

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

Docket Nos. DW 10-141, DW 07-105, DW 10-043, and DW 11-021

Lakes Region Water Company, Inc.

MOTION FOR REHEARING OR CLARIFICATION

NOW COMES the Lakes Region Water Company, by and through Upton & Hatfield, LLP, and requests rehearing or clarification of Commission Order No. 25,391 pursuant to RSA 541 as follows:

I. BACKGROUND

1. In Order No. 25,391, the Commission recognized that Lakes Region Water Company requested an adjustment to Staff's proposed revenue requirement to allow for income tax expense. The Commission observed that the Company presented "testimony related to accounting treatment of disallowance of health care and pension expenses, which, if corrected for, would require an adjustment of \$68,732 to provide for state and federal income taxes that Lakes Region asserts it will incur going forward. *See* Hearing Exhibit LRW-5, Reply Testimony of Stephen St. Cyr, at 4-5." Order No. 25,391, Pages 4-5.

2. In the Analysis section of Order No. 25,391, the Commission observed that staff had disallowed expenses for pension and health insurance but failed to "make a corresponding adjustment to increase the Company's year-end retained earnings for purposes of calculating a weighted average rate of return." Page 16. However, the Commission did not rule on the Company's request for an adjustment "to provide for

state and federal income taxes that Lakes Region asserts it will incur going forward” as it noted earlier in its Order on Pages 4-5.

II. GOOD REASON EXISTS FOR REHEARING OR CLARIFICATION BECAUSE THE COMMISSION OVERLOOKED THE COMPANY’S REQUEST FOR AN ALLOWANCE TO INCOME TAX EXPENSE

3. The Company requests rehearing or clarification of Order No. 25,391 pursuant to RSA 541:3 because the Commission did not rule on its request for an adjustment for income tax expenses. *Dumais v. State Personnel Commission*, 118 N.H. 309 (1978) *citing Lambert v. State*, 115 N.H. 516 (1975) (“The purpose of a rehearing is to direct attention to matters said to have been overlooked...and thus invites reconsideration upon the record upon which that decision rested.”) (quotations omitted).

4. Under RSA 363:17-b, II & III, the Commission is required to include in its final order both the “positions of each party on each issue” as well as a “decision on each issue including the reasoning behind the decision”. The Company therefore directs the Commission to the following statements of position on the issue in the record and requests a decision based thereon:

- **Lakes Region Water Company.** Lakes Region Water Company’s statement of position on the issue is set forth in the *Reply Testimony of Stephen St. Cyr*, LRW Exhibit 5, Pages 4-6 and in its *Closing Statement*, Pages 10-11. Mr. St. Cyr calculated a tax expense of \$68,732. *LRW Exhibit 5*, Pages 4 – 5, Page 19 (Schedule 3, Column 6) and Page 23 (Schedule 3b). *See also Transcript Day 4 PM*, Pages 56-79.
- **Staff.** Staff’s statement of position on the issue is set forth in the *Testimony of Jason Laflamme*, *Staff Exhibit 1*, Page 10 and related schedules.

- **Staff Advocates.** Staff Advocates adopted Staff's statement of position on the issue. *See Closing Statement of Staff Advocates*, Para. 3.
- **Office of Consumer Advocate.** The Office of Consumer Advocate's statement of position on the issue is set forth in its *Closing Statement*, Page 9, and in the *Testimony of Stephen Eckberg*, OCA Exhibit 1, Pages 5-6.
- **Suissevale and Hidden Valley.** Lakes Region Water Company is not aware of any statement of position on the issue by Suissevale and Hidden Valley.

5. The issue is a critical one because the Company estimates that it will incur \$68,732 in income tax expense this year that is not included in its revenue requirement. *See LRW Exhibit 5* Pages 4 – 5, Page 19 (Schedule 3, Column 6) and Page 23 (Schedule 3b). The failure to include this significant expense will result in rates that are insufficient to allow the Company to earn a reasonable return as required by RSA 378:27 & 28. *Cf. Hampstead Area Water Company*, Order No. 24,734, 92 NHPUC 52 (2007) (Step adjustment to recognize tax increases just and reasonable); *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 592, 602 (1944); *Appeal of Richards*, 134 N.H. 148, 165-166 (1991) (“It is not the theory, but the impact of the rate order which counts.”). In this case, the impact of \$68,732 is significant relative to the total revenue requirement approved by the Commission of \$952,617. *See Order No. 25,391*, Page 30.

6. The Company recognizes that it can always seek a temporary and permanent rate increase to recover this expense as provided by RSA 378:27 & 28. However, the interest of the Company, its customers and the Commission would be better served by correcting this known deficiency in its rates, thereby allowing the Company

time to plan its next rate filing after careful consideration and discussions with interested parties.

7. The Company believes that the Commission shares this view. As the Commission noted in its Order, “without the benefit of such long-range planning, Lakes Region was severely hampered in its ability to effectively budget its limited resources as well as plan the most cost efficient and cost effective means to finance its numerous capital improvements.” *Order No. 25,391, Page 22*. Unfortunately, because the Commission did not make any allowance for income tax expense, the Company will be forced to file for a rate increase almost immediately and without the benefit of the long-range planning that the Commission sought to encourage in its Order.

8. This is particularly true in the case of the Mt. Roberts property. The Company received an approval for Mt. Roberts on July 5, 2012.¹ The Company believes that all of the interested parties would benefit from further discussions before the Company files its next rate case. However, without recovery of tax expense in rates, the Company will be unable to delay filing a new rate case.

III. GOOD REASON EXISTS FOR REHEARING OR CLARIFICATION BASED ON NEW EVIDENCE IN THE COMPANY’S 2011 TAX RETURN WHICH WAS UNAVAILABLE AT THE HEARINGS

9. Rehearing is also appropriate where new evidence becomes available which could not have been presented at the hearing. *Appeal of Gas Service, Inc.*, 121 N.H. 797, 801 (1981); *Dumais, supra*. As explained below, the Company’s 2011 tax return dated May 23, 2012 is new evidence that was unavailable at the hearing, which confirms that an adjustment for tax expense is necessary. The Company requests

¹ See July 6, 2012 Updated Response to Record Request No. 5.

rehearing to consider this new evidence and to address the Company's request for an adjustment for income tax expense.

10. This new evidence was unavailable at the hearing because the Company received Staff's Testimony on October 14, 2011 which recommended that expenses for pensions and health insurance be disallowed.

11. In its data requests to Staff, the Company noted that Staff made no corresponding adjustment to the Company's retained earnings, and on October 31, 2011, Staff agreed that it was appropriate to do so. *See LRW Exhibit 31* ("Staff believes that an adjustment to increase the Company's retained earnings account by the amount of the reclassified shareholder pension and health insurance premium payments may be appropriate.").

