

PROVO RIVER WATER USERS ASSOCIATION

2016 ANNUAL REPORT

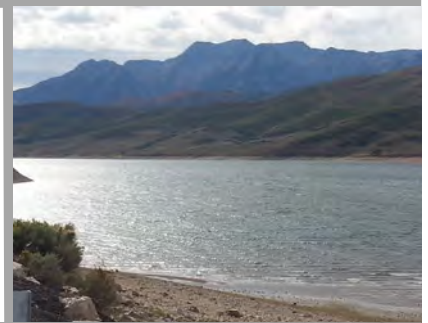
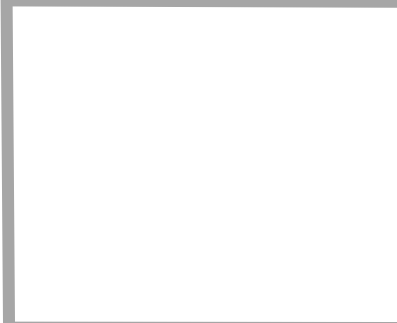
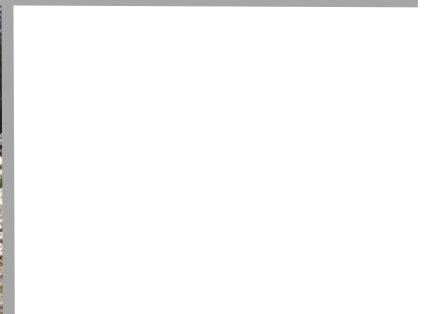
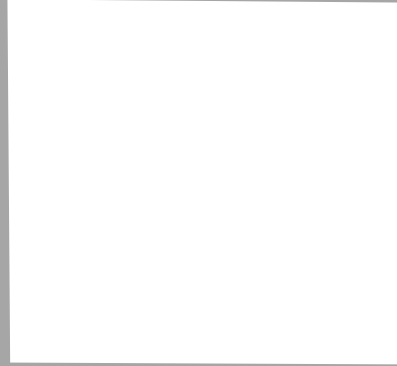


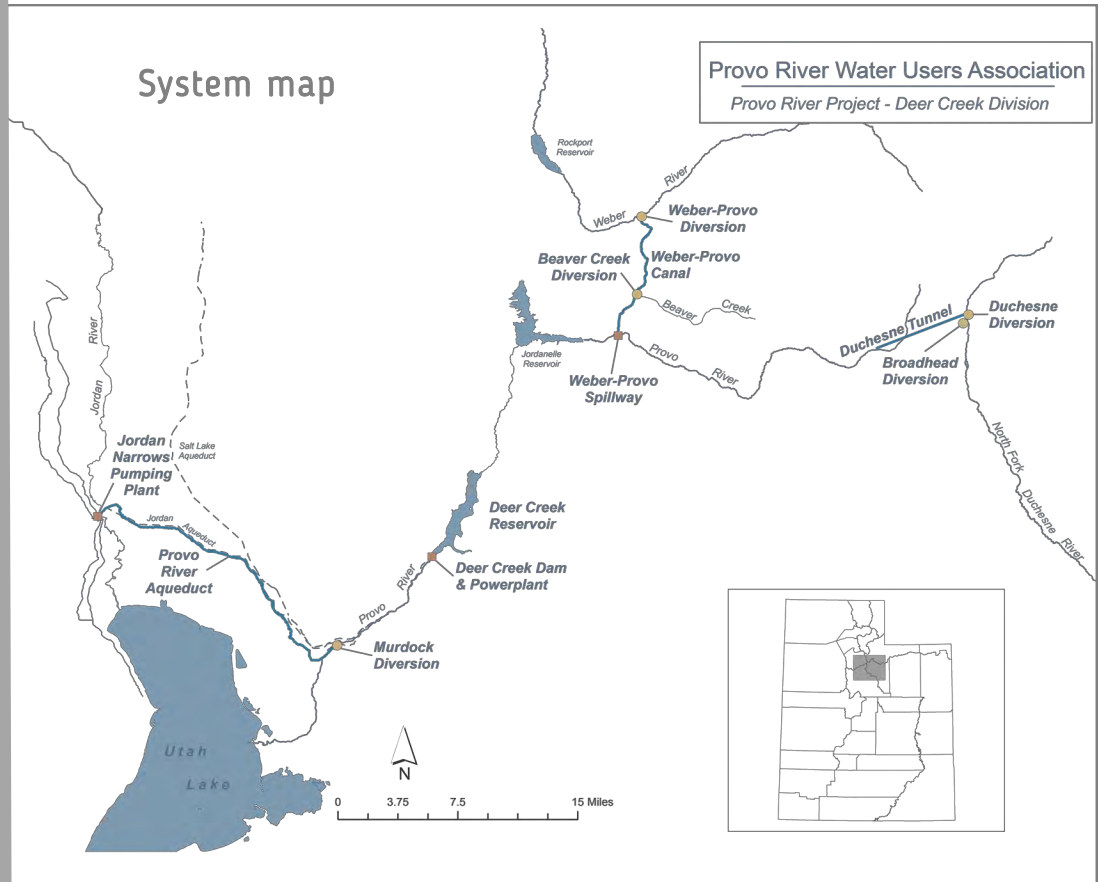
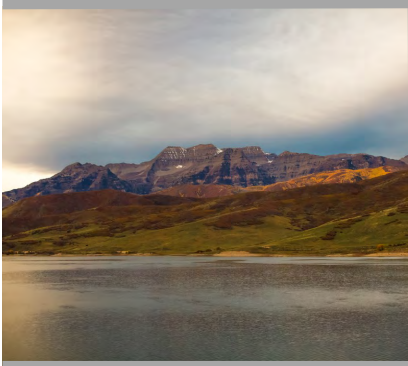
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The Association delivers Provo River Project water in a safe, efficient, and economical manner for the benefit of its shareholders and those they serve.

