THINK · PLAN · PERFORM · CONSERVE

Riverside Highland WATER COMPANY®

2017 CONSUMER CONFIDENCE & SHAREHOLDERS REPORTS

This brochure is a summary of the quality of water that Riverside Highland Water Company provided to its customers in 2017. 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, 2017. 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 2017.

Incorporated February 21, 1898, Riverside Highland Water Company is proud to be celebrating its 120th year of continuous operation. This achievement could not have been attained without the ongoing support and involvement of our shareholders.

In 2017, 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 2017 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.

Capital Improvements

There are approximately one million miles of drinking water pipes in the United States. As most modern water systems were initially constructed in the early to mid-1900's many of those pipes are now in need of replacement. The American Society of Civil Engineers has rated the US Drinking Water Infrastructure nationwide a near failing grade of D, stating, "There are an estimated 240,000 water main breaks per year in the United States, wasting over two trillion gallons of treated drinking water." In its 2017 Infrastructure Report Card, they report that an estimated $1 trillion is necessary to maintain and expand service to meet demands over the next 25 years.

The American Water Works Association 2017 State of the Industry Report indicates that 63% of water industry respondents cited the renewal and replacement of aging water and wastewater infrastructure as critically important. 59% of respondents stated that financing for capital improvements as the second most important issue facing the water industry.

Riverside Highland Water Company has understood that capital improvement and the replacement of aging infrastructure is one of the most critical components of operating a water system. Since 1987, we have replaced more than 36 miles of original water mains. This main replacement has resulted in a decrease from 139 water main leaks in 1985, prior to the Main Replacement Program to an average of about 2 water main leaks per year for the last 10 years. 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 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.

Even with the extremely low unaccounted for water losses, your water company continues to take steps to reduce leaks further. Riverside Highland Water Company, along with many other water agencies, are replacing the polyethylene water lines that go from the water main to the meter. It was discovered that the polyethylene pipes that were used to replace the old galvanized steel pipes at the same time we replaced the water mains did not live up to the manufacturer's advertised lifetime. We are currently replacing these service lines with copper pipes, street by street until they are all replaced with new.

In addition to main and service replacement, we have also replaced one reservoir, built six new reservoirs and installed a new roof on another. During this period, we have drilled and equipped four new wells, replaced or built three booster stations, built a new corporate facility and replaced all water meters with automated meters.

We will continue with the Capital Improvement Program in 2018 by replacing the water mains and service lines on Vivienda, north of Van Buren and Mavis between Vivienda and Michigan Street. We will replace more service lines throughout the City and purchase and replace three chlorine pumps. We are also planning on drilling and equipping a new water well in the Colton area.

If you have any questions regarding the Capital Improvement Plan or the water company, please call and talk to our General Manager, Don Hough, at (909)825-4128.

Non-English Translation

Este informe contiene informacion muy importante sobre su agua potable. Traduzcalo o hable con alguien que lo enteinda 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	4.05	1.45/9.62	pCi/L	15	N/A	0	Erosion of natural deposits
Uranium	N	2.97	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	4.7	1.97/9.04	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	4.4	ND/6.1	ppb	80	N/A	N/A	Byproduct of drinking water disinfection
HAA5's	N	0.58	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

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). Additional information on bottled water is available on California Department of Public Health website: https://www.cdph.ca.gov/Programs/CEH/DFDCS/Pages/FDBPrograms/FoodSafetyProgram/Water.aspx

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 2017, 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, 2017 and 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 702,543	$ 549,155
Accounts receivable – trade	442,280	434,192
Accounts receivable – other	39,073	296,216
Interest receivable	5,517	5,517
Prepaid expenses	18,119	18,082
Total Current Assets	1,207,532	1,303,162
INVESTMENTS		
Certificate of deposit – restricted	21,000	21,000
Marketable securities		
At market value	735,250	642,275
At cost	1,860,641	862,128
Muscoy Mutual Water Company stock	100	100
	2,616,991	1,525,503
PROPERTY & EQUIPMENT		
Land	2,593,294	2,593,294
Depreciable assets	31,196,133	28,759,472
	33,789,427	31,352,766
Less: Accumulated depreciation	14,117,497	13,409,694
	19,671,930	17,943,072
Construction in progress	24,296	10,549
	19,696,226	17,953,621
OTHER ASSETS		
Water Rights	369,860	335,933
TOTAL ASSETS	$ 23,890,609	$ 21,118,219

LIABILITIES AND SHAREHOLDERS' EQUITY

	2017	2016
CURRENT LIABILITIES		
Accounts payable	$ 169,827	$ 139,127
Accrued liabilities	71,217	61,429
Customer deposits	89,280	35,640
Income taxes payable	26,726	-
Total Current Liabilities	357,050	236,196
DEFERRED INCOME TAXES	155,288	155,288
Total Liabilities	512,338	391,484
SHAREHOLDERS' EQUITY		
Capital stock, par value $10 per share; 80,000 shares authorized; 21,248 shares issued; 19,180 shares outstanding	191,180	191,360
Paid-in capital	291,253	291,073
	482,433	482,433
Retained earnings	22,920,357	20,272,196
Accumulated other comprehensive income (loss)	(24,519)	(27,894)
Total Shareholders' Equity	23,378,271	20,726,735
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 23,890,609	$ 21,118,219

RIVERSIDE HIGHLAND WATER COMPANY

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

	2017	2016
REVENUE		
Assessments	$ 755,807	$ 736,987
Water sales	2,680,477	2,376,077
Leased water rights	-	228,644
Penalties, transfers, and inspection fees	189,099	160,299
Total Revenue	3,625,383	3,502,007
EXPENSES		
Operations and Maintenance		
Pumping expense and water spreading	572,891	489,065
Transmission and storage	207,229	297,897
Quality control	169,657	168,757
Customer accounting	96,147	75,952
Automotive and other	111,051	104,163
Total Operations and Maintenance	1,156,975	1,135,834
General and Administrative		
Salaries	431,919	402,667
Payroll taxes	69,550	68,019
Employee benefits	306,216	275,323
Vacation, holiday, and sick pay	66,600	71,817
Office expense	43,945	38,578
Insurance	62,964	81,291
Professional services	157,654	123,039
Directors' fees	21,225	19,325
Dues, subscriptions, and water studies	9,661	14,072
Building maintenance	45,900	43,359
Property taxes	101,302	90,418
State regulatory agency fees	47,669	56,129
Depreciation	920,863	839,607
Other	22,222	18,027
Total General and Administrative	2,307,690	2,141,671
TOTAL EXPENSES	$ 3,464,665	$ 3,277,505

STATEMENTS OF COMPREHENSIVE INCOME (Continued)

	2017	2016
INCOME FROM OPERATIONS	$ 160,718	$ 224,502
OTHER INCOME		
Charges for new service connections	494,423	506,021
Investment income	44,771	30,442
Rents and royalties	3,700	3,700
Loss on disposal of assets	(17,425)	(4,752)
Gain (loss) on sale of securities	-	721
Contributed facilities	1,586,575	-
Sale of easement	295,000	-
Cal Trans reimbursement	110,231	-
	2,517,275	536,132
INCOME BEFORE INCOME TAXES	2,677,993	760,634
INCOME TAXES	29,832	3,051
NET INCOME	2,648,161	757,583
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized Gains (Losses) on Securities		
Unrealized gains (losses) arising during the year	3,375	(10,147)
Reclassification adjustment for (gains) losses realized	-	522
Other Comprehensive Income (Loss)	3,375	(9,625)
COMPREHENSIVE INCOME	$ 2,651,536	$ 747,958

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**