12. On December 12, 2011, based on Staff's agreement that adjustment to its retained earnings may be appropriate, the Company proposed an adjustment. *See LRW Exhibit 5, Page 4. (Reply Testimony of Stephen P. St. Cyr).*

13. Unfortunately, there was insufficient time between Staff's October 31, 2011 response (*LRW Exhibit 31*) and the December 12, 2011 deadline for the Company's Reply Testimony. The Company could not possibly amend all of its prior tax returns to show in detail the effect of the adjustment to its retained earnings on its future tax requirements. As a result, Mr. St. Cyr estimated that the Company would incur \$68,732 in income tax expenses that were not included in Staff's recommended revenue requirement. *See LRW Exhibit 5 Pages 4 – 5, Page 19 (Schedule 3, Column 6) and Page 23 (Schedule 3b).*

14. The Company then amended its 2010 Annual Report to reflect the adjustment to its retained earnings, which it filed with the Commission on March 2, 2012. *LRW Exhibit 9*. The Company also “amended its 2007, 2008 and 2009 federal tax returns to reflect such adjustments on the amended tax returns [which] significantly reduces the net operating loss carry forward available for future years.” *LRW Exhibit 9, Page 1*.

15. During the hearings, the Company sought Staff’s agreement that disallowance of pension and health care expenses effectively eliminated its net operating loss carry forward. However, Staff Advocates and Staff objected to the introduction of both the Company’s amended Annual Report and its tax returns. *See Transcript, Day 4 P.M. Page 72 (Staff Advocates); Pages 75 to 76 (Staff)*.

16. As a result, while Staff agreed that an adjustment to retained earnings was necessary, it did not propose an adjustment. The Company proposed an adjustment, but Staff offered no opinion on whether the adjustment was correct, stating that it could not do so without the actual tax returns as follows (Transcript, Day 4 P.M., Pages 64-70):

Q. Yes, that's right. Doesn't that then create a future tax liability?

A. Not necessarily. What's not -- what the Company didn't provide was a copy of the amended returns that went along with its prior year adjustments. So, I think until Staff can see the amended returns, I don't think I can make a determination on whether that creates a future tax liability or not.

I should also add that there's several moving parts within the Company's corporate tax return. And making such a determination is difficult, given the number of moving parts that are a part of the Company's corporate tax return.

[...][continued at Page 68]

Q. (By Mr. Richardson) Okay. And so you agree that the Company has to go back and adjust its tax returns for the prior years to reflect the treatment of those pension expenses as income; right?

A. Okay. You're -- the \$56,000 figure was -- pertained to the test year. And so you're asking me if it's appropriate for the Company to go back to years prior to the test year and make those adjustments -- to make adjustments to pension payments and health insurance payments?

Q. I'm not trying to make this complicated. You've suggested that that expense needs to be treated as income. And so the Company has to do that. And that has consequences to what its earnings would be in the prior years; right?

A. In actuality, it would be a reduction of expense that would increase income and therefore increase retained earnings.

Q. That's right. Okay. And that increase in retained earnings offsets any net operating loss carryforward.

A. Not necessarily.

Q. Well, it's applied against it; right?

A. Not necessarily. Again, we're talking about a tax return that has several moving parts. And I should say that not only do the tax returns reflect net operating loss carryforwards, but they also reflect Section 179 carryforwards, Section 1231 loss carryforwards, all of which, again, goes into the moving parts of a corporate tax return. And based on the information that we have, it's uncertain what the effect on the net operating loss carryforward would be.

Q. But I understood, when I asked you before, that you knew that Mr. St. Cyr had made an adjustment to effectuate that, and you stated that you just didn't have the information necessary to state whether or not you believed Mr. St. Cyr had done it correctly.

A. I don't have -- no. I don't have the information that would indicate -- based on those adjustments that were proposed by the Company, it's difficult to determine what the effect on net operating loss carryforward will be, and we would need to see the actual amended returns in order to make that determination.

Q. Have you seen anything in Mr. St. Cyr's testimony that suggests he did it inappropriately?

A. Based on the limited analysis I have -- that I've done on what the Company's submitted, I don't have any basis to say whether he did it correctly or incorrectly.

17. The Company was caught in a dilemma not of its own making: it sought to implement Staff's recommendation, adjusted its retained earnings and estimated its tax expense going forward. *LRW Exhibit 5, Pages 4 – 5, Page 19 (Schedule 3, Column 6) and Page 23 (Schedule 3b)*. However, it could not have reasonably prepared all of the amendments to its prior annual report and tax returns by the deadline for its testimony between October 31, 2011 and December 12, 2011. Staff declined to comment on whether the Company had made the correct adjustment without reviewing the Company's actual tax returns to which its counsel objected.

18. This left the Company in an impossible position. It made the adjustments as Staff had suggested, and estimated an income tax expense of \$68,732 per year. However, Staff could not confirm whether this was correct without seeing the Company's tax return that the Company could not possibly have produced in the few weeks between October 31, 2011 and December 12, 2011.

19. In order to remedy this defect, the Company provides its May 23, 2012 Income Tax Return for the 2011 Tax Year showing that its net operating loss carry forwards have been eliminated. The Company therefore requests that the Commission grant rehearing based on this new evidence that was unavailable at the hearing, and which confirms that the Company will incur tax expense for the entire 2012 tax year and that an adjustment as proposed in *LRW Exhibit 5* is required.

III. CONCLUSION

The Company requests that the Commission grant rehearing or clarification of Order No. 25,391 to rule on its request for an adjustment "to provide for state and federal income taxes that Lakes Region asserts it will incur going forward" as noted on Page 4-5

of the Order. Good reason exists for rehearing or clarification because the Commission's Order No. 25,391 overlooked this issue and did not rule on it as required by RSA 363:17-b, and because new evidence that was not available at the time of the hearings confirms that an adjustment for tax expense is necessary.

The Company requests that the Commission order that rates be adjusted to include the required tax expense to an effective date of January 1, 2012 as it has incurred tax liability as of that date.

WHEREFORE the Lakes Region Water Company respectfully requests that the Commission grant this motion for rehearing or clarification, and grant such other relief as justice may require.

Respectfully submitted,

**LAKES REGION WATER
COMPANY, INC.**

By its Counsel,

UPTON & HATFIELD, LLP

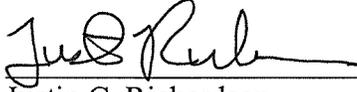


Justin C. Richardson
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Dated: August 8, 2012

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was this day forwarded to all parties on the official service lists for DW 10-141, DW 07-105, DW 10-043, and DW 11-021.


