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Examined _____

SEWER UTILITIES

U# _____

2008
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, 2008

REPORT MUST BE FILED NOT LATER THAN MARCH 31, 2009
(FILE TWO COPIES IF THREE RECEIVED)

PEASLEY, ALDINGER & O'BYMACHOW
AN ACCOUNTANCY CORPORATION

MATT A. PEASLEY, CPA
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ACCOUNTANT'S COMPILATION REPORT

June 18, 2009

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, 2008, and the related income statement for the year ended December 31, 2008, 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), 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

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**

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 McAdams, President; Ellen Kelleher, Exec. VP; Roger Maynard, COO; 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: Cheryl Fulmer 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: \$2,405 acct 701, professional svcs: \$5,933 acct 731
- 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"/>	

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

SPECIAL INSTRUCTIONS (over)

SCHEDULE A - BALANCE SHEET (DECEMBER 31, 2008)

Line	Acct.	Assets	Balance	Acct.	Equity and Liabilities	Balance
1	101	Plant in service	387,691	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	198,394
4	105	Plant construction work in progress		218	Proprietary capital	
5	108	Accumulated depreciation of plant	(271,571)	224	Long term debt	
6	114	Plant acquisition adjustments			Current Liabilities	71,725
7	124	Other investments		252	Advances for construction	
8	131	Cash	(10,211)	253	Other deferred credits	3,607
9	141	Accounts receivable - customers	(106)	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		Total Assets	273,726		Total Equity and Liabilities	273,726

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) 1	Balance End of year
16	301	Intangible plant	10,000				10,000
17	303	Land					-
18	304	Structures					-
19	307	Wells	15,844			(15,844)	-
20	317	Other Source Plant	124,132			(124,132)	-
21	311	Pumping Equipment	29,035	9397		88,409	126,841
22	320	Treatment Plant					-
23	330	Reservoirs					-
24	331	Mains	117,444	8234		22,532	148,210
25	333	Services and meter installations		22963		40,516	63,479
26	334	Meters	11,481			(11,481)	-
27	339	Other equipment	20,230	18931			39,161
28	340	Office furniture and equipment					-
29	341	Transportation equipment					-
30		Total Plant in service	328,166	59,525	-	-	387,691

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

1 Beg of Year allocation did not match PUC Annual Report grouping.

SCHEDULE C - RESERVE FOR DEPRECIATION OF UTILITY PLANT

Line	Item	Account 106 Plant	
32	Balance in reserves at beginning of year	255,428	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	21,064	5.88%
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	21,064	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 (2)	4,921	depreciation.
44	Total debits	4,921	
45	Balance in reserve at end of year	271,571	
46	(1) Explanation of all other credits		
47	(2) Explanation of all other debits : Adjustments to prior year reserves		

SCHEDULE D - CAPITAL STOCK OUTSTANDING (DECEMBER 31, 2008)

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	NONE							
7								
8	Totals							

SCHEDULE F - INCOME STATEMENT

9	Operating revenues	xxxxxxxxxxx	
10	460 Unmetered revenue		83,643
11	470 Metered revenue		
12	480 Other revenue		
13	Total Operating Revenue		83,643
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		2,405
20	640 Materials		
21	650 Contract work		76,429
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		902
28	678 Office services and rentals		-
29	681 Office supplies and expense		20
30	682 Professional services		5,933
31	684 Insurance		311
32	688 Regulatory commission expense		
33	689 General expenses		35
34	Total Operating Expenses		86,035
35	403 Depreciation expense		21,064
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		109,115
40	Utility Operating Income		(25,472)
41	421 Non-utility income		
42	426 Miscellaneous non-utility expense		
43	427 Interest expense		
44	Net Income		(25,472)

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)								
Total		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	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, 2008, to and including December 31, 2008.


 Signed _____
 Title Vice President
 Date July 23, 2009