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Received _____

Examined _____

SEWER 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 SEWER 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--Sewer 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 sewer plant in service	-	-	-	-	-

SELECTED FINANCIAL DATA - CLASS A, B, C AND D SEWER 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	298,274	305,535	301,905
4 Gross Plant in Service	308,274	315,535	311,905
5 Less: Accumulated Depreciation	(131,586)	(149,171)	(140,379)
6 Net Sewer Plant in Service	176,688	166,364	171,526
7 Sewer 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	176,688	166,364	171,526
CAPITALIZATION			
14 Common Stock	-	-	-
15 Proprietary Capital (Individual or Partnership)	272,921	251,210	262,066
16 Paid-in Capital	-	-	-
17 Retained Earnings	-	-	-
18 Common Stock and Equity (Lines 14 through 17)	272,921	251,210	262,066
19 Preferred Stock	-	-	-
20 Long-Term Debt	-	-	-
21 Notes Payable	-	-	-
22 Total Capitalization (Lines 18 through 21)	272,921	251,210	262,066

(Revised 2/01)

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

NAME OF UTILITY MHC Acquisition One, L.L.C. PHONE 312-279-1418

	Annual Amount
INCOME STATEMENT	
23 Unmetered Sewer Revenue	62,804
24 Fire Protection Revenue	-
25 Irrigation Revenue	-
26 Metered Sewer Revenue	-
27 Total Operating Revenue	62,804
28 <u>Operating Expenses</u>	90,835
29 Depreciation Expense (Composite Rate _1.42%_)	17,585
30 Amortization and Property Losses	-
31 Property Taxes	2,017
32 Taxes Other Than Income Taxes	-
33 Total Operating Revenue Deduction Before Taxes	110,437
34 California Corp. Franchise Tax	400
35 Federal Corporate Income Tax	-
36 Total Operating Revenue Deduction After Taxes	110,837
37 Net Operating Income (Loss) - California Sewer Operations	(48,033)
38 Other Operating and Nonoper. Income and Exp. - Net (Exclude Interest Expense)	98
39 Income Available for Fixed Charges	(47,935)
40 Interest Expense	-
41 Net Income (Loss) Before Dividends	(47,935)
42 Preferred Stock Dividends	-
43 Net Income (Loss) Available for Common Stock	(47,935)

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

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

CLASS D SEWER 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.
 Sewer collection and treatment 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
	X	
	X	
	X	
	X	

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	Sewer plant in service	315,535	201	Common Stock (Corporations only)	-
2	103	Sewer plant held for future use	-	211	Other paid-in capital (Corporations only)	-
3	104	Sewer plant purchased or sold	-	215	Retained earnings	-
4	105	Sewer plant construction work in progress	-	218	Proprietary capital	251,210
5	108	Accumulated depreciation of sewer plant	(149,171)	224	Long term debt	
6	114	Sewer plant acquisition adjustments	-		Current Liabilities	9,363
7	124	Other investments	-	252	Advances for construction	-
8	131	Cash	3,920	253	Other deferred credits	-
9	141	Accounts receivable - customers		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	260,573		Total Equity and Liabilities	260,573

SCHEDULE B - SEWER PLANT IN SERVICE

Line	Acct	Title of Account	Balance Beg of Year	Pit Additions During year	Pit Retirements During year	Other Debits or (Credits)	Balance End of year
16	351	Intangible plant	10,000				10,000
17	353	Land	-				
18	354	Structures	-				-
19	360	Collection Sewers - Force	11,663	3,032			14,695
20	361	Collection Sewers - Gravity	124,132				124,132
21	363	Services to customers	29,035				29,035
22	364	Flow Measuring Device	-				-
23	365	Flow Measuring Installations	-				
24	370	Receiving Wells	117,444				117,444
25	380	Treatment & Disposal Eq	-				
26	381	Plant Sewers	-				
27	382	Outfall Sewer Lines	-				
28	389	Other Equipment	16,000	4,230			20,230
29	390	Office Furniture and Equipment					
30	391	Transportation Equipment					
31		Total Sewer Plant in service	308,274	7,262	-	-	315,536

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

SCHEDULE C - RESERVE FOR DEPRECIATION OF UTILITY PLANT

Line	Item	Account 106 Sewer Plant	Account 106.1 SDWBA Loans	
32	Balance in reserves at beginning of year	149,171		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.
44	Total debits	-		not yet computed
45	Balance in reserve at end of year	149,171		
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

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	xxxxxxxx
10	522	Unmetered sewer revenue	62,804
11	462	Fire protection revenue	-
12	465	Irrigation revenue	-
13	470	Metered sewer revenue	-
14	480	Other sewer revenue	-
15		Total Operating Revenue	62,804
16		Operating revenue deductions	xxxxxxxx
17		Operating expenses	xxxxxxxx
18	710	Purchased wastewater treatment	
19	615	Power	-
20	618	Other volume related expenses	-
21	630	Employee labor	-
22	640	Materials	-
23	650	Contract work	43,066
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	184
32	682	Professional services	46,158
33	684	Insurance	285
34	688	Regulatory commission expense	1,142
35	689	General expenses	
36		Total Operating Expenses	90,835
37	403	Depreciation expense	17,585
38	407	SDWBA loan amortization expense	-
39	408	Taxes other than income taxes	2,017
40	409	State corporate income tax expense	400
41	410	Federal corporate income tax expense	-
42		Total Operating Revenue Deductions	110,837
43		Utility Operating Income	(48,033)
44	421	Non-utility income	
45	426	Miscellaneous non-utility expense	98
46	427	Interest expense	-
47		Net Income	(47,935)

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
n/a					

OTHER

Streams or springs location of diversion point	Flow in (Unit)		Annual quantities diverted (Unit)	
	Priority right	Diversions		
	Claim	Capacity	Max	Min
n/a				
Purchased water (unit)			Annual quantity	
Supplier:				

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	n/a		
Public authorities			
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		
1-in		
-in		
-in		
Total		

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	2 1/4 to 3 1/4	4"	Other sizes (specify)	Totals
Earth	n/a		Welded steel			n/a		
Wood			Standard screw					
Steel			Cement-asbestos					
Other			Plastic					
			Other (specify)					
Total			Total					

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 E Nde
 Signed *V.P. PRESIDENT*
 Title *3/27/02*
 Date