

## 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!



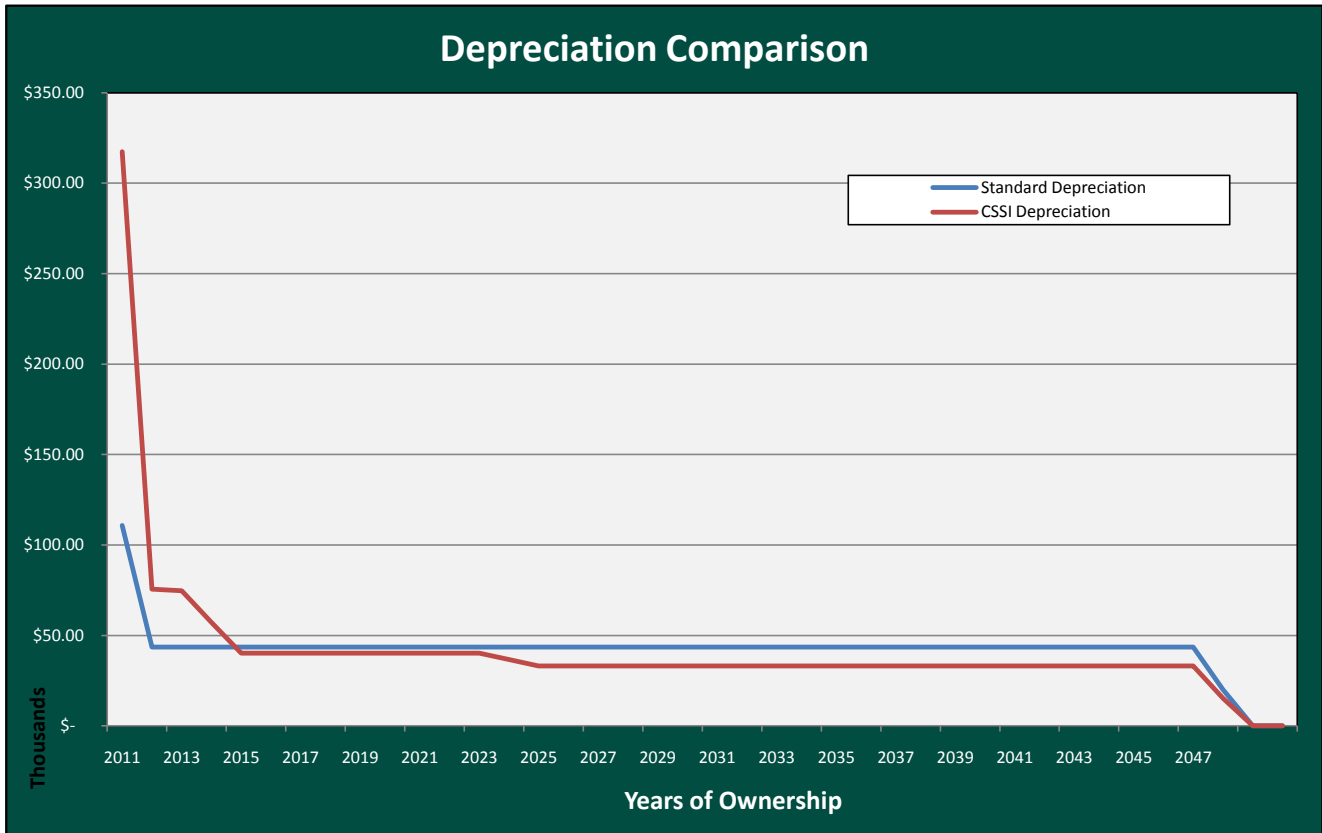
Funeral Home  
Sample Analysis  
Estimated Savings Overview

