased shares returned to Treasury Stock	-	-	-	-	-	-	(32,200)	-	(32,200)
Sale of 103 shares of Treasury Stock for cash	-	-	-	-	-	-	66,500	-	66,500
Sale of 8 shares of Treasury Stock for receivables	-	-	-	-	-	-	5,600	(5,600)	-
Cash collected on receivable issued for Treasury Stock	-	-	-	-	-	-	-	4,552	4,552
Balance, December 31, 2020	17,874	106,380	8,333	416,650	183,270	69,951,528	(1,578,753)	(10,434)	69,068,641
Net income	-	-	-	-	-	2,154,880	-	-	2,154,880
Issuance of 110 shares of Class B common shares for new connections	-	-	110	5,500	-	-	-	-	5,500
Purchase of 112 shares of Treasury Stock	-	-	-	-	-	-	(78,400)	-	(78,400)
Sale of 56 shares of Treasury Stock for cash	-	-	-	-	-	-	35,700	-	35,700
Sale of 5 shares of Treasury Stock for receivables	-	-	-	-	-	-	3,500	(3,500)	-
Cash collected on receivable issued for Treasury Stock	-	-	-	-	-	-	-	3,841	3,841
Balance, December 31, 2021	17,874	\$ 106,380	8,443	\$ 422,150	\$ 183,270	\$ 72,106,408	\$ (1,617,953)	\$ (10,093)	\$ 71,190,162

Draper Irrigation Company and Subsidiary
Consolidated Statements of Cash Flows – Income Tax Basis
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Activities		
Net income	\$ 2,154,880	\$ 2,338,562
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	2,402,118	2,297,262
Contributed lines	(806,850)	(841,369)
Gain on sale of property, plant and equipment	(22,000)	(255)
Changes in assets and liabilities		
Receivables	10,820	(18,623)
Inventories	(3,351)	11,268
Accounts payable	50,002	121,034
Accrued liabilities	(4,927)	1,780
Net Cash from Operating Activities	<u>3,780,692</u>	<u>3,909,659</u>
Investing Activities		
Change in cash surrender value of life insurance policies	(32,432)	(31,730)
Changes in related party receivable	4,173	(7,000)
Purchase of property and equipment	(2,852,225)	(3,386,151)
Proceeds from sale of equipment	22,000	33,500
Purchase of securities	(1,527,044)	(32,778)
Net Cash used for Investing Activities	<u>(4,385,528)</u>	<u>(3,424,159)</u>
Financing Activities		
Principal payments on long-term debt	(631,798)	(679,764)
Proceeds from issuance of long-term debt	550,347	1,645,526
Issuance of Class B common stock at par	5,500	5,450
Purchase of treasury stock	(78,400)	(32,200)
Proceeds from issuance of treasury stock	35,700	66,500
Payments received on receivable related to treasury stock	3,841	4,552
Net Cash from (used for) Financing Activities	<u>(114,810)</u>	<u>1,010,064</u>
Net Change in Cash and Cash Equivalents	(719,646)	1,495,564
Cash and Cash Equivalents, Beginning of Year	<u>1,728,988</u>	<u>233,424</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,009,342</u></u>	<u><u>\$ 1,728,988</u></u>
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 91,551	\$ 194,087
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Sale of treasury stock for receivables	\$ 3,500	\$ 5,600

Note 1 - Principal Business Activity and Significant Accounting Policies

Principal Business Activity

Draper Irrigation Company was established in 1888 when its founding members contributed their flow rights to five mountain streams for the benefit of all members. Draper Irrigation 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. Draper Irrigation Company provides pressure irrigation water and culinary water to its members located in the southeastern portion of Salt Lake County, Utah.

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.

Principles of Consolidation

The consolidated financial statements include the accounts of Draper Irrigation Company and its wholly owned subsidiary, WaterPro, Inc (collectively referred to as “the Company”). WaterPro is a for-profit entity subject to income tax and provides management services to Draper Irrigation Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

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 and there is no allowance for bad debts but accounts receivable are written off when there is no ability to collect.

Concentrations of Credit Risk

The Company maintains its cash accounts in various deposit accounts, the balances of which are periodically in excess of federally insured limits.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less.

Receivables and Credit Policy

Trade 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. Bad debt expense for the years ended December 31, 2021 and 2020, was \$0.

Inventories

Inventory consists of supplies used for meter and hydrant installations, as well as for emergency repairs and system maintenance. Inventories are stated at the lower of cost or net realizable value. Cost is determined on a standard basis that approximates the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment is recorded at cost. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense. When equipment is retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is reflected in income.

The Company receives significant contributions 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.

The stipulated depreciation for certain items 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 Service Commission as follows:

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

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment, there was no impairment at December 31, 2021 and 2020.

Investments in Securities

The Company records its investments in securities at cost, in accordance with the income tax basis of accounting.

Estimates

The preparation of the consolidated financial statements in conformity with the income tax basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Water Rights

The Company records water rights at their historical cost. The water rights do not have a determinable life; therefore, they are not amortized.

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 entity. No deferred tax assets or liabilities have been recorded and no provision for income taxes is recorded in the consolidated statements of income – income tax basis. The Company has identified no uncertain tax positions for its net operating losses as of December 31, 2021.

The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of December 31, 2021 and 2020, the unrecognized tax benefits accrual was zero. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Revenue Recognition

Revenue for base water fee services and wholesale culinary fee services are recognized on a monthly basis as water is delivered to customers through the month. Any additional fee for excess usage is billed to customers on a monthly basis upon consumption. Payment for such fees are due within 30 days of month-end. Connection fee revenue is recognized when the connection is approved and builder pays the fee.

Contributed water distribution lines are recognized in other income when contractors complete a subdivision and deed the lines to the Company as discussed below.

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, 2021 and 2020, all reservoir reserve amounts collected have been expended for purposes intended.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on net income or stockholders' equity.

Subsequent Events

The Company has evaluated subsequent events through March 1, 2022, the date the consolidated 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 – The Company owns a total of 262.75 shares with a historical cost of \$738,100 as of both December 31, 2021 and 2020. Investments in East Jordan are presented on the cost basis.

Mutual Funds – At December 31, 2021 and 2020, the Company held mutual funds at cost of \$2,728,135 and \$1,201,091 respectively. Investments in mutual funds are presented on the cost basis.

Note 3 - Investment in Utah Lake Water Users Association

During the year ended December 31, 2011, the Company purchased a 6.89% ownership in the Utah Lake Water Users Association (the Association) for \$348,149, which gives the Company one vote in management decisions of the Association. The Company made additional contributions for the construction of new equipment in the amount of \$78,000 and \$1,100,000 as of December 31, 2012 and 2011, respectively, which increased the Company's basis; however, the capital contribution did not change its ownership percentage. The investment is being accounted for on the cost method. As of December 31, 2021 and 2020, the amount of the investment was \$1,526,149.

Draper Irrigation Company and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 4 - Property and Equipment

Property and equipment at December 31, 2021 and 2020, consists of the following:

	2021	2020
Water distribution lines	\$ 59,082,201	\$ 56,620,910
Well improvements	16,450,889	16,383,451
Treatment plant	12,675,830	11,915,964
Reservoir	5,558,154	5,558,154
Pump stations	2,923,505	2,923,505
Buildings	1,519,582	1,490,482
Auto and trucks	1,250,234	1,209,863
Heavy equipment	368,391	373,703
Computer equipment	217,089	221,164
Office furniture	12,347	2,704
	<u>100,058,222</u>	<u>96,699,900</u>
Less accumulated depreciation	<u>(33,979,554)</u>	<u>(31,647,184)</u>
	66,078,668	65,052,716
Construction in Process	3,171,817	2,940,812
Land	<u>80,000</u>	<u>80,000</u>
	<u>\$ 69,330,485</u>	<u>\$ 68,073,528</u>

Depreciation expense totaled \$2,402,118 and \$2,297,262 for the years ended December 31, 2021 and 2020, respectively.

