What Makes a Proper Calculation Report and What Development Standards Apply?

James Hitchner, CPA, ABV, CFF, ASA



NACVA and the CTI's 2014
Annual Consultants' Conference
Las Vegas, Nevada, USA

DISCLAIMER

All rights reserved. No part of this work covered by the copyrights herein may be reproduced or copied in any form or by any means—graphically, electronically, or mechanically, including photocopying, audio/video recording, or information storage and retrieval of any kind—without the express written permission of the CTI, NACVA ,and the presenter.

The information contained in this presentation is only intended for general purposes.

It is designed to provide authoritative and accurate information about the subject covered. It is sold with the understanding that the copyright holder is not engaged in rendering legal, accounting, or other professional service or advice. If legal or other expert advice is required, the services of an appropriate professional person should be sought.

The material may not be applicable or suitable for the reader's specific needs or circumstances. Readers/viewers may not use this information as a substitute for consultation with qualified professionals in the subject matter presented here.

Although information contained in this publication has been carefully compiled from sources believed to be reliable, the accuracy of the information is not guaranteed. It is neither intended nor should it be construed as either legal, accounting, and/or tax advice, nor as an opinion provided by the Consultants' Training Institute (CTI), the National Association of Certified Valuators and Analysts (NACVA), the Institute of Business Appraisers (IBA), the presenter, or the presenter's firm.

The authors specifically disclaim any personal liability, loss, or risk incurred as a consequence of the use, either directly or indirectly, of any information or advice given in these materials. The instructor's opinion may not reflect those of the CTI, NACVA, its policies, other instructors, or materials.

Each occurrence and the facts of each occurrence are different. Changes in facts and/or policy terms may result in conclusions different than those stated herein. It is not intended to reflect the opinions or positions of the authors and instructors in relation to any specific case, but ,rather, to be illustrative for educational purposes. The user is cautioned that this course is not all inclusive.

© 2014—1997 NACVA • 5217 South State Street, Suite 400 • Salt Lake City, UT, 84107—ALL RIGHTS RESERVED.

The Consultants' Training Institute (CTI) is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be submitted through its web site: learningmarket.org.

What Makes a Proper Calculation Report and What Development Standards Apply



James Hitchner, CPA, ABV, CFF, ASA

Jim Hitchner is Managing Director of Financial Valuation Advisors www.finvaluation.com and is President of The Financial Consulting Group www.gofcg.org. He is also CEO of Valuation Products and Services www.valuationproducts.com which created and distributes the Business Valuation Standards Compliance Toolkit and presents monthly webinars. He is also Editor in Chief of Financial Valuation and Litigation Expert, a bimonthly journal that presents views and tools from some of the leading experts in valuation, forensics/fraud and litigation services.

Mr. Hitchner is editor/coauthor of the books Financial Valuation: Applications and Models (FVAM), third edition; Financial Valuation Workbook (FVW), third edition, and Valuation for Financial Reporting: Fair Value, Business Combinations, Intangible Assets, Goodwill, and Impairment Analysis, third edition, all published by Wiley. He is also coauthor of PPC's Guide to Business Valuations, 23rd edition, published by Thomson Reuters. FVAM and FVW have been adopted by the American Institute of Certified Public Accountants (AICPA) for its five-day National Business Valuation School course and by the National Association of Certified Valuation Analysts (NACVA) for its three-day Advanced Business Valuation course. Mr. Hitchner designed both courses.

In the valuation area he has coauthored over 20 courses, taught over 60 courses, published over 100 articles, and has made over 200 conference presentations. He is also an inductee in the AICPA Business Valuation Hall of Fame and a two-time recipient of the AICPA's Business Valuation Volunteer of the Year award. He was also one of the four original members of the AICPA Business Valuation Standards Writing Task Force and served for the entire six years, up to the June 2007 official release of the standards.



This page left intentionally blank.

