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Examined _____

# SEWER UTILITIES

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MAY 7 - 2008

## 2007 ANNUAL REPORT OF

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**MHC Acquisition One, LLC**

(NAME UNDER WHICH CORPORATION, PARTNERSHIP, OR INDIVIDUAL IS DOING BUSINESS)

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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, 2007

REPORT MUST BE FILED NOT LATER THAN MARCH 31, 2008  
(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 205  
HUNTINGTON BEACH, CALIFORNIA 92648

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

**ACCOUNTANT'S COMPILATION REPORT**

April 24, 2008

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, 2007, and the related income statement for the year ended December 31, 2007, 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 5 (Schedules B & C), page 6 (Schedules D, E, & G) and page 7 (Schedule H), and page 4 Excess Capacity.

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 7 (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



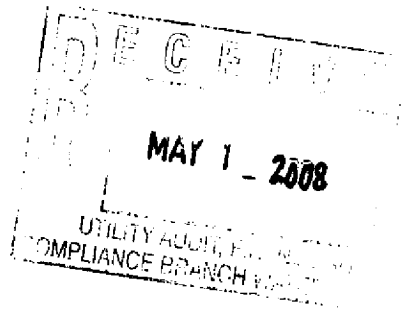
Christian L. Aldinger  
Certified Public Accountant

J - 54

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

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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](mailto: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 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; Thomas P. Heneghan Jr., CEO; Joe Mc Adams, President; Ellen Kelleher, Exec. VP; Roger Maynard, COO; Michael Berman, CFO; Kenneth Kroot, VP Secretary; Marguerite Nadar, 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: \$1,838 acct 630
- 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	

- 11 List Name, Grade, and License Number of all Licensed Operators:  
Geo H. Wilson Plumbing Contractor# 00056172



**SCHEDULE A - BALANCE SHEET (DECEMBER 31, 2007)**

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	153,613
4	105	Plant construction work in progress		218	Proprietary capital	
5	108	Accumulated depreciation of plant	(255,428)	224	Long term debt	
6	114	Plant acquisition adjustments			Current Liabilities	134,092
7	124	Other investments		252	Advances for construction	
8	131	Cash	50,575	253	Other deferred credits	3,513
9	141	Accounts receivable - customers	(18)	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>291,218</b>		<b>Total Equity and Liabilities</b>	<b>291,218</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	15,844				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		<b>Total Plant in service</b>	<b>328,166</b>				<b>328,166</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	238,414	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	17,014	5.18%
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	17,014	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	255,428	
46	(1) Explanation of all other credits		
47	(2) Explanation of all other debits		



**SCHEDULE D - CAPITAL STOCK OUTSTANDING (DECEMBER 31, 2007)**

Line				
1	Common - (Shares	\$	par)	N/A
2	Preferred - (Shares	\$	par)	N/A
3	Dividends - Common	Rate - \$		N/A
4	- Preferred	Rate - \$		N/A

List persons owning more than 5% of outstanding stock and number of shares owned by each:

**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	xxxxxxxxxxx
10	460	Unmetered revenue	89,129
11	470	Metered revenue	
12	480	Other revenue	
13		Total Operating Revenue	89,129
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	1,838
20	640	Materials	
21	650	Contract work	87,214
22	660	Transportation expenses	
23	664	Other plant maintenance expense	0
24	670	Office salaries	
25	671	Management salaries	
26	674	Employee pensions and benefits	
27	676	Uncollectible accounts expense	0
28	678	Office services and rentals	-
29	681	Office supplies and expense	
30	682	Professional services	5,438
31	684	Insurance	276
32	688	Regulatory commission expense	
33	689	General expenses	0
34		Total Operating Expenses	94,766
35	403	Depreciation expense	17,014
36	408	Taxes other than income taxes	1,848
37	409	State corporate income tax expense	0
38	410	Federal corporate income tax expense	
39		Total Operating Revenue Deductions	113,628
40		Utility Operating Income	(24,499)
41	421	Non-utility income	
42	426	Miscellaneous non-utility expense	
43	427	Interest expense	
44		Net Income	(24,499)

**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		198	198					198
Industrial								
Other (specify)								
<b>Total</b>		198	198					198

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)**

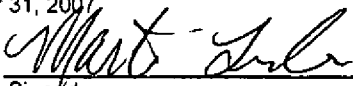
Description	No.	Combined capacity in gallons	Description	2" and under			Other sizes (specify)	Totals
				2 1/4 to 3 1/4	4"			
Concrete			Cast Iron					
Earth	N/A		Welded steel		N/A			
Wood			Standard screw					
Steel			Cement-asbestos					
Other			Plastic					
			Other (specify)					
<b>Total</b>			<b>Total</b>					

**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, 2007, to and including December 31, 2007

  
 Signed \_\_\_\_\_  
 Title Vice President of Tax and Corporate Accounting  
 Date 4/30/08