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Received _____
Examined _____

CLASS D
WATER UTILITIES

U# _____

2001
ANNUAL REPORT
OF

MHC Acquisition One, L.L.C.

(NAME UNDER WHICH CORPORATION, PARTNERSHIP, OR INDIVIDUAL IS DOING BUSINESS)

Two North Riverside Plaza, Suite 800

Chicago, IL 60606

(OFFICIAL MAILING ADDRESS)

ZIP

TO THE
PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
FOR THE
YEAR ENDED DECEMBER 31, 2001

REPORT MUST BE FILED NOT LATER THAN MARCH 31, 2002
(FILE TWO COPIES IF THREE RECEIVED)

**CLASS B, C AND D WATER COMPANIES
SAFE DRINKING WATER BOND ACT DATA**

Please provide the following information relating to each Safe Drinking Water Bond Act (SDWBA) loan outstanding during the 12 month reporting period. (Use one sheet for each loan.)

1. Current Fiscal Agent: N/A

Name: _____

Address: _____

Phone Number: _____

Date Hired: _____

2. Former Fiscal Agent:

Name: _____

Address: _____

Phone Number: _____

Date Hired: _____

3. Total surcharge collected from customers during the 12 month reporting period:

\$ _____

4. Summary of the trust bank account activities showing:

Balance at beginning of year	\$ _____
Deposits during the year	_____
Withdrawals made for loan payments	_____
Other withdrawals from this account	_____
Balance at end of year	_____

5. Account information:

Bank Name: _____

Account Number: _____

Date Opened: _____

6. Plant amounts included in Schedule A-1a, Account No. 101--Water Plant in Service which were funded using SDWBA funds:

Line No.	Acct. No.	Title of Account (a)	Balance Beginning of Year (b)	Plant Additions During Year (c)	Plant Retirements During Year (d)	Other Debits* or (Credits) (e)	Balance End of Year (f)
1		NON-DEPRECIABLE PLANT					
2	301	Intangible plant	-				-
3	303	Land	-				-
4		Total non-depreciable plant	-	-	-	-	-
5		DEPRECIABLE PLANT					
6	304	Structures	-				-
7	307	Wells	-				-
8	317	Other water source plant	-				-
9	311	Pumping equipment	-				-
10	320	Water treatment plant	-				-
11	330	Reservoirs, tanks and sandpipes	-				-
12	331	Water mains	-				-
13	333	Services and meter installations	-				-
14	334	Meters	-				-
15	335	Hydrants	-				-
16	339	Other equipment	-				-
17	340	Office furniture and equipment	-				-
18	341	Transportation equipment	-				-
19		Total depreciable plant	-	-	-	-	-
20		Total water plant in service	-	-	-	-	-

SELECTED FINANCIAL DATA - CLASS A, B, C AND D WATER COMPANIES
2001

NAME OF UTILITY MHC Acquisition One, L.L.C. PHONE 312-279-1470

PERSON RESPONSIBLE FOR THIS REPORT Faith Watkins
(Prepared from Information in the 2001 Annual Report)

	1/1/2001	12/31/2001	Average
BALANCE SHEET DATA			
1 Intangible Plant	10,000	10,000	10,000
2 Land and Land Rights	-	-	-
3 Depreciable Plant	159,556	164,145	161,841
4 Gross Plant in Service	169,556	174,145	171,851
5 Less: Accumulated Depreciation	(80,026)	(83,887)	(81,957)
6 Net Water Plant in Service	89,530	90,258	89,894
7 Water Plant Held for Future Use	-	-	-
8 Construction Work in Progress	-	-	-
9 Materials and Supplies	-	-	-
10 Less: Advances for Construction	-	-	-
11 Less: Contribution in Aid of Construction	-	-	-
12 Less: Accumulated Deferred Income and Investment Tax Credits	-	-	-
13 Net Plant Investment	<u>89,530</u>	<u>90,258</u>	<u>89,894</u>
CAPITALIZATION			
14 Common Stock	-	-	-
15 Proprietary Capital (Individual or Partnership)	178,774	177,677	178,226
16 Paid-in Capital	-	-	-
17 Retained Earnings	-	-	-
18 Common Stock and Equity (Lines 14 through 17)	178,774	177,677	178,226
19 Preferred Stock	-	-	-
20 Long-Term Debt	-	-	-
21 Notes Payable	-	-	-
22 Total Capitalization (Lines 18 through 21)	<u>178,774</u>	<u>177,677</u>	<u>178,226</u>

(Revised 2/01)

