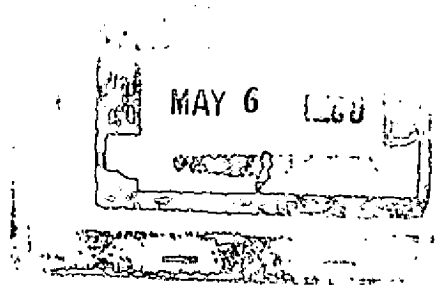


34

Received _____
Examined _____

SEWER UTILITIES

U# _____



2002 ANNUAL REPORT OF

MHC Acquisition One, LLC - Santa Cruz Utility
(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, 2002

REPORT MUST BE FILED NOT LATER THAN MARCH 31, 2003
(FILE TWO COPIES IF THREE RECEIVED)

Julie Hammeras

From: Wilson, Sean [smw@cpuc.ca.gov]
Sent: Thursday, March 27, 2003 4:08 PM
To: 'Julie Hammeras'
Subject: RE: PUC Annual reports

Hi Julie, The requests for extension to April 30, 2003 for filing the 2002 Annual Report for
and Santa Cruz Utility Company are fine. If you have any questions, please contact me at
415-703-1818 or smw@cpuc.ca.gov.

-----Original Message-----

From: Julie Hammeras [mailto:julie@paocpas.com]
Sent: Thursday, March 27, 2003 10:42 AM
To: smw@cpuc.ca.gov
Subject: PUC Annual reports

Dear Sean,
Are you still the person that I ask for extensions on the Annual Reports?
Right now I have five clients that need to extend their reports as they do not yet have all the information ready. Can I fax those requests to you? What is the fax number?

Thank you.
Julie Hammeras, CPA
Peasley, Aldinger & O'Bymachow
714-536-4418

3/27/2003

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

April 28, 2003

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

We have compiled the balance sheets of MHC Acquisition One, LLC as of December 31, 2002 and 2001, and the related income statement for the year ended December 31, 2002, 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 pages 5 (Schedules A, B, & C) and 6 (Schedules D, E, F, & G), and pages 3 and 4 of Selected Financial Data - Class D Sewer Companies 2002.

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 7 (Schedules H & K) 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
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.

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, 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; Howard Walker, CEO; Thomas P. Heneghan Jr., President; Ellen Kelleher, Exec. VP; John M. Zoeller, Exec. VP; Roger Maynard, Sr. VP; David Fell, VP Secretary; Marguerite Nader, VP; Martina Linders, Director; Jennifer Usher, Assistant Secretary.
- 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?
- 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"/>	

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 - Sewer 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 D SEWER COMPANIES
2002

NAME OF UTILITY MHC Acquisition One, L.L.C. PHONE 312.279.1420

PERSON RESPONSIBLE FOR THIS REPORT Denise DeRoss
(Prepared from Information in the 2002 Annual Report)

BALANCE SHEET DATA		1/1/02	12/31/02	Average
1	Intangible Plant	10,000	10,000	10,000
2	Land and Land Rights	-	-	-
3	Depreciable Plant	305,536	305,536	305,536
4	Gross Plant in Service	315,536	315,536	315,536
5	Less: Accumulated Depreciation	(149,171)	(167,290)	(158,231)
6	Net Water Plant in Service	166,365	148,246	157,306
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>166,365</u>	<u>148,246</u>	<u>157,306</u>
CAPITALIZATION				
14	Common Stock	-	-	-
15	Proprietary Capital (Individual or Partnership)	251,210	299,642	275,426
16	Paid-in Capital	-	-	-
17	Retained Earnings	-	-	-
18	Common Stock and Equity (Lines 14 through 17)	251,210	299,642	275,426
19	Preferred Stock	-	-	-
20	Long-Term Debt	-	-	-
21	Notes Payable	-	-	-
22	Total Capitalization (Lines 18 through 21)	<u>251,210</u>	<u>299,642</u>	<u>275,426</u>

(Revised 10/97)

NAME OF UTILITY MHC Acquisition One, LLC

PHONE 312.279.1420

INCOME STATEMENT

	Annual Amount
23 Unmetered Revenue	69,169
24 Metered Revenue	69,169
25 Total Operating Revenue	<u>69,169</u>
26 <u>Operating Expenses</u>	<u>378,954</u>
27 Depreciation Expense (Composite Rate _____)	<u>18,119</u>
28 Amortization and Property Losses	<u>2,019</u>
29 Property Taxes	<u>80</u>
30 Taxes Other Than Income Taxes	<u>399,172</u>
31 Total Operating Revenue Deduction Before Taxes	<u>400</u>
32 California Corp. Franchise Tax	<u>399,572</u>
33 Federal Corporate Income Tax	<u>(330,403)</u>
34 Total Operating Revenue Deduction After Taxes	<u>(22)</u>
35 Net Operating Income (Loss) - California Water Operations	<u>(330,425)</u>
36 Other Operating and Nonoper. Income and Exp. - Net (Exclude Interest Expense)	<u>(330,425)</u>
37 Income Available for Fixed Charges	<u>(330,425)</u>
38 Interest Expense	<u>(330,425)</u>
39 Net Income (Loss) Before Dividends	<u>(330,425)</u>
40 Preferred Stock Dividends	<u>(330,425)</u>
41 Net Income (Loss) Available for Common Stock	<u>(330,425)</u>

