A photograph of a powerful waterfall cascading down layered, reddish-brown rock formations in a canyon. The water is white and turbulent as it falls, creating a misty spray at the base. The surrounding cliffs are rugged and feature some sparse green vegetation.

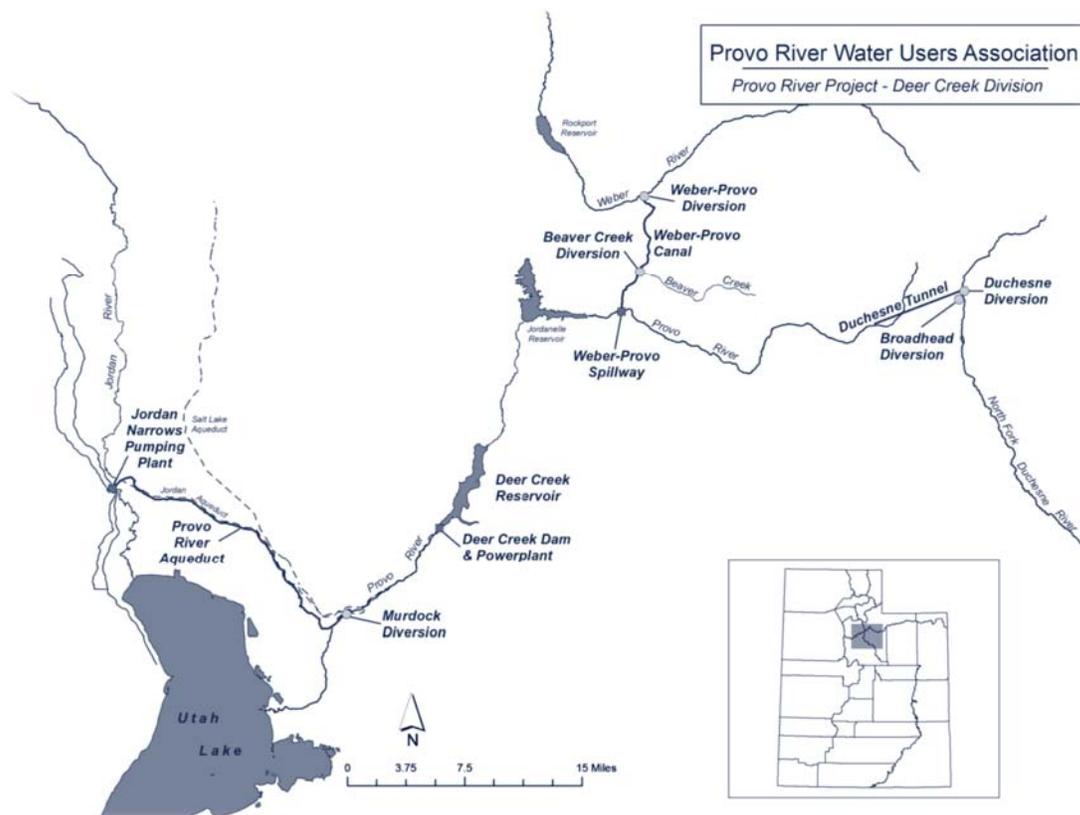
PROVO RIVER WATER USERS ASSOCIATION
2018 ANNUAL REPORT

Board of Directors

Tom Godfrey	President	
Christopher R. Tschirki	Vice-President	
Genevieve Atwood	Michael J. DeVries	Jeff Niermeyer
Laura Briefer	Arthur Hunter	Tom Ward
Jeffrey J. Bryant	Dan Johnson	
Joan Degiorgio	Donald Y. Milne	

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Scott Brockbank	Jerry Fox	Mark Rawle
Jeffrey D. Budge	Troy Heap	James Reed
Steven H. Cain	Bradley Holdaway	Casey Snyder
G. Keith Denos	Charlene Lenkart	John Whiting
Kerry Durrant	Shawna Orlando	
David Faux	Travis Pool	



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Provo River Water Users Association is a private non-profit corporation organized in 1935 for the purpose of sponsoring the Deer Creek Division of the Provo River Project, a US Bureau of Reclamation water project. The Project extends over five counties and diverts water from three river basins. Deer Creek Dam and Reservoir, with a capacity of over 153,000 acre-feet, is the primary Project feature. Other main features of the Project include the Duchesne Tunnel, the Weber-Provo Diversion and Canal, and the Provo River Aqueduct. The Association also operates and maintains many miles of river dikes as well as numerous diversions, checks, flumes and turnout structures as part of the Project.

The Project supplies a significant portion of the drinking water supply for approximately one million people along the Wasatch Front in north-central Utah. Project water is also used for supplemental irrigation of over 53,000 acres of agricultural land in Summit, Wasatch, Utah and Salt Lake Counties.

The Association is governed by an eleven-member Board of Directors, elected by its shareholders. Association shareholders include metropolitan water districts, irrigation companies, mutual water companies, two municipalities and a conservation district.

General Manager's MESSAGE

Association staff have more in common with the Secret Service or Tom Brady's offensive line than one might think. While we don't usually wear dark suits and sunglasses or pads and a facemask, the common thread is the focus on protection. Association staff is in the protection business. Association shareholders have an expectation that water rights, lands, facilities, operations, funds and other corporate assets are protected from outside interference, encroachment and misuse.

By far the Association's most valuable assets are its water rights. Staff and legal counsel are continually watchful to ensure water right change applications and related actions don't infringe on Provo River Project water



supplies. The Utah State Engineer's recent emphasis on completing the general adjudication for the Utah Lake/Jordan River Basin is requiring even greater scrutiny and the Association must remain vigilant.

