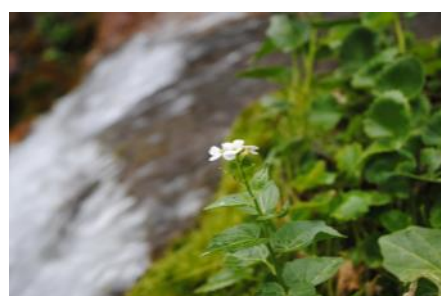


Provo River
Water Users Association

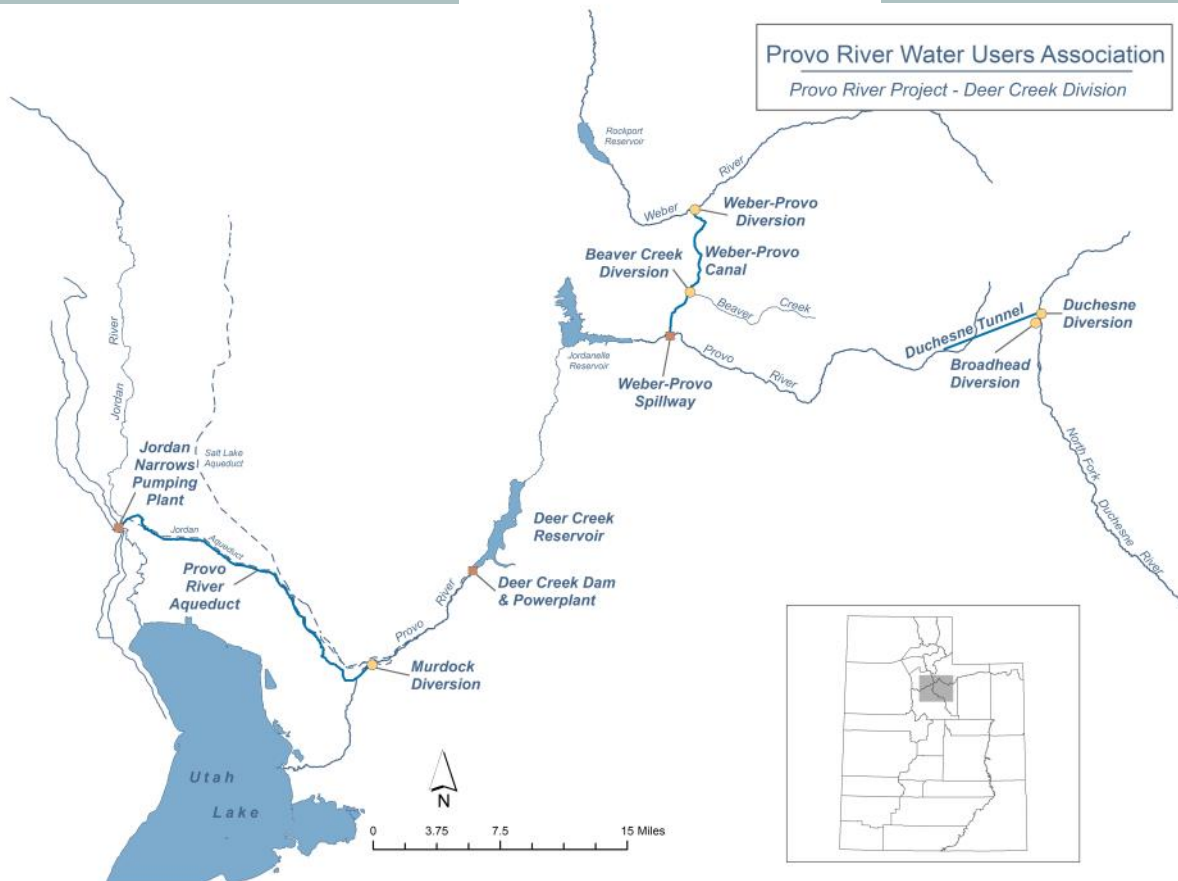


2014
ANNUAL REPORT

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SYSTEM MAP



Board of Directors

Michael L. Wilson

President

LeRoy W. Hooton

Vice-President

Genevieve Atwood

John S. Kirkham¹

Merril L. Bingham

Donald Y. Milne

Jeffrey J. Bryant

Jeff Niermeyer

Pat Comarell²

Shane E. Pace

Tom Godfrey

Christopher R. Tschirki

1 - Resigned June 2014
2 - Elected August 2014

Employees

Gerri Bradford

Jerry Fox

Scott Brockbank

Farrell Hatfield

Jeffrey D. Budge

Troy Heap

Steven H. Cain

Charlene Lenkart

G. Keith Denos

Travis Pool

Kerry Durrant

Mark Rawle

David Faux

James Reed

Roger Ford

John Whiting

MISSION STATEMENT

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.



