

THINK • PLAN • PERFORM • CONSERVE



Riverside Highland
WATER COMPANY®

2011

Consumer Confidence & Shareholders Reports

This brochure is a summary of the quality of water that Riverside Highland Water Company provided to its customers in 2011. Included are details about where your drinking water comes from, what it contains, and how it compares to State and Federal Standards. The enclosed tables show the results of our monitoring for the period of January 1st to December 31st, 2011. In some instances, the results are from prior years because not all constituents in water are required to be tested every year according to the vulnerability of the water being pumped from certain basins.

In an effort to keep our customers informed, we are providing you with updated information because we feel *well informed customers/shareholders are our best allies*. If, after reading this report, you have any questions or concerns, please call Don Hough, General Manager, or Craig Gudgeon, Distribution Superintendent, at (909) 825-4128.

Also included in this brochure are our Annual Shareholders Letter and Financial Statements for 2011.

Incorporated February 21, 1898, Riverside Highland Water Company is proud to be celebrating its **114th year of continuous operation**. This achievement could not have been attained without the ongoing support and involvement of our shareholders.

In 2011, your drinking water met all Environmental Protection Agency (EPA) and State of California drinking water health standards. Riverside Highland Water Company diligently safeguards your water supply and will continue to improve our water delivery system in an effort to maintain our high water quality standards.

System Reliability

In 2011, Riverside Highland Water Company continued with the Automated Meter Replacement Program. This system uses a receiving device to automatically record the reading from a transmitter located inside of the meter, thus eliminating the need to manually read each meter. This system will not only save time and labor but it will eventually help us to help you, our customers, save water. Water conservation has become more important than ever because the State of California has mandated a 20% reduction in all urban water use by the year 2020. So far we have replaced over 2,700 existing water meters in addition to any new meters that have been installed.

In addition to the Automated Meter Replacement Program, during 2011 Riverside Highland Water Company also installed about 1,400 feet of 18 inch water transmission main in Michigan Street, between Pico and Main Streets as well as over 2,600 feet of smaller distribution water mains. We replaced or installed 32 water services and 6 fire

The ongoing goal of Riverside Highland Water Company's Management and Staff is to provide you, our customers/shareholders, with safe and reliable drinking water. We are committed to providing excellent customer service and will respond **24 hours a day, seven days a week**, if you have a problem. All you have to do is call (909) 825-4128.

The company is managed by a nine member Board of Directors, of which, three are elected each year. The Board members for 2011 were William McKeever, President; Karen McHugh, Vice President; Anthony Petta, Secretary/Treasurer; Wendell Baker, Robert Best, James McNaboe, George Saunders, Denis Kidd, and Donald Larkin, Jr. The daily operation of the company was the responsibility of Don Hough, General Manager; Sharon Sanchez, Administrative Secretary/Treasurer and Craig Gudgeon, Distribution Superintendent.

Sharon Sanchez retired from Riverside Highland Water Company in October of 2011, after 25 years with the company. Her service to the company will be greatly missed. Jennifer Elsass who has been with the company for 9 years was promoted to Secretary/Treasurer.

The company's annual shareholders' meeting is the fourth Thursday of March at 9:00 a.m. The location of the meeting is included in the shareholders' packet. The Board of Directors meet on the fourth Thursday of each month. For additional information regarding Board meetings or this report, please call Mr. Hough at (909) 825-4128.

hydrants. The Company also rehabilitated and replaced the pump at one of our domestic water wells.

In 2012, the Company will continue to upgrade the system and plan for the future by replacing additional distribution water mains and water services throughout the system. We will continue with the Automated Meter Replacement Program as well as upgrade our water wells and booster pumps.

While the economic downturn has impacted development, Riverside Highland Water Company continues to work with various developers in Riverside County to expand the water system into areas that were once citrus groves that received their irrigation water from us. These additions are being funded by the builders without any financial burden to our current shareholders.

Source Water Protection Plan

In 2011, Riverside Highland Water Company pumped all of its water from company owned wells from several groundwater basins. Groundwater basins are deep natural underground storage compartments separated by earthquake faults or other natural barriers. Basins are replenished as water travels over the surface of the land or through the ground. That is why it is so important to control surface contamination.

In 2002, San Bernardino Valley Water Conservation District, with input from Riverside Highland Water Company, completed a study to assess the vulnerability of water wells in the Lytle Creek and Riverside North Basins. The study indicated that sources of possible contamination are gas stations, dry cleaners and underground storage tanks.

To obtain a copy of the complete Source Water Assessment, contact your local Department of Health Services.

