

**U.S. Income Tax Return for an S Corporation**

▶ Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.

**2010**

For calendar year 2010 or tax year beginning \_\_\_\_\_, and ending \_\_\_\_\_

|   |                      |  |  |
|---|----------------------|--|--|
| <b>A</b> S election effective date<br>05/22/1968                    | <b>TYPE OR PRINT</b> | Name<br><b>Evergreen Exchange, Inc.<br/>dba Lochaven Water</b>                               | <b>D</b> Employer identification number<br><b>91-0834240</b> |
| <b>B</b> Business activity code number (see instructions)<br>221300 |                      | Number, street, and room or suite no. If a P.O. box, see instructions.<br><b>PO Box 1663</b> | <b>E</b> Date incorporated<br><b>05/31/1967</b>              |
| <b>C</b> Check if Sch. M-3 attached <input type="checkbox"/>        |                      | City or town, state, and ZIP code<br><b>Renton, WA 98057</b>                                 | <b>F</b> Total assets (see instructions)<br>\$ <b>0</b>      |

**G** Is the corporation electing to be an S corporation beginning with this tax year?  Yes  No If "Yes," attach Form 2553 if not already filed

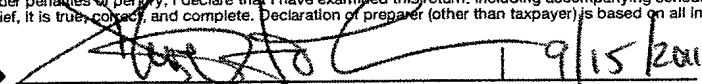
**H** Check if: (1)  Final return (2)  Name change (3)  Address change (4)  Amended return (5)  S election termination or revocation

**I** Enter the number of shareholders who were shareholders during any part of the tax year \_\_\_\_\_ ▶

**Caution: Include only trade or business income and expenses on lines 1a through 21. See the instructions for more information.**

|   |  |                                      |                |            |               |                |
|---|--|--------------------------------------|----------------|------------|---------------|----------------|
| <b>Income</b>   | <b>1 a</b> Gross receipts or sales <b>28,805</b>   | <b>b</b> Less returns and allowances | <b>c</b> Bal ▶ | <b>1c</b>  | <b>28,805</b> |                |
|   | <b>2</b> Cost of goods sold (Schedule A, line 8)   |                                      |                | <b>2</b>   |               |                |
|   | <b>3</b> Gross profit. Subtract line 2 from line 1c  |                                      |                | <b>3</b>   | <b>28,805</b> |                |
|   | <b>4</b> Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)               |                                      |                | <b>4</b>   |               |                |
|   | <b>5</b> Other income (loss) (attach statement)  |                                      |                | <b>5</b>   |               |                |
|   | <b>6</b> Total income (loss). Add lines 3 through 5  |                                      |                | ▶          | <b>6</b>      | <b>28,805</b>  |
| <b>Deductions (See instructions for limitations)</b>  | <b>7</b> Compensation of officers  |                                      |                | <b>7</b>   |               |                |
|   | <b>8</b> Salaries and wages (less employment credits)                                      |                                      |                | <b>8</b>   |               |                |
|   | <b>9</b> Repairs and maintenance   |                                      |                | <b>9</b>   | <b>11,443</b> |                |
|   | <b>10</b> Bad debts  |                                      |                | <b>10</b>  |               |                |
|   | <b>11</b> Rents  |                                      |                | <b>11</b>  |               |                |
|   | <b>12</b> Taxes and licenses <b>Statement 1</b>  |                                      |                | <b>12</b>  | <b>105</b>    |                |
|   | <b>13</b> Interest   |                                      |                | <b>13</b>  | <b>500</b>    |                |
|   | <b>14</b> Depreciation not claimed on Schedule A or elsewhere on return (attach Form 4562) |                                      |                | <b>14</b>  |               |                |
|   | <b>15</b> Depletion (Do not deduct oil and gas depletion.)                                 |                                      |                | <b>15</b>  |               |                |
|   | <b>16</b> Advertising  |                                      |                | <b>16</b>  |               |                |
|   | <b>17</b> Pension, profit-sharing, etc., plans   |                                      |                | <b>17</b>  |               |                |
|   | <b>18</b> Employee benefit programs  |                                      |                | <b>18</b>  |               |                |
|   | <b>19</b> Other deductions (attach statement) <b>Statement 2</b>                           |                                      |                | <b>19</b>  | <b>66,255</b> |                |
|   | <b>20</b> Total deductions. Add lines 7 through 19   |                                      |                | ▶          | <b>20</b>     | <b>78,303</b>  |
|   | <b>21</b> Ordinary business income (loss). Subtract line 20 from line 6                    |                                      |                |            | <b>21</b>     | <b>-49,498</b> |
| <b>Tax and Payments</b>   | <b>22 a</b> Excess net passive income or LIFO recapture tax (see instructions)             | <b>22a</b>                           |                | <b>22c</b> |               |                |
|   | <b>b</b> Tax from Schedule D (Form 1120S)  | <b>22b</b>                           |                |            |               |                |
|   | <b>c</b> Add lines 22a and 22b   |                                      |                |            |               |                |
|   | <b>23 a</b> 2010 estimated tax payments and 2009 overpayment credited to 2010              | <b>23a</b>                           |                | <b>23d</b> |               |                |
|   | <b>b</b> Tax deposited with Form 7004  | <b>23b</b>                           |                |            |               |                |
|   | <b>c</b> Credit for federal tax paid on fuels (attach Form 4136)                           | <b>23c</b>                           |                |            |               |                |
|   | <b>d</b> Add lines 23a through 23c   |                                      |                |            | <b>23d</b>    |                |
| <b>24</b> Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/> |  |                                      |                | <b>24</b>  |               |                |
| <b>25</b> Amount owed. If line 23d is smaller than the total of lines 22c and 24, enter amount owed         |  |                                      |                | <b>25</b>  |               |                |
| <b>26</b> Overpayment. If line 23d is larger than the total of lines 22c and 24, enter amount overpaid      |  |                                      |                | <b>26</b>  |               |                |
| <b>27</b> Enter amount from line 26 <b>Credited to 2011 estimated tax</b> ▶ <b>Refunded</b> ▶               |  |                                      |                | <b>27</b>  |               |                |

