

Cost Segregation

*Accelerated Depreciation of Commercial Property to Maximize Cash Flow.
This is Your Money!*

As a commercial property owner, how would you like to receive cash flow from tax savings of 7%-10% of your building cost within the first five years of ownership? That's \$70K-\$100K for each \$1M in building costs! Cost Segregation is the answer.

Cost Segregation

Cost Segregation is an IRS-approved application by which commercial property owners can accelerate depreciation and reduce the amount of taxes owed. This savings generates cash flow that owners often use to reinvest in the business, purchase more property, apply to their principle payment or spend on themselves.

It's simple, legal and recommended in the August, 2004 issue of the Journal of Accountancy for CPA's. The article stated, "A taxpayer can substantially increase cash flow by segregating property costs."*

Actual Cost Savings Generated By Cost Segregation Engineering Studies

Facility Type	Total Property Cost	First Year Cash Flow Tax Savings	Five Year Cash Flow Tax Savings
Office Condo	\$0.48 Million	\$12,783	\$31,229
Leasehold Improvements	\$1.40 Million	\$53,751	\$131,569
Restaurant	\$2.68 Million	\$71,374	\$173,503
Warehouse	\$6.37 Million	\$108,488	\$248,559
Medical Facility	\$8.90 Million	\$151,576	\$347,281
Apartments	\$15.1 Million	\$236,763	\$570,288
Retail Strip Center	\$22.3 Million	\$379,793	\$848,160

** The August 2004 issue of the Journal of Accountancy published by the AICPA included cost segregation studies in the section entitled "Tax Strategies CPAs Can Use to Help Client Save Money." The article states that cost segregation is becoming an increasingly popular tax-planning technique and that owners of commercial real estate should obtain engineering report that segregates assets into proper categories*

How Does Cost Segregation Work?

Cost Segregation Services, Inc. (CSSI), an experienced and qualified engineering company, performs the cost segregation study on your property. The study accelerates the depreciation of your building/renovation components into faster depreciation categories such as 5-, 7- and 15-year rather than conventional 27.5- and 39.5-year schedules. Five- and 7-year items might include decorative building elements, electrical for dedicated computer equipment, and carpet. Fifteen-year items might include site utilities, landscaping and paving.

This engineered cost segregation study results in much higher depreciation expense and significantly reduced taxable income for the property owner. Best of all, the IRS ruling states cost segregation can be applied to all categories of buildings purchased or built since 1986, including renovations, and there is no need to amend your tax returns. This provides for the results to be easily applied to your tax return.

See the other side of this document for more information about why CSSI is the nation's leader in engineered cost segregation studies.

For years, CSSI has been delivering quality, affordable, engineer-based cost segregation studies to a wide range of individuals and businesses. Our team of experts can help easily apply the results to your current financials with your CPA or financial professional to assure successful results. In addition, our national coverage and expertise allows us to work with customers and properties across the United States.

The CSSI Difference

Focused

We are engineers singularly focused on cost segregation. Our goal is to support your CPA or tax advisor with the most accurate cost segregation study results so you can realize maximum savings and increased cash flow.

Affordable

We provide a method that is affordable for your commercial property application.

Compliant

Our engineering background allows us to provide not only the best possible results, but also strictly adheres to all IRS guidelines and recommendations. In addition, we constantly monitor changes to stay up to date on the most current IRS cost segregation rules and regulations.

Independent

CSSI is classified as an independent engineering specialist meeting the exact specifications stated by the IRS in regard to commercial property owners performing cost segregation applications.

How to Get Started

Follow the IRS recommendation for application: Get an Engineered Cost Segregation Study.

It's easy:

1. Call your CSSI representative to request a no-cost preliminary property analysis to illustrate your potential savings.
2. Engage CSSI to begin your cost segregation study. The process is usually completed in four to six weeks, after which we provide the CSSI Study to you and your CPA.
3. The CPA will apply the results to your tax return and you will realize your tax savings dollars. This is your money!





