YEAR 2006

ANNUAL REPORT

OF THE

NAME: MOUNTAIN WATER COMPANY

LOCATION: 1345 W. BROADWAY, MISSOULA, MONTANA 59802

PRIVATE WATER UTILITY

TO THE

PUBLIC SERVICE COMMISSION

OF MONTANA

FOR THE YEAR ENDING DECEMBER 31, 2006

FORM NO. 402-A(12/88)

GENERAL INSTRUCTIONS

1. Prepare this report in conformity with the 1984 National Association of Utility Regulatory Commissioners Uniform System of Accounts for Water Utilities.

2. Interpret all accounting words or phrases in accordance with the USOA.

3. Complete each question fully and accurately, even if it has been answered in a previous annual report. Enter the word "None" where it truly and completely states the fact.

4. For any question, section or page which is not applicable to the respondent, enter the words "Not Applicable" or "N/A." Do not omit any pages.

5. Where dates are called for, the month and day should be stated as well as the year.

6. Complete this report by means which result in a permanent record.

7. If there is not enough room on any schedule, an additional page or pages may be added, provided the format of the added schedule matches the format of the schedule with not enough room. Such a schedule should reference the appropriate schedule, state the name of the utility, and state the year of the report.

8. This report should be filled out in duplicate and one copy returned within 2½ months after the close of the reporting period. The report should be returned to:

Montana Public Service Commission
Utility Division
2701 Prospect Avenue
Helena, Montana 59620

TABLE OF CONTENTS

SCHEDULE	PAGE
Identification	2
Income Statement	3
Balance Sheet	4
Contributions in Aid of Construction	5
Accumulated Depreciation & Amortization of Utility Plant	5
Capital Stock	6
Retained Earnings	6
Proprietary Capital	6
Long Term Debt	6
Water Utility Plant Acocunts	7
Analysis of Accumulated Depreciation by Primary Account	8
Water Operation and Maintenance Expense	9
Payments for Services Rendered by Other Than Employees	10
Water Customers	11
Operating Statistics	11A

REPORT OF

MOUNTAIN WATER COMPANY
(Exact Name of Utility)

1345 W. BROADWAY
(Address)

MISSOULA, MONTANA 59802
(City, State, Zip Code)

For Year Ended: DECEMBER 31, 2006

Date Utility First Organized: APRIL 19, 1961

Telephone Number: (406) 721-5570

Location where books and records are located: SAME AS ABOVE

Contacts:

Name	Title	Principal Business Address	Salary
Person to send correspondence: ARVID HILLER	VICE PRESIDENT AND GENERAL MANAGER	1345 W. BROADWAY MISSOULA, MT 59802	XXXXXXXX
Person who prepared this report: LAWRENCE G. LEE	DIRECTOR OF ACCOUNTING PARK WATER COMPANY	9750 WASHBURN ROAD P.O. BOX 7002 DOWNEY, CA 90241-7002	XXXXXXXX
Officers & Managers: HENRY H. WHEELER, JR.	PRESIDENT	9750 WASHBURN ROAD P.O. BOX 7002 DOWNEY, CA 90241-7002	Note A
NYRI A. WHEELER-LEWIS	SECRETARY	SAME AS ABOVE	Note A
LEIGH K. JORDAN	EXECUTIVE VICE PRESIDENT	SAME AS ABOVE	Note A
ARVID HILLER	VICE PRESIDENT & GENERAL MANAGER	1345 W. BROADWAY MISSOULA, MT 59802	Note A
JOHN KAPPES	ASSISTANT VICE PRESIDENT	1345 W. BROADWAY MISSOULA, MT 59802	Note A

Report every corporation or person owning interest or holding directly or indirectly 5 percent or more of the voting securities of the reporting utility:

Name	Percent Ownership in Utility	Principal Business Address	Salary Charged Utility
PARK WATER COMPANY	100%	9750 WASHBURN ROAD, P.O. BOX 7002 DOWNEY, CA 90241-7002	$ N/A
			$
			$