OTHER DATA

42 Refunds of Advances for Construction	-
43 Total Payroll Charged to Operating Expenses	-
44 Purchased Water	-
45 Power	-

Active Service Connections (Exc. Fire Protect.) _____

	Jan. 1	Dec. 31	Annual Average
46 Metered Service Connections	202	202	202
47 Flat Rate Service Connections	202	202	202
48 Total Active Service Connections	202	202	202

SCHEDULE A - BALANCE SHEET (DECEMBER 31, 2002)

Line	Acct.	Assets	Balance	Acct.	Equity and Liabilities	Balance
1	101	Plant in service	315,535	201	Common Stock (Corporations only)	
2	103	Plant held for future use		211	Other paid-in capital (Corporations only)	
3	104	Plant purchased or sold		215	Retained earnings	
4	105	Plant construction work in progress		218	Proprietary capital	299,642
5	108	Accumulated depreciation of plant	(167,290)	224	Long term debt	
6	114	Plant acquisition adjustments			Current Liabilities	9,363
7	124	Other investments		252	Advances for construction	
8	131	Cash	3,243	253	Other deferred credits	
9	141	Accounts receivable - customers	(130)	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	434	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	309,005		Total Equity and Liabilities	309,005

SCHEDULE B - SEWER 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	351	Intangible plant	10,000				10,000
17	353	Land					-
18	354	Structures					-
19	360	Collection Sewers - Force	14,695				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	20,230				20,230
29	390	Office furniture and equipment					-
30	391	Transportation equipment					-
31		Total Plant in service	315,536	-	-	-	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 Plant	
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	18,119	
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	18,119	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	167,290	
46	(1) Explanation of all other credits		
47	(2) Explanation of all other debits		

SCHEDULE D - CAPITAL STOCK OUTSTANDING (DECEMBER 31, 20__)

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								
7								
8	Totals							

SCHEDULE F - INCOME STATEMENT

9	Operating revenues	xxxxxxxxxxx
10	460 Unmetered revenue	69,169
11	470 Metered revenue	
12	480 Other revenue	
13	Total Operating Revenue	69,169
14	Operating revenue deductions	xxxxxxxxxxx
15	Operating expenses	xxxxxxxxxxx
16	610 Purchased water	
17	615 Power	
18	618 Other volume related expenses	
19	630 Employee labor	
20	640 Materials	
21	650 Contract work	60,480
22	660 Transportation expenses	
23	664 Other plant maintenance expense	
24	670 Office salaries	
25	671 Management salaries	
26	674 Employee pensions and benefits	
27	676 Uncollectible accounts expense	
28	678 Office services and rentals	
29	681 Office supplies and expense	
30	682 Professional services	317,462
31	684 Insurance	301
32	688 Regulatory commission expense	711
33	689 General expenses	
34	Total Operating Expenses	378,954
35	403 Depreciation expense	18,119
36	408 Taxes other than income taxes	2,099
37	409 State corporate income tax expense	400
38	410 Federal corporate income tax expense	
39	Total Operating Revenue Deductions	399,572
40	Utility Operating Income	(330,403)
41	421 Non-utility income	18
42	426 Miscellaneous non-utility expense	40
43	427 Interest expense	
44	Net Income	(330,425)

SCHEDULE G - 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
45	630	Employee Labor				
46	670	Office salaries	N/A			
47	671	Management salaries				
48		Total				

SCHEDULE H - 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 I - TOTAL METERS
AND SERVICES (active and inactive)**

Size	Meters	Services
-in		
-in	N/A	
-in		
-in		
-in		
Total		

SCHEDULE J - METER-TESTING DATA

Number of meters tested during year		
1	Used, before repair...	N/A
2	Used, after repair	
3	Fast, requiring refund ..	

SCHEDULE K - 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)								
Total		202	202					202

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

SCHEDULE L - STORAGE FACILITIES

SCHEDULE M - FOOTAGES OF PIPE (EXCLUDING SERVICE PIPES)


Description	No.	Combined capacity in gallons	Description	Pipe Sizes				Totals
				2" and under	2 1/4 to 3 1/4	4"	Other sizes (specify)	
Concrete			Cast Iron					
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, 2002, to and including December 31, 2002.


 Signed VICE PRESIDENT
 Title 4/30/03
 Date