Following passage of the Provo River Project Transfer Act in 2004 and an amendment to the Act in 2014, title to the Provo River Aqueduct (PRA) corridor was transferred from the US Bureau of Reclamation to the Association in October 2014. Title to the corridor was conveyed "warts and all", and some of those warts were in the form of boundary encroachments along the length of the corridor.

Many of the PRA boundary encroachments are discrepancies in legal descriptions

between the old canal right-of-way and an adjacent subdivision or landowner. The Association has discovered that myriad incorrect subdivision plats have been recorded with the Utah County Recorder over the years. Whereas in the past the Association could lean somewhat on the strength of the federal government ownership of the corridor to combat boundary encroachments, after October 2014 it became entirely the Association's responsibility along the PRA. Many of the original encroachments have since been resolved, and staff is actively engaged in working cooperatively with the adjacent landowners to resolve the remaining PRA boundary issues.

Along the PRA and elsewhere across the five county footprint of the Project, Association personnel are constantly on the watch for unauthorized and incompatible uses of Association and Project lands. This type of encroachment often takes the form of unauthorized access along or across Association or Project lands, or may be an attempt by a third party to modify these lands for their own use. In these situations, it's not the boundary that's in question, but the actual use of the land. Association staff is addressing these situations as they arise and are assisted by Reclamation lands personnel as necessary in instances involving Project lands.

Protection of Association and Project facilities requires great effort and expenditure. The Association is responsible for the protection and upkeep of facilities in five counties. These facilities are as new as the six-year old PRA completed in 2012 and as old as the 77-year old Deer Creek Dam completed in 1941. Reclamation conducts regular inspections of Project facilities and the Association routinely receives very high marks for its maintenance and care of these facilities.



The Association must also protect against physical or legal infringement upon its operations, such as actions by others that prevent access to Project facilities or changes in laws or ordinances that adversely affect the Association. Involvement with pertinent committees, task forces, technical teams and working groups enables staff to remain aware of possible impacts to Association operations and interests. In addition, consultant lobbyists and legal counsel assist the Board and staff in monitoring legislative activities that might affect Association or Project operations.

All Association shareholders pay four general assessments that fund daily operations & maintenance activities, capital improvement projects, and original Project construction and Safety of Dams repayment obligations to Reclamation. Two additional special assessments are paid by those shareholders with capacity rights in the PRA for the operation, maintenance and repayment of construction costs for this facility. The funds obtained through assessments to shareholders are expected to be used for their intended purpose and protected from waste and misuse. The Association has recently contracted with an investment advisement firm to invest

available funds in accordance with the Utah Money Management Act. The Association is very conservative in its investing, identifying protection of principal as the primary investment goal, with liquidity and rate of return next in priority.

The Association recently became aware of its eligibility to utilize the Utah State Best Value Cooperative Contracts (State Contract) for fleet vehicles and certain equipment and materials. The State Contract allows for more than just excellent pricing, as vendors can provide extended warranties and more comprehensive maintenance services for their products, thereby protecting the Association's investment in its assets.

A super bowl winning quarterback or high-ranking federal official may require a different level of protection than the Association's assets require, but the principal remains the same. The objective is to prevent those who would cause harm from doing so, and to keep the asset in good condition. The comparison falls short however, because a bodyguard or a football lineman is often a thankless occupation, whereas Association employees know they're highly valued.

It spoke volumes to employees when the Board of Directors adopted a new mission statement five years ago and members of the Board insisted it include the phrase "... With integrity, the Association preserves and protects the quality of its resources through knowledgeable, dedicated and innovative employees." I'm grateful to associate with knowledgeable, dedicated and innovative men and women who are passionate in their protection of and stewardship over Association assets.

G. Keith Denos, P.E.

Directors



Genevieve Atwood

Genevieve Atwood stepped down from the Association Board of Directors in February 2018 after 12.5 years of service. Genevieve, a professional geologist, university adjunct professor and former director of the Utah Geological Society, served as an integral member of the Engineering Committee.



Jeff Niermeyer

Jeff Niermeyer resigned as an Association Director in October 2018 after almost 16 years of service. Jeff served diligently on the Engineering, PRCEP, Community Relations and Executive Committees. Jeff has been in private engineering practice and worked for Salt Lake City Public Utilities for 25 years, including 9 years as Director. The Association benefitted greatly from Genevieve's and Jeff's service, and wishes them well in their next endeavors.



Joan DeGiorgio

The Association welcomed Joan Degiorgio to the Board of Directors in February 2018. Joan brings over 30 years' experience in natural resources planning and has worked in the state, federal and private arenas, including as Director of the Northern Mountains Region of The Nature Conservancy.

