Dear Executive Committee colleagues,

President Susan Ackerman has asked me to write a financial summary memo with some estimates of the costs for the various methods of paying for the proposed purchase of 209 South Commerce Street. I am happy to do so. I have also attached an Excel Spreadsheet with my calculations. Please click on the different tabs or worksheets for details on each option. The spreadsheet file has a summary tab (or worksheet) and four additional tabs (or worksheets) for each option.

Estimated total cost of the proposed building = $1,120,000

- Purchase price (per agreed upon price) = $1,100,000
- Estimate of purchase expenses (e.g., taxes, fees, legal, other) = $20,000
- TOTAL ESTIMATED COST = $1,120,000

Gifts that ASOR can use for purchase of the proposed building:

- Gifts expected by 1/31/19 = $395,000
- Additional Pledges (to be paid by 12/31/22 = $487,000
    - Includes new $100,000 challenge “not yet earned”
- TOTAL RECEIVED AND PLEDGED TO DATE = $882,000 ($982,000 when we “earn” the new pledge)

Assets that ASOR might use for proposed purchase or for “borrowing”:

- Unrestricted cash and “near cash” assets = $664,000.00
    - Unrestricted cash available for operations = $563,500.00
    - Board-designated “near cash” (Opportunity Fund) = $110,500.00
- Restricted assets (collateral for a bank loan) = $1,718,000.00
    - Endowment for operations = $732,500.00
    - Named endowments = $985,500.00

Summary so far: we need an additional $725,000.00 before March 1, 2019 in order to complete the purchase. We have a variety of options to “finance” the purchase, and I present four options below.

Option 1: 50% LTV Equity Line of Credit Loan. Estimated cost = $68,750 ($52,500 interest paid to a bank, and $16,250 interest paid to ourselves [ASOR]). With this option, ASOR would receive a cash equity line of credit loan using the building (50% loan to value) and our other assets as collateral for an equity line of credit loan. The advantage of this option is that banks typically do not charge closing costs for these types of loans. Another advantage is that there is no prepayment penalty. The downside of this type of loan is that the interest rate is variable. From preliminary conversations with BB&T and with Sheldon Fox, I estimate that the rate would be approximately 5.0%.

- Year 1 estimated cost
  - Foregone interest (2.5%) on $175,000 in unrestricted cash = $4,375
  - 5% interest on Equity Line of Credit ($550,000) = $27,500
  - SUBTOTAL = $32,000
- Year 2 estimated cost
  - Foregone interest (2.5%) on $175,000 in unrestricted cash = $4,375
  - 5% interest on Equity Line of Credit ($350,000) = $17,500
  - SUBTOTAL = $22,000
- Year 3 estimated cost
  - Foregone interest (2.5%) on $175,000 in unrestricted cash = $4,375
  - 5% interest on Equity Line of Credit ($150,000) = $7,500
  - SUBTOTAL = $12,000
- Year 4 estimated cost
  - Foregone interest (2.5%) on $130,000 in unrestricted cash = $3,125
  - 5% interest on Equity Line of Credit ($0) = $0
  - SUBTOTAL = $12,000
- **Summary = $68,750**
  - Total interest paid to a bank = $52,500
  - Total interest paid to ourselves (ASOR) = $16,250

Option 2: 30% LTV Equity Line of Credit Loan from a bank. Estimated cost = $54,000 ($23,000 interest paid to a bank and $31,000 interest paid to ourselves [ASOR]). With this option, ASOR would receive a cash equity line of credit loan using the building (30% loan to value) and our other assets as collateral for an equity line of credit loan. This is essentially the same as Option 1, but we would use less of the Equity Line of Credit because we can "borrow" money from ourselves for less than we can borrow from a bank. In addition, we would be paying interest to ourselves rather to a bank. Like Option 1, the advantage of this option is that banks typically do not charge closing costs for these types of loans. Another advantage is that there is no prepayment penalty. The downside of this type of loan is that the interest rate if variable, but we would have less risk because we are borrowing less.