Justin C. Richardson

A Check if:		Name Lakes Region Water Co., Inc.	B Employer identification number 02-0316484
1 a Consolidated return (attach Form 951) <input type="checkbox"/>	TYPE OR PRINT	Number, street, and room or suite number. If a P.O. box, see instructions. P.O. Box 389	C Date incorporated 01/28/1975
b Lifelong consolidated return <input checked="" type="checkbox"/>		City or town State ZIP code Moultonboro NH 03254	D Total assets (see instructions) \$ 3,416,690.
2 Personal holding co (attach Sch PH) <input type="checkbox"/>			
3 Personal service corp (see instrs) <input type="checkbox"/>			
4 Schedule M-3 attached <input type="checkbox"/>			
E Check if: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change			

INCOME	1 a Merchant card and third-party payments. For 2011, enter -0-	1 a	0.
	b Gross receipts or sales not reported on line 1a (see instructions)	1 b	1,138,517.
	c Total. Add lines 1a and 1b	1 c	1,138,517.
	d Returns and allowances plus any other adjustments (see instructions)	1 d	
	e Subtract line 1d from line 1c	1 e	1,138,517.
	2 Cost of goods sold from Form 1125-A, line 8 (attach Form 1125-A)	2	21,357.
	3 Gross profit. Subtract line 2 from line 1e	3	1,117,160.
	4 Dividends (Schedule C, line 19)	4	
	5 Interest	5	5,015.
	6 Gross rents	6	
	7 Gross royalties	7	
8 Capital gain net income (attach Schedule D (Form 1120))	8		
9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)	9	-10,662.	
10 Other income (see instructions - attach schedule)	10		
11 Total income. Add lines 3 through 10 ▶	11	1,111,513.	
DEDUCTIONS	12 Compensation of officers from Form 1125-E, line 4 (attach Form 1125-E) ▶	12	60,338.
	13 Salaries and wages (less employment credits)	13	220,816.
	14 Repairs and maintenance	14	
	15 Bad debts	15	11,916.
	16 Rents	16	1,000.
	17 Taxes and licenses	17	62,862.
	18 Interest	18	84,599.
	19 Charitable contributions	19	300.
	20 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	20	167,477.
	21 Depletion	21	
	22 Advertising	22	
	23 Pension, profit-sharing, etc, plans	23	
	24 Employee benefit programs	24	35,177.
	25 Domestic production activities deduction (attach Form 8903)	25	
	26 Other deductions (attach schedule). See Other Deductions Statement	26	329,687.
	27 Total deductions. Add lines 12 through 26. ▶	27	974,172.
	28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11	28	137,341.
29 a Net operating loss deduction (see instructions)	29 a	116,430.	
b Special deductions (Schedule C, line 20)	29 b		
c Add lines 29a and 29b	29 c	116,430.	
30 Taxable income. Subtract line 29c from line 28 (see instructions)	30	20,911.	
31 Total tax (Schedule J, Part I, line 11)	31	0.	
32 Total payments and refundable credits (Schedule J, Part II, line 21)	32		
33 Estimated tax penalty (see instructions). Check if Form 2220 is attached ▶ <input type="checkbox"/>	33		
34 Amount owed. If line 32 is smaller than the total of lines 31 and 33, enter amount owed	34		
35 Overpayment. If line 32 is larger than the total of lines 31 and 33, enter amount overpaid	35	0.	
36 Enter amount from line 35 you want: Credited to 2012 estimated tax . . . ▶	36	Refunded ▶	

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Sign Here ▶ Norman E. Reberge Signature of officer Date 5-23-12 Title _____

May the IRS discuss this return with the preparer shown below (see instructions)? Yes No

Paid Preparer Use Only

Print preparer's name Norman E. Reberge Preparer's signature _____ Date 5/15/12 Check if self-employed PTIN 003361076

Firm's name ▶ NORMAN E REBERGE Firm's EIN ▶ _____

Firm's address ▶ 1207 GERHAM ROAD Phone no. 603-496-9807
DUNBARTON NH 03046

Schedule C Dividends and Special Deductions (see instructions)	(a) Dividends received	(b) Percentage	(c) Special deductions (a) x (b)
1 Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)		70	
2 Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		80	
3 Dividends on debt-financed stock of domestic and foreign corporations		see instructions	
4 Dividends on certain preferred stock of less-than-20%-owned public utilities		42	
5 Dividends on certain preferred stock of 20%-or-more-owned public utilities		48	
6 Dividends from less-than-20%-owned foreign corporations and certain FSCs		70	
7 Dividends from 20%-or-more-owned foreign corporations and certain FSCs		80	
8 Dividends from wholly owned foreign subsidiaries		100	
9 Total. Add lines 1 through 8. See instructions for limitation			
10 Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
11 Dividends from affiliated group members		100	
12 Dividends from certain FSCs		100	
13 Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12			
14 Income from controlled foreign corporations under subpart F (attach Form(s) 5471)			
15 Foreign dividend gross-up			
16 IC-DISC and former DISC dividends not included on lines 1, 2, or 3			
17 Other dividends			
18 Deduction for dividends paid on certain preferred stock of public utilities			
19 Total dividends. Add lines 1 through 17. Enter here and on page 1, line 4. ▶			
20 Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b ▶			

Schedule J Tax Computation and Payment (see instructions)

Part I – Tax Computation

1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120))	<input type="checkbox"/>		
2	Income tax. Check if a qualified personal service corporation (see instructions)	<input type="checkbox"/>	2	3,137.
3	Alternative minimum tax (attach Form 4626)		3	
4	Add lines 2 and 3		4	3,137.
5a	Foreign tax credit (attach Form 1118)	5 a		
b	Credit from Form 8834, line 30 (attach Form 8834)	5 b		
c	General business credit (attach Form 3800)	5 c	3,137.	
d	Credit for prior year minimum tax (attach Form 8827)	5 d		
e	Bond credits from Form 8912	5 e		
6	Total credits. Add lines 5a through 5e		6	3,137.
7	Subtract line 6 from line 4		7	0.
8	Personal holding company tax (attach Schedule PH (Form 1120))		8	
9a	Recapture of investment credit (attach Form 4255)	9 a		
b	Recapture of low-income housing credit (attach Form 8611)	9 b		
c	Interest due under the look-back method – completed long-term contracts (attach Form 8697)	9 c		
d	Interest due under the look-back method – income forecast method (attach Form 8866)	9 d		
e	Alternative tax on qualifying shipping activities (attach Form 8902)	9 e		
f	Other (see instructions – attach schedule)	9 f		
10	Total. Add lines 9a through 9f		10	
11	Total tax. Add lines 7, 8, and 10. Enter here and on page 1, line 31.		11	0.

