

CHARITABLE REAL ESTATE INVESTMENT TRUST

**A Pooled Income Fund Investing in Real
Estate Owned by the Charity--Using a
Charitable Sale/Leaseback Strategy**

Who is this Old Duck?

- Extensive Healthcare Experience
 - Hospital and System CFO
 - Treasury Vice President
 - Philanthropy 17+ years

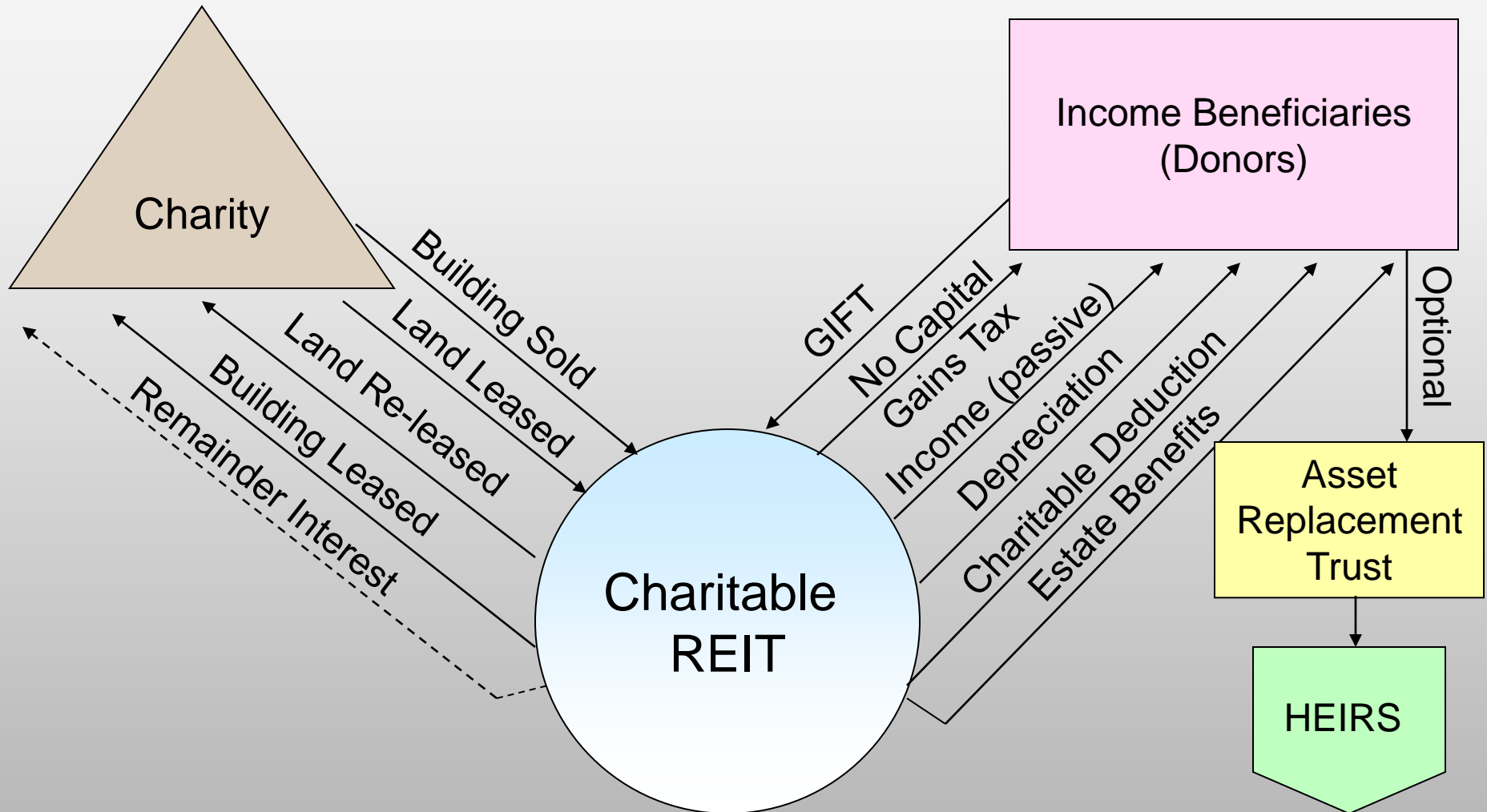
Three Sources of Capital

- Net Income
- Debt
- Philanthropy

Benefits to Charity

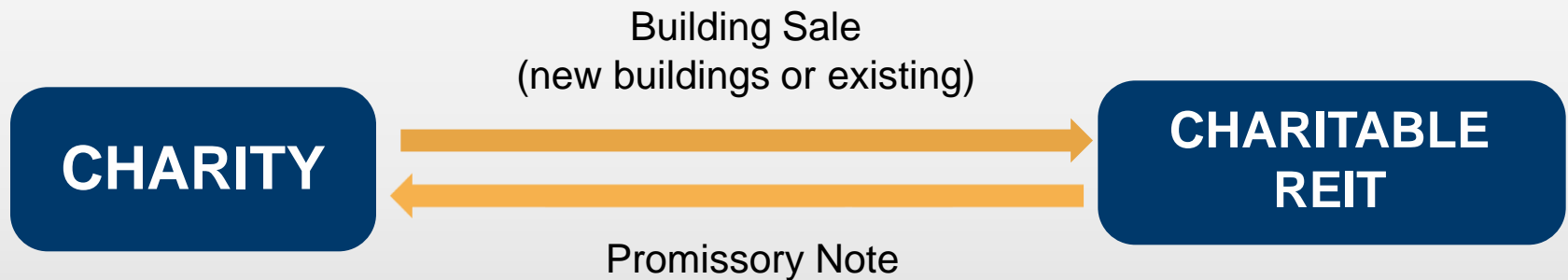
- **A new source of capital for the Charity**
- **Less costly than debt financing**
- **No third party ownership/control – Charity controls the Charitable REIT**
- **Building ownership will return to the Charity without additional cost**
- **Depreciation fund provides funds for capital improvements of Charitable REIT property leased to Charity**
- **Enables major contributions from more donors**

Overview - The Charitable REIT (a Pooled Income Fund)



Getting Started

Before any donations are received



Example

Charity sells building to Charitable REIT
Charity leases building back from C-REIT



