
THINK • PLAN • PERFORM • CONSERVE
Riverside Highland
WATER COMPANY®
2016
CONSUMER CONFIDENCE
& SHAREHOLDERS REPORTS

This brochure is a summary of the quality of water that Riverside Highland Water Company provided to its customers in 2016. 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, 2016. 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 2016.

Incorporated February 21, 1898, Riverside Highland Water Company is proud to be celebrating its **119th year of continuous operation**. This achievement could not have been attained without the ongoing support and involvement of our shareholders.

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 2016 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.

Water Leaks

We at Riverside Highland Water Company would like to address some concerns regarding water leaks and our response to these leaks.

While we occasionally discover a water leak on our own, most of time it is a member of the public that reports a leak. Once a leak has been called into our office, an on-call employee will return the call as soon as possible, usually within a few minutes to confirm the call and location of the leak. At that time the employee will drive out to determine the type and severity of the leak.

Before we can repair a leak, by law, we need to call an underground alert. These are the professionals who mark all the underground utility lines so a backhoe doesn't accidentally turn a water leak into a gas leak. The underground service alert staff has two working days, not including the day of the call, to perform their marking. Working days are defined as weekdays excluding federal and state holidays. For example, if a leak is reported on a Friday evening, we cannot call an underground alert until Monday morning and the locators have until Wednesday evening to locate. Thus, we may not be able to repair the leak until the following Thursday morning.

While no one wants to waste water, especially a water company, all water systems experience loss of water due to leaks. In 1986, Riverside Highland Water Company implemented the Capital Improvement Plan which has reduced our leaks below most other water agencies. In the industry, there is a metric called "Unaccounted for Water" which is the difference between the amount of water pumped from the wells (metered) and the water delivered to the customers, which is also metered. The industry standard is less than 10 percent loss. Riverside Highland Water Company has achieved less than 10 percent since 1992. In 2016, Unaccounted for Water was 4.5 percent.

Even with these very low water loss numbers, your water company continues to take active steps to reduce leaks further. In 2016, the water company replaced all the service lines (not the mains) on Brentwood Street and Miriam Way where customers were experiencing an unusually high rate of leaks. Riverside Highland Water Company, along with many other water agencies, are replacing the polyethylene water lines as it was discovered that the polyethylene material recommended for the service lines did not live up to the manufacture's advertised lifetime. These lines were replaced by time-tested copper lines. Copper is a little more expensive but it's worth it in leak reduction. In the years to come, the water company will continue to replace service lines, street by street until they are all replaced with new. This is being done in coordination with the City of Grand Terrace and the Street Maintenance Program to ensure these service replacements are done ahead of the scheduled roadwork.

While many of the pipes from the water main to the meter need replacing, the water mains throughout the system are in good condition because of the Capital Improvement Plan. Make NO mistake, the water mains you own through your ownership of the Riverside Highland Water Company are significantly newer than most surrounding cities. The main leak at Michigan and Barton in 2015 was on a pipe that was installed in 1999. By any standard that main break was on a new pipe. Generally, this means that the pipe had a manufacturing flaw. Main leaks are one of the metrics tracked by the management of the water company and reviewed by the Board of Directors monthly. In 2016, the water company did not experience a single main leak for the entire year – not one.

There have also been some concerns over street repair. The water company follows the street cut policy for the City of Grand Terrace when performing work in the city right-of-way. This means the final street patch is significantly larger than the hole dug for the repair and any damage done by the leak itself. Sometimes you will see a temporary patch the water company will put in place that may not look all that good to you. This is done for cost savings and quality of work, the cost savings comes from combining a group of needed patches into one Request For Proposal and the quality of work comes from having a paving company come and do the final patch. The paving company has the right equipment and expertise to do the job right and to make it last.

If you see any kind of leak anywhere in the system, you need to call the water company. If it's outside of business hours, leave a message and the on-call guy will get the message and respond.

Finally, if you have any question about the water company, please call! This is your water company and we will be happy to answer any question you might have.

Non-English Translation

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

IMPORTANT NOTICE

Our water system violated a drinking water standard. Although this was not an emergency, as our customers, you have a right to know what happened, and what we did to correct this situation.

We routinely monitor for drinking water contaminates. We took twenty samples to tests for the presence of coliform bacteria during the month of November 2016. Two of those samples showed the presence of total coliform bacteria. The standard for a water system our size is that no more than 1 sample per month may do so.