Part II – Payments and Refundable Credits

12	2010 overpayment credited to 2011		12	
13	2011 estimated tax payments		13	
14	2011 refund applied for on Form 4466		14	
15	Combine lines 12, 13, and 14		15	
16	Tax deposited with Form 7004		16	
17	Withholding (see instructions)		17	
18	Total payments. Add lines 15, 16 and 17		18	
19	Refundable credits from:			
a	Form 2439	19 a		
b	Form 4136	19 b		
c	Form 3800, line 17c and Form 8827, line 8c	19 c		
d	Other (attach schedule – see instructions)	19 d		
20	Total credits. Add lines 19a through 19d		20	
21	Total payments and credits. Add lines 18 and 20. Enter here and on page 1, line 32		21	

Schedule K Other Information (see instructions)

1	Check accounting method	a <input type="checkbox"/> Cash	b <input checked="" type="checkbox"/> Accrual	c <input type="checkbox"/> Other (specify) ▶	Yes	No	
2	See the instructions and enter the:						
a	Business activity code no. ▶	221300					
b	Business activity ▶	Water Utility					
c	Product or service ▶	Water Distribution					
3	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? If 'Yes,' enter name and EIN of the parent corporation ▶						X
4	At the end of the tax year:						
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If 'Yes,' complete Part I of Schedule G (Form 1120) (attach Schedule G)						X
b	Did any individual or estate own, directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If 'Yes,' complete Part II of Schedule G (Form 1120) (attach Schedule G)					X	

Schedule K Other Information *continued* (see instructions)

5 At the end of the tax year, did the corporation:

a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on Form 851, Affiliations Schedule? For rules of constructive ownership, see instructions

Yes	No
	X

If 'Yes,' complete (i) through (iv) below.

(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock

b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions
If 'Yes,' complete (i) through (iv) below.

Yes	No
	X

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Country of Organization	(iv) Maximum Percentage Owned in Profit, Loss, or Capital

6 During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.)

	X
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If 'Yes,' file Form 5452, Corporate Report of Nondividend Distributions.

If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary

7 At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of (a) the total voting power of all classes of the corporation's stock entitled to vote or (b) the total value of all classes of the corporation's stock?

	X
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For rules of attribution, see section 318. If 'Yes,' enter:

(i) Percentage owned ▶ _____ and (ii) Owner's country ▶ _____

(c) The corporation may have to file Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached ▶ _____

8 Check this box if the corporation issued publicly offered debt instruments with original issue discount

If checked, the corporation may have to file Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments.

9 Enter the amount of tax-exempt interest received or accrued during the tax year ▶ \$ _____

10 Enter the number of shareholders at the end of the tax year (if 100 or fewer) ▶ 2

11 If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here

If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election will not be valid.

12 Enter the available NOL carryover from prior tax years (do not reduce it by any deduction on line 29a.) ▶ \$ 116,430

13 Are the corporation's total receipts (line 1c plus lines 4 through 10 on page 1) for the tax year and its total assets at the end of the tax year less than \$250,000?

	X
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If 'Yes,' the corporation is not required to complete Schedules L, M-1, and M-2 on page 5. Instead, enter the total amount of cash distributions and the book value property distributions (other than cash) made during the tax year. ▶ \$ _____

14 Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement (see instructions)?

	X
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If 'Yes,' complete and attach Schedule UTP.

15 a Did the corporation make any payments in 2011 that would require it to file Form(s) 1099 (see instructions)?

X	
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b If 'Yes,' did or will the corporation file all required Forms 1099?

X	
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Schedule L	Balance Sheets per Books	Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
Assets					
1	Cash		3,961.		17,338.
2a	Trade notes and accounts receivable	135,190.		132,256.	
b	Less allowance for bad debts		135,190.		132,256.
3	Inventories		38,920.		36,084.
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)				
6	Other current assets (attach schedule) . . Ln. 6. Stmt		117,752.		232,916.
7	Loans to shareholders				
8	Mortgage and real estate loans				
9	Other investments (attach schedule)				
10a	Buildings and other depreciable assets	3,956,613.		4,020,748.	
b	Less accumulated depreciation	1,114,711.	2,841,902.	1,203,499.	2,817,249.
11a	Depletable assets				
b	Less accumulated depletion				
12	Land (net of any amortization)		180,742.		180,847.
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization				
14	Other assets (attach schedule)				
15	Total assets		3,318,467.		3,416,690.
Liabilities and Shareholders' Equity					
16	Accounts payable		471,278.		524,367.
17	Mortgages, notes, bonds payable in less than 1 year				
18	Other current liabilities (attach sch) . . Ln. 18 Stmt		16,706.		8,883.
19	Loans from shareholders		0.		
20	Mortgages, notes, bonds payable in 1 year or more		882,783.		784,678.
21	Other liabilities (attach schedule) . . . Ln. 21 Stmt		773,169.		756,258.
22	Capital stock: a Preferred stock				
	b Common stock	10,000.	10,000.	10,000.	10,000.
23	Additional paid-in capital		1,077,052.		1,078,604.
24	Retained earnings — Approp (att sch)				
25	Retained earnings — Unappropriated		102,203.		266,783.
26	Adjmnt to shareholders' equity (att sch) . . Ln. 26 Stmt		-14,724.		-12,883.
27	Less cost of treasury stock				
28	Total liabilities and shareholders' equity		3,318,467.		3,416,690.

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return
 Note: Schedule M-3 required instead of Schedule M-1 if total assets are \$10 million or more — see instructions

1	Net income (loss) per books	159,969.	7	Income recorded on books this year not included on this return (itemize):	
2	Federal income tax per books	0.		Tax-exempt interest \$ _____	
3	Excess of capital losses over capital gains			-----	
4	Income subject to tax not recorded on books this year (itemize):			-----	
5	Expenses recorded on books this year not deducted on this return (itemize):		8	Deductions on this return not charged against book income this year (itemize):	
a	Depreciation \$ _____		a	Depreciation . \$ 18,387.	
b	Charitable contributions . \$ _____		b	Charitable contribns \$ _____	
c	Travel & entertainment . \$ 29.			See Ln 8 Stmt 10,662.	
	See Ln 5 Stmt 6,392.			-----	29,049.
	-----	6,421.	9	Add lines 7 and 8	29,049.
6	Add lines 1 through 5	166,390.	10	Income (page 1, line 28) — line 6 less line 9	137,341.

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)

1	Balance at beginning of year	102,203.	5	Distributions a Cash	
2	Net income (loss) per books	159,969.		b Stock c Property	
3	Other increases (itemize):		6	Other decreases (itemize):	
	See Ln 3 Stmt 4,611.			-----	
	-----	4,611.	7	Add lines 5 and 6	
4	Add lines 1, 2, and 3	266,783.	8	Balance at end of year (line 4 less line 7)	266,783.

Cost of Goods Sold

▶ Attach to Form 1120, 1120-C, 1120-F, 1120-S, 1065, and 1065-B.

Name Lakes Region Water Co., Inc.	Employer identification number 02-0316484
--------------------------------------	--

1 Inventory at beginning of year	1	38,920.
2 Purchases	2	18,521.
3 Cost of labor	3	
4 Additional section 263A costs (attach schedule)	4	
5 Other costs (attach schedule)	5	
6 Total. Add lines 1 through 5	6	57,441.
7 Inventory at end of year	7	36,084.
8 Cost of goods sold. Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the appropriate line of your tax return (see instructions)	8	21,357.