C-REIT Financial Assumptions

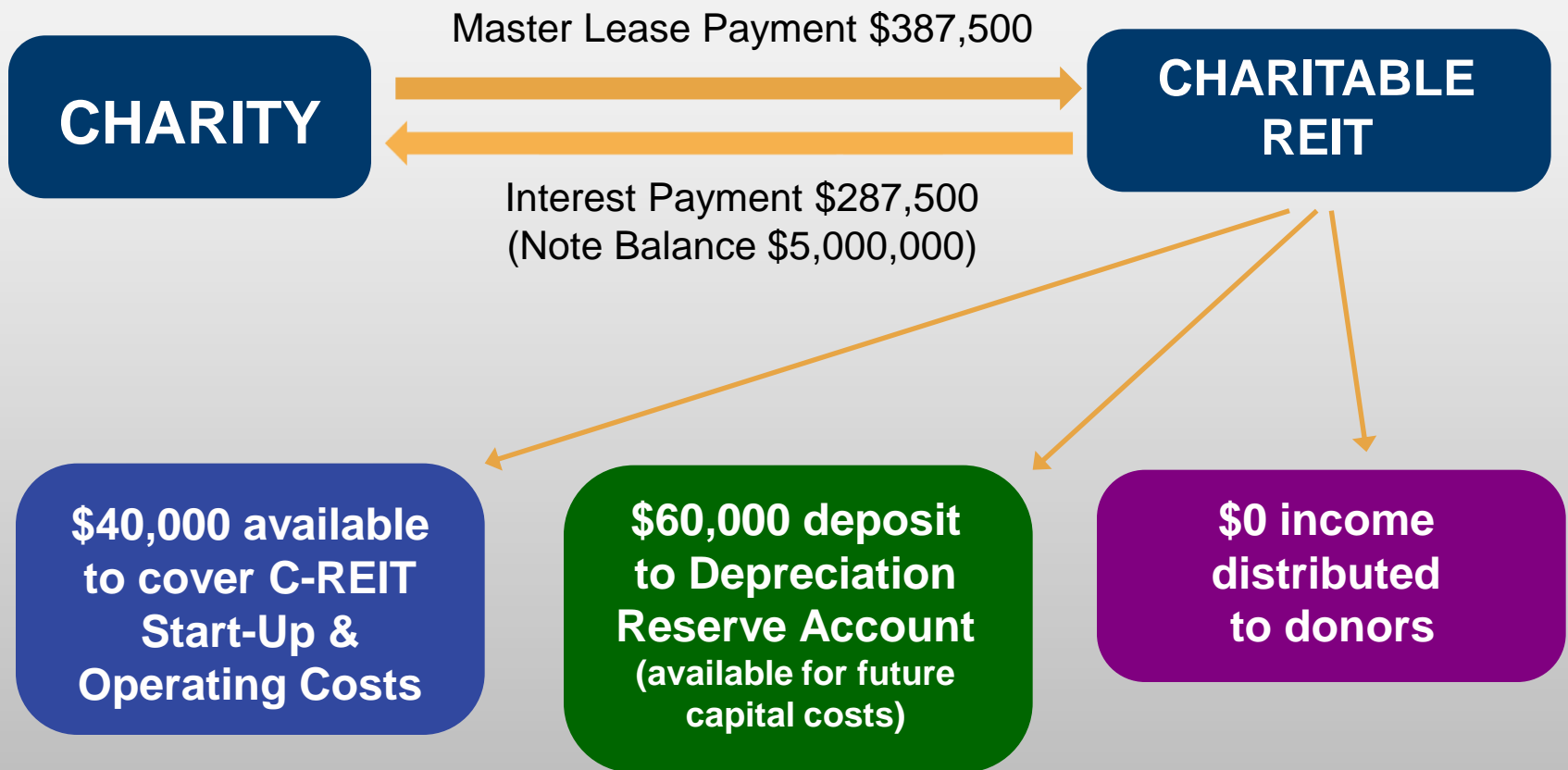
Building	\$5,000,000
Other Capital Costs	<u>360,000</u>
Total C-REIT Assets	<u>\$5,360,000</u>

How Lease Payment is Calculated*

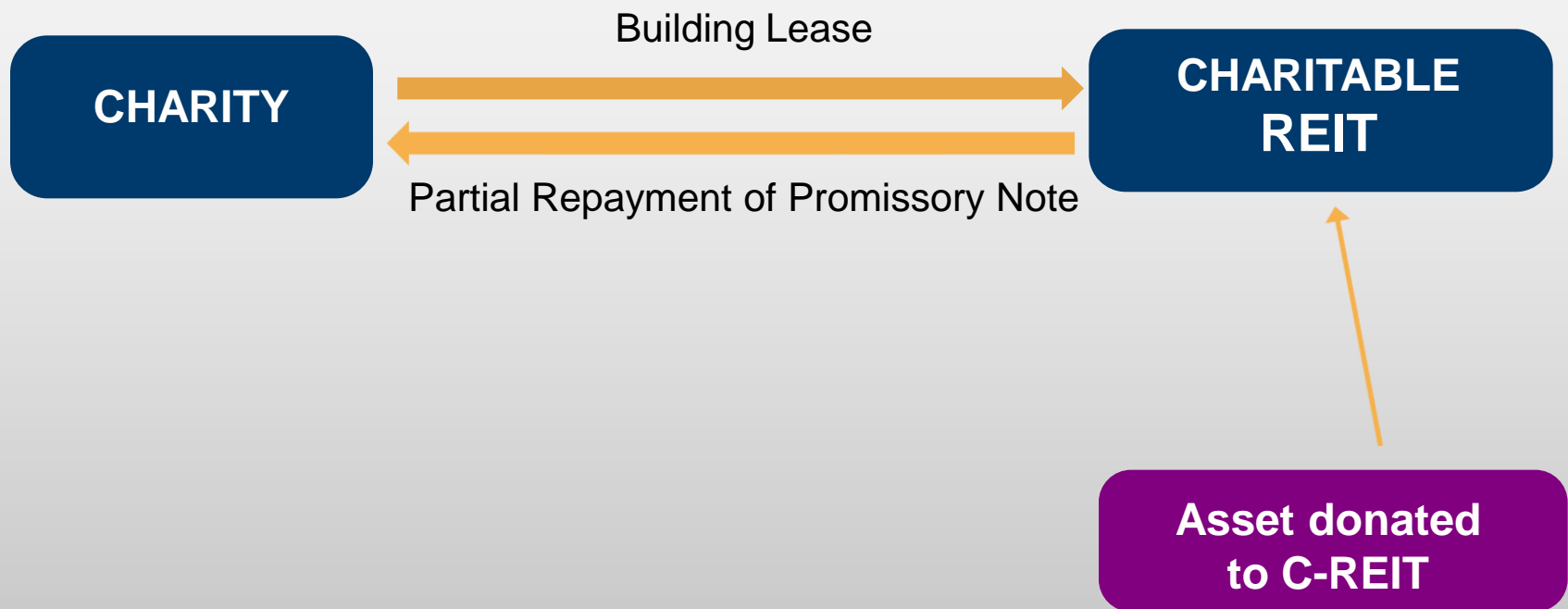
Investor Cash Flow [Target 6%]	\$ 321,600
GAAP Depreciation Res.	60,000
CREIT Admin. Costs	<u>5,900</u>
Total Master Lease (7.75%)	<u>\$ 387,500</u>

* plus CPI adjustment capped at 1.6% starting in Year 3 for 4 years and then 1.35% thereafter.