Non-English Translation

Este informe contiene informacion muy importante sobre su agua potable. Traduzcalo o hable con alguien que lo entienda bien.

WATER MONITORING RESULTS

Microbiological Contaminants

Contaminant	Violation Y/N	Highest No. of detections	Number of months in Violation	Unit Measurement	MCLs in CCR units	PHG	MCLG	Typical Source of Bacteria
Total Coliform Bacteria (Total Coliform Rule)	N	0	0	0	For systems that collect less than 40 samples per month: no more than 1 positive sample	0	0	Naturally present in the environment
Fecal coliform and E.coli (Total Coliform Rule)	N	0	0	0	A routine sample and repeat sample are total coliform positive, and one is also fecal coliform or E. coli positive	0	0	Human & animal fecal waste

Radioactive Contaminants

Contaminant	Violation Y/N	Level Detected	Range	Unit Measurement	MCLs in CCR units	PHG	MCLG or MRDLG	Likely Source of Contamination
Gross Alpha	N	5.3	1.6/8.9	pCi/L	15	N/A	N/A	Erosion of natural deposits
Uranium	N	3.9	ND/7.8	pCi/L	20	0.43	N/A	Erosion of natural deposits

Inorganic Contaminants

Contaminant	Violation Y/N	Level Detected	Range	Unit Measurement	MCLs in CCR units	PHG	MCLG or MRDLG	Likely Source of Contamination
Arsenic	N	0.5	ND/2.4	ppb	10.0	0.004	0.004	Erosion of natural deposits; runoff from orchards; glass and electronics production wastes
Fluoride	N	0.6	0.2/0.7	ppm	2.0	1	1	Erosion of natural deposits; water additive that promotes strong teeth; discharge from fertilizer and aluminum factories
Nitrate (as No3)	N	14.5	8.7/18	ppm	45	45	45	Runoff and leaching from fertilizer use; leaching from septic tanks and sewage; erosion of natural deposits
Aluminum	N	20	ND/98	ppb	1000	1000	N/A	Erosion of natural deposits
Total Chromium	N	4.9	4.5/8.4	ppb	50	N/A	100	Discharge from steel and pulp mills and chrome plating; erosion of natural deposits

Disinfection Byproducts, Disinfectant Residual

Contaminant	Violation Y/N	Level Detected	Range	Unit Measurement	MCLs in CCR units	PHG	MCLG or MRDLG	Likely Source of Contamination
TTHMs Total Trihalomethanes	N	5.3	1.6/8.9	ppb	80	N/A	N/A	Byproduct of drinking water disinfection
HAA5's	N	3.9	ND/7.8	ppb	60	N/A	N/A	Byproduct of drinking water disinfection
Chlorine	N	0.49	0.40/0.56	ppm	4.0	4	4	Drinking water disinfection added for treatment

Definitions

NA	Not available or not determined.
ND	Non-detected or below detection limit; constituent is not present or detectable.
ppm or mg/L	Parts per Million: approximately one minute in two years.
ppb or ug/L	Parts per Billion: approximately one minute in two thousand years.
pCi/L	Pico curies per liter: is a measure of radioactivity in water.
NTU	Nephelometric Turbidity Units – measure of the clarity of water. Turbidity in above 5 NTU is just noticeable with the eye.
PDWS	Primary Drinking Water Standards: MCLs for contaminates that affect health along with their monitoring and reporting requirements, and water treatment requirements.
MCL	Maximum Contaminant Level: The highest level of a contaminant that is allowed in drinking water. Primary MCLs are set as close to the PHGs (or MCLGs) as is economically and technologically feasible. Secondary MCLs are set to protect the odor, taste, and appearance of drinking water.

MCLG	Maximum Contaminant Level Goal: The level of a contaminant in drinking water below which there is no known or expected risk to health. MCLGs are set by the U.S. Environmental Protection Agency.
PHG	Public Health Goals: The level of a contaminant in drinking water below which there is no known or expected risk to health. PHGs are set by the California Environmental Protection Agency.
Range	The lowest and highest level of constituent testing during the period.
MRDL	The highest level of disinfectant allowed in drinking water. There is convincing evidence that addition of a disinfectant is necessary for control of microbial contaminants.
MRDLG	The level of drinking water disinfectant below which there is no known or expected risk to health. MRDLGs do not reflect the benefits of the use of disinfectants to control microbial contaminants.