Valuation Cutting-Edge Topics

What Makes a Proper Calculation Report and What Development Standards Apply

James Hitchner



- **Please set pagers, cell phones, etc. on vibrate mode** or turn them off.
- **Please complete and hand in the Presenter Evaluation forms.**
- **Don't forget to complete your CPE Attestation Form.** Add your Membership Number (located on your name badge) and sign it. Keep the white copy for your records. Turn in the yellow copy at the Registration Desk.

DISCLAIMER

All rights reserved. No part of this work covered by the copyrights herein may be reproduced or copied in any form or by any means—graphically, electronically, or mechanically, including photocopying, audio/video recording, or information storage and retrieval of any kind—without the express written permission of the CTI, NACVA ,and the presenter.

The information contained in this presentation is only intended for general purposes.

It is designed to provide authoritative and accurate information about the subject covered. It is sold with the understanding that the copyright holder is not engaged in rendering legal, accounting, or other professional service or advice. If legal or other expert advice is required, the services of an appropriate professional person should be sought.

The material may not be applicable or suitable for the reader's specific needs or circumstances. Readers/viewers may not use this information as a substitute for consultation with qualified professionals in the subject matter presented here.

Although information contained in this publication has been carefully compiled from sources believed to be reliable, the accuracy of the information is not guaranteed. It is neither intended nor should it be construed as either legal, accounting, and/or tax advice, nor as an opinion provided by the Consultants' Training Institute (CTI), the National Association of Certified Valuators and Analysts (NACVA), the Institute of Business Appraisers (IBA), the presenter, or the presenter's firm.

The authors specifically disclaim any personal liability, loss, or risk incurred as a consequence of the use, either directly or indirectly, of any information or advice given in these materials. The instructor's opinion may not reflect those of the CTI, NACVA, its policies, other instructors, or materials.

Each occurrence and the facts of each occurrence are different. Changes in facts and/or policy terms may result in conclusions different than those stated herein. It is not intended to reflect the opinions or positions of the authors and instructors in relation to any specific case, but ,rather, to be illustrative for educational purposes. The user is cautioned that this course is not all inclusive.

© 2014—1997 NACVA • 5217 South State Street, Suite 400 • Salt Lake City, UT, 84107—ALL RIGHTS RESERVED.

The Consultants' Training Institute (CTI) is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be submitted through its web site: learningmarket.org.



James Hitchner,
CPA, ABV, CFF, ASA

Valuation Cutting-Edge Topics

Wednesday, June 18, 2014

What Makes a Proper Calculation Report and What Development Standards Apply

Jim Hitchner, CPA/ABV/CFF, ASA

- Managing Director, Financial Valuation Advisors
- CEO, Valuation Products and Services
- President, Financial Consulting Group
- Editor in Chief, *Financial Valuation and Litigation Expert*
- 34 years in valuation services
- Inductee in the AICPA BV Hall of Fame
- Coauthored over 20 courses; taught over 60 courses
- Published over 100 articles; made over 200 presentations
- Former member of the AICPA task force on BV standards
- Editor and/or coauthor of the books:
  - *Financial Valuation Applications and Models,* 3rd edition
  - *Financial Valuation Workbook,* 3rd edition
  - *Valuation for Financial Reporting: Fair Value, Business Combinations, Intangible Assets, Goodwill, and Impairment Analysis,* 3rd edition
  - *PPC's Guide to Business Valuations,* 24th edition

Copyright 2014 Valuation Products and Services, LLC

Standards Terminology Differences

Valuation engagement

- AICPA, NACVA/IBA
  - Conclusion of value

Appraisal

- ASA
  - Unambiguous opinion of value
- USPAP
  - Opinion of value and value conclusion

Copyright 2013 Valuation Products and Services, LLC

Standards Terminology Differences

Calculation

- AICPA, NACVA/IBA Yes
  - Calculated value
  - Analyst and client agree on approaches and methods and extent of procedures
- ASA Yes
  - Approximate indication of value
  - Conceptual approaches agreed upon with the client
- USPAP No or Yes?
  - Does not explicitly mention a calculation