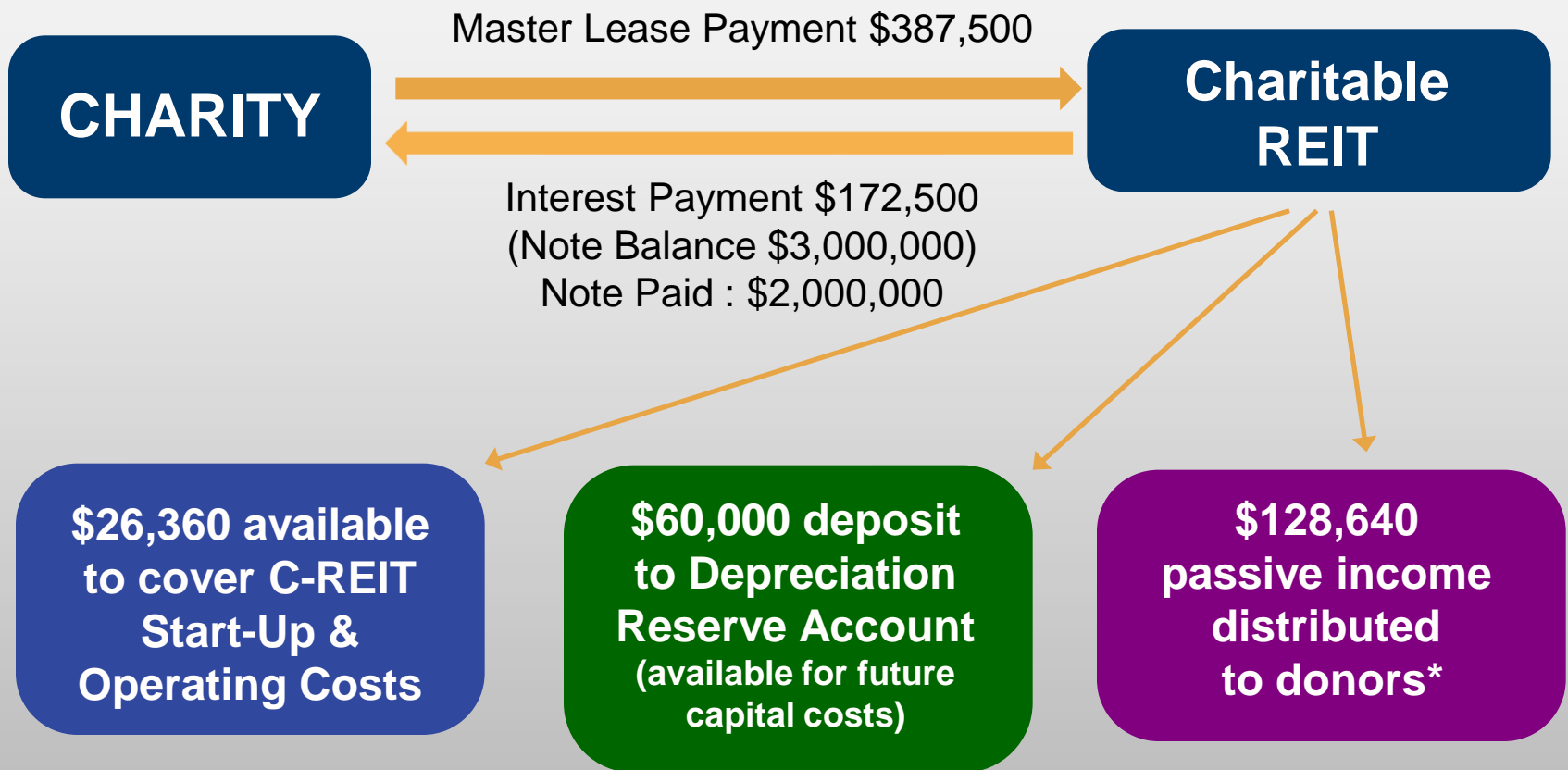
Charitable REIT | Annualized lease payment & distribution before any donations are received



Charitable REIT | Donors contribute to C-REIT--cash, appreciated securities or marketable real estate

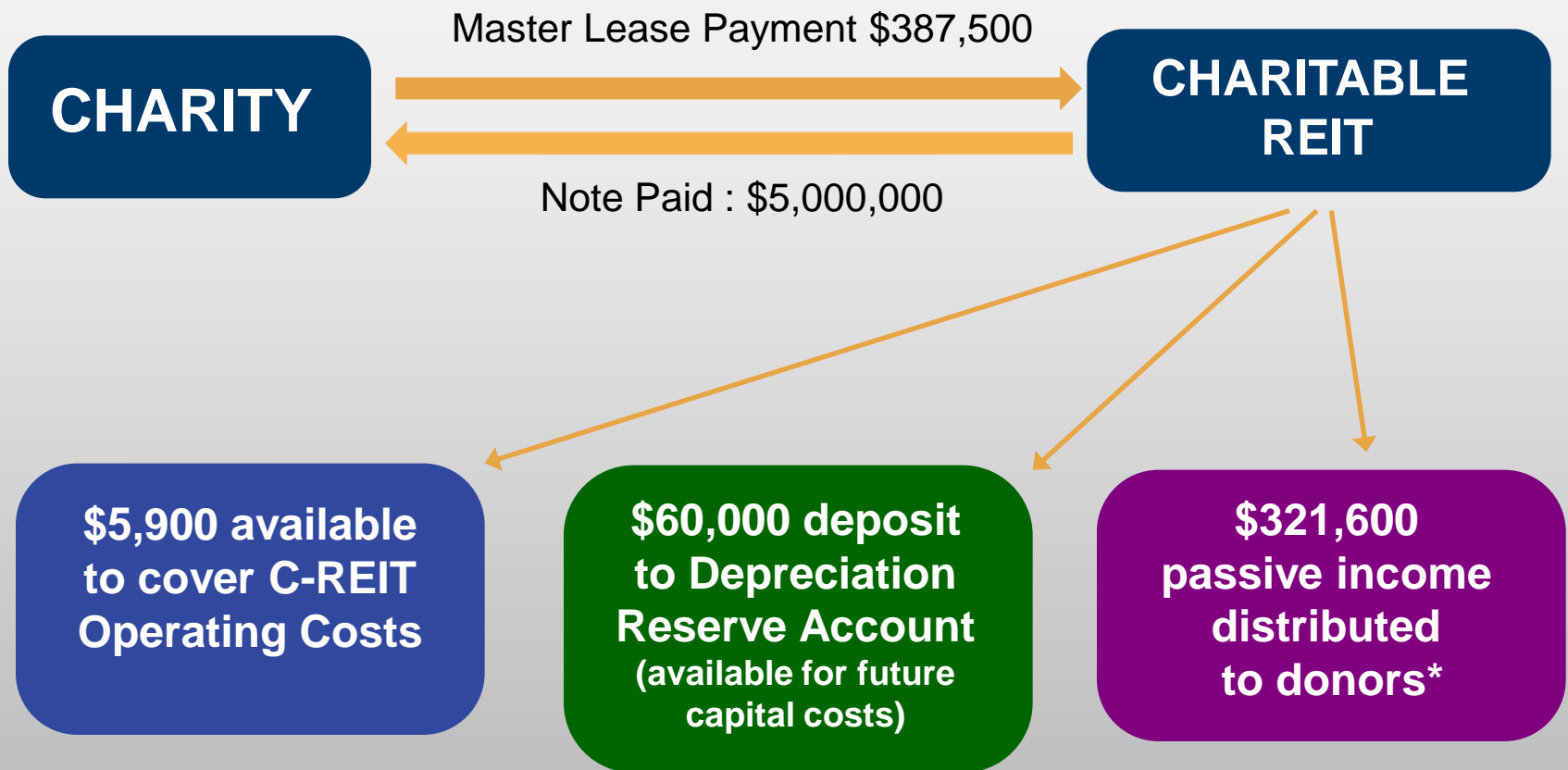


Charitable REIT | Lease payment & distribution: donations at 40% of C-REIT capacity, or \$2,144,000



* Donors also receive about \$65,000 of depreciation tax deductions.