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 Tour

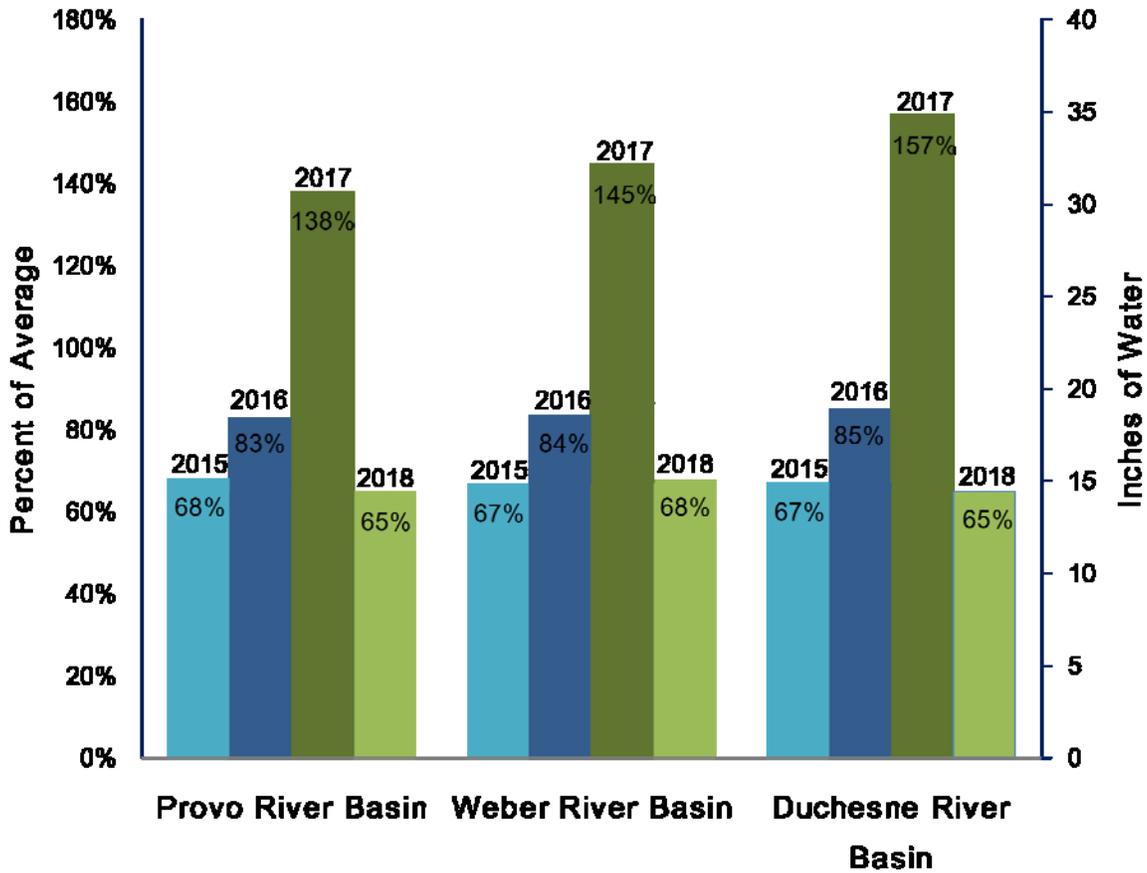
Each year the Association Board of Directors and invited guests tour an area of the Provo River Project to view Project facilities and inspect the progress of capital projects. In August 2018 the Board visited Deer Creek Dam and Power Plant to view the completed penstock tunnel lighting project and discuss the tube valve replacement project then under design. The Board then traveled to the crest of Deer Creek Dam to discuss the outlet works intake study and view the location of possible improvements to the intake system. The Provo Canyon Mining site adjacent to the Provo River Aqueduct in Provo Canyon was also visited as part of the 2018 Board Tour.



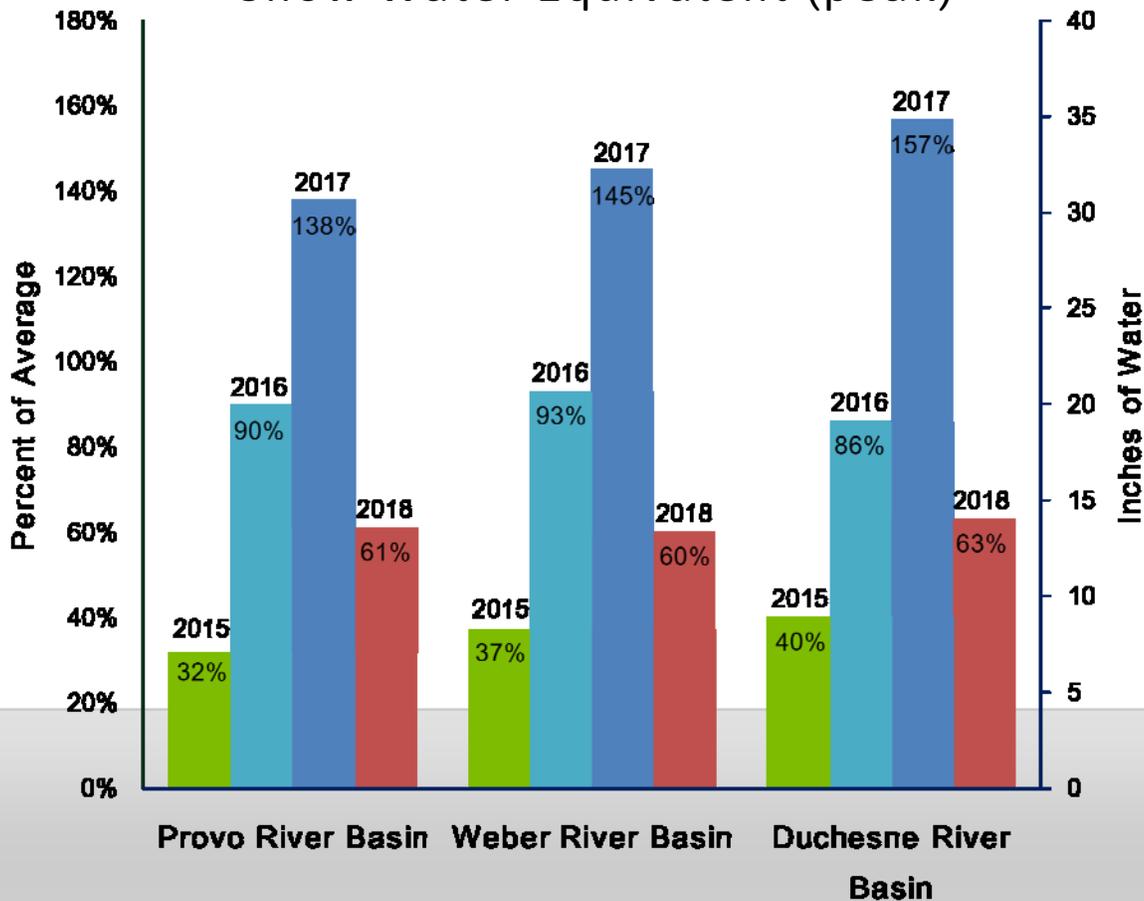
Best Practices for Government-affiliated Nonprofits