Copyright 2013 Valuation Products and Services, LLC

Standards Terminology Differences

Limited appraisal

- AICPA, NACVA/IBA No or Yes?
  - Can be done under a calculation
  - Calculated value
- ASA Yes
  - Estimate of value
  - Appraiser decides on approaches
- USPAP No or Yes?
  - Does not explicitly mention a limited appraisal

Copyright 2013 Valuation Products and Services, LLC

Standards Terminology Differences

Detailed report, Summary report

- AICPA, NACVA/IBA

Comprehensive report

- ASA

Appraisal report

- USPAP

Copyright 2013 Valuation Products and Services, LLC

Standards Terminology Differences

Calculation Report		Restricted Appraisal Report	
• AICPA	Yes	• AICPA	No
• NACVA	Yes	• NACVA	No
• IBA	Yes	• IBA	No
• ASA	No	• ASA	No
• USPAP	No?	• USPAP	Yes

Copyright 2013 Valuation Products and Services, LLC

BV Standards

- ASA vs. AICPA/SSVS vs. NACVA/IBA vs. USPAP
- IBA and NACVA are the same and, in principle, similar to SSVS
- What are the real differences between them all?
- Which set of standards are the "best"?
- How hard is it to comply with all the standards at the same time?
  - How do you do it and what is the process?
  - What is your success/failure in complying with multiple standards?

Copyright 2013 Valuation Products and Services, LLC

The Elephant in the Room

Calculations



Copyright 2013 Valuation Products and Services, LLC

New Insight into the Use of Calculation Engagements and Calculation Reports

- When can I use calculation engagements and reports?
  - Litigation
  - Tax
  - Fair value for financial reporting
- What about the users of valuation services?
- What should be the length of calculation reports?
- How do I adhere to BV reporting standards (SSVS, NACVA/IBA, ASA and USPAP) for calculations?
- Can limited scope analyses, such as a calculation, be so limited that it does not render a credible opinion?



Copyright 2013 Valuation Products and Services, LLC

New Insight into the Use of Calculation Engagements and Calculation Reports

"'LinkedOut' A Response to a Business Valuation Standards Discussion," *Financial Valuation and Litigation Expert*, *FVLE* Issue 40, December 2012/January 2013, Valuation Products and Services, LLC, pp. 1, 3-6 (Handout)

- AICPA, ASA, NACVA and the IBA explicitly allow calculations
- USPAP allows a reduced scope of work
  - A need in the BV profession to have a lesser work product
  - This need also exists for clients and client representatives such as accountants and attorneys
  - USPAP – calculations not explicitly mentioned
  - ASAs have to follow USPAP so can an ASA calculation be USPAP compliant?



Copyright 2013 Valuation Products and Services, LLC

New Insight into the Use of Calculation Engagements and Calculation Reports

- Calculations can be used for such services as preliminary estate planning, preliminary mergers and acquisition analyses and preliminary values for settlement purposes in litigation
  - Note the word *preliminary* in each example
  - However, there is no requirement to have *only preliminary* calculations
  - CPAs are free to provide calculations any way they see fit as long as they comply with SSVS



Copyright 2013 Valuation Products and Services, LLC

New Insight into the Use of Calculation Engagements and Calculation Reports

- The most important limiting language in SSVS for a calculation is as follows:
- A valuation analyst performs a calculation engagement when (1) the valuation analyst and the client agree on the valuation approaches and methods the valuation analyst will use and the extent of procedures the valuation analyst will perform in the process of calculating the value of a subject interest (these procedures will be more limited than those of a valuation engagement)…



Copyright 2013 Valuation Products and Services, LLC

New Insight into the Use of Calculation Engagements and Calculation Reports

- …The valuation analyst expresses the results of these procedures as a calculated value. (p. 13, 21.*b.)*
- (1) a calculation engagement does not include all of the procedures required for a valuation engagement and (2) had a valuation engagement been performed, the results may have been different. (p. 34, 76.*g.)*

Copyright 2013 Valuation Products and Services, LLC



New Insight into the Use of Calculation Engagements and Calculation Reports

- Some appraisers are providing calculations, calculated values and calculation reports as their only and final value in a litigation setting
- Some are also offering calculated values as their opinion of value
- Remember, in a litigation setting an expert opinion must be with "reasonable certainty"
- While there is no prohibition (SSVS, NACVA, IBA) against this, from a practical perspective, why would you want to?