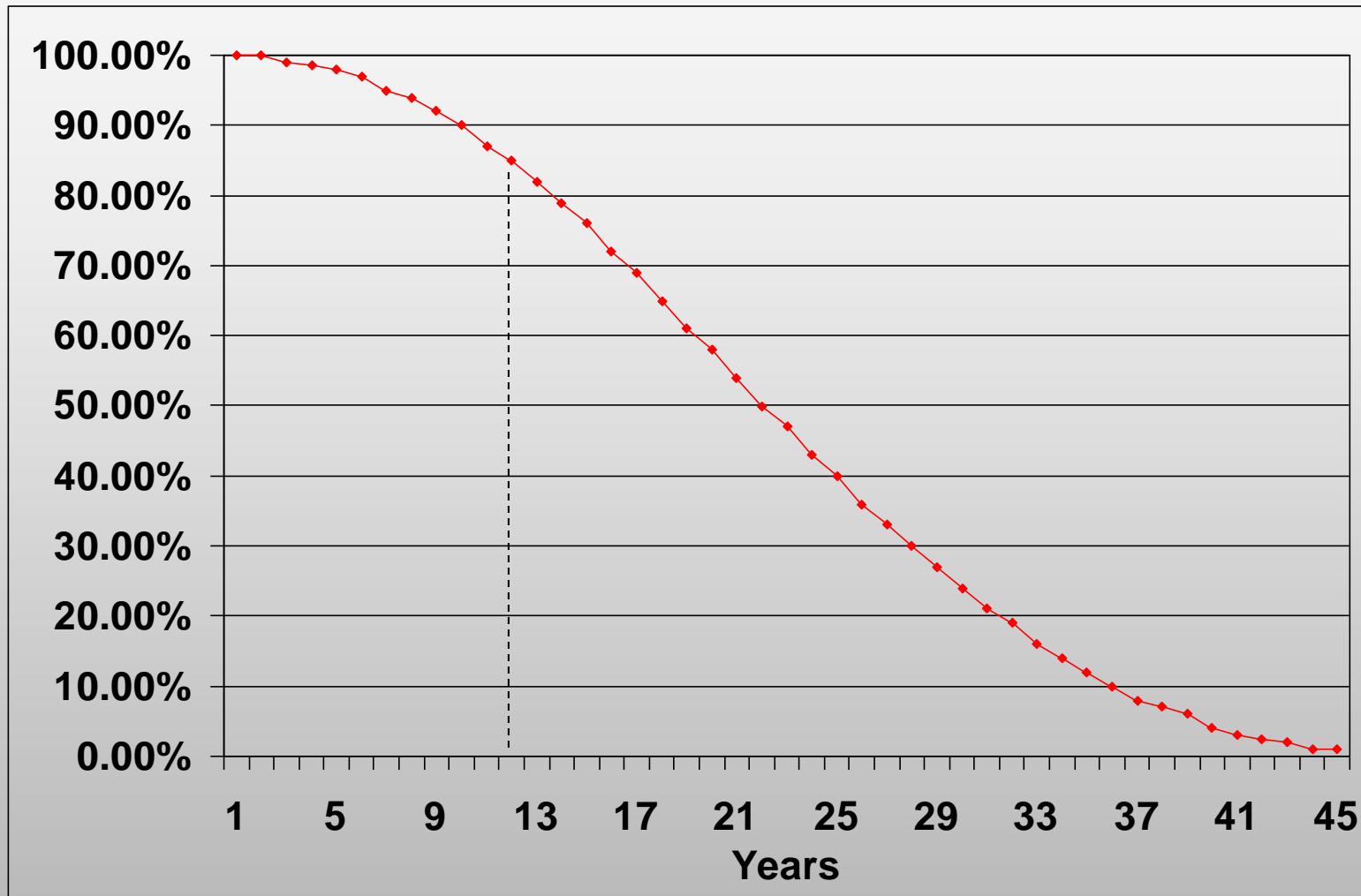
Charitable REIT | Lease payment & distribution: donations at C-REIT capacity of \$5,360,000 (all donors alive)



* Donors also receive about \$65,000 of depreciation tax deductions.

