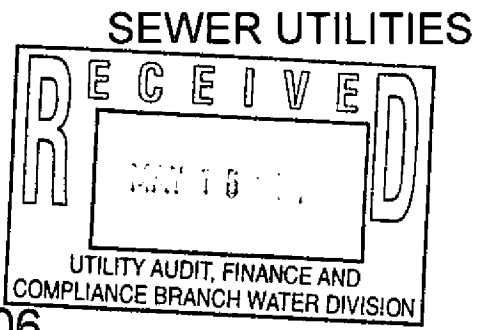


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Received \_\_\_\_\_  
 Examined \_\_\_\_\_



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

2006  
**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, 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 calander year, from Janauary 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 Sewer 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 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 2006.

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: \$2,064 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
	x	
	x	
	x	
	x	

**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  
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
<b>BALANCE SHEET DATA</b>			
1 Intangible Plant	10,000	10,000	10,000
2 Land and Land Rights	-	-	-
3 Depreciable Plant	305,536	318,166	311,851
4 Gross Plant in Service	315,536	328,166	321,851
5 Less: Accumulated Depreciation	(204,148)	(238,414)	(221,281)
6 Net Water Plant in Service	111,388	89,752	100,570
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>89,752</u>	<u>100,570</u>
<b>CAPITALIZATION</b>			
14 Common Stock	-	-	-
15 Proprietary Capital (Individual or Partnership)	-	-	-
16 Paid-in Capital	311,446	290,730	301,088
17 Retained Earnings	-	-	-
18 Common Stock and Equity (Lines 14 through 17)	311,446	290,730	301,088
19 Preferred Stock	-	-	-
20 Long-Term Debt	-	-	-
21 Notes Payable	-	-	-
22 Total Capitalization (Lines 18 through 21)	<u>311,446</u>	<u>290,730</u>	<u>301,088</u>

(Revised 10/97)

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

NAME OF UTILITY MHC Acquisition One, LLC PHONE 312.279.1400

	Annual Amount
<b>INCOME STATEMENT</b>	
23 Unmetered Revenue	88,354
24 Metered Revenue	88,354
25 Total Operating Revenue	88,354
26 <u>Operating Expenses</u>	112,994
27 Depreciation Expense (Composite Rate <u>5.36%</u> )	17,248
28 Amortization and Property Losses	2,016
29 Property Taxes	-
30 Taxes Other Than Income Taxes	-
31 Total Operating Revenue Deduction Before Taxes	132,258
32 California Corp. Franchise Tax	-
33 Federal Corporate Income Tax	-
34 Total Operating Revenue Deduction After Taxes	132,258
35 Net Operating Income (Loss) - California Water Operations	(43,904)
36 Other Operating and Nonoper. Income and Exp. - Net (Exclude Interest Expense)	-
37 Income Available for Fixed Charges	(43,904)
38 Interest Expense	(43,904)
39 Net Income (Loss) Before Dividends	(43,904)
40 Preferred Stock Dividends	-
41 Net Income (Loss) Available for Common Stock	(43,904)

<b>OTHER DATA</b>		Annual Average
42 Refunds of Advances for Construction	-	-
43 Total Payroll Charged to Operating Expenses	-	-
44 Purchased Water	-	-
45 Power	-	-

<u>Active Service Connections</u>	<u>(Exc. Fire Protect.)</u>	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

**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 filings 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 2006:

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	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
											Regulated Asset Account Number
	N/A										

Applies to All Non-Tariffed Goods/Services that require Approval by Advice Letter



**SCHEDULE A - BALANCE SHEET (DECEMBER 31, 2006)**

Line	Acct.	Assets	Balance	Acct.	Equity and Liabilities	Balance
1	101	Plant in service	328,166	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	290,730
4	105	Plant construction work in progress		218	Proprietary capital	
5	108	Accumulated depreciation of plant	(238,414)	224	Long term debt	
6	114	Plant acquisition adjustments			Current Liabilities	8,864
7	124	Other investments		252	Advances for construction	
8	131	Cash	29,723	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	24,690	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	300,709		Total Equity and Liabilities	300,709

**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	1,149			15,844
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		11,481			11,481
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	12,630	-	-	328,166

\* 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	221,166	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	17,248	5.36%
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	17,248	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	238,414	
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	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	NONE							
7								
8	Totals							

**SCHEDULE F - INCOME STATEMENT**

9	Operating revenues	xxxxxxxxxxxx
10	460 Unmetered revenue	88,354
11	470 Metered revenue	
12	480 Other revenue	
13	Total Operating Revenue	88,354
14	Operating revenue deductions	xxxxxxxxxxxx
15	Operating expenses	xxxxxxxxxxxx
16	610 Purchased water	
17	615 Power	
18	618 Other volume related expenses	0
19	630 Employee labor	2,064
20	640 Materials	
21	650 Contract work	63,879
22	660 Transportation expenses	
23	664 Other plant maintenance expense	36,687
24	670 Office salaries	
25	671 Management salaries	
26	674 Employee pensions and benefits	
27	676 Uncollectible accounts expense	2,330
28	678 Office services and rentals	7,733
29	681 Office supplies and expense	
30	682 Professional services	0
31	684 Insurance	301
32	688 Regulatory commission expense	
33	689 General expenses	0
34	Total Operating Expenses	112,994
35	403 Depreciation expense	17,248
36	408 Taxes other than Income taxes	2,016
37	409 State corporate income tax expense	0
38	410 Federal corporate income tax expense	
39	Total Operating Revenue Deductions	132,258
40	Utility Operating Income	(43,904)
41	421 Non-utility income	
42	426 Miscellaneous non-utility expense	
43	427 Interest expense	
44	Net Income	(43,904)

**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	2" and under				Other sizes (specify)	Totals
				2 1/4 to 3 1/4	4"				
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, 2006, to and including December 31, 2006.

Signed

*[Signature]*  
VICE PRESIDENT

Title

5-15-07

Date