Construction in progress includes all costs currently incurred for the construction of a water reuse project. The project is not estimated to be completed until 2024. Additions to construction in process are recorded at cost. Once the project is completed, all additions to construction in process will be transferred to Pump Stations and will be depreciated accordingly.

Draper Irrigation Company and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 5 - Long-Term Debt

Long-term debt consist of the following as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Financial Institution Term Loan, due in monthly principal payments of \$47,515 and monthly interest payments at a fixed rate of 4.95% through 2028, secured by assets constructed and water rights.	\$ 3,706,348	\$ 4,276,528
State of Utah Division of Water Resources loan, due in annual principal payments of \$216,400 and annual interest payments at an interest rate of 1% beginning January 2022 through January 2036, secured by the ability of the State to require the Company to raise water rates, if needed.	1,946,119	1,395,772
State of Utah Division of Water Resources loan, due in annual principal payments of \$39,100 beginning January 2021 through January 2045, and is non-interest bearing, secured by the ability of the State to require the Company to raise water rates, if needed.	926,848	926,848
First Bank of Utah Loan, due in monthly principal payments of \$6,321 and monthly interest payments at an interest rate of 5.625% through June 2023, secured by equipment.	<u>107,908</u>	<u>169,526</u>
	6,687,223	6,768,674
Less current maturities	<u>(895,445)</u>	<u>(676,817)</u>
Long-term debt, less current maturities	<u><u>\$ 5,791,778</u></u>	<u><u>\$ 6,091,857</u></u>

Draper Irrigation Company and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Future maturities of long-term debt are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2022	\$ 895,445
2023	844,552
2024	810,124
2025	812,132
2026	814,161
Thereafter	2,510,809
	<u>\$ 6,687,223</u>

The Company has various operational and financial covenants related to these notes, with which the Company is currently in compliance.

The Company has entered into an interest rate swap agreement for the note payable with outstanding amounts of \$3,706,348 and \$4,276,528 as of December 31, 2021 and 2020, respectively. This interest rate swap agreement is valued utilizing a discounted cash flow model that takes into consideration forward interest rates observable in the market and the counter party's credit risk. The counter party to this instrument is a major U.S. bank. No liability has been recorded in connection with this swap agreement as the Company reports under the income tax basis of accounting.

The Company has entered into note payable agreements with the State of Utah Division of Water Resources that provides for available borrowings up to \$3,000,000 and \$927,000 at December 31, 2021 and 2020, respectively. The agreements mature on January 1, 2036 and January 1, 2045, respectively. Borrowings under the agreements bear interest at 1% and 0%, respectively. These agreements provide for cash flows while the Company installs new irrigation meters and pipeline over the next three to four years.

Note 6 - Related Party Receivable

The Company has advanced funds to employees throughout the year. Employee receivables are repaid through the employees' payroll on terms agreed to by the individual and the Company. There was \$2,827 and \$7,000 related to these advances as of December 31, 2021 and 2020, respectively.

Note 7 - Employee Benefit Plans***Defined Contribution Plan***

The Company has a 401(k) retirement plan covering substantially all full-time employees. Contributions cannot exceed 15% of each covered employees' salary. 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. Employer matching contribution amounts are decided by the Board of Directors each year. Total employer contributions under the plan were made in the amount of \$76,605 and \$69,661 for each of the years ended December 31, 2021 and 2020, respectively. The participants vest in the employer's contribution immediately. The employer may terminate the 401(k) retirement plan at any time. The Company funds retirement plan costs as incurred.

Deferred Compensation Agreement

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' 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. The cash surrender value of the policies are \$646,440 and \$614,008 at December 31, 2021 and 2020, respectively.

Supplemental Schedules
December 31, 2021



Draper Irrigation Company and Subsidiary

Draper Irrigation Company and Subsidiary

Consolidating Balance Sheet – Income Tax Basis

December 31, 2021

	Draper Irrigation Company			
	Irrigation	Culinary	Water Pro	Consolidated
Assets				
Current Assets				
Cash and cash equivalents	\$ 2,127	\$ -	\$ 1,007,215	\$ 1,009,342
Investment in securities	738,100	-	2,728,135	3,466,235
Accounts receivable	76,772	416,734	-	493,506
Related party receivables	-	-	2,827	2,827
Inventories	-	-	280,102	280,102
Intercompany receivable (payable)	170,649	57,519	(228,168)	-
Total current assets	987,648	474,253	3,790,111	5,252,012
Property and Equipment	102,034,377	-	1,275,662	103,310,039
Less accumulated depreciation	(32,836,635)	-	(1,142,919)	(33,979,554)
Total property, plant and equipment	69,197,742	-	132,743	69,330,485
Other Assets				
Water rights	1,932,609	-	-	1,932,609
Cash surrender value of life insurance policies	646,440	-	-	646,440
Investment in Utah Lake Water Users Association	1,526,149	-	-	1,526,149
Other	-	-	19,355	19,355
Total other assets	4,105,198	-	19,355	4,124,553
	<u>\$ 74,290,588</u>	<u>\$ 474,253</u>	<u>\$ 3,942,209</u>	<u>\$ 78,707,050</u>

Draper Irrigation Company and Subsidiary

Consolidating Balance Sheet – Income Tax Basis

December 31, 2021

	Draper Irrigation Company			
	Irrigation	Culinary	Water Pro	Consolidated
Liabilities				
Current Liabilities				
Accounts payable	\$ -	\$ 52,103	\$ 375,772	\$ 427,875
Accrued liabilities	13,596	-	388,194	401,790
Current maturities of long-term debt	895,445	-	-	895,445
Total current liabilities	909,041	52,103	763,966	1,725,110
Long-Term Liabilities				
Long-term debt, net of current maturities	5,791,778	-	-	5,791,778
Total liabilities	6,700,819	52,103	763,966	7,516,888
Stockholders' Equity				
Class A common stock	106,380	-	-	106,380
Class B common stock	-	422,150	-	422,150
Additional paid-in capital	183,270	-	-	183,270
Treasury stock at cost	(1,617,953)	-	-	(1,617,953)
Receivable related to treasury stock	(10,093)	-	-	(10,093)
Retained earnings	68,928,165	-	3,178,243	72,106,408
Total stockholders' equity	67,589,769	422,150	3,178,243	71,190,162
	<u>\$ 74,290,588</u>	<u>\$ 474,253</u>	<u>\$ 3,942,209</u>	<u>\$ 78,707,050</u>

Draper Irrigation Company and Subsidiary
Consolidating Statement of Income – Income Tax Basis
Year Ended December 31, 2021

	Draper Irrigation Company			
	Irrigation	Culinary	Water Pro	Consolidated
Revenue				
Base sales	\$ 1,533,520	\$ 6,586,552	\$ -	\$ 8,120,072
Wholesale culinary	-	11,000	-	11,000
Connection fees	-	72,420	-	72,420
Total revenue	1,533,520	6,669,972	-	8,203,492
Operating Expenses				
Direct costs	315,016	1,260,064	-	1,575,080
Direct professional expenses	84,972	339,887	-	424,859
Contract operating expenses	740,713	2,962,853	-	3,703,566
Depreciation	469,368	1,877,471	55,279	2,402,118
Total operating expenses	1,610,069	6,440,275	55,279	8,105,623
Operating Income (Loss)	(76,549)	229,697	(55,279)	97,869
Other Income (Expense)				
Interest income	-	-	33,992	33,992
Interest expense	(91,551)	-	-	(91,551)
Contributed water distribution lines	806,850	-	-	806,850
Gain on sale of property, plant and equipment	22,000	-	-	22,000
Grants	403,500	-	-	403,500
Other income	37,325	115,828	-	153,153
Reservoir reserve	-	672,962	-	672,962
System buy-in fees	56,105	-	-	56,105
Total other income (expense)	1,234,229	788,790	33,992	2,057,011
Net Income (expense)	\$ 1,157,680	\$ 1,018,487	\$ (21,287)	\$ 2,154,880

2022 Consolidated Financial Statement



Consolidated Financial Statements
December 31, 2022 and 2021

Draper Irrigation Company and Subsidiary

Draper Irrigation Company and Subsidiary

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December 31, 2022 and 2021

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Independent Auditor's Report

To the Shareholders
Draper Irrigation Company and Subsidiary
Draper, Utah

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of Draper Irrigation Company (a nonprofit organization) and Subsidiary, which comprise the consolidated balance sheets – income tax basis, as of December 31, 2022 and 2021, 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, and the related notes to the consolidated financial statements.