With integrity, the Association preserves and protects the quality of its resources through knowledgeable, dedicated, and innovative employees.





BOARD OF DIRECTORS

Michael L. Wilson	President
Tom Godfrey	Vice-President
Genevieve Atwood	Dan Johnson ²
Merril L. Bingham ¹	Donald Y. Milne
Laura Briefer ²	Jeff Niermeyer
Jeffrey J. Bryant	Shane E. Pace
Pat Comarell ³	Bart Simons ^{1,2}
Arthur Hunter	Christopher R. Tschirki

1-Passed Away in 2016
 2-Elected Director in 2016
 3-Retired in 2016

EMPLOYEES

Gerri Bradford ³	Troy Heap
Scott Brockbank	Charlene Lenkart
Jeff Budge	Shawna Orlando
Steve Cain	Mallory Palmer
G. Keith Denos	Travis Pool
Kerry Durrant	JJ Purser
David Faux	Mark Rawle
Roger Ford	James Reed
Jerry Fox	John Whiting
Farrell Hatfield ³	

GENERAL MANAGER'S MESSAGE

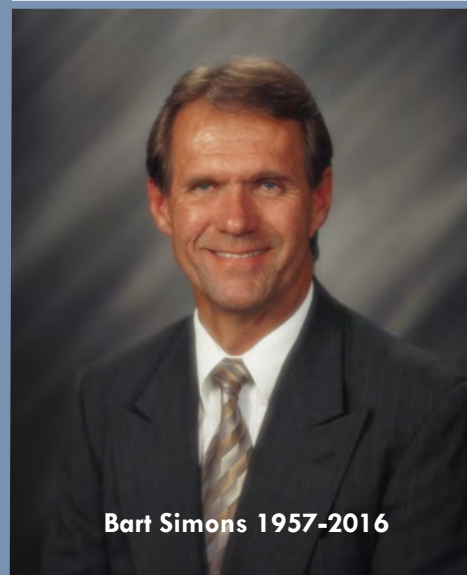
This past year was one of significant change for the Association. Merrill Bingham and Bart Simons, esteemed members of the water community and of the Association's Board of Directors, passed away suddenly in February and April 2016, respectively.

Merril was a great leader and left a legacy in the water industry. He was a recipient of the prestigious George Warren Fuller Award and the Charles W. Wilson Award from the American Water Works Association, he received the Distinguished Service Award from the Utah Water Users Association, and was inducted into the Water Industry Hall of Fame in 2012.

Merril served the City of Provo for 35 years as Assistant City Engineer,

Water Department Director, and Director of Public Works. After he retired in 2012, Merrill was appointed manager of the Metropolitan Water District of Provo and served on the Governor's Executive Water Task Force. Merrill's quarter-century tenure on the Association's Board of Directors included 10 years as chair of the Engineering Committee and 13 years on the Executive Committee. Merrill was kind, wise, and passionate about golf, fishing and woodworking. Engineering Committee meetings usually began with Merrill sharing a golf or fishing story, or perhaps showing pictures of his latest woodworking creation. I'm grateful for the 21 years I was able to associate with and learn from such a great man.

Bart worked for over 33 years for Provo City, eventually becoming the Water Director and the Deputy Public Works Director. He served on many boards and committees, selflessly volunteering his time to further the state of the art in the water industry. Bart was awarded the prestigious George Warren Fuller Award in 2012 from the American Water Works Association. He served for two months on the Association's Board of Directors prior to his untimely death at

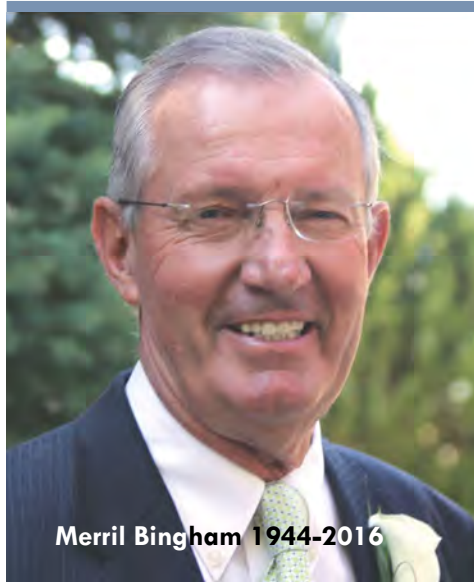


Bart Simons 1957-2016

age 59. Bart was a quiet and kind man, and was well-respected by everyone who knew him. I'm grateful I was able to know Bart from his many years on the Provo River Distribution System board, but I regret our time together at the Association was so short.

These two pillars of the water community and of the community at large are sorely missed. The Association is one of many beneficiaries of their service throughout their distinguished careers.

The Association said goodbye to two valued employees in April 2016, as Farrell Hatfield and Gerri Bradford



Merril Bingham 1944-2016





retired with a combined 48 years of service. Farrell worked as a maintenance repairman for 38 years and is known for his humor, service, excellent craftsmanship and knowledge of Association history and practices. Farrell was the last connection with the Association's early years, having worked alongside Association employees hired shortly after operation and maintenance of the Provo River Project was first transferred from the Bureau of Reclamation in the 1950s. He's a master welder and fabricator, and can create just about anything with his hands. It's likely that every friend, neighbor and coworker of Farrell's has one or more hand-crafted treasures from him.