The Utah Legislative Auditor General published a report in May 2018 entitled "A Review of Best Practices for Internal Control of Nonprofits Associated with Government." The Association is a nonprofit corporation organized under section 501(c)12 of the IRS code, but is not classified as a Utah Governmental Nonprofit as defined in state statute. However, the report and accompanying checklist provided great value and direction to the Association Board of Directors and staff in best practices operation, management and oversight. The Board reviewed the best practices checklist and requested it be used as a basis for Board training in the future.

Precipitation



Snow Water Equivalent (peak)

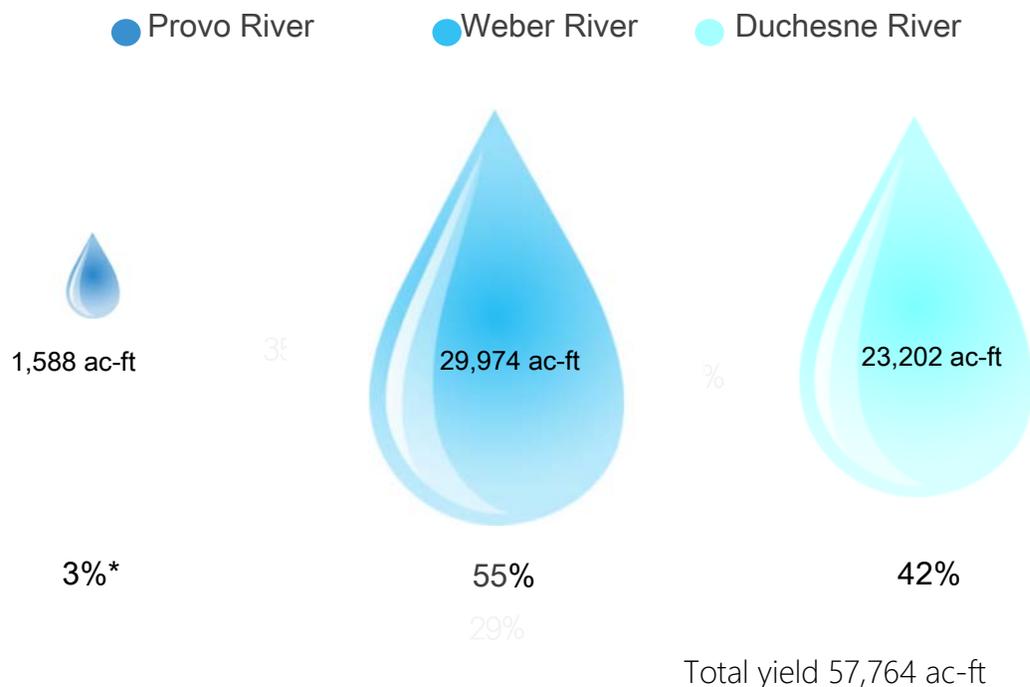


Water Supply

Snow levels and precipitation amounts in the river basins that supply Provo River Project water supplies were much below normal in the 2018 water year, averaging just 50 to 60 percent of normal. The snowmelt runoff generated less than 58,000 acre-feet of Project water, but a full water allocation was able to be delivered to shareholders due to the high yield from the 2017 runoff and the significant carryover water stored in Deer Creek Reservoir from 2017.

The total volume of water in the reservoir on November 1, 2017 which is the beginning of the water year was 127,661 acre-feet or 84 percent of capacity. The dry pattern of the winter months continued throughout the summer, and 2018 ended up as Utah's driest year since 1895 when records first began to be kept. The volume in Deer Creek Reservoir at the end of the 2018 water year on October 31, 2018 was 93,081 acre-feet or 61 percent of capacity.

