

APPENDIX N

Consolidated Financial Statements

2023 Consolidated Financial Statement



Consolidated Financial Statements
December 31, 2023 and 2022

Draper Irrigation Company and Subsidiary

Draper Irrigation Company and Subsidiary

Table of Contents

December 31, 2023 and 2022

Independent Auditor's Report.....	1
Financial Statements	
Consolidated Balance Sheets – Income Tax Basis.....	4
Consolidated Statements of Income – Income Tax Basis	6
Consolidated Statements of Stockholders' Equity – Income Tax Basis	7
Consolidated Statements of Cash Flows – Income Tax Basis	8
Notes to Consolidated Financial Statements.....	9
Supplementary Schedules	
Consolidating Balance Sheet – Income Tax Basis	18
Consolidating Statement of Income – Income Tax Basis.....	20



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, 2023 and 2022, 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, 2023 and 2022, 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 \$765,000, an understatement of accumulated depreciation of approximately \$19,507,000 and an overstatement of retained earnings of approximately \$18,742,000.

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, 2023, and the consolidating statement of income – income tax basis for the year ended December 31, 2023, 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Salt Lake City, Utah
February 26, 2024

Draper Irrigation Company and Subsidiary

Consolidated Balance Sheets – Income Tax Basis

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,409,690	\$ 377,203
Investment in securities	2,933,471	3,541,951
Receivables		
Trade	435,607	475,369
Related party	-	2,019
Inventories	361,739	267,985
Total current assets	<u>5,140,507</u>	<u>4,664,527</u>
Property and Equipment	108,583,341	106,557,246
Less accumulated depreciation	<u>(38,681,099)</u>	<u>(36,338,508)</u>
Total property and equipment	<u>69,902,242</u>	<u>70,218,738</u>
Other Assets		
Water rights	1,932,609	1,932,609
Cash surrender value of life insurance policies	715,971	680,381
Investment in Utah Lake Water Users Association	1,526,149	1,526,149
Other	19,098	19,355
Total other assets	<u>4,193,827</u>	<u>4,158,494</u>
	<u>\$ 79,236,576</u>	<u>\$ 79,041,759</u>

Draper Irrigation Company and Subsidiary

Consolidated Balance Sheets – Income Tax Basis

December 31, 2023 and 2022

	2023	2022
Liabilities and Stockholders' Equity		
Current Liabilities		
Current maturities of long-term debt	\$ 792,084	\$ 792,307
Accounts payable	431,015	422,469
Accrued liabilities	172,093	271,722
Total current liabilities	1,395,192	1,486,498
Long-term Liabilities		
Long-term debt, less current maturities	5,208,589	5,476,715
Total liabilities	6,603,781	6,963,213
Stockholders' Equity		
Class A common stock: par value \$6 per share; authorized 20,000 shares; issued and outstanding, 17,874 shares at December 31, 2023 and 2022	106,380	106,380
Class B common stock: par value \$50 per share; authorized 12,000 shares; issued and outstanding, 8,562 and 8,506 shares at December 31, 2023 and 2022, respectively	428,100	425,300
Additional paid-in capital	183,270	183,270
Treasury stock at cost, 2,134 and 2,061 shares, at December 31, 2023 and 2022, respectively	(1,767,645)	(1,729,142)
Receivable related to treasury stock	(3,222)	(10,099)
Retained earnings	73,685,912	73,102,837
Total stockholders' equity	72,632,795	72,078,546
	<u>\$ 79,236,576</u>	<u>\$ 79,041,759</u>