Gerri was the Association's receptionist for 10 years, and is known for her cheerfulness, kindness and service. Gerri had a knack for organization, and she was instrumental in improving the Association's filing systems and administrative work processes. In her absence the office staff sees more clearly her attention to the little details. Gerri's southern hospitality brightened the day for all who called or visited the office during her tenure.

Merril, Bart, Farrell and Gerri – you all made a positive difference in your unique contributions to the Association. Thank you for your legacies. I'm grateful for having known and associated with each of you.

G. Keith Denos, P.E.



ADMINISTRATION

DIRECTORS

Pat Comarell stepped down from the Association Board of Directors in February 2016 after having served on the Board for approximately 1.5 years. Pat's knowledge and professionalism greatly benefited the Association through her service as a member of the Finance and Policies & Procedures Committees.

In February 2016 Laura Briefer was elected to the Association Board of Directors, replacing Pat Comarell. Laura is currently the Salt Lake City Public Utilities Director, and has worked for Salt Lake City for approximately 8.5 years.

Dan Johnson was elected to the Association Board of Directors in May 2016 to replace Bart Simons after Bart's untimely death in April 2016. Bart had previously replaced Merrill Bingham on the Board after Merrill suddenly passed away in February 2016. Dan is the manager of the Metropolitan Water District of Provo City and previously worked for Brigham Young University for 28

years as the Assistant Dean/Controller of the College of Physical & Mathematical Sciences and as Operations & Systems Manager of the Computer Science Department, retiring in 2012.



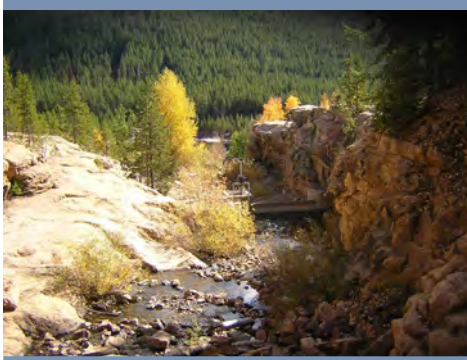
Pat Comarell
Director 2014-2016



Laura Briefer
Elected February 2016



Dan Johnson
Elected May 2016



STAFF

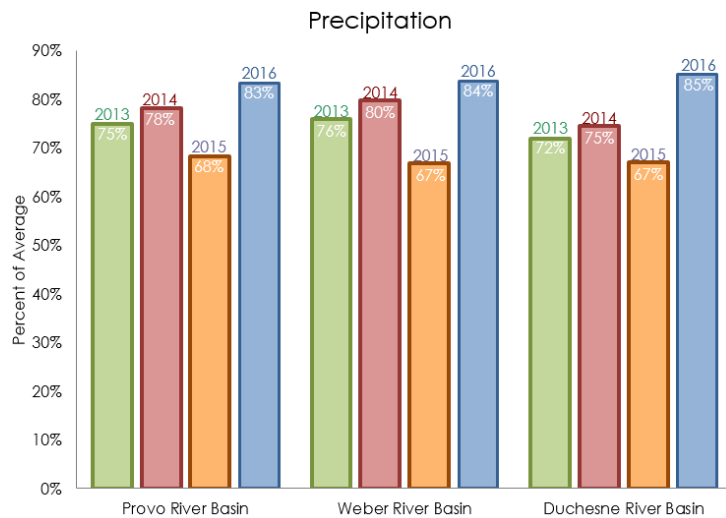
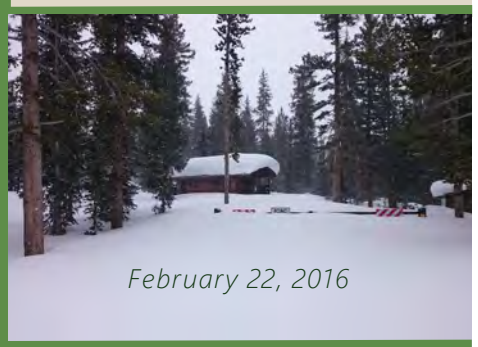
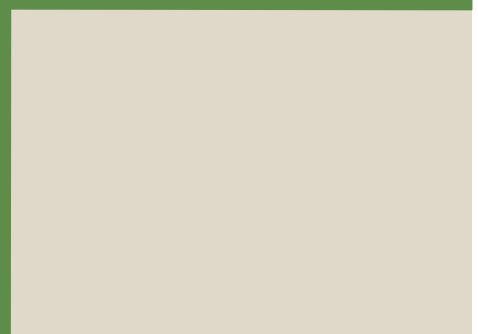
The Association welcomed new employees Mallory Palmer, JJ Purser and Shawna Orlando in 2016. Mallory is the new operations technician and Provo River Aqueduct watermaster. JJ was hired as a maintenance repairman and Shawna is the new office administrator. Charlene Lenkart, the Association's office administrator for the past nine years, transitioned to part-time status in 2016.