**Sign Here** ▶ 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.

Signature of officer:  Date: **9/15/2011** Title: **President**

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

|                               |  |   |                         |   |                          |
|-------------------------------|--|---|-------------------------|---|--------------------------|
| <b>Paid Preparer Use Only</b> | Print/Type preparer's name<br><b>Kirk Merrill</b>                          | Preparer's signature<br><b>Kirk Merrill</b> | Date<br><b>09/15/11</b> | Check if self-employed <input type="checkbox"/> | PTIN<br><b>P00182674</b> |
|                               | Firm's name ▶ <b>Merrill Carlson &amp; Co., PLLC</b>                       | Firm's EIN ▶ <b>91-2076836</b>              |                         |   |                          |
|                               | Firm's address ▶ <b>15 South Grady Way, Suite 433<br/>Renton, WA 98057</b> | Phone no. <b>(425)255-5945</b>              |                         |   |                          |

| <b>Schedule A Cost of Goods Sold</b> (see instructions)                             |   |
|---|---|
| 1 Inventory at beginning of year  | 1 |
| 2 Purchases   | 2 |
| 3 Cost of labor   | 3 |
| 4 Additional section 263A costs (attach statement)                                  | 4 |
| 5 Other costs (attach statement)  | 5 |
| 6 Total. Add lines 1 through 5  | 6 |
| 7 Inventory at end of year  | 7 |
| 8 Cost of goods sold. Subtract line 7 from line 6. Enter here and on page 1, line 2 | 8 |

9a Check all methods used for valuing closing inventory: (i)  Cost as described in Regulations section 1.471-3  
(ii)  Lower of cost or market as described in Regulations section 1.471-4  
(iii)  Other (Specify method used and attach explanation) ▶

b Check if there was a writedown of subnormal goods as described in Regulations section 1.471-2(c) ▶

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 percentage (or amounts) 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?  Yes  No  
If "Yes," attach explanation.