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the assets, liabilities and stockholders' equity of Draper Irrigation Company and Subsidiary as of December 31, 2022 and 2021, and its revenue and expenses, and changes in stockholders' equity for the years then ended in accordance with the basis of accounting Draper Irrigation Company and Subsidiary uses for income tax purposes, as described in Note 1 to the consolidated financial statements.

Basis for Qualified Opinion

As more fully described in Note 1 to the consolidated financial statements, the useful lives of property and equipment follow the State of Utah Public Service Commission guidelines, which is a departure from the accrual method of accounting used for federal income tax purposes. In our opinion, the accrual method of accounting used for federal income tax purposes requires that fixed assets be depreciated over lives approved by the Internal Revenue Service. The effect of this departure is an understatement of depreciation expense of approximately \$766,000, an understatement of accumulated depreciation of approximately \$18,673,000 and an overstatement of retained earnings of approximately \$17,897,000.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Draper Irrigation Company and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 of the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements are prepared on the basis of accounting Draper Irrigation Company and Subsidiary uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the income tax basis of accounting described in Note 1 to the consolidated financial statements; this includes determining that the income tax basis of accounting is an acceptable basis for the preparation of the consolidated financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Draper Irrigation Company and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Draper Irrigation Company and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating balance sheet – income tax basis as of December 31, 2022, and the consolidating statement of income – income tax basis for the year ended December 31, 2022, are presented for the purpose of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Management has elected to present intercompany elimination entries within the balances of the respective entities, rather than to present the respective entity financial statement amounts in accordance with the income tax basis of accounting and a separate presentation of the elimination entries. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Salt Lake City, Utah
February 15, 2023

Draper Irrigation Company and Subsidiary

Consolidated Balance Sheets – Income Tax Basis

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 377,203	\$ 1,009,342
Investment in securities	3,541,951	3,466,235
Receivables		
Trade	475,369	493,506
Related party	2,019	2,827
Inventories	267,985	280,102
Total current assets	<u>4,664,527</u>	<u>5,252,012</u>
Property and Equipment	106,557,246	103,310,039
Less accumulated depreciation	<u>(36,338,508)</u>	<u>(33,979,554)</u>
Total property and equipment	<u>70,218,738</u>	<u>69,330,485</u>
Other Assets		
Water rights	1,932,609	1,932,609
Cash surrender value of life insurance policies	680,381	646,440
Investment in Utah Lake Water Users Association	1,526,149	1,526,149
Other	19,355	19,355
Total other assets	<u>4,158,494</u>	<u>4,124,553</u>
	<u>\$ 79,041,759</u>	<u>\$ 78,707,050</u>

Draper Irrigation Company and Subsidiary

Consolidated Balance Sheets – Income Tax Basis

December 31, 2022 and 2021

	2022	2021
Liabilities and Stockholders' Equity		
Current Liabilities		
Current maturities of long-term debt	\$ 792,307	\$ 895,445
Accounts payable	422,469	427,875
Accrued liabilities	271,722	401,790
Total current liabilities	1,486,498	1,725,110
Long-term Liabilities		
Long-term debt, less current maturities	5,476,715	5,791,778
Total liabilities	6,963,213	7,516,888
Stockholders' Equity		
Class A common stock: par value \$6 per share; authorized 20,000 shares; issued and outstanding, 17,874 shares at December 31, 2022 and 2021	106,380	106,380
Class B common stock: par value \$50 per share; authorized 12,000 shares; issued and outstanding, 8,506 and 8,443 shares at December 31, 2022 and 2021, respectively	425,300	422,150
Additional paid-in capital	183,270	183,270
Treasury stock at cost, 2,061 and 1,876 shares, at December 31, 2022 and 2021, respectively	(1,729,142)	(1,617,953)
Receivable related to treasury stock	(10,099)	(10,093)
Retained earnings	73,102,837	72,106,408
Total stockholders' equity	72,078,546	71,190,162
	\$ 79,041,759	\$ 78,707,050

Draper Irrigation Company and Subsidiary
Consolidated Statements of Income – Income Tax Basis
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenue		
Base sales	\$ 7,819,250	\$ 8,120,072
Wholesale culinary sales	6,100	11,000
Connection fees	<u>38,362</u>	<u>72,420</u>
Total revenue	<u>7,863,712</u>	<u>8,203,492</u>
Operating Expenses		
Direct costs	1,550,806	1,575,080
Direct professional expenses	418,827	424,859
Contract operating expenses	3,723,013	3,703,566
Depreciation	<u>2,397,657</u>	<u>2,402,118</u>
Total operating expenses	<u>8,090,303</u>	<u>8,105,623</u>
Operating Income (Loss)	<u>(226,591)</u>	<u>97,869</u>
Other Income (Expense)		
Interest income	77,903	33,992
Interest expense	(111,491)	(91,551)
Contributed water distribution lines	679,332	806,850
Gain on sale of equipment	46,374	22,000
Grants	75,000	403,500
Other income	130,139	153,153
Reservoir reserve	275,184	672,962
System buy-in fees	<u>50,579</u>	<u>56,105</u>
Total other income (expense)	<u>1,223,020</u>	<u>2,057,011</u>
Net Income	<u><u>\$ 996,429</u></u>	<u><u>\$ 2,154,880</u></u>

Draper Irrigation Company and Subsidiary
Consolidated Statements of Stockholders' Equity – Income Tax Basis
Years Ended December 31, 2022 and 2021

	Common Stock				Additional Paid-in Capital	Retained Earnings	Treasury Stock	Receivable Related to Treasury Stock	Total Stockholders' Equity
	Class A Shares	Amounts	Class B Shares	Amounts					
Balance, December 31, 2020	17,874	\$ 106,380	8,333	\$ 416,650	\$ 183,270	\$ 69,951,528	\$ (1,578,753)	\$ (10,434)	\$ 69,068,641
Net income	-	-	-	-	-	2,154,880	-	-	2,154,880
Issuance of 110 shares of Class B common shares for new connections	-	-	110	5,500	-	-	-	-	5,500
Purchase of 112 shares of Treasury Stock	-	-	-	-	-	-	(78,400)	-	(78,400)
Sale of 56 shares of Treasury Stock for cash	-	-	-	-	-	-	35,700	-	35,700
Sale of 5 shares of Treasury Stock for receivables	-	-	-	-	-	-	3,500	(3,500)	-
Cash collected on receivable issued for Treasury Stock	-	-	-	-	-	-	-	3,841	3,841
Balance, December 31, 2021	17,874	106,380	8,443	422,150	183,270	72,106,408	(1,617,953)	(10,093)	71,190,162
Net income	-	-	-	-	-	996,429	-	-	996,429
Issuance of 63 shares of Class B common shares for new connections	-	-	63	3,150	-	-	-	-	3,150
Purchase of 240 shares of Treasury Stock	-	-	-	-	-	-	(168,000)	-	(168,000)
Sale of 87 shares of Treasury Stock for cash	-	-	-	-	-	-	51,211	-	51,211
Sale of 8 shares of Treasury Stock for receivables	-	-	-	-	-	-	5,600	(5,600)	-
Cash collected on receivable issued for Treasury Stock	-	-	-	-	-	-	-	5,594	5,594
Balance, December 31, 2022	17,874	\$ 106,380	8,506	\$ 425,300	\$ 183,270	\$ 73,102,837	\$ (1,729,142)	\$ (10,099)	\$ 72,078,546