9 a Check all methods used for valuing closing inventory:

- (i) Cost
- (ii) Lower of cost or market
- (iii) Other (Specify method used and att. expl.) . . . ▶

b Check if there was a writedown of subnormal goods ▶

c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ▶

d If the LIFO inventory method was used for this tax year, enter amount of closing inventory computed under LIFO **9d**

e If property is produced or acquired for resale, do the rules of section 263A apply to the corporation? Yes No

f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If 'Yes,' attach explanation Yes No

General Business Credit

Department of the Treasury
Internal Revenue Service (99)

- ▶ See separate instructions.
- ▶ Attach to your tax return.

2011
Attachment
Sequence No. **22**

Name(s) shown on return

Lakes Region Water Co., Inc.

Identifying number

02-0316484

Part I **Current Year Credit for Credits Not Allowed Against Tentative Minimum Tax (TMT)**
(See instructions and complete Part(s) III before Parts I and II)

1	General business credit from line 2 of all Parts III with box A checked	1	
2	Passive activity credits from line 2 of all Parts III with box B checked	2	
3	Enter the applicable passive activity credits allowed for 2011 (see instructions)	3	
4	Carryforward of general business credit to 2011. Enter the amount from line 2 of Part III with box C checked. See instructions for schedule to attach	4	
5	Carryback of general business credit from 2012. Enter the amount from line 2 of Part III with box D checked (see instructions)	5	
6	Add lines 1, 3, 4 and 5	6	

Part II **Allowable Credit**

7	Regular tax before credits: <ul style="list-style-type: none"> • Individuals. Enter the amount from Form 1040, line 44, or Form 1040NR, line 42 • Corporations. Enter the amount from Form 1120, Schedule J, Part I, line 2; or the applicable line of your return • Estates and trusts. Enter the sum of the amounts from Form 1041, Schedule G, lines 1a and 1b, or the amount from the applicable line of your return 	7	3,137.
8	Alternative minimum tax: <ul style="list-style-type: none"> • Individuals. Enter the amount from Form 6251, line 35 • Corporations. Enter the amount from Form 4626, line 14 • Estates and trusts. Enter the amount from Schedule I (Form 1041), line 56 	8	
9	Add lines 7 and 8	9	3,137.
10a	Foreign tax credit	10 a	
b	Personal credits from Form 1040 or 1040NR (see instructions)	10 b	
c	Add lines 10a and 10b	10 c	
11	Net income tax. Subtract line 10c from line 9. If zero, skip lines 12 through 15 and enter -0- on line 16a	11	3,137.
12	Net regular tax. Subtract line 10c from line 7. If zero or less, enter -0-	12	3,137.
13	Enter 25% (.25) of the excess, if any, of line 12 over \$25,000 (see instructions)	13	
14	Tentative minimum tax: <ul style="list-style-type: none"> • Individuals. Enter the amount from Form 6251, line 33 • Corporations. Enter the amount from Form 4626, line 12 • Estates and trusts. Enter the amount from Schedule I (Form 1041), line 54 	14	0.
15	Enter the greater of line 13 or line 14	15	0.
16a	Subtract line 15 from line 11. If zero or less, enter -0-	16 a	3,137.
b	For a corporation electing to accelerate the research credit, enter the bonus depreciation amount attributable to the research credit (see instructions)	16 b	
c	Add lines 16a and 16b	16 c	3,137.
17a	Enter the smaller of line 6 or line 16c. C corporations: See the line 17a instructions if there has been an ownership change, acquisition, or reorganization.	17 a	0.
b	Enter the smaller of line 6 or line 16a. If you made an entry on line 16b, go to line 17c; otherwise, skip line 17c (see instructions).	17 b	0.
c	Subtract line 17b from line 17a. This is the refundable amount for a corporation electing to accelerate the research credit. Include this amount on Form 1120, Schedule J, Part II, line 19c (or the applicable line of your return).	17 c	

Part II Allowable Credit (Continued)

Note. If you are not required to report any amounts on lines 22 or 24 below, skip lines 18 through 25 and enter -0- on line 26.

18	Multiply line 14 by 75% (.75) (see instructions)	18	
19	Enter the greater of line 13 or line 18	19	
20	Subtract line 19 from line 11. If zero or less, enter -0-	20	
21	Subtract line 17b from line 20. If zero or less, enter -0-	21	
22	Combine the amounts from line 3 of all Parts III with box A, C, or D checked	22	
23	Passive activity credit from line 3 of all Parts III with box B checked	23	
24	Enter the applicable passive activity credit allowed for 2011 (see instructions).	24	
25	Add lines 22 and 24	25	
26	Empowerment zone and renewal community employment credit allowed. Enter the smaller of line 21 or line 25	26	0.
27	Subtract line 13 from line 11. If zero or less, enter -0-	27	3,137.
28	Add lines 17b and 26	28	0.
29	Subtract line 28 from line 27. If zero or less, enter -0-	29	3,137.
30	Enter the general business credit from line 5 of all Parts III with box A checked	30	4,551.
31	Enter the total eligible small business credit from line 6 of all Parts III with box E checked	31	
32	Passive activity credits from line 5 of all Parts III with box B checked and line 6 of all Parts III with box F checked	32	
33	Enter the applicable passive activity credits allowed for 2011 (see instructions)	33	
34	Carryforward of business credit to 2011. Enter the amount from line 5 of Part III with box C checked and line 6 of all Parts III with box G checked. See instructions for schedule to attach	34	5,079.
35	Carryback of business credit from 2012. Enter the amount from line 5 of Part III with box D checked and line 6 of all Parts III with box H checked (see instructions).	35	
36	Add lines 30, 31, 33, 34, and 35	36	9,630.
37	Enter the smaller of line 29 or line 36.	37	3,137.
38	Credit allowed for the current year. Add lines 28 and 37. Report the amount from line 38 (if smaller than the sum of Part I, line 6 and Part II, lines 25 and 36, see instructions) as indicated below or on the applicable line of your return: <ul style="list-style-type: none"> • Individuals. Form 1040, line 53, or Form 1040NR, line 50 • Corporations. Form 1120, Schedule J, Part I, line 5c • Estates and trusts. Form 1041, Schedule G, line 2b 	38	3,137.