Copyright 2013 Valuation Products and Services, LLC



New Insight into the Use of Calculation Engagements and Calculation Reports

- Before we go any further let's discuss the word **"opinion"** in different settings
  - ASA
  - USPAP
  - Legal/litigation
  - Auditing
- Let's continue on in the litigation area

Copyright 2013 Valuation Products and Services, LLC

New Insight into the Use of Calculation Engagements and Calculation Reports

- If you are admitting that a calculation engagement does not include all of the procedures required for a valuation engagement and had a valuation engagement been performed, the results may have been different (**SSVS**) **or**
- That the objective of a calculation is to provide an approximate indication of value of a business, business ownership interest, security or intangible asset based on the performance of limited procedures agreed upon by the appraiser and the client (**ASA**)
- How can this be with reasonable certainty in litigation?

Copyright 2013 Valuation Products and Services, LLC

New Insight into the Use of Calculation Engagements and Calculation Reports

- Saying that your opinion of the calculated value of XYZ Company is $4,000,000 is like saying that my opinion (with reasonable certainty) of the calculated value (without reasonable certainty) of XYZ Company is $4,000,000

Copyright 2013 Valuation Products and Services, LLC

New Insight Into the Use of Calculation Engagements and Calculation Reports

****Breaking News**** (Handout - Carla Glass's Article in *FVLE* Issue 47 February/March 2014)

- Preparing Calculations Under USPAP is Possible
- Has to do with:
  - What's an opinion?
  - Scope of work
  - Intended use
  - Engagement purpose
  - Other

Copyright 2014 Valuation Products and Services, LLC



NACVA
Annual Consultant's Conference
June 18, 2014

What Makes a Proper Calculation Report and What Development Standards Apply?

Jim Hitchner, CPA / ABV / CFF, ASA

FVA Financial Valuation Advisors

VPS Valuation Products and Services

FCG Financial Consulting Group

This page left intentionally blank.

Fair Market Value Analysis
Calculation Engagement and Calculated Value
and
Calculation Report
of
25,000 Common Shares of Gracie Markets, Inc.
as of January 1, 2013

Draft Sample Report and Report Language Examples
[SHORTER VERSION]
Not to be distributed or used by any other party for any purpose.

CAUTION FOR USING DRAFT SAMPLE REPORT AND REPORT LANGUAGE EXAMPLES:

This selected draft sample report and the report language examples are to be adjusted and modified by the valuation analyst for the facts and circumstances of each assignment/engagement. The draft sample report and the report language examples presented here are only a tool that is subordinate to the judgment of the valuation professional in charge of the engagement. Technical information, the application of valuation approaches, methods and procedures and data sources are for illustration purposes only or for examples only.

This draft sample report and the report language examples should not be used unless the valuation analyst understands each term, phrase and concept in the draft sample report and the report language examples and has verified that the facts of an engagement were properly captured and applied.

Before using any of this information, valuation analysts MUST have their attorney review this draft sample report and the report language examples to make sure that it reflects the particular needs of each valuation analyst.

The developers, reviewers, Valuation Products and Services, LLC, Financial Valuation Solutions, LLC, and the presenters, assume no responsibility for any errors or omissions in the language, use of the language or reliance on the language and may or may not agree, in whole or in part, with this selected draft sample report, the report language examples and any technical application and selection of data and methods. Use it at your own risk.

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.
Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

Disclaimer of Warranties: The information provided and commented upon in these materials is designed to provide guidance to valuation analysts only. Such information, comments and materials are not to be used as a substitute for professional judgment. The information, comments and materials are to be used for informational purposes only. Any person consulting these materials is solely responsible for implementation of this guide as it relates to the particular matter for which the end user refers to these materials. Implied warranties of merchantability and fitness of purpose, if any exist, and all other warranties, expressed or implied, are expressly waived by any user of these materials. The developers, reviewers, Valuation Products and Services, LLC and Financial Valuation Solutions, LLC or their owners, employees or partnership(s) or the presenters shall not be libel for any direct, indirect, special or consequential damages, including, without limitation, attorneys' fees or costs arising from any use of this draft sample report and the report language examples or the information or material contained herein.