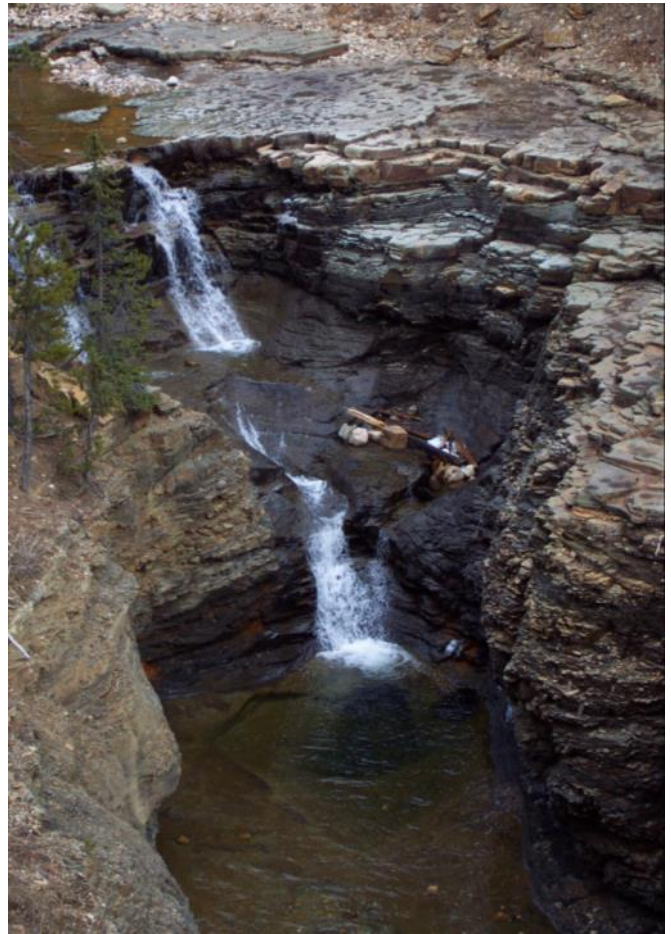
GENERAL MANAGER'S MESSAGE

Having been a member of many sports teams, bands and various performing troupes, I came to realize that, although my part was sometimes small, doing it well was essential for the success of the group. If I missed a block in football, sang a wrong note in choir or missed a line in a play, it affected more than just me – it affected everyone who was counting on me to perform. A missed block in football for instance might cost the team forward progress on that play and might adversely affect the final outcome. On the other hand, a simple pass in basketball leading to a layup can sometimes be as fulfilling as actually scoring the basket, and might favorably affect the result of the game. A small role performed well can make a significant difference to the success of the whole.

Similar to a successful sports team, choir or cast, the Association staff is comprised of talented individuals who each possess a unique set of skills and abilities. Blended together, their talents are complementary, and as a whole they are able to accomplish much more than might otherwise seem possible. Each member of the Association's small staff wears a number of different hats within the course of their duties. They are proactive in their training and they support one another in their varied tasks. I appreciate their dedication to the Association, the quality of their work and their diligence in fulfilling their responsibilities.

In 2014 a long-awaited goal was accomplished when title to the Provo River Aqueduct (PRA) and corridor was transferred from the Bureau of Reclamation to the Association. This intense team effort spanned two decades from the early planning of the Provo Reservoir Canal Enclosure Project (PRCEP) and would not have been possible without the perseverance of many dedicated individuals and organizations.

The institutional members of this successful PRCEP/Title Transfer team are well known – the Association, Central Utah Water Conservancy District, Metropolitan Water District of Salt Lake & Sandy, Jordan Valley Water





Conservancy District, Provo Reservoir Water Users Company, the Bureau of Reclamation and the Utah Division of Water Resources. Perhaps less known but essential to the success of this effort are leaders within the team such as retired Reclamation lands officer Mary Cook with the Upper Colorado Regional office. Mary was instrumental early in the title transfer process in helping to overcome bureaucratic obstacles and keeping things moving forward. Dennis Strong, former executive director of the Utah Division of Water Resources, was a leader in identifying funding opportunities for the canal enclosure



and thinking outside the box to turn these ideas into reality. Mary and Dennis are two examples of the many individuals who magnified their roles within the PRCEP/Title Transfer team and made a significant difference in the final outcome. Many others could also be recognized for their innovation and contributions, including managers, attorneys, Board members, consultants and staff members of the organizations listed above. I am appreciative to all who have had a role, large or small, in the success of the PRA construction and title transfer.

Every role is important to the success of the team. Geese fly in a “V” formation not because it looks impressive to us watching from below, but because flying in this formation allows the flock to cover 71 percent greater range than if each goose flew alone. This phenomenon is due to the uplift each goose provides for the goose following. And as the lead goose tires, it rotates back into the flock and another goose takes the lead, all for the benefit of the whole.

Flocks of geese and organizations of people are successful as each member of the team does their best and works toward the greater good. I’m grateful for the opportunity to work with talented people who exemplify this ethic.

-- G. Keith Denos, P.E.



WATER SUPPLY

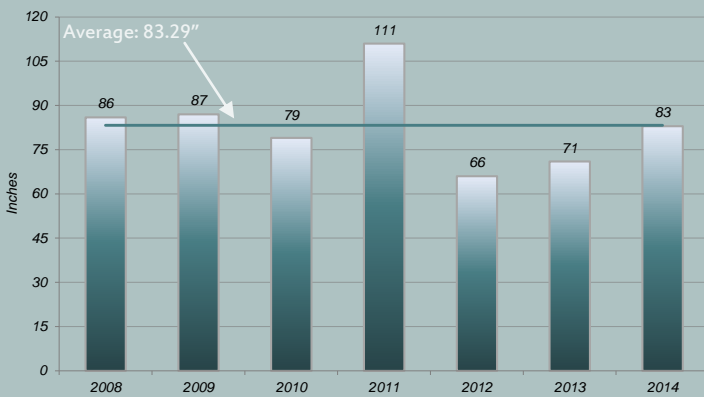


Trial Lake Campground February, 27, 2014

Water year 2014, although better than the two previous years, continued the pattern of below normal years which began in 2012. The snowpack on April 1 averaged 90 percent of median for the Provo, Weber and Duchesne River basins which contribute to the project water supply. The efficient snowmelt runoff yielded a higher than predicted final allocation to shareholders of 82 percent.

