



COST SEGREGATION SPECIALISTS INC.

STOP: AUDIT SUPPORT INFO, READ BELOW

Important Information Regarding Your Audit Support Cost Segregation Specialists Inc.'s Commitment to You

- **Professional Judgment:** We reserve the right to refuse actions that may be construed as management decisions on your behalf.
- **Additional Work and Expenses:** You agree to pay for any additional work necessary to resolve unforeseen matters in your tax case, in addition to the amount set forth in this agreement.
- **Position Taken:** We follow positions consistent with codes and regulations; however, if contested, additional tax, interest, and penalties may apply.
- **Withdrawal:** We reserve the right to withdraw if asked to take a position not meeting applicable laws, with compensation due until withdrawal.
- **Limitations:** Our engagement does not include discovering defalcations or irregularities without verification.
- **Communication:** We keep you informed of your case's status and welcome your concerns or questions.
- **No Guarantees:** While we strive for favorable results, we make no predictions about outcomes under the law.
- **Cooperation:** Your prompt response to requests and diligent assistance is essential for optimal representation.
- **Responsibilities:** Remaining current on tax liabilities is crucial for continuous representation.
- **Timeliness:** Staying current with payments and responses is imperative for effective resolution. Client must contact us within 5 business days of notification of audit, otherwise audit support is void.

- **Site Inspection:** A site inspection will be necessary for comprehensive assessment. The client is responsible for travel expenses if under audit.
- **Property Photos:** Photos of the property are required to jumpstart the work process. The client agrees to document the existing conditions, finishes, and other relevant details of the building or site before and after any changes are made BY YOU (not the previous owner), using photos and videos.
- **Privacy:** We maintain confidentiality and security of your information.
- **Dispute Resolution:** We agree to mediate disputes in good faith prior to litigation, with shared mediation expenses.

Cost Segregation Specialists Inc.
143 S. Main St.
Brooksville, FL. 34601
848-301-1862 | info@costsegregationspecialist.com
www.costsegregationspecialist.com

Date: April 25, 2025

Client Name: Jane Doe

Client Address: 123 SFR STR

Subject: Engagement Letter for Cost Segregation Analysis

Dear Jane Doe,

Thank you for choosing **Cost Segregation Specialists Inc.** to provide cost segregation services for your property located at 123 SFR STR. This engagement letter outlines the terms and scope of our services, which have been agreed upon between you ("the Client") and **Cost Segregation Specialists Inc.** ("the Company").

Scope of Services

The Company will perform a cost segregation analysis of the above-referenced property and will provide you with a report detailing our findings. The report will allocate the costs of the property components into appropriate depreciation categories as outlined in the applicable tax regulations and guidelines.

Deliverables

- A cost segregation report generated and delivered upon completion of the analysis.
- Access to the report will be provided via email, and you will be able to download and share the report with your tax professional.

Client Responsibilities

You acknowledge and agree to:

1. Provide complete and accurate information and documentation necessary for the analysis.
2. Review the report upon receipt and consult with your tax professional to apply the findings in accordance with current tax laws.

3. Understand that the Company does not provide tax, legal, or financial advice and is not responsible for any decisions made based on the report.

Fees and Payment Terms

The fees for our services are as agreed and payable upon acceptance of this engagement. No further fees are due unless additional services are requested.

Limitation of Liability

The Company will conduct its services with reasonable care and diligence in accordance with industry standards. However, the Company will not be liable for any loss, damages, or penalties incurred by you as a result of reliance on the report or any errors or omissions resulting from inaccurate or incomplete information provided by you.

Confidentiality

All information provided by you will be treated confidentially and will not be disclosed to any third party except as required by law or with your prior written consent.

Acceptance of Terms

By utilizing our services and receiving this report, you confirm your understanding and acceptance of the terms outlined in this engagement letter. We appreciate the opportunity to serve you and look forward to assisting you with your cost segregation needs. If you have any questions or require further information, please do not hesitate to contact us.

Sincerely,

Randy Lyons
Founder

A handwritten signature in black ink that reads "Randy Lyons". The signature is written in a cursive, flowing style.

Cost Segregation Specialists Inc.

April 25, 2025

SFR STR Sample

Jane Doe

123 SFR STR

Dear Jane

In accordance with your request, we have completed our analysis of the property located at (123 SFR STR). The purpose of this analysis was to allocate the purchase price using accepted methods and assign the allocated values to the appropriate Modified Accelerated Cost Recovery System (MACRS) property classifications for federal income tax purposes. The following report outlines the scope and purpose of our analysis, the theory and procedures we employed, and our conclusions. These results are intended to assist in making decisions related to the property's federal tax depreciation.

Our experienced team brings decades of combined expertise in cost segregation, construction, and tax strategies. With extensive hands-on involvement in both residential and commercial projects, our professionals have worked on properties of various sizes and complexities, utilizing IRS-approved tools such as RS Means and Marshall & Swift. Collectively, we have a proven track record in successfully managing IRS audits and securing favorable outcomes for our clients.

Please feel free to contact us at 848-301-1862 or via email at info@costsegregationspecialist.com if you have any questions or need further clarification.

Sincerely,

The Cost Segregation Team



COST SEGREGATION SPECIALISTS INC.

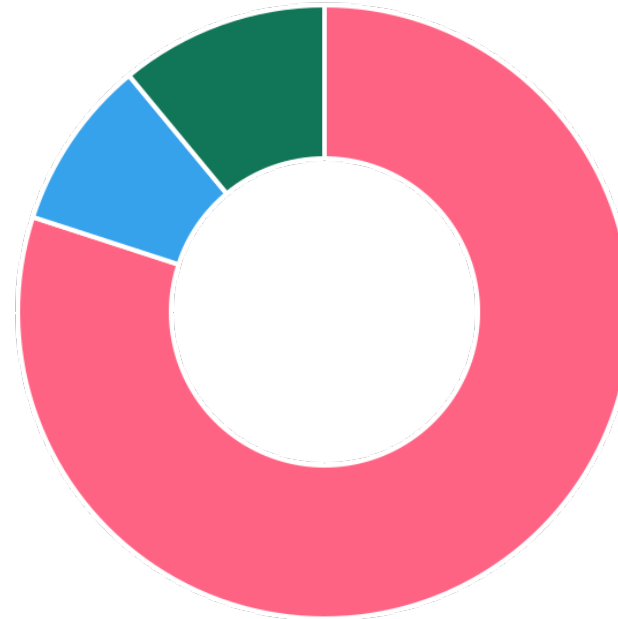
Property Name: SFR STR Sample

Property Address: 123 SFR STR

Your results are based on the following figures,
Purchase Price \$750,000.00, Land Value \$220,000.00
Initial Clearing and Grubbing per Study is \$3,800.00,
(this is not depreciable and should be applied to land
on your taxes.)