Draper Irrigation Company and Subsidiary
Consolidated Statements of Income – Income Tax Basis
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenue		
Base sales	\$ 8,279,940	\$ 7,819,250
Wholesale culinary sales	5,500	6,100
Connection fees	<u>63,300</u>	<u>38,362</u>
Total revenue	<u>8,348,740</u>	<u>7,863,712</u>
Operating Expenses		
Direct costs	1,257,842	1,550,806
Direct professional expenses	383,308	418,827
Contract operating expenses	4,046,783	3,723,013
Depreciation	<u>2,383,785</u>	<u>2,397,657</u>
Total operating expenses	<u>8,071,718</u>	<u>8,090,303</u>
Operating Income (Loss)	<u>277,022</u>	<u>(226,591)</u>
Other Income (Expense)		
Interest income	12,425	77,903
Interest expense	(68,518)	(111,491)
Contributed water distribution lines	61,319	679,332
Gain on sale of equipment	-	46,374
Realized loss on sales of investment in securities	(8,250)	-
Grants	30,230	75,000
Other income	56,138	130,139
Reservoir reserve	200,839	275,184
System buy-in fees	<u>21,870</u>	<u>50,579</u>
Total other income (expense)	<u>306,053</u>	<u>1,223,020</u>
Net Income	<u>\$ 583,075</u>	<u>\$ 996,429</u>

Draper Irrigation Company and Subsidiary
Consolidated Statements of Stockholders' Equity – Income Tax Basis
Years Ended December 31, 2023 and 2022

	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, 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
Net income	-	-	-	-	-	583,075	-	-	583,075
Issuance of 56 shares of Class B common shares for new connections	-	-	56	2,800	-	-	-	-	2,800
Purchase of 96 shares of Treasury Stock	-	-	-	-	-	-	(67,200)	-	(67,200)
Sale of 42 shares of Treasury Stock for cash	-	-	-	-	-	-	28,697	-	28,697
Cash collected on receivable issued for Treasury Stock	-	-	-	-	-	-	-	6,877	6,877
Balance, December 31, 2023	17,874	\$ 106,380	8,562	\$ 428,100	\$ 183,270	\$ 73,685,912	\$ (1,767,645)	\$ (3,222)	\$ 72,632,795

Draper Irrigation Company and Subsidiary
Consolidated Statements of Cash Flows – Income Tax Basis
Years Ended December 31, 2023 and 2022

	2023	2022
Operating Activities		
Net income	\$ 583,075	\$ 996,429
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	2,383,785	2,397,657
Contributed lines	(61,319)	(679,332)
Gain on sale of equipment	-	(46,374)
Realized loss on sales of investment in securities	8,250	-
Changes in assets and liabilities		
Receivables	39,762	18,137
Inventories	(93,754)	12,117
Other Assets	257	-
Accounts payable	8,546	(5,406)
Accrued liabilities	(99,629)	(130,068)
Net Cash from Operating Activities	<u>2,768,973</u>	<u>2,563,160</u>
Investing Activities		
Change in cash surrender value of life insurance policies	(35,590)	(33,941)
Changes in related party receivable	2,019	808
Purchase of property and equipment	(2,005,970)	(2,640,442)
Proceeds from sale of equipment	-	80,238
Purchase of securities	-	(75,716)
Proceeds from sale of investments	600,230	-
Net Cash used for Investing Activities	<u>(1,439,311)</u>	<u>(2,669,053)</u>
Financing Activities		
Principal payments on long-term debt	(792,744)	(833,963)
Proceeds from issuance of long-term debt	524,395	415,762
Issuance of Class B common stock at par	2,800	3,150
Purchase of treasury stock	(67,200)	(168,000)
Proceeds from issuance of treasury stock	28,697	51,211
Payments received on receivable related to treasury stock	6,877	5,594
Net Cash used for Financing Activities	<u>(297,175)</u>	<u>(526,246)</u>
Net Change in Cash and Cash Equivalents	1,032,487	(632,139)
Cash and Cash Equivalents, Beginning of Year	377,203	1,009,342
Cash and Cash Equivalents, End of Year	<u>\$ 1,409,690</u>	<u>\$ 377,203</u>
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 69,733	\$ 118,404
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Sale of treasury stock for receivables	\$ -	\$ 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. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per FDIC-insured bank. At December 31, 2023 and 2022, the Company had approximately \$1,184,000 and \$127,000, respectively, in excess of FDIC-insured limits. To date, no losses have been experienced in any of these accounts.

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, 2023 and 2022, 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, 2023 and 2022.

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, 2023.

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, 2023 and 2022, 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, 2023 and 2022, all reservoir reserve amounts collected have been expended for purposes intended.

