



Central Pennsylvania is a growing and changing community. The construction industry is a vital cog in the development and success of our region. Although most accounting firms have some experience serving the construction industry, few have the depth of expertise that McKonly & Asbury has in serving some of the regions largest contractors.

McKonly & Asbury
from a Client's Point of View

“WE VIEW OURSELVES AS CLIENT-ORIENTED, NOT PROJECT ORIENTED. WE EXPECT THE VERY SAME FROM OUR OWN SERVICE PROVIDERS. McKONLY & ASBURY HAS SHOWN US A DEEP COMMITMENT TO BUILDING OUR BUSINESS, KEEPING ON THE FOREFRONT OF THE CONSTRUCTION INDUSTRY, AND PROVIDING US WITH THE KEY ADVICE WE NEED TO SUCCEED.”

**LEE EICHELBERGER, PRESIDENT
LOBAR ASSOCIATES**



COST SEGREGATION SERVICE



New Facility Depreciation Alternatives – An Example

The following comparison demonstrates the benefits of McKonly & Asbury's Cost Segregation Service:

	Without Cost Segregation	With Cost Segregation
Cost of Real Property	\$ 1,100,000	\$750,000
Cost of 15-Year Property	----	150,000
Cost of 7-Year Property	----	125,000
Cost of 5-Year Property	----	75,000
Total Costs	\$ 1,100,000	\$1,100,000
Depreciation Expense (First 2 Years)	\$ 41,132	257,657
Increase in Deduction	----	216,725
Reduction in Federal Tax (34%)	----	73,619
Net Present Value of Deductions	----	53,871

The above example assumes an interest rate of 4.25% representing an average rate of cost of funds and weighted average cost of capital. Actual results may vary.

What is the Return on Investment?

The categorization of building components through M & A's Cost Segregation Service pays for itself and provides a sizable return on investment.

Other advantages include:

- Properly classified assets
- Proper asset depreciation
- Identification of expensed costs
- Detailed fixed asset documentation

What are the Recent Tax Law Changes?

Recent tax changes provide yet another advantage. Personal property and land development purchased between May 5, 2003 and December 31, 2004 are eligible for an immediate 50% write-off. Similar property purchased between September 11, 2001 and May 5, 2003 is eligible for a 30% write-off. In addition to shortening the recovery period of new assets through the M & A Cost Segregation Service, entities can recognize considerable tax savings by utilizing this "bonus" depreciation.

Why McKonly & Asbury?

Cost Segregation Service requires the team work of professionals experienced in federal taxation, construction cost analysis, property accounting, and engineering.

The McKonly & Asbury approach is to organize the engagement team before ground is broken. This proactive approach provides an efficient, comprehensive, and more fully documented service for our clients.

Categorizing components is only half the mission. Determining, supporting and documenting the costs associated with each component requires seasoned experience.

Service includes a review of applicable tax laws, recent IRS rulings, and interpretations of court cases that impact the proper recovery period for each asset. Conclusions are formally supported by the regulatory authorities and properly documented for future reference.

What is Cost Segregation?

Cost segregation is a low-risk, high-return method to recover capital investments and improve cash flow. The McKonly & Asbury Cost Segregation Service enables entities to retain cash longer by accelerating depreciation deductions of facility components. This is accomplished by categorizing new, renovated, and existing building costs into their underlying components.

Under current tax law, the cost of a non-residential building is depreciated over 39 years, but personal property items and land improvements are depreciated over 15, 7, or as few as 5 years. Accelerating the depreciation deduction of qualifying components allows for increased current tax deductions. Deductions equate to lower current tax payments and increased current cash flow.

Entities owning existing buildings being depreciated over 39 years are not excluded from obtaining the benefits of the Cost Segregation Service. By reclassifying component assets to their correct lives, entities can deduct a "catch-up" provision in the current year. Benefits will continue to be realized in future years through accelerated tax write-offs.