Secondary Standards

Contaminant	Violation Y/N	Level Detected	Range	Unit Measurement	MCLs in CCR units	PHG	MCLG or MRDLG	Likely Source of Contamination
Chloride	N	26.8	2.9/44	ppm	500	N/A	N/A	Runoff/leaching from natural deposits; seawater influence
Iron	N	30	ND/150	ppb	300	N/A	N/A	Leaching from natural deposits; industrial wastes
PH	N	7.4	7/7.6	STD unit	6.5/8.5	N/A	N/A	Comparison of "Alkalinity" & "Acidity" of water
Specific Conductance	N	572	360/820	US	1600	N/A	N/A	Substances that form ions when in water; seawater influence
Sulfate	N	52	18/92	ppm	500	N/A	N/A	Runoff/leaching from natural deposits; industrial wastes
Total Dissolved Solids (TDS)	N	348	200/500	ppm	1000	N/A	N/A	Runoff/leaching from natural deposits
Foaming Agents (MBAS)	N	0.02	ND/0.8	ppb	500	N/A	N/A	Municipal and industrial waste discharges
Turbidity	N	0.3	ND/1.1	NTU	5	N/A	N/A	Soil Runoff

Additional Constituents Analyzed

Contaminant	Violation Y/N	Level Detected	Range	Unit Measurement	MCLs in CCR units	PHG	MCLG or MRDLG	Likely Source of Contamination
Calcium	N	59	34/78	ppm	N/A	N/A	N/A	Natural in limestone, marble, chalk
Total Hardness CA C03	N	200	150/260	ppm	N/A	N/A	N/A	Total concentration of calcium and magnesium
Total Alkalinity	N	180	120/250	ppm	N/A	N/A	N/A	Bicarbonates and hydroxide components in raw water
Bicarbonate	N	218	140/310	ppm	N/A	N/A	N/A	Bicarbonate components in water
Magnesium	N	10.7	6.2/16	ppm	N/A	N/A	N/A	Metallic chemical element in soil
Potassium	N	3.3	2.4/4.0	ppm	N/A	N/A	N/A	Nutritional element in soil for humans
Sodium	N	39	11/57	ppm	N/A	N/A	N/A	Alkaline element industrial and chemical manufacturing

Unregulated Contaminants

Unregulated contaminant monitoring helps the EPA and the California Department of Health Services to determine where certain contaminants occur and whether the contaminants need to be regulated.

Chemical	Notification Level ppb	Level Detected	Range	Health Effects
Vanadium	50	4.8	4.1/6.7	The babies of some pregnant women who drink water containing vanadium in excess of the notification level may have an increased risk of development effects, based on studies in laboratory animals.

Lead & Copper

Lead & Copper Rule became effective in 1993. The Company has performed seven rounds of sampling. The last round was performed in August 2009. Another round is scheduled for July 2012. All samples are taken from the first draw of morning water. The first two rounds were from 40 single-family residences with copper pipe with lead solder installed since 1982. Due to favorable results in earlier rounds, the 1997, 2000, and 2003 rounds included only 20 single-family residences. Because of the increase in our customer base, the 2006 and 2009 round of testing required us to sample 30 single-family residences.

Contaminant	90th Percentile	Unit Measurement	MCLs in CCR Units	PHG	MCLG	Likely Source of Contamination
Lead	ND	ppb	AL 15	0.2	0	Internal corrosion of household plumbing system, discharge industrial mfg. erosion of natural deposits
Copper	0.28	ppb	AL 1300	170	1300	Internal corrosion of household system, erosion of natural deposits

Important Health Information

Drinking water including bottled water may reasonably be expected to contain at least small amounts of some contaminants. The presence of contaminants does not necessarily indicate that water poses a health risk. More information about contaminants and potential health effects can be obtained by calling the USEPA's Safe Drinking Water Hotline (1-800-426-4791).

Some people may be more vulnerable to contaminants in drinking water than the general population. Immuno-compromised persons such as persons with cancer undergoing chemotherapy, persons who have undergone organ transplants, people with HIV/AIDS or other immune system disorders, some elderly, and infants can be particularly at risk from infections. These people should seek advice about drinking water from their health care providers. USEPA/Centers for Disease Control (CDC) guidelines on appropriate means to lessen the risk of infection by *Cryptosporidium* and other microbial contaminants are available from the Safe Drinking Water Hotline.

If present, elevated levels of lead can cause serious health problems, especially for pregnant women and young children. Lead in drinking water is primarily from materials and components associated with service lines and home plumbing. Riverside Highland Water Company is responsible for providing high quality drinking water, but cannot control the variety of materials used in plumbing components. When your water has been sitting for several hours, you can minimize the potential for lead exposure by flushing your tap for 30 seconds to 2 minutes before using water for drinking or cooking. If you are concerned about lead in your water, you may wish to have your water tested. Information on lead in drinking water testing methods, and steps you can take to minimize exposure is available from the Safe Drinking Water Hotline or at <http://www.epa.gov/safewater/lead>.