Subsequent Events

The Company has evaluated subsequent events through February 26, 2024, 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, 2023 and 2022. Investments in East Jordan are presented on the cost basis.

Mutual Funds – At December 31, 2023 and 2022, the Company held mutual funds at cost of \$2,195,371 and \$2,803,851 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, 2023 and 2022, the amount of the investment was \$1,526,149.

Draper Irrigation Company and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 4 - Property and Equipment

Property and equipment at December 31, 2023 and 2022, consists of the following:

	2023	2022
Water distribution lines	\$ 63,018,533	\$ 61,729,591
Well improvements	16,514,193	16,461,818
Treatment plant	13,222,546	13,060,581
Reservoir	5,558,154	5,558,154
Pump stations	2,923,505	2,923,505
Buildings	1,522,166	1,519,582
Auto and trucks	1,247,498	1,247,498
Heavy equipment	368,391	368,391
Computer equipment	212,478	225,489
Office furniture	21,990	21,990
	<u>104,609,454</u>	<u>103,116,599</u>
Less accumulated depreciation	<u>(38,681,099)</u>	<u>(36,338,508)</u>
	65,928,355	66,778,091
Construction-in-Progress	3,893,887	3,360,647
Land	<u>80,000</u>	<u>80,000</u>
	<u>\$ 69,902,242</u>	<u>\$ 70,218,738</u>

Depreciation expense totaled \$2,383,785 and \$2,397,657 for the years ended December 31, 2023 and 2022, 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 2026. Additions to construction-in-progress are recorded at cost. Once the project is completed, all additions to construction-in-progress will be transferred to Pump Stations and will be depreciated accordingly.

Draper Irrigation Company and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 5 - Long-Term Debt

Long-term debt consists of the following as of December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</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.	\$ 2,565,988	\$ 3,136,168
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.	1,707,256	1,829,344
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.	857,648	887,748
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.	562,233	415,762
State of Utah Division of Water Resources loan, due in annual principal payments of \$292,200 and annual interest payments at an interest rate of 1% beginning December 2025 through December 2049, secured by the ability of the State to require the Company to raise water rates, if needed.	<u>307,548</u>	<u>-</u>
	6,000,673	6,269,022
Less current maturities	<u>(792,084)</u>	<u>(792,307)</u>
Long-term debt, less current maturities	<u><u>\$ 5,208,589</u></u>	<u><u>\$ 5,476,715</u></u>

Draper Irrigation Company and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Future maturities of long-term debt are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2024	\$ 792,084
2025	1,079,059
2026	817,807
2027	797,444
2028	514,414
Thereafter	<u>1,999,865</u>
	<u><u>\$ 6,000,673</u></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 \$2,565,988 and \$3,136,168 as of December 31, 2023 and 2022, 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 \$11,814,500 and \$5,379,500 at December 31, 2023 and 2022, respectively. The agreements mature on January 1, 2036, January 1, 2045, December 1, 2047 and December 1, 2049, respectively. Borrowings under the agreements bear interest at 1%, 0% 1%, and 1%, respectively. These agreements provide for cash flows while the Company installs new irrigation meters and pipeline over the next two to three years.

Note 6 - 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 \$119,780 and \$73,088 for each of the years ended December 31, 2023 and 2022, 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 \$715,971 and \$680,381 at December 31, 2023 and 2022, respectively.



