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ANNUAL REPORT

IDAHO PUBLIC
UTILITIES COMMISSION

OF

HVW-W

Happy Valley Water System Inc
NAME

Rathdrum ID 83858
ADDRESS

TO THE

IDAHO PUBLIC

UTILITIES COMMISSION

FOR THE

YEAR ENDED 2005

**ANNUAL REPORT FOR WATER UTILITIES TO
THE IDAHO PUBLIC UTILITIES COMMISSION
FOR THE YEAR ENDING 12/31/2005**

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IDAHO PUBLIC UTILITIES COMMISSION

COMPANY INFORMATION

1 Give full name of utility Happy Valley Water System Inc.
 2 Date of Organization 25-Jul-01
 3 Organized under the laws of the state of Idaho
 4 Address of Principal Office (number & street) 10045 N. Memory Lane
 5 P.O. Box (if applicable) _____
 6 City Rathdrum
 7 State ID
 8 Zip Code 83858
 9 Organization (proprietor, partnership, corp.) S-Corp
 10 Towns, Counties served Kootenai

 11 Are there any affiliated companies? YES

If yes, attach a list with names, addresses & descriptions. Explain any services provided to the utility.

12 Contact Information	Name	Phone No.
President (Owner)	Brett McCarty	687-1072
Vice President	N/A	
Secretary	Nora McCarty	687-1072
General Manager	N/A	
Complaints or Billing	Personal Care Data	765-1863
Engineering	N/A	
Emergency Service	Brett McCarty	687-1072
Accounting	Nora McCarty	687-1072

13 Were any water systems acquired during the year or any additions/deletions made to the service area during the year? no
If yes, attach a list with names, addresses & descriptions. Explain any services provided to the utility.

14 Where are the Company's books and records kept?
 Street Address 10045 N. Memory Ln.
 City Rathdrum
 State ID
 Zip 83858

NAME: Happy Valley Water System Inc.

COMPANY INFORMATION (Cont.)

For the Year Ended 12/31/2005

15 Is the system operated or maintained under a service contract? No

16 **If yes:** With whom is the contract? _____
When does the contract expire? _____
What services and rates are included? _____

17 Is water purchased for resale through the system? No

18 **If yes:** Name of Organization _____
Name of owner or operator _____
Mailing Address _____
City _____
State _____
Zip _____

	Gallons/CCF	\$Amount
Water Purchased		

19 Has any system(s) been disapproved by the Idaho Division of Environmental Quality? no

If yes, attach full explanation

20 Has the Idaho Division of Environmental Quality recommended any improvements? _____

If yes, attach full explanation

21 Number of Complaints received during year concerning:
Quality of Service _____
High Bills _____
Disconnection _____

22 Number of Customers involuntarily disconnected 0

23 Date customers last received a copy of the Summary of Rules required by IDAPA 31.21.01.701? _____

Attach a copy of the Summary

24 Did significant additions or retirements from the Plant Accounts occur during the year? No

If yes, attach full explanation and an updated system map

NAME: _____ Happy Valley Water System Inc.