39 Yr. SL Building	\$421,843.35
15 Yr. Site Imp. 150% DB	\$45,664.70
5 Yr. 200% DB	\$58,691.94

39 Yr. SL Building 15 Yr. Site Imp. 150% DB 5 Yr. 200% DB



Additional Land Value per Study is \$3,800.00.

Final Report								
	39 Yr. SL Building	15 Yr. Site Imp. 150% DB	5 Yr. 200% DB	Cost Source	CSI Division	Line Number	Class Life	Asset Class
Final Grading For Site Improvements (Fine Grading, fine grade for landscaping, walks & drives)		\$ 766.39		RS MEANS	32.00 EXTERIOR IMPROVEMENTS	312216101200	15YR. 150% DB	0.3
Site Irrigation (Underground sprinklers irrigation system, for lawns, residential system.)		\$ 5,262.00		RS MEANS	32.00 EXTERIOR IMPROVEMENTS	328423100800	15YR. 150% DB	0.3
General Landscaping (Sodding, sod, on level ground.)		\$ 24,325.00		RS MEANS	32.00 EXTERIOR IMPROVEMENTS	329223100020	15YR. 150% DB	0.3
Concrete Driveway (Sidewalks, driveways, & patios, sidewalk, concrete, cast-in-place with 6 X 6- W1.4 X W1.4 mesh, broomed finish, 3,000 psi,excludes base)		\$ 6,400.00		RS MEANS	32.00 EXTERIOR IMPROVEMENTS	320610100400	15YR. 150% DB	0.3
4 ft. Vinyl Fence (Plastic fences & gates, fence, vinyl white, picket, 4" X 4" posts @6' OC, 4' high.)		\$ 7,160.00		RS MEANS	32.00 EXTERIOR IMPROVEMENTS	323123100030	15YR. 150% DB	0.3
Site Solar Panel (Passive Solar System Direct Gain)		\$ 1,595.92		RS MEANS	13.00 SPECIAL CONSTRUCTION	green building d30106882600	15YR. 150% DB	0.3
Solar Panel (Passive Solar System Direct Gain)			\$ 31,918.50	RS MEANS	13.00 SPECIAL CONSTRUCTION	green building d30106882600	5YR. 200% DB	57.3

	39 Yr. SL Building	15 Yr. Site Imp. 150% DB	5 Yr. 200% DB	Cost Source	CSI Division	Line Number	Class Life	Asset Class
Electric Lateral (Electrical lateral underground/overhead)	\$ 1,067.71			M&S	32.00 EXTERIOR IMPROVEMENTS	pg. c-13, 03/2024	39YR. SL	BLDG
Water Lateral (Pipe, plastic, PVC, 1" diameter, schedule 40, includes couplings. Excavating, trench, common earth, 3/8 C.Y. excavator, 1' to 4' deep, excludes sheeting or dewatering. Excavating, chain trencher, utility trench, common earth, 4" wide, 12" deep, backfill by hand, includes compaction,)	\$ 797.22			RS MEANS	32.00 EXTERIOR IMPROVEMENTS	221113741880 312316130050 312316141050	39YR. SL	BLDG
Telephone Lateral (telephone lateral underground)	\$ 749.40			M&S	32.00 EXTERIOR IMPROVEMENTS	pg. c-13, 03/2024	39YR. SL	BLDG
Gas Lateral (Natural gas piping, steel pipe, tar coated and wrapped, plain end natural gas distribution, 1" diameter, schedule 40, excludes excavation. Excavating, trench or continuous footing, common earth, 3/8 C.Y. excavator, 1' to 4' deep, excludes sheeting or dewatering. Excavating, chain trencher, utility trench, common earth, 4" wide, 12" deep, backfill by hand, includes compaction, add.)	\$ 552.10			RS MEANS	32.00 EXTERIOR IMPROVEMENTS	335216134040 312316130050 312316141050	39YR. SL	BLDG

	39 Yr. SL Building	15 Yr. Site Imp. 150% DB	5 Yr. 200% DB	Cost Source	CSI Division	Line Number	Class Life	Asset Class
Sewer Lateral (Public sanitary utility sewerage piping, piping polyvinyl chloride pipe, B & S, 20' lengths, 4" diameter, SDR 35. Excavating, trench common earth, 3/8 C.Y. excavator, 1' to 4' deep, excludes sheeting or dewatering. Excavating, chain trencher, utility trench, common earth, 4" wide, 12" deep, backfill by hand, includes compaction.)	\$ 493.45			RS MEANS	32.00 EXTERIOR IMPROVEMENTS	333111252000 312316141050 312316141050	39YR. SL	BLDG
Foundation/Slab (Footing excavation, building, Footings systems, 10" thick by 20" wide footing. Floor slab systems, 4" thick slab.)	\$ 57,940.59			RS MEANS	03.00_concrete	0104034 0204030 0220034	39YR. SL	BLDG
Roof Framing (Roof framing systems, rafters or engineered truss, 16" OC.)	\$ 55,045.75			RS MEANS	06.00 WOOD, PLASTICS, COMPOSITES	31204741	39YR. SL	BLDG
Exterior Walls (Structural framing/ CMU block with cladding, Non-rigid insul, batts, fbgl, kraft faced, 6" thick, R19, 15" wide. Non-rigid insul, batts, fbgl, kraft faced, 12" thick, R38, 15" wide.)	\$ 62,238.98			RS MEANS	06.00 WOOD, PLASTICS, COMPOSITES	0404034 0404034 0420046 0420050	39YR. SL	BLDG
Exterior Windows (Single/ Double hung window systems, builder's quality wood/vinyl window.)	\$ 14,825.07			RS MEANS	08.00 OPENINGS	0428026	39YR. SL	BLDG