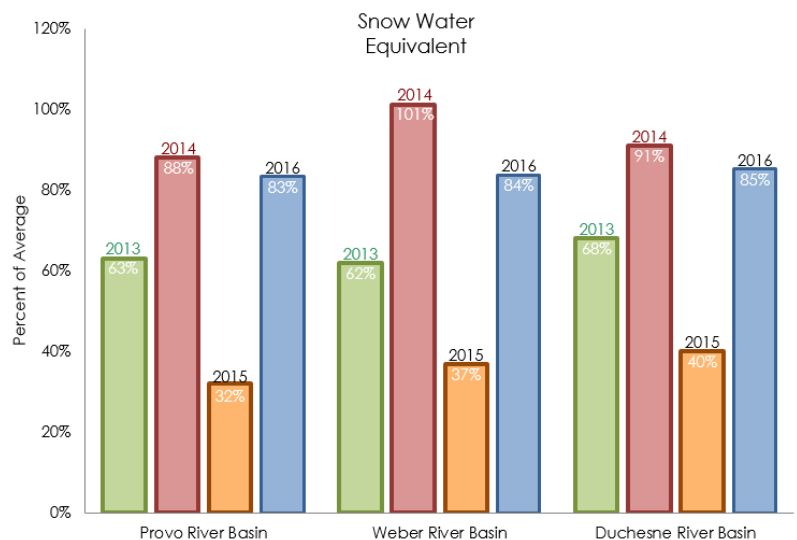
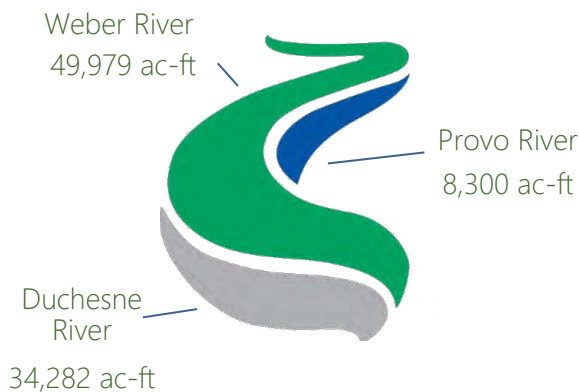
WATER SUPPLY

The 2016 water year continued the pattern of drought that has been the norm for five consecutive years. River flow projections from the Colorado Basin River Forecast Center were well below average heading into the spring, and as the runoff progressed, it appeared that the water supply was again going to be critically low. However, spring rains in April, May and June prolonged flows, especially on the Weber and Duchesne rivers. In addition, physical modifications completed at the Weber-Provo Diversion made cleaning the diversion screens much more effective and allowed for more efficient diversion of water. Coordination efforts over

the last two years among Reclamation, the Weber River Commissioner, other Weber River water users and the Association have helped in more effective management of the Weber River. Through these efforts and the extended run off period on the Weber River, the Association was again able to exchange all of the 1938 power contract water stored in Echo Reservoir. In June the Board of Directors approved an 81 percent water allotment for Association shareholders, which was amended to 83 percent in October when additional supplies were identified for allocation.



2016 WATER SUPPLY

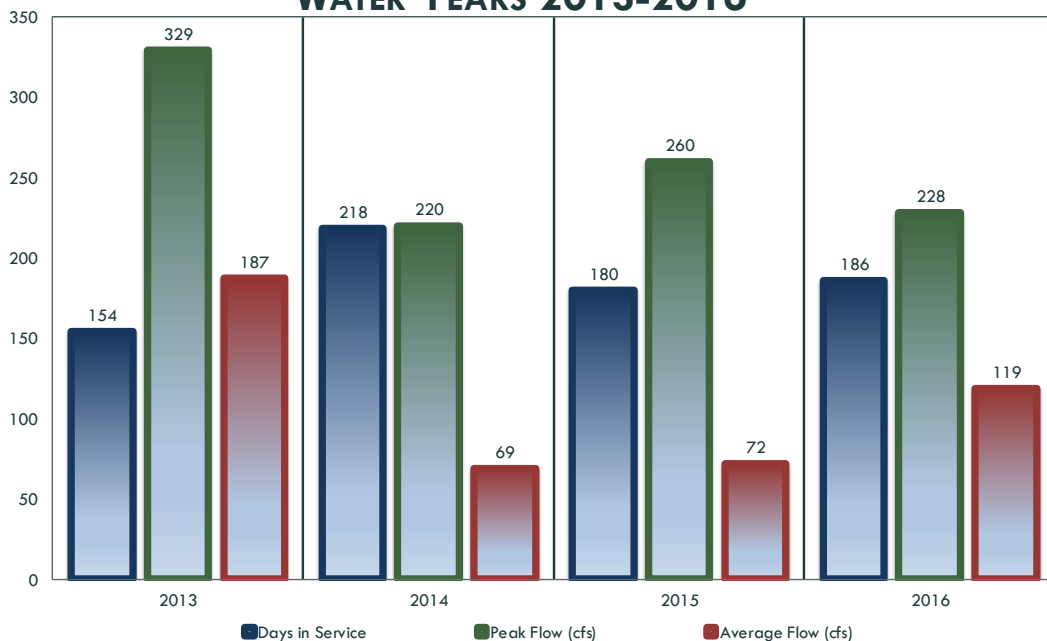


PROVO RIVER AQUEDUCT

Operation of the Provo River Aqueduct (PRA) went very smoothly during the 2016 delivery season. Water deliveries began April 18 and final deliveries were made October 14. Of note, following four full years of operation, the water savings anticipated from the enclosure project have been higher than the 8,000 acre-feet annual savings projected. The lowest yearly savings has been 9,093 acre-feet with the water savings over four years averaging 11,489 acre-feet. This has been in large part due to the elimination of evaporation and seepage from the open canal. In addition, the tighter delivery control and monitoring has been of great assistance in accurately delivering water to each turnout.