REVENUE & EXPENSE DETAIL

For the Year Ended 12/31/2005

ACCT #	DESCRIPTION		
400 REVENUES			
1	460	Unmetered Water Revenue	_____
2	461.1	Metered Sales - Residential	_____ 8737
3	461.2	Metered Sales - Commercial, Industrial	_____
4	462	Fire Protection Revenue	_____
5	464	Other Water Sales Revenue	_____ 15
6	465	Irrigation Sales Revenue	_____
7	466	Sales for Resale	_____
8	400	Total Revenue (Add Lines 1 - 7) (also enter result on Page 4, line 1)	_____ 8752
9	*	DEQ Fees Billed separately to customers	_____ Booked to Acct # _____
10	**	Hookup or Connection Fees Collected	_____ Booked to Acct # _____
11	***	Commission Approved Surcharges Collected	_____ Booked to Acct # _____
401 OPERATING EXPENSES			
12	601.1-6	Labor - Operation & Maintenance	_____
13	601.7	Labor - Customer Accounts	_____
14	601.8	Labor - Administrative & General	_____
15	603	Salaries, Officers & Directors	_____
16	604	Employee Pensions & Benefits	_____
17	610	Purchased Water	_____
18	615-16	Purchased Power & Fuel for Power	_____ 3711
19	618	Chemicals	_____
20	620.1-6	Materials & Supplies - Operation & Maint.	_____ 56
21	620.7-8	Materials & Supplies - Administrative & General	_____
22	631-34	Contract Services - Professional	_____ 1566
23	635	Contract Services - Water Testing	_____ 132
24	636	Contract Services - Other	_____ 2648
25	641-42	Rentals - Property & Equipment	_____ 150
26	650	Transportation Expense	_____
27	656-59	Insurance	_____
28	660	Advertising	_____
29	666	Rate Case Expense (Amortization)	_____
30	667	Regulatory Comm. Exp. (Other except taxes)	_____
31	670	Bad Debt Expense	_____
32	675	Miscellaneous	_____ 62
33	Total Operating Expenses (Add lines 12 - 32, also enter on Pg 4, line 2)		_____ 8325

Name: Happy Valley Water System Inc.

INCOME STATEMENT

For Year Ended 12/31/2005

ACCT #	DESCRIPTION		
1	Revenue (From Page 3, line 8)		<u>8752</u>
2	Operating Expenses (From Page 3, line 33)	<u>8325</u>	
3	403 Depreciation Expense	<u>520</u>	
4	406 Amortization, Utility Plant Aquisition Adj.	<u>236</u>	
5	407 Amortization Exp. - Other		
6	408.10 Regulatory Fees (PUC)	<u>50</u>	
7	408.11 Property Taxes	<u>177</u>	
8	408.12 Payroll Taxes		
9A	408.13 Other Taxes (list) DEQ Fees	<u>120</u>	
9B			
9C			
9D			
10	409.10 Federal Income Taxes		
11	409.11 State Income Taxes	<u>20</u>	
12	410.10 Provision for Deferred Income Tax - Federal		
13	410.11 Provision for Deferred Income Tax - State		
14	411 Provision for Deferred Utility Income Tax Credits		
15	412 Investment Tax Credits - Utility		
16	Total Expenses from operations before interest (add lines 2-15)		<u>9448</u>
17	413 Income From Utility Plant Leased to Others		
18	414 Gains (Losses) From Disposition of Utility Plant		
19	Net Operating Income (Add lines 1, 17 & 18 less line 16)		<u>(696)</u>
20	415 Revenues, Merchandizing Jobbing and Contract Work		
21	416 Expenses, Merchandizing, Jobbing & Contracts		
22	419 Interest & Dividend Income		
23	420 Allowance for Funds used During Construction		
24	421 Miscellaneous Non-Utility Income		
25	426 Miscellaneous Non-Utility Expense		<u>1</u>
26	408.20 Other Taxes, Non-Utility Operations		
27	409-20 Income Taxes, Non-Utility Operations		
28	Net Non-Utility Income (Add lines 20,22,23 & 24 less lines 21,25,26, & 27)		<u>(1)</u>
29	Gross Income (add lines 19 & 28)		<u>(697)</u>
30	427.3 Interest Exp. on Long-Term Debt		
31	427.5 Other Interest Charges		
32	NET INCOME (Line 29 less lines 30 & 31) (Also Enter on Pg 9, Line 2)		<u><u>(697)</u></u>

Name: Happy Valley Water System Inc.