	39 Yr. SL Building	15 Yr. Site Imp. 150% DB	5 Yr. 200% DB	Cost Source	CSI Division	Line Number	Class Life	Asset Class
Exterior Doors (Door systems, solid core wood/ insulated hollow metal.)	\$ 8,991.54			RS MEANS	08.00 OPENINGS	0452046	39YR. SL	BLDG
Roof Coverings (Asphalt, roof shingles, roof tile, metal roof)	\$ 25,614.92			RS MEANS	07.00 THERMAL, MOISTURE PROTECTION	0504034	39YR. SL	BLDG
Interior Partitions (Wall system, 1/2" drywall, taped & finished)	\$ 25,395.61			RS MEANS	09.00 FINISHES	0604026	39YR. SL	BLDG
Interior Doors (Flush door, hollow core, interior. Closet door, bi-fold, solid/louvered.)	\$ 27,457.09			RS MEANS	08.00 OPENINGS	0620036 0624050	39YR. SL	BLDG
Ceiling Finishes (1/2" gypsum wallboard, taped & finished ceilings)	\$ 13,816.27			RS MEANS	09.00 FINISHES	0608026	39YR. SL	BLDG
Stairs (Stairways 14 risers, oak treads, box stairs)	\$ 5,186.80			RS MEANS	06.00 WOOD, PLASTICS, COMPOSITES	0608026	39YR. SL	BLDG
Wall Finishes (Paints & coatings, walls & ceilings, interior, concrete, drywall or plaster, latex paint, 2 coats, smooth finish, brushwork. Paints & coatings, walls & ceilings, interior, concrete, drywall or plaster, latex paint, 2 coats, smooth finish, roller)	\$ 6,842.34			RS MEANS	09.00 FINISHES	099123720800 099123720840	39YR. SL	BLDG
Decorative Trim (Ceiling molding, bed, pine, 9/16"x2", Chair rail 2-1/2" painted/stained.)			\$ 1,848.75	RS MEANS	09.00 FINISHES	062213350650	5YR. 200% DB	57.00

	39 Yr. SL Building	15 Yr. Site Imp. 150% DB	5 Yr. 200% DB	Cost Source	CSI Division	Line Number	Class Life	Asset Class
Ceramic/Hard Tile Flooring (Resilient flooring, ceramic tile)	\$ 37,632.87			RS MEANS	09.00 FINISHES	0664057	39YR. SL	BLDG
Custom Built Wood Cabinets (Custom cabinets, kitchen base cabinets, hardwood, prefinished, 1 top drawer, 1 door below, 24" deep, 35" high, 23" wide, excl. countertops. Custom cabinets, kitchen base cabinets, hardwood, prefinished, range or sink base, 2 doors below, 24" deep, 35" high, 33" wide, excl. countertops. custom cabinets, kitchen wall cabinets, hardwood, prefinished, 1 door, 12" deep, 30" high, 18" wide)			\$ 6,639.33	RS MEANS	12.00 FURNISHINGS	123223100880 123223101520 123223105040	5YR. 200% DB	57.00
Concrete Countertop (Solid surface countertop, acrylic polymer, patterned colors, pricing for orders of 1-50 LF, 25" wide)			\$ 2,264.74	RS MEANS	12.00 FURNISHINGS	123623130020 0664057 123661160100 123640102800 123661162200	5YR. 200% DB	57.00
Mirrors (Mirrors, wall type, polished edge, 1/4" plate glass)			\$ 543.63	RS MEANS	10.00 SPECIALTIES	088313100100	5YR. 200% DB	57.00
Shelving (Shelving, residential, vinyl covered wire, wardrobe type, 12" deep, wood and rod 12" deep.)			\$ 712.81	RS MEANS	10.00 SPECIALTIES	105613103000	5YR. 200% DB	57.00

	39 Yr. SL Building	15 Yr. Site Imp. 150% DB	5 Yr. 200% DB	Cost Source	CSI Division	Line Number	Class Life	Asset Class
Removable Window Coverings (Blinds, interior, horizontal, Drapes cloth with rod)			\$ 1,795.17	RS MEANS	12.00 FURNISHINGS	122113330015	5YR. 200% DB	57.00
Ceiling Fans (Paddle fan, residential, variable speed (AC motor))			\$ 2,314.46	RS MEANS	26.00 ELECTRICAL	260590108372	5YR. 200% DB	57.00
Building Plumbing Domestic Water Distribution/Drainage, Fixtures, Vanities (Three fixture bathroom installed with vanity)	\$ 17,193.57			RS MEANS	22.00 PLUMBING	0812032	39YR. SL	BLDG
Laundry Equipment Plumbing (Washer dryer accessories, recessed box, tow hose valves and drain, 15 gauge, 1/2" size, 2" drain)			\$ 624.46	RS MEANS	22.00 PLUMBING	224139701070 221113741910 221113232140	5YR. 200% DB	57.00
Kitchen Equipment Plumbing (Sink, kitchen, counter top style, self rimming, includes faucet & drain. Valves, bronze, ball, 150 psi, 3/8", threaded or soldered. Pipe, plastic, PEX, flexible, non- barrier type, white, hot/cold tubing rolls. 1/2" diameter x 100, excludes couplings & hangers)			\$ 1,198.91	RS MEANS	22.00 PLUMBING	224116163100 220523201430 221113747360	5YR. 200% DB	57.00

	39 Yr. SL Building	15 Yr. Site Imp. 150% DB	5 Yr. 200% DB	Cost Source	CSI Division	Line Number	Class Life	Asset Class
HVAC ("Furnace/ AC/ Heatpump, Supply duct, rectangular, rigid fiberglass Return duct, sheet metal galvanized, Lateral ducts, flexible round 6" insulated, Register elbows, registers, enameled steel w/damper, Return air grille, area to 12" x 12" Thermostat, manual, 1 set back")	\$ 26,316.70			RS MEANS	23.00 HVAC	0830101 0860109 0860111 0860121 0860123 0860135 0860137 0860139 0860143 0860147	39YR. SL	BLDG
Laundry Dryer Vent Kit & Rough-in (Vent kit, residential appliances, for dyers)			\$ 152.26	RS MEANS	23.00 HVAC	113013257450	5YR. 200% DB	57.00
Building Electric Distribution Panel, Wiring, Outlets, Lighting (Main electric service. Wiring device systems. Light fixture systems.)	\$ 33,685.37			RS MEANS	26.00 ELECTRICAL	0910048 0935212 0945212	39YR. SL	BLDG