Draper Irrigation Company and Subsidiary
Consolidated Statements of Cash Flows – Income Tax Basis
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Activities		
Net income	\$ 996,429	\$ 2,154,880
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	2,397,657	2,402,118
Contributed lines	(679,332)	(806,850)
Gain on sale of equipment	(46,374)	(22,000)
Changes in assets and liabilities		
Receivables	18,137	10,820
Inventories	12,117	(3,351)
Accounts payable	(5,406)	50,002
Accrued liabilities	(130,068)	(4,927)
Net Cash from Operating Activities	<u>2,563,160</u>	<u>3,780,692</u>
Investing Activities		
Change in cash surrender value of life insurance policies	(33,941)	(32,432)
Changes in related party receivable	808	4,173
Purchase of property and equipment	(2,640,442)	(2,852,225)
Proceeds from sale of equipment	80,238	22,000
Purchase of securities	(75,716)	(1,527,044)
Net Cash used for Investing Activities	<u>(2,669,053)</u>	<u>(4,385,528)</u>
Financing Activities		
Principal payments on long-term debt	(833,963)	(631,798)
Proceeds from issuance of long-term debt	415,762	550,347
Issuance of Class B common stock at par	3,150	5,500
Purchase of treasury stock	(168,000)	(78,400)
Proceeds from issuance of treasury stock	51,211	35,700
Payments received on receivable related to treasury stock	5,594	3,841
Net Cash used for Financing Activities	<u>(526,246)</u>	<u>(114,810)</u>
Net Change in Cash and Cash Equivalents	(632,139)	(719,646)
Cash and Cash Equivalents, Beginning of Year	<u>1,009,342</u>	<u>1,728,988</u>
Cash and Cash Equivalents, End of Year	<u>\$ 377,203</u>	<u>\$ 1,009,342</u>
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 118,404	\$ 91,551
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Sale of treasury stock for receivables	\$ 5,600	\$ 3,500

Note 1 - Principal Business Activity and Significant Accounting Policies

Principal Business Activity

Draper Irrigation Company was established in 1888 when its founding members contributed their flow rights to five mountain streams for the benefit of all members. Draper Irrigation 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. Draper Irrigation Company provides pressure irrigation water and culinary water to its members located in the southeastern portion of Salt Lake County, Utah.

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.

Principles of Consolidation

The consolidated financial statements include the accounts of Draper Irrigation Company and its wholly owned subsidiary, WaterPro, Inc (collectively referred to as “the Company”). WaterPro is a for-profit entity subject to income tax and provides management services to Draper Irrigation Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

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 and there is no allowance for bad debts but accounts receivable are written off when there is no ability to collect.

Concentrations of Credit Risk

The Company maintains its cash accounts in various deposit accounts, the balances of which are periodically in excess of federally insured limits.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less.

Receivables and Credit Policy

Trade 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. Bad debt expense for the years ended December 31, 2022 and 2021, was \$0.

Inventories

Inventory consists of supplies used for meter and hydrant installations, as well as for emergency repairs and system maintenance. Inventories are stated at the lower of cost or net realizable value. Cost is determined on a standard basis that approximates the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment is recorded at cost. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense. When equipment is retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is reflected in income.

The Company receives significant contributions 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.

The stipulated depreciation for certain items 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 Service Commission as follows:

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

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment, there was no impairment at December 31, 2022 and 2021.

Investments in Securities

The Company records its investments in securities at cost, in accordance with the income tax basis of accounting.

Estimates

The preparation of the consolidated financial statements in conformity with the income tax basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Water Rights

The Company records water rights at their historical cost. The water rights do not have a determinable life; therefore, they are not amortized.

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 entity. No deferred tax assets or liabilities have been recorded and no provision for income taxes is recorded in the consolidated statements of income – income tax basis. The Company has identified no uncertain tax positions for its net operating losses as of December 31, 2022.

The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of December 31, 2022 and 2021, the unrecognized tax benefits accrual was zero. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Revenue Recognition

Revenue for base water fee services and wholesale culinary fee services are recognized on a monthly basis as water is delivered to customers through the month. Any additional fee for excess usage is billed to customers on a monthly basis upon consumption. Payment for such fees are due within 30 days of month-end. Connection fee revenue is recognized when the connection is approved and builder pays the fee.

Contributed water distribution lines are recognized in other income when contractors complete a subdivision and deed the lines to the Company as noted above in "Property and Equipment".

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, 2022 and 2021, all reservoir reserve amounts collected have been expended for purposes intended.

Subsequent Events

The Company has evaluated subsequent events through February 15, 2023, the date the consolidated 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 – The Company owns a total of 262.75 shares with a historical cost of \$738,100 as of both December 31, 2022 and 2021. Investments in East Jordan are presented on the cost basis.

Mutual Funds – At December 31, 2022 and 2021, the Company held mutual funds at cost of \$2,803,851 and \$2,728,135 respectively. Investments in mutual funds are presented on the cost basis.

Note 3 - Investment in Utah Lake Water Users Association

During 2011, the Company purchased a 6.89% ownership in the Utah Lake Water Users Association (the Association) for \$348,149 and made additional contributions of \$1,178,000 for the construction of new equipment which increased the Company's basis; however, the capital contribution did not change its ownership percentage. This ownership gives the Company one vote in management decisions of the Association. The investment is being accounted for on the cost method. As of December 31, 2022 and 2021, the amount of the investment was \$1,526,149.

Draper Irrigation Company and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Note 4 - Property and Equipment

Property and equipment at December 31, 2022 and 2021, consists of the following:

	2022	2021
Water distribution lines	\$ 61,729,591	\$ 59,082,201
Well improvements	16,461,818	16,450,889
Treatment plant	13,060,581	12,675,830
Reservoir	5,558,154	5,558,154
Pump stations	2,923,505	2,923,505
Buildings	1,519,582	1,519,582
Auto and trucks	1,247,498	1,250,234
Heavy equipment	368,391	368,391
Computer equipment	225,489	217,089
Office furniture	21,990	12,347
	<u>103,116,599</u>	<u>100,058,222</u>
Less accumulated depreciation	<u>(36,338,508)</u>	<u>(33,979,554)</u>
	66,778,091	66,078,668
Construction in Process	3,360,647	3,171,817
Land	<u>80,000</u>	<u>80,000</u>
	<u><u>\$ 70,218,738</u></u>	<u><u>\$ 69,330,485</u></u>

Depreciation expense totaled \$2,397,657 and \$2,402,118 for the years ended December 31, 2022 and 2021, respectively.

Construction in progress includes all costs currently incurred for the construction of a water reuse project. The project is not estimated to be completed until 2024. Additions to construction in process are recorded at cost. Once the project is completed, all additions to construction in process will be transferred to Pump Stations and will be depreciated accordingly.