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

<b>Building Cost</b>	\$ 1,700,000		
Date Acquired	June 2009		
Tax Year:	<b>2011</b>	<b>2012</b>	<b>2015</b>
<b>Current Method</b>			
Accumulated Depreciation Reported 39 year straight line method	\$ 110,823	\$ 154,411	\$ 285,175
<b>Alternative Method</b>			
Cost Segregation Study Accumulated Depreciation			
5 yr.	\$ 205,768	\$ 239,061	\$ 289,000
15 yr.	\$ 27,430	\$ 36,587	\$ 59,273
39 yr.	\$ 84,225	\$ 117,352	\$ 216,733
Total	\$ 317,423	\$ 393,000	\$ 565,006
<b>Results for Tax Year:</b>	<b>2011</b>	<b>2012</b>	<b>2015</b>
Increased Accumulated Depreciation Expense	\$ 206,600	\$ 238,589	\$ 279,831
Tax Rate (Estimated)	36.0%	36.0%	36.0%
Estimated Accumulated Tax Savings Benefit	\$ 74,376	\$ 85,892	\$ 100,739

These results represent a benchmark of the expected results. The accumulated tax reduction benefit estimated for tax year 2011 is \$74,376, and the accumulated tax reduction benefit estimated for tax year 2012 is \$ 85,892. The tax reduction benefit accumulates to an estimated \$ 100,739 in tax year 2015.

Funeral Home  
Sample Analysis  
CSSI Depreciation vs. Standard Depreciation



The above chart demonstrates accelerated depreciation through cost segregation compared to standard depreciation over the remaining life of the commercial property.



## Cost Segregation Application Analysis

### Funeral Home Sample Analysis

Property Class	With Analysis		Without Analysis	
	Percentage Assumed	Depreciable Basis	Percentage Assumed	Depreciable Basis
5 Year Property	17.0%	289,000	0.0%	0
7 Year Property	0.0%	0	0.0%	0
15 Year Property	7.0%	119,000	0.0%	0
39 Year Property	76.0%	1,292,000	100.0%	1,700,000
<b>Total Value of Building</b>	<b>100.0%</b>	<b>\$ 1,700,000</b>	<b>100.0%</b>	<b>\$ 1,700,000</b>

Building Cost : \$ 1,700,000  
 Property Acquisition Date : June 2009  
 Years of Ownership (X=) : 40  
 Last Tax Year of Ownership : 2048  
 Present Value Rate of Return : 8.000%

Tax Year Cost Segregation Applied : 2011  
 Estimated Study Fees : \$ 8,325  
 Estimated Tax Rate : 36.0%  
 Estimated After-Tax Study Fees : \$ 5,328