ACCOUNT 101 PLANT IN SERVICE DETAIL
 For Year Ended 12/31/2005

SUB ACCT #	DESCRIPTION	Balance Beginning of Year	Added During Year	Removed During Year	Balance End of Year
1 301	Organization	154			154
2 302	Franchises and Consents				
3 303	Land & Land Rights				
4 304	Structures and Improvements	1444			1444
5 305	Collecting & Impounding Reservoirs				
6 306	Lake, River & Other Intakes				
7 307	Wells				
8 308	Infiltration Galleries & Tunnels				
9 309	Supply Mains				
10 310	Power Generation Equipment				
11 311	Power Pumping Equipment	7447			7447
12 320	Purification Systems				
13 330	Distribution Reservoirs & Standpipes				
14 331	Trans. & Distrib. Mains & Accessories				
15 333	Services				
16 334	Meters and Meter Installations	2674			2674
17 335	Hydrants				
18 336	Backflow Prevention Devices				
19 339	Other Plant & Misc. Equipment				
20 340	Office Furniture and Equipment				
21 341	Transportation Equipment				
22 342	Stores Equipment				
23 343	Tools, Shop and Garage Equipment				
24 344	Laboratory Equipment				
25 345	Power Operated Equipment				
26 346	Communications Equipment				
27 347	Miscellaneous Equipment				
28 348	Other Tangible Property				
29	TOTAL PLANT IN SERVICE	11719			11719

(Add lines 1 - 28)

Enter beginning & end of year totals on Pg 7, Line 1

Name: Happy Valley Water System Inc.

ACCUMULATED DEPRECIATION ACCOUNT 108.1 DETAIL

For Year Ended 12/31/2005

SUB ACCT #	DESCRIPTION	Depreciation Rate %	Balance Beginning of Year	Balance End of Year	Increase or (Decrease)
1 304	Structures and Improvements	5.00%	252	324	72
2 305	Collecting & Impounding Reservoirs				
3 306	Lake, River & Other Intakes				
4 307	Wells				
5 308	Infiltration Galleries & Tunnels				
6 309	Supply Mains				
7 310	Power Generation Equipment				
8 311	Power Pumping Equipment	5.00%	4095	4467	372
9 320	Purification Systems				
10 330	Distribution Reservoirs & Standpipes				
11 331	Trans. & Distrib. Mains & Accessories				
12 333	Services				
13 334	Meters and Meter Installations	3.00%	696	772	76
14 335	Hydrants				
15 336	Backflow Prevention Devices				
16 339	Other Plant & Misc. Equipment				
17 340	Office Furniture and Equipment				
18 341	Transportation Equipment				
19 342	Stores Equipment				
20 343	Tools, Shop and Garage Equipment				
21 344	Laboratory Equipment				
22 345	Power Operated Equipment				
23 346	Communications Equipment				
24 347	Miscellaneous Equipment				
25 348	Other Tangible Property				
26	TOTALS (Add Lines 1 - 25)		5043	5563	520

Enter beginning & end of year totals on Pg 7, Line 7

Name: Happy Valley Water System Inc.

BALANCE SHEET

For Year Ended 12/31/2005

ASSETS			Balance	Balance	Increase
ACCT #	DESCRIPTION		Beginning of Year	End of Year	or (Decrease)
1	101	Utility Plant in Service (From Pg 5, Line 29)	11719	11719	0
2	102	Utility Plant Leased to Others			
3	103	Plant Held for Future Use			
4	105	Construction Work in Progress			
5	114	Utility Plant Aquisition Adjustment	3070	3070	
6		Subtotal (Add Lines 1 - 5)	14789	14789	0
7	108.1	Accumulated Depreciation (From Pg 6, Line 26)	5043	5563	520
8	108.2	Accum. Depr. - Utility Plant Lease to Others			
9	108.3	Accum. Depr. - Property Held for Future Use			
10	110.1	Accum. Amort. - Utility Plant in Service	106	137	31
11	110.2	Accum. Amort. - Utility Plant Lease to Others			
12	115	Accumulated Amortization - Aquisition Adj.	734	939	205
13		Net Utility Plant (Line 6 less lines 7 - 12)	8906	8150	(756)
14	123	Investment in Subsidiaries			
15	125	Other Investments			
16		Total Investments (Add lines 14 & 15)			
17	131	Cash	1257	1157	(100)
18	135	Short Term Investments			
19	141	Accts/Notes Receivable - Customers	469	628	159
20	142	Other Receivables			
21	145	Receivables from Associated Companies			
22	151	Materials & Supplies Inventory			
23	162	Prepaid Expenses			
24	173	Unbilled (Accrued) Utility Revenue			
25	143	Provision for Uncollectable Accounts			
26		Total Current (Add lines 17 -24 less line 25)	1726	1785	59
27	181	Unamortized Debt Discount & Expense			
28	183	Preliminary Survey & Investigation Charges			
29	184	Deferred Rate Case Expenses			
30	186	Other Deferred Charges			
31		Total Assets (Add lines 13, 16 & 26 - 30)	10632	9935	(697)

