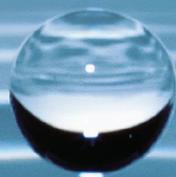


THINK • PLAN • PERFORM • CONSERVE



Riverside Highland
WATER COMPANY®



2014 *CONSUMER CONFIDENCE
& SHAREHOLDERS REPORTS*

This brochure is a summary of the quality of water that Riverside Highland Water Company provided to its customers in 2014. 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, 2014. 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 2014.

Incorporated February 21, 1898, Riverside Highland Water Company is proud to be celebrating its **117th year of continuous operation**. This achievement could not have been attained without the ongoing support and involvement of our shareholders.

Once again, in 2014, 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 2014 were William McKeever, President; Karen McHugh, Vice President; James McNaboe, Secretary/Treasurer; Wendell Baker, Robert Best, George Saunders, Denis Kidd, Donald Larkin, Jr. and Burt Seuylemezian. The daily operation of the company was the responsibility of Don Hough, General Manager; Jennifer Gimpel, 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.

Making Water Conservation a Way of Life

As most of our shareholders and customers know, California is still in the midst of one of the worst droughts in recorded history.

In California, droughts are not uncommon. Big ones come around every decade or two. Through studies of tree rings, sediment and other natural evidence, researchers have documented multiple droughts in California that have lasted 10 or 20 years during the last 1,000 years.

In addition to drought, water use has increased. California's population has doubled in the last fifty years to an estimated 38 million by the end of last year. Urban uses, farming and industry have all led California to be the largest water user in the United States, according to the United States Geological Survey. Add to this water for environmental concerns and the State's water infrastructure has been stressed.

While Riverside Highland Water Company is very fortunate to have the ability to pump its own water from various locations and is in a better situation than most water agencies in the State, we are not immune from the drought.

Currently, the groundwater storage levels where most of the water that our region receives their water from are at their lowest level in recorded history.

In addition, 25 percent of the water that our region relies on is imported from Northern California.

While Riverside Highland Water Company does not purchase imported water, we do rely on the water from the State that is spread in the local aquifers that we pump from. Also, the less imported water available

to other agencies means that they must rely on local water which also impacts the water that Riverside Highland Water Company relies on.

While it appears that this water year is shaping up to be better than the previous three years, according to the Department of Water Resources, we are not out of the drought as of this writing. Even when we ultimately receive enough precipitation to pull out of the drought, history tells us that another is just around the corner.

This past November, California voters passed a \$7.5 billion bond that is expected to expand the State's reservoirs and improve water recycling and other conservation measures. While it is anticipated this will help future water shortages, any long-term solution would have to balance the competing interests for the limited water supply. All Californians need to understand that there is just not enough water to supply the wants of all the users: urban, farming, industry and environmental.

While this may seem daunting and much of the conversation involves the economic impacts of conservation, environmentalists and scientist argue it can be done. A recent modeling study by researchers at UC Davis's Center for Watershed Sciences suggested that California's economy could survive future droughts, including a decades-long drought similar to ones that science tells us occurred years ago.

For Riverside Highland Water Company customers, this means a better awareness of water use and waste. We need to make water conservation a permanent part of our lifestyle. Ultimately, the water we save today is the water we use tomorrow.

If you have any questions regarding your water use, or need to know ways to conserve water, please contact our office at (909)825-4128.