Capital Improvements

In addition to increased costs related to the operation of a water system, many water agencies also site deteriorating infrastructure as a need for raising water rates. As most modern water systems were initially constructed about the early 1900's, many are now in need of major water facilities replacement. The American Society of Civil Engineers has rated the US Drinking Water Infrastructure nationwide a D-, stating, "America's drinking water systems face an annual shortfall of at least \$11 billion to replace aging facilities." The report also said, "Leaking pipes lose an estimated seven billion gallons of water a day." In its 2009 Drinking Water Infrastructure Needs Survey and Assessment, the US Environmental Protection Agency reported a need for \$350 billion to meet 20-year anticipated water capital projects.

While the rest of the nation receives a poor rating, Riverside Highland Water Company would receive a much higher rating as a direct result of our Capital Improvement Program, first implemented in 1987. Since that time we have replaced more than 36 miles of water mains. This main replacement has resulted in a decrease from 139 water main leaks in 1985 prior to the Main Replacement Program to only one water main leak last year. This has also helped save water. Unaccounted for water is the difference between water entering the water system and the water delivered to our customers. All water systems experience some water loss as an ordinary part of operations such as inaccurate metering, theft, and fire hydrant

An Important Message About Drinking Water Sources

The sources of drinking water (both tap water and bottled water) include rivers, lakes, streams, ponds, reservoirs, springs, and wells. As water travels over the surface of the land or through the ground, it dissolves naturally occurring minerals and, in some cases, radioactive material, and can pick up substances resulting from the presence of animals or from human activity. Contaminants that may be present in source water include:

Microbial Contaminants, such as viruses and bacteria that may come from sewage treatment plants, septic systems, agricultural livestock operations, and wildlife.

Inorganic Contaminants, such as salts and metals, that can be naturally-occurring or result from urban storm water runoff, industrial or domestic wastewater discharges, oil and gas production mining, or farming.

Pesticides and Herbicides, that may come from a variety of sources such as agriculture, urban storm water runoff, and residential uses.

Organic Chemical Contaminants, including synthetic and volatile chemicals that are by-products of industrial processes and petroleum production, and can also come from gas stations, urban storm water runoff, agricultural applications and septic systems.

Radioactive Contaminants, that can be naturally-occurring or be the result of oil and gas production and mining activities.

Regulations: In order to ensure that tap water is safe to drink, the U.S. Environmental Protection Agency (USEPA) and the State Department of Health Services (Department) prescribes regulations that limit the amount of certain contaminants in water provided by public water systems. Department regulations also establish limits for contaminants in bottled water that must provide the same protection for public health.

flushing. The EPA's Office of Water states that one of the most important water efficiency measures that a public water system can implement is a water-loss management plan whose goal should be to achieve the industry standard of 10% unaccounted for water. In 1985 Riverside Highland Water Company's unaccounted for water was 39 percent. As a result of the Capital Improvement Program we have reduced that number to less than 10 percent every year since 1992.

In addition to main replacement, we have also replaced one reservoir, built two new reservoirs and installed a new roof on another. During this period we have drilled and equipped four new wells, built a new corporate facility and commenced with the Automated Meter Reading Program.

We will continue with the Capital Improvement Program by drilling new water wells when needed as well as maintaining the best efficiency possible by upgrading our current water wells and booster pumps. The remainder of the water distribution system is in a replacement schedule and we hope to have the entire water system operating with automated meters by the year 2014. Riverside Highland Water Company has been ongoing with capital improvement for many years believing that a Capital Improvement Program is not only important for the overall health of the water system, but will also decrease costs over time.

RIVERSIDE HIGHLAND WATER COMPANY

BALANCE SHEETS

DECEMBER 31, 2011 and 2010

ASSETS

	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	\$ 227,643	\$ 281,864
Accounts receivable – trade	332,577	259,669
Accounts receivable – other	266,767	14,227
Interest receivable	824	994
Deposits and prepaid expenses	61,256	63,734
Total Current Assets	<u>889,067</u>	<u>620,488</u>
INVESTMENTS		
Certificate of deposit	-	50,000
Certificate of deposit – restricted	21,000	21,000
Other marketable securities	589,800	575,380
Muscoy Mutual Water Company stock	100	100
	<u>610,900</u>	<u>646,480</u>
PROPERTY & EQUIPMENT		
Land	2,570,155	2,570,155
Depreciable assets	<u>26,244,792</u>	<u>25,566,963</u>
	28,814,947	28,137,118
Less: Accumulated depreciation	<u>10,758,717</u>	<u>10,057,649</u>
	18,056,230	18,079,469
Construction in progress	<u>38,484</u>	<u>132,297</u>
	<u>18,094,714</u>	<u>18,211,766</u>
TOTAL ASSETS	<u>\$ 19,594,681</u>	<u>\$ 19,478,734</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