For the second year running, the Association was unable to "trade out" a significant portion of the 1938 power contract water stored in Echo Reservoir. The Bureau of Reclamation and the State Engineer brokered meetings to attempt to resolve water rights concerns among the federal Reclamation projects and other water users on the Weber River. These meetings yielded some progress, and water users look to 2015 with cautious optimism as a new Weber River Commissioner takes the helm.

Maximum Snow Depth Trial Lake Snotel Site

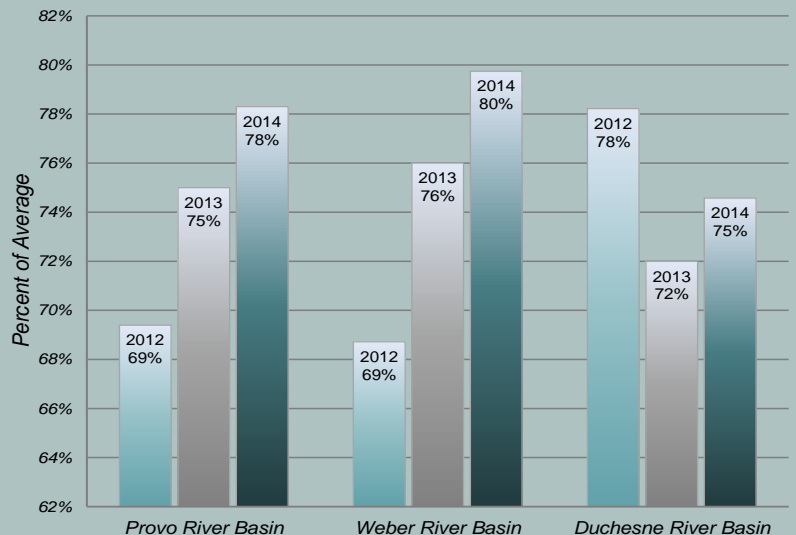


Snow Survey February 27, 2014

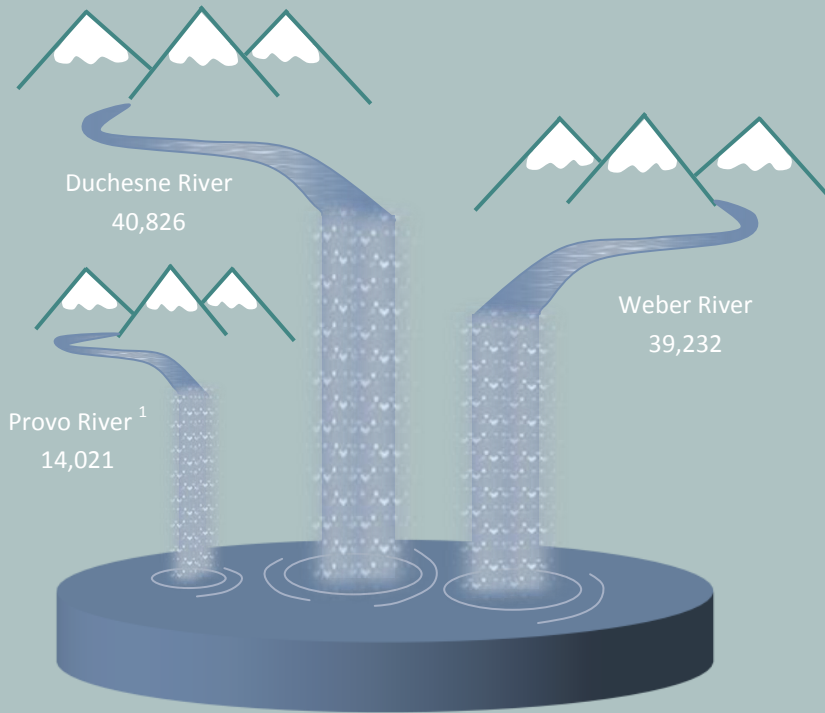


Duchesne Diversion February 27, 2014

Precipitation



WATER SOURCES (ACRE - FEET)