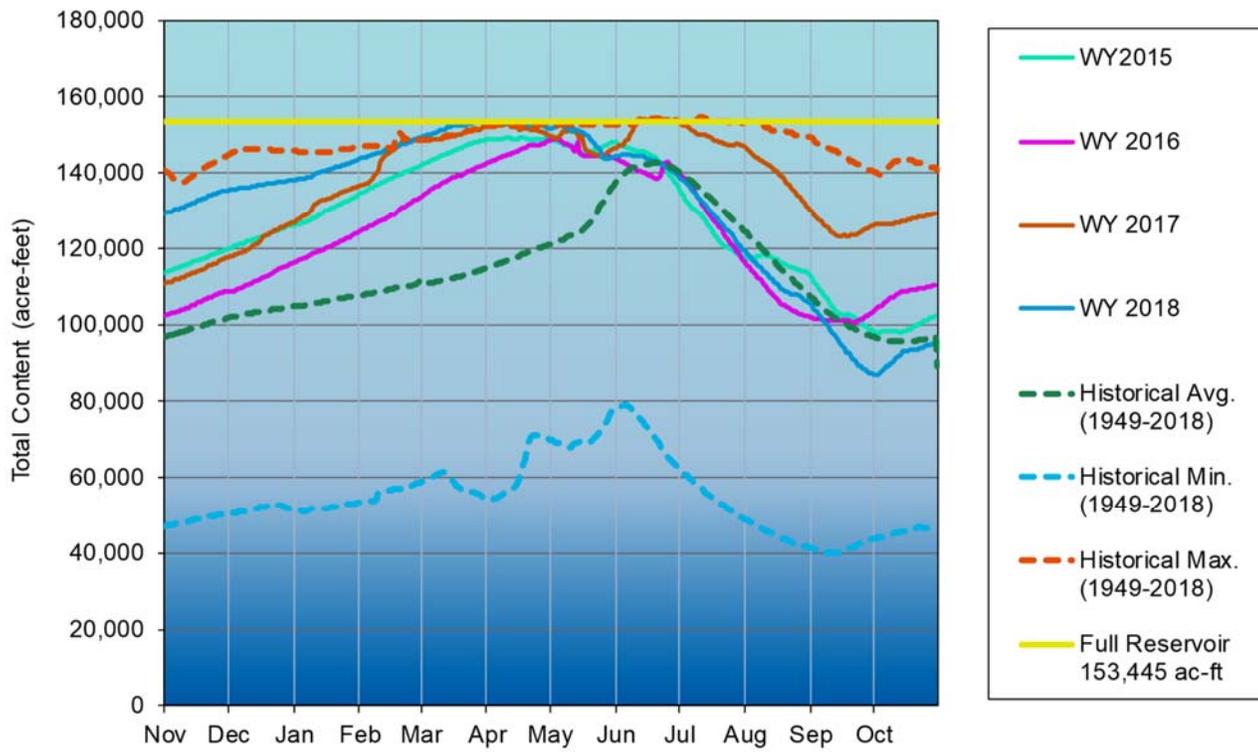
2018 Water Sources



* Claimed by exchange from Utah Lake

Deer Creek Reservoir

2015-2018 Volumes Including Historical Values

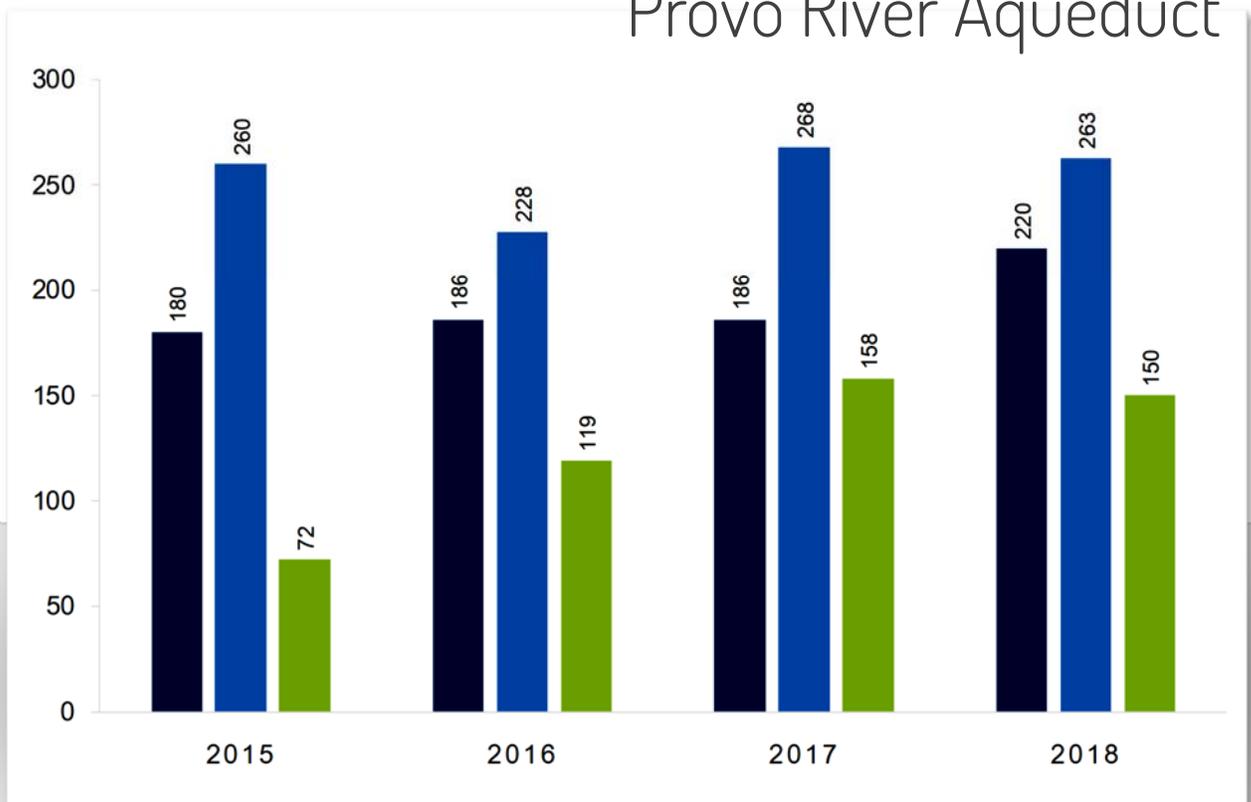


Quagga Mussel

For many years, the Association has been concerned with the potential for an infestation by aquatic invasive species at Deer Creek Reservoir. Of primary concern is the Quagga mussel. In October 2014 the Utah Division of Wildlife Resources designated Deer Creek Reservoir as a "suspect" water body in danger of infestation due to the discovery of Quagga mussel DNA in the reservoir. Ongoing, semi-monthly testing has uncovered no additional evidence of Quagga mussel in Deer Creek Reservoir through the end of 2017. In January 2018 the reservoir was taken off of the suspect water body list, however, all of the precautions and enforcement at Deer Creek Reservoir remain in place. The Association continues its participation as a member of the State of Utah Quagga Mussel Task Force, which supports increased interdiction and decontamination of boats at Deer Creek Reservoir and other threatened water bodies in an effort to prevent infestations.



