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Riverside Highland
WATER COMPANY®

2012

CONSUMER CONFIDENCE & SHAREHOLDERS REPORTS

This brochure is a summary of the quality of water that Riverside Highland Water Company provided to its customers in 2012. 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, 2012. 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 2012.

Incorporated February 21, 1898, Riverside Highland Water Company is proud to be celebrating its 115th year of continuous operation. This achievement could not have been attained without the ongoing support and involvement of our shareholders.

In 2012, 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.

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 2012 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; Jennifer Elsass, Administrative Secretary/Treasurer and Craig Gudgeon, Distribution Superintendent.

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.

System Reliability

In 2012, 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.

In addition to the Automated Meter Replacement Program, during 2012 Riverside Highland Water Company replaced the water main and water services on Flamingo Street off of Michigan Street. We also installed 33 water services and 2 fire hydrants and we replaced both of the pumps at our Preston Street Booster Station.

In 2013, 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.

Riverside Highland Water Company is pleased to announce that we will be partnering with the City of Grand Terrace to sponsor a conservation garden located in the new Grand Terrace Fitness Park due to be open June of 2013. In addition to play equipment, tennis/handball and exercise stations, the park will offer a nature walk featuring 58 different drought tolerant plants that will be available for you to enjoy. The nature walk will have garden demonstration areas with education signs that will showcase water efficiency and water quality features that will give you ideas for your own home. You will learn that water efficient gardens can be colorful as well as functional. The park will be located on the west side of town on Grand Terrace Road.

Source Water Protection Plan

In 2012, 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	0.2/0.8	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	15.6	7.8/22	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	3.6	ND/6.9	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	3.3	1.9/4.7	ppb	80	N/A	N/A	Byproduct of drinking water disinfection
HAA5's	N	N/D	ND	ppb	60	N/A	N/A	Byproduct of drinking water disinfection
Chlorine	N	0.56	0.48/0.63	ppm	4.0	4	4	Drinking water disinfection added for treatment

Definitions

NA	Not available or not determined.	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.
ND	Non-detected or below detection limit; constituent is not present or detectable.	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.
ppm or mg/L	Parts per Million: approximately one minute in two years.	Range	The lowest and highest level of constituent testing during the period.
ppb or ug/L	Parts per Billion: approximately one minute in two thousand years.	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.
pCi/L	Pico curies per liter: is a measure of radioactivity in water.	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.
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.		

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	28.8	2.9/59	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	7.1/7.6	STD unit	6.5/8.5	N/A	N/A	Comparison of "Alkalinity" & "Acidity" of water
Specific Conductance	N	592	360/970	US	1600	N/A	N/A	Substances that form ions when in water; seawater influence
Sulfate	N	54	18/110	ppm	500	N/A	N/A	Runoff/leaching from natural deposits; industrial wastes
Total Dissolved Solids (TDS)	N	372	200/670	ppm	1000	N/A	N/A	Runoff/leaching from natural deposits
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	61	34/90	ppm	N/A	N/A	N/A	Natural in limestone, marble, chalk
Total Hardness CA C03	N	206	150/300	ppm	N/A	N/A	N/A	Total concentration of calcium and magnesium
Total Alkalinity	N	182	120/280	ppm	N/A	N/A	N/A	Bicarbonates and hydroxide components in raw water
Bicarbonate	N	220	140/340	ppm	N/A	N/A	N/A	Bicarbonate components in water
Magnesium	N	11.2	6.2/19	ppm	N/A	N/A	N/A	Metallic chemical element in soil
Potassium	N	3.4	2.4/4.6	ppm	N/A	N/A	N/A	Nutritional element in soil for humans
Sodium	N	41	11/69	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.
Hexavalent Chromium	N/A	.05	ND/.23	N/A

Lead & Copper

Lead & Copper Rule became effective in 1993. The Company has performed eight rounds of sampling. The last round was performed in July 2012. Another round is scheduled for 2015. 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, 2009 and 2012 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	0.31	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>.

Leaks in the Home

According to the United States Environmental Protection Agency, leaks account for, on average, 10,000 gallons of water wasted in the home every year, which is enough to fill a backyard swimming pool. Ten percent of homes have leaks that waste 90 gallons or more water per day. They also state that fixing easily corrected household water leaks can save homeowners more than 10 percent on their water bills.

A common waste of water that occurs in the home is a toilet leak. If a toilet is running constantly, it could be wasting 200 gallons of water or more every day. The cause of toilet leaks is most often an old, faulty toilet flapper. Over time, this inexpensive rubber part decays, or minerals build up on it. It's usually best to replace the entire rubber flapper, a relatively easy, inexpensive do-it-yourself project that will pay for itself in no time. One way to determine if you have a toilet leak is to place a drop of food coloring in the toilet tank. If the color shows up in the bowl within 15 minutes without flushing, you have a leak.

Other areas of concern are dripping faucets and showerheads. A leaky faucet that drips at the rate of one drip per second can waste more than 3,000 gallons of water in a year. These leaks can be reduced by checking faucet washers and gaskets for wear and replacing them if necessary. Most showerhead leaks can be repaired by either ensuring a

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.

tight connection using pipe thread sealer and a wrench or replacing the entire showerhead. All faucets should have aerators and all showerheads should be low-flow.