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 <i>E. coli</i> 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	5.5	1.6/9.9	pCi/L	15	N/A	0	Erosion of natural deposits
Uranium	N	4.3	ND/9.3	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/2.5	ppb	10.0	0.004	N/A	Erosion of natural deposits; runoff from orchards; glass and electronics production wastes
Fluoride	N	0.7	0.3/0.9	ppm	2.0	1	N/A	Erosion of natural deposits; water additive that promotes strong teeth; discharge from fertilizer and aluminum factories
Nitrate (as No3)	N	21.8	8.9/27	ppm	45	45	N/A	Runoff and leaching from fertilizer use; leaching from septic tanks and sewage; erosion of natural deposits
Total Chromium	N	0.63	0.37/0.96	ppb	50	N/A	100	Discharge from steel and pulp mills and chrome plating; erosion of natural deposits
Hexavalent Chromium	N	0.85	0.055/1.3	ppm	10	0.02	N/A	Discharge from electroplating factories, leather tanneries, wood preservation, chemical synthesis, refractory production and textile manufacturing facilities; 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	2.8	1/5.2	ppb	80	N/A	N/A	Byproduct of drinking water disinfection
HAA5's	N	1.2	ND/3.2	ppb	60	N/A	N/A	Byproduct of drinking water disinfection
Chlorine	N	0.62	0.47/0.85	ppm	4.0	N/A	4.0	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	31.0	3.2/59	ppm	500	N/A	N/A	Runoff/leaching from natural deposits; seawater influence
PH	N	7.4	7.1/7.7	STD unit	6.5/8.5	N/A	N/A	Comparison of "Alkalinity" & "Acidity" of water
Specific Conductance	N	632	360/970	US	1600	N/A	N/A	Substances that form ions when in water; seawater influence
Sulfate	N	56	16/110	ppm	500	N/A	N/A	Runoff/leaching from natural deposits; industrial wastes
Total Dissolved Solids (TDS)	N	390	200/670	ppm	1000	N/A	N/A	Runoff/leaching from natural deposits
Turbidity	N	0.09	ND/0.27	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	64	49/90	ppm	N/A	N/A	N/A	Natural in limestone, marble, chalk
Total Hardness CA CO3	N	212	160/300	ppm	N/A	N/A	N/A	Total concentration of calcium and magnesium
Total Alkalinity	N	188	140/280	ppm	N/A	N/A	N/A	Bicarbonates and hydroxide components in raw water
Bicarbonate	N	232	170/340	ppm	N/A	N/A	N/A	Bicarbonate components in water
Magnesium	N	12.3	8.1/19	ppm	N/A	N/A	N/A	Metallic chemical element in soil
Potassium	N	3.4	2/4.6	ppm	N/A	N/A	N/A	Nutritional element in soil for humans
Sodium	N	44	9.8/69	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	2.6	2.9/4.0	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 July 2012. Another round is scheduled for August 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 to 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>

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.

Source Water Protection Plan

In 2014, 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.

“I need to have the water at my house turned off for repairs. What should I do?”

If for any reason your water needs to be turned off at the meter so you can make repairs either inside the home or on your sprinkler system, please call us! We will be more than happy to come out at any time and at no charge to you. We have the personnel available 24 hours a day, seven days a week.

The turnoff valve on your water meter requires a special tool to turn it off. If the wrong tool is used, the meter or valve can be easily damaged. If you try to turn the water off yourself and damage the turn-off valve, we will come out to fix it for you – but your water account will be charged for the cost of the repair.

So please remember – all you have to do is call us at (909) 825-4128 and we will take care of the rest for you.

RIVERSIDE HIGHLAND WATER COMPANY

BALANCE SHEETS

DECEMBER 31, 2014 and 2013

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 445,975	\$ 318,613
Accounts receivable – trade	512,374	449,862
Accounts receivable – other	27,424	110,716
Interest receivable	3,641	2,220
Prepaid expenses	57,046	58,037
Total Current Assets	<u>1,046,460</u>	<u>939,448</u>
INVESTMENTS		
Certificate of deposit – restricted	21,000	21,000
Marketable securities		
At market value	916,493	793,441
At cost	323,004	-
Muscoy Mutual Water Company stock	100	100
	<u>1,260,597</u>	<u>814,541</u>
PROPERTY & EQUIPMENT		
Land	2,593,294	2,570,155
Depreciable assets	<u>27,114,645</u>	<u>26,800,463</u>
	29,707,939	29,370,618
Less: Accumulated depreciation	<u>12,304,699</u>	<u>11,833,146</u>
	17,403,240	17,537,472
Construction in progress	<u>147,422</u>	<u>50,566</u>
	<u>17,550,662</u>	<u>17,588,038</u>
OTHER ASSETS		
Water Rights	<u>335,933</u>	<u>316,191</u>
TOTAL ASSETS	<u>\$ 20,193,652</u>	<u>\$ 19,658,218</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