1—Includes 9,000 ac-ft exchanged from Utah Lake



Duchesne River

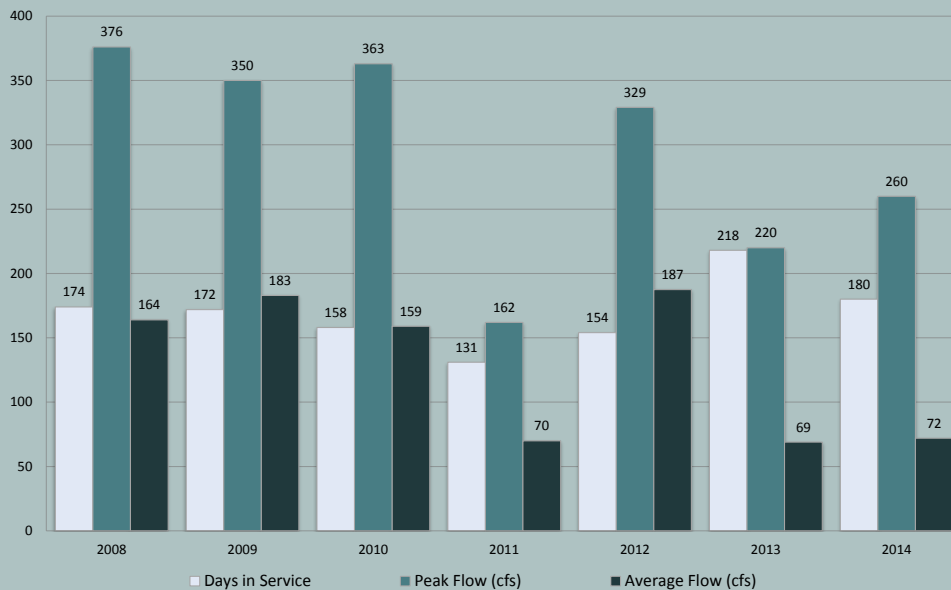


Provo River



PROVO RIVER AQUEDUCT

Provo River Aqueduct Water Years 2008-2014

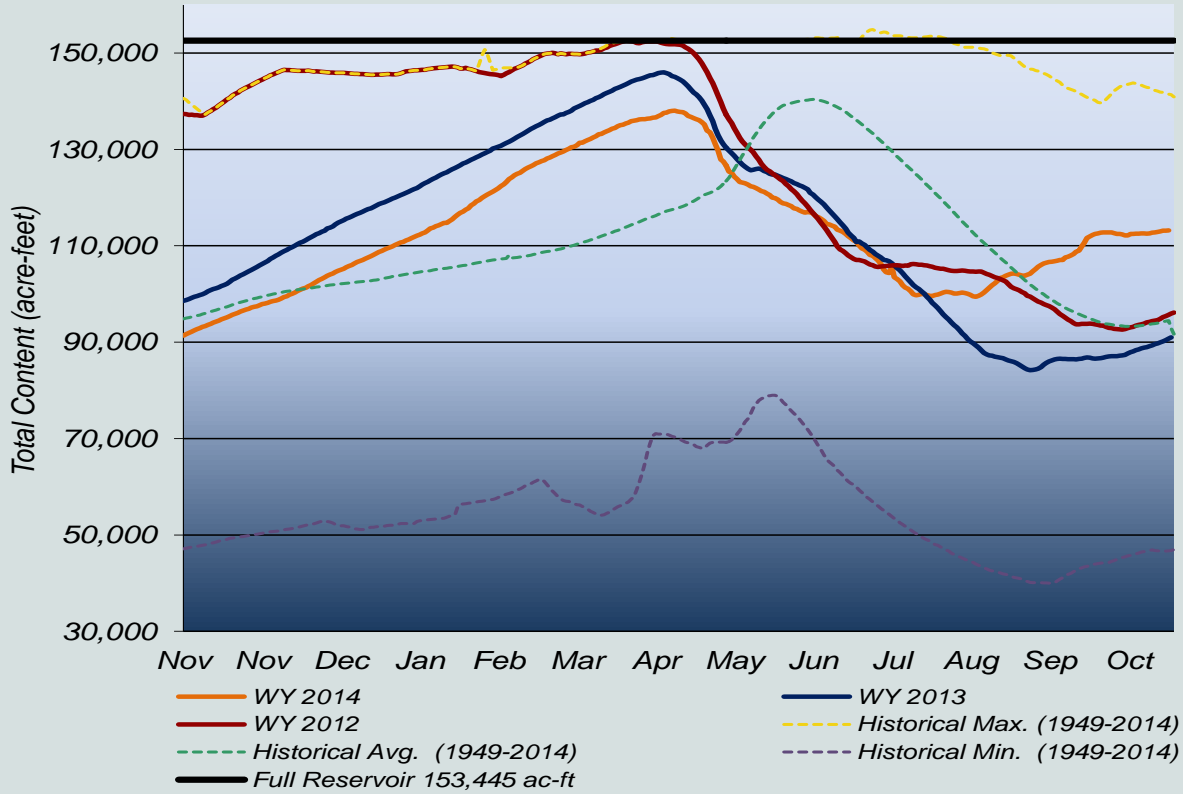


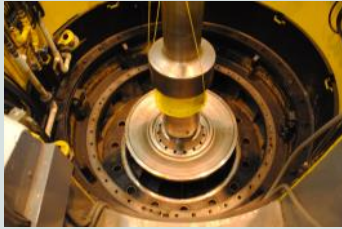
A total of 25,543 acre-feet was delivered through the Provo River Aqueduct from May 3 to October 29, 2014. The Jordan Narrows siphon was operated from May 5 to June 10 and the penstock delivered water from August 4 to October 15. A bearing failure on the Jordan Narrows turbine pump required penstock deliveries to be made through the energy dissipation valves for the last week of the irrigation season. The turbine pump bearing is scheduled to be repaired prior to the 2015 season.

