

**COST SEGREGATION STUDY
FOR FEDERAL TAX PURPOSES**

REPORT PREPARED FOR:

Sample Client
123 Main Street
Anywhere, ST 99999-9999

BADEN TAX MANAGEMENT, LLC

**NATIONWIDE SERVICE
FORT WAYNE, IN ∨ ATLANTA, GA ∨ INDIANAPOLIS, IN**

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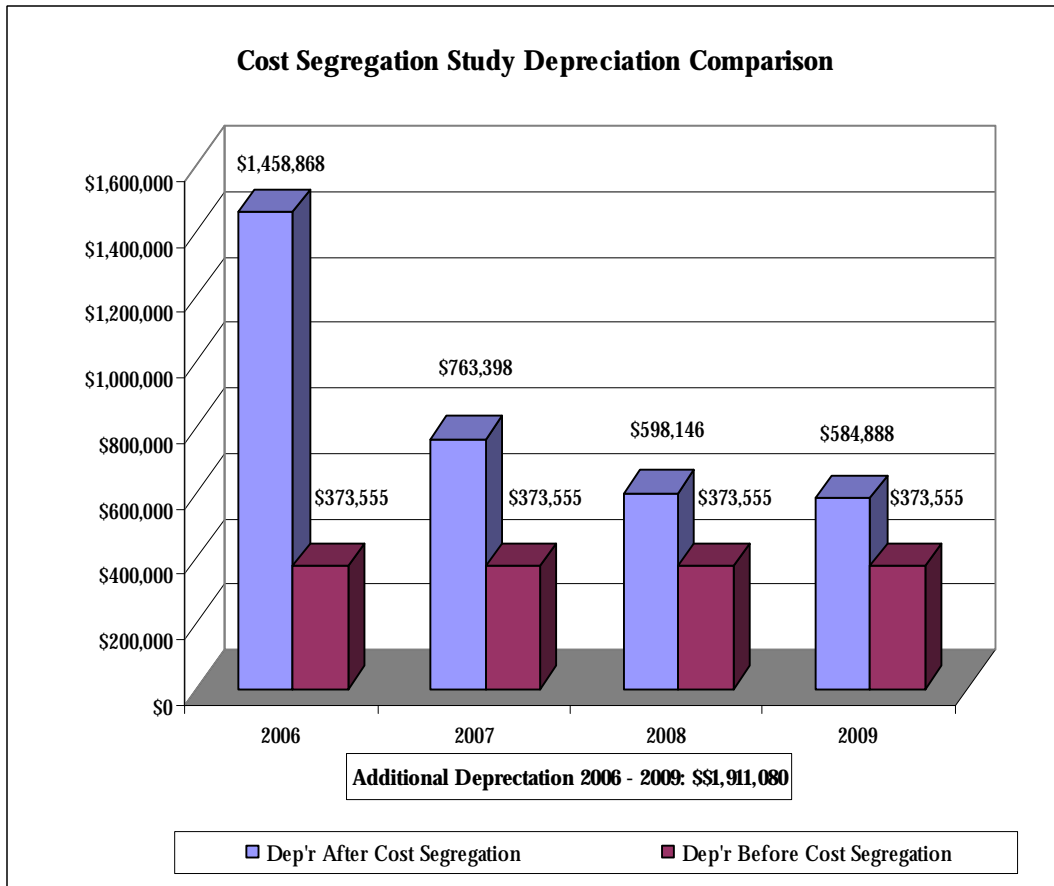
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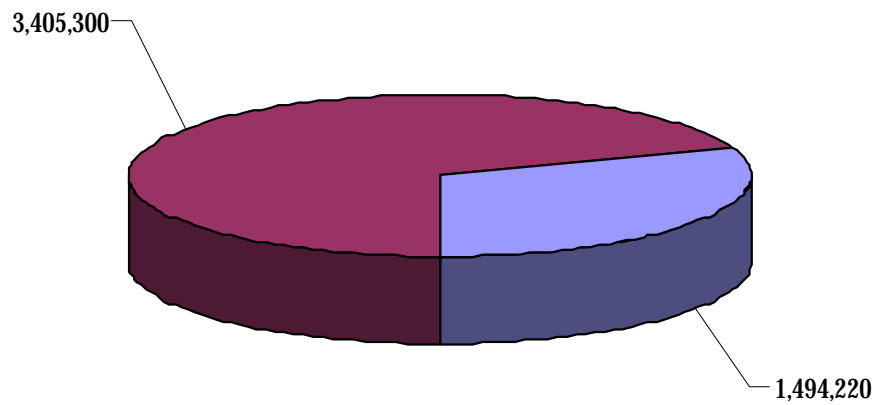
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EXECUTIVE SUMMARY

