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SEWER UTILITIES

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2012
 ANNUAL REPORT
 OF

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)

ZIP

TO THE
 PUBLIC UTILITIES COMMISSION
 STATE OF CALIFORNIA
 FOR THE YEAR ENDED DECEMBER 31, 2012

REPORT MUST BE FILED NOT LATER THAN APRIL 2, 2013

PEASLEY, ALDINGER & O'BYMACHOW
AN ACCOUNTANCY CORPORATION

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INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

August 20, 2013

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, 2012, and the related income statement for the year ended December 31, 2012, included in the accompanying prescribed form. We have also compiled the supplementary information included on page 6 (Schedules B & C), page 7 (Schedules D & E), page 9 (Schedule G & 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.

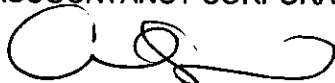
Management is responsible for the preparation and fair presentation of the financial statements in accordance with requirements prescribed by the Public Utilities Commission of the State of California and for designing, implementing, and maintaining internal control relevant to the preparation and fair 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 9 (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

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INSTRUCTIONS

1. Two completed and signed hard copies of this report and one electronic copy must be filed **NOT LATER THAN APRIL 2, 2013**, 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 10, 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, 2012, through December 31, 2012. 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: **N/A**
 (A) Date of organization **August 19, 1996** incorporated in the State of **Delaware**
 (B) Names, titles and addresses of principal officers:
- 2 If unincorporated give the name and address of owner or of each partner:
Marguerite Nader, President and CEO; Paul Seavey, Senior VP, CFO and Treasurer
Roger Maynard, Exec. VP- Asset Management
Larisa Drake, Senior VP- Marketing
Kenneth Kroot, Senior VP- General Counsel and Secretary
Patrick Waite, Senior VP- Property Management
Walter Jaccord, Legal and Assistant Secretary
- 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: \$1,931 acct 701, professional svcs: \$5,941 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
	X	
	X	
	X	
	X	
		N/A

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

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 company's 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 goods and services provided in calendar year 2012:

Applies to All Non-Tariffed Goods/Services that require Approval by Advice Letter											
Row No.	Description of Non-Tariffed Good/Service	Active or Passive	Total Revenue Derived From Non-Tariffed Goods/ Services (by account)	Revenue Account Number	Total Expenses Incurred to Provide Non-Tariffed Goods/ Services (by Account)	Expense Account Number	Advice Letter and/or Resolution Number Approving Non-Tariffed Goods/ Services	Total Income Tax Liability Incurred Because of Non-Tariffed Goods/ Services (by Account)	Income Tax Liability Account Number	Gross Value of Regulated Assets Used in the Provision of a Non-Tariffed Goods/ Services (by Account)	Regulated Asset Account Number
	NA										

SCHEDULE A - BALANCE SHEET (AS OF DECEMBER 31, 2012)

Line	Acct.	Assets	Balance
1	101	Plant In Service	411,099
2	103	Water Plant Held for Future Use	
3	104	Water Plant Purchased or Sold	
4	105	Water Plant Construction Work in Progress	
5	108	Accumulated Depreciation of Water Plant	(352,110)
6	114	Water Plant Acquisition Adjustments	
7	121	Non-water Utility Property and Other Assets	
8	124	Other Investments	
9	131	Cash	(110,540)
10	141	Accounts Receivable - Customers	(356)
11	151	Materials and Supplies	
12	174	Other Current Assets	10,641
13	180	Deferred Charges	157,213
14			
15			
		Total Assets	115,947
Line	Acct.	Equity and Liabilities	Balance
16	201	Common Stock (for corporations only)	
17	211	Other Paid-in Capital (for corporations only)	
18	215	Retained earnings (for corporations only)	32,557
19	218	Proprietary Capital (for proprietorships and partnerships only)	
20	224	Long-Term Debt	
21		Current Liabilities	79,732
22	252	Advances for Construction	
23	253	Other Deferred Credits	3,658
24	255	Accumulated Deferred Investment Tax Credits	
25	282	Accumulated Deferred Income Taxes - ACRS Depreciation	
26	283	Accumulated Deferred Income Taxes - Other	
27	271	Contributions in aid of constructions	
28	272	Accumulated amortization of contributions	
29			
30			
		Total Equity and Liabilities	115,947

SCHEDULE B - SEWER PLANT IN SERVICE (AS OF DECEMBER 31, 2012)

Line	Acct	Title of Account	Balance Beg of Year	Plant Additions During year	Plant Retirements During year	Other Debits or (Credits)	Balance End of year
1	301	Intangible Plant	10,000				10,000
2	303	Land					
3	304	Structures					
4	307	Wells					
5	311	Pumping Equipment	150,249				150,249
6	317	Other Water Source Plant					
7	320	Water Treatment Plant					
8	330	Reservoirs, Tanks and Standpipes					
9	331	Water Mains	148,210				148,210
10	333	Services and Meter Installations	63,479				63,479
11	334	Meters					
12	339	Other Equipment	39,161				39,161
13	340	Office Furniture and Equipment					
14	341	Transportation Equipment					
15		Total Sewer 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 (AS OF DECEMBER 31, 2012)