Note A : Confidential Salary Information

INCOME STATEMENT

Account Name	Current Year	Previous Year
GROSS REVENUE:		
Metered		
Residential	5,160,165	4,404,068
Commercial	3,653,770	3,301,245
Industrial	0	0
Other	1,446,147	1,211,335
Unmetered		
Residential	3,021,610	2,958,816
Commercial	165,674	162,613
Industrial	0	0
Fire Protection	581,207	546,804
Bulk Sales	0	0
Sale of Materials	0	0
Other	1,078,066	935,217
TOTAL GROSS REVENUE	**15,106,639**	**13,520,098**
Operation and Maintenance Expense	8,401,240	8,128,707
Depreciation Expense	1,703,530	1,616,906
Taxes Other Than Income	1,086,543	1,051,264
Income Taxes (A)	1,757,871	1,235,845
Deferred Federal Income Taxes	0	0
Amortized - Intangible Plant	40,258	40,258
Deferred State Income Taxes	0	0
TOTAL OPERATING EXPENSE	**12,989,442**	**12,072,980**
NET OPERATING INCOME (LOSS)	**2,117,197**	**1,447,118**
Other Income:		
Investment Tax Credits	0	0
Non-Operating Income	0	0
Interest Income	710,137	463,921
Allow. Funds Used - Construct.	20,864	21,780
Other Deductions:		
Non-Utility Expenses	591	591
Interest Expense		0
Miscellaneous Deductions	28,833	40,517
NET INCOME (LOSS)	**2,818,774**	**1,891,711**

(A) Excludes $27,361 of non-utility income tax benefit..

COMPARATIVE BALANCE SHEET

ACCOUNT NAME	CURRENT YEAR	PREVIOUS YEAR
Assets:		
Utility Plant in Service (A), (B)	72,219,883	67,692,268
Accumulated Depreciation and Amortization	(18,093,888)	(16,722,237)
Net Utility Plant	**54,125,995**	**50,970,031**
Cash	37,787	303,042
Customer Account Receivable	623,704	555,451
Other Assets (Specify)-		
Non-Utility Property		
Less Acc. Depreciation		
Utility Plant Acquisition Adjustment	392,255	429,995
Land Held For Future Use	678,189	657,916
Materials and Supplies	198,178	195,310
Misc. & Prepaids (B)	530,563	701,550
Misc. Deferred Debits	17,873	17,624
Deferred Employee Benefits	259,890	254,989
Regulatory Accounts	1,464,832	801,467
Open Accounts	(4,908,638)	(6,363,383)
Total Assets	**53,420,628**	**48,523,992**
Liabilities and Capital:		
Common Stock Issued	6,940,578	6,940,578
Preferred Stock Issued		0
Other Paid in Capital	2,008,000	2,008,000
Retained Earnings	20,013,667	17,194,893
Proprietary Capital		0
Total Capital	**28,962,245**	**26,143,471**
Long Term Debt	0	0
Accounts Payable	483,996	357,011
Notes Payable	0	0
Customer Deposits	645	1,181
Accrued Taxes	404,848	389,400
Other Liabilities (Specify)		
Interest Accrued	0	0
Misc. Liabilities	436,404	422,292
Deferred Credits	1,051,112	710,741
Deferred Income Tax & ITC	6,371,597	6,317,306
Advances for Construction	13,678,741	12,093,678
Contributions in Aid of Construction	2,031,039	2,088,912
Total Liabilities and Capital	**53,420,628**	**48,523,992**

(A) Includes $133,376 and $168,319 of Construction in Progress for 2006 and 2005 respectively.
(B) Balance excludes Intangible Plant which is included in Miscellaneous and Prepaid category in the amount of $38,090 and $40,608 for 2006 and 2005 respectively.