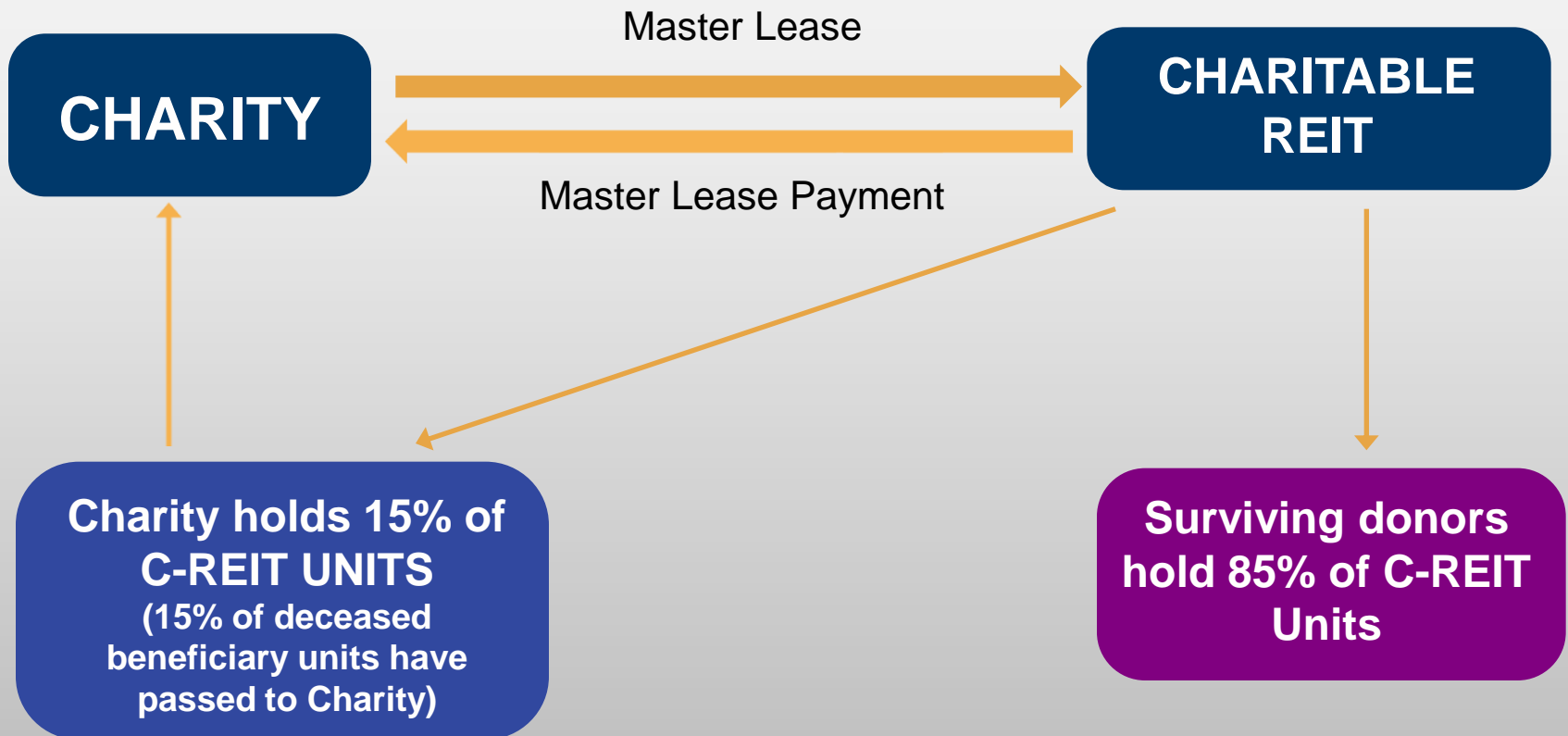
Donor Life Expectancy

80% Married, 20% Single



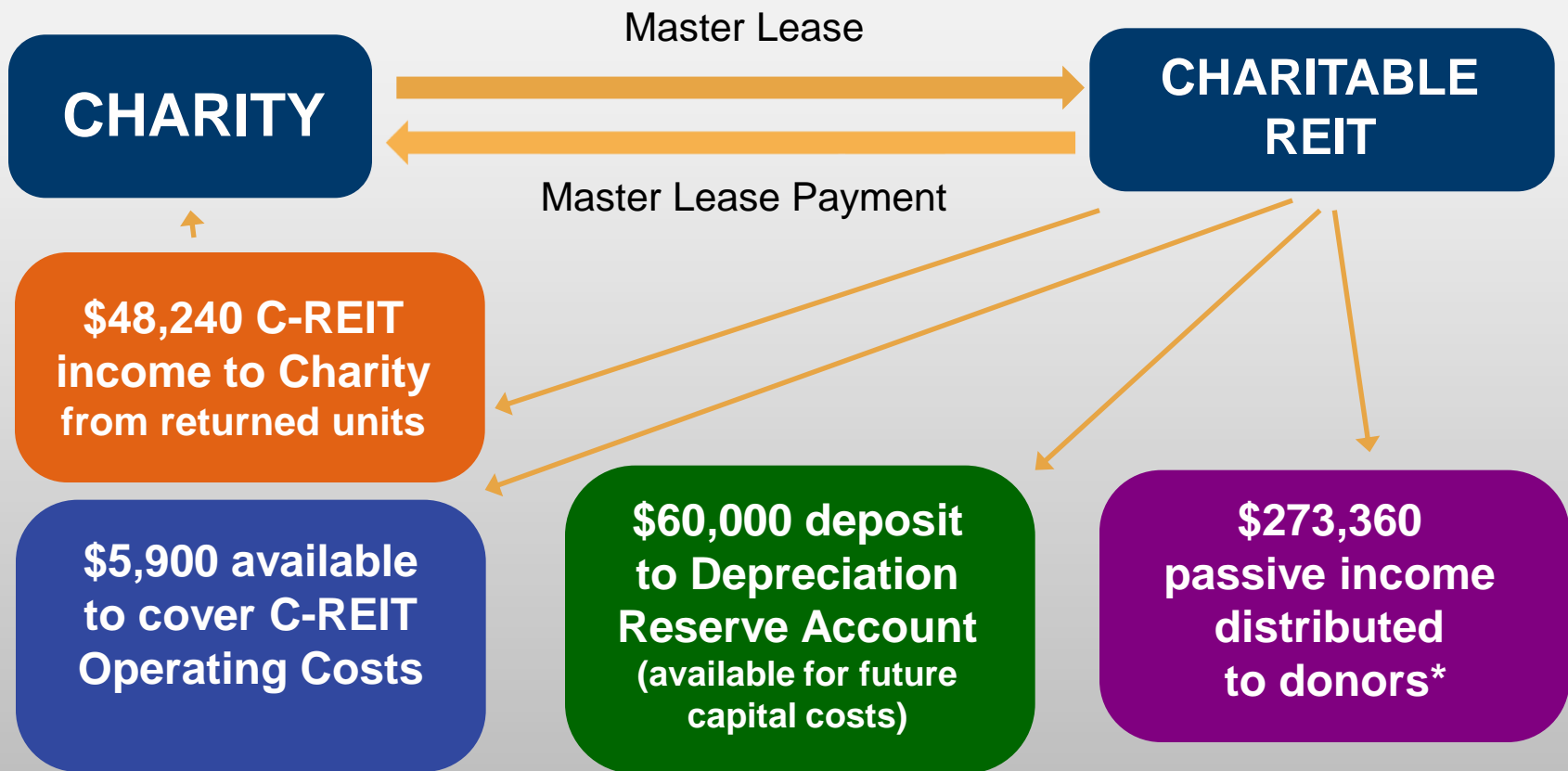
Reverted Units

Year 12: 85% of beneficiaries alive; 15% have died and their units revert to Charity



