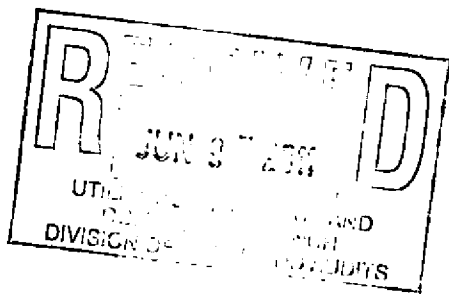


Received _____
 Examined _____

SEWER UTILITIES



U# _____

2010
 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, 2010

REPORT MUST BE FILED NOT LATER THAN MARCH 31, 2011

PEASLEY, ALDINGER & O'BYMACHOW
AN ACCOUNTANCY CORPORATION

MATT A. PEASLEY, CPA
CHRISTIAN L. ALDINGER, CPA

2120 MAIN STREET, SUITE 265
HUNTINGTON BEACH, CALIFORNIA 92648

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

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

May 20, 2011

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, 2010, and the related income statement for the year ended December 31, 2010, included in the accompanying prescribed form. 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. We have not audited or reviewed the accompanying financial statements and supplementary schedules and, accordingly, do not express an opinion or provide any assurance about whether the financial statements and supplementary schedules are in accordance with the form prescribed by the Public Utilities Commission of the State of California.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with requirements prescribed by the Public Utilities Commission of the State of California and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

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 accounting principles generally accepted in the United States of America.

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

TABLE OF CONTENTS

	<u>Page</u>
Instructions	2
General Information	3
Excess Capacity and Non-Tariffed Services	4
Schedule A - Balance Sheet	5
Schedule B - Sewer Plant In Service	5
Schedule C - Reserve for Depreciation of Utility Plant	5
Schedule D - Capital Stock Outstanding (As of December 31, 2010)	6
Schedule E - Long-Term Debts	6
Schedule F - Income Statement	6
Schedule G - Employees and Their Compensation	6
Schedule H - Advances for Construction	7
Schedule I - Total Meters and Services (Active and Inactive)	7
Schedule J - Meter-Testing Data	7
Schedule K - Service Connections at End of Year	7
Schedule L - Storage Facilities	7
Schedule M - Footages of Pipe (Excluding Service Pipes)	7
Declaration	8

INSTRUCTIONS

1. Two completed and signed hard copies of this report and one electronic copy must be filed **NOT LATER THAN MARCH 31, 2011**, with:

**CALIFORNIA PUBLIC UTILITIES COMMISSION
DIVISION OF WATER AND AUDITS
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 Page 8, must be signed by an authorized 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. If inserts are needed, prepare all inserts in one separate electronic file in Microsoft Excel format and file it with the electronic file of this report.
9. This report must cover the calendar year from January 1, 2010, through December 31, 2010. 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 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: Jennifer McClellan 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?
Equity Lifestyles Properties, Inc, operating labor: \$1,980 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

SCHEDULE A - BALANCE SHEET (AS OF DECEMBER 31, 2010)

Line	Acct.	Assets	Balance	Acct.	Equity and Liabilities	Balance
1	101	Plant in service	411,099	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	129,302
4	105	Plant construction work in progress		218	Proprietary capital	
5	108	Accumulated depreciation of plant	(307,400)	224	Long term debt	
6	114	Plant acquisition adjustments			Current Liabilities	71,648
7	124	Other investments		252	Advances for construction	
8	131	Cash	(66,386)	253	Other deferred credits	3,658
9	141	Accounts receivable - customers	(628)	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	204,608		Total Equity and Liabilities	204,608

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					-
20	317	Other Source Plant					-
21	311	Pumping Equipment	150,249				150,249
22	320	Treatment Plant					-
23	330	Reservoirs					-
24	331	Mains	148,210				148,210
25	333	Services and meter installations	63,479				63,479
26	334	Meters					-
27	339	Other equipment	39,161				39,161
28	340	Office furniture and equipment					-
29	341	Transportation equipment					-
30		Total Plant in service	411,099	-	-	-	411,099

* 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	286,752	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	20,648	5.02%
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	20,648	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)	-	depreciation.
44	Total debits	-	
45	Balance in reserve at end of year	307,400	

SCHEDULE D - CAPITAL STOCK OUTSTANDING (AS OF DECEMBER 31, 2010)

Line

1	Common - (Shares	\$	par)	N/A		List persons owning more than 5% of outstanding stock
2	Preferred - (Shares	\$	par)	N/A		and number of shares owned by each:
3	Dividends - Common	Rate - \$		N/A		
4	- Preferred	Rate - \$		N/A		

SCHEDULE E - LONG TERM DEBTS

	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	xxxxxxxxxx
10	460	Unmetered revenue	85,965
11	470	Metered revenue	
12	480	Other revenue	
13		Total Operating Revenue	85,965
14		Operating revenue deductions	xxxxxxxxxx
15		Operating expenses	xxxxxxxxxx
16	610	Purchased water	
17	615	Power	
18	618	Other volume related expenses	
19	630	Employee labor	1,980
20	640	Materials	
21	650	Contract work	88,329
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	
31	684	Insurance	301
32	688	Regulatory commission expense	
33	689	General expenses	38
34		Total Operating Expenses	90,648
35	403	Depreciation expense	20,647
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	113,143
40		Utility Operating Income	(27,178)
41	421	Non-utility income	
42	426	Miscellaneous non-utility expense	
43	427	Interest expense	
44		Net Income	(27,178)

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	2" and	2 1/4 to	4"	Other sizes (specify)	Totals
				under	3 1/4			
Concrete			Cast Iron					
Earth	N/A		Welded steel			N/A		
Wood			Standard screw					
Steel			Cement-asbestos					
Other			Plastic					
			Other (specify)					
Total			Total					

DECLARATION

(PLEASE VERIFY THAT ALL SCHEDULES ARE ACCURATE AND COMPLETE BEFORE SIGNING)

I, the undersigned _____
Authorized Officer, Partner or Owner

of _____ MHC Acquisition One, LLC (Santa Cruz Sewer Utility)
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 of January 1, 2010, through December 31, 2010.

(date)

EVP

Title (Please Print)

[Handwritten Signature]

Signature

Telephone Number

6/6/11

Date