	39 Yr. SL Building	15 Yr. Site Imp. 150% DB	5 Yr. 200% DB	Cost Source	CSI Division	Line Number	Class Life	Asset Class
Laundry Equipment Electrical (Receptacle, dryer, 30 Amp. Duplex receptacle, grounded, 120 volt, 20 amp. Wall plates, stainless steel, 1 gang. Wire, copper solid, 600 volt, #10, type THW, normal installation conditions in wireway, conduit, cable tray. Wire copper solid, 600 volt, #12, type THW, normal installation conditions in wireway, conduit, cable tray. Rigid galvanized steel conduit, 1/2" diameter, to 10'H, incl 2 terminations, 2 elbows, 11 beam clamps, and 11 couplings per 11 LF. Rigid galvanized steel conduit. 3/4" diameter, to 10' H incl 2 terminations. 2 elbows, 11 beam clamps, and 11 couplings per 100 LF.)			\$ 432.30	RS MEANS	26.00 ELECTRICAL	262726202490 26272602470 262726202600 260519900041 260519900031 260533131750 260533131770 260533160151	5YR. 200% DB	57.00

	39 Yr. SL Building	15 Yr. Site Imp. 150% DB	5 Yr. 200% DB	Cost Source	CSI Division	Line Number	Class Life	Asset Class
Kitchen Equipment Electrical (Receptacle devices, residential, decorator style, GFI, type NM cable, 15 amp, incl box & cover plate. Duplex receptacle, grounded, 120 volt, 15 amp. Receptacle, range, 50 Amp. Wire, copper solid, 600 volt, #12, type THW, normal installation conditions in wireware, conduit, cable tray. Wire, copper solid, 500 volt, #10, type THW, normal installation conditions in wireway, conduit, cable tray.)			\$ 437.02	RS MEANS	26.00 ELECTRICAL	260590104300 262726202460 262726202500 260519900031 260519900041	5YR. 200% DB	57.00
Computer Equipment Electrical (Wire, copper solid, #12, type Rigid galvanized steel conduit, 1/2" diameter, to 10'H, incl 2 terminations, 2 elbows, 11 beam clamps, & 11 couplings per 100 LF. Outlet boxed, plastic, with 2 mounting nails, 4" square. Duplex receptacle, grounded, 120 volt, 15 amp. Wall plates, stainless steel, 1 gang.)			\$ 1,084.70	RS MEANS	26.00 ELECTRICAL	260519900031 260533131750 260533170201 262726202460 262726202600	5YR. 200% DB	57.00

	39 Yr. SL Building	15 Yr. Site Imp. 150% DB	5 Yr. 200% DB	Cost Source	CSI Division	Line Number	Class Life	Asset Class
Television Equipment Electrical (Outlet boxes, plastic, with 2 mounting nails, 4" square. Duplex receptacle, grounded, 120 volt, 15 amp. Wall plates, stainless steel, 1 gang. Rigid galvanized steel conduit, 1/2" diameter, to 10'H, incl 2 terminations, 2 elbows, 11 beam clamps, & 11 couplings per 100 LF. Wire, copper solid,, #12, type THW, normal installation conditions in wireway, conduit, cable tray.)			\$ 1,084.70	RS MEANS	26.00 ELECTRICAL	260533170201 262726202460 262726202600 260533131750 260519900031	5YR. 200% DB	57.00
Ceiling Fan Electrical (Outlet boxes, pressed steel, 4" octagon. Wire, copper solid, #12 type THW, normal installation conditions in wireway, conduit, cable tray. Rigid galvanized steel conduit, 1/2" diameter, to 10'H, incl 2 terminations, 2 elbows, 11 beam clamps, & 11 couplings per 100LF)			\$ 919.20	RS MEANS	26.00 ELECTRICAL	260533160021 260519900031 260533131750	5YR. 200% DB	57.00

	39 Yr. SL Building	15 Yr. Site Imp. 150% DB	5 Yr. 200% DB	Cost Source	CSI Division	Line Number	Class Life	Asset Class
Irrigation Electrical GFI Outlet & Hook-up (Receptacle devices, residential, decorator style, receptacle, #12/2, type NM cable, 20 amp, incl box & cover plate. Receptacle devices, residential, weather-proof cover or above receptacles, add. Wire, copper, stranded, #12, type THW, normal installation conditions in wireway, conduit, cable tray.)		\$ 155.39		RS MEANS	26.00 ELECTRICAL	260590104400 260590104500 260519900100	15YR. 150% DB	0.3
Refrigerator			\$ 900.50	RS MEANS	11.00 EQUIPMENT	113013166150	5YR. 200% DB	57.00
Range/Stove with Oven			\$ 754.00	RS MEANS	11.00 EQUIPMENT	113013150020	5YR. 200% DB	57.00
Built-in/Over Range Microwave			\$ 232.00	RS MEANS	11.00 EQUIPMENT	113013151300	5YR. 200% DB	57.00
Dishwasher			\$ 649.00	RS MEANS	11.00 EQUIPMENT	113013172750	5YR. 200% DB	57.00
Garbage Disposal			\$ 138.50	RS MEANS	11.00 EQUIPMENT	113013183300 113013183350	5YR. 200% DB	57.00
Washing Machine			\$ 917.00	RS MEANS	11.00 EQUIPMENT	113013246650 113013246700	5YR. 200% DB	57.00
Dryer			\$ 1,130.00	RS MEANS	11.00 EQUIPMENT	113013256770 113013256780	5YR. 200% DB	57.00

	39 Yr. SL Building	15 Yr. Site Imp. 150% DB	5 Yr. 200% DB	Cost Source	CSI Division	Line Number	Class Life	Asset Class
Total included in study is equal to purchase price less land value. \$526,200.00	\$421,843.35	\$45,664.70	\$58,691.94					
	80 %	9 %	11 %					

Regarding Audit Support:

If you have purchased audit support and are facing an IRS audit, please contact us within 5 business days of initial notification of audit for any reason (regardless of if they mention the cost segregation studies) or else your audit support will be considered null and void. We do not recommend attaching your report with your tax return as you typically do not do so unless you are under audit. Do not respond to the IRS regarding your cost segregation reports until you have spoken to us. Failing to do so may result in the forfeiture of your audit support coverage. We'll ensure all crucial documents and clarifications are provided, but direct interactions with the Internal Revenue Service about the study's results will be undertaken by your CPA or tax attorney. By choosing our audit support service, you acknowledge and agree to the following terms:

- **Evidence Requirement:** You are required to provide both photographic and video evidence as directed by Cost Segregation Specialists, Inc. for the purpose of audit support.
- **Documentation:** Document the existing conditions, finishes, and other relevant details of the building or site before and after any changes are made using photos
- **Compliance:** Compliance with this evidence requirement is crucial, as failure to provide the necessary evidence will void your audit support coverage.