DEER CREEK DAM AND RESERVOIR



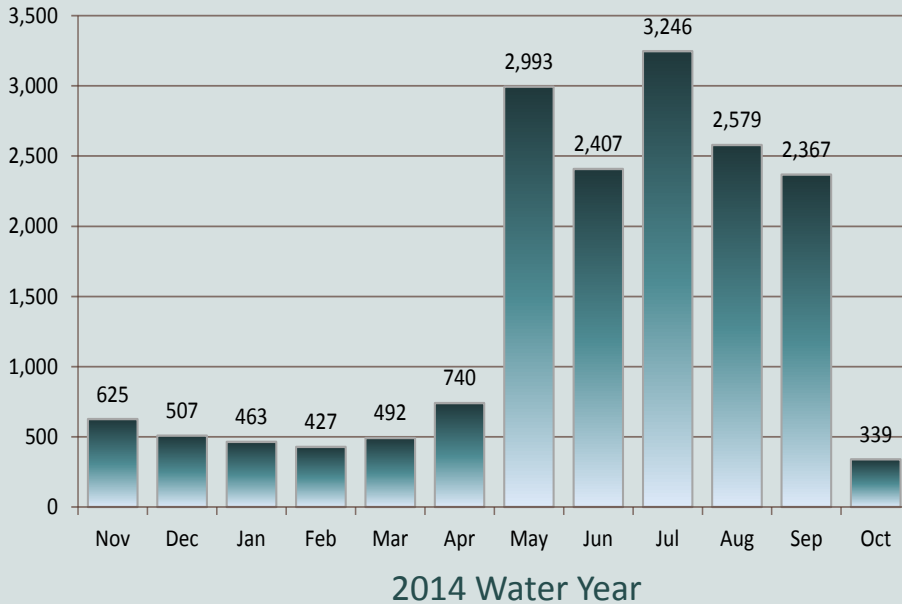
Deer Creek Reservoir
2012-2014 Volumes Including Historical Values





DEER CREEK POWER PLANT

Deer Creek Power Plant Gross Generation
kWh Thousands



MURDOCK CANAL TRAIL



Murdock Canal Trail Users

The Murdock Canal Trail was built over the top of the Provo River Aqueduct in the old Provo Reservoir Canal corridor and was opened for public use in May 2013. The trail has experienced nearly 1.5 million users from its opening through 2014, and has become a major amenity to those living, recreating and working in northern Utah County. Studies have shown that approximately 20 percent of trail users are commuters traveling to work, school or other activities. During 2014 numerous bike and running races and other events were held along the trail. Utah County operates and manages the Murdock Canal Trail under a license agreement with the Association.

PROVO RIVER AQUEDUCT TITLE TRANSFER

On October 30, 2004 President George W. Bush signed the Provo River Project Transfer Act (Act) into law, authorizing the transfer of title of the Provo Reservoir Canal (PRC) and corridor and the Pleasant Grove office and shop property from the Bureau of Reclamation to the Association. Ten years later, and after an amendment to the original Act was passed in July 2014, title transfer became a reality in a special signing ceremony held at the Association office on October 31, 2014. Department of the Interior official Jennifer Gimbel, Principal Deputy Assistant Secretary for Water & Science, attended and spoke at the event.

The Act required that the Association prepay to Reclamation at title transfer the portion of its construction repayment obligation attributable to construction of the PRC. The Association levied a special assessment to its shareholders of \$5.30 per share in August 2014 to cover the estimated prepayment obligation. In October 2014 the prepayment amount was set at \$511,878.59 and a check from the Association for this amount was presented to Reclamation at the title transfer ceremony.



L to R: Keith Denos, Mike Wilson, Jennifer Gimbel, Brent Rhees, Wayne Pullan

Title transfer was pursued because at the time it was thought that title to the facility was necessary to access Utah Board of Water Resources (BOWR) funds to enclose the PRC. Utah state law at the time required the BOWR to acquire title to lands or water rights in order to loan state funds. However, the Association could not convey title to the PRC lands or project water rights because title was held in the name of Reclamation. After title transfer legislation was obtained in 2004 and as efforts to enclose the PRC accelerated, there was some question if title transfer prior to completion of the Provo Reservoir Canal Enclosure Project might jeopardize the Association's non-profit status under the Internal Revenue Service code. Subsequently, the Association was able to facilitate two changes in state law that enabled the BOWR to loan state funds without the need to acquire title to the lands or water rights, and title transfer was delayed until after the new Provo River Aqueduct (PRA) was constructed.

Title transfer of the PRA and corridor was the most complex transaction and largest recording document in the history of the Utah County Recorder's office. The transaction included 325 individual land parcels, federal reserved easements, reciprocal easements and a Districts Facilities Easement running nearly the entire 21.5 mile length of the corridor. Ownership of the PRA and corridor gives the Association more latitude in managing the facility and resolving land-related problems, and allows for the opportunity of using the land as security for future transactions.