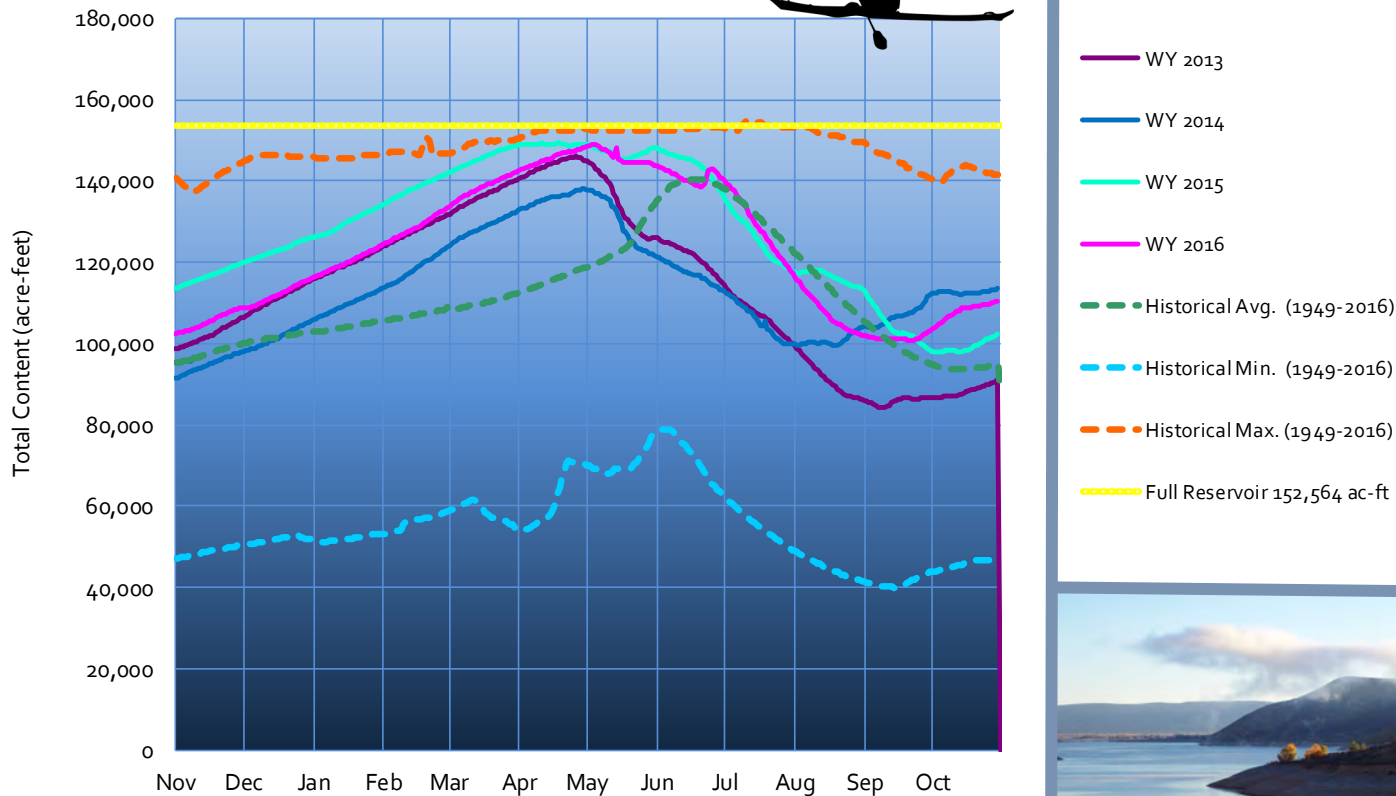


PROVO RIVER AQUEDUCT WATER YEARS 2013-2016



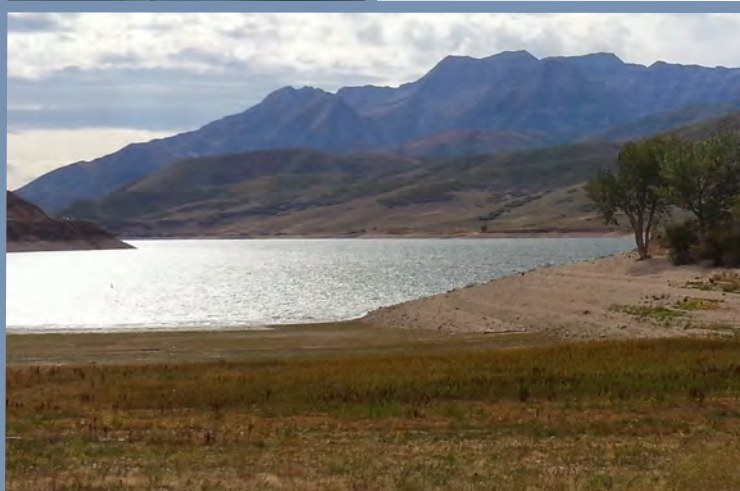
DEER CREEK RESERVOIR

Deer Creek Reservoir
2013-2016 Volumes Including Historical Values



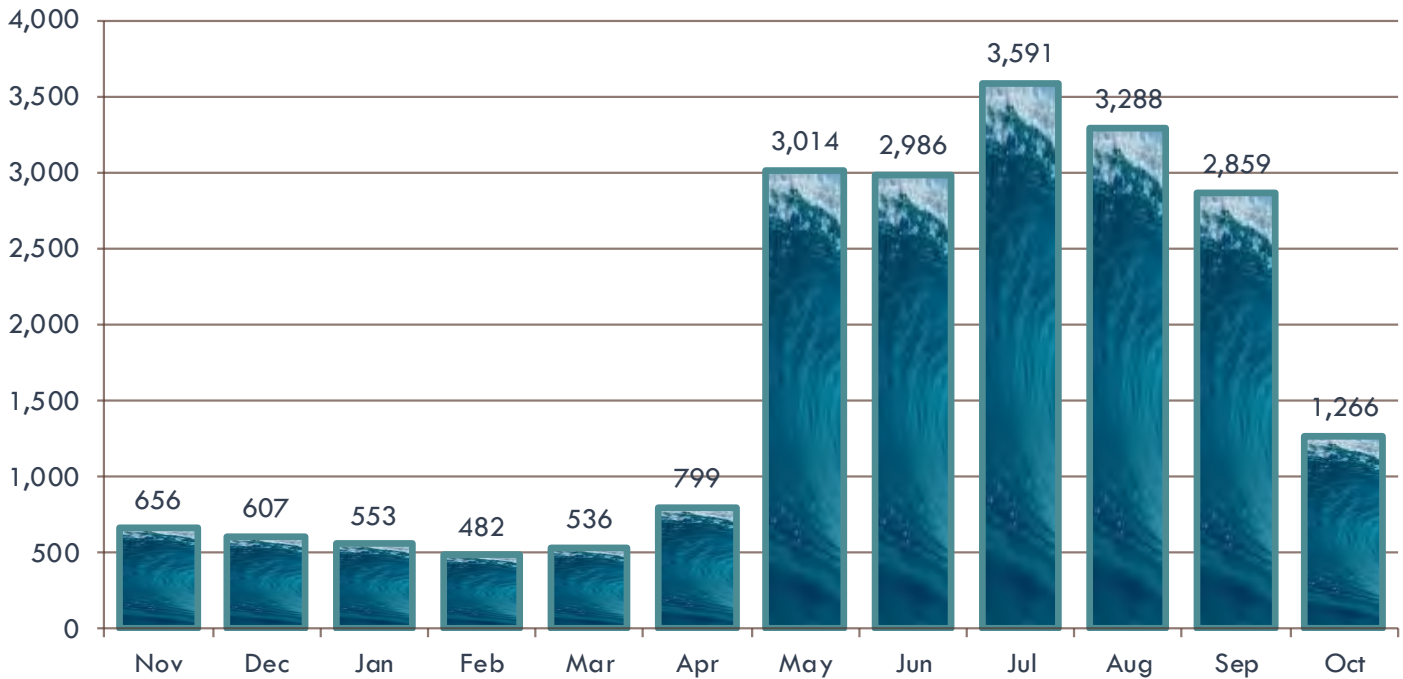
QUAGGA MUSSEL

In October 2014 Quagga mussel DNA was found in a water sample taken from Deer Creek Reservoir. The positive sample required that the Utah Division of Wildlife Resources (DWR) declare Deer Creek Reservoir a “suspect water body”, and measures were instituted by DWR to protect Deer Creek Reservoir and other water bodies from infestation. The DWR has an active program to combat the spread of Quagga mussels, which includes education, water body sampling, decontamination of watercraft, and law enforcement. As part of its education and public outreach, DWR organized a Quagga mussel task force in which the Association participates along with other water users, state and federal agencies and boating groups. Despite the positive test for Quagga mussel in 2014, subsequent tests of Deer Creek Reservoir water samples have been negative. Deer Creek Reservoir will be able to have the “suspect water body” label removed if three years elapse without a positive test for Quagga mussel. Presently Lake Powell is the only water body in the state of Utah with a confirmed Quagga mussel infestation.



DEER CREEK DAM & POWER PLANT

2016 DEER CREEK POWER PLANT GROSS GENERATION KWH THOUSANDS



SAFETY



Safety meetings held throughout 2016 focused on specific safety disciplines outlined in the Association's safety manual. This approach ensures better compliance with OSHA requirements and consistency in achieving a safe workplace. All Association employees attend the safety meetings, which are required for both field and administrative employees. The Association experienced no lost time accidents in 2016.



MAINTENANCE