- Year 1 estimated cost
  - Foregone interest (2.5%) on $395,000 in unrestricted cash = $9,875
  - 5% interest on Equity Line of Credit ($330,000) = $16,500
  - SUBTOTAL = $26,375
- Year 2 estimated cost
  - Foregone interest (2.5%) on $395,00 in unrestricted cash = $9,875
  - 5% interest on Equity Line of Credit ($130,000) = $6,500
  - SUBTOTAL = $16,375
- Year 3 estimated cost
  - Foregone interest (2.5%) on $325,000 in unrestricted cash = $8,125
  - 5% interest on Equity Line of Credit ($0) = $0
  - SUBTOTAL = $8,125

- Year 4 estimated cost
    - Foregone interest (2.5%) on $125,000 in unrestricted cash = $3,125
    - 5% interest on Equity Line of Credit ($0) = $0
    - SUBTOTAL = $3,125
- Summary = $54,000
    - Total interest paid to a bank = $23,000
    - Total interest paid to ourselves (ASOR) = $31,000

Option 3: 100% financing from ASOR (using as much of our unrestricted assets as possible and "borrowing" the remainder from our endowment for operations). Estimated cost = $44,375 (zero interest paid to a bank, and 100% of "interest" paid to ourselves [ASOR]). There are two advantages of this option: a) it has the lowest cost; and b) all of the "interest" goes to ourselves (ASOR). The disadvantage is that this option would use almost all of our unrestricted assets and leave us with little to no flexibility for unforeseen circumstances at a time when we are experiencing a lot of change (i.e., moving and buying a property). In addition, this option would require a Board vote to re-designate the Opportunity Fund temporarily, and the Board would also need to vote to dedicate a small part of the accumulated earnings in our Endowment for Operations ($80,000) as an investment in the building.

- Year 1 estimated cost
    - Foregone interest (2.5%) on $650,00 in unrestricted cash = $16,250
    - 5% interest on Endowment Loan ($75,000) = $3,750
    - SUBTOTAL = $20,000
- Year 2 estimated cost
    - Foregone interest (2.5%) on $525,00 in unrestricted cash = $13,125
    - 5% interest on Endowment Loan ($0) = $0
    - SUBTOTAL = $13,125
- Year 3 estimated cost
    - Foregone interest (2.5%) on $325,000 in unrestricted cash = $8,125
    - 5% interest on Endowment Loan ($0) = $0
    - SUBTOTAL = $8,125
- Year 4 estimated cost
    - Foregone interest (2.5%) on $125,00 in unrestricted cash = $3,125
    - 5% interest on Endowment Loan ($0) = $0
    - SUBTOTAL = $3,125
- Summary = $44,375
    - Total interest paid to a bank = $0
    - Total interest paid to ourselves (ASOR) = $44,375

Option 4: Financing from traditional mortgage with 4-year balloon payment. Estimated cost of interest and fees is $107,000 with none of the interest or fees going to ASOR. The advantage of this option is that we do not tap any our unrestricted assets nor our endowment. We may also benefit from donors wanting to accelerate gifts so that ASOR can avoid interest. As you can see, the disadvantage is that the cost is much higher than the other options, and none of the "interest" goes to ourselves (ASOR). In addition, there would likely be closing costs with option (legal fees and appraisals, etc.).

- Year 1 estimated cost
  - Estimated closing costs = $5,000
  - Foregone interest (2.5%) on unrestricted cash = $0
  - 6% interest on Loan ($725,000) = $43,800
  - SUBTOTAL = $48,500
- Year 2 estimated cost
  - Foregone interest (2.5%) on unrestricted cash = $0
  - 6% interest on Loan ($525,000) = $31,500
  - SUBTOTAL = $31,500
- Year 3 estimated cost
  - Foregone interest (2.5%) on unrestricted cash = $0
  - 6% interest on Loan ($325,000) = $19,500
  - SUBTOTAL = $19,500
- Year 4 estimated cost
  - Foregone interest (2.5%) on unrestricted cash = $0
  - 6% interest on Loan ($125,000) = $7,500
  - SUBTOTAL = $7,500
- Summary = $107,000
  - Total interest paid to a bank = $107,000
  - Total interest paid to ourselves (ASOR) = $0