Supplementary Schedules
December 31, 2023

Draper Irrigation Company and Subsidiary

Draper Irrigation Company and Subsidiary

Consolidating Balance Sheet – Income Tax Basis

December 31, 2023

	Draper Irrigation Company			
	Irrigation	Culinary	Water Pro	Consolidated
Assets				
Current Assets				
Cash and cash equivalents	\$ 2,127	\$ -	1,407,563	\$ 1,409,690
Investment in securities	738,100	-	2,195,371	2,933,471
Accounts receivable	7,799	427,808	-	435,607
Inventories	-	-	361,739	361,739
Intercompany receivable (payable)	316,066	102,127	(418,193)	-
Total current assets	1,064,092	529,935	3,546,480	5,140,507
Property and Equipment	107,300,063	-	1,283,278	108,583,341
Less accumulated depreciation	(37,530,248)	-	(1,150,851)	(38,681,099)
Total property, plant and equipment	69,769,815	-	132,427	69,902,242
Other Assets				
Water rights	1,932,609	-	-	1,932,609
Cash surrender value of life insurance policies	715,971	-	-	715,971
Investment in Utah Lake Water Users Association	1,526,149	-	-	1,526,149
Other	-	-	19,098	19,098
Total other assets	4,174,729	-	19,098	4,193,827
	<u>\$ 75,008,636</u>	<u>\$ 529,935</u>	<u>\$ 3,698,005</u>	<u>\$ 79,236,576</u>

Draper Irrigation Company and Subsidiary

Consolidating Balance Sheet – Income Tax Basis

December 31, 2023

	Draper Irrigation Company			
	Irrigation	Culinary	Water Pro	Consolidated
Liabilities				
Current Liabilities				
Accounts payable	\$ -	\$ 99,335	\$ 331,680	\$ 431,015
Accrued liabilities	22,713	2,500	146,880	172,093
Current maturities of long-term debt	792,084	-	-	792,084
Total current liabilities	814,797	101,835	478,560	1,395,192
Long-Term Liabilities				
Long-term debt, net of current maturities	5,208,589	-	-	5,208,589
Total liabilities	6,023,386	101,835	478,560	6,603,781
Stockholders' Equity				
Class A common stock	106,380	-	-	106,380
Class B common stock	-	428,100	-	428,100
Additional paid-in capital	183,270	-	-	183,270
Treasury stock at cost	(1,767,645)	-	-	(1,767,645)
Receivable related to treasury stock	(3,222)	-	-	(3,222)
Retained earnings	70,466,467	-	3,219,445	73,685,912
Total stockholders' equity	68,985,250	428,100	3,219,445	72,632,795
	<u>\$ 75,008,636</u>	<u>\$ 529,935</u>	<u>\$ 3,698,005</u>	<u>\$ 79,236,576</u>

Draper Irrigation Company and Subsidiary
Consolidating Statement of Income – Income Tax Basis
Year Ended December 31, 2023

	Draper Irrigation Company			
	Irrigation	Culinary	Water Pro	Consolidated
Revenue				
Base sales	\$ 1,441,825	\$ 6,838,115	\$ -	\$ 8,279,940
Wholesale culinary sales	-	5,500	-	5,500
Connection fees	-	63,300	-	63,300
Total revenue	1,441,825	6,906,915	-	8,348,740
Operating Expenses				
Direct costs	251,568	1,006,274	-	1,257,842
Direct professional expenses	76,662	306,646	-	383,308
Contract operating expenses	809,357	3,237,426	-	4,046,783
Depreciation	472,497	1,889,988	21,300	2,383,785
Total operating expenses	1,610,084	6,440,334	21,300	8,071,718
Operating Income (Loss)	(168,259)	466,581	(21,300)	277,022
Other Income (Expense)				
Interest income	-	-	12,425	12,425
Interest expense	(55,245)	(13,273)	-	(68,518)
Contributed water distribution lines	61,319	-	-	61,319
Realized loss on sale of investment in securities	(8,250)	-	-	(8,250)
Grants	-	30,230	-	30,230
Other income	15,103	41,035	-	56,138
Reservoir reserve	-	200,839	-	200,839
System buy-in fees	21,870	-	-	21,870
Total other income (expense)	34,797	258,831	12,425	306,053
Net Income (Loss)	\$ (133,462)	\$ 725,412	\$ (8,875)	\$ 583,075

2024 Consolidated Financial Statement



Consolidated Financial Statements
December 31, 2024 and 2023

Draper Irrigation Company and Subsidiary

Draper Irrigation Company and Subsidiary

Table of Contents

December 31, 2024 and 2023

Independent Auditor's Report.....	1
Financial Statements	
Consolidated Balance Sheets – Income Tax Basis.....	4
Consolidated Statements of Income – Income Tax Basis	6
Consolidated Statements of Stockholders' Equity – Income Tax Basis	7
Consolidated Statements of Cash Flows – Income Tax Basis	8
Notes to Consolidated Financial Statements.....	9
Supplemental Schedules	
Consolidating Balance Sheet – Income Tax Basis	17
Consolidating Statement of Income – Income Tax Basis.....	19



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, 2024 and 2023, 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, 2024 and 2023, 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 \$783,000, an understatement of accumulated depreciation of approximately \$20,330,000 and an overstatement of retained earnings of approximately \$19,547,000.