In addition to its routine tasks performed each year, maintenance personnel performed larger, more specialized work in 2016. A comprehensive inspection of the Provo River Aqueduct was undertaken as this facility was nearing the end of its warranty period. The full interior of the 21.5 mile long pipeline and all structures and equipment were inspected. Inspection personnel drained the system to ensure safety, and then walked inside the entire length of the aqueduct checking for damage to the polyurethane lining or appurtenant equipment.

The annual overhaul of the Jordan Narrows Pumping Station equipment occurred during the winter months while the facility was out of service. Maintenance personnel also performed preparatory work on the Deer Creek Dam penstock tunnel and outlet works in anticipation of the recoating of Penstock number 2 programmed for winter 2017.



COMPUTERIZED MAINTENANCE MANAGEMENT SYSTEM

The Association for many years has used a computerized maintenance management system (known as a CMMS or workorder system) to help manage the maintenance of its infrastructure and equipment. The CMMS used by the Association since 2004 was becoming increasingly complex, and in late 2016 migration began to a scaled-down system more appropriate for the Association's needs. The new workorder system is cloud-based, which allows personnel to remotely create workorders, look up documents and specifications, and track time and costs.



WEBER PROVO CANAL EFFICIENCY MODIFICATION

The Weber Provo Canal Efficiency Modification Project was completed over the 2015- 2016 winter and was ready for the 2016 spring runoff. The old original slide gates were removed and the angle of the trash rack was changed to allow for a bridge deck to be placed across the canal inlet. These changes allowed staff to remove debris from the trash rack using a track hoe rather than manual hooks to drag the material away from the bars. Historically a sand bar would also build up in the forebay at the canal inlet, further restricting the opening. This sand bar can now be removed during the runoff, allowing more efficient diversion of the Association's Weber River water rights.