| <b>Schedule B Other Information</b> (see instructions)   |                          | Yes | No |
|--|--------------------------|-----|----|
| 1 Check accounting method: (a) <input checked="" type="checkbox"/> Cash (b) <input type="checkbox"/> Accrual (c) <input type="checkbox"/> Other (specify) ▶  |                          |     |    |
| 2 See the instructions and enter the:<br>(a) Business activity ▶ <u>Water Company</u> (b) Product or service ▶ <u>Water</u>  |                          |     |    |
| 3 At the end of the tax year, did the corporation own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).) If "Yes," attach a statement showing: (a) name and employer identification number (EIN), (b) percentage owned, and (c) if 100% owned, was a qualified subchapter S subsidiary election made? .....   |                          |     | X  |
| 4 Has this corporation filed, or is it required to file, Form 9918, Material Advisor Disclosure Statement, provide information on any reportable transaction? .....  |                          |     | X  |
| 5 Check this box if the corporation issued publicly offered debt instruments with original issue discount .....  | <input type="checkbox"/> |     |    |
| If checked, the corporation may have to file Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments.   |                          |     |    |
| 6 If the corporation: (a) was a C corporation before it elected to be an S corporation or the corporation acquired an asset with a basis determined by reference to its basis of the asset (or the basis of any other property) in the hands of a C corporation and (b) has net unrealized built-in gain in excess of the net recognized built-in gain from prior years, enter the net unrealized built-in gain reduced by net recognized built-in gain from prior years ..... | \$                       |     |    |
| 7 Enter the accumulated earnings and profits of the corporation at the end of the tax year .....   | \$                       |     |    |
| 8 Are the corporation's total receipts (see instructions) for the tax year and its total assets at the end of the tax year less than \$250,000? If "Yes," the corporation is not required to complete Schedules L and M-1 .....  |                          | X   |    |
| 9 During the tax year, was a qualified subchapter S subsidiary election terminated or revoked? If "Yes," see instructions .....  |                          |     | X  |

| <b>Schedule K Shareholders' Pro Rata Share Items</b>                  |    | Total amount |         |
|---|----|--------------|---------|
| 1 Ordinary business income (loss) (page 1, line 21)                   | 1  |              | -49,498 |
| 2 Net rental real estate income (loss) (attach Form 8825)             | 2  |              |         |
| 3a Other gross rental income (loss)                                   | 3a |              |         |
| b Expenses from other rental activities (attach statement)            | 3b |              |         |
| c Other net rental income (loss). Subtract line 3b from line 3a       | 3c |              |         |
| 4 Interest income   | 4  |              |         |
| 5 Dividends: a Ordinary dividends                                     | 5a |              |         |
| b Qualified dividends   | 5b |              |         |
| 6 Royalties   | 6  |              |         |
| 7 Net short-term capital gain (loss) (attach Schedule D (Form 1120S)) | 7  |              |         |
| 8a Net long-term capital gain (loss) (attach Schedule D (Form 1120S)) | 8a |              |         |
| b Collectibles (28%) gain (loss)                                      | 8b |              |         |
| c Unrecaptured section 1250 gain (attach statement)                   | 8c | 50,000.      |         |
| 9 Net section 1231 gain (loss) (attach Form 4797)                     | 9  | Statement 3  | 50,000  |
| 10 Other income (loss) (see instructions) Type ▶                      | 10 |              |         |