	2011	2010
CURRENT LIABILITIES		
City of Grand Terrace	\$ 402,227	\$ 303,206
Accounts payable	84,656	114,663
Accrued liabilities	47,240	44,660
Income taxes payable	21,558	1,005
Customer deposits	43,921	46,147
Total Current Liabilities	<u>599,602</u>	<u>509,681</u>
DEFERRED INCOME TAXES	<u>155,288</u>	<u>155,288</u>
Total Liabilities	<u>754,890</u>	<u>664,969</u>
SHAREHOLDERS' EQUITY		
Capital stock, par value \$10 per share; 80,000 shares authorized; 19,148 and 19,150 shares issued and outstanding, respectively	191,480	191,500
Paid-in capital	<u>290,953</u>	<u>287,933</u>
	482,433	479,433
Retained earnings	18,365,032	18,329,324
Accumulated other comprehensive income	(7,674)	5,008
Total Shareholders' Equity	<u>18,839,791</u>	<u>18,813,765</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 19,594,681</u>	<u>\$ 19,478,734</u>

RIVERSIDE HIGHLAND WATER COMPANY

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

	2011	2010
REVENUE		
Assessments	\$ 591,644	\$ 562,961
Water sales	1,508,958	1,389,369
Penalties, transfers, and inspection fees	54,687	45,583
Total Revenue	<u>2,155,289</u>	<u>1,997,913</u>
EXPENSES		
Operations and Maintenance		
Pumping expense and water spreading	320,805	280,215
Transmission and storage	178,696	194,641
Quality control	105,183	81,420
Customer accounting	101,990	95,330
Automotive and other	<u>100,604</u>	<u>84,320</u>
Total Operations and Maintenance	<u>807,278</u>	<u>735,926</u>
General and Administrative		
Salaries	387,523	370,078
Payroll taxes	61,434	51,610
Employee benefits	209,484	245,678
Vacation, holiday, and sick pay	48,499	54,901
Office expense	34,034	33,215
Insurance	97,397	95,438
Professional services	95,010	80,916
Directors' fees	18,725	19,250
Dues, subscriptions, and water studies	9,712	15,004
Building maintenance	21,785	23,634
Rentals and easements	200	200
Property taxes	85,231	84,159
State regulatory agency fees	19,000	9,779
Depreciation	720,370	690,689
Other	4,574	3,734
Total General and Administrative	<u>1,812,978</u>	<u>1,778,285</u>
TOTAL EXPENSES	<u>\$ 2,620,256</u>	<u>\$ 2,514,211</u>

STATEMENTS OF OPERATIONS (Continued)

	2011	2010
INCOME (LOSS) FROM OPERATIONS	\$ (464,967)	\$ (516,298)
OTHER INCOME		
Charges for new service connections	65,884	55,422
Investment income	36,907	42,719
Rents and royalties	9,250	11,150
Sewer billing services	14,992	10,745
Gain (loss) on disposal of assets	256,311	(69,893)
Contributions in aid of construction	143,789	-
	<u>527,133</u>	<u>50,143</u>
INCOME (LOSS) BEFORE INCOME TAXES	62,166	(466,155)
INCOME TAXES	26,458	4,705
NET INCOME (LOSS)	<u>35,708</u>	<u>(470,860)</u>
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized Gains (Losses) on Securities		
Unrealized gains (losses) arising during the year	(12,682)	(22,982)
Other Comprehensive Income (Loss)	<u>(12,682)</u>	<u>(22,982)</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ 23,026</u>	<u>\$ (493,842)</u>

OFFICE HOURS

Monday thru Thursday 7:30 am to 5:00 pm
1st & 3rd Friday 7:30 am to 4:00 pm
Closed on the 2nd & 4th Friday

If at any time you notice any unusual activity, damage, or graffiti at Riverside Highland Water Company Facilities, please call us at (909) 825-4128.

The Board of Directors, Management, and Staff of Riverside Highland Water Company are proud to serve the water needs of our shareholders and customers.

William J. McKeever – President Don Hough – General Manager