Please note that while we are dedicated to defending and substantiating our results, we cannot guarantee any specific outcomes during an audit.

If you have any questions or need further clarification, please don't hesitate to reach out to us. You can also find helpful examples on our YouTube channel.

Property Details

General	
Property Type :	Rental
First Name :	Jane
Last Name :	Doe
Mobile :	(848) 301-1862
Email :	info@diycostseg.com

Property Information	
Building Name :	SFR STR Sample
Building Address :	123 SFR STR
Building State :	FL
City :	Sample City
Country :	USA
Zip :	12345
Construction Type :	Purchase

Purchase Information	
Year Built :	2024
Year Purchased :	2025
Was There A 1031 Exchange? :	No

Purchase Price :	750,000.00
Land Value :	220,000.00
Building Type :	Rental Homes (Single Family Home/Duplex/Triplex/4-plex or Townhomes)
Building Square Feet :	3,500.00
Developed Site Square Feet :	9,500.00
Building Grade :	4.00
Number of Stories :	2.00
Irrigation :	Yes
Audit Support :	Yes

Payment Information

Payment Method :	Credit Card
Total Amount :	790.00

Building Information

Total Living Units :	Single Family
Crown Molding :	Yes
Swimming Pool :	No

Pool Screen Enclosure :	No
Hot Tub :	No
Hot Tub Portable :	No
Hot Tub In Ground :	No
Solar Panel :	Yes
Solar Panel Ground Sf :	20.00
Solar Panel Roof Sf :	400.00
Natural Gas :	Yes
Sewer Connection System :	City/county Sewer
Private Water Well :	No
Driveway :	Yes
Driveway Type :	Concrete
Driveway Width :	20.00
Driveway Length :	40.00
Fencing :	Yes
4 Ft. Vinyl Fence :	200.00
Kitchen Cabinetry Grade :	Custom Built Wood Cabinets
Kitchen Countertop Material :	Concrete
Total Refrigerators :	1.00

Range/Stove with Oven :	1.00
Total Microwaves :	1.00
Total Dishwashers :	1.00
Total Garbage Disposals :	1.00
Total Washing Machines :	1.00
Total Dryers :	1.00
Total Bedrooms :	5.00
Total Full Bathrooms :	2.00
Total Half Bathrooms :	1.00
Total Laundry Areas :	1.00
Total Ceiling Fans :	5.00
Window Coverings :	Yes
Total Window Coverings :	20.00
Ceramic Hard Tile Flooring Percentage :	100.00
Total Flooring Percentage :	100.00
Unit(s) used for long term? :	No

A cost segregation report should never be included with any tax documents sent to the IRS as part of your initial tax return/amended return or when filing form 3115 for a change of accounting section 481(a) adjustment. The only time any cost segregation reports should be provided to the IRS would be if they have requested more information pertaining to the cost segregation as part of an audit. If you are subject to an audit and have purchased audit support, contact us immediately. We will then work with you to provide the needed information.

If you choose to send the initial report as part of your initial tax return or as part of form 3115, audit support, if purchased, is void.

If your building has previously been placed into service and you are no longer eligible to amend the return for which the building was placed into service, you or your CPA will need to file form 3115 for a section 481A adjustment. For your convenience you can download and print form 3115 and the instructions for form 3115 by clicking the following links:

Form 3115: <https://www.irs.gov/pub/irs-pdf/f3115.pdf>

Instructions for Form 3115: <https://www.irs.gov/pub/irs-pdf/i3115.pdf>

PURCHASE PRICE ALLOCATION & IMPROVEMENTS

The purpose of this analysis was to arrive, through accepted methods, at an estimate of the purchase price allocation for the improvements located at the subject property.

The scope of this analysis included the systematic research and analysis necessary to reach our conclusion. The initial step was to gather information pertinent to the property and conduct research relevant to the allocation process, including replacement costs, and depreciation characteristics.

Replacement Cost New Less Depreciation (RCNLD), which is considered to be the most reliable and appropriate method for this allocation, was used as an integral part of Cost Segregation Specialists, Inc.'s final allocation estimate. In order to reach the RCNLD replacement cost new is estimated on the basis of the current accepted pricing methods and quantity survey of the component parts of the improvements. The replacement cost new is then adjusted down for accrued depreciation from all sources estimated thus arriving at RCNLD.

The final step in the process is the Reconciliation. In this process we have considered the relative applicability of the techniques used in order to produce the most reliable estimate of the purchase price allocation values. We have considered the quantities, qualities, and condition of the

improvements as well as the adequacy and reliability of the given data. We have reconciled the RCNLD to value that has been assigned to all improvements on a pro-rata basis.

The RCNLD methodology allows discrete identification of capital costs and value estimates for each of the improvements. This approach uses the concept of replacement as an indication of value and assumes that a prudent investor would pay no more for an existing asset than the cost to acquire a new one. The replacement cost new is adjusted for loss in value (estimated depreciation) caused by a variety of factors. Our opinion of value is based on our analysis and our experience for the valuation under the premise continued use in place. In all cases, items not in use were assigned no value. No analysis was performed by Cost Segregation Specialists, Inc. to quantify any costs of liquidation. Accordingly, liquidation costs associated with removal and clean up are not included in this allocation.