Provo River Aqueduct



Deer Creek Dam & Power Plant Outlet Works Intake Study

The Deer Creek Power Plant Outlet Works Intake Study was completed in 2018 by Bowen Collins & Associates, partnering with HDR Engineering. The study entailed a review of the existing intake structure and guard gates and presented options for rehabilitating or replacing the intake system. Several issues of concern were identified that the project would need to address, including Quagga mussel infestation and related issues, water quality, and potential for failure of the original guard gates with no way to repair or replace them in a failure scenario. The recommendation of the study was to construct a selective level outlet tower which was the only option that adequately addressed all of the identified concerns. Construction is tentatively projected for 2028, with the actual timing dependent upon many factors including hydrology and water supply, environmental and other required studies, and identifying funding partners and funding sources.

Crane Improvements

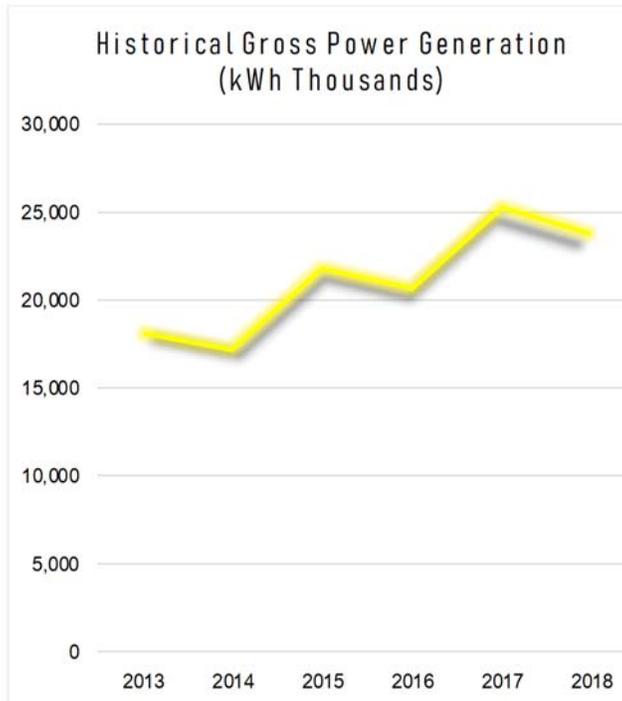
In anticipation of upcoming projects, the overhead crane at Deer Creek Power Plant was retrofitted with new electronic drives and controls. The crane, installed in 1958, is in robust mechanical and structural condition, however, the original electromechanical controls had become unreliable. The new controls allow for remote operation which enhances operator safety while providing full crane function.

2018 Deer Creek Power Plant Gross Generation
kWh Thousands



Tube Valve Replacement Project

The design work for the Deer Creek Power Plant Tube Valve Replacement Project was completed in 2018. After a lengthy review of various valve types, the Association, Reclamation and the design engineer determined that plunger valves should replace the original tube valves installed in the 1940s. Contractor bids were solicited in October and the project will begin in earnest in early 2019 when valve manufacturing begins. One valve will be installed during each of the next two winters, with project completion expected in spring 2021.



Historical Annual Average (1958-2018): 24,031 kWh



Penstock Tunnel Lighting Upgrade Project

The Deer Creek Power Plant Penstock Tunnel Lighting Upgrade Project, which had been postponed for several years, was completed in 2018. This project was delayed to protect the new lighting system from damage due to sand blasting from the penstock coating project, which was completed in 2017. The lighting project greatly enhances visibility and improves safety for operations and maintenance personnel in the tunnel and the gate chamber.

Maintenance

The U.S. Bureau of Reclamation conducts periodic reviews of the operation and maintenance of Provo River Project facilities. A comprehensive review of Deer Creek Dam and Reservoir in May 2018 found the facility to be in good condition with no serious concerns identified. Reclamation inspectors did make several recommendations that maintenance personnel have implemented or are in the process of implementing.

During the spring runoff each year, the Weber-Provo Canal transports and deposits large amounts of sand and silt along the canal. In 2016 Association maintenance personnel began a multi-year effort to address this problem, restoring canal capacity a few thousand feet per year. The 2018 restoration work was completed in the reach of the canal running through the Marion area. Thus far, thousands of tons of material have been removed. Because of the scope of this work it is expected to take several years to complete this project.



Safety & Security

A revision to the Association's Illness and Injury Prevention Program (Safety Manual) was published in 2018. The main area of revision was to make the Association's lockout/tagout and confined-space entry procedures similar to Reclamation's procedures. These important safety procedures provide a consistent sense of security and safety for Association and Reclamation personnel working at Provo River Project facilities.

The Association staff did not have any lost-time accidents during 2018.

Title transfer of the Provo River Aqueduct (PRA) corridor from Reclamation to the Association in October 2014 brought to light many material encroachments and boundary conflicts along the corridor. During 2018 several encroachments were resolved in the Horseshoe Bend area located in Highland City, and the resolution process was initiated for other boundary conflicts in Pleasant Grove, Orem, Cedar Hills and American Fork. Depending upon the circumstances, boundary conflict resolution may take the form of licensing the use of Association lands or selling nonessential land parcels to the encroaching parties.