Outdoor valves such as irrigation valves and hosebibs should also be checked for leaks. The best indication of a leaking irrigation valve is water continuing to seep out of sprinkler heads long after the irrigation system has shut down. If this seepage is limited only to the lowest head on a zone and stops after a short time then it is probably just residual water in the pipe. However, if the leak continues you may need to either repair or replace the irrigation valve. Irrigation systems should also be checked to ensure there are no broken sprinkler heads and should be adjusted according to the season. Most leaky hose bibs can be repaired by finding the packing nut under the spigot and tightening it. This is a simple process that requires only a wrench. If this is ineffective, it may be necessary for you to replace the hose bib.

Remember, before replacing some water fixtures and for some repairs you need to first turn off the water supply. If the water supply needs to be turned off at the meter for any reason please call us. We will be more than happy to come out at any time and at no charge to you. We have personnel available 24 hours a day, seven days a week.

RIVERSIDE HIGHLAND WATER COMPANY

BALANCE SHEETS

DECEMBER 31, 2012 and 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	\$ 264,288	\$ 227,643
Accounts receivable – trade	431,351	332,577
Accounts receivable – other	18,522	266,767
Interest receivable	2,302	824
Deposits and prepaid expenses	68,841	61,256
Total Current Assets	<u>785,304</u>	<u>889,067</u>
INVESTMENTS		
Certificate of deposit – restricted	21,000	21,000
Other marketable securities	886,200	589,800
Muscovy Mutual Water Company stock	100	100
	<u>907,300</u>	<u>610,900</u>
PROPERTY & EQUIPMENT		
Land	2,570,155	2,570,155
Depreciable assets	26,307,479	26,244,792
	28,877,634	28,814,947
Less: Accumulated depreciation	11,240,019	10,758,717
	17,637,615	18,056,230
Construction in progress	54,900	38,484
	<u>17,692,515</u>	<u>18,094,714</u>
TOTAL ASSETS	<u>\$ 19,385,119</u>	<u>\$ 19,594,681</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

	2012	2011
CURRENT LIABILITIES		
City of Grand Terrace	\$ 127,489	\$ 402,227
Accounts payable	68,192	84,656
Accrued liabilities	26,324	47,240
Income taxes payable	-	21,558
Customer deposits	48,714	43,921
Total Current Liabilities	<u>270,719</u>	<u>599,602</u>
DEFERRED INCOME TAXES	<u>155,288</u>	<u>155,288</u>
Total Liabilities	<u>426,007</u>	<u>754,890</u>
SHAREHOLDERS' EQUITY		
Capital stock, par value \$10 per share; 80,000 shares authorized; 21,248 shares issued; 19,140 shares and 19,148 shares outstanding, respectively	191,400	191,480
Paid-in capital	291,033	290,953
	482,433	482,433
Retained earnings	18,495,773	18,365,032
Accumulated other comprehensive income	(19,094)	(7,674)
Total Shareholders' Equity	<u>18,959,112</u>	<u>18,839,791</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 19,385,119</u>	<u>\$ 19,594,681</u>

RIVERSIDE HIGHLAND WATER COMPANY

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

	2012	2011
REVENUE		
Assessments	\$ 620,028	\$ 591,644
Water sales	1,970,269	1,508,958
Penalties, transfers, and inspection fees	72,744	54,687
Total Revenue	<u>2,663,041</u>	<u>2,155,289</u>
EXPENSES		
Operations and Maintenance		
Pumping expense and water spreading	300,975	320,805
Transmission and storage	217,510	178,696
Quality control	93,963	105,183
Customer accounting	87,039	101,990
Automotive and other	105,103	100,604
Total Operations and Maintenance	<u>804,590</u>	<u>807,278</u>
General and Administrative		
Salaries	353,058	387,523
Payroll taxes	60,824	61,434
Employee benefits	230,906	209,484
Vacation, holiday, and sick pay	49,415	48,499
Office expense	31,802	34,034
Insurance	101,672	97,397
Professional services	88,241	95,010
Directors' fees	19,800	18,725
Dues, subscriptions, and water studies	10,638	9,712
Building maintenance	23,760	21,785
Rentals and easements	1,062	200
Property taxes	86,045	85,231
State regulatory agency fees	24,862	19,000
Interest expense	227	-
Depreciation	731,279	720,370
Other	7,059	4,574
Total General and Administrative	<u>1,820,650</u>	<u>1,812,978</u>
TOTAL EXPENSES	<u>\$ 2,625,240</u>	<u>\$ 2,620,256</u>

STATEMENTS OF OPERATIONS (Continued)

	2012	2011
INCOME (LOSS) FROM OPERATIONS	\$ 37,801	\$ (464,967)
OTHER INCOME		
Charges for new service connections	59,963	65,884
Investment income	29,655	36,907
Rents and royalties	9,700	9,250
Sewer billing services	978	14,992
Gain (loss) on disposal of assets	(7,270)	256,311
Gain on sale of securities	1,747	-
Contributions in aid of construction	-	143,789
Other	1,068	-
	<u>95,841</u>	<u>527,133</u>
INCOME BEFORE INCOME TAXES	133,642	62,166
INCOME TAXES	2,901	26,458
NET INCOME (LOSS)	<u>130,741</u>	<u>35,708</u>
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized Gains (Losses) on Securities		
Unrealized gains (losses) arising during the year	(9,673)	(12,682)
Reclassification adjustment for gains realized	(1,747)	-
Other Comprehensive Income (Loss)	<u>(11,420)</u>	<u>(12,682)</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ 119,321</u>	<u>\$ 23,026</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