|                                     |   | Shareholders' Pro Rata Share Items (continued)  | Total amount                             |        |
|-------------------------------------|---|---|--|--------|
| Deductions                          | 11  | Section 179 deduction (attach Form 4562)  | 11                                       |        |
|                                     | 12 a  | Contributions   | 12a                                      |        |
|                                     |   | b   | Investment interest expense              | 12b    |
|                                     |   | c   | Section 59(e)(2) expenditures (1) Type ▶ | 12c(2) |
|                                     | (2) Amount ▶  |   |  |        |
|                                     | d   | Other deductions (see instructions) Type ▶  | 12d                                      |        |
| Credits                             | 13 a  | Low-income housing credit (section 42(j)(5))  | 13a                                      |        |
|                                     |   | b Low-income housing credit (other)   | 13b                                      |        |
|                                     |   | c Qualified rehabilitation expenditures (rental real estate) (attach Form 3468)   | 13c                                      |        |
|                                     |   | d Other rental real estate credits (see instructions) Type ▶  | 13d                                      |        |
|                                     |   | e Other rental credits (see instructions) Type ▶  | 13e                                      |        |
|                                     |   | f Alcohol and cellulosic biofuel fuels credit (attach Form 6478)  | 13f                                      |        |
|                                     |   | g Other credits (see instructions) Type ▶   | 13g                                      |        |
| Foreign Transactions                | 14 a  | Name of country or U.S. possession ▶  |  |        |
|                                     |   | b Gross income from all sources   | 14b                                      |        |
|                                     |   | c Gross income sourced at shareholder level   | 14c                                      |        |
|                                     |   | Foreign gross income sourced at corporate level   |  |        |
|                                     |   | d Passive category  | 14d                                      |        |
|                                     |   | e General category  | 14e                                      |        |
|                                     |   | f Other (attach statement)  | 14f                                      |        |
|                                     |   | Deductions allocated and apportioned at shareholder level   |  |        |
|                                     |   | g Interest expense  | 14g                                      |        |
|                                     |   | h Other   | 14h                                      |        |
|                                     |   | Deductions allocated and apportioned at corporate level to foreign source income  |  |        |
|                                     |   | i Passive category  | 14i                                      |        |
|                                     |   | j General category  | 14j                                      |        |
|                                     |   | k Other (attach statement)  | 14k                                      |        |
|                                     | Other information   |   |  |        |
|                                     | l Total foreign taxes (check one): <input type="checkbox"/> Paid <input type="checkbox"/> Accrued | 14l   |  |        |
|                                     | m Reduction in taxes available for credit (attach statement)                                      | 14m   |  |        |
|                                     | n Other foreign tax information (attach statement)  |   |  |        |
| Alternative Minimum Tax (AMT) Items | 15 a  | Post-1986 depreciation adjustment   | 15a                                      |        |
|                                     |   | b Adjusted gain or loss   | 15b                                      |        |
|                                     |   | c Depletion (other than oil and gas)  | 15c                                      |        |
|                                     |   | d Oil, gas, and geothermal properties - gross income  | 15d                                      |        |
|                                     |   | e Oil, gas, and geothermal properties - deductions  | 15e                                      |        |
|                                     |   | f Other AMT items (attach statement)  | 15f                                      |        |
| Items Affecting Shareholder Basis   | 16 a  | Tax-exempt interest income  | 16a                                      |        |
|                                     |   | b Other tax-exempt income   | 16b                                      |        |
|                                     |   | c Nondeductible expenses  | 16c                                      |        |
|                                     |   | d Distributions (attach statement if required)  | 16d                                      |        |
|                                     |   | e Repayment of loans from shareholders  | 16e                                      |        |
| Other Information                   | 17 a  | Investment income   | 17a                                      |        |
|                                     |   | b Investment expenses   | 17b                                      |        |
|                                     |   | c Dividend distributions paid from accumulated earnings and profits   | 17c                                      |        |
|                                     |   | d Other items and amounts (attach statement)  |  |        |
| Reconciliation                      | 18  | Income/loss reconciliation. Combine the amounts on lines 1 through 10 in the far right column. From the result, subtract the sum of the amounts on lines 11 through 12d and 14l | 18                                       |        |

Statement 4

534

502

| Schedule L                                  | Balance Sheets per Books                            | Beginning of tax year |     | End of tax year |     |
|---|---|-----------------------|-----|-----------------|-----|
|   |   | (a)                   | (b) | (c)             | (d) |
| <b>Assets</b>                               |   |                       |     |                 |     |
| 1   | Cash  |                       | 32. |                 | 0   |
| 2 a   | Trade notes and accounts receivable                 |                       |     |                 |     |
| b   | Less allowance for bad debts                        |                       |     |                 |     |
| 3   | Inventories   |                       |     |                 |     |
| 4   | U.S. government obligations                         |                       |     |                 |     |
| 5   | Tax-exempt securities                               |                       |     |                 |     |
| 6   | Other current assets (att. stmt.)                   |                       |     |                 |     |
| 7   | Loans to shareholders                               |                       |     |                 |     |
| 8   | Mortgage and real estate loans                      |                       |     |                 |     |
| 9   | Other investments (att. stmt.)                      |                       |     |                 |     |
| 10 a  | Buildings and other depreciable assets              | 90,000.               |     | 0.              |     |
| b   | Less accumulated depreciation                       | 90,000.               | 0.  | 0.              | 0   |
| 11 a  | Depletable assets                                   |                       |     |                 |     |
| b   | Less accumulated depletion                          |                       |     |                 |     |
| 12  | Land (net of any amortization)                      |                       |     |                 |     |
| 13 a  | Intangible assets (amortizable only)                |                       |     |                 |     |
| b   | Less accumulated amortization                       |                       |     |                 |     |
| 14  | Other assets (att. stmt.)                           |                       |     |                 |     |
| 15  | <b>Total assets</b>                                 |                       | 32. |                 | 0   |
| <b>Liabilities and Shareholders' Equity</b> |   |                       |     |                 |     |
| 16  | Accounts payable                                    |                       |     |                 |     |
| 17  | Mortgages, notes, bonds payable in less than 1 year |                       |     |                 |     |
| 18  | Other current liabilities (att. stmt.)              |                       |     |                 |     |
| 19  | Loans from shareholders                             |                       |     |                 |     |
| 20  | Mortgages, notes, bonds payable in 1 year or more   |                       |     |                 |     |
| 21  | Other liabilities (att. stmt.)                      |                       |     |                 |     |
| 22  | Capital stock                                       |                       |     |                 |     |
| 23  | Additional paid-in capital                          |                       |     |                 |     |
| 24  | Retained earnings                                   | Statement 8           | 32. |                 |     |
| 25  | Adjustments to shareholders' equity (att. stmt.)    |                       |     |                 |     |
| 26  | Less cost of treasury stock                         |                       | ( ) |                 | ( ) |
| 27  | <b>Total liabilities and shareholders' equity</b>   |                       | 32. |                 | 0   |

| Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) 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   | - 32. | 5 | Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize):                        |
| 2   | Income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize): |       | a | Tax-exempt interest \$  |
| 3   | Expenses recorded on books this year not included on Schedule K, lines 1 through 12 and 14l (itemize):                |       | 6 | Deductions included on Schedule K, lines 1 through 12 and 14l, not charged against book income this year (itemize): |
| a   | Depreciation \$   |       | a | Depreciation \$   |
| b   | Travel and entertainment \$   |       | 7 | Add lines 5 and 6   |
| Stmt 7  | 534.  | 534.  | 8 | Income (loss) (Schedule K, line 18). Line 4 less line 7   |
| 4   | Add lines 1 through 3   | 502.  |   | 502   |

| Schedule M-2 Analysis of Accumulated Adjustments Account, Other Adjustments Account, and Shareholders' Undistributed Taxable Income Previously Taxed (see instructions) |   |                               |   |
|---|---|-------------------------------|---|
|   | (a) Accumulated adjustments account                     | (b) Other adjustments account | (c) Shareholders' undistributed taxable income previously taxed |
| 1   | Balance at beginning of tax year                        | 32.                           |   |
| 2   | Ordinary income from page 1, line 21                    |                               |   |
| 3   | Other additions Statement 5                             | 50,000.                       |   |
| 4   | Loss from page 1, line 21                               | ( 49,498.)                    |   |
| 5   | Other reductions Statement 6                            | ( 534.)                       |   |
| 6   | Combine lines 1 through 5                               |                               |   |
| 7   | Distributions other than dividend distributions         |                               |   |
| 8   | Balance at end of tax year. Subtract line 7 from line 6 | 0.                            |   |

# Sales of Business Property

(Also Involuntary Conversions and Recapture Amounts  
Under Sections 179 and 280F(b)(2))

▶ Attach to your tax return.

Name(s) shown on return  
**Evergreen Exchange, Inc.  
dba Lochaven Water**

Identifying number  
**91-0834240**

**1** Enter the gross proceeds from sales or exchanges reported to you for 2010 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**

| (a) Description of property | (b) Date acquired (mo., day, yr.) | (c) Date sold (mo., day, yr.) | (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) |
|-----------------------------|-----------------------------------|-------------------------------|-----------------------|---|--|---|
| <b>2</b>                    |                                   |                               |                       |   |  |   |
|                             |                                   |                               |                       |   |  |   |
|                             |                                   |                               |                       |   |  |   |

**3** Gain, if any, from Form 4684, line 42 **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 50,000**

**7** Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows: **7 50,000**

**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**

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

| (a) Description of property | (b) Date acquired (mo., day, yr.) | (c) Date sold (mo., day, yr.) | (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) |
|-----------------------------|-----------------------------------|-------------------------------|-----------------------|---|--|---|
|                             |                                   |                               |                       |   |  |   |
|                             |                                   |                               |                       |   |  |   |
|                             |                                   |                               |                       |   |  |   |

**11** Loss, if any, from line 7 **11**

**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 34 and 41a **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**

**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 38, 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**

**Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255**

|   |                                   |                               |
|---|-----------------------------------|-------------------------------|
| 19 (a) Description of section 1245, 1250, 1252, 1254, or 1255 property: | (b) Date acquired (mo., day, yr.) | (c) Date sold (mo., day, yr.) |
| <b>A Water Treatment Facility Assets</b>                                | <b>Varies</b>                     | <b>06301</b>                  |
| <b>B</b>  |                                   |                               |
| <b>C</b>  |                                   |                               |
| <b>D</b>  |                                   |                               |