Part III General Business Credits or Eligible Small Business Credits (see instructions)

Complete a separate Part III for each box checked below. (see instructions)

- A General Business Credit From a Non-Passive Activity
- B General Business Credit From a Passive Activity
- C General Business Credit Carryforwards
- D General Business Credit Carrybacks
- E Eligible Small Business Credit From a Non-Passive Activity
- F Eligible Small Business Credit From a Passive Activity
- G Eligible Small Business Credit Carryforwards
- H Eligible Small Business Credit Carrybacks

I If you are filing more than one Part III for boxes A, B, E, or F checked, complete and attach first an additional Part III combining amounts from all Parts III with boxes A, B, E, or F checked. Check here if this is the consolidated Part III

(a) Description of credit	(b) If claiming the credit from a pass-through entity, enter the EIN	(c) Enter the appropriate amount
Note: On any line where the credit is from more than one source, a separate Part III is needed for each pass-through entity.		
1 a Investment (Form 3468, Part II only) (attach Form 3468)	1 a	
b Reserved for future use.	1 b	
c Increasing research activities (Form 6765)	1 c	
d Low-income housing (Form 8586, Part I only).	1 d	
e Disabled access (Form 8826) (do not enter more than \$5,000 in column (c) of Parts III with boxes A, B, E, or F checked, combined)	1 e	
f Renewable electricity, refined coal, and Indian coal production (Form 8835).	1 f	
g Indian employment (Form 8845)	1 g	
h Orphan drug (Form 8820)	1 h	
i New markets (Form 8874)	1 i	
j Small employer pension plan startup costs (Form 8881) (do not enter more than \$500 in column (c) of Parts III with boxes A, B, E, or F checked, combined)	1 j	
k Employer-provided child care facilities and services (Form 8882)	1 k	
l Biodiesel and renewable diesel fuels (attach Form 8864)	1 l	
m Low sulfur diesel fuel production (Form 8896).	1 m	
n Distilled spirits (Form 8906).	1 n	
o Nonconventional source fuel (Form 8907)	1 o	
p Energy efficient home (Form 8908)	1 p	
q Energy efficient appliance (Form 8909)	1 q	
r Alternative motor vehicle (Form 8910)	1 r	
s Alternative fuel vehicle refueling property (Form 8911)	1 s	
t Reserved for future use.	1 t	
u Mine rescue team training (Form 8923)	1 u	
v Agricultural chemicals security (Form 8931) (do not enter more than \$2 million in column (c) of Parts III with boxes A, B, E, or F checked, combined)	1 v	
w Employer differential wage payments (Form 8932)	1 w	
x Carbon dioxide sequestration (Form 8933)	1 x	
y Qualified plug-in electric drive motor vehicle (Form 8936)	1 y	
z Qualified plug-in electric vehicle (Form 8834, Part I only)	1 z	
aa New hire retention (Form 5884-B)	1 aa	
bb General credits from an electing large partnership (Schedule K-1 (Form 1065-B))	1 bb	
zz Other.	1 zz	
2 Add lines 1a through 1zz and enter here	2	
3 Enter the amount from Form 8844	3	
4 a Investment (Form 3468, Part III) (attach Form 3468)	4 a	
b Work opportunity (Form 5884)	4 b	
c Alcohol and cellulosic biofuel fuels (Form 6478).	4 c	
d Low-income housing (Form 8586, Part II)	4 d	
e Renewable electricity, refined coal, and Indian coal production (Form 8835).	4 e	
f Employer social security and Medicare taxes paid on certain employee tips (Form 8846)	4 f	
g Qualified railroad track maintenance (Form 8900).	4 g	
h Small employer health insurance premiums (Form 8941)	4 h	4,551.
i Reserved for future use.	4 i	
j Reserved for future use.	4 j	
z Other.	4 z	
5 Add lines 4a through 4z and enter here	5	4,551.
6 Add lines 2, 3, and 5	6	4,551.

Part III General Business Credits or Eligible Small Business Credits (see instructions)

Complete a separate Part III for each box checked below. (see instructions)

- A General Business Credit From a Non-Passive Activity
- B General Business Credit From a Passive Activity
- C General Business Credit Carryforwards
- D General Business Credit Carrybacks
- E Eligible Small Business Credit From a Non-Passive Activity
- F Eligible Small Business Credit From a Passive Activity
- G Eligible Small Business Credit Carryforwards
- H Eligible Small Business Credit Carrybacks

I If you are filing more than one Part III for boxes A, B, E, or F checked, complete and attach first an additional Part III combining amounts from all Parts III with boxes A, B, E, or F checked. Check here if this is the consolidated Part III

(a) Description of credit	(b) If claiming the credit from a pass-through entity, enter the EIN	(c) Enter the appropriate amount
Note: On any line where the credit is from more than one source, a separate Part III is needed for each pass-through entity.		
1 a Investment (Form 3468, Part II only) (attach Form 3468)	1 a	
b Reserved for future use.	1 b	
c Increasing research activities (Form 6765)	1 c	
d Low-income housing (Form 8586, Part I only).	1 d	
e Disabled access (Form 8826) (do not enter more than \$5,000 in column (c) of Parts III with boxes A, B, E, or F checked, combined)	1 e	
f Renewable electricity, refined coal, and Indian coal production (Form 8835).	1 f	
g Indian employment (Form 8845)	1 g	
h Orphan drug (Form 8820)	1 h	
i New markets (Form 8874)	1 i	
j Small employer pension plan startup costs (Form 8881) (do not enter more than \$500 in column (c) of Parts III with boxes A, B, E, or F checked, combined)	1 j	
k Employer-provided child care facilities and services (Form 8882)	1 k	
l Biodiesel and renewable diesel fuels (attach Form 8864)	1 l	
m Low sulfur diesel fuel production (Form 8896).	1 m	
n Distilled spirits (Form 8906).	1 n	
o Nonconventional source fuel (Form 8907)	1 o	
p Energy efficient home (Form 8908)	1 p	
q Energy efficient appliance (Form 8909)	1 q	
r Alternative motor vehicle (Form 8910)	1 r	
s Alternative fuel vehicle refueling property (Form 8911)	1 s	
t Reserved for future use.	1 t	
u Mine rescue team training (Form 8923)	1 u	
v Agricultural chemicals security (Form 8931) (do not enter more than \$2 million in column (c) of Parts III with boxes A, B, E, or F checked, combined)	1 v	
w Employer differential wage payments (Form 8932)	1 w	
x Carbon dioxide sequestration (Form 8933)	1 x	
y Qualified plug-in electric drive motor vehicle (Form 8936)	1 y	
z Qualified plug-in electric vehicle (Form 8834, Part I only)	1 z	
aa New hire retention (Form 5884-B)	1 aa	
bb General credits from an electing large partnership (Schedule K-1 (Form 1065-B))	1 bb	
zz Other	1 zz	
2 Add lines 1a through 1zz and enter here	2	
3 Enter the amount from Form 8844	3	
4 a Investment (Form 3468, Part III) (attach Form 3468)	4 a	
b Work opportunity (Form 5884)	4 b	
c Alcohol and cellulosic biofuel fuels (Form 6478).	4 c	
d Low-income housing (Form 8586, Part II).	4 d	
e Renewable electricity, refined coal, and Indian coal production (Form 8835).	4 e	
f Employer social security and Medicare taxes paid on certain employee tips (Form 8846)	4 f	
g Qualified railroad track maintenance (Form 8900).	4 g	
h Small employer health insurance premiums (Form 8941)	4 h	5,079.
i Reserved for future use.	4 i	
j Reserved for future use.	4 j	
z Other	4 z	
5 Add lines 4a through 4z and enter here	5	5,079.
6 Add lines 2, 3, and 5	6	5,079.