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, 2024, and the consolidating statement of income – income tax basis for the year ended December 31, 2024, 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.

A handwritten signature in black ink that reads "Eric Bailly LLP". The signature is written in a cursive, flowing style.

Salt Lake City, Utah
February 25, 2025

Draper Irrigation Company and Subsidiary

Consolidated Balance Sheets – Income Tax Basis

December 31, 2024 and 2023

	2024	2023
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,392,874	\$ 1,409,690
Investment in securities	3,035,275	2,933,471
Trade receivables	507,174	435,607
Inventories	469,483	361,739
Total current assets	6,404,806	5,140,507
Property and Equipment	113,454,612	108,583,341
Less accumulated depreciation	(40,923,091)	(38,681,099)
Total property and equipment	72,531,521	69,902,242
Other Assets		
Water rights	1,932,609	1,932,609
Cash surrender value of life insurance policies	754,548	715,971
Investment in Utah Lake Water Users Association	1,526,149	1,526,149
Other	42,198	19,098
Total other assets	4,255,504	4,193,827
	<u>\$ 83,191,831</u>	<u>\$ 79,236,576</u>

Draper Irrigation Company and Subsidiary

Consolidated Balance Sheets – Income Tax Basis

December 31, 2024 and 2023

	2024	2023
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 2,824,480	\$ 431,015
Accrued liabilities	268,285	172,093
Current maturities of long-term debt	790,031	792,084
Total current liabilities	3,882,796	1,395,192
Long-term Liabilities		
Long-term debt, less current maturities	5,548,734	5,208,589
Total liabilities	9,431,530	6,603,781
Stockholders' Equity		
Class A common stock: par value \$6 per share; authorized 20,000 shares; issued and outstanding, 17,874 shares at December 31, 2024 and 2023	106,380	106,380
Class B common stock: par value \$50 per share; authorized 12,000 shares; issued and outstanding, 8,598 and 8,562 shares at December 31, 2024 and 2023, respectively	429,900	428,100
Additional paid-in capital	183,270	183,270
Treasury stock at cost, 2,207 and 2,134 shares, at December 31, 2024 and 2023, respectively	(1,797,745)	(1,767,645)
Receivable related to treasury stock	(2,776)	(3,222)
Retained earnings	74,841,272	73,685,912
Total stockholders' equity	73,760,301	72,632,795
	<u>\$ 83,191,831</u>	<u>\$ 79,236,576</u>

Draper Irrigation Company and Subsidiary
Consolidated Statements of Income – Income Tax Basis
Years Ended December 31, 2024 and 2023

	2024	2023
Revenue		
Base sales	\$ 9,476,235	\$ 8,279,940
Wholesale culinary sales	3,700	5,500
Connection fees	27,850	63,300
Total revenue	9,507,785	8,348,740
Operating Expenses		
Direct costs	1,939,118	1,257,842
Direct professional expenses	344,858	383,308
Contract operating expenses	4,674,779	4,046,783
Depreciation	2,422,350	2,383,785
Total operating expenses	9,381,105	8,071,718
Operating Income	126,680	277,022
Other Income (Expense)		
Interest income	26,823	12,425
Interest expense	(61,732)	(68,518)
Contributed water distribution lines	119,042	61,319
Gain on sale of equipment	11,000	-
Realized gains (losses) on investment in securities	98,235	(8,250)
Grants	516,497	30,230
Other income	161,724	56,138
Reservoir reserve income	135,316	200,839
System buy-in fees	21,775	21,870
Total other income (expense)	1,028,680	306,053
Net Income	\$ 1,155,360	\$ 583,075