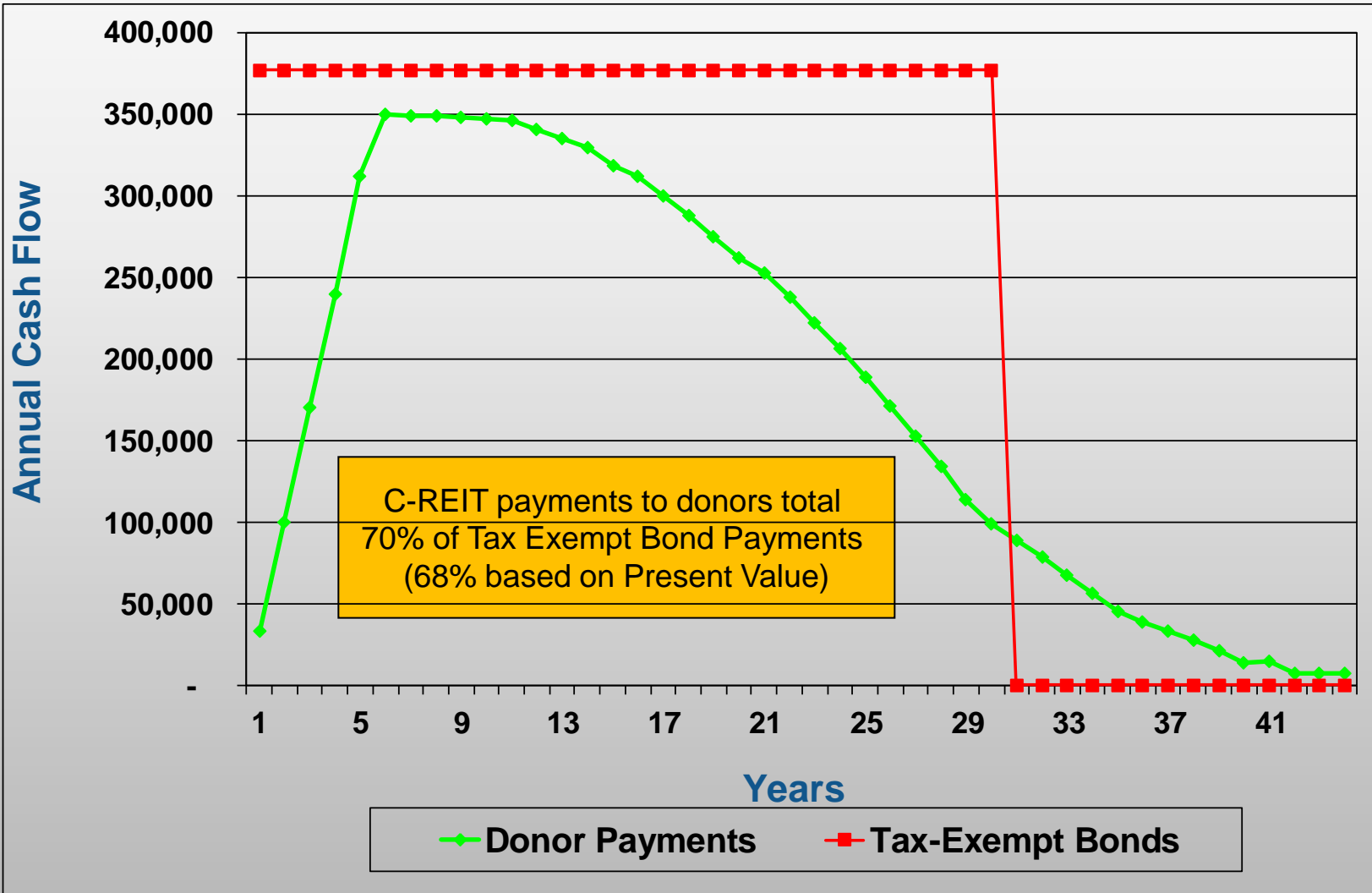
Cash Flow

Year 12: Lease payment distribution; 85% of donors remain alive (ignores CPI adjustment)

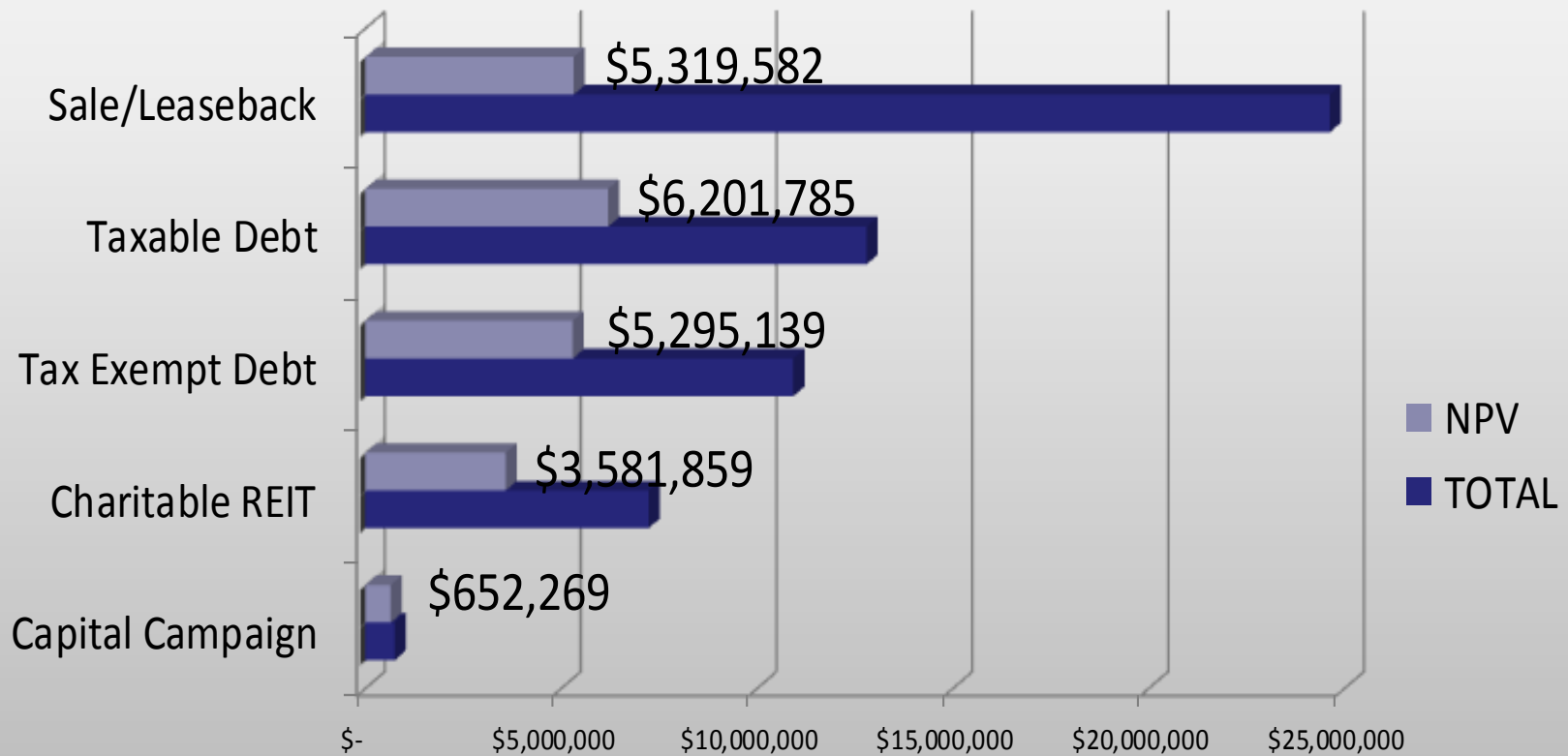


* Donors also receive about \$55,250 of depreciation tax deductions.