| These columns relate to the properties on lines 19A through 19D.  |  | Property A | Property B | Property C | Property D |
|---|--|------------|------------|------------|------------|
| 20  | Gross sales price (Note: See line 1 before completing.)  | 50,000.    |            |            |            |
| 21  | Cost or other basis plus expense of sale   | 90,000.    |            |            |            |
| 22  | Depreciation (or depletion) allowed or allowable   | 90,000.    |            |            |            |
| 23  | Adjusted basis. Subtract line 22 from line 21  | 0.         |            |            |            |
| 24  | Total gain. Subtract line 23 from line 20  | 50,000.    |            |            |            |
| <b>25 If section 1245 property:</b>   |  |            |            |            |            |
| 25a   | Depreciation allowed or allowable from line 22   |            |            |            |            |
| 25b   | Enter the smaller of line 24 or 25a  |            |            |            |            |
| <b>26 If section 1250 property:</b> If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.                                       |  |            |            |            |            |
| 26a   | Additional depreciation after 1975   |            |            |            |            |
| 26b   | Applicable percentage multiplied by the smaller of line 24 or line 26a   |            |            |            |            |
| 26c   | Subtract line 26a from line 24. If residential rental property or line 24 is not more than line 26a, skip lines 26d and 26e                          |            |            |            |            |
| 26d   | Additional depreciation after 1969 and before 1976   |            |            |            |            |
| 26e   | Enter the smaller of line 26c or 26d   |            |            |            |            |
| 26f   | Section 291 amount (corporations only)   |            |            |            |            |
| 26g   | Add lines 26b, 26e, and 26f  | 0.         |            |            |            |
| <b>27 If section 1252 property:</b> Skip this section if you did not dispose of farmland or if this form is being completed for a partnership (other than an electing large partnership). |  |            |            |            |            |
| 27a   | Soil, water, and land clearing expenses  |            |            |            |            |
| 27b   | Line 27a multiplied by applicable percentage   |            |            |            |            |
| 27c   | Enter the smaller of line 24 or 27b  |            |            |            |            |
| <b>28 If section 1254 property:</b>   |  |            |            |            |            |
| 28a   | Intangible drilling and development costs, expenditures for development of mines and other natural deposits, mining exploration costs, and depletion |            |            |            |            |
| 28b   | Enter the smaller of line 24 or 28a  |            |            |            |            |
| <b>29 If section 1255 property:</b>   |  |            |            |            |            |
| 29a   | Applicable percentage of payments excluded from income under section 126   |            |            |            |            |
| 29b   | Enter the smaller of line 24 or 29a  |            |            |            |            |

**Summary of Part III Gains.** Complete property columns A through D through line 29b before going to line 30.

|    |   |    |        |
|----|---|----|--------|
| 30 | Total gains for all properties. Add property columns A through D, line 24   | 30 | 50,000 |
| 31 | Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13  | 31 |        |
| 32 | Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 37. Enter the portion from other than casualty or theft on Form 4797, line 6 | 32 | 50,000 |

**Part IV Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less**  
(see instructions.)

|    | (a) Section 179   | (b) Section 280F(b)(2) |
|----|---|------------------------|
| 33 | Section 179 expense deduction or depreciation allowable in prior years                    |                        |
| 34 | Recomputed depreciation (see instructions)  |                        |
| 35 | Recapture amount. Subtract line 34 from line 33. See the instructions for where to report |                        |

| Form 1120S                           | Taxes and Licenses | Statement     |
|--------------------------------------|--------------------|---------------|
| <u>Description</u>                   |                    | <u>Amount</u> |
|                                      | Taxes and Licenses |               |
|                                      | Taxes and Licenses | 105           |
| Total to Form 1120S, Page 1, Line 12 |                    | 105           |

| Form 1120S                           | Other Deductions    | Statement     |
|--------------------------------------|---------------------|---------------|
| <u>Description</u>                   |                     | <u>Amount</u> |
|                                      | Auto Expense        | 2,018         |
|                                      | Bank Charges        | 28            |
|                                      | Insurance           | -1,968        |
|                                      | Management Fees     | 58,157        |
|                                      | Miscellaneous       | 242           |
|                                      | Office Supplies     | 25            |
|                                      | Postage and Freight | 192           |
|                                      | Professional Fees   | 5,057         |
|                                      | Telephone           | 1,380         |
|                                      | Utilities           | 1,124         |
| Total to Form 1120S, Page 1, Line 19 |                     | 66,255        |

| Schedule K                  | Net Section 1231 Gain (Loss)                    | Statement     |
|-----------------------------|---|---------------|
| <u>Description</u>          |   | <u>Amount</u> |
|                             | Section 1231 Gain (Loss) from Trade or Business | 50,000        |
| Total to Schedule K, Line 9 |   | 50,000        |