Sales of Business Property
(Also Involuntary Conversions and Recapture Amounts
Under Sections 179 and 280F(b)(2))
▶ Attach to your tax return. ▶ See separate instructions.

Name(s) shown on return

Lakes Region Water Co., Inc.

Identifying number

02-0316484

1 Enter the gross proceeds from sales or exchanges reported to you for 2011 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions) 1

Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft – Most Property Held More Than 1 Year (see instructions)

2	(a) Description of property	(b) Date acquired (month, day, year)	(c) Date sold (month, day, year)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
	tanks	various	03/01/11	0	17164	24306	-7142
	tanks	07/01/04	03/01/11	0	1077	4144	-3067
	pumps	07/01/02	07/01/11	0	1092	1172	-80
	See Additional Part I, Line 2 Sales			0	16825	17198	-373

- 3 Gain, if any, from Form 4684, line 39 3
- 4 Section 1231 gain from installment sales from Form 6252, line 26 or 37 4
- 5 Section 1231 gain or (loss) from like-kind exchanges from Form 8824 5
- 6 Gain, if any, from line 32, from other than casualty or theft 6
- 7 Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows: 7 -10,662.

Partnerships (except electing large partnerships) and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.

Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.

- 8 Nonrecaptured net section 1231 losses from prior years (see instructions) 8
- 9 Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions) 9

Part II Ordinary Gains and Losses (see instructions)

10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):

- 11 Loss, if any, from line 7 11 -10,662.
- 12 Gain, if any, from line 7 or amount from line 8, if applicable 12
- 13 Gain, if any, from line 31 13
- 14 Net gain or (loss) from Form 4684, lines 31 and 38a 14
- 15 Ordinary gain from installment sales from Form 6252, line 25 or 36 15
- 16 Ordinary gain or (loss) from like-kind exchanges from Form 8824 16
- 17 Combine lines 10 through 16 17 -10,662.

18 For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:

a If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23. Identify as from 'Form 4797, line 18a.' See instructions 18a

b Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14 18b

Credit for Small Employer Health Insurance Premiums

Department of the Treasury
Internal Revenue Service

► Information about Form 8941 and its instructions is available at www.irs.gov/form8941.
► Attach to your tax return.

2011
Attachment
Sequence No. **63**

Name(s) shown on return

Identifying number

Lakes Region Water Co., Inc.

02-0316484

1	Enter the number of individuals you employed during the tax year who are considered employees for purposes of this credit (see instructions)	1	8
2	Enter the number of full-time equivalent employees you had for the tax year (see instructions). If you entered 25 or more, skip lines 3 through 11 and enter -0- on line 12	2	7
3	Average annual wages you paid for the tax year (see instructions). If you entered \$50,000 or more, skip lines 4 through 11 and enter -0- on line 12	3	41,000.
4	Premiums you paid during the tax year for employees included on line 1 for health insurance coverage under a qualifying arrangement (see instructions)	4	36,519.
5	Premiums you would have entered on line 4 if the total premium for each employee equaled the average premium for the small group market in which you offered health insurance coverage (see instructions)	5	36,124.
6	Enter the smaller of line 4 or line 5	6	36,124.
7	Multiply line 6 by the applicable percentage: • Tax-exempt small employers, multiply line 6 by 25% (.25) • All other small employers, multiply line 6 by 35% (.35)	7	12,643.
8	If line 2 is 10 or less, enter the amount from line 7. Otherwise, see instructions	8	12,643.
9	If line 3 is \$25,000 or less, enter the amount from line 8. Otherwise, see instructions	9	4,551.
10	Enter the total amount of any state premium subsidies paid and any state tax credits available to you for premiums included on line 4 (see instructions)	10	
11	Subtract line 10 from line 4. If zero or less, enter -0-	11	36,519.
12	Enter the smaller of line 9 or line 11	12	4,551.
13	If line 12 is zero, skip lines 13 and 14 and go to line 15. Otherwise, enter the number of employees included on line 1 for whom you paid premiums during the tax year for health insurance coverage under a qualifying arrangement (see instructions)	13	7
14	Enter the number of full-time equivalent employees you would have entered on line 2 if you only included employees included on line 13	14	6
15	Credit for small employer health insurance premiums from partnerships, S corporations, cooperatives, estates, and trusts (see instructions)	15	
16	Add lines 12 and 15. Cooperatives, estates, and trusts, go to line 17. Tax-exempt small employers, skip lines 17 and 18 and go to line 19. Partnerships and S corporations, stop here and report this amount on Schedule K. All others, stop here and report this amount on Form 3800, line 4h	16	4,551.
17	Amount allocated to patrons of the cooperative or beneficiaries of the estate or trust (see instructions)	17	
18	Cooperatives, estates, and trusts, subtract line 17 from line 16. Stop here and report this amount on Form 3800, line 4h	18	
19	Enter the amount you paid in 2011 for taxes considered payroll taxes for purposes of this credit (see instructions)	19	
20	Tax-exempt small employers, enter the smaller of line 16 or line 19 here and on Form 990-T, line 44f	20	

BAA For Paperwork Reduction Act Notice, see separate instructions.

Depreciation and Amortization (Including Information on Listed Property)

See separate instructions. Attach to your tax return.

Name(s) shown on return

Lakes Region Water Co., Inc.

Business or activity to which this form relates

Identifying number

02-0316484

Form 1120 Line 20

Part I Election To Expense Certain Property Under Section 179

Note: If you have any listed property, complete Part V before you complete Part I.

Table with 13 rows for Part I. Columns include line number, description, and amount. Total elected cost is 66,503. Section 179 expense deduction is 85,407.

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.

Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.) (See instructions.)

Table with 3 rows for Part II. Lines 14, 15, and 16. All amounts are zero.

Part III MACRS Depreciation (Do not include listed property.) (See instructions.)

Section A

Table with 2 rows for Section A. Line 17: MACRS deductions for assets placed in service in tax years beginning before 2011. Amount: 81,569.

Section B - Assets Placed in Service During 2011 Tax Year Using the General Depreciation System

Table with 7 columns: (a) Classification of property, (b) Month and year placed in service, (c) Basis for depreciation, (d) Recovery period, (e) Convention, (f) Method, (g) Depreciation deduction. Rows include 3-year, 5-year, 7-year, 10-year, 15-year, 20-year, 25-year, Residential rental, and Nonresidential real property.

Section C - Assets Placed in Service During 2011 Tax Year Using the Alternative Depreciation System

Table with 6 columns: (a) Class life, (b) Month and year placed in service, (c) Basis for depreciation, (d) Recovery period, (e) Convention, (f) Method, (g) Depreciation deduction. Rows include 12-year and 40-year.

