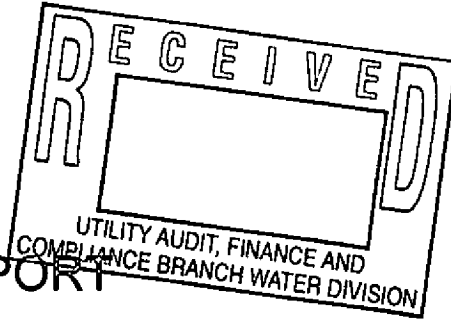


J4

Received _____
Examined _____

**CLASS D
WATER UTILITIES**

U# _____



**2006
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, 2006**

REPORT MUST BE FILED NOT LATER THAN MARCH 31, 2007
(FILE TWO COPIES IF THREE RECEIVED)

INSTRUCTIONS

1. One completed copy of this report (two copies if three received) must be filed NOT LATER THAN MARCH 31, following the year covered by the report, with:

**CALIFORNIA PUBLIC UTILITIES COMMISSION
WATER DIVISION
ATTN: KAYODE KAJOPAIYE
505 VAN NESS AVENUE, ROOM 3105
SAN FRANCISCO, CALIFORNIA 94102-3298**

2. Failure to file the report on time may subject a utility to the penalties and sanctions provided by the Public Utilities Code.
3. The Oath, on the last page, must be signed by an officer, partner or owner.
4. The report must be prepared in ink or by the use of a typewriter. Computer generated report forms may be substituted.
5. The report must be filled in, and every question answered. LEAVE NO SCHEDULE BLANK. Insert the words "none" or "not applicable" or "n/a" when appropriate.
6. Certain balance sheet and income statement accounts refer to supplemental schedules. The totals of the details in the latter must agree with the balances of the accounts to which they refer.
7. Some schedules provide for a "balance at beginning of year." The amount shown should agree with the "balance at end of year" as shown in the report for the previous year. If there is a difference it should be explained by footnote.
8. When there is insufficient space in a schedule to permit a complete statement of the requested information, insert sheets should be prepared and identified by the number of the schedule to which it refers. Be certain that the inserts are securely attached to the report.
9. This report must cover a calendar year, from January 1 through December 31. Fiscal year reports will not be accepted.

PEASLEY, ALDINGER & O'BYMACHOW
AN ACCOUNTANCY CORPORATION

2120 MAIN STREET, SUITE 265
HUNTINGTON BEACH, CALIFORNIA 92648

MATT A. PEASLEY, CPA
CHRISTIAN L. ALDINGER, CPA

(714) 536-4418
FAX (714) 536-2039

ACCOUNTANT'S COMPILATION REPORT

May 1, 2007

MHC Acquisition One, LLC
Two North Riverside Plaza, Suite 800
Chicago, IL 60606

We have compiled the balance sheet of MHC Acquisition One, LLC (Santa Cruz Utility Water system) as of December 31, 2006, and the related income statement for the year ended December 31, 2006, included in the accompanying prescribed form in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. We have also compiled the supplementary information included on page 7 (Schedules B & C), page 8 (Schedules D, E, F, & I), page 9 (Schedule J), pages 3 and 4 of Selected Financial Data - Class D Water Companies 2006, and pages 5 and 6 of Class B, C and D Water Companies – Safe Drinking Water Bond Act Data.

Our compilation was limited to presenting, in the form prescribed by the Public Utilities Commission of the State of California, information that is the representation of management. We have not audited or reviewed the accompanying financial statements, and, accordingly, do not express an opinion or any other form of assurance on them.

These financial statements (including related disclosures) are presented in accordance with the requirements of the Public Utilities Commission of the State of California, which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

The supplementary information contained on page 1 (General Information) and page 8 (Schedules G & H) and page 9 (Schedules K, L, M, N & O) of the accompanying prescribed form has not been audited, reviewed, or compiled by us, and, accordingly, we assume no responsibility for that information.