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
2011	205,768	0	27,430	84,225	317,423	110,823	110,823	206,600	69,048	69,048	1,190,776
2012	33,293	0	9,157	33,127	75,577	43,588	43,588	31,989	11,516	79,711	1,374,664
2013	33,293	0	8,242	33,127	74,662	43,588	43,588	31,074	11,187	89,302	1,540,061
2014	16,646	0	7,417	33,127	57,191	43,588	43,588	13,603	4,897	93,189	1,607,100
2015		0	7,027	33,127	40,154	43,588	43,588	(3,434)	(1,236)	92,280	1,591,429
2016		0	7,027	33,127	40,154	43,588	43,588	(3,434)	(1,236)	91,439	1,576,918
2017			7,027	33,127	40,154	43,588	43,588	(3,434)	(1,236)	90,660	1,563,482
2018			7,027	33,127	40,154	43,588	43,588	(3,434)	(1,236)	89,938	1,551,042
2019			7,027	33,127	40,154	43,588	43,588	(3,434)	(1,236)	89,270	1,539,523
2020			7,027	33,127	40,154	43,588	43,588	(3,434)	(1,236)	88,652	1,528,857
2021			7,027	33,127	40,154	43,588	43,588	(3,434)	(1,236)	88,079	1,518,982
2022			7,027	33,127	40,154	43,588	43,588	(3,434)	(1,236)	87,549	1,509,838
2023			7,027	33,127	40,154	43,588	43,588	(3,434)	(1,236)	87,058	1,501,371
2024			3,512	33,127	36,639	43,588	43,588	(6,949)	(2,502)	86,138	1,485,506
2025				33,127	33,127	43,588	43,588	(10,461)	(3,766)	84,856	1,463,394
2026				33,127	33,127	43,588	43,588	(10,461)	(3,766)	83,669	1,442,920
2027				33,127	33,127	43,588	43,588	(10,461)	(3,766)	82,570	1,423,963
2028				33,127	33,127	43,588	43,588	(10,461)	(3,766)	81,552	1,406,410
2029				33,127	33,127	43,588	43,588	(10,461)	(3,766)	80,609	1,390,157
2030				33,127	33,127	43,588	43,588	(10,461)	(3,766)	79,737	1,375,108
2031				33,127	33,127	43,588	43,588	(10,461)	(3,766)	78,929	1,361,174
2032				33,127	33,127	43,588	43,588	(10,461)	(3,766)	78,180	1,348,271
2033				33,127	33,127	43,588	43,588	(10,461)	(3,766)	77,488	1,336,325
2034				33,127	33,127	43,588	43,588	(10,461)	(3,766)	76,846	1,325,264
2035				33,127	33,127	43,588	43,588	(10,461)	(3,766)	76,252	1,315,021
2036				33,127	33,127	43,588	43,588	(10,461)	(3,766)	75,703	1,305,538
2037				33,127	33,127	43,588	43,588	(10,461)	(3,766)	75,193	1,296,757
2038				33,127	33,127	43,588	43,588	(10,461)	(3,766)	74,722	1,288,627
2039				33,127	33,127	43,588	43,588	(10,461)	(3,766)	74,285	1,281,098
2040				33,127	33,127	43,588	43,588	(10,461)	(3,766)	73,881	1,274,128
2041				33,127	33,127	43,588	43,588	(10,461)	(3,766)	73,507	1,267,673
2042				33,127	33,127	43,588	43,588	(10,461)	(3,766)	73,160	1,261,697
2043				33,127	33,127	43,588	43,588	(10,461)	(3,766)	72,840	1,256,164
2044				33,127	33,127	43,588	43,588	(10,461)	(3,766)	72,542	1,251,040
2045				33,127	33,127	43,588	43,588	(10,461)	(3,766)	72,267	1,246,296
2046				33,127	33,127	43,588	43,588	(10,461)	(3,766)	72,013	1,241,903
2047				33,127	33,127	43,588	43,588	(10,461)	(3,766)	71,777	1,237,836
2048				15,207	15,207	20,009	20,009	(4,802)	(1,729)	71,677	1,236,107
<b>Total</b>	<b>\$ 289,000</b>	<b>\$ 0</b>	<b>\$ 119,000</b>	<b>\$ 1,292,000</b>	<b>\$ 1,700,000</b>	<b>\$ 1,700,000</b>	<b>\$ 1,700,000</b>				

Greg Perkins  
 1-866-277-9121

Benefit Analysis at End of Ownership	
Cumulative Net Present Value of Benefit	\$ 71,677
Cumulative Future Value of Invested Savings	\$ 1,236,107



## **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 \$ 8,325 (Eight Thousand Three Hundred Twenty Five Dollars). Our fee includes \$ 4,175 (Four Thousand One Hundred Seventy Five Dollars) due and payable at the time this agreement is authorized. The remainder of the fee, \$ 4,150 (Four Thousand One Hundred Fifty 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.

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

Greg Perkins



## 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)

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

### Owned for more than 1 year

#### Requested Documents

<b>Depreciation Schedule</b>	<u>          </u>	Initial	Required document
<b>Blueprints</b>	<u>          </u>	Initial	alternative: provide layout of building
<b>Appraisal</b>	<u>          </u>	Initial	
<b>Cost Documents</b>	<u>          </u>	Initial	if available, i.e., AIA, Cost ledger, invoices
ex.[AIA document, cost ledgers, invoices]			

### Request for Form 3115 Application, if needed

<b>Complete Form 3115</b>	choose one, only if applicable
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<b>Client CPA provides</b>	<u>          </u>	Initial	
<b>CSSI provides</b>	<u>          </u>	Initial	assure client CPA agrees