Medical Office

Estimated Savings Overview

We are pleased to provide this Cost Segregation Study Property Analysis for Medical Office. The following chart outlines the benchmark estimate for the expected results. We look forward to visiting with you to review these favorable economic results.

Building Cost	\$ 1,975,863		
Date Acquired	June 2010		
Tax Year:	2010	2011	2014
Current Method			
Accumulated Depreciation Reported 39 year straight line method	\$ 27,484	\$ 78,145	\$ 230,129
Alternative Method			
Cost Segregation Study Accumulated Depreciation			
5 yr.	\$ 67,179	\$ 174,666	\$ 316,549
15 yr.	\$ 6,916	\$ 20,055	\$ 52,103
39 yr.	\$ 20,888	\$ 59,390	\$ 174,898
Total	\$ 94,983	\$ 254,112	\$ 543,550
Results for Tax Year:	2010	2011	2014
Increased Accumulated Depreciation Expense	\$ 67,499	\$ 175,966	\$ 313,421
Tax Rate (Estimated)	36.0%	36.0%	36.0%
Estimated Accumulated Tax Savings Benefit	\$ 24,300	\$ 63,348	\$ 112,832

These results represent a benchmark of the expected results. The accumulated tax reduction benefit estimated for tax year 2010 is \$24,300, and the accumulated tax reduction benefit estimated for tax year 2011 is \$ 63,348. The tax reduction benefit accumulates to an estimated \$ 112,832 in tax year 2014.



Cost Segregation Application Analysis

Medical Office

Property Class	With Analysis		Without Analysis	
	Percentage Assumed	Depreciable Basis	Percentage Assumed	Depreciable Basis
5 Year Property	17.0%	335,897	0.0%	0
7 Year Property	0.0%	0	0.0%	0
15 Year Property	7.0%	138,310	0.0%	0
39 Year Property	76.0%	1,501,656	100.0%	1,975,863
Total Value of Building	100.0%	\$ 1,975,863	100.0%	\$ 1,975,863

Building Cost : \$ 1,975,863
Property Acquisition Date : June 2010
Years of Ownership (X=) : 40
Last Tax Year of Ownership : 2049
Present Value Rate of Return : 8.000%

Tax Year Cost Segregation Applied : 2010
Estimated Study Fees : \$ 7,975
Estimated Tax Rate : 36.0%
Estimated After-Tax Study Fees : \$ 5,104