VALUATION PROCEDURES AND WORK PERFORMED

We have performed the following procedures in the process of conducting our analysis:

- Segregated the acquisition, settlement costs and other related costs for the various components of property according to their functions.
- Itemized the improvements located at the subject property.
- Identified and classify recovery property into the recovery classes defined in the 1986 Tax Reform Act (the "Act" or "TRA 86") Cost Recovery System and the Omnibus Budget Reconciliation Act of 1993.
- Identified those components and their respective costs which, under the provisions of the Internal Revenue Code (the "Code"), are considered to be Section 1245 property and those considered to be Section 1250 property. Using the current labor and material rates for the local area, the costs to reproduce the facility were estimated. We identified electrical, mechanical, plumbing, and other support costs relating to property qualifying for shorter cost recovery period depreciation. We reviewed existing tax authorities, case law, and Internal Revenue Service rulings to determine qualifying assets.
- Identified the physical depreciation for the building components, as well as economic useful life and the remaining useful life. This information was used to determine the relative Fair Market Value for each component cost of the identified Section 1245 and Section 1250 property item.

- Allocated the purchase price based on the determined relative fair market values for the building components, assuming the premise of “Use Value” as part of a going concern, using the appropriate methodology.

INFORMATION SOURCES

We have relied on the following informational sources related to the land improvements and building improvement values included in this report:

- Data on national and regional construction costs was obtained from data published by Marshall Valuation Service and R.S. Means Company, Inc. Facilities Construction Cost Data, data published by Marshall Valuation Services, and our professional experience were used as a guideline to derive the typical reproduction costs and life expectancies for the improvements.

MAINTENANCE OF RECORDS AND TAX TREATMENT OF RELATED ITEMS

Our conclusions are based on the completeness and accuracy of the facts and assumptions contained in this report. If any of the foregoing is not entirely complete or accurate, it is imperative that we are informed immediately, as the inaccuracy or incompleteness could have a material effect on our conclusions. We are relying upon the relevant provisions of the Internal Revenue code of 1986 as amended the regulations thereunder, and judicial and administrative interpretations thereof, which are subject to change or modification by subsequent legislative, regulatory, administrative, or judicial decisions. Any such changes could also have an effect on the validity of our conclusions. Unless you specifically request, we will not update our advice for subsequent changes or modifications to the law and regulations or the judicial and administrative interpretations thereof.

Regulations require that a taxpayer's records show the cost basis and depreciation allowance for each item. Accordingly, we recommend that you maintain sufficient records and documentation to meet this requirement. Documentation to support our recommendations and schedules will be maintained by us in an organized file until the current tax year is no longer open for audit by the Internal Revenue Service.

CAPITAL RECOVERY SYSTEM

The Economic Recovery Tax Act of 1981, the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), the Deficit Reduction Act of 1984, the Tax Reform Act of 1986, the Revenue Act of 1987, the Omnibus Budget Reconciliation Act of 1989 and the Omnibus Budget Reconciliation Act of 1993, permit taxpayers certain options with respect to cost recovery. The Tax Reform Act of 1986 modified the Accelerated Cost Recovery System for property placed in service after December 31, 1986, with transitional rules tied to binding contract dates. For this report, we examined existing tax authorities, case law, and Internal Revenue Service rulings to ensure that the owner's cost recovery benefits on the property are maximized under current regulations.

The Tax Reform Act of 1986 ("TRA 86") requires that taxpayers use a Modified Accelerated Cost Recovery System ("MACRS") of depreciation for most tangible depreciable property placed in service after December 31, 1986. The deduction for depreciation of MACRS property is determined by using the applicable method, the applicable recovery period, and the applicable convention. Which category applies to a particular property is based upon the class into which the property falls. The taxpayer must further identify the asset depreciation range ("ADR") class which is appropriate for the asset class in order to establish an ADR midpoint life. The appropriate ADR midpoint life is cross-referenced to the eight recovery classes of property as outlined in the TRA 86.

Each item of property is assigned to one of the following classes:

3-Year Property

In general, three-year property includes property with an ADR class life of four years or less.

5- Year Property

Five-year property generally includes property with an ADR class life of more than four and less than ten years. Specifically added to this class are the following:

- Cars
- Light general-purpose trucks
- Qualified technological equipment

- Computer-based telephone central office switching equipment
- Research and experimental property
- Semi-conductor manufacturing equipment
- Geothermal, ocean thermal, solar, and wind energy properties

7-Year Property

Seven-year property includes property with an ADR class life of 10 years or more but less than 16 years. Such property also includes any railroad track and property that does not have a class life and is not otherwise classified.

10-Year Property

Generally, 10-year property is property with an ADR class life of 16 years or more and less than 20 years, single-purpose agricultural or horticultural structures and any tree or vine bearing fruit or nuts.

15-Year Property

Included within 15-year property is property with an ADR class life of 20 years or more but less than 25 years. Such property includes municipal wastewater treatment plants and telephone distribution plants and other comparable equipment used for the two-way exchange of voice and data communications.

Comparable equipment is equipment used by non-telephone companies for two-way exchange of voice and data communications. Such equipment does not include cable television equipment used primarily for one-way communication.

20-Year Property

Twenty-year recovery property includes property with an ADR class life of 25 years or more, other than Internal Revenue Code Section 1250 real property with an ADR midpoint life of 27.5 years or more. Municipal sewers are included within this class.

27.5-Year Residential Rental Property

Residential rental property includes buildings or structures with respect to which 80% or more of the gross rental income is rental income from dwelling units. If any portion of the building or structure is occupied by the taxpayer, the gross rental income from the property includes the rental value of the unit occupied by the taxpayer. A dwelling unit is a house or apartment used to provide living accommodations. It does not include a unit in a hotel, motel, inn, or other establishment in which more than 50% of the units are used on a transient basis. The conference committees report on the TRA 86 indicates that such property includes manufactured homes that are residential rental property and elevators and escalators.

39-Year Nonresidential Real Property

Nonresidential real property is Internal Revenue Code Section 1250 real property that is not (1) residential rental property or (2) property with a class life of less than 27.5 years. The conference committee report indicates that this class includes elevators, escalators, and property either that has no ADR class life or whose class life is 27.5 years or more.

COST RECOVERY AMOUNTS

The cost recovery amounts in this report are affected by the Tax Reform Act of 1986. The Act requires the cost of property produced by a company for use in its trade or business ("selfconstructed assets") and the cost of property produced by a company for immediate sale (real property produced for sale) to be increased to comply with the final regulations under Internal Revenue Service Section 263A released August 6, 1993, "Uniform Capitalization".