Comparison to Debt Financing



Cost to raise \$5,000,000



Pro-Forma Estimated Benefits of C-REIT for a \$5,000,000 Building

Hospital Benefit - 5 year funding

Year	Donors Alive	Lease Payment	Added Campaign Cost	PIF Income Payment to Region	Donations Received	Promissory Note Interest	Funded Depreciation Capital	Value of Money	Net Increase in Liquidity	Building Value Returned*	Increase in Total Net Assets
1	100%	(387,500)	(30,000)	-	1,000,000	258,750	60,000	29,444	930,694	-	(69,306)
2	100%	(387,500)	(15,000)	-	1,000,000	201,250	60,000	93,105	1,882,549	-	(117,451)
3	99%	(393,700)	(15,000)	1,634	1,000,000	143,750	60,000	157,562	2,836,794	50,000	(113,206)
4	99%	(399,999)	(15,000)	2,321	1,000,000	86,250	60,000	222,151	3,792,517	50,000	(157,483)
5	98%	(406,399)	(15,000)	6,058	1,000,000	28,750	60,000	286,946	4,752,872	100,000	(147,128)
6	96%	(412,902)		13,665	-	-	60,000	318,728	4,732,363	200,000	(67,637)
7	95%	(418,476)		17,338	-	-	60,000	317,226	4,708,450	250,000	(41,550)
8	93%	(424,125)		24,637	-	-	60,000	315,609	4,684,571	350,000	34,571
9	91%	(429,851)		32,151	-	-	60,000	314,000	4,660,872	450,000	110,872
10	89%	(435,654)		39,885	-	-	60,000	312,409	4,637,512	550,000	187,512
11	86%	(441,535)		51,524	-	-	60,000	310,975	4,618,476	700,000	318,476
12	84%	(447,496)		59,768	-	-	60,000	309,723	4,600,471	800,000	400,471
13	81%	(453,537)		72,039	-	-	60,000	308,681	4,587,653	950,000	537,653
14	78%	(459,660)		84,665	-	-	60,000	308,011	4,580,669	1,100,000	680,669
15	74%	(465,865)		101,559	-	-	60,000	307,896	4,584,259	1,300,000	884,259
20	55%	(498,172)		189,360	-	-	60,000	319,266	4,785,808	2,250,000	2,035,808
25	36%	(532,719)		290,126	-	-	60,000	359,890	5,439,873	3,200,000	3,639,873
30	20%	(569,661)		390,685	-	-	60,000	443,441	6,748,821	4,000,000	5,748,821
35	9%	(609,166)		478,749	-	-	60,000	583,877	8,919,774	4,550,000	8,469,774
40	3%	(651,410)		549,754	-	-	60,000	796,791	12,188,696	4,850,000	12,038,696
45	1%	(696,583)		604,453	-	-	60,000	1,103,470	16,881,255	4,950,000	16,831,255

* based on initial cost plus improvements without any provision for depreciation or appreciation

Estimated Benefits of C-REIT for a \$5,000,000 Building

Comparison of Various Subscription Periods

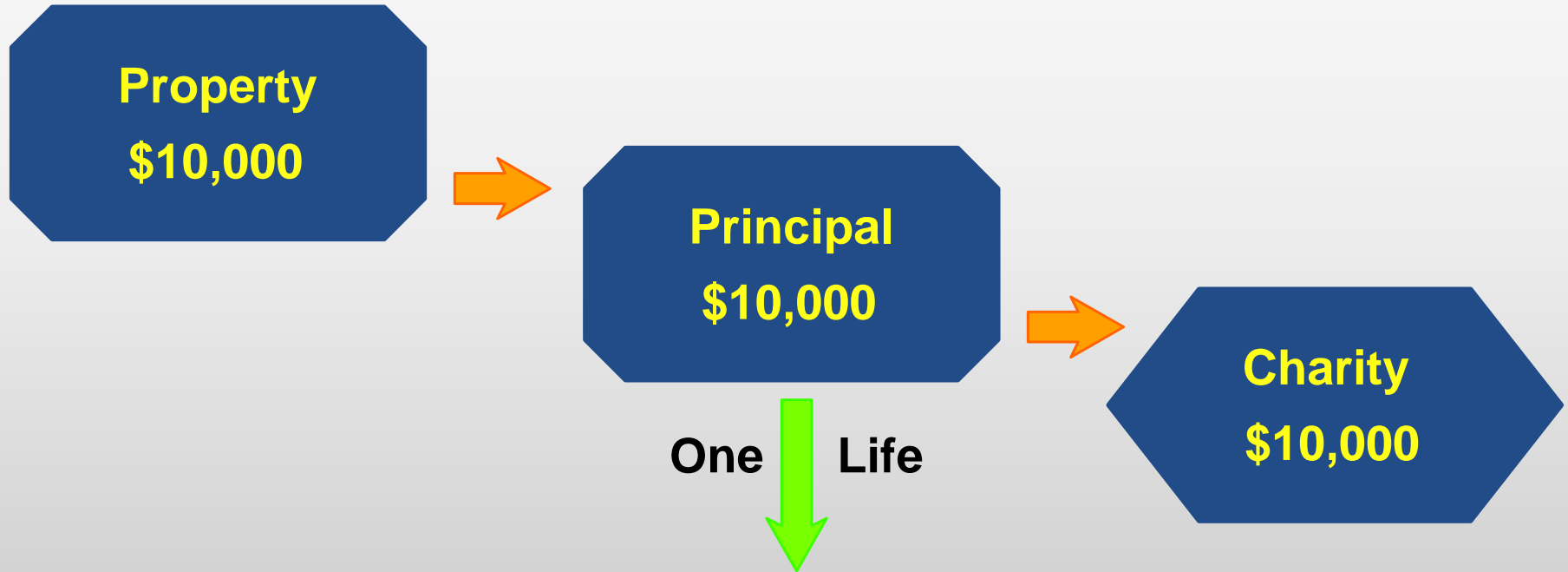
	3 Year Campaign Funding			5 Year Campaign Funding			8 Year Campaign Funding		
Year	Net Increase in Liquidity	Building Value Returned*	Increase in Total Net Assets	Net Increase in Liquidity	Building Value Returned*	Increase in Total Net Assets	Net Increase in Liquidity	Building Value Returned*	Increase in Total Net Assets
1	1,601,288	-	(65,379)	930,694	-	(69,306)	565,856	-	(5,059,144)
2	3,231,865	-	(101,468)	1,882,549	-	(117,451)	1,148,035	-	(5,101,965)
3	4,869,484	50,000	(80,516)	2,836,794	50,000	(113,206)	1,726,793	50,000	(5,098,207)
4	4,859,781	50,000	(90,219)	3,792,517	50,000	(157,483)	2,301,177	50,000	(5,148,823)
5	4,846,310	100,000	(53,690)	4,752,872	100,000	(147,128)	2,872,750	100,000	(5,152,250)
6	4,832,341	200,000	32,341	4,732,363	200,000	(67,637)	3,444,594	200,000	(5,105,406)
7	4,815,427	250,000	65,427	4,708,450	250,000	(41,550)	4,016,741	250,000	(5,108,259)
8	4,799,037	350,000	149,037	4,684,571	350,000	34,571	4,593,605	350,000	(5,056,395)
9	4,783,350	450,000	233,350	4,660,872	450,000	110,872	4,563,538	450,000	(4,986,462)
10	4,768,563	550,000	318,563	4,637,512	550,000	187,512	4,533,365	550,000	(4,916,635)
11	4,758,701	700,000	458,701	4,618,476	700,000	318,476	4,507,039	700,000	(4,792,961)
12	4,750,512	800,000	550,512	4,600,471	800,000	400,471	4,481,233	800,000	(4,718,767)
13	4,748,197	950,000	698,197	4,587,653	950,000	537,653	4,460,069	950,000	(4,589,931)
14	4,752,451	1,100,000	852,451	4,580,669	1,100,000	680,669	4,444,154	1,100,000	(4,455,846)
15	4,768,065	1,300,000	1,068,065	4,584,259	1,300,000	884,259	4,438,187	1,300,000	(4,261,813)
20	5,043,606	2,250,000	2,293,606	4,785,808	2,250,000	2,035,808	4,580,935	2,250,000	(3,169,065)
25	5,801,448	3,200,000	4,001,448	5,439,873	3,200,000	3,639,873	5,152,528	3,200,000	(1,647,472)
30	7,255,948	4,000,000	6,255,948	6,748,821	4,000,000	5,748,821	6,345,804	4,000,000	345,804
35	9,631,046	4,550,000	9,181,046	8,919,774	4,550,000	8,469,774	8,354,522	4,550,000	2,904,522
40	13,186,292	4,850,000	13,036,292	12,188,696	4,850,000	12,038,696	11,395,902	4,850,000	6,245,902
45	18,280,435	4,950,000	18,230,435	16,881,255	4,950,000	16,831,255	15,769,320	4,950,000	10,719,320