For many years, the Association has worked to better define its relationship with the Utah Department of Transportation (UDOT), particularly in Utah County where the PRA intersects six state or interstate highways administered by UDOT. Significant progress was made in this process during 2018 and the parties have reached a common understanding of the issues and the solutions required. Formal agreements detailing the rights and responsibilities of each party are expected to be completed in 2019.

In 1971 the construction of Interstate 15 at the Point of the Mountain required the relocation of the Provo Reservoir Canal siphon. This also required exchanging ownership with UDOT of the affected land parcels in the area, but the land exchange never occurred. Preparations for this complex land swap were begun 2015 and this work is nearing completion. It is expected that the land exchange will be consummated in 2019.

Balance Sheet

Provo River Water Users Association

Balance Sheets

October 31, 2018 and 2017

Assets

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 1,179,635	\$ 2,283,126
Investments		203,474
Accounts receivable	837,348	602,355
Due from Cental Utah Water Conservancy District, current portion	41,902	41,902
Due from Lindon City, current portion	10,000	10,000
Prepaid expenses	68,519	53,866
Total current assets	<u>2,137,404</u>	<u>3,194,723</u>
Property, Plant, and Equipment, net	<u>227,791,420</u>	<u>232,067,896</u>
Other Assets		
Cash and cash equivalents - restricted	21,566	360,709
Investments	1,806,767	
Investments - restricted	2020717	1691427
Due from Central Utah Water Conservancy District, less current portion	209,508	251,410
Due from Lindon City, less current portion	20,000	30,000
Beneficial interest in water rights	24,070,460	24,070,460
Total other assets	<u>28,149,018</u>	<u>26,404,006</u>
Total assets	<u>\$ 258,077,842</u>	<u>\$ 261,666,625</u>