Note 5 - Long-Term Debt

Long-term debt consist of the following as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Financial Institution Term Loan, due in monthly principal payments of \$47,515 and monthly interest payments at a fixed rate of 4.95% through 2028, secured by assets constructed and water rights.	\$ 3,136,168	\$ 3,706,348
State of Utah Division of Water Resources loan, due in annual principal payments of \$141,800 and annual interest payments at an interest rate of 1% beginning January 2022 through January 2036, secured by the ability of the State to require the Company to raise water rates, if needed.	1,829,344	1,946,119
State of Utah Division of Water Resources loan, due in annual principal payments of \$39,100 beginning January 2021 through January 2045, and is non-interest bearing, secured by the ability of the State to require the Company to raise water rates, if needed.	887,748	926,848
First Bank of Utah Loan, due in monthly principal payments of \$6,321 and monthly interest payments at an interest rate of 5.625% through June 2023, secured by equipment.	-	107,908
State of Utah Division of Water Resources loan, due in annual principal payments of \$63,700 and annual interest payments at an interest rate of 1% beginning December 2023 through December 2047, secured by the ability of the State to require the Company to raise water rates, if needed.	<u>415,762</u>	<u>-</u>
	6,269,022	6,687,223
Less current maturities	<u>(792,307)</u>	<u>(895,445)</u>
Long-term debt, less current maturities	<u><u>\$ 5,476,715</u></u>	<u><u>\$ 5,791,778</u></u>

Draper Irrigation Company and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Future maturities of long-term debt are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2023	\$ 792,307
2024	794,150
2025	795,998
2026	797,865
2027	799,751
Thereafter	2,288,951
	<u>\$ 6,269,022</u>

The Company has various operational and financial covenants related to these notes, with which the Company is currently in compliance.

The Company has entered into an interest rate swap agreement for the note payable with outstanding amounts of \$3,136,168 and \$3,706,348 as of December 31, 2022 and 2021, respectively. This interest rate swap agreement is valued utilizing a discounted cash flow model that takes into consideration forward interest rates observable in the market and the counter party's credit risk. The counter party to this instrument is a major U.S. bank. No liability has been recorded in connection with this swap agreement as the Company reports under the income tax basis of accounting.

The Company has entered into note payable agreements with the State of Utah Division of Water Resources that provides for available borrowings up to \$5,379,500 and \$3,977,000 at December 31, 2022 and 2021, respectively. The agreements mature on January 1, 2036, January 1, 2045 and December 1, 2047, respectively. Borrowings under the agreements bear interest at 1%, 0% and 1%, respectively. These agreements provide for cash flows while the Company installs new irrigation meters and pipeline over the next three to four years.

Note 6 - Related Party Receivable

The Company has advanced funds to employees throughout the year. Employee receivables are repaid through the employees' payroll on terms agreed to by the individual and the Company. There was \$2,019 and \$2,827 related to these advances as of December 31, 2022 and 2021, respectively.

Note 7 - Employee Benefit Plans***Defined Contribution Plan***

The Company has a 401(k) retirement plan covering substantially all full-time employees. Contributions cannot exceed 15% of each covered employees' salary. 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. Employer matching contribution amounts are decided by the Board of Directors each year. Total employer contributions under the plan were made in the amount of \$73,088 and \$76,605 for each of the years ended December 31, 2022 and 2021, respectively. The participants vest in the employer's contribution immediately. The employer may terminate the 401(k) retirement plan at any time. The Company funds retirement plan costs as incurred.

Deferred Compensation Agreement

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' 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. The cash surrender value of the policies are \$680,381 and \$646,440 at December 31, 2022 and 2021, respectively.



Supplemental Schedules
December 31, 2022

Draper Irrigation Company and Subsidiary

Draper Irrigation Company and Subsidiary
Consolidating Balance Sheet – Income Tax Basis
December 31, 2022

	Draper Irrigation Company			
	Irrigation	Culinary	Water Pro	Consolidated
Assets				
Current Assets				
Cash and cash equivalents	\$ 2,127	\$ -	\$ 375,076	\$ 377,203
Investment in securities	738,100	-	2,803,851	3,541,951
Accounts receivable	59,545	415,824	-	475,369
Related party receivables	-	-	2,019	2,019
Inventories	-	-	267,985	267,985
Intercompany receivable (payable)	(304,180)	74,962	229,218	-
Total current assets	495,592	490,786	3,678,149	4,664,527
Property and Equipment	105,263,541	-	1,293,705	106,557,246
Less accumulated depreciation	(35,167,763)	-	(1,170,745)	(36,338,508)
Total property, plant and equipment	70,095,778	-	122,960	70,218,738
Other Assets				
Water rights	1,932,609	-	-	1,932,609
Cash surrender value of life insurance policies	680,381	-	-	680,381
Investment in Utah Lake Water Users Association	1,526,149	-	-	1,526,149
Other	-	-	19,355	19,355
Total other assets	4,139,139	-	19,355	4,158,494
	<u>\$ 74,730,509</u>	<u>\$ 490,786</u>	<u>\$ 3,820,464</u>	<u>\$ 79,041,759</u>

Draper Irrigation Company and Subsidiary

Consolidating Balance Sheet – Income Tax Basis

December 31, 2022

	Draper Irrigation Company			
	Irrigation	Culinary	Water Pro	Consolidated
Liabilities				
Current Liabilities				
Accounts payable	\$ -	\$ 63,486	\$ 358,983	\$ 422,469
Accrued liabilities	36,561	2,000	233,161	271,722
Current maturities of long-term debt	792,307	-	-	792,307
Total current liabilities	828,868	65,486	592,144	1,486,498
Long-Term Liabilities				
Long-term debt, net of current maturities	5,476,715	-	-	5,476,715
Total liabilities	6,305,583	65,486	592,144	6,963,213
Stockholders' Equity				
Class A common stock	106,380	-	-	106,380
Class B common stock	-	425,300	-	425,300
Additional paid-in capital	183,270	-	-	183,270
Treasury stock at cost	(1,729,142)	-	-	(1,729,142)
Receivable related to treasury stock	(10,099)	-	-	(10,099)
Retained earnings	69,874,517	-	3,228,320	73,102,837
Total stockholders' equity	68,424,926	425,300	3,228,320	72,078,546
	<u>\$ 74,730,509</u>	<u>\$ 490,786</u>	<u>\$ 3,820,464</u>	<u>\$ 79,041,759</u>

Draper Irrigation Company and Subsidiary
Consolidating Statement of Income – Income Tax Basis
Year Ended December 31, 2022

	Draper Irrigation Company			
	Irrigation	Culinary	Water Pro	Consolidated
Revenue				
Base sales	\$ 1,367,293	\$ 6,451,957	\$ -	\$ 7,819,250
Wholesale culinary sales	-	6,100	-	6,100
Connection fees	-	38,362	-	38,362
Total revenue	1,367,293	6,496,419	-	7,863,712
Operating Expenses				
Direct costs	310,161	1,240,645	-	1,550,806
Direct professional expenses	83,765	335,062	-	418,827
Contract operating expenses	744,603	2,978,410	-	3,723,013
Depreciation	473,966	1,895,865	27,826	2,397,657
Total operating expenses	1,612,495	6,449,982	27,826	8,090,303
Operating Income (Loss)	(245,202)	46,437	(27,826)	(226,591)
Other Income (Expense)				
Interest income	-	-	77,903	77,903
Interest expense	(92,396)	(19,095)	-	(111,491)
Contributed water distribution lines	679,332	-	-	679,332
Gain on sale of equipment	46,374	-	-	46,374
Grants	-	75,000	-	75,000
Other income	30,669	99,470	-	130,139
Reservoir reserve	-	275,184	-	275,184
System buy-in fees	50,579	-	-	50,579
Total other income (expense)	714,558	430,559	77,903	1,223,020
Net Income (expense)	\$ 469,356	\$ 476,996	\$ 50,077	\$ 996,429



Consolidated Financial Statements
December 31, 2021 and 2020

Draper Irrigation Company and Subsidiary

Draper Irrigation Company and Subsidiary

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December 31, 2021 and 2020

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Independent Auditor's Report

To the Shareholders
Draper Irrigation Company and Subsidiary
Draper, Utah

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of Draper Irrigation Company (a nonprofit organization) and Subsidiary, which comprise the consolidated balance sheets – income tax basis, as of December 31, 2021 and 2020, 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, and the related notes to the consolidated financial statements.