SELECTED FINANCIAL DATA - CLASS A, B, C AND D WATER COMPANIES
2001

NAME OF UTILITY MHC Acquisition One, L.L.C. PHONE 312-279-1470

		Annual Amount
23	Unmetered Water Revenue	-
24	Fire Protection Revenue	-
25	Irrigation Revenue	-
26	Metered Water Revenue	43,528
27	Total Operating Revenue	43,528
28	<u>Operating Expenses</u>	80,190
29	Depreciation Expense (Composite Rate _ 1.42% _)	3,861
30	Amortization and Property Losses	-
31	Property Taxes	993
32	Taxes Other Than Income Taxes	-
33	Total Operating Revenue Deduction Before Taxes	85,044
34	California Corp. Franchise Tax	400
35	Federal Corporate Income Tax	-
36	Total Operating Revenue Deduction After Taxes	85,444
37	Net Operating Income (Loss) - California Water Operations	(41,916)
38	Other Operating and Nonoper. Income and Exp. - Net (Exclude Interest Expense)	98
39	Income Available for Fixed Charges	(41,818)
40	Interest Expense	-
41	Net Income (Loss) Before Dividends	(41,818)
42	Preferred Stock Dividends	-
43	Net Income (Loss) Available for Common Stock	(41,818)

	OTHER DATA	
44	Refunds of Advances for Construction	-
45	Total Payroll Charged to Operating Expenses	-
46	Purchased Water	33,251
47	Power	-

	<u>Active Service Connections</u>		(Exc. Fire Protect.)		Annual Average
		Jan. 1	Dec. 31		
48	Metered Service Connections	202	202	202	202
49	Flat Rate Service Connections	-	-	-	-
50	Total Active Service Connections	202	202	202	202

CLASS D WATER UTILITIES

(HAVING LESS THAN 500 SERVICE CONNECTIONS)

MHC Acquisition One, L.L.C.

(Name under which corporation, partnership or individual is doing business)

Two North Riverside Plaza, Suite 800

(Official mailing address)

Santa Cruz, Santa Cruz County

(Service area-town and county)

GENERAL INFORMATION

RETURN ORIGINAL
TO COMMISSION
NO PHOTOCOPIES

- 1 If a corporation show:
 - (A) Date of organization August 19, 1996 incorporated in the State of Delaware
 - (B) Names, titles and addresses of principal officers:
 Samuel Zell-Chairman, Howard Walker-President/CEO, Thomas P. Heneghan Jr.-Executive V.P./Treasurer,
 Ellen Kelleher-Executive V.P./Assistant Secretary, David Fell-V.P./Secretary,
 Marguerite Nader-V.P., Jennifer Usher-Assistant Secretary
 All addresses same as above
- 2 If unincorporated give the name and address of owner or of each partner:
- 3 Name and telephone number of:
 - (A) One person listed above to receive correspondence: Marguerite Nader 312-279-1486
 - (B) Person responsible for operations and services: Herb Bedlion 831-423-8660
- 4 Were any contracts or agreements in effect with any organization or person covering service, supervision and/or management of your business affairs during the year? (Yes or No) **Yes**
 If so, what was the nature and the amount of each payment made under the agreement, to whom were payments made, and to what account was each payment charged?
 682 Professional Services \$35,825
- 5 State the names of associated companies or persons which, directly or indirectly, or through one or more intermediaries, control, or are controlled by, or are under common control with respondent:
 MHC Acquisition QRS, Inc.; MHC Operating Limited Partnership

PUBLIC HEALTH STATUS

- 6 Has state or local health department inspection been made during the year?
- 7 Are routine laboratory tests of water being made?
- 8 Has state health department water supply permit been obtained? (Indicate date)
- 9 If no permit has been obtained, state whether application has been made and when.
- 10 Show expiration date if state permit is temporary.
 Water supply is provided by Santa Cruz Municipal Utilities which is presumed to comply with all applicable local and state health department requirements

Yes	No	Latest Date
<input type="checkbox"/>	<input checked="" type="checkbox"/>	
<input type="checkbox"/>	<input checked="" type="checkbox"/>	
<input type="checkbox"/>	<input checked="" type="checkbox"/>	
<input type="checkbox"/>	<input checked="" type="checkbox"/>	
<input type="checkbox"/>	<input type="checkbox"/>	

SPECIAL INSTRUCTIONS (see following page)

SPECIAL INSTRUCTIONS

- 1 Beginning of year balances must agree with end of year balances shown in report for previous year. Attach a supplementary statement to explain any differences.
- 2 Attach a supplementary statement to explain adjustments in Schedule B - Water Plant in Service.
- 3 Complete all schedules, using the words "None" or "Not applicable" if appropriate.
- 4 Report must be prepared legibly in ink or by typewriter.