PEASLEY, ALDINGER & O'BYMACHOW
AN ACCOUNTANCY CORPORATION



Christian L. Aldinger
Certified Public Accountant

Account Number	Operating Revenue	
470	Metered	51,333
460	Unmetered	
465	Irrigation	
462-480	Private Fire Protection	
	Total Revenue	51,333
	Operating Expenses	
610	Purchased Water	68,446
615	Purchased Power	
	Pump Taxes	
	Purchased Chemicals	
618	Other Vol. Related exp.	-
630	Employee Labor	3,235
640	Materials	
650	Contract Work	5,933
	Water Testing	
660	Transportation Expense	
664	Other Plant Maintenance	-
670	Office Salaries	
671	Management Salaries	
674	Employee Pensions and Benefits	
676	Uncollectables	
678	Office Service and Rentals	
681	Office Supplies and Expense	-
682	Professional Services	2,050
684	Insurance	148
688	Regulatory Expense	-
689	General Expense	
	Subtotal	79,812
403	Depreciation Expense	5,447
	Ad Valorem Taxes	993
	Payroll taxes	
408	Taxes other than income	
409	State Income Tax	-
410	Federal Income Tax	
	Total Deductions	86,252
	Net Revenue	(34,919)
	Rate Base	
	Average Plant	189,068
	Average Depreciation Reserve	(104,051)
	Net Plant	85,017
	Less: Advances	
	Less: Contributions	
	Plus: Construction Work in Progress	
	Plus: Working Cash	-
	Plus: Material & Supplies	
	Rate Base	85,017
	ROR=Net Rev/Rate Base	-41.07%

See Accompanying Accountant's Compilation Report

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 Chicago IL 60606

(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; Thomas P. Heneghan Jr., President & CEO; Ellen Kelleher, Exec. VP; Roger Maynard, COO, David Fell, VP Secretary; Marguerite Nader, VP; Martina Linders, VP.

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: Chris Murphy 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?

MHC Acquisition One, operating labor: \$3,235 acct 630, admin support: \$5,933 acct 650

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.

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"/>	

Water supply is provided by Santa Cruz Municipal Utilities which is presumed to comply with all applicable local and state health department requirements.

SPECIAL INSTRUCTIONS (over)

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.

SELECTED FINANCIAL DATA - CLASS A, B, C AND D WATER COMPANIES
2006

NAME OF UTILITY MHC Acquisition One, L.L.C. PHONE 312.279.1400

PERSON RESPONSIBLE FOR THIS REPORT Tim Williams
(Prepared from Information in the 2006 Annual Report)

	1/1/2006	12/31/2006	Average
BALANCE SHEET DATA			
1 Intangible Plant	10,000	10,000	10,000
2 Land and Land Rights	-	-	-
3 Depreciable Plant	179,068	179,068	179,068
4 Gross Plant in Service	189,068	189,068	189,068
5 Less: Accumulated Depreciation	(101,327)	(106,774)	(104,051)
6 Net Water Plant in Service	87,741	82,294	85,018
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	87,741	82,294	85,018
CAPITALIZATION			
14 Common Stock	-	-	-
15 Proprietary Capital (Individual or Partnership)	260,508	225,589	243,049
16 Paid-in Capital	-	-	-
17 Retained Earnings	-	-	-
18 Common Stock and Equity (Lines 14 through 17)	260,508	225,589	243,049
19 Preferred Stock	-	-	-
20 Long-Term Debt	-	-	-
21 Notes Payable	-	-	-
22 Total Capitalization (Lines 18 through 21)	260,508	225,589	243,049

(Revised 2/01)

SELECTED FINANCIAL DATA - CLASS A, B, C AND D WATER COMPANIES
2006
(continued)

NAME OF UTILITY MHC Acquisition One, LLC PHONE 312.279.1400

	Annual Amount
INCOME STATEMENT	
23 Unmetered Water Revenue	_____
24 Fire Protection Revenue	_____
25 Irrigation Revenue	_____
26 Metered Water Revenue	51,333
27 Total Operating Revenue	51,333
28 <u>Operating Expenses</u>	79,812
29 Depreciation Expense (Composite Rate 2.88%)	5,447
30 Amortization and Property Losses	_____
31 Property Taxes	993
32 Taxes Other Than Income Taxes	-
33 Total Operating Revenue Deduction Before Taxes	86,252
34 California Corp. Franchise Tax	-
35 Federal Corporate Income Tax	_____
36 Total Operating Revenue Deduction After Taxes	86,252
37 Net Operating Income (Loss) - California Water Operations	(34,919)
38 Other Operating and Nonoper. Income and Exp. - Net (Exclude Interest Expense)	-
39 Income Available for Fixed Charges	(34,919)
40 Interest Expense	_____
41 Net Income (Loss) Before Dividends	(34,919)
42 Preferred Stock Dividends	_____
43 Net Income (Loss) Available for Common Stock	(34,919)
OTHER DATA	
44 Refunds of Advances for Construction	n/a
45 Total Payroll Charged to Operating Expenses	n/a
46 Purchased Water	68,446
47 Power	-