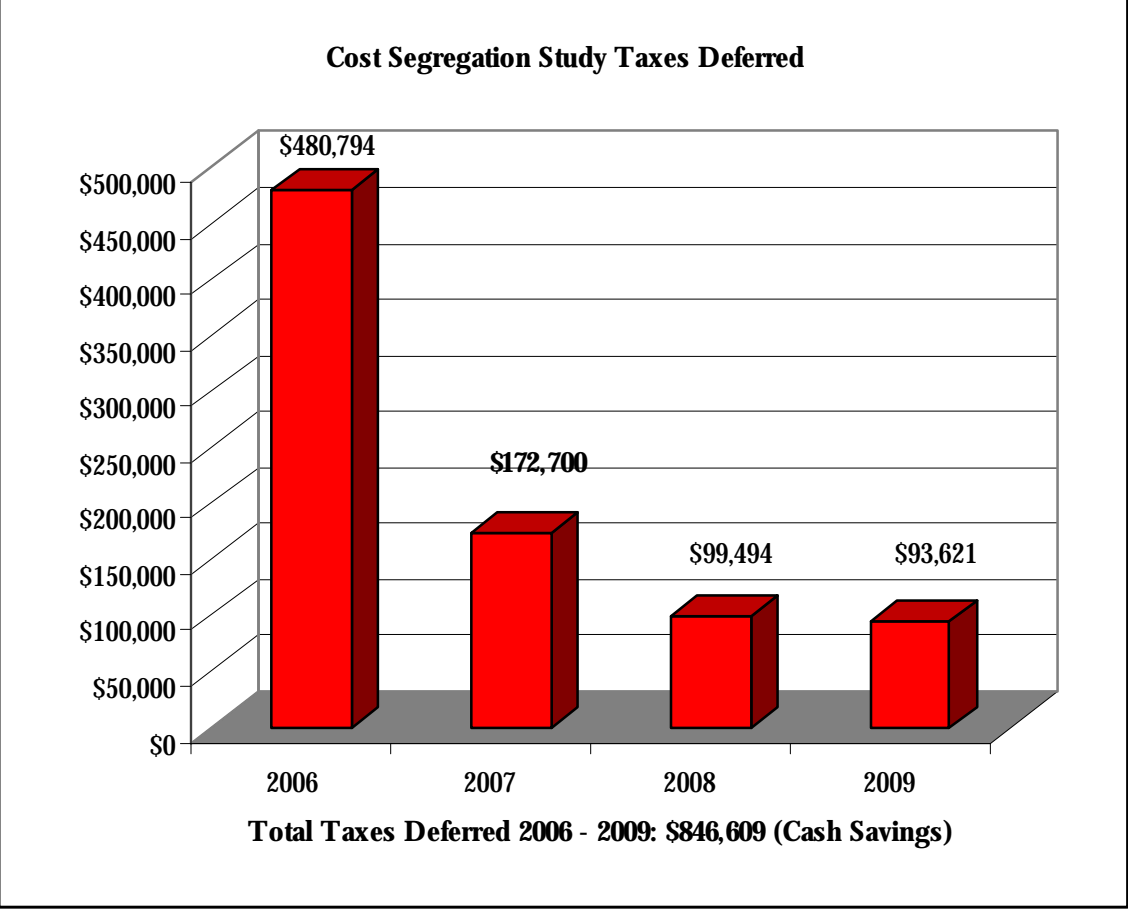


Cost Segregation Study Total Depreciation



Additional Depreciation 2006 - 2009: \$1,911,080

BUILDING PLACED IN SERVICE: 2005
COST NEW: \$10,273,796
DEPRECIABLE LIFE CURRENTLY REPORTED: 27.5 YEARS
DEPRECIABLE LIFE RECALCULATED: 27.5, 15 AND 5 YEARS



ASSUMES 35% FEDERAL AND 9.3% STATE TAX RATES

CERTIFICATIONS

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. Baden Tax Management LLC and the signer of this report have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. Neither Baden Tax Management, LLC nor the signer of this report have any bias with respect to the property that is the subject of the report or to the parties involved with this assignment.
5. Baden Tax Management LLC's engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. Baden Tax Management LLC's compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this analysis.
7. The reported results of this assignment are based on a physical examination of the subject property and review and analysis of all facts and data available to Baden Tax Management, LLC made available to us by the property owner.

DONALD P. FEICHT, JR. CMI

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SUBJECT PROPERTY DESCRIPTION

COST SEGREGATION METHODOLOGY

The cost segregation study was developed utilizing the *Detailed Engineering Cost Estimate Approach*. This approach is applicable when historical cost records are not available or for a property acquisition where the purchase price of the property must be allocated.

The estimated costs are based on cost data published by R.S. Means, a nationally recognized publisher of construction cost data for the construction industry. These data are specifically modified for the subject property by applying the appropriate unit price factors and or multipliers based on the property location. Unit quantity takeoffs were prepared by experienced construction cost estimators.

Once the unit cost estimates were complete, each segregated asset was examined and classified as real property (39 year depreciable property); land improvements (15 year depreciable property); Office Furniture, Fixtures and Equipment (7 year depreciable property) or; Distributive Trades and Services property (5 year depreciable property). The asset class and associated lives for all personal property and land improvements are in accordance with Revenue Procedure 87-56.