These regulations have not been considered in the cost recovery computations shown in this report. Thus, the effect of these regulations should be determined before preparation of your income tax return or reliance upon the cost recovery amounts shown in this report in computing estimated tax payments.

ADR Classifications

The ADR system for class lives was reestablished by the TRA 86. TRA 86 refines the ADR system as it previously existed for assets placed in service after 1970 and before 1981. Midpoints of each ADR class are established which provide the basis to be cross-referenced to the

appropriate recovery period as reflected by the following:

TRA 86 Lives	ADR Cross-Reference
3 years	ADR midpoint of 4 years or less
5 years	ADR midpoint of greater than 4 years but less than 10 years
7 years	ADR midpoint is 10 years or more but less than 16 years
10 years	ADR midpoint is 16 years or more but less than 20 years
15 years	ADR midpoint is 20 years or more but less than 25 years
20 years	ADR midpoint is 25 years or more
27.5 years	Residential rental property
39 years	Nonresidential real property

The ADR system is based upon broad industry classes of assets. Property is classified according to the activity in which it is primarily used. This is the case even though the primary activity may be insubstantial in relation to all of the taxpayer's activities.

Recovery Periods and Methods

Under the MACRS rules, the cost of most tangible depreciable property placed in service after 1986 is recovered using the appropriate depreciation method, the appropriate recovery period, and the appropriate convention. The appropriate depreciation method and recovery period for each class of recovery property are as follows:

Property Class	Recovery Method
3 years	200% declining balance
5 years	200% declining balance
7 years	200% declining balance
10 years	200% declining balance
15 years	150% declining balance
20 years	150% declining balance
27.5 years	Straight-line
39 years	Straight-line

The recovery method for property used in a farming business is 150 % declining balance. When using the accelerated methods, the taxpayer may switch to the straight-line method at a time that maximizes the deduction. The taxpayer may elect to depreciate the property under the straight-line method in lieu of using the appropriate method. This election applies to all property in the MACRS class that is placed in service during the tax year.

Averaging conventions apply to depreciation computations made under the regular MACRS method, the straight-line MACRS method, and the alternative depreciation system. The recovery period begins on the date on which property is placed in service under one of the following conventions:

Half-Year Convention

Under the half-year convention, applicable to property other than residential rental property and nonresidential real property, property is deemed to have been placed in service or disposed of in the middle of the year. Thus, one-half of a year's depreciation is allowed for the

year in which the property is placed in service or is disposed of or is otherwise retired from service. In the case of a tax year of less than 12 months, property is treated as being in service for half the number of months in such tax year.

Mid-Month Convention

A mid-month convention applies to residential rental property and nonresidential real property, including low-income housing. Property is deemed to have been placed in service or disposed of during the middle of the month.

The deduction is based on the number of months the property was in service. Thus, one-half month's recovery is allowed for the month the property is placed in service and for the month it is disposed of prior to the end of the recovery period.

Mid-Quarter Convention

A mid-quarter convention applies to all property, other than nonresidential real property and residential rental property, if more than 40% of the aggregate bases of such property is placed in service during the last three months of the tax year. Under the mid-quarter convention, all property placed in service during any quarter of the tax year is treated as placed in service at the mid-point of such quarter.

The Omnibus Budget Reconciliation Act of 1993 includes a longer recovery period for depreciating nonresidential real property. Effective generally for property placed in service on or after May 13, 1993, the Act increases the depreciation period from 31.5 to 39 years, although transition rules apply to property placed in service before 1994. Under the transition provisions, the longer depreciation period does not apply to property under construction before May 13, 1993, or under a binding contract to purchase entered into before that date. For property placed in service after December 31, 1993, the depreciation component of the corporate Adjusted Current Earnings (ACE) adjustment is eliminated. The other Alternative Minimum Tax depreciation rules remain unchanged.

ALTERNATIVE MINIMUM TAX ALTERNATIVE

For purposes of determining Alternative Minimum Taxable (AMT) income for any tax year, an adjustment to taxable income must be made for depreciation. The adjustment is made by modifying the depreciable lives and the applicable depreciation method for that property

depreciated under regular MACRS. No adjustment is required for property depreciated under the alternative depreciation system. The difference between the total depreciated under regular MACRS and AMT depreciation is an adjustment to be included in computing alternative taxable income.

UNDERPAYMENT PENALTY

As part of the Omnibus Budget Reconciliation Act of 1989, Congress modified the existing penalty for substantial understatement of tax. This penalty applies generally when the understatement is more than 10% of the "correct" tax. The penalty, formerly 25% for penalties assessed after October 21, 1986 was changed to 20% for returns for which the due date is after December 31, 1989. Except in the case of tax shelters, the penalty does not apply to a specific item if either there is "substantial authority" for the position taken by the taxpayer with respect to that item or the relevant facts with respect to that item are adequately disclosed in or with the taxpayer's return. Although the term "substantial authority" is not defined in the statute, the regulations state that substantial authority is determined by analyzing the relevant authorities in light of the pertinent facts and circumstances.

SECTION 1245 PROPERTY

Current law governing assets qualifying as Section 1245 property focuses primarily on a "permanency test." Costs for those items that are not inherent parts of a permanent nonmovable structure may qualify as Section 1245 property under this test. Numerous rulings and cases govern the treatment of many specific items. Absent a specific ruling or case, the "permanency test" is applied to a particular asset type according to the reasoning reflected in analogous rulings and cases.

A second test, formerly the most important guideline, is the "functional use" test. Under this test, an asset may qualify as Section 1245 property if its function as a building component is incidental to its function as support for other Section 1245 property. The courts continue to promulgate other tests, such as whether an item is movable and the demonstrable likelihood that it will be moved.

For each item of property identified in the report as Section 1245 property, we believe that the position has a realistic possibility of being sustained administratively or judicially, if challenged. This determination is based on our interpretation of the relevant tax statutes, regulations, revenue rulings, and case law in effect as of the date of this report. However, because such interpretation is based upon factual considerations

about which opinions can differ, the Internal Revenue Service may challenge the classification of some of the items as Section 1245 property.