Note: This draft sample report and the report language examples are a tool focusing ONLY on compliance with the calculation reporting standards of the AICPA SSVS No. 1, NACVA Professional Standards and the IBA Professional Standards. All exhibits have been omitted from the draft sample report and report language examples. Exhibits can and often do contain detailed data and analyses that can be an important part of the calculation engagement and calculation report. In this example, this calculation engagement and calculation report are not in compliance with the standards of other standard-setting groups (ASA, USPAP) and do not contain sufficient analysis and/or detail for the valuation purpose stated here (tax planning) or other purposes. This is only an illustration of what should or can go into an SSVS calculation report. In this calculation report, the terms valuation analyst (SSVS) and appraiser (USPAP) can be used interchangeably. In this example, and depending on the facts and circumstances and the information/definitions required in SSVS, ASA and USPAP, this calculation and calculation report are not appropriate for valuation analysts who also abide by ASA standards and USPAP.

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

March 15, 2013

Sherman Peabody, Esq.
1675 Fantasy Street, Suite 1740
St. Louis, Missouri 12345

Re: Calculated Value of 25,000 Common Shares of Gracie Markets, Inc.
as of January 1, 2013

Dear Mr. Peabody:

At your request Accurate Valuation Group, Inc. ("AVG") was retained to prepare a calculation engagement and calculated value and calculation report ("report") to assist you and your client, Mr. Gustave Gracie, [the Court or other] in your [the] calculation of the fair market value [other standard of value] of 25,000 common shares of Gracie Markets, Inc. ("Gracie" or the "Company"), which represents a 5.0% common stock interest in Gracie. Because Gracie is a closely held business, this 5% minority interest does not possess any elements of control (minority interest), has no readily accessible market and is thus non-marketable. The calculation date is January 1, 2013. This calculation and report are to be used only as of this date and are not valid as of any other date.

Description of the Scope of Work Performed and Calculation Procedures

Note: SSVS does not indicate the level of detail for this section. The level of detail is based on the decision of the valuation analyst and the procedures agreed upon with the client. The following is just an example.

To gain an understanding of the operations of Gracie, we reviewed Company financial information and/or operational data as detailed in Appendix/Exhibits __, interviewed Company

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.
Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

management, and visited the Company's facility. To understand the environment in which Gracie operates, we researched the status of and trends in the various industries that have an impact on it. We also studied economic conditions as of the valuation date and their impact on Gracie and the industry. To understand the Company's financial condition, we analyzed its financial statements as available.

As agreed upon with the client, we applied the [state valuation approaches and methods used] to derive the calculated value of the subject equity interest (5% minority, nonmarketable interest). Our calculated value reflects these findings, our judgment and knowledge of the marketplace, and our expertise in valuation.

Calculated Value

We have performed a calculation engagement, as that term is defined in the Statement of Standards for Valuation Services No. 1 of the American Institute of Certified Public Accountants. We performed certain calculation procedures on 25,000 shares of common stock of Gracie Markets, Inc. as of January 1, 2013, on a minority, nonmarketable basis. The specific calculation procedures are detailed in paragraphs [pages] ____ of our calculation report. The calculation procedures were performed solely to assist in your [the] determination of the calculated value solely for tax planning [other] purposes and the resulting estimate of value should not be used for any other purpose, or by any other party for any purpose. This calculation engagement was conducted in accordance with the SSVS. The estimate of value that results from a calculation engagement is expressed as a calculated value.

In a calculation engagement, the valuation analyst and the client agree on the specific valuation approaches and valuation methods the valuation analyst will use and the extent of valuation procedures the valuation analyst will perform to estimate the value of the subject interest. A calculation engagement does not include all of the procedures required for a valuation engagement, as that term is defined in the SSVS. Had a valuation engagement been performed, the results might have been different.