Name: Happy Valley Water System Inc.

BALANCE SHEET

For Year Ended 12/31/2005

LIABILITIES & CAPITAL

ACCT #	DESCRIPTION	Balance Beginning of Year	Balance End of Year	Increase or (Decrease)
1	201-3 Common Stock			
2	204-6 Preferred Stock			
3	207-13 Miscellaneous Capital Accounts	10000	10000	0
4	214 Appropriated Retained Earnings			
5	215 Unappropriated Retained Earnings	632	(65)	(697)
6	216 Reacquired Capital Stock			
7	218 Proprietary Capital			
8	Total Equity Capital (Add Lines 1-5+7 less line 6)	10632	9935	(697)
9	221-2 Bonds			
10	223 Advances from Associated Companies			
11	224 Other Long - Term Debt			
12	231 Accounts Payable			
13	232 Notes Payable			
14	233 Accounts Payable - Associated Companies	0	0	0
15	235 Customer Deposits (Refundable)			
16	236.11 Accrued Other Taxes Payable			
17	236.12 Accrued Income Taxes Payable			
18	236.2 Accrued Taxes - Non-Utility			
19	237-40 Accrued Debt, Interest & Dividends Payable			
20	241 Misc. Current & Accrued Liabilities			
21	251 Unamortized Debt Premium			
22	252 Advances for Construction			
23	253 Other Deferred Liabilities			
24	255.1 Accumulated Investment Tax Credits - Utility			
25	255.2 Accum. Investment Tax Credits - Non-Utility			
26	261-5 Operating Reserves			
27	271 Contributions in Aid of Construction			
28	272 Accum. Amort. of Contrib. in Aid of Const. **			
29	281-3 Accumulated Deferred Income Taxes			
30	Total Liabilities (Add lines 9 - 29)	0	0	0
31	TOTAL LIAB & CAPITAL (Add lines 8 & 30)	10632	9935	(697)

**** Only if Commission Approved**

Name: Happy Valley Water System Inc.

STATEMENT OF RETAINED EARNINGS

For Year Ended 12/31/2005

1	Retained Earnings Balance @ Beginning of Year	<u>632</u>
2	Amount Added from Current Year Income (From Pg 4, Line 32)	<u>(697)</u>
3	Other Credits to Account	<u> </u>
4	Dividends Paid or Appropriated	<u> </u>
5	Other Distributions of Retained Earnings	<u> </u>
6	Retained Earnings Balance @ End of Year	<u><u>(65)</u></u>

CAPITAL STOCK DETAIL

7	Description (Class, Par Value etc.)	No. Shares Authorized	No. Shares Outstanding	Dividends Paid
	NO PAR VALUE	10	10	0

DETAIL OF LONG-TERM DEBT

8	Description	Interest Rate	Year-end Balance	Interest Paid	Interest Accrued

Name: Happy Valley Water System Inc.