ACCUMULATED DEPRECIATION AND AMORTIZATION OF UTILITY PLANT

ACCOUNT 108	CURRENT YEAR	PREVIOUS YEAR
Balance First of Year	16,722,237	15,440,489
Credits During Year:		
Accruals Charged to Depreciation Account	1,703,530	1,616,906
Salvage	12,784	24,759
Other Credits - Contributions	51,773	45,477
Other Credits - Transfer of cash remittance machine	0	22,406
Clearing Accounts	74,402	65,977
Reimbursement for damages-mains		(28)
Total Credits	**1,842,489**	**1,775,497**
Debits During Year:		
Book Cost of Plant Retired	469,781	487,583
Cost of Removal	0	6,166
Other Debits (Specify)- reimbursement for damages-mains	1,057	0
Total Debits	**470,838**	**493,749**
Balance End of Year	**18,093,888**	**16,722,237**

CONTRIBUTIONS IN AID OF CONSTRUCTION

Report below all contractor and developer agreements and line extension agreements from which cash or property was received during the year	Indicate "Cash" or "Property"	
NONE		
Total During Year		**0**

ACCUMULATED DEFERRED INCOME TAXES

Description	
Accumulated Deferred Income Taxes:	6,371,597
Total Accumulated Deferred Income Taxes	**6,371,597**

CAPITAL STOCK

	Common Stock	Preferred Stock
Par or stated value per share	No Par Value	N/A
Shares issued and outstanding	50,000	
Total par value of stock issued	6,940,578	
Dividends declared per share for year		

RETAINED EARNINGS

	Appropriated	Unappropriated
Balance first of year		17,194,893
Changes during year (Specify):		
Missoula 2006 Net Income		2,818,774
Balance end of year		20,013,667

PROPRIETARY CAPITAL

	Proprietor or Partner	Partner
Balance first of year		
Changes during year (Specify):		
NOT APPLICABLE		
Balance end of year		

LONG TERM DEBT

Description of Obligation	Interest		Principal Per Balance Sheet Date
	Rate	Pymts	
NONE			
Total	N/A	0	0

WATER UTILITY PLANT ACCOUNTS

Acct. No.	Account Name	Previous Year	Additions	Retirements	Current Year
301	Organization				
302	Franchises				
303	Land and Land Rights	898,413	23,627	0	922,040
304	Structures and Improvements	5,120,284	118,776	61,223	5,177,836
305	Collecting and Impounding Reservoirs	142,020	71,101		213,121
306	Lake, River and Other Intakes	0			0
307	Wells and Springs	297,060	17,110	6,702	307,468
308	Infiltration Galleries and Tunnels	0			0
309	Supply Mains	505,514		163,430	342,084
310	Power Generation Equipment	870,273	29,049	16,346	882,977
311	Pumping Equipment	2,979,252	397,356	38,149	3,338,460
320	Water Treatment Equipment	223,281	43,256	4,752	261,785
330	Distribution Reservoirs and Standpipes	4,019,136	21,815	18,806	4,022,145
331	Transmission and Distribution Mains	40,651,475	2,920,136	(68,007)	43,639,617
333	Services	150,782			150,782
334	Meters and Meter Installations	3,838,585	734,249	124,932	4,447,903
335	Hydrants	3,440,791	193,152	6,112	3,627,831
339	Other Plant and Miscellaneous Equipment	0			0
340	Office Furniture and Equipment	215,171	22,828	34,760	203,239
341	Transportation Equipment	806,729	126,069	65,939	866,859
342	Stores Equipment	0			0
343	Tools, Shop and Garage Equipment	415,368	24,322	218	439,471
344	Laboratory Equipment	12,990			12,990
345	Power Operated Equipment	18,542			18,542
346	Communication Equipment	312,926	73,202	24,901	361,226
347	Miscellaneous Equipment	2,599,358	297,520	94,758	2,802,119
348	Other Tangible Plant	6,000	48,013	6,000	48,013
	Construction Work in Progress	168,319	133,376	168,319	133,376
	TOTAL WATER PLANT	67,692,268	5,294,956	767,341	72,219,883

