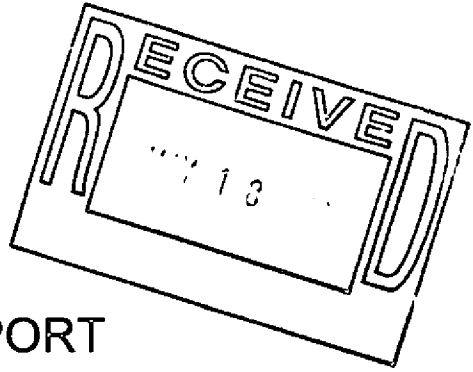


Received \_\_\_\_\_  
 Examined \_\_\_\_\_

SEWER UTILITIES



U# \_\_\_\_\_

2005  
 ANNUAL REPORT  
 OF

\_\_\_\_\_

**MHC Acquisition One, LLC**

(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, 2005

REPORT MUST BE FILED NOT LATER THAN MARCH 31, 2006  
 (FILE TWO COPIES IF THREE RECEIVED)

## INSTRUCTIONS

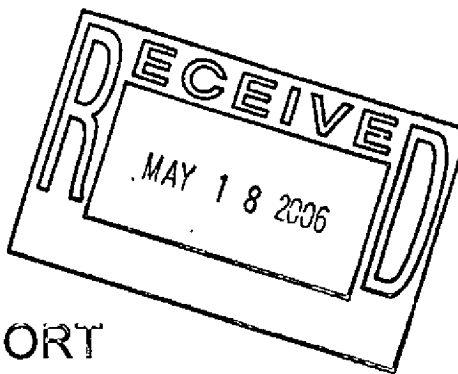
1. One completed copy of this report (two copies if three received) must be filed NOT LATER THAN MARCH 31, following the year covered by the report, with:

**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.

Received \_\_\_\_\_  
Examined \_\_\_\_\_

SEWER UTILITIES



U# \_\_\_\_\_

2005  
ANNUAL REPORT  
OF

MHC Acquisition One, LLC

(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  
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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 11, 2006

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 Sewer system) as of December 31, 2005, and the related income statement for the year ended December 31, 2005, 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 8 (Schedules B & C), page 9 (Schedules D, E, & G) and page 10 (Schedule H), and pages 5 and 6 of Selected Financial Data - Class D Sewer Companies 2005.

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 10 (Schedules I, J, K, L & M) 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

# 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; 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: \$1,802.24 acct 630, admin support: \$5,932.80 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"/>	

**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  
2004

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 2005 Annual Report)

	1/1/2005	12/31/2005	Average
<b>BALANCE SHEET DATA</b>			
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	(204,148)	(221,166)	(212,657)
6 Net Water Plant in Service	111,388	94,370	102,879
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>111,388</u>	<u>94,370</u>	<u>102,879</u>
<b>CAPITALIZATION</b>			
14 Common Stock	-	-	-
15 Proprietary Capital (Individual or Partnership)	-	-	-
16 Paid-in Capital	311,446	334,634	323,040
17 Retained Earnings	-	-	-
18 Common Stock and Equity (Lines 14 through 17)	<u>311,446</u>	<u>334,634</u>	<u>323,040</u>
19 Preferred Stock	-	-	-
20 Long-Term Debt	-	-	-
21 Notes Payable	-	-	-
22 Total Capitalization (Lines 18 through 21)	<u>311,446</u>	<u>334,634</u>	<u>323,040</u>

(Revised 10/97)



SELECTED FINANCIAL DATA - CLASS A, B, C AND D WATER COMPANIES  
2004

NAME OF UTILITY MHC Acquisition One, LLC PHONE 312.279.1400

	Annual Amount
<b>INCOME STATEMENT</b>	
23 Unmetered Revenue	91,923
24 Metered Revenue	
25 Total Operating Revenue	<u>91,923</u>
26 <u>Operating Expenses</u>	<u>49,740</u>
27 Depreciation Expense (Composite Rate <u>1.35%</u> )	<u>17,018</u>
28 Amortization and Property Losses	
29 Property Taxes	<u>2,016</u>
30 Taxes Other Than Income Taxes	-
31 Total Operating Revenue Deduction Before Taxes	<u>68,774</u>
32 California Corp. Franchise Tax	<u>1,200</u>
33 Federal Corporate Income Tax	
34 Total Operating Revenue Deduction After Taxes	<u>69,974</u>
35 Net Operating Income (Loss) - California Water Operations	<u>21,949</u>
36 Other Operating and Nonoper. Income and Exp. - Net (Exclude Interest Expense)	-
37 Income Available for Fixed Charges	<u>21,949</u>
38 Interest Expense	
39 Net Income (Loss) Before Dividends	<u>21,949</u>
40 Preferred Stock Dividends	
41 Net Income (Loss) Available for Common Stock	<u>21,949</u>

**OTHER DATA**

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

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



**SCHEDULE A - BALANCE SHEET (DECEMBER 31, 2005)**

Line	Acct.	Assets	Balance	Acct.	Equity and Liabilities	Balance
1	101	Plant in service	315,536	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	334,634
4	105	Plant construction work in progress		218	Proprietary capital	
5	108	Accumulated depreciation of plant	(221,166)	224	Long term debt	
6	114	Plant acquisition adjustments			Current Liabilities	8,883
7	124	Other investments		252	Advances for construction	
8	131	Cash	81,268	253	Other deferred credits	167
9	141	Accounts receivable - customers	123	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		<b>Total Assets</b>	<b>343,684</b>		<b>Total Equity and Liabilities</b>	<b>343,684</b>

**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		<b>Total Plant in service</b>	<b>315,536</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>315,536</b>

\* 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	204,148	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	17,018	1.35%
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	17,018	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	221,166	
46	(1) Explanation of all other credits		
47	(2) Explanation of all other debits		

**SCHEDULE D - CAPITAL STOCK OUTSTANDING (DECEMBER 31, 2005)**

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	<b>NONE</b>							
7								
8	Totals							

**SCHEDULE F - INCOME STATEMENT**

9	Operating revenues	xxxxxxxxxxx	
10	460 Unmetered revenue		91,923
11	470 Metered revenue		
12	480 Other revenue		
13	Total Operating Revenue		91,923
14	Operating revenue deductions	xxxxxxxxxxx	
15	Operating expenses	xxxxxxxxxxx	
16	610 Purchased water		
17	615 Power		
18	618 Other volume related expenses		0
19	630 Employee labor		1,802
20	640 Materials		
21	650 Contract work		43,644
22	660 Transportation expenses		
23	664 Other plant maintenance expense		1,871
24	670 Office salaries		
25	671 Management salaries		
26	674 Employee pensions and benefits		
27	676 Uncollectible accounts expense		180
28	678 Office services and rentals		
29	681 Office supplies and expense		
30	682 Professional services		1,239
31	684 Insurance		301
32	688 Regulatory commission expense		
33	689 General expenses		703
34	Total Operating Expenses		49,740
35	403 Depreciation expense		17,018
36	408 Taxes other than income taxes		2,016
37	409 State corporate income tax expense		1,200
38	410 Federal corporate income tax expense		
39	Total Operating Revenue Deductions		69,974
40	Utility Operating Income		21,949
41	421 Non-utility income		
42	426 Miscellaneous non-utility expense		
43	427 Interest expense		
44	Net Income		21,949

**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	Footage				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, 2005, to and including December 31, 2005.



Signed

Title

Date

4/12/06