SCHEDULE A - BALANCE SHEET (DECEMBER 31, 2001)

Line	Acct.	Assets	Balance	Acct.	Equity and Liabilities	Balance
1	101	Water plant in service	174,145	201	Common Stock (Corporations only)	-
2	103	Water plant held for future use	-	211	Other paid-in capital (Corporations only)	-
3	104	Water plant purchased or sold	-	215	Retained earnings	-
4	105	Water plant construction work in progress	-	218	Proprietary capital	177,677
5	108	Accumulated depreciation of water plant	(83,887)	224	Long term debt	-
6	114	Water plant acquisition adjustments	-		Current Liabilities	9,363
7	124	Other investments	-	252	Advances for construction	-
8	131	Cash	6,675	253	Other deferred credits	-
9	141	Accounts receivable - customers	(182)	255	Accumulated deferred investment tax credits	-
10	142	Receivables from associated companies	-	282	Accumulated deferred income taxes - Acrs	-
11	151	Materials and supplies	-		depreciation	-
12	174	Other current assets	400	283	Accumulated deferred income taxes - other	-
13	180	Deferred charges	89,889	271	Contributions in aid of construction	-
14				272	Accumulated amortization of contributions	-
15		Total Assets	187,040		Total Equity and Liabilities	187,040

SCHEDULE B - WATER PLANT IN SERVICE

Line	Acct	Title of Account	Balance Beg of Year	Plt Additions During year	Plt Retirements During year	Other Debits or (Credits)	Balance End of year
16	301	Intangible plant	10,000				10,000
17	303	Land	-				-
18	304	Structures	-				-
19	307	Wells	-				-
20	317	Other water source plant	-				-
21	311	Pumping equipment	-				-
22	320	Water treatment plant	-				-
23	330	Reservoirs tanks and sandpipes	-				-
24	331	Water mains	97,400				97,400
25	333	Services and meter installations	23,562				23,562
26	334	Meters	24,661	359			25,020
27	335	Hydrants	3,696				3,696
28	339	Other equipment	10,237	4,230			14,467
29	340	Office furniture and equipment	-				-
30	341	Transportation equipment	-				-
31		Total water plant in service	169,556	4,589	-	-	174,145

* Debit or credit entries should be explained by footnotes or supplementary schedules

SCHEDULE C - RESERVE FOR DEPRECIATION OF UTILITY PLANT

Line	Item	Account 106 Water Plant	Account 106.1 SDWBA Loans	
32	Balance in reserves at beginning of year	83,887		A. Method used to compute depreciation
33	Add: Credits to reserves during year			expense (Acct. 403) and rate.
34	(a) Charged to Account No. 403			remaining life rate varies by class
35	(b) Charged to Account No. 272	-		
36	(c) Charged to clearing accounts	-		B. Amount of depreciation expense claimed
37	(d) Salvage recovered	-		or to be claimed on utility property in
38	(e) All other credits	-		your federal income tax return for the year
39	Total credits	-		covered by this report \$
40	Deduct: Debits to reserves during year			not yet computed
41	(a) Book cost of property retired	-		
42	(b) Cost of removal	-		C. State method used to compute tax
43	(c) All other debits	-		depreciation not yet computed
44	Total debits	-		
45	Balance in reserve at end of year	83,877		
46	(1) Explanation of all other credits			
47	(2) Explanation of all other debits			

SCHEDULE D - CAPITAL STOCK OUTSTANDING (DECEMBER 31, 2001)

Line				
1	Common - (Shares	, \$	par)	n/a
2	Preferred - (Shares	, \$	par)	n/a
3	Dividends - Common	Rate - \$		n/a
4	- Preferred	Rate - \$		n/a

List persons owning more than 5% of outstanding stock and number of shares owned by each:

SCHEDULE E - LONG TERM DEBT

	Class	Date of Issue	Date of Maturity	Principal Amount Authorized	Outstanding Per Balance Sheet	Rate of Interest	Interest Accrued During Year	Interest Paid During Year
5								
6	n/a							
7								
8	Totals							