SYSTEM ENGINEERING DATA
(continued)
 For Year Ended 12/31/2005

4 Pump information for ALL system pumps, including wells and boosters.

Designation or Location & Type of Pump**	Horse Power	Rated Capacity (gpm)	Discharge Pressure (psi)	Energy Used This Year

**** Submit pump curves unless previously provided or unavailable. Asterisk facilities added this year. Attach additional sheets if inadequate space is available on this page.**

- 5 If Wells are metered:
 What was the total amount pumped this year? _____
 What was the total amount pumped during peak month? _____
 What was the total amount pumped on the peak day? _____
- 6 If customers are metered, what was the total amount sold in peak month? _____
- 7 Was your system designed to supply fire flows? _____
If Yes: What is current system rating? _____
- 8 How many times were meters read this year? _____ **2**
 During which months? _____ **August**
 _____ **September**
- 9 How many additional customers could be served with no system improvements
 except a service line and meter? _____ **0**
 How many of those potential additions are vacant lots? _____ **0**
- 10 Are backbone plant additions anticipated during the coming year? _____
If Yes, attach an explanation of projects and anticipated costs!
- 11 In what year do you anticipate that the system capacity (supply, storage or distribution)
 will have to be expanded? _____

Name: Happy Valley Water System Inc.

**SYSTEM ENGINEERING DATA
(continued)**

For Year Ended 12/31/2005

FEET OF MAINS

1	Pipe Size	In Use Beginning Of Year	Installed During Year	Abandoned During Year	In Use End of Year

CUSTOMER STATISTICS

	Number of Customers		Thousands of Gallons Sold	
	This Year	Last Year	This Year	Last Year
2 Metered:				
2A Residential	24	24		
2B Commercial				
2C Industrial				
3 Flat Rate:				
3A Residential				
3B Commercial				
3C Industrial				
4 Private Fire Protection				
5 Public Fire Protection				
6 Street Sprinkling				
7 Municipal, Other				
8 Other Water Utilities				
TOTALS (Add lines 2 through 8)				

CERTIFICATE

State of Idaho)
County of Kootenai) ss

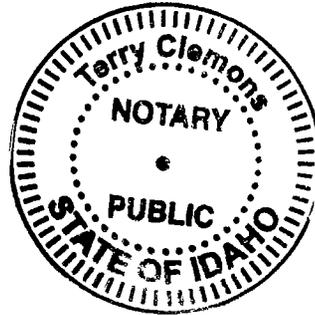
WE, the undersigned Brett McCarty, President
and NORA McCarty, Secretary
of the Happy Valley Water System Inc
utility, on our oath do severally say that the foregoing report has been prepared under our direction,
from the original books, papers and records of said utility; that we have carefully examined same, and
declare the same to be a correct statement of the business and affairs of said utility for the period
covered by the report in respect to each and every matter and thing therein set forth, to the best of our
knowledge, information and belief.

Brett McCarty
(Chief Officer)

Nora McCarty
(Officer in Charge of Accounts)

Subscribed and Sworn to Before Me

this 11 day of April, 2006
Terry Clemons
NOTARY PUBLIC



My Commission Expires 4/18/2011

gdk/excel/jnelson/anulrpts/wtrannualrpt

**HAPPY VALLEY WATER SYSTEM INC
10045 N. MEMORY LANE
RATHDRUM, IDAHO 83858
208-687-9170**

This is a summary of the rules for termination of service for all Happy Valley Water System customers as determined by the Idaho Public Utilities Commission (IPUC). These rules cover the rights and responsibilities of the Customer and the Utility. An explanation of our rate schedule has also been included.

If you have any questions concerning this information please contact us, or you can directly contact the IPUC, P.O. Box 83720, Boise, ID 83720-0074, 1-800-432-0369.

RULES FOR TERMINATION OF SERVICE

TERMINATION WITH PRIOR NOTICE

With proper customer notice Happy Valley Water System Inc may deny or terminate water service for one of the following reasons:

1. Non-payment of a past due bill or payment of a past due bill with a NSF check.
2. Failure to honor the terms of a payment arrangement.
3. Obtaining service by false identity.
4. Refusing to allow access to the water meter or shut off valve.
5. Willfully wasting service through improper equipment or otherwise.
6. Failure to apply for service.