The efficiency of the improvements to the diversion structure brought to light the need to rehabilitate the Weber-Provo Canal. Maintenance staff began reshaping the most critical canal section downstream from the diversion following termination of water deliveries in the summer. This section is most important in being able to divert the full water right into the canal. The maintenance crew was able to remove sand bars, ingrowth of willows and other plant growth, and reestablish the full canal section for approximately 1.5 miles of the canal. Additional work will be completed in future years to restore the full 1000 cfs capacity of the canal.



LANDS

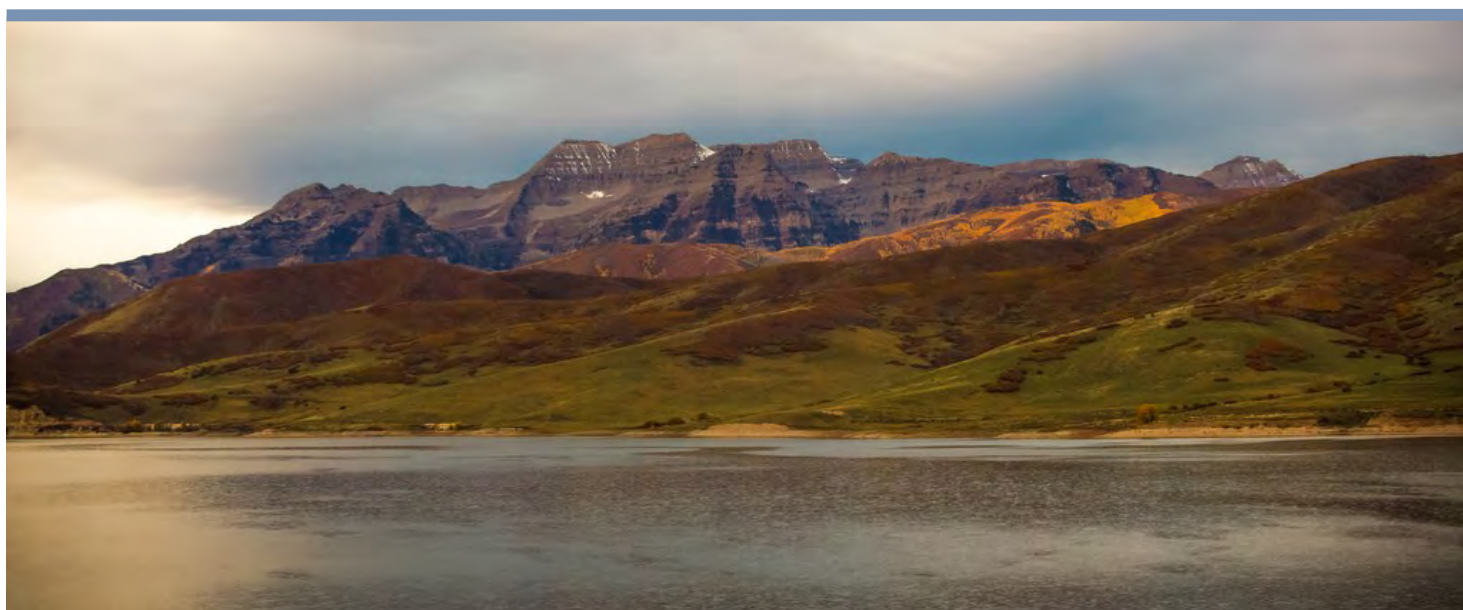
The Association adopted the Real Property Management Policy in 2015, which provides guidance and direction to staff for the protection of the Association's real property assets. Duties outlined in the policy include inventorying the hundreds of land parcels owned or controlled by the Association, inspecting these parcels for encroachments or unauthorized uses, administering the license agreement process, providing Blue Stake services and other responsibilities. In May 2016 former Association watermaster Dave Faux was selected to fill the newly created lands technician position. Much of the lands technician's work involves identifying and either eliminating or licensing encroachments on Association and Provo River Project lands. Lands activities in 2016 also included inventory and inspection of some of the remote parcels associated with the Duchesne Tunnel and the Provo River Channel Revision.

BALANCE SHEET

	2016	2015
Current Assets		
Cash and cash equivalents (Notes 1 and 3)	\$ 2,171,648	\$ 1,823,286
Investments (Notes 1 and 3)	332,392	330,983
Accounts receivable (Note 1)	582,348	540,060
Due from Cental Utah Water Conservancy District, current portion (Note 7)	41,902	41,902
Due from Lindon City, current portion (Note 4)	10,000	10,000
Prepaid expenses	49,804	59,379
Total current assets	3,188,094	2,805,610
Property, Plant, and Equipment		
Property, plant, and equipment, net (Note 5)	236,319,506	240,585,616
Other Assets		
Cash and cash equivalents - restricted (Notes 1 and 3)	528,285	2,018,778
Investments - restricted (Notes 1 and 3)	1,504,043	
Due from Central Utah Water Conservancy District, less current portion (Note 7)	293,311	335,213
Due from Lindon City, less current portion (Note 4)	40,000	50,000
Beneficial interest in water rights (Note 1)	24,070,460	24,070,460
Bond issuance fees, net of accumulated amortization of \$192,071 and \$171,862, respectively	328,212	348,421
Total other assets	26,764,311	26,822,872
Total assets	\$ 266,271,911	\$ 270,214,098