Draper Irrigation Company and Subsidiary
Consolidated Statements of Stockholders' Equity – Income Tax Basis
Years Ended December 31, 2024 and 2023

	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, 2022	17,874	\$ 106,380	8,506	\$ 425,300	\$ 183,270	\$ 73,102,837	\$ (1,729,142)	\$ (10,099)	\$ 72,078,546
Net income	-	-	-	-	-	583,075	-	-	583,075
Issuance of 56 shares of Class B common shares for new connections	-	-	56	2,800	-	-	-	-	2,800
Purchase of 96 shares of Treasury Stock	-	-	-	-	-	-	(67,200)	-	(67,200)
Sale of 42 shares of Treasury Stock for cash	-	-	-	-	-	-	28,697	-	28,697
Cash collected on receivable issued for Treasury Stock	-	-	-	-	-	-	-	6,877	6,877
Balance, December 31, 2023	17,874	106,380	8,562	428,100	183,270	73,685,912	(1,767,645)	(3,222)	72,632,795
Net income	-	-	-	-	-	1,155,360	-	-	1,155,360
Issuance of 36 shares of Class B common shares for new connections	-	-	36	1,800	-	-	-	-	1,800
Purchase of 85 shares of Treasury Stock	-	-	-	-	-	-	(59,500)	-	(59,500)
Sale of 34 shares of Treasury Stock for cash	-	-	-	-	-	-	23,800	-	23,800
Sale of 8 shares of Treasury Stock for receivables	-	-	-	-	-	-	5,600	(5,600)	-
Cash collected on receivable issued for Treasury Stock	-	-	-	-	-	-	-	6,046	6,046
Balance, December 31, 2024	17,874	\$ 106,380	8,598	\$ 429,900	\$ 183,270	\$ 74,841,272	\$ (1,797,745)	\$ (2,776)	\$ 73,760,301

Draper Irrigation Company and Subsidiary
Consolidated Statements of Cash Flows – Income Tax Basis
Years Ended December 31, 2024 and 2023

	2024	2023
Operating Activities		
Net income	\$ 1,155,360	\$ 583,075
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	2,422,350	2,383,785
Contributed lines	(119,042)	(61,319)
Gain on sale of equipment	(11,000)	-
Realized (gains) losses on investment in securities	(98,235)	8,250
Changes in assets and liabilities		
Trade receivables	(71,567)	39,762
Inventories	(107,744)	(93,754)
Other assets	(23,100)	257
Accounts payable	2,393,465	8,546
Accrued liabilities	96,192	(99,629)
Net Cash from Operating Activities	5,636,679	2,768,973
Investing Activities		
Change in cash surrender value of life insurance policies	(38,577)	(35,590)
Changes in related party receivable	-	2,019
Purchases of property and equipment	(4,932,587)	(2,005,970)
Proceeds from sale of equipment	11,000	-
Purchase of securities	(3,569)	-
Proceeds from sale of investment in securities	-	600,230
Net Cash used for Investing Activities	(4,963,733)	(1,439,311)
Financing Activities		
Principal payments on long-term debt	(781,689)	(792,744)
Proceeds from issuance of long-term debt	1,119,781	524,395
Issuance of Class B common stock at par	1,800	2,800
Purchase of treasury stock	(59,500)	(67,200)
Proceeds from issuance of treasury stock	23,800	28,697
Payments received on receivable related to treasury stock	6,046	6,877
Net Cash from (used for) Financing Activities	310,238	(297,175)
Net Change in Cash and Cash Equivalents	983,184	1,032,487
Cash and Cash Equivalents, Beginning of Year	1,409,690	377,203
Cash and Cash Equivalents, End of Year	\$ 2,392,874	\$ 1,409,690
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 62,947	\$ 69,733
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Sale of treasury stock for receivables	\$ 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. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per FDIC-insured bank. At December 31, 2024 and 2023, the Company had approximately \$2,493,000 and \$1,184,000, respectively, in excess of FDIC-insured limits. To date, no losses have been experienced in any of these accounts.

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, 2024 and 2023, was \$0.

Inventories

Inventories consist 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, 2024 and 2023.

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, 2024.