Benefits to Charity

- ❑ **Charity receives a new source of funding**
- ❑ **Charitable REIT costs less than debt financing**
- ❑ **Charity retains control of Charitable REIT**
- ❑ **Building ownership will return to the Charity without additional cost**
- ❑ **Depreciation fund provides capital improvements funds for Charitable REIT property leased to Charity**
- ❑ **Enables major contributions from more donors**
- ❑ **May lead to other donations**

CHARITABLE REIT

Washington/Alaska Donor Age 65



1. Transfer asset into fund. Trustee is responsible for management. Income tax deduction of \$7,870 may save up to \$3,116 in the 39.6% Federal tax bracket.

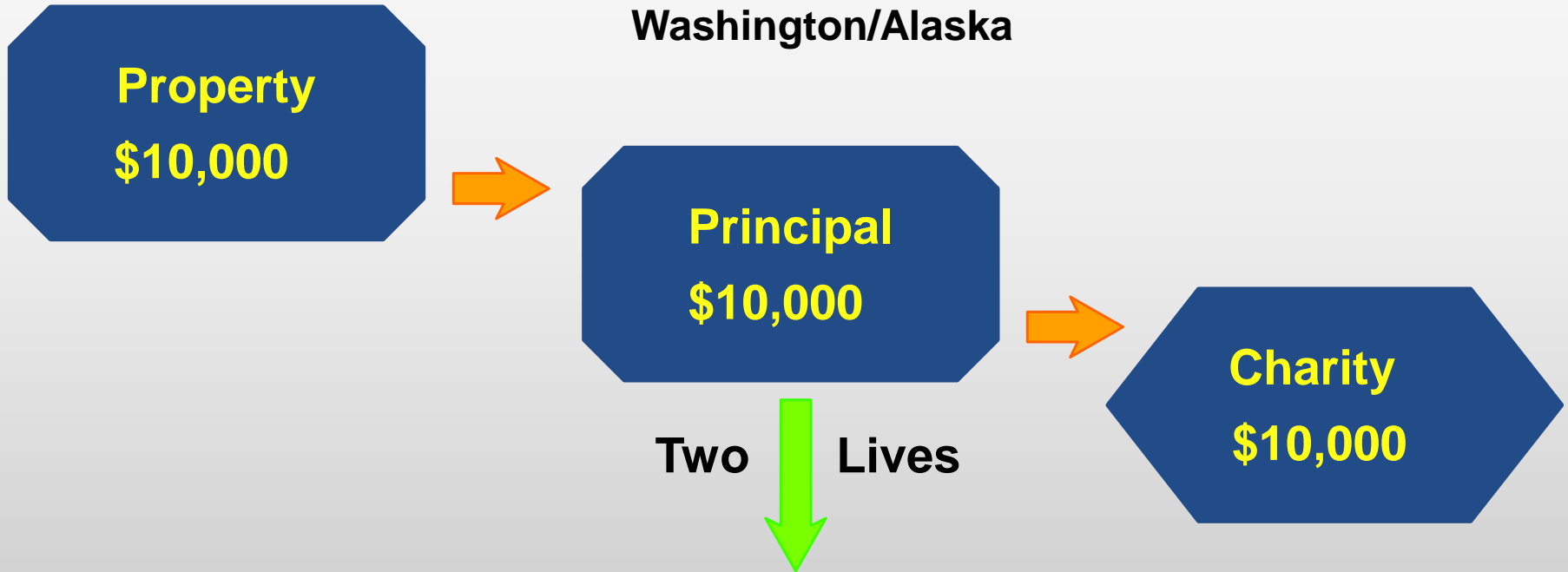
2. First Year Income over \$600, part of which is tax-exempt. Projected total income over 21.0 years of \$14,168.*

3. Quarterly trust payments may increase starting Year 3 by up to 1.5% CPI. After one life, trust interest passes without probate to Charity.

* Effective average annual tax-adjusted income rate of 10.0%.

CHARITABLE REIT

Donor Age 65 Donor's Spouse Age 65
Washington/Alaska



1. Transfer asset into fund. Trustee is responsible for management. Income tax deduction of \$7,320 may save up to \$2,899 in the 39.6% Federal tax bracket.

2. 1st Year Income over \$600, part of which is tax-free. Projected total lifetime income over 26.2 years of \$18,417.*

3. Quarterly trust payments may increase starting Year 3 by up to 1.5% CPI. After two lives, trust passes without probate to Charity.

* Effective average annual tax-adjusted income rate of 9.9%.

Benefits to Donors

- ❑ **Quarterly income payments of at least 6%**
- ❑ **Attractive Charitable tax deduction**
- ❑ **May avoid capital gains taxes on appreciated assets**
- ❑ **Depreciation deductions shelter some Charitable REIT income from taxes**

Steps to Implement

- **Presentations to Senior Management and Board leading to decision to proceed**
- **Identify potential property for Charitable Sale/Leaseback (must be debt-free)—obtain independent appraisal**
- **Consulting tax attorney prepares IRS private letter ruling request including required legal documents**
- **While waiting for IRS to act on ruling request, financial consultant prepares financial projections required for donor Offering Summary**
- **Real Estate attorney prepares sale and leaseback legal documents**
- **When private letter ruling is received, financial consultant trains staff on C-REIT management and accounting**

For More Information

**For more information on the Charitable REIT or other
Planned Giving Strategies, please contact Hermann A.
Goeppelle, CPA at:**

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