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and stockholders' equity of Draper Irrigation Company and Subsidiary as of December 31, 2021 and 2020, and its revenue and expenses, and changes in stockholders' equity for the years then ended in accordance with the basis of accounting Draper Irrigation Company and Subsidiary uses for income tax purposes, as described in Note 1 to the consolidated financial statements.

Basis for Qualified Opinion

As more fully described in Note 1 to the consolidated financial statements, the useful lives of property and equipment follow the State of Utah Public Service Commission guidelines, which is a departure from the accrual method of accounting used for federal income tax purposes. In our opinion, the accrual method of accounting used for federal income tax purposes requires that fixed assets be depreciated over lives approved by the Internal Revenue Service. The effect of this departure is an understatement of depreciation expense of approximately \$710,000, an understatement of accumulated depreciation of approximately \$17,891,000 and an overstatement of retained earnings of approximately \$17,181,000.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Draper Irrigation Company and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 of the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements are prepared on the basis of accounting Draper Irrigation Company and Subsidiary uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the income tax basis of accounting described in Note 1 to the consolidated financial statements; this includes determining that the income tax basis of accounting is an acceptable basis for the preparation of the consolidated financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Draper Irrigation Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Draper Irrigation Company and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Draper Irrigation Company and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating balance sheet – income tax basis as of December 31, 2021, and the consolidating statement of income – income tax basis for the year ended December 31, 2021, are presented for the purpose of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Management has elected to present intercompany elimination entries within the balances of the respective entities, rather than to present the respective entity financial statement amounts in accordance with the income tax basis of accounting and a separate presentation of the elimination entries. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

Salt Lake City, Utah
March 1, 2022

Draper Irrigation Company and Subsidiary

Consolidated Balance Sheets – Income Tax Basis

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,009,342	\$ 1,728,988
Investment in securities	3,466,235	1,939,191
Receivables		
Trade	493,506	504,326
Related party	2,827	7,000
Inventories	<u>280,102</u>	<u>276,751</u>
Total current assets	<u>5,252,012</u>	<u>4,456,256</u>
Property and Equipment	103,310,039	99,720,712
Less accumulated depreciation	<u>(33,979,554)</u>	<u>(31,647,184)</u>
Total property and equipment	<u>69,330,485</u>	<u>68,073,528</u>
Other Assets		
Water rights	1,932,609	1,932,609
Cash surrender value of life insurance policies	646,440	614,008
Investment in Utah Lake Water Users Association	1,526,149	1,526,149
Other	<u>19,355</u>	<u>19,355</u>
Total other assets	<u>4,124,553</u>	<u>4,092,121</u>
	<u><u>\$ 78,707,050</u></u>	<u><u>\$ 76,621,905</u></u>

Draper Irrigation Company and Subsidiary

Consolidated Balance Sheets – Income Tax Basis

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Liabilities and Stockholders' Equity		
Current Liabilities		
Current maturities of long-term debt	\$ 895,445	\$ 676,817
Accounts payable	427,875	377,873
Accrued liabilities	<u>401,790</u>	<u>406,717</u>
Total current liabilities	1,725,110	1,461,407
Long-Term Liabilities		
Long-term debt, less current maturities	<u>5,791,778</u>	<u>6,091,857</u>
Total liabilities	<u>7,516,888</u>	<u>7,553,264</u>
Stockholders' Equity		
Class A common stock: par value \$6 per share; authorized 20,000 shares; issued and outstanding, 17,874 shares at December 31, 2021 and 2020	106,380	106,380
Class B common stock: par value \$50 per share; authorized 12,000 shares; issued and outstanding, 8,443 and 8,333 shares at December 31, 2021 and 2020, respectively	422,150	416,650
Additional paid-in capital	183,270	183,270
Treasury stock at cost, 1,876 and 1,825 shares, at December 31, 2021 and 2020, respectively	(1,617,953)	(1,578,753)
Receivable related to treasury stock	(10,093)	(10,434)
Retained earnings	<u>72,106,408</u>	<u>69,951,528</u>
Total stockholders' equity	<u>71,190,162</u>	<u>69,068,641</u>
	<u><u>\$ 78,707,050</u></u>	<u><u>\$ 76,621,905</u></u>

Draper Irrigation Company and Subsidiary
Consolidated Statements of Income – Income Tax Basis
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenue		
Base sales	\$ 8,120,072	\$ 8,625,275
Wholesale culinary sales	11,000	11,750
Connection fees	<u>72,420</u>	<u>63,312</u>
Total revenue	<u>8,203,492</u>	<u>8,700,337</u>
Operating Expenses		
Direct costs	1,575,080	1,656,367
Direct professional expenses	424,859	384,216
Contract operating expenses	3,703,566	3,677,906
Depreciation	<u>2,402,118</u>	<u>2,297,262</u>
Total operating expenses	<u>8,105,623</u>	<u>8,015,751</u>
Operating Income	<u>97,869</u>	<u>684,586</u>
Other Income (Expense)		
Interest income	33,992	35,532
Interest expense	(91,551)	(194,087)
Contributed water distribution lines	806,850	841,369
Gain on sale of property, plant and equipment	22,000	255
Grants	403,500	380,950
Other income	153,153	133,060
Reservoir reserve	672,962	402,512
System buy-in fees	<u>56,105</u>	<u>54,385</u>
Total other income (expense)	<u>2,057,011</u>	<u>1,653,976</u>
Net Income	<u><u>\$ 2,154,880</u></u>	<u><u>\$ 2,338,562</u></u>

Draper Irrigation Company and Subsidiary
Consolidated Statements of Stockholders' Equity – Income Tax Basis
Years Ended December 31, 2021 and 2020

	Common Stock				Additional Paid-in Capital	Retained Earnings	Treasury Stock	Receivable Related to Treasury Stock	Total Stockholders' Equity
	Class A Shares	Amounts	Class B Shares	Amounts					
Balance, December 31, 2019	17,874	\$ 106,380	8,224	\$ 411,200	\$ 183,270	\$ 67,612,966	\$ (1,618,653)	\$ (9,386)	\$ 66,685,777
Net income	-	-	-	-	-	2,338,562	-	-	2,338,562
Issuance of 109 shares of Class B common shares for new connections	-	-	109	5,450	-	-	-	-	5,450
Purchase of 46 shares of Treasury Stock and 5 shares leased shares returned to Treasury Stock	-	-	-	-	-	-	(32,200)	-	(32,200)
Sale of 103 shares of Treasury Stock for cash	-	-	-	-	-	-	66,500	-	66,500
Sale of 8 shares of Treasury Stock for receivables	-	-	-	-	-	-	5,600	(5,600)	-
Cash collected on receivable issued for Treasury Stock	-	-	-	-	-	-	-	4,552	4,552
Balance, December 31, 2020	17,874	106,380	8,333	416,650	183,270	69,951,528	(1,578,753)	(10,434)	69,068,641
Net income	-	-	-	-	-	2,154,880	-	-	2,154,880
Issuance of 110 shares of Class B common shares for new connections	-	-	110	5,500	-	-	-	-	5,500
Purchase of 112 shares of Treasury Stock	-	-	-	-	-	-	(78,400)	-	(78,400)
Sale of 56 shares of Treasury Stock for cash	-	-	-	-	-	-	35,700	-	35,700
Sale of 5 shares of Treasury Stock for receivables	-	-	-	-	-	-	3,500	(3,500)	-
Cash collected on receivable issued for Treasury Stock	-	-	-	-	-	-	-	3,841	3,841
Balance, December 31, 2021	17,874	\$ 106,380	8,443	\$ 422,150	\$ 183,270	\$ 72,106,408	\$ (1,617,953)	\$ (10,093)	\$ 71,190,162