This was not an emergency. If it had been, you would have been notified immediately. Total coliform bacteria are generally not harmful themselves. Coliforms are bacteria which are naturally present in the environment and are used as an indicator that other, potentially harmful, bacteria may be present. Coliforms were found in more samples than allowed and this was a warning of potential problems.

Whenever we detect coliform bacteria in any sample, we do follow-up testing to see if other bacteria of greater concern, such as fecal coliform or E. coli are present. **We did not find any of these bacteria in our subsequent testing, and additional testing shows that this problem had been resolved.** Furthermore, repeat samples taken immediately after we were notified of the problem, as well as samples taken upstream and downstream of the sites were negative.

Upon further research, indications are that one of our water wells had naturally organic bacteria which is common in drinking water wells, iron bacteria. While iron bacteria is not a health hazard, it can corrode pipes and if not checked leave the entire well system virtually useless. Once we were notified of the presence of bacteria, the well was taken out of service. We have since pulled the pump from the well and in the Spring, we will video and test the well to determine the correct course of action. If we feel the well cannot be rehabilitated to the point that we are confident in the quality of the water, we will then abandon the well.

Please contact our General Manager, Don Hough, at (909) 825-4128 if you have any questions regarding this matter.

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 Bacterica
Total Coliform Bacteria (Total Coliform Rule)	Y	2	1	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	4.23	1.45/9.62	pCi/L	15	N/A	0	Erosion of natural deposits
Uranium	N	2.79	ND/10.10	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	0.7	ND/3.3	ppb	10.0	0.004	N/A	Erosion of natural deposits; runoff from orchards; glass and electronics production wastes
Fluoride	N	0.5	0.2/0.7	ppm	2.0	1	N/A	Erosion of natural deposits; water additive that promotes strong teeth; discharge from fertilizer and aluminum factories
Nitrate - N	N	4.2	1.9/6.9	ppm	10	10	N/A	Runoff and leaching from fertilizer use; leaching from septic tanks and sewage; erosion of natural deposits
Total Chromium	N	0.9	ND/1.8	ppb	50	N/A	100	Discharge from steel and pulp mills and chrome plating: erosion of natural deposits
Hexavalent Chromium	N	0.56	ND/1.3	ppb	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
Barium	N	0.01	ND/0.04	ppm	1	2	N/A	Discharges of oil drilling wastes and from metal refineries: erosion of natural deposits

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: MCL's 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.

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	2.2	ND/6.1	ppb	80	N/A	N/A	Byproduct of drinking water disinfection
HAA5's	N	0.3	ND/2	ppb	60	N/A	N/A	Byproduct of drinking water disinfection
Chlorine	N	0.75	0.57/0.85	ppm	4.0	N/A	4.0	Drinking water disinfection added for treatment

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	28.7	3.6/66	ppm	500	N/A	N/A	Runoff/leaching from natural deposits; seawater influence
PH	N	7.6	7.2/8	STD unit	6.5/8.5	N/A	N/A	Comparison of "Alkalinity" & "Acidity" of water
Specific Conductance	N	618	370/1000	US	1600	N/A	N/A	Substances that form ions when in water; seawater influence
Sulfate	N	51	18/100	ppm	500	N/A	N/A	Runoff/leaching from natural deposits; industrial wastes
Total Dissolved Solids (TDS)	N	332	210/620	ppm	1000	N/A	N/A	Runoff/leaching from natural deposits
Turbidity	N	0.09	ND/0.23	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	66	49/96	ppm	N/A	N/A	N/A	Natural in limestone, marble, chalk
Total Hardness CA C03	N	214	150/320	ppm	N/A	N/A	N/A	Total concentration of calcium and magnesium
Total Alkalinity	N	192	140/290	ppm	N/A	N/A	N/A	Bicarbonates and hydroxide components in raw water
Bicarbonate	N	236	170/360	ppm	N/A	N/A	N/A	Bicarbonate components in water
Magnesium	N	12.4	7.7/20	ppm	50	N/A	N/A	Metallic chemical element in soil
Potassium	N	3.1	2.0/4.7	ppm	N/A	N/A	N/A	Nutritional element in soil for humans
Sodium	N	39.1	9.3/85	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	2.8	ND/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 eight rounds of sampling. The last round was performed in August 2015. Another round is scheduled for August 2018. 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, 2012 and 2015 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	0.36	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 USEPA and the State Water Resources Control Board (State Board) prescribe regulations that limit the amount of certain contaminants in water provided by public water systems. State Board regulations also establish limits for contaminants in bottled water that provide the same protection for public health.