TITLE TRANSFER ACT 2004

GROUNDBREAKING 10.20.2010



CONSTRUCTION 2010 - 2013



COMPLETION CELEBRATION

4.5.2013



TITLE TRANSFER SIGNING

10.31.2014

TITLE TRANSFER ACT AMENDMENT

2014



ADMINISTRATION



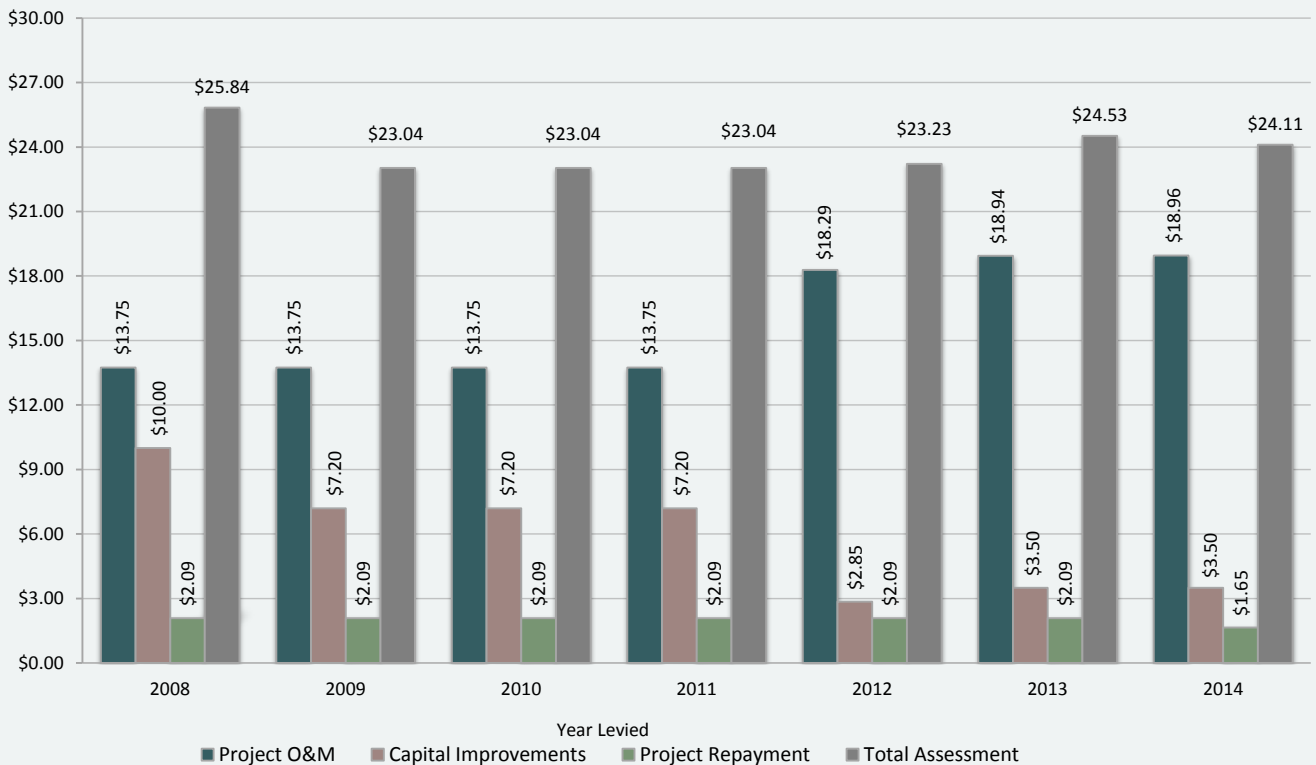
PLANS AND STUDIES

During the past few years the Association has funded studies and planning efforts in the areas of water rights, capital improvements and water conservation. The Water Rights Management and Drought Mitigation Plan was initiated in 2012 and completed in 2014. The purpose of this study was to analyze Provo River Project water rights and identify measures that improve water management and maximize water allocations, with an emphasis on drought mitigation.

The Master Plan Update completed in 2014 is the latest update of the Association’s original Master Plan of System Improvements first completed in 1995 and updated in 2003. The purpose of the 2014 Master Plan Update was to develop a document to guide the Association in future planning for capital improvements. As part of this effort, the Engineering Committee and the Board of Directors have prioritized over 50 potential capital and operations & maintenance projects which will be implemented as budget funds allow and needs require.

The Water Management and Conservation Plan completed in late 2014 is an update of the Association’s original 2008 plan. The purpose of this current planning effort is two-fold: 1) to identify potential water conservation measures to improve water management, and 2) to comply with Reclamation requirements and State of Utah guidelines pertaining to water conservation plans. Many of the projects and measures identified in the Water Management and Conservation Plan have been included in the Master Plan Update for implementation according to the priorities assigned by the Board of Directors.

**Provo River Water Users Association
Regular Assessments Levied to All Shareholders**





POLICIES

The Association Board of Directors oversaw the development and implementation of many new policies in 2014 including Procurement, Management and Expenditure of Funds, Investment, Water Management, Real Property Management, Risk Management and Personnel policies. Board members, legal counsel and staff all contributed significantly to this effort. In addition to the newly developed policies, the Budget and Assessment, Water Management and Travel policies were updated in 2014. In 2015 a cybersecurity policy is anticipated to be approved, and supporting specifications and procedures called for in previously approved policies will be developed.



ORGANIZATIONAL REVIEW



An Organizational, Staffing, and Operations Review of the Association was performed in 2014 under the direction of the Board of Directors. Conducted by a consulting team, the two-month study ran from August through October. The study recognized strengths of the Association’s organization and operations and outlined areas for improvement. Recommendations to streamline operations and increase efficiencies were included in the report. The Board of Directors has prioritized the recommendations from the study and will implement many of them over the next few years.

RETIREMENT

John Kirkham retired from the Board of Directors in June 2014 after three years of service to the Association. Kirkham also retired from the Metropolitan Water District of Salt Lake & Sandy Board of Trustees in June after 11 years of service, the last four as Chair. Kirkham, a prominent Salt Lake City attorney specializing in energy and natural resources law, has served on numerous community boards and was previously president of the Great Salt Lake Council of the Boy Scouts of America.