Draper Irrigation Company and Subsidiary
Consolidated Statements of Cash Flows – Income Tax Basis
Years Ended December 31, 2021 and 2020

	2021	2020
Operating Activities		
Net income	\$ 2,154,880	\$ 2,338,562
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	2,402,118	2,297,262
Contributed lines	(806,850)	(841,369)
Gain on sale of property, plant and equipment	(22,000)	(255)
Changes in assets and liabilities		
Receivables	10,820	(18,623)
Inventories	(3,351)	11,268
Accounts payable	50,002	121,034
Accrued liabilities	(4,927)	1,780
Net Cash from Operating Activities	<u>3,780,692</u>	<u>3,909,659</u>
Investing Activities		
Change in cash surrender value of life insurance policies	(32,432)	(31,730)
Changes in related party receivable	4,173	(7,000)
Purchase of property and equipment	(2,852,225)	(3,386,151)
Proceeds from sale of equipment	22,000	33,500
Purchase of securities	(1,527,044)	(32,778)
Net Cash used for Investing Activities	<u>(4,385,528)</u>	<u>(3,424,159)</u>
Financing Activities		
Principal payments on long-term debt	(631,798)	(679,764)
Proceeds from issuance of long-term debt	550,347	1,645,526
Issuance of Class B common stock at par	5,500	5,450
Purchase of treasury stock	(78,400)	(32,200)
Proceeds from issuance of treasury stock	35,700	66,500
Payments received on receivable related to treasury stock	3,841	4,552
Net Cash from (used for) Financing Activities	<u>(114,810)</u>	<u>1,010,064</u>
Net Change in Cash and Cash Equivalents	(719,646)	1,495,564
Cash and Cash Equivalents, Beginning of Year	<u>1,728,988</u>	<u>233,424</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,009,342</u></u>	<u><u>\$ 1,728,988</u></u>
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 91,551	\$ 194,087
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Sale of treasury stock for receivables	\$ 3,500	\$ 5,600

Note 1 - Principal Business Activity and Significant Accounting Policies

Principal Business Activity

Draper Irrigation Company was established in 1888 when its founding members contributed their flow rights to five mountain streams for the benefit of all members. Draper Irrigation 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. Draper Irrigation Company provides pressure irrigation water and culinary water to its members located in the southeastern portion of Salt Lake County, Utah.

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.

Principles of Consolidation

The consolidated financial statements include the accounts of Draper Irrigation Company and its wholly owned subsidiary, WaterPro, Inc (collectively referred to as “the Company”). WaterPro is a for-profit entity subject to income tax and provides management services to Draper Irrigation Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

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 and there is no allowance for bad debts but accounts receivable are written off when there is no ability to collect.

Concentrations of Credit Risk

The Company maintains its cash accounts in various deposit accounts, the balances of which are periodically in excess of federally insured limits.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less.

Receivables and Credit Policy

Trade 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. Bad debt expense for the years ended December 31, 2021 and 2020, was \$0.

Inventories

Inventory consists of supplies used for meter and hydrant installations, as well as for emergency repairs and system maintenance. Inventories are stated at the lower of cost or net realizable value. Cost is determined on a standard basis that approximates the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment is recorded at cost. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense. When equipment is retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is reflected in income.

The Company receives significant contributions 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.

The stipulated depreciation for certain items 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 Service Commission as follows:

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

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment, there was no impairment at December 31, 2021 and 2020.

Investments in Securities

The Company records its investments in securities at cost, in accordance with the income tax basis of accounting.

Estimates

The preparation of the consolidated financial statements in conformity with the income tax basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Water Rights

The Company records water rights at their historical cost. The water rights do not have a determinable life; therefore, they are not amortized.

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 entity. No deferred tax assets or liabilities have been recorded and no provision for income taxes is recorded in the consolidated statements of income – income tax basis. The Company has identified no uncertain tax positions for its net operating losses as of December 31, 2021.

The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of December 31, 2021 and 2020, the unrecognized tax benefits accrual was zero. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Revenue Recognition

Revenue for base water fee services and wholesale culinary fee services are recognized on a monthly basis as water is delivered to customers through the month. Any additional fee for excess usage is billed to customers on a monthly basis upon consumption. Payment for such fees are due within 30 days of month-end. Connection fee revenue is recognized when the connection is approved and builder pays the fee.

Contributed water distribution lines are recognized in other income when contractors complete a subdivision and deed the lines to the Company as discussed below.

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, 2021 and 2020, all reservoir reserve amounts collected have been expended for purposes intended.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on net income or stockholders' equity.

Subsequent Events

The Company has evaluated subsequent events through March 1, 2022, the date the consolidated 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 – The Company owns a total of 262.75 shares with a historical cost of \$738,100 as of both December 31, 2021 and 2020. Investments in East Jordan are presented on the cost basis.

Mutual Funds – At December 31, 2021 and 2020, the Company held mutual funds at cost of \$2,728,135 and \$1,201,091 respectively. Investments in mutual funds are presented on the cost basis.

Note 3 - Investment in Utah Lake Water Users Association

During the year ended December 31, 2011, the Company purchased a 6.89% ownership in the Utah Lake Water Users Association (the Association) for \$348,149, which gives the Company one vote in management decisions of the Association. The Company made additional contributions for the construction of new equipment in the amount of \$78,000 and \$1,100,000 as of December 31, 2012 and 2011, respectively, which increased the Company's basis; however, the capital contribution did not change its ownership percentage. The investment is being accounted for on the cost method. As of December 31, 2021 and 2020, the amount of the investment was \$1,526,149.

Draper Irrigation Company and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 4 - Property and Equipment

Property and equipment at December 31, 2021 and 2020, consists of the following:

	2021	2020
Water distribution lines	\$ 59,082,201	\$ 56,620,910
Well improvements	16,450,889	16,383,451
Treatment plant	12,675,830	11,915,964
Reservoir	5,558,154	5,558,154
Pump stations	2,923,505	2,923,505
Buildings	1,519,582	1,490,482
Auto and trucks	1,250,234	1,209,863
Heavy equipment	368,391	373,703
Computer equipment	217,089	221,164
Office furniture	12,347	2,704
	<u>100,058,222</u>	<u>96,699,900</u>
Less accumulated depreciation	<u>(33,979,554)</u>	<u>(31,647,184)</u>
	66,078,668	65,052,716
Construction in Process	3,171,817	2,940,812
Land	<u>80,000</u>	<u>80,000</u>
	<u>\$ 69,330,485</u>	<u>\$ 68,073,528</u>

Depreciation expense totaled \$2,402,118 and \$2,297,262 for the years ended December 31, 2021 and 2020, respectively.

Construction in progress includes all costs currently incurred for the construction of a water reuse project. The project is not estimated to be completed until 2024. Additions to construction in process are recorded at cost. Once the project is completed, all additions to construction in process will be transferred to Pump Stations and will be depreciated accordingly.