CITATIONS

Section 168 of the Internal Revenue Code determines the method of calculating depreciation for property placed in service after December 21, 1986. This property is recognized as recovery property and is depreciated under the Modified Accelerated Cost Recovery System (MACRS). Classes of MACRS property are determined largely by reference to the class lives prescribed in Revenue Procedure 87-56, 1987-2 C.B. 674 (as clarified and modified by Rev. Proc. 88-22, 1988-1 C.B. 785. The deduction for MACRS property is determined by using the applicable:

- Method of depreciation,
- Recovery period, and
- Convention

There are three specified methods, eight recovery periods, and three specified conventions. Each applies to a particular property depending largely on the asset class.

The classes of property appropriate to this study may include:

Asset Class	Description of Assets Included	Recovery Period (In Years)
00.11	<u>Office Furniture, Fixtures, and Equipment</u> <i>"Includes furniture and fixtures that are not a structural component of a building. Includes such assets as desks, files, safes, and communication equipment. Does not include communication equipment that is included in other classes"</i>	7
00.12	<u>Information Systems</u> <i>"Includes computers and their peripheral equipment used in administering normal business transactions and the maintenance of business records, their retrieval and analysis."</i>	5
00.3	<u>Land Improvements</u> <i>"Includes improvements directly to or added to land, whether such improvements are section 1245 property or section 1250 property, provided such improvements are depreciable. Examples of such assets might include sidewalks, roads, canals, waterways, drainage facilities, sewers (not including municipal sewers in Class 51), wharves and docks, bridges, fences, landscaping shrubbery, or radio and television transmitting towers. Does not include land improvements that are explicitly included in other any other class, and buildings and structural components as defined in section 1.48-1(e) of the regulations. Excludes public utility initial clearing and grading land improvements as specified in Rev. Rul. 72-403, 1972-2 C.B. 102."</i>	15
57.0	<u>Distributive Trades and Services</u> <i>"Includes assets used in wholesale and retail trade, and personal and professional services. Includes section 1245 assets used in marketing petroleum and petroleum products."</i>	5
	<u>Non-Residential Real Property</u>	39

SCHEDULE OF ASSETS

SCHEDULES OF DIRECT AND INDIRECT COSTS

SCHEDULE A - INDIRECT UNIT COST ESTIMATE – TIME AND LOCATION MODIFIED

Indirect costs are those costs associated with but unrelated to any specific item of construction and are otherwise known as *General Conditions* costs. Indirect Costs may include:

- Professional fees
 - Architectural
 - Engineering
 - Survey
- Building permits
- Contract management costs
- Construction documentation
- Project photographs
- Quality and product testing
- Temporary Construction
 - Fencing
 - Field Office Trailers
 - Site Utilities
 - Electrical
 - Phone
 - Temporary water
 - Site Dewatering
- Project signs
- Temporary protection barriers
- Temporary roads
- Winter Protection
- Equipment rental
- Site cleaning
- Temporary equipment maintenance

Indirect costs are applied as a percentage added cost to the project unit costs.

SCHEDULE B - DIRECT UNIT COST ESTIMATE – TIME AND LOCATION MODIFIED

Unit costs represent the direct cost-in-place of various items of construction. The unit costs expressed in this study were developed in accordance with the Construction Specification Institute (CSI) Master Format Division. Unit costs are segregated according to the following construction divisions:

Division	Description
01	General Requirements
02	Site Construction
03	Concrete
04	Masonry
05	Metals
06	Wood and Plastics
07	Thermal and Moisture Protection
08	Doors and Windows
09	Finishes
10	Specialties
11	Equipment
12	Furnishings
13	Special Construction
14	Conveying Systems
15	Mechanical
16	Electrical

Unit costs were extracted from R.S. Means Cost *Commercial New Construction* estimating manual. Published unit costs were modified by application of historical cost multipliers to adjust the current published construction costs to their original date of construction and by a location multiplier to adjust the unit costs for their geographic location.

SCHEDULE C - ALLOCATED UNIT COSTS – VARIANCE AND INDIRECTS APPLIED

SCHEDULE D - RECAP DIVISIONAL COSTS

SUMMARY OF ASSETS BY CLASS

PROPERTY UNIT DETAIL SCHEDULE

RECONCILIATION

ASSUMPTIONS AND LIMITING CONDITIONS

REQUIRED NOTICE TO TAXPAYER

Under regulations issued by the Internal Revenue Service that became effective June 21, 2005, we are required to attach the following statement:

In accordance with Internal Revenue Service Circular 230, we advise you that any discussion of a federal tax issue in this communication or any attachment is not intended to be used and cannot be used for the purpose of avoiding federal tax penalties. If you would like a written opinion on one or more of the federal tax issues addressed above upon which you can rely for the purposes of avoiding penalties, please contact us and we will explain what is involved and the cost of such opinion.

EXHIBITS