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, 2024 and 2023, 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 Income

Reservoir reserve income 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, 2024 and 2023, all reservoir reserve amounts collected have been expended for purposes intended.

Note 2 - Investment in Securities Available for Sale

The Company's investments consist of shares of East Jordan Irrigation Company (East Jordan) 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, 2024 and 2023. Investments in East Jordan are presented on the cost basis.

Mutual Funds – At December 31, 2024 and 2023, the Company held mutual funds at cost of \$2,297,175 and \$2,195,371 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, 2024 and 2023, the amount of the investment was \$1,526,149.

Draper Irrigation Company and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 4 - Property and Equipment

Property and equipment at December 31, 2024 and 2023, consists of the following:

	2024	2023
Water distribution lines	\$ 64,033,106	\$ 63,018,533
Well improvements	16,579,345	16,514,193
Treatment plant	13,729,380	13,222,546
Reservoir	5,558,154	5,558,154
Pump stations	2,923,505	2,923,505
Buildings	1,519,101	1,522,166
Auto and trucks	1,358,940	1,247,498
Heavy equipment	304,037	368,391
Computer equipment	214,384	212,478
Office furniture	22,075	21,990
	<u>106,242,027</u>	<u>104,609,454</u>
Less accumulated depreciation	<u>(40,923,091)</u>	<u>(38,681,099)</u>
	65,318,936	65,928,355
Construction-in-Progress	7,132,585	3,893,887
Land	<u>80,000</u>	<u>80,000</u>
	<u>\$ 72,531,521</u>	<u>\$ 69,902,242</u>

Depreciation expense totaled \$2,422,350 and \$2,383,785 for the years ended December 31, 2024 and 2023, 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 2026. Additions to construction-in-progress are recorded at cost. Once the project is completed, all additions to construction-in-progress will be transferred to Pump Stations and will be depreciated accordingly.

Draper Irrigation Company and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 5 - Long-Term Debt

Long-term debt consists of the following as of December 31, 2024 and 2023:

	2024	2023
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.	\$ 1,995,808	\$ 2,565,988
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.	1,583,946	1,707,256
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.	974,130	562,233
State of Utah Division of Water Resources loan, due in annual principal payments of \$458,200 and annual interest payments at an interest rate of 1% beginning December 2026 through December 2050, secured by the ability of the State to require the Company to raise water rates, if needed.	966,333	307,548
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.	818,548	857,648
	6,338,765	6,000,673
Less current maturities	(790,031)	(792,084)
Long-term debt, less current maturities	\$ 5,548,734	\$ 5,208,589

Draper Irrigation Company and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Future maturities of long-term debt are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2025	\$ 790,031
2026	1,230,617
2027	1,245,787
2028	583,602
2029	226,366
Thereafter	2,262,362
	<u>\$ 6,338,765</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 \$1,995,808 and \$2,565,988 as of December 31, 2024 and 2023, 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 \$15,469,500 and \$11,814,500 at December 31, 2024 and 2023, respectively. The agreements mature on January 1, 2036, January 1, 2045, December 1, 2047, and December 1, 2050, respectively. Borrowings under the agreements bear interest at 1%, 0% 1%, and 1%, respectively. These agreements provide for cash flows while the Company installs new irrigation meters and pipeline over the next two to three years.

Note 6 - 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 6% 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 \$87,886 and \$74,262 for each of the years ended December 31, 2024 and 2023, 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 \$754,548 and \$715,971 at December 31, 2024 and 2023, respectively.

Note 7 - Subsequent Events

On February 5, 2025, the Company executed a loan agreement with the State of Utah Division of Water Resources providing for a maximum borrowing of \$962,000 to install pipe for a future culinary water system project.

The Company has evaluated subsequent events through February 25, 2025, the date the consolidated financial statements were available to be issued.