Deer Creek Power Plant operator Jack Powers retired in March 2014 after 30 years of employment with the Association. Powers was hired as an operator in March 1984 and has seen a little bit of everything in his time at the power plant. Bitter cold, avalanches, cougars, bears and crazy midnight fishermen were all part of his experience. Powers was honored at a retirement luncheon at the power plant for his contributions to the Association.

MAINTENANCE



WEBER-PROVO DIVERSION

In addition to regular maintenance, the Weber-Provo Canal Diversion received focused attention during the 2014 runoff season and later that fall. High runoff flows deposited an extraordinary amount of debris in front of the canal gates, which threatened to block the diversion. Personnel were scheduled around the clock for seven days to remove debris and keep water flowing into the canal. In September and October, heavy equipment was brought in to remove the debris from the diversion forebay. This work is performed every year; however, the amount of silt, rocks, trees and other debris removed in fall 2014 was much greater than in many previous years.



Weber-Provo Diversion Forebay



ULDC North Branch Pipeline

JORDAN NARROWS

During an inspection in September 2013, a small hole due to corrosion was found in the ascending reach of the Utah Lake Distributing Canal North Branch pipeline in the Jordan Narrows. Corrosion had also affected other areas of the pipe causing thinning of the pipe walls near to the point of failure. Facilities in the Jordan Narrows are protected by a cathodic protection system, however this section of welded-steel pipe was outside of that protection zone. Various forms of spot repairs were considered, but these were discounted because the combined cost would approximate that of a complete replacement. The steel pipe was replaced with heavy-wall, 48-inch diameter high-density polyethylene (HDPE) pipe because of its strength, flexibility, corrosion resistance and very long life expectancy. The installation was fairly difficult due to the steep terrain, but was completed by April 1, 2014 in time for the irrigation season. The total cost for the replacement project was \$236,399.00.

PREVENTATIVE MAINTENANCE

Association personnel perform routine inspections of every aspect and feature of the Provo River Project and other Association assets. These inspections include interior, exterior and functionality examinations. The combination of inspection results and manufacturer or industry recommendations drives specific preventative maintenance. The Association essentially follows the Reliability Centered Maintenance model which dictates the need for near 100 percent availability of critical facilities. This approach drives work prioritization, procurement of assets and replacement parts, and task scheduling.





SPEED CREEK



The South Kamas and Washington Irrigation companies canal — known locally as Speed Creek — is diverted from the Provo River near Woodland, Utah. In recent runoff seasons, the river channel upstream of the diversion was significantly altered, which made water deliveries to the canal very difficult and threatened to damage the diversion and the adjoining dike. In September 2014, crews mobilized to Speed Creek and used heavy equipment to re-establish the river channel in its regular course. The river will be observed closely at this location during the 2015 runoff. It is possible that additional work may be required in the future to fine tune the river at the diversion.

DEER CREEK GENERATOR

In 2006 the Bureau of Reclamation determined that the Deer Creek Power Plant turbine runners needed to be replaced. Reclamation budgeted for this major work effort and coordinated with the Association to ensure the timing of the work wouldn't affect water deliveries. Under Reclamation's direction, Association maintenance personnel and expert consultants disassembled generator Unit No. 2 in fall 2013 and the turbine runner was removed. Unit No. 2 was reassembled in early 2014 with a new, more efficient turbine runner and placed back in service in April 2014. In October 2014, Unit No. 1 was disassembled to replace the turbine runner. Unit No. 1 is expected to be back in service with a new turbine runner in April 2015.



SAFETY

Safety has long been a primary focus for the Association, and employee and public safety was paramount in a number of activities in 2014. At Deer Creek Power Plant, maintenance personnel exercised extreme care in the reassembly of generator Unit No. 2 and the later disassembly of Unit No. 1. This work required isolation of energy sources, lifting of heavy components and adherence to detailed technical procedures. Other large projects with significant safety components included heavy civil work in the Provo River near Woodland, Utah, and in the Weber-Provo Canal Diversion forebay near Oakley, Utah.

The Murdock Canal Trail presents safety challenges and benefits. A challenge is that Association staff and contractors have had to adjust to working in this public thoroughfare. This has been accomplished safely and with minimal disruption. A benefit is that trail users provide additional sets of eyes to assist in identifying safety concerns, maintenance problems or potential security issues. For example, trail users reported earth settling near a control vault which allowed for rapid repair before the problem escalated.