ANALYSIS OF ACCUMULATED DEPRECIATION BY PRIMARY ACCOUNT

ACCT. NO.	ACCOUNT	AVERAGE SERVICE LIFE IN YEARS	AVERAGE SALVAGE IN PERCENT	DEPR. RATE APPLIED	ACCUMULATED DEPRECIATION BALANCE PREVIOUS YEARS	DEBITS	CREDITS	ACCUMULATED DEPRECIATED BALANCE - END OF YEAR
303	Land and Land Rights				18,877		1,059	19,936
304	Structures & Improvements	VARIES	VARIES %	VARIES %	1,687,903	23,092	126,089	1,790,900
305	Collecting & Impounding Reservoirs	50	-5.0%	2.10%	25,935		2,957	28,892
306	Lake, River & Other Intakes							
307	Wells & Springs	40	-5.0%	2.64%	155,933	(5,842)	7,631	169,406
308	Infiltrations Galleries & Tunnels							
309	Supply Mains	50	-5.0%	2.22%	346,069	162,631	10,503	193,940
310	Power Generating Equipment	25	0.0%	3.71%	189,908	12,448	32,674	210,134
311	Pumping Equipment	25	VARIES %	VARIES %	1,343,048	34,288	111,412	1,420,172
320	Water Treatment Equipment	20	0.0%	2.45%	109,395	4,752	7,755	112,398
330	Distribution Reservoirs & Standpipes	40	0.0%	2.33%	1,673,058	(43)	92,573	1,765,674
331	Trans. & Dist. Mains	50	0.0%	1.97%	7,828,301	(72,430)	800,834	8,701,565
333	Services	40	0.0%	2.47%	40,007		3,671	43,678
334	Meter & Meter Installation	30	VARIES %	VARIES %	449,454	111,610	140,164	478,008
335	Hydrants	40	5.0%	2.45%	608,476	1,103	83,712	691,085
339	Other Plant & Misc. Equipment							
340	Office Furniture and Equipment	15	10.0%	8.83%	138,079	12,354	(10,433)	115,292
341	Transportation Equipment	10	10.0%	6.59%	507,106	66,029	60,499	501,576
342	Stores Equipment				0			0
343	Tools, Shop & Garage Equipment	20	5.0%	4.90%	106,530	128	20,501	126,903
344	Laboratory Equipment	10	0.0%	7.80%	9,806		684	10,490
345	Power Operated Equipment	20	5.0%	3.54%	16,812		152	16,964
346	Communication Equipment	10	0.0%	11.50%	187,814	24,901	34,706	197,618
347	Miscellaneous Equipment	6	5.0%	10.70%	1,276,933	94,758	311,083	1,493,257
348	Other Tangible Plant				2,793		3,207	6,000
	Totals				**16,722,237**	**469,781**	**1,841,432**	**18,093,888**

WATER OPERATION AND MAINTENANCE EXPENSE

ACCOUNT NAME	AMOUNT
Salaries and Wages - Employees	2,557,810
Employee Pensions and Benefits	830,156
Purchased Water	0
Purchased Power	1,122,032
Fuel for Power Production	0
Chemicals	55,778
Materials and Supplies (A)	(83,169)
Contractual Services	2,726,978
Rent	1,200
Transportation Expense	215,059
Insurance Expense	613,678
Regulatory Commission Expense	7,891
Bad Debt Expense	31,875
Miscellaneous Expense	321,952
TOTAL	**8,401,240**

(A) Includes $(249,842) Administrative Expense Transferred

PAYMENTS FOR SERVICES RENDERED BY OTHER THAN EMPLOYEES

Report all information concerning rate, management, construction, advertising, labor relations, public relations, or other similiar services rendered the respondent for which the aggregate payments during the year to any corporation, partnership, individual or organization of any kind whatever, amounting to $500. or more. Utilities having revenue in excess of $100,000 should report amounts of $5,000 or more.