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

**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, Account No. 101--Water Plant in Service which were funded using SDWBA funds: N/A

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					

SCHEDULE A - BALANCE SHEET (DECEMBER 31, 2006)

Line	Acct.	Assets	Balance	Acct.	Equity and Liabilities	Balance
1	101	Water plant in service	189,068	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	225,589
5	108	Accumulated depreciation of water plant	(106,774)	224	Long term debt	
6	114	Water plant acquisition adjustments			Current Liabilities	22,844
7	124	Other investments		252	Advances for construction	
8	131	Cash	-	253	Other deferred credits	1,115
9	141	Accounts receivable - customers	(669)	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	10,710	283	Accumulated deferred income taxes - other	
13	180	Deferred charges	157,213	271	Contributions in aid of construction	
14				272	Accumulated amortization of contributions	
15		Total Assets	249,548		Total Equity and Liabilities	249,548

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	29,541				29,541
27	335	Hydrants	9,898				9,898
28	339	Other equipment	18,667				18,667
29	340	Office furniture and equipment	-				-
30	341	Transportation equipment	-				-
31		Total water plant in service	189,068	-	-	-	189,068

* 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	101,327		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	5,447		2.88%
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	5,447		covered by this report \$
40	Deduct: Debits to reserves during year			
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.
44	Total debits	-		
45	Balance in reserve at end of year	106,774		
46	(1) Explanation of all other credits			
47	(2) Explanation of all other debits			

SCHEDULE D - CAPITAL STOCK OUTSTANDING (DECEMBER 31, 2006)

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	xxxxxxxxxx
10	460 Unmetered water revenue	
11	462 Fire protection revenue	
12	465 Irrigation revenue	
13	470 Metered water revenue	51,333
14	480 Other water revenue	
15	Total Operating Revenue	51,333
16	Operating revenue deductions	xxxxxxxxxx
17	Operating expenses	xxxxxxxxxx
18	610 Purchased water	68,446
19	615 Power	
20	618 Other volume related expenses	0
21	630 Employee labor	3,235
22	640 Materials	
23	650 Contract work	5,933
24	660 Transportation expenses	
25	664 Other plant maintenance expense	0
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	0
32	682 Professional services	2,050
33	684 Insurance	148
34	688 Regulatory commission expense	0
35	689 General expenses	
36	Total Operating Expenses	79,812
37	403 Depreciation expense	5,447
38	407 SDWBA loan amortization expense	
39	408 Taxes other than income taxes	993
40	409 State corporate income tax expense	0
41	410 Federal corporate income tax expense	
42	Total Operating Revenue Deductions	86,252
43	Utility Operating Income	(34,919)
44	421 Non-utility income	
45	426 Miscellaneous non-utility expense	
46	427 Interest expense	
47	Net Income	(34,919)

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)		Annual quantities diverted (Unit)	
	Priority right	Diversions		
	Claim	Capacity	Max	Min
Purchased water (unit)		15,574 ccf		
Supplier: Santa Cruz Municipal Utilities				Annual quantity

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	N/A
Subtotal - Beginning balance plus additions during year	
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
5/8 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	N/A
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"	Other sizes (specify)	Totals
				2 1/4 to 3 1/4				
Concrete			Cast Iron					
Earth	N/A		Welded steel					
Wood			Standard screw					
Steel			Cement-asbestos					
Other			Plastic					
			Other (specify)	4,858	50	-	6" 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. - Water Utility (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, 2006, to and including December 31, 2006


 Signed _____
 Title VICE PRESIDENT
 Date 5-15-07