PROJECT WATER USE

		2014	2014 Allotment 82.0%		Extra	Holdover from Water Year 2013		Holdover
		Total Use	Allocated	Used	Allotment	Available	Used	Towards
October 31, 2014	Shares	(AF)	(AF)	(AF)	Used	(AF)	(AF)	2015
MWDSLS								
Account #1	500	628	410	410	0	218	218	0
Account #2	200	251	164	164	0	87	87	0
Account #3	15,000	18,825	12,300	12,300	0	6,525	6,525	0
Account #4	46,000	2,160	37,720	0	0	43,053	2,160	78,613
Total	61,700	21,864	50,594	12,874	0	49,883	8,990	78,613
Orem MWD								
Account #1	1,300	0	1,066	0	0	566	0	1,632
Account #2	200	164	164	164	0	0	0	0
Account #3	754	333	618	285	0	48	48	333
Total	2,254	497	1,848	449	0	614	48	1,965
Dixon Irrigation Company	300	0	246	0	0	131	0	377
Provo MWD	8,000	5,866	6,560	0	0	9,305	5,866	9,999
American Fork MWD	500	320	410	320	0	(5)	0	85
Beaver/Shingle Creek	900	38	738	0	0	1,568	38	2,268
Diamond Bar X	86	40	71	40	0	0	0	31
Bar X Mutual Water Company	10	7	8	7	0	0	0	1
MSH Corporation	10	7	8	7	0	0	0	1
Noblett's Creek Mutual Water	19	0	16	0	0	0	0	16
Highland Conservation District								
Highland Conservation Dist.	1,710	1,035	1,402	664	0	371	371	738
Highland City	2,099	878	1,721	326	0	552	552	1,395
Lehi City	796	557	653	516	0	41	41	137
American Fork City	405	247	332	247	0	(2)	0	83
Total	5,010	2,717	4,108	1,753	0	962	964	2,353
Lehi City	500	315	410	262	0	53	53	148
Lindon City	200	0	164	0	0	58	0	222
Pleasant Grove Irrigation								
Pleasant Grove Irrigation	363	223	298	219	0	4	4	79
Pleasant Grove MWD	648	78	532	0	0	282	78	736
Total	1,011	301	829	219	0	286	82	814
Pleasant Grove MWD	300	0	246	0	0	269	0	515
Provo Bench Irrigation								
Orem MWD	900	644	738	57	0	587	587	681
Provo Bench	620	0	508	0	0	1,367	0	1,875
Pleasant Grove MWD	125	31	103	0	0	54	31	126
Lindon City	355	146	291	0	0	686	146	831
Total	2,000	821	1,640	57	0	2,694	764	3,513
Provo Res. Water Users Co.								
JVWCD	10,702	4,536	8,776	0	0	5,631	4,536	9,871
Orem MWD	2,791	3,228	2,289	1,813	0	1,415	1,415	476
Alpine District	938	367	769	290	0	77	77	479
Pleasant Grove MWD	199	81	163	11	0	70	70	152
Highland City	598	802	490	80	0	722	722	410
Lehi City	213	(42)	175	(115)	0	73	73	290
Lehi Irrigation	394	323	323	323	0	0	0	0
American Fork City	76	47	62	16	0	31	31	46
Lindon City	89	3	73	3	0	0	0	70
Total	16,000	9,345	13,120	2,421	0	8,019	6,924	11,794
South Kamas Irrigation	500	511	410	325	0	186	186	85
Victory Ranches	200	0	164	0	0	441	0	605
Washington Irrigation	500	333	410	325	0	8	8	85
Total	100,000	42,982	82,000	19,059	0	74,472	23,923	113,490





BALANCE SHEETS

	Assets	
	<u>2014</u>	<u>2013</u>
Current Assets		
Cash and cash equivalents	\$ 1,385,212	\$ 1,619,619
Cash and cash equivalents - restricted	2,065,909	1,961,870
Investments	329,527	334,588
Accounts receivable	548,755	559,792
Construction receivable	11,338	158,103
Due from Cental Utah Water Conservancy District	41,902	83,803
Due from Lindon City	20,000	20,000
Prepaid insurance		277,006
Total current assets	<u>4,402,643</u>	<u>5,014,781</u>
Fixed assets, net of accumulated depreciation of \$7,880,621 and \$6,159,974, respectively	<u>244,699,432</u>	<u>70,956,701</u>
Other Assets		
Due from Central Utah Water Conservancy District	377,114	419,016
Due from Lindon City, less current portion	60,000	70,000
Beneficial interest in water rights	24,070,460	24,070,460
Bond issuance fees, net of accumulated amortization of \$151,653 and \$131,444, respectively	368,630	388,839
Total other assets	<u>24,876,204</u>	<u>24,948,315</u>
Total assets	<u><u>\$ 273,978,279</u></u>	<u><u>\$ 100,919,797</u></u>





Liabilities and Stockholders' Equity

	2014	2013
Current Liabilities		
Accounts payable	\$ 18,975	\$ 78,220
Construction accounts payable		12,516
Accrued liabilities	52,562	53,898
Accrued compensated absences	139,312	130,386
Accrued interest	690,631	706,670
PRCEP deposits	47,254	53,759
Current portion due to Summit County		5,150
Current portion of bonds payable	580,000	558,000
Current portion of notes payable	816,547	846,136
Line of credit		453,000
Total current liabilities	2,345,281	2,897,735
Long-Term Liabilities		
Bonds payable, less current portion	24,882,000	25,462,000
Notes payable, less current portion	7,635,458	8,905,874
Net pension obligation	520,864	768,546
Total long-term liabilities	33,038,322	35,136,420
Total liabilities	35,383,603	38,034,155
Stockholders' Equity		
Capital stock	23,915,867	23,915,867
Future stockholder assessments	(3,210,513)	(3,987,682)
	20,705,354	19,928,185
Retained earnings		
Invested in capital improvements	212,391,429	37,275,428
Restricted for Provo River Aqueduct operations & maintenance	162,354	51,800
Designated for reserve	683,704	688,765
Designated for capital improvements	79,000	434,617
Designated (deficit) for equipment	(37)	29,709
Unreserved, undesignated	4,572,872	4,477,138
	217,889,322	42,957,457
Total stockholders' equity	238,594,676	62,885,642
Total liabilities and stockholders' equity	\$ 273,978,279	\$ 100,919,797



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