REPLACEMENT COST

The Dictionary of Real Estate Appraisal, third edition defines Replacement Cost as follows:

A second test, formerly the most important guideline, is the "functional use" test. Under this test, an asset may qualify as Section 1245 property if its function as a building component is incidental to its function as support for other Section 1245 property. The courts continue to promulgate other tests, such as whether an item is movable and the demonstrable likelihood that it will be moved.

"The estimated cost to construct, at current prices, a building (improvements) with utility equivalent to the building (improvements) ... using modern materials and current standards, design, and layout." The replacement cost approach considers specific factors including investigation, analysis, and estimation of:

- Size, quantity, capacity, use of current technology, and the cost to construct or replacement of the asset, or group of assets, on a "continued use" basis.
- Cost estimates for the construction of the improvements, including necessary accessory assets such as electrical and mechanical requirements, as well as local cost factors, including labor rates and availability of skilled trades. In our analysis of the improvements, we have considered engineering, architectural, and interior design services, freight, and other miscellaneous expenses as indirect costs.
- Component units were defined based on consideration of types of material, asset class, and other criteria. Quantity takeoffs pertaining to individual component units were developed from the available construction documents, and other available information. Component units that require quantification were priced based on costs developed using recognized cost manuals.
- Data gathered, including the effect of physical deterioration such as normal wear and tear, damage of an extraordinary nature, repair and maintenance policies, and economic and technological changes effecting the replacement of the improvements.
- Full economic useful life and remaining economic life of each of the improvements based on guideline levels published by Marshall Valuation Services, revenue procedures, field observations, and our professional experience and knowledge.
- The final step was the allocation of indirect costs for the total project to each of the component units identified.

DEPRECIATION

Depreciation represents the loss in value that may come from age, presence of features that are excessive, deficient, currently undesirable, or other external factors.

Depreciation can be one of five types and more than one form of depreciation may be present in the same improvements.

Several types of depreciation include:

- **Physical Depreciation** is the physical wearing out of the structure and is usually the most obvious form of depreciation.
 1. *Incurable* – (Example): Studs, joists, rafters, foundations or any long-lived item whose cost, replacement or repair (cost to cure) would not be considered justifiable with the value increase by typical purchasers.
 2. *Curable* – (Example): – (Example): Roof covering, fascia, gable ends, doors, etc., or any other shortlived item whose cost of replacement or repair (cost to cure) would be considered justifiable with the value increase by typical purchasers.
 - **Functional Obsolescence** is the result of layout, design, or other features that are undesirable in comparison with features designed for the same functions in newer property and is sometimes dependent upon the changing requirements of buyers.
 1. *Incurable* – (Example): Poor design or room layout, improper location of building on site, driveway or sidewalk in poor condition or any other item within the property lines (site and buildings) whose replacement or repair (cost to cure) would not be justifiable with the value increase by typical purchasers.
 2. *Curable* – (Example): – Lack of extra bath, insufficient closet space, central air conditioning, carpeting, painting, remodeling or modernization, etc., which cost to cure would be justifiable with the value increase of typical purchasers.
 - **Economic Location or Environmental Obsolescence** is loss of value causes outside the property itself. Zoning changes, proximity to nuisances, and changes in land use can all be causes of environmental obsolescence.
 1. *Incurable* – (Example): Must be outside the property lines and over which the owner has no control, such as asphalt plant, slaughter-house, loose zoning, high tax assessment (unwarranted), inadequate street drainage, road repair needed, or any other adverse factors.
- Depreciation is only present when it can be measured by market evidence (comparing with similar items of depreciation). Generally, land does not depreciate, nor is it a wasting asset.

To better understand the depreciation concept, the following definitions are provided:

Actual Age:	Historical or chronological age is the number of years that have elapsed since construction was completed.
Effective Age:	The age indicated by the condition and utility of the improvement.
Economic Useful Life:	The period over which the improvements contribute to property value.
Remaining Life:	The remaining period over which the improvements contribute to property value.

There are several different methods for estimating accrued depreciation including

Market, Age/Life, and Breakdown Methods.

The **Market Method** involves deriving depreciation from actual sales by the process of abstraction. However, the specific component parts of depreciation are typically unidentified.

In the **Age/Life Method** (physical and economic) depreciation is measured by the ratio which effective age bears to the total estimated economic life of the property. Additional adjustments functional and external obsolescence are not addressed.

A derivative of the age/life method is the **Modified Age/Life Method**. This depreciation method is similar to the age/life method in that depreciation is calculated at a rate over the economic or physical life of the subject's improvements, with the exception that it is first modified to reflect such things as:

- The condition of the subject.
- Functional obsolescence not included in age/life rate.
- External and economic obsolescence not included in age/life rate.

Depreciation for the subject improvements was calculated through the use of the "modified age/life" method. The **Breakdown Method** is probably the most comprehensive depreciation analysis. The appraiser examines and analyzes existing elements of physical deterioration, functional obsolescence and external obsolescence. Each depreciation component is identified and an analysis is undertaken to translate the observed condition into a definitive dollar amount.

Depreciation for the improvements was subtracted from the replacement cost to arrive at the estimate of replacement cost new less depreciation (RCNLD).

Economic and Remaining Useful Life

Economic useful life is defined as the period over which the improvements contribute to property value, or the period of time during which it is profitable to use an asset. An asset's economic useful life expires when it is no longer profitable to use the asset, or in which it no longer contributes as value in continued use, or when it is more profitable to use another asset. The economic useful life for an asset can be estimated based upon: 1) legislated lives derived from schedules provided by the federal income tax code; 2) legal lives based on contractual terms such as a lease; or 3) observed historical rates of obsolescence. Planned replacement, as part of a scheduled retail store upgrade, in order to remain competitive in the marketplace, is an example of such economic obsolescence.

In determining assets' economic useful life, we relied on several sources of information including data published by Marshall Valuation Services, the nature of the business, and our professional judgment. The economic useful life that has been assigned to each of the components that make up the improvements are demonstrated in the exhibit section of this report.

The estimate of the remaining useful life of the improvements was based on an economic normal life schedule for items such as partitions, doors, glass and glazing, interior finishes; and building services including mechanical and electrical components. The effective age of the subject improvements, estimated from our informed judgment, was subtracted from the economic useful life to determine a remaining useful life.

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