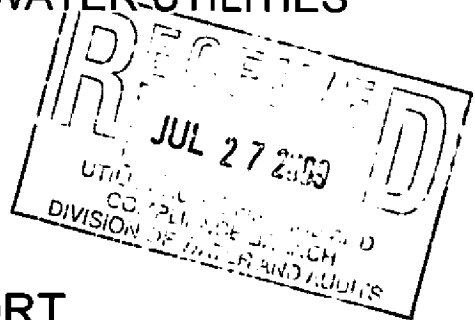


J 34

Received _____
Examined _____

CLASS D
WATER UTILITIES



U# _____

2008
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, 2008

REPORT MUST BE FILED NOT LATER THAN MARCH 31, 2009
(FILE TWO COPIES IF THREE RECEIVED)

PEASLEY, ALDINGER & O'BYMACHOW
AN ACCOUNTANCY CORPORATION

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

2120 MAIN STREET, SUITE 265
HUNTINGTON BEACH, CALIFORNIA 92648

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

ACCOUNTANT'S COMPILATION REPORT

June 18, 2009

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, 2008, and the related income statement for the year ended December 31, 2008, 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), page 9 (Schedule I), page 10 (Schedule J), page 4 of Excess Capacity, page 11 for Facilities Fee Data, and pages 5 and 6 of Class A, B, C and D Water Companies – Safe Drinking Water Bond Act/State Revolving Fund 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 3 (General Information) and page 9 (Schedules G & H) and page 10 (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

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
kok@cpuc.ca.gov

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, typed or computer generated
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 calander year, from Janauary 1 through December 31. Fiscal year reports will not be accepted.

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)

Telephone number: 312 279 1486 Fax number: 312.279.1427 Email address: NA

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., CEO; Joe McAdams, President; Ellen Kelleher, Exec. VP; Roger Maynard, COO; Kenneth Kroot, 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: Cheryl Fulmer 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: \$2,405 acct 601, billing services: \$3,176 acct 630, professional: \$5,933 acct 631.

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
Equity Lifestyles, Inc.

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.

11 List Name, Grade, and License Number of all Licensed Operators:

Geo H. Wilson Plumbing Contractor # 00056172

Yes	No	Latest Date
	x	
	x	
	x	
	x	

Excess Capacity and Non-Tariffed Services

NOTE: In D.00-07-018, D.03-04-028, and D. 04-12-023, the CPUC set forth rules and requirements regarding water utilities provision of non-tariffed services using excess capacity. These decisions require water utilities to: 1)file an advice letter requesting Commission approval of that service; 2) provide information regarding non-tariffed goods/services in each companies Annual Report to the Commission.

Based on the information and things required in D.00-07-018, D.03-04-028, and D.04-12-023, provide the following information by each individual non-tariffed good and service provided in 2008:

Row Number	Description of Non-Tariffed Good/Service	Active or Passive	Total Revenue derived from Non-Tariffed Good/Service (by account)	Revenue Account Number	Total Expenses incurred to provide Non-Tariffed Good/Service (by Account)	Expense Account Number	Advice Letter and/or Resolution Number approving Non-Tariffed Good/Service (by Account)	Total Income Tax Liability incurred because of non-tariffed Good/Service (by Account)	Income Tax Liability Account Number	Gross Value of Regulated Assets used in the provision of a Non-Tariffed Good/Service (by account).	Regulated Asset Account Number
	N/A										

**CLASS A, B, C AND D WATER COMPANIES
SAFE DRINKING WATER BOND ACT/STATE REVOLVING FUND DATA**

Please provide the following information relating to each Safe Drinking Water Bond Act (SDWBA) or Safe Drinking Water State Revolving Fund loan surcharge collection for the calendar year. Please use one page per loan.

1. Current Fiscal Agent: N/A

Name: _____
 Address: _____
 Phone Number: _____
 Date Hired: _____

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

\$ _____		<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 30%; text-align: center;">No. of Metered Customers</th> <th style="width: 40%; text-align: center;">Monthly Surcharge Per Customer</th> </tr> </thead> <tbody> <tr><td>3/4 inch</td><td style="border-bottom: 1px solid black;"></td><td style="border-bottom: 1px solid black;"></td></tr> <tr><td>1 inch</td><td style="border-bottom: 1px solid black;"></td><td style="border-bottom: 1px solid black;"></td></tr> <tr><td>1 1/2 inch</td><td style="border-bottom: 1px solid black;"></td><td style="border-bottom: 1px solid black;"></td></tr> <tr><td>2 inch</td><td style="border-bottom: 1px solid black;"></td><td style="border-bottom: 1px solid black;"></td></tr> <tr><td>3 inch</td><td style="border-bottom: 1px solid black;"></td><td style="border-bottom: 1px solid black;"></td></tr> <tr><td>4 inch</td><td style="border-bottom: 1px solid black;"></td><td style="border-bottom: 1px solid black;"></td></tr> <tr><td>6 inch</td><td style="border-bottom: 1px solid black;"></td><td style="border-bottom: 1px solid black;"></td></tr> <tr><td># of flat rate customers</td><td style="border-bottom: 1px solid black;"></td><td style="border-bottom: 1px solid black;"></td></tr> <tr><td>Total</td><td style="border-bottom: 3px double black;"></td><td style="border-bottom: 3px double black;"></td></tr> </tbody> </table>		No. of Metered Customers	Monthly Surcharge Per Customer	3/4 inch			1 inch			1 1/2 inch			2 inch			3 inch			4 inch			6 inch			# of flat rate customers			Total		
	No. of Metered Customers	Monthly Surcharge Per Customer																														
3/4 inch																																
1 inch																																
1 1/2 inch																																
2 inch																																
3 inch																																
4 inch																																
6 inch																																
# of flat rate customers																																
Total																																