TERMINATION WITHOUT PRIOR NOTICE

Happy Valley Water System Inc may deny or terminate water service without notice for one of the following reasons:

1. A situation exists that is immediately dangerous to life, physical safety or property.
2. To prevent a violation of federal, state, or local safety or health codes.
3. Service is obtained, diverted or used without the authorization of Happy Valley Water System Inc.
4. Happy Valley Water System Inc has diligently attempted to notify you of termination and has been unable to contact you.
5. If ordered by any court, the Commission or any other duly authorized public authority.

NOTIFICATION AND BILLING

1. Meters will be read between the first and fifth of each month (weather providing). Bills will be sent out on the 10th of the month with payment due by the 25th of each month. The basic monthly fee is \$27.00 per month at this time.
2. A billing may be considered past due (25) twenty-five days after the billing date. A written notice of termination must be mailed at least (7) seven days before the proposed termination date.
3. At least (24) twenty-four hours before the service is terminated, a notice will be left at the property advising you of the steps needed to have services restored.
4. Only a (24) twenty-four hour notice is required if you do not keep a payment arrangement or the payment is not honored by the bank.

PAYMENT ARRANGEMENTS AND SPECIAL CIRCUMSTANCES

If you cannot pay your billing in full or you receive a notice of termination, please call our office. **Payment arrangements can be made to avoid termination of service.**

If you cannot pay your bill and a member of your household is seriously ill or there is a medical emergency, Happy Valley Water System Inc will postpone termination of service for (30) thirty days. A written certification is required from a licensed physician or public health official stating the name of the person who is ill, the relationship to the customer and the name, title, and signature of the person certifying the serious illness or medical emergency.

COMPLAINT PROCEDURES

If at any time you have a complaint concerning the termination of service, policies and practices or any other matter regarding our service please contact Happy Valley Water System Inc in person or by telephone or in writing. Your complaint will be investigated promptly and thoroughly. You will be notified orally or in writing. Your service will not be disconnected while the complaint is being investigated by the utility or the IPUC.

RESTRICTION OF TERMINATION OF SERVICE

Service cannot be disconnected on Friday after 2:00 p.m. or on a Saturday, Sunday, Legal Holidays recognized by the State of Idaho or after 2:00 p.m. on any day immediately before any legal holiday. Service may only be terminated between the hours of 8:00 AM and 4:00 PM. The employee sent to the premises to terminate service will identify himself/herself to you and state the purpose of the visit. This person is authorized to accept payment in full.

HOOKUP

Happy Valley Water System Inc reserves the right to deny hookups during the winter months due to adverse weather conditions. New hookups will be scheduled as soon as weather conditions permit.

HOOK-UP CHARGES & MONTHLY FEES

A one-time hookup charge of \$500.00 will be paid in advance for any new service hookup. The extra costs of an out of the ordinary circumstances requiring additional equipment or special construction techniques involved in the installation of a new service connection will be agreed to in advance and put into writing by the customer and Happy Valley Water System Inc. One residence per hookup is allowed.

The monthly rate is \$27.00 per month, which includes 20,000 gallons. There is a commodity charge of \$0.70/1,000 gallons for all consumption in excess of 20,000 gallons. Payment is due in full by the 25th of the month and will be considered delinquent by the 5th of the month following the billing. Arrangement can be made to pay in advance monthly, quarterly, semi-annual or annual.

RECONNECTION FEE

If water service is terminated, the balance in full, plus a reconnect fee of (\$20.00) twenty dollars is due.

NO ONE EXCEPT AN AUTHORIZED AGENT OF HAPPY VALLEY WATER SYSTEM INC SHALL TAMPER WITH, INTERFERE WITH, MAKE REPAIRS, CONNECTIONS OR REPLACEMENTS OF OR TO ANY OF THE COMPANY'S PROPERTY, EXCEPT IN THE CASE OF EXTREME EMERGENCY.