Tax Year of Ownership	5 Year Depreciation With Analysis	7 Year Depreciation With Analysis	15 Year Depreciation With Analysis	39 Year Depreciation With Analysis	Total Depreciation With Analysis	39 Year Depreciation W/O Analysis	Total Depreciation W/O Analysis	Timing Difference	Tax Effect of Timing Difference / Amount Available to Invest After Fees	Cumulative Present Value of Tax Effect	Cumulative Future Value When Cost Segregation Applied After "X" Years
2010	67,179	0	6,916	20,888	94,983	27,484	27,484	67,499	19,196	19,196	386,123
2011	107,487	0	13,139	38,502	159,129	50,661	50,661	108,468	55,351	55,351	1,113,411
2012	64,492	0	11,826	38,502	114,820	50,661	50,661	64,159	23,097	75,154	1,511,737
2013	38,695	0	10,643	38,502	87,841	50,661	50,661	37,180	13,385	85,779	1,725,466
2014	38,695	0	9,579	38,502	86,777	50,661	50,661	36,116	13,002	95,335	1,917,701
2015	19,348	0	8,621	38,502	66,471	50,661	50,661	15,810	5,692	99,209	1,995,619
2016		0	8,167	38,502	46,670	50,661	50,661	(3,991)	(1,437)	98,304	1,977,405
2017		0	8,167	38,502	46,670	50,661	50,661	(3,991)	(1,437)	97,465	1,960,540
2018			8,167	38,502	46,670	50,661	50,661	(3,991)	(1,437)	96,689	1,944,924
2019			8,167	38,502	46,670	50,661	50,661	(3,991)	(1,437)	95,970	1,930,465
2020			8,167	38,502	46,670	50,661	50,661	(3,991)	(1,437)	95,304	1,917,076
2021			8,167	38,502	46,670	50,661	50,661	(3,991)	(1,437)	94,688	1,904,680
2022			8,167	38,502	46,670	50,661	50,661	(3,991)	(1,437)	94,118	1,893,202
2023			8,167	38,502	46,670	50,661	50,661	(3,991)	(1,437)	93,589	1,882,574
2024			8,167	38,502	46,670	50,661	50,661	(3,991)	(1,437)	93,100	1,872,733
2025			4,082	38,502	42,584	50,661	50,661	(8,077)	(2,908)	92,183	1,854,294
2026				38,502	38,502	50,661	50,661	(12,159)	(4,377)	90,906	1,828,594
2027				38,502	38,502	50,661	50,661	(12,159)	(4,377)	89,723	1,804,798
2028				38,502	38,502	50,661	50,661	(12,159)	(4,377)	88,627	1,782,764
2029				38,502	38,502	50,661	50,661	(12,159)	(4,377)	87,613	1,762,363
2030				38,502	38,502	50,661	50,661	(12,159)	(4,377)	86,674	1,743,472
2031				38,502	38,502	50,661	50,661	(12,159)	(4,377)	85,804	1,725,981
2032				38,502	38,502	50,661	50,661	(12,159)	(4,377)	84,999	1,709,786
2033				38,502	38,502	50,661	50,661	(12,159)	(4,377)	84,254	1,694,790
2034				38,502	38,502	50,661	50,661	(12,159)	(4,377)	83,564	1,680,905
2035				38,502	38,502	50,661	50,661	(12,159)	(4,377)	82,924	1,668,049
2036				38,502	38,502	50,661	50,661	(12,159)	(4,377)	82,333	1,656,144
2037				38,502	38,502	50,661	50,661	(12,159)	(4,377)	81,785	1,645,122
2038				38,502	38,502	50,661	50,661	(12,159)	(4,377)	81,277	1,634,916
2039				38,502	38,502	50,661	50,661	(12,159)	(4,377)	80,807	1,625,466
2040				38,502	38,502	50,661	50,661	(12,159)	(4,377)	80,372	1,616,716
2041				38,502	38,502	50,661	50,661	(12,159)	(4,377)	79,970	1,608,615
2042				38,502	38,502	50,661	50,661	(12,159)	(4,377)	79,597	1,601,113
2043				38,502	38,502	50,661	50,661	(12,159)	(4,377)	79,251	1,594,167
2044				38,502	38,502	50,661	50,661	(12,159)	(4,377)	78,932	1,587,736
2045				38,502	38,502	50,661	50,661	(12,159)	(4,377)	78,636	1,581,781
2046				38,502	38,502	50,661	50,661	(12,159)	(4,377)	78,362	1,576,267
2047				38,502	38,502	50,661	50,661	(12,159)	(4,377)	78,108	1,571,161
2048				38,502	38,502	50,661	50,661	(12,159)	(4,377)	77,873	1,566,434
2049				17,674	17,674	23,256	23,256	(5,581)	(2,009)	77,773	1,564,425
Total	\$ 335,897	\$ 0	\$ 138,310	\$ 1,501,656	\$ 1,975,863	\$ 1,975,863	\$ 1,975,863				

Eric Christenson
1-866-277-9121

Benefit Analysis at End of Ownership	
Cumulative Net Present Value of Benefit	\$ 77,773
Cumulative Future Value of Invested Savings	\$ 1,564,425



Cost Segregation Study Engagement Letter

We are pleased to provide this engagement letter to you outlining the Cost Segregation Study for your firm by Cost Segregation Services, Inc. Our analysis will entail a cost classification study, the preparation of the cost segregation report, and the review with your CPA for the application of depreciation for these assets. These results will be applied to your financial records by your CPA.