SCHEDULE F - INCOME STATEMENT

9	Operating revenues	xxxxxxx
10	460 Unmetered water revenue	-
11	462 Fire protection revenue	-
12	465 Irrigation revenue	-
13	470 Metered water revenue	43,528
14	480 Other water revenue	-
15	Total Operating Revenue	43,528
16	Operating revenue deductions	xxxxxxx
17	Operating expenses	xxxxxxx
18	610 Purchased water	33,251
19	615 Power	-
20	618 Other volume related expenses	-
21	630 Employee labor	-
22	640 Materials	-
23	650 Contract work	2,364
24	660 Transportation expenses	-
25	664 Other plant maintenance expense	-
26	670 Office salaries	-
27	671 Management salaries	-
28	674 Employee pensions and benefits	-
29	676 Uncollectible accounts expense	-
30	678 Office services and rentals	-
31	681 Office supplies and expense	185
32	682 Professional services	43,530
33	684 Insurance	140
34	688 Regulatory commission expense	720
35	689 General expenses	-
36	Total Operating Expenses	80,190
37	403 Depreciation expense	3,861
38	407 SDWBA loan amortization expense	-
39	408 Taxes other than income taxes	1,393
40	409 State corporate income tax expense	-
41	410 Federal corporate income tax expense	-
42	Total Operating Revenue Deductions	85,444
43	Utility Operating Income	(41,916)
44	421 Non-utility income	-
45	426 Miscellaneous non-utility expense	98
46	427 Interest expense	-
47	Net Income	(41,818)

SCHEDULE G - SOURCES OF SUPPLY AND WATER DEVELOPED WELLS

Location	No.	Diam. Inch	Depth to water feet	Pumping capacity (g.p.m.)	Annual quantities pumped

OTHER

Streams or springs location of diversion point	Flow in (Unit)		Priority right Diversions		Annual quantities diverted (Unit)
	Claim	Capacity	Max	Min	
Purchased water (unit)		33251 ccf		Annual quantity	
Supplier:		Santa Cruz Municipal Utilities			

SCHEDULE H - OPTIONAL WATER DELIVERED TO METERED CUSTOMERS (If figures are available) (specify unit)

Classification of service	Max. mo. Mo. of	Min. mo. Mo. of	Total for year
Residential & business			
Industrial			
Public authorities	n/a		
Irrigation			
Other (specify)			
Total			

SCHEDULE I - EMPLOYEES AND THEIR COMPENSATION

Line	Acct	Account	Number at end of year	Salaries Charged to Expense	Salaries Charged to Plant Accounts	Total Salaries and Wages Paid
48	630	Employee Labor				
49	670	Office salaries	n/a			
50	671	Management salaries				
51		Total				

SCHEDULE J - ADVANCES FOR CONSTRUCTION

Balance beginning of year	
Additions during year	
Subtotal - Beginning balance plus additions during year	n/a
Refunds	
Transfers to Acct. 271 - Contributions in Aid of Construction	
Balance end of year	

SCHEDULE K - TOTAL METERS AND SERVICES (active and inactive)

Size	Meters	Services
3/4 x 3/4-in		
3/4-in	202	202
1-in		
-in		
-in		
Total	202	202

SCHEDULE L - METER-TESTING DATA

Number of meters tested during year	25
1 Used, before repair	
2 Used, after repair	
3 Fast, requiring refund	
Numbers of meters in service requiring test per General Order No. 103	

SCHEDULE M - SERVICE CONNECTIONS AT END OF YEAR

Classification	Active			Inactive			Total connections	
	Metered	Flat	Total	Metered	Flat	Total	Metered	Flat
Residences	202	-	202	-	-	-	202	-
Industrial	-	-	-	-	-	-	-	-
Other (specify)	-	-	-	-	-	-	-	-
Subtotal	202	-	202	-	-	-	202	-
Fire protection (Hydrants)	-	-	-	-	-	-	-	-
Total	202	-	202	-	-	-	202	-

NOTE: Total connections (metered plus flat) should agree with total services in Schedule K.

SCHEDULE N - STORAGE FACILITIES

SCHEDULE O - FOOTAGES OF PIPE (EXCLUDING SERVICE PIPES)

Description	No.	Combined capacity in gallons	Description	2" and under		4"	6"		Totals
				2 1/4 to 3 1/4			Other sizes (specify)		
Concrete			Cast Iron						
Earth	n/a		Welded steel						
Wood			Standard screw						
Steel			Cement-asbestos						
Other			Plastic						
			Other (specify)	4,858	50	-	4,943		9,851
Total			Total	4,858	50	-	4,943		9,851

DECLARATION

(BEFORE SIGNING PLEASE CHECK TO SEE THAT ALL SCHEDULES HAVE BEEN COMPLETED)

I, the undersigned (officer, partner or owner) of MHC Acquisition One, L.L.C. (Name of utility), under penalty of perjury do declare that this report has been prepared by me, or under my direction, from the books, papers and records of the respondent; that I have carefully examined the same, and declare the same to be a complete and correct statement of the business and affairs of the above-named respondent and the operations of its property for the period

From and including January 1, 2001, to and including December 31, 2001

M J N

Signed Vice President

Title 3/27/02

Date