Supplemental Schedules
December 31, 2024

Draper Irrigation Company and Subsidiary

Draper Irrigation Company and Subsidiary

Consolidating Balance Sheet – Income Tax Basis

December 31, 2024

	Draper Irrigation Company			
	Irrigation	Culinary	Water Pro	Consolidated
Assets				
Current Assets				
Cash and cash equivalents	\$ 2,127	\$ -	2,390,747	\$ 2,392,874
Investment in securities	738,100	-	2,297,175	3,035,275
Trade receivable	17,621	489,553	-	507,174
Inventories	-	-	469,483	469,483
Intercompany receivable (payable)	(922,901)	51,278	871,623	-
Total current assets	(165,053)	540,831	6,029,028	6,404,806
Property and Equipment	112,236,762	-	1,217,850	113,454,612
Less accumulated depreciation	(39,831,772)	-	(1,091,319)	(40,923,091)
Total property, plant and equipment	72,404,990	-	126,531	72,531,521
Other Assets				
Water rights	1,932,609	-	-	1,932,609
Cash surrender value of life insurance policies	754,548	-	-	754,548
Investment in Utah Lake Water Users Association	1,526,149	-	-	1,526,149
Other	-	-	42,198	42,198
Total other assets	4,213,306	-	42,198	4,255,504
	<u>\$ 76,453,243</u>	<u>\$ 540,831</u>	<u>\$ 6,197,757</u>	<u>\$ 83,191,831</u>

Draper Irrigation Company and Subsidiary

Consolidating Balance Sheet – Income Tax Basis

December 31, 2024

	Draper Irrigation Company			
	Irrigation	Culinary	Water Pro	Consolidated
Liabilities				
Current Liabilities				
Accounts payable	\$ -	\$ 104,931	\$ 2,719,549	\$ 2,824,480
Accrued liabilities	20,252	6,000	242,033	268,285
Current maturities of long-term debt	790,031	-	-	790,031
Total current liabilities	810,283	110,931	2,961,582	3,882,796
Long-Term Liabilities				
Long-term debt, net of current maturities	5,548,734	-	-	5,548,734
Total liabilities	6,359,017	110,931	2,961,582	9,431,530
Stockholders' Equity				
Class A common stock	106,380	-	-	106,380
Class B common stock	-	429,900	-	429,900
Additional paid-in capital	183,270	-	-	183,270
Treasury stock at cost	(1,797,745)	-	-	(1,797,745)
Receivable related to treasury stock	(2,776)	-	-	(2,776)
Retained earnings	71,605,097	-	3,236,175	74,841,272
Total stockholders' equity	70,094,226	429,900	3,236,175	73,760,301
	<u>\$ 76,453,243</u>	<u>\$ 540,831</u>	<u>\$ 6,197,757</u>	<u>\$ 83,191,831</u>

Draper Irrigation Company and Subsidiary
Consolidating Statement of Income – Income Tax Basis
Year Ended December 31, 2024

	Draper Irrigation Company			
	Irrigation	Culinary	Water Pro	Consolidated
Revenue				
Base sales	\$ 1,737,812	\$ 7,738,423	\$ -	\$ 9,476,235
Wholesale culinary sales	-	3,700	-	3,700
Connection fees	-	27,850	-	27,850
Total revenue	1,737,812	7,769,973	-	9,507,785
Operating Expenses				
Direct costs	387,824	1,551,294	-	1,939,118
Direct professional expenses	68,972	275,886	-	344,858
Contract operating expenses	934,956	3,739,823	-	4,674,779
Depreciation	482,451	1,929,806	10,093	2,422,350
Total operating expenses	1,874,203	7,496,809	10,093	9,381,105
Operating Income (Loss)	(136,391)	273,164	(10,093)	126,680
Other Income (Expense)				
Interest income	-	-	26,823	26,823
Interest expense	(46,297)	(15,435)	-	(61,732)
Contributed water distribution lines	119,042	-	-	119,042
Realized gain on sale of investment in securities	98,235	-	-	98,235
Gain on sale of equipment	11,000	-	-	11,000
Grants	446,727	69,770	-	516,497
Other income	63,464	98,260	-	161,724
Reservoir reserve income	-	135,316	-	135,316
System buy-in fees	21,775	-	-	21,775
Total other income (expense)	713,946	287,911	26,823	1,028,680
Net Income (Loss)	\$ 577,555	\$ 561,075	\$ 16,730	\$ 1,155,360