Line	Item	Account 108 Water Plant	Water Plant Funded by Prop 50 (For information only)
1	Balance in reserves at beginning of year	329,840	A. Method used to compute depreciation expense (Acct. 403) and rate.
2	Add: Credits to reserves during year		COMPOSITE 5.42%
3	(a) Charged to Account No. 272		B. Amount of depreciation expense claimed or to be claimed on utility property in your federal income tax return for the year covered by this report \$
4	(b) Charged to Account No. 403	22,270	N/A
5	(c) Charged to Account No. 407		C. State method used to compute tax depreciation.
6	(d) Salvage recovered		N/A
7	(e) All other credits		
8	Total credits	22,270	
9	Deduct: Debits to reserves during year		
10	(a) Book cost of property retired		
11	(b) Cost of removal		
12	(c) All other debits		
13	Total debits	-	
14	Balance in reserve at end of year	352,110	
15	(1) Explanation of all other credits		
16	(2) Explanation of all other debits		

SCHEDULE D - CAPITAL STOCK OUTSTANDING (AS OF DECEMBER 31, 2012)

Line	Description	Shareholder Name	Number of Shares	Par Value
1	Common Stocks	N/A		
2	Common Stocks			
3	Common Stocks			
4	Common Stocks			
5	Common Stocks			
6	Common Stocks			
7	Common Stocks			
8	Common Stocks			
9	Common Stocks			
10	Common Stocks			
11	Total - Common Stocks			
12	Preferred Stocks	N/A		
13	Preferred Stocks			
14	Preferred Stocks			
15	Preferred Stocks			
16	Preferred Stocks			
17	Total - Preferred Stocks			
18	Total annual dividends declared and/or paid to common stockholders			\$
19	Percentage of total annual dividend to common stockholders as a percentage of total net income (%)			
20	Total annual dividends declared and/or paid to preferred stock shareholders			\$
21	Percentage of total annual dividend to preferred stockholders as a percentage of total net income (%)			

SCHEDULE E - LONG-TERM DEBTS

Line	Class	Date of Issuance	Date of Maturity	Principle Amount Authorized	Interest Rate (%)	Accrued Interest for Current Year	Interest Paid for Current Year	Outstanding Balance as of 12/31/2012
1	NONE							
2								
3								
4								
5								
6								
7								
8								
9								
10								
11	Total							

Note: Please use duplicate page(s) to meet your company's needs if more lines are needed.

SCHEDULE F - INCOME STATEMENT

Line	Acct.	Description	Balance
1		Operating Revenues:	
2	460	Sewer Revenue - residential	88,975
3		Sewer Revenue - commercial	
4	465	Irrigation Revenue	
5	470	Metered Water Revenue	
6	475	Approved Total Surcharge Revenue(s)	
7	480	Other water revenue	
8		Total Revenue Received	88,975
9		Less: Revenue Deductions	XXXXXXXXXX
10		SDWBA/SRF Surcharge Revenue	XXXXXXXXXX
11		Total Operating Revenue	88,975
12		Operating Expenses:	
13	610	Purchased Water	
14	615	Power	
15	618	Other Volume Related Expenses	
16	630	Employee Labor	1,931
17	640	Materials	
18	650	Contract Work	87,757
19	660	Transportation Expense	
20	664	Other Plant Maintenance Expenses	
21	670	Office Salaries	
22	671	Management Salaries	
23	674	Employee Pensions and Benefits	
24	676	Uncollectible Accounts Expense	
25	678	Office Services and Rentals	
26	681	Office Supplies and Expense	
27	682	Professional Services	
28	684	Insurance	301
29	688	Regulatory Commission Expense	
30	689	General Expense	33
31		Total Operating Expenses	90,022
32	403	Depreciation Expense	22,270
33	407	SDWBA/SRF Loan Amortization Expense	
34	408	Taxes Other Than Income Taxes	2,016
35	409	State Corporate Income Tax expense	
36	410	Federal Corporate Income Tax Expense	
37		Total Operating Revenue Deductions	114,308
38		Utility Operating Income	(25,333)
39	421	Non-utility Income	
40	426	Miscellaneous Non-utility Expense	
41	427	Interest Expense	
42		Net Income	(25,333)

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
1	630	Employee Labor	N/A			
2	670	Office salaries				
3	671	Management salaries				
4		Total				

SCHEDULE H - ADVANCES FOR CONSTRUCTION

Balance beginning of year	
Additions during year	
Subtotal - Beginning balance plus additions during year	N/A
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	N/A	
-in		
-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
		3	3					3
Industrial								
Other (specify) Commercial								
Total		201	201					201

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	2 1/4 to 3 1/4	4"	Other sizes (specify)	Total
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 OFFICER
Officer, Partner, or Owner (Please Print)

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, 2012, through December 31, 2012.

CAO
Title (Please Print)


Signature

312 279 1516
Telephone Number

8/21/2013
Date