3. Summary of the bank account activities showing:

Balance at beginning of year	\$ _____
Deposits during the year	_____
Interest earned for calendar year	_____
Withdrawals from this account	_____
Balance at end of year	_____

5. Plant amounts included in Schedule A, Account No. 101--Water Plant in Service which were funded using SDWBA or SRF 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, 2008)

Line	Acct.	Assets	Balance	Acct.	Equity and Liabilities	Balance
1	101	Water plant in service	195,549	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	153,136
5	108	Accumulated depreciation of water plant	(124,687)	224	Long term debt	
6	114	Water plant acquisition adjustments			Current Liabilities	71,725
7	124	Other investments		252	Advances for construction	
8	131	Cash	(10,211)	253	Other deferred credits	3,607
9	141	Accounts receivable - customers	(106)	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	228,468		Total Equity and Liabilities	228,468

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	6,481			36,022
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	6,481	-	-	195,549

* 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	112,445		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	7,021		3.65%
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 (1)	5,221		your federal income tax return for the year
39	Total credits	12,242		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	124,687		
46	(1) Explanation of all other credits - Corrections to prior period allocations between water / sewer plant			
47	(2) Explanation of all other debits			

SCHEDULE D - CAPITAL STOCK OUTSTANDING (DECEMBER 31, 2008)

Line

1	Common - (Shares	\$	par)	N/A	List persons owning more than 5% of outstanding stock and number of shares owned by each:
2	Preferred - (Shares	\$	par)	N/A	
3	Dividends - Common	Rate - \$		N/A	
4	- Preferred	Rate - \$		N/A	

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	53,028
14	480	Other water revenue	
15		Total Operating Revenue	53,028
16		Operating revenue deductions	xxxxxxxxxx
17		Operating expenses	xxxxxxxxxx
18	610	Purchased water	88,557
19	615	Power	
20	618	Other volume related expenses	0
21	630	Employee labor	8,615
22	640	Materials	413
23	650	Contract work	3,176
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	11,172
33	684	Insurance	148
34	688	Regulatory commission expense	0
35	689	General expenses	
36		Total Operating Expenses	112,081
37	403	Depreciation expense	7,021
38	407	SDWBA loan amortization expense	
39	408	Taxes other than income taxes	993
40	409	State corporate income tax expense	800
41	410	Federal corporate income tax expense	
42		Total Operating Revenue Deductions	120,895
43		Utility Operating Income	(67,867)
44	421	Non-utility income	31
45	426	Miscellaneous non-utility expense	
46	427	Interest expense	
47		Net Income	(67,836)

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
NA					

OTHER

Streams or springs location of diversion point	Flow in		(Unit)		Annual quantities diverted (Unit)
	Priority right		Diversion		
	Claim	Capacity	Max	Min	
NA					
Purchased water (unit) 15,602 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	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	198	198
1-in		
-in		
-in		
Total	198	198

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	198		198				198	
Industrial								
Other (specify)								
Subtotal	198		198				198	
Fire protection (Hydrants)								
Total	198		198				198	

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				Other sizes (specify)	Totals
				2"	2 1/4 to 3 1/4"	4"	6"		
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, 2008, to and including December 31, 2008


 Signed _____
 Title vice President
 Date July 23, 2009

FACILITIES FEE DATA

Please provide the following information relating to Facilities Fees collected for the calendar year, pursuant to Resolution No. W-4110.

1. Trust Account Information: **N/A**

Bank Name: _____
 Address: _____
 Account Number: _____
 Date Opened: _____

2. Facilities Fees collected for new connections during the calendar year:

A. Commercial

NAME	AMOUNT
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

B. Residential

NAME	AMOUNT
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

3. Summary of the bank account activities showing:

Balance at beginning of year	\$ _____
Deposits during the year	_____
Interest earned for calendar year	_____
Withdrawals from this account	_____
Balance at end of year	_____