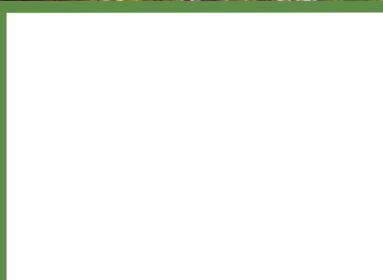
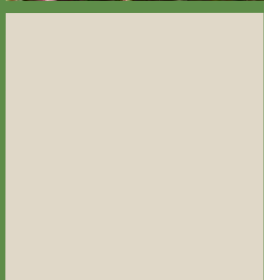
	2016	2015
Current Liabilities		
Accounts payable	\$ 97,304	\$ 4,836
Accrued liabilities	49,917	47,188
Accrued compensated absences (Note 1)	139,674	152,599
Accrued interest	656,589	673,947
Unearned revenue	198,564	68,332
Current portion of bonds payable (Note 8)	628,000	603,000
Current portion of notes payable (Note 6 and 7)	2,707,963	830,878
Total current liabilities	<u>4,478,011</u>	<u>2,380,780</u>
Long-term Liabilities		
Bonds payable, less current portion (Note 8)	23,651,000	24,279,000
Notes payable, less current portion (Note 6 and 7)	4,096,617	6,804,580
Total long-term liabilities	<u>27,747,617</u>	<u>31,083,580</u>
Total liabilities	<u>32,225,628</u>	<u>33,464,360</u>
Stockholders' Equity		
Capital stock (Note 10)	23,915,867	23,915,867
Stock subscriptions receivable (Note 10)	(2,651,009)	(2,930,761)
	<u>21,264,858</u>	<u>20,985,106</u>
Retained earnings (Note 10)		
Restricted for Provo River Aqueduct operations & maintenance	162,354	162,354
Unrestricted	212,619,071	215,602,278
	<u>212,781,425</u>	<u>215,764,632</u>
Total stockholders' equity	234,046,283	236,749,738



2016 WATER USE

October 31, 2016	2016 Total Use (AF)	2016 Allotment 83.00% Allocated (AF)	Used (AF)	Holdover Spill (AF)	Holdover from Water Year 2015 Available (AF)	Used (AF)	Holdover Towards 2017 (AF)
MWD of Salt Lake & Sandy							
Account #1	500	318	415	0	318	318	415
Account #2	200	127	166	0	127	127	166
Account #3	15,000	9,543	12,450	0	9,543	9,543	12,450
Account #4	46,000	39,028	38,180	0	8,560	39,028	51,060
Total	61,700	49,017	51,211	0	8,560	49,017	64,091
Orem MWD							
Account #1	1,300	0	1,079	0	92	1,358	2,345
Account #2	200	0	166	0	0	127	293
Account #3	754	407	626	0	0	480	699
Total	2,254	407	1,871	0	92	1,965	3,337
Dixon Irrigation Company	300	262	249	0	0	345	332
Provo MWD	8,000	4,837	6,640	0	333	11,188	12,657
American Fork MWD	500	358	415	358	0	0	57
Beaver/Shingle Creek	900	164	747	0	1,752	2,628	1,459
Diamond Bar X	86	68	71	65	0	3	6
Bar X Mutual Water Company	10	7	8	7	0	0	2
MSH Corporation	10	7	8	7	0	0	2
Noble's Creek Mutual Water	19	12	16	12	0	0	4
Highland Conservation District							
Highland Conservation Dist.	1,710	956	1,419	536	0	420	883
Highland City	2,099	1,099	1,742	0	0	1,520	2,164
Lehi City	796	637	661	637	0	0	25
American Fork City	405	330	336	328	0	2	8
Total	5,010	3,021	4,158	1,500	0	1,943	3,080
Lehi City	500	171	415	0	0	374	618
Lindon City	200	73	166	0	0	203	296
Pleasant Grove Irrigation							
Pleasant Grove Irrigation	363	285	301	156	0	129	145
Pleasant Grove MWD	648	1,075	538	345	76	730	117
Total	1,011	1,360	839	501	76	859	262
Pleasant Grove MWD	300	175	249	0	246	558	386
Provo Bench Irrigation							
Orem MWD	900	8	747	0	0	44	783
Provo Bench	620	0	515	0	1,665	2,269	1,119
Pleasant Grove MWD	125	182	104	0	39	206	89
Lindon City	355	104	295	0	482	930	638
Total	2,000	294	1,660	0	2,186	3,448	2,628
Provo Reservoir Water Users Co.							
JVWCD	10,697	11,287	8,879	660	0	10,627	8,218
Orem MWD	2,710	1,599	2,249	834	0	765	1,415
Alpine District	889	575	738	20	0	555	718
Pleasant Grove MWD	218	325	181	47	65	278	69
Highland City	612	470	508	82	0	388	426
Lehi City	201	115	167	115	0	0	52
Lehi Irrigation	420	337	348	337	0	0	11
American Fork City	123	90	102	90	0	0	12
Lindon City	130	0	108	0	0	70	178
Total	16,000	14,798	13,280	2,185	65	12,682	11,099
South Kamas Irrigation	500	418	415	405	0	13	10
Victory Ranches	200	0	166	0	537	732	361
Washington Irrigation	500	418	415	405	0	13	10
Total	100,000	75,867	83,000	5,445	13,847	107,412	100,698





PROVO RIVER WATER USERS ASSOCIATION
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