	2014	2013
CURRENT LIABILITIES		
City of Grand Terrace	\$ -	\$ 7,746
Accounts payable	110,557	54,219
Accrued liabilities	45,329	38,338
Customer deposits	55,755	76,216
Total Current Liabilities	<u>211,641</u>	<u>176,519</u>
DEFERRED INCOME TAXES	<u>155,288</u>	<u>155,288</u>
Total Liabilities	<u>366,929</u>	<u>331,807</u>
SHAREHOLDERS' EQUITY		
Capital stock, par value \$10 per share; 80,000 shares authorized; 21,248 shares issued; 19,140 shares outstanding	191,400	191,400
Paid-in capital	<u>291,033</u>	<u>291,033</u>
	482,433	482,433
Retained earnings	19,348,107	18,892,600
Accumulated other comprehensive income (loss)	<u>(3,817)</u>	<u>(48,622)</u>
Total Shareholders' Equity	<u>19,826,723</u>	<u>19,326,411</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 20,193,652</u>	<u>\$ 19,658,218</u>

RIVERSIDE HIGHLAND WATER COMPANY

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

	2014	2013
REVENUE		
Assessments	\$ 697,104	\$ 657,717
Water sales	2,313,066	2,159,806
Leased water rights	-	92,100
Penalties, transfers, and inspection fees	103,065	86,339
Total Revenue	<u>3,113,235</u>	<u>2,995,962</u>
EXPENSES		
Operations and Maintenance		
Pumping expense and water spreading	375,218	335,705
Transmission and storage	185,815	150,334
Quality control	109,759	90,570
Customer accounting	84,347	96,643
Automotive and other	92,254	110,690
Total Operations and Maintenance	<u>847,393</u>	<u>783,942</u>
General and Administrative		
Salaries	382,275	355,970
Payroll taxes	59,183	53,210
Employee benefits	278,529	217,300
Vacation, holiday, and sick pay	54,826	51,184
Office expense	28,354	30,944
Insurance	76,804	104,456
Professional services	83,653	72,700
Directors' fees	19,275	20,950
Dues, subscriptions, and water studies	6,861	10,181
Building maintenance	28,699	27,523
Property taxes	83,995	85,255
State regulatory agency fees	17,568	55,098
Depreciation	769,500	747,960
Other	17,429	9,494
Total General and Administrative	<u>1,906,951</u>	<u>1,842,225</u>
TOTAL EXPENSES	<u>\$ 2,754,344</u>	<u>\$ 2,626,167</u>

STATEMENTS OF COMPREHENSIVE INCOME (Continued)

	2014	2013
INCOME FROM OPERATIONS	\$ 358,891	\$ 369,795
OTHER INCOME		
Charges for new service connections	60,414	7,827
Investment income	28,440	21,979
Rents and royalties	10,425	9,200
Sewer billing services	738	968
Gain (loss) on disposal of assets	-	(10,626)
Gain (loss) on sale of securities	-	(366)
	<u>100,017</u>	<u>28,982</u>
INCOME BEFORE INCOME TAXES	458,908	398,777
INCOME TAXES	3,401	1,950
NET INCOME	<u>455,507</u>	<u>396,827</u>
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized Gains (Losses) on Securities		
Unrealized gains (losses) arising during the year	44,805	(29,894)
Reclassification adjustment for (gains) losses realized	-	366
Other Comprehensive Income (Loss)	<u>44,805</u>	<u>(29,528)</u>
COMPREHENSIVE INCOME	<u>\$ 500,312</u>	<u>\$ 367,299</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