Source Water Protection Plan

In 2016, 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 the California State Water Resources Control Board.

"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, 2016 and 2015

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	$ 549,155	$ 272,858
Accounts receivable – trade	434,192	395,711
Accounts receivable – other	296,216	236,577
Interest receivable	5,517	3,707
Prepaid expenses	18,082	56,449
Total Current Assets	1,303,162	965,302
INVESTMENTS		
Certificate of deposit – restricted	21,000	21,000
Marketable securities		
At market value	642,275	591,452
At cost	862,128	343,331
Muscoy Mutual Water Company stock	100	100
	1,525,503	955,883
PROPERTY & EQUIPMENT		
Land	2,593,294	2,593,294
Depreciable assets	28,759,472	28,359,362
	31,352,766	30,952,656
Less: Accumulated depreciation	13,409,694	12,924,431
	17,943,072	18,028,225
Construction in progress	10,549	40,329
	17,953,621	18,068,554
OTHER ASSETS		
Water Rights	335,933	335,933
TOTAL ASSETS	$ 21,118,219	$ 20,325,672

LIABILITIES AND SHAREHOLDERS' EQUITY

	2016	2015
CURRENT LIABILITIES		
Accounts payable	$ 139,127	$ 74,403
Accrued liabilities	61,429	52,806
Customer deposits	35,640	64,398
Total Current Liabilities	236,196	191,607
DEFERRED INCOME TAXES	155,288	155,288
Total Liabilities	391,484	346,895
SHAREHOLDERS' EQUITY		
Capital stock, par value $10 per share; 80,000 shares authorized; 21,248 shares issued; 19,136 shares outstanding	191,360	191,400
Paid-in capital	291,073	291,033
	482,433	482,433
Retained earnings	20,272,196	19,514,613
Accumulated other comprehensive income (loss)	(27,894)	(18,269)
Total Shareholders' Equity	20,726,735	19,978,777
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 21,118,219	$ 20,325,672

RIVERSIDE HIGHLAND WATER COMPANY

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

	2016	2015
REVENUE		
Assessments	$ 736,987	$ 697,109
Water sales	2,376,077	2,019,049
Leased water rights	228,644	208,500
Penalties, transfers, and inspection fees	160,299	119,860
Total Revenue	3,502,007	3,044,518
EXPENSES		
Operations and Maintenance		
Pumping expense and water spreading	489,065	426,266
Transmission and storage	297,897	214,717
Quality control	168,757	113,353
Customer accounting	75,952	90,696
Automotive and other	104,163	84,829
Total Operations and Maintenance	1,135,834	929,861
General and Administrative		
Salaries	402,667	392,362
Payroll taxes	68,019	65,510
Employee benefits	275,323	311,446
Vacation, holiday, and sick pay	71,817	59,929
Office expense	38,578	33,461
Insurance	81,291	86,495
Professional services	123,039	75,202
Directors' fees	19,325	18,450
Dues, subscriptions, and water studies	14,072	7,807
Building maintenance	43,359	33,412
Property taxes	90,418	84,235
State regulatory agency fees	56,129	54,794
Depreciation	839,607	806,757
Other	18,027	11,045
Total General and Administrative	2,141,671	2,040,905
TOTAL EXPENSES	$ 3,277,505	$ 2,970,766

STATEMENTS OF COMPREHENSIVE INCOME (Continued)

	2016	2015
INCOME FROM OPERATIONS	$ 224,502	$ 73,752
OTHER INCOME		
Charges for new service connections	506,021	58,318
Investment income	30,442	30,028
Rents and royalties	3,700	9,700
Loss on disposal of assets	(4,752)	(2,243)
Gain (loss) on sale of securities	721	(522)
Other Income	-	910
	536,132	96,191
INCOME BEFORE INCOME TAXES	760,634	169,943
INCOME TAXES	3,051	3,437
NET INCOME	757,583	166,506
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized Gains (Losses) on Securities		
Unrealized gains (losses) arising during the year	(8,904)	(14,974)
Reclassification adjustment for (gains) losses realized	(721)	522
Other Comprehensive Income (Loss)	(9,625)	(14,452)
COMPREHENSIVE INCOME	$ 747,958	$ 152,054

OFFICE HOURS

Monday thru Thursday 7:30 a.m. to 5:00 p.m.
1st & 3rd Friday 7:30 a.m. to 4:00 p.m.
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**