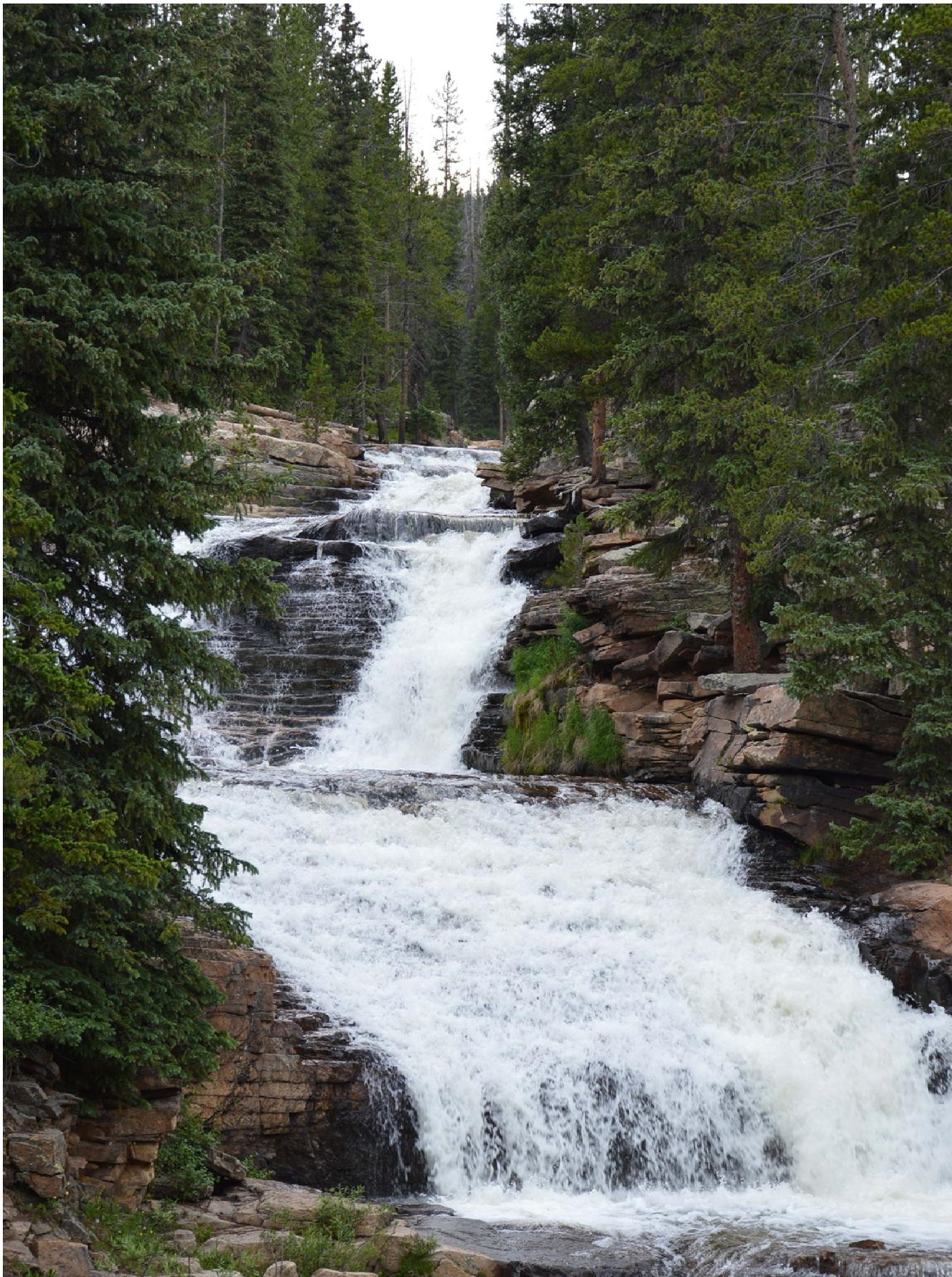
Liabilities and Stockholders' Equity

	2018	2017
Current Liabilities		
Accounts payable	\$ 77,401	\$ 62,865
Accrued liabilities	80,898	66,246
Accrued compensated absences	181,509	203,935
Accrued interest	613,307	630,693
Unearned revenue	30,326	115,212
Current portion of bonds payable	678,000	652,000
Current portion of notes payable	526,232	526,232
Total current liabilities	2,187,673	2,257,183
Long-term Liabilities		
Bonds payable, less current portion	22,321,000	22,999,000
Notes payable, less current portion	3,044,153	3,570,385
Less debt issuance costs, net of accumulated amortization of \$228,895 and \$212,003, respectively	(291,388)	(308,280)
Total long-term liabilities less unamortized debt issuance costs	25,073,765	26,261,105
Total liabilities	27,261,438	28,518,288
Stockholders' Equity		
Capital stock	23,915,867	23,915,867
Stock subscriptions receivable	(2,091,505)	(2,371,257)
Net capital stock	21,824,362	21,544,610
Retained earnings		
Restricted for Provo River Aqueduct operations & maintenance	163,675	163,103
Unrestricted	208,828,367	211,440,624
Total retained earnings	208,992,042	211,603,727
Total stockholders' equity	230,816,404	233,148,337
Total liabilities and stockholders' equity	\$ 258,077,842	\$ 261,666,625

2018 WATER USE

October 31, 2018	Shares	2018	2018 Allotment 100.00%		Extra	Holdover from Water		Holdover
		Total Use (AF)	Allocated (AF)	Used (AF)	Allotment Used (AF)	Available (AF)	Spill/Used (AF)	Towards 2019 (AF)
MWD of Salt Lake & Sandy								
Account #1	500	500	500	500	0	0	0	0
Account #2	200	200	200	200	0	0	0	0
Account #3	15,000	9,895	15,000	9,775	0	120*	120	5,225
Account #4	46,000	46,000	46,000	0	0	46,000	46,000	46,000
Total	61,700	56,595	61,700	10,475	0	46,120	46,120	51,225
Orem MWD								
Account #1	1,300	1,300	1,300	0	0	1,300	1,300	1,300
Account #2	200	309	200	109	0	200	200	91
Account #3	754	1,508	754	754	0	754	754	0
Total	2,254	3,117	2,254	863	0	2,254	2,254	1,391
Dixon Irrigation Company	300	407	300	107	0	300	300	193
Provo MWD	8,000	4,499	8,000	0	0	6,655	4,499	10,156
American Fork MWD	500	872	500	476	0	396	396	24
Beaver/Shingle Creek	900	946	900	482	0	464	464	418
Diamond Bar X	86	105	86	77	0	28	28	9
Bar X Mutual Water Co.	10	10	10	10	0	0	0	0
MSH Corporation	10	10	10	10	0	0	0	0
Noblett's Creek Mutual Water	19	19	19	19	0	0	0	0
Highland Conservation District								
Highland Conservation Dist.	1,710	1,500	1,710	939	0	561*	561	771
Highland City	2,099	1,995	2,099	757	0	1,238	1,238	1,342
Lehi City	796	801	796	326	0	475	475	470
American Fork City	405	642	405	405	0	237	237	0
Total	5,010	4,937	5,010	2,426	0	2,511	2,511	2,584
Lehi City	500	655	500	177	0	478	478	323
Lindon City	200	55	200	0	0	200	55	345
Pleasant Grove Irrigation								
Pleasant Grove Irrigation	363	349	363	207	0	142	142	156
Pleasant Grove MWD	648	540	648	0	0	648	540	756
Total	1,011	889	1,011	207	0	790	682	912
Pleasant Grove MWD	300	300	300	0	0	300	300	300
Provo Bench Irrigation								
Orem MWD	1,055	1,273	1,055	373	0	900	900	682
Provo Bench	197	171	197	0	0	620	171	646
Pleasant Grove MWD	175	96	175	0	0	125	96	204
Lindon City	548	98	548	0	0	355	98	805
CUWCD	26	0	26	0	0	0	0	26
Total	2,000	1,638	2,000	373	0	2,000	1,265	2,362
Provo Reservoir Water Users Co.								
JVWCD	10,749	9,173	10,749	1,228	0	7,945	7,945	9,521
Orem MWD	2,634	3,090	2,634	936	0	2,154	2,154	1,698
Alpine District	812	820	812	0	0	896	820	888
Pleasant Grove MWD	220	125	220	0	0	125	125	220
Highland City	569	1,102	569	520	0	582	582	49
Lehi City	250	324	250	151	0	173	173	99
Lehi Irrigation	394	615	394	394	0	221	221	0
American Fork City	155	155	155	155	0	0	0	0
Lindon City	130	30	130	0	0	124	30	224
Orem District	86	0	86	0	0	90	0	176
Total	16,000	15,433	16,000	3,384	0	12,310	12,049	12,876
South Kamas Irrigation	500	500	500	500	0	0	0	0
Victory Ranches	200	0	200	0	0	200	55	345
Washington Irrigation	500	500	500	500	0	0	0	0
Total	100,000	91,488	100,000	20,086	0	75,006	71,457	83,462

*An adjustment of 104 acre-feet was made between MWDSLs and Highland Conservation District to correct an error from 2017





Provo River Water Users Association

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