Our engagement is divided into the following two phases.

PHASE I: Preliminary Analysis and Identification

This phase of the engagement consists of familiarization with the project, establishment of the working relationship between our firm, your organization and others (architect, engineer, and general contractor), and preliminary identification of asset categories under MACRS (Modified Accelerated Cost Recovery System).

PHASE II: In-Depth Analysis and Report Compilation

Our completion of the study is dependent on the availability, accuracy and substantiation of the project records. This phase consists of analyzing the accumulation of cost information and any change orders. It will also include a physical inspection of the property. Our compilation will segregate all of the construction costs of the project according to the appropriate MACRS category and depreciable life. In addition, we will appropriately allocate indirect costs to the direct construction costs as finally segregated among 5-year, 7-year, 15-year, 27.5, 31.5 and/or 39-year depreciation lives. Once the study is completed and classification changes are properly identified we will review the Cost Segregation Report with your CPA for application to your financial records.

Fees

Our fee for PHASE I and PHASE II will be a fixed fee of \$ 7,975 (Seven Thousand Nine Hundred Seventy Five Dollars). Our fee includes \$ 4,000 (Four Thousand Dollars) due and payable at the time this agreement is authorized. The remainder of the fee, \$ 3,975 (Three Thousand Nine Hundred Seventy Five Dollars), will be due contemporaneous with the delivery to you of the Cost Segregation Study Report.

Initials: _____



Our work will not constitute an audit, the objective of which is the expression of a professional opinion regarding the construction costs, nor will it constitute a review, the objective of which is the expression of limited assurance that no material modifications need to be made to the building costs for them to be in conformity with generally accepted accounting principles. Accordingly, we will not express an opinion nor any form of assurance on the building costs referred to above.

Further, said fee includes technical representation by our firm in the unlikely event of an Internal Revenue Service audit specifically relating to the identification of asset categories under MACRS resulting from our analysis. It does not represent involvement by your CPA.

Our work is not designed to disclose errors, irregularities or illegal acts, including fraud or defalcations and therefore should not and shall not be used for those purposes.

We look forward to the opportunity of working with you. We will immediately set forth a project timetable that meets your schedule and convenience.

Client Authorization	<u>Checks Payable to:</u> Cost Segregation Services, Inc.
By: _____	Authorized By: _____ 1-866-277-9121
Printed Name: _____	
Title: _____	Project # 9799-01
Company Name: _____	Property #1: _____
Address: _____	Address: _____
City/State/Zip: _____	_____
Phone: _____	Property # 2 _____
Date: _____	Address: _____

	Initials: _____



Documents Requirement List

Confirm Address of Property being Studied

Street

City

State

Zip

Contact Information for Site Survey

Name

Title

Tel.Number

E-mail

Newly Acquired Property

Requested Documents (returned to client upon completion)

Building Cost [excluding land]	<input type="text"/>	Initial	Required Document
Blueprints	<input type="text"/>	Initial	alternative: provide layout of building
Appraisal	<input type="text"/>	Initial	
Cost Documents	<input type="text"/>	Initial	if available, i.e., AIA, Cost ledger, invoices, other

Owned for more than 1 year

Requested Documents

Depreciation Schedule	<input type="text"/>	Initial	Required document
Blueprints	<input type="text"/>	Initial	alternative: provide layout of building
Appraisal	<input type="text"/>	Initial	
Cost Documents	<input type="text"/>	Initial	if available, i.e., AIA, Cost ledger, invoices

ex.[AIA document, cost ledgers, invoices]

Request for Form 3115 Application, if needed

Complete Form 3115 choose one, only if applicable

Client CPA provides Initial

CSSI provides Initial assure client CPA agrees