Draper Irrigation Company and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 5 - Long-Term Debt

Long-term debt consist of the following as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Financial Institution Term Loan, due in monthly principal payments of \$47,515 and monthly interest payments at a fixed rate of 4.95% through 2028, secured by assets constructed and water rights.	\$ 3,706,348	\$ 4,276,528
State of Utah Division of Water Resources loan, due in annual principal payments of \$216,400 and annual interest payments at an interest rate of 1% beginning January 2022 through January 2036, secured by the ability of the State to require the Company to raise water rates, if needed.	1,946,119	1,395,772
State of Utah Division of Water Resources loan, due in annual principal payments of \$39,100 beginning January 2021 through January 2045, and is non-interest bearing, secured by the ability of the State to require the Company to raise water rates, if needed.	926,848	926,848
First Bank of Utah Loan, due in monthly principal payments of \$6,321 and monthly interest payments at an interest rate of 5.625% through June 2023, secured by equipment.	<u>107,908</u>	<u>169,526</u>
	6,687,223	6,768,674
Less current maturities	<u>(895,445)</u>	<u>(676,817)</u>
Long-term debt, less current maturities	<u><u>\$ 5,791,778</u></u>	<u><u>\$ 6,091,857</u></u>

Draper Irrigation Company and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Future maturities of long-term debt are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2022	\$ 895,445
2023	844,552
2024	810,124
2025	812,132
2026	814,161
Thereafter	2,510,809
	<u>\$ 6,687,223</u>

The Company has various operational and financial covenants related to these notes, with which the Company is currently in compliance.

The Company has entered into an interest rate swap agreement for the note payable with outstanding amounts of \$3,706,348 and \$4,276,528 as of December 31, 2021 and 2020, respectively. This interest rate swap agreement is valued utilizing a discounted cash flow model that takes into consideration forward interest rates observable in the market and the counter party's credit risk. The counter party to this instrument is a major U.S. bank. No liability has been recorded in connection with this swap agreement as the Company reports under the income tax basis of accounting.

The Company has entered into note payable agreements with the State of Utah Division of Water Resources that provides for available borrowings up to \$3,000,000 and \$927,000 at December 31, 2021 and 2020, respectively. The agreements mature on January 1, 2036 and January 1, 2045, respectively. Borrowings under the agreements bear interest at 1% and 0%, respectively. These agreements provide for cash flows while the Company installs new irrigation meters and pipeline over the next three to four years.

Note 6 - Related Party Receivable

The Company has advanced funds to employees throughout the year. Employee receivables are repaid through the employees' payroll on terms agreed to by the individual and the Company. There was \$2,827 and \$7,000 related to these advances as of December 31, 2021 and 2020, respectively.

Note 7 - Employee Benefit Plans***Defined Contribution Plan***

The Company has a 401(k) retirement plan covering substantially all full-time employees. Contributions cannot exceed 15% of each covered employees' salary. 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. Employer matching contribution amounts are decided by the Board of Directors each year. Total employer contributions under the plan were made in the amount of \$76,605 and \$69,661 for each of the years ended December 31, 2021 and 2020, respectively. The participants vest in the employer's contribution immediately. The employer may terminate the 401(k) retirement plan at any time. The Company funds retirement plan costs as incurred.

Deferred Compensation Agreement

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' 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. The cash surrender value of the policies are \$646,440 and \$614,008 at December 31, 2021 and 2020, respectively.

Supplemental Schedules
December 31, 2021



Draper Irrigation Company and Subsidiary

Draper Irrigation Company and Subsidiary

Consolidating Balance Sheet – Income Tax Basis

December 31, 2021

	Draper Irrigation Company			
	Irrigation	Culinary	Water Pro	Consolidated
Assets				
Current Assets				
Cash and cash equivalents	\$ 2,127	\$ -	\$ 1,007,215	\$ 1,009,342
Investment in securities	738,100	-	2,728,135	3,466,235
Accounts receivable	76,772	416,734	-	493,506
Related party receivables	-	-	2,827	2,827
Inventories	-	-	280,102	280,102
Intercompany receivable (payable)	170,649	57,519	(228,168)	-
Total current assets	987,648	474,253	3,790,111	5,252,012
Property and Equipment	102,034,377	-	1,275,662	103,310,039
Less accumulated depreciation	(32,836,635)	-	(1,142,919)	(33,979,554)
Total property, plant and equipment	69,197,742	-	132,743	69,330,485
Other Assets				
Water rights	1,932,609	-	-	1,932,609
Cash surrender value of life insurance policies	646,440	-	-	646,440
Investment in Utah Lake Water Users Association	1,526,149	-	-	1,526,149
Other	-	-	19,355	19,355
Total other assets	4,105,198	-	19,355	4,124,553
	<u>\$ 74,290,588</u>	<u>\$ 474,253</u>	<u>\$ 3,942,209</u>	<u>\$ 78,707,050</u>

Draper Irrigation Company and Subsidiary

Consolidating Balance Sheet – Income Tax Basis

December 31, 2021

	Draper Irrigation Company			
	Irrigation	Culinary	Water Pro	Consolidated
Liabilities				
Current Liabilities				
Accounts payable	\$ -	\$ 52,103	\$ 375,772	\$ 427,875
Accrued liabilities	13,596	-	388,194	401,790
Current maturities of long-term debt	895,445	-	-	895,445
Total current liabilities	909,041	52,103	763,966	1,725,110
Long-Term Liabilities				
Long-term debt, net of current maturities	5,791,778	-	-	5,791,778
Total liabilities	6,700,819	52,103	763,966	7,516,888
Stockholders' Equity				
Class A common stock	106,380	-	-	106,380
Class B common stock	-	422,150	-	422,150
Additional paid-in capital	183,270	-	-	183,270
Treasury stock at cost	(1,617,953)	-	-	(1,617,953)
Receivable related to treasury stock	(10,093)	-	-	(10,093)
Retained earnings	68,928,165	-	3,178,243	72,106,408
Total stockholders' equity	67,589,769	422,150	3,178,243	71,190,162
	<u>\$ 74,290,588</u>	<u>\$ 474,253</u>	<u>\$ 3,942,209</u>	<u>\$ 78,707,050</u>

Draper Irrigation Company and Subsidiary
Consolidating Statement of Income – Income Tax Basis
Year Ended December 31, 2021

	Draper Irrigation Company			
	Irrigation	Culinary	Water Pro	Consolidated
Revenue				
Base sales	\$ 1,533,520	\$ 6,586,552	\$ -	\$ 8,120,072
Wholesale culinary	-	11,000	-	11,000
Connection fees	-	72,420	-	72,420
Total revenue	1,533,520	6,669,972	-	8,203,492
Operating Expenses				
Direct costs	315,016	1,260,064	-	1,575,080
Direct professional expenses	84,972	339,887	-	424,859
Contract operating expenses	740,713	2,962,853	-	3,703,566
Depreciation	469,368	1,877,471	55,279	2,402,118
Total operating expenses	1,610,069	6,440,275	55,279	8,105,623
Operating Income (Loss)	(76,549)	229,697	(55,279)	97,869
Other Income (Expense)				
Interest income	-	-	33,992	33,992
Interest expense	(91,551)	-	-	(91,551)
Contributed water distribution lines	806,850	-	-	806,850
Gain on sale of property, plant and equipment	22,000	-	-	22,000
Grants	403,500	-	-	403,500
Other income	37,325	115,828	-	153,153
Reservoir reserve	-	672,962	-	672,962
System buy-in fees	56,105	-	-	56,105
Total other income (expense)	1,234,229	788,790	33,992	2,057,011
Net Income (expense)	\$ 1,157,680	\$ 1,018,487	\$ (21,287)	\$ 2,154,880