Part IV Summary (See instructions.)

Table with 3 rows for Part IV. Line 21: Listed property. Line 22: Total. Line 23: For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs.

Part V Listed Property (Include automobiles, certain other vehicles, certain computers, and property used for entertainment, recreation, or amusement.)

Note: For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete only 24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

Section A – Depreciation and Other Information (Caution: See the instructions for limits for passenger automobiles.)

24 a Do you have evidence to support the business investment use claimed?										Yes		No		24 b If 'Yes,' is the evidence written?										Yes		No	
(a)	(b)	(c)	(d)	(e)		(f)	(g)	(h)	(i)																		
Type of property (list vehicles first)	Date placed in service	Business/ investment use percentage	Cost or other basis	Basis for depreciation (business/investment use only)		Recovery period	Method/ Convention	Depreciation deduction	Elected section 179 cost																		
25 Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use (see instructions)										25																	
26 Property used more than 50% in a qualified business use:																											
27 Property used 50% or less in a qualified business use:																											
28 Add amounts in column (h), lines 25 through 27. Enter here and on line 21, page 1										28																	
29 Add amounts in column (i), line 26. Enter here and on line 7, page 1										29																	

Section B – Information on Use of Vehicles

Complete this section for vehicles used by a sole proprietor, partner, or other 'more than 5% owner,' or related person. If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

	(a)		(b)		(c)		(d)		(e)		(f)	
	Vehicle 1	Vehicle 2	Vehicle 3	Vehicle 4	Vehicle 5	Vehicle 6						
30 Total business/investment miles driven during the year (do not include commuting miles)												
31 Total commuting miles driven during the year												
32 Total other personal (noncommuting) miles driven												
33 Total miles driven during the year. Add lines 30 through 32												
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
34 Was the vehicle available for personal use during off-duty hours?												
35 Was the vehicle used primarily by a more than 5% owner or related person?												
36 Is another vehicle available for personal use?												

Section C – Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who are not more than 5% owners or related persons (see instructions).

37 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?	Yes	No
38 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See the instructions for vehicles used by corporate officers, directors, or 1% or more owners.		
39 Do you treat all use of vehicles by employees as personal use?		
40 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received?		
41 Do you meet the requirements concerning qualified automobile demonstration use? (See instructions.)		

Note: If your answer to 37, 38, 39, 40, or 41 is 'Yes,' do not complete Section B for the covered vehicles.

Part VI Amortization

(a)	(b)	(c)	(d)	(e)	(f)
Description of costs	Date amortization begins	Amortizable amount	Code section	Amortization period or percentage	Amortization for this year
42 Amortization of costs that begins during your 2011 tax year (see instructions):					
43 Amortization of costs that began before your 2011 tax year					43
44 Total. Add amounts in column (f). See the instructions for where to report					44

Form 1120, Page 1, Line 26
Other Deductions Statement

Chemicals	1,336.
Contracted Services	4,802.
Equipment Lease	3,600.
Insurance	38,562.
Legal & Accounting	77,513.
Membership Fees	503.
Misc Field Expenses	2,369.
Office Expense	30,886.
Operating Permits	5,100.
Electrical	74,688.
Purchased Water	0.
Rate Case Expenses	17,657.
Regulatory Expenses	3,195.
Telephone	11,170.
Water Tests	19,840.
Vehicle Expenses	61,055.
Amortization of Contribution in Aid of Construction	-22,619.
Meals and entertainment (50%)	30.
Total	<u>329,687.</u>

Form 1120, Page 5, Schedule L, Line 6
Ln 6 Stmt

Other Current Assets:	Beginning of tax year	End of tax year
Deferred expense	31,322.	38,801.
Unamortized debt financing	7,316.	5,528.
Misc deferred costs	79,114.	188,587.
Total	<u>117,752.</u>	<u>232,916.</u>

Form 1120, Page 5, Schedule L, Line 18
Ln 18 Stmt

Other Current Liabilities:	Beginning of tax year	End of tax year
Accrued Expenses	16,706.	8,883.
Total	<u>16,706.</u>	<u>8,883.</u>

Form 1120, Page 5, Schedule L, Line 21
Ln 21 Stmt

Other Liabilities:	Beginning of tax year	End of tax year
Deferred income taxes	105,511.	105,511.
Contributions in Aid of Construction (net)	667,658.	650,747.

Form 1120, Page 5, Schedule L, Line 21
Ln 21 Stmt

Continued

Other Liabilities:	Beginning of tax year	End of tax year
Total	<u>773,169.</u>	<u>756,258.</u>

Form 1120, Page 5, Schedule L, Line 26
Ln 26 Stmt

Adjustments to Shareholders' Equity:	Beginning of tax year	End of tax year
Fees incurred to increase add'l pd in capital	-14,724.	-12,883.
Total	<u>-14,724.</u>	<u>-12,883.</u>

Form 1120, Page 4, Schedule M-1, Line 5
Ln 5 Stmt

Cr small employer health ins prems from Form 8941	<u>4,551.</u>
Amortization of capitalized loans expenses	<u>1,841.</u>
Total	<u>6,392.</u>

Form 1120, Page 4, Schedule M-1, Line 8
Ln 8 Stmt

Section 1231 loss	<u>10,662.</u>
Total	<u>10,662.</u>

Form 1120, Page 4, Schedule M-2, Line 3
Ln 3 Stmt

Miscellaneous Adjustments	<u>4,611.</u>
Total	<u>4,611.</u>

Form 4562, line 6
Additional Section 179 Property Statement

(a) Description of property	(b) Cost (bus use only)	(c) Elected cost
meters	4,731.	4,731.
trailer	5,750.	5,750.
pickup	34,068.	34,068.
shop equip	3,683.	3,683.
computer equip	7,731.	7,731.

Form 4562, line 6

Continued

Additional Section 179 Property Statement

(a) Description of property	(b) Cost (bus use only)	(c) Elected cost
Total		<u>55,963.</u>

Form 4797, Page 1, Line 2

Additional Part I, Line 2 Sales

mains	07/01/94	04/07/11	0	272	645	-373
various	various	12/31/11	0	16553	16553	0
Total			<u>0</u>	<u>16825</u>	<u>17198</u>	<u>-373</u>

Supporting Statement of:

Form 1120, p1-2/Line 1b

Description	Amount
Water Sales	1,072,882.
Disconnets / reconnects	8,805.
House transfers	1,157.
Payment pickup	225.
Meter maintenance	227.
Bad check charges	117.
Outside contractors	37,448.
rate case surcharge	17,656.
Total	<u>1,138,517.</u>

Supporting Statement of:

Two Year Comparison/Line 1a- PY column

Description	Amount
Sales to Outside Contractors	28,569.
Maintenance on Cust Property	4,667.
Meter Maintenance	211.
Disconnects	15,045.
Water Sales	928,546.
Total	<u>977,038.</u>