Name of Recipient	Amount	Description of Service
SEE PAGE 10		

NAME OF RECIPIENT	AMOUNT	DESCRIPTION OF SERVICE
4G's Plumbing & Heating	5,566	Plumbing/mechanical services
ADP	12,434	Payroll service
AWWA Research Foundation	9,003	Subscription to research
Bank of America	7,370	Service charge
Bitterroot Welding & Hydraulics	25,198	Welding & hydraulic services
Camp Well Drilling	13,409	Drilling & mechanical services
Chapman Concrete Const	16,277	Concrete pouring
City of Missoula	16,714	Site security services/concrete installation
Eli & Associates, Inc.	44,309	Engineering services
Energy Labs, Inc.	12,837	Water testing
Embe Contracting, Inc.	1,139,367	Excavation work
ESRI, Inc.	6,444	Maint agreement-software GIS
Express Personnel Services	12,351	Temp employee services
Fletcher Excavation	367,565	Excavation work
Garlington, Lohn & Robinson	30,920	Legal fees
GE Fanuc Automation	9,818	SCADA maintenance contract
HDR Engineering, Inc	40,820	Engineering services/rate case study
Human Performance Consulting	20,563	Performance consulting services
Hughes, Kellner, Sullivan & Alke	22,927	Legal fees
Johnson Controls	14,064	Service work
JTL Group, Inc	5,366	Water line repair
K & N Electrical Motors, Inc.	12,678	Service pump/motors
Karl Tyler Chevrolet	11,559	Service/repair vehicle fleet
Landworks Consulting & Design	19,961	Engineering services
LC Staffing Services	5,422	Temp employee services
Les Schwab Tire Center	7,281	Service/repair vehicle fleet
LS Jensen & Sons, Inc.	187,053	Excavation work
Maxim Technolgies	7,828	Engineering services
Missoula City/County Health Dept.	15,375	Water testing
Missoula Textiles	18,380	Laundry service
Montana Conservation Corps	21,000	Dam repair & maintenance
Montana Electronics	7,341	Service/repair vehicle fleet
Montana Printing	9,299	Printing service
Montana Truck Bodies	10,086	Vehicle repair/maintenance
Nash Enterprises, Inc	8,329	Excavation work
Nature's Best	57,604	lawn/site maintenance
Navtrak	13,338	Vehicle tracking system
Otto's Towing & Crane Service	7,506	Crane services
Paulson Electric	114,403	Electrical repairs
Peasley, Aldinger & O'Bymachow	81,910	Audit fees
Pew Construction	12,107	Construction work
Platinum Graphics	58,883	Mailing service
Poteet Construction, Inc.	14,036	Signage service
Power Engineers	57,266	Electrical engineer services
Professional Consulting, Inc.	40,523	Engineering services
Quality Maintenance Enterprises	13,001	Janitorial services
Salt Studio	29,355	Advertising services
SC Wrights Insurance	526,819	Commercial insurance
Securitas Security Service	15,017	Alarm/security service
SICC	33,348	Painting services
Sprint	19,885	Computer data link line
Territorial Eng. & Surveying	6,208	Engineering Services
Tetra Tech	6,222	Engineering Services
T R Marinan Co	13,896	Truck accessory installations
The Waterman	63,648	Contracted locates/water service
US Bank	14,229	Service charge
Utilities Underground Location Center	7,896	Location requests
Western States Equipment Co.	56,537	Service generators
WGM Group	115,498	Engineering services

SOURCES OF WATER SUPPLY

Surface Water: River = 0 Lake = 8 Stream = 1 Impounding Res. = 1
Ground Water: Springs No. = 0 Shallow Wells No. = 36 Deep Wells No. = 1

SUPPLY, TRANSMISSION & DISTRIBUTION MAINS (FEET)

Size Inches	First of Year	Laid During Year	Total	Abandoned During Year	Taken Up During Year	Total	Close of Year
4"or less							
6							
8							
10		PLEASE SEE PAGE 11A					
20							
TOTAL			0	0	0		

RESERVOIRS, STANDPIPES AND PURIFICATION SYSTEM

Number of Reservoirs 11 Capacity in Gallons 7,758,804
Number of Standpipes 16 Capacity in Gallons 1,744,700
Method of Purification: Chlorination

SERVICES AND METERS

	1/2 in.	5/8 in.	3/4 in.	1 in.	1 1/2 in.	2 in.	3 in.	4 in.	6 in.	8 in.	10 in.
Services		14,586	249	5,579	226	417	29	183	90	36	1
Meters		13,160	706	932	301	352	55	27	8	3	1

NUMBER AND CLASSIFICATION OF CONSUMERS

15,545

Classification		Begining of the year Metered	Unmetered	Total	Close of the year Metered	Unmetered	Total	Increase or (Decrease)
Residential	rev code 11 & 91	11,377	6,322	17,699	11,909	6,100	18,009	310
Commercial	22 & 92	2,973	159	3,132	3,063	154	3,217	85
Industrial	33	1	0	1	1	0	1	0
Fire Hydrants	62	0	1,160	1,160	0	1,174	1,174	14
Governmental	45 & 94	64	41	105	65	41	106	1
All Other	70, 73, 52	494	421	915	507	437	944	29
(includes inactives 73) Total		14,909	8,103	23,012	15,545	7,906	23,451	439

TOTAL PUMPING STATION STATISTICS

Total Amount of Water Obtained by all methods during the Year 9,378,822,286 gals. estimate
Maximum Water obtained all methods during any one day 50,060,517 gals. estimate
Minimum Amount of Water obtained all methods during one day 17,273,623 gals. estimate
Total Amount of Water passed through customers meters during year 3,464,572,355 gals.
Range of ordinary pressure on mains: 45 lbs. to 200 lbs.
Range of fire pressure in mains: 45 lbs. to 170 lbs.

SUPPLY, TRANSMISSION & DISTRIBUTION MAINS (FEET)

Size Inches	First of Year (A)	Laid During Year	Total	Abandoned During Year	Taken Up During Year	Total	Close of Year
30"Wood							
30"Steel	17,075		17,075			0	17,075
1"	84		84			0	84
1-1/2"	122		122			0	122
2"	45,347		45,347			0	45,347
3"	5,700		5,700			0	5,700
4"	32,754		32,754			0	32,754
5"	571		571			0	571
6"	746,665		746,665	497		497	746,168
8"	262,620	17,636	280,256			0	280,256
10"	122,536	118	122,654			0	122,654
12"	100,941	6,745	107,686			0	107,686
14"	6,035		6,035			0	6,035
16"	29,860	5,274	35,134			0	35,134
20"	27,094	2,170	29,264			0	29,264
24"	52,896		52,896			0	52,896
TOTAL	1,450,300	31,943	1,482,243	497	0	497	1,481,746

Note (A) Certain ending balances have been corrected from the 2005 report. The net impact is 5,595 less feet.

STATE OF MONTANA)
County of Missoula)

We, the undersigned, on our oath do severally say that the foregoing return of the Mountain Water Company water utility has been prepared under our direction from the original books, paper and records of said utility and declare the same to be a full, true and correct statement embracing all the financial transactions of said utility during the period for which the return is made.

Arvid Hiller, Vice Pres. & Gen. Manager

Subscribed and sworn to before me this 24th day of April, 2007.

Michelle A. Halley

MICHELLE A. HALLEY
NOTARIAL
SEAL
STATE OF MONTANA

MICHELLE A. HALLEY
NOTARY PUBLIC for the State of Montana
Residing at Missoula, Montana
My Commission Expires January 16, 2008.