Based on our calculations as described in this report, which are based solely on the procedures agreed upon as referred to above, and the facts and circumstances as of the calculation date, the resulting calculated value of 25,000 shares of common stock of Gracie Markets, Inc. as of January 1, 2013, on a minority, nonmarketable basis is $1,464,000 or $58.56 per share. This calculated value is subject to the Statement of Assumptions and Limiting Conditions found in

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

Section X of this report and to the Valuation Analyst's Representation found in Section X of this report. We have no obligation to update this report or our calculated value for information that comes to our attention after the date of this report.

If you have any questions concerning this valuation, please contact Mr. Val Dude at (123) 456-7890.

Very truly yours,

Accurate Valuation Group, Inc.

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

Assumptions, Limiting Conditions and Valuation Representation

Note: Items 1 to 17 are taken directly from SSVS, either exactly or with slight modifications.

The primary assumptions and limiting conditions pertaining to the calculated value stated in this calculation report ("report") are summarized below. Other assumptions are cited elsewhere in this report.

1. The calculated value arrived at herein is valid only for the stated purpose as of the date of the calculation.

2. Financial statements and other related information provided by Gracie or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted herein. AVG has not audited, reviewed or compiled the financial information provided to us and, accordingly, we express no audit opinion or any other form of assurance on this information.

3. Public information and industry and statistical information have been obtained from sources we believe to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.

4. We do not provide assurance on the achievability of the results forecasted by Gracie because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.

5. The calculated value arrived at herein is based on the assumption that the current level of management expertise and effectiveness would continue to be maintained and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.

6. This report and the calculated value arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. They may not be used for any other purpose or by any other party for any purpose. Furthermore, the report and calculated value

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever. The calculated value is based on information furnished to AVG by Gracie and other sources.

7. Neither all nor any part of the contents of this report (especially the calculated value, the identity of any valuation specialist(s), or the firm with which such valuation specialists are connected or any reference to any of their professional designations) should be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication, including but not limited to the Securities and Exchange Commission or other governmental agency or regulatory body, without the prior written consent and approval of AVG.

8. Future services regarding the subject matter of this report, including, but not limited to testimony or attendance in court, shall not be required of AVG unless previous arrangements have been made in writing.

9. AVG is not an environmental consultant or auditor, and it takes no responsibility for any actual or potential environmental liabilities. Any person entitled to rely on this report, wishing to know whether such liabilities exist, or the scope and their effect on the value of the property, is encouraged to obtain a professional environmental assessment. AVG does not conduct or provide environmental assessments and has not performed one for the subject property.

10. AVG has not determined independently whether Gracie is subject to any present or future liability relating to environmental matters (including, but not limited to CERCLA/Superfund liability) nor the scope of any such liabilities. AVG's calculation takes no such liabilities into account, except as they have been reported to AVG by Gracie or by an environmental consultant working for Gracie, and then only to the extent that the liability was reported to us in an actual or estimated dollar amount. Such matters, if any, are noted in the report. To the extent such information has been reported to us, AVG has relied on it without verification and offers no warranty or representation as to its accuracy or completeness.

11. AVG has not made a specific compliance survey or analysis of the subject property to determine whether it is subject to, or in compliance with, the American Disabilities Act of 1990, and this calculation does not consider the effect, if any, of noncompliance.

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

12. [Sample wording for use if the jurisdictional exception is invoked.] The calculated value in this report deviates from the Statement on Standards for Valuation Services as a result of published governmental, judicial or accounting authority.

13. No change of any item in this report shall be made by anyone other than AVG, and we shall have no responsibility for any such unauthorized change.

14. Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject business due to future federal, state, or local legislation, including any environmental or ecological matters or interpretations thereof.

15. If prospective financial information approved by management has been used in our work, we have not examined or compiled the prospective financial information and therefore, do not express an audit opinion or any other form of assurance on the prospective financial information or the related assumptions. Events and circumstances frequently do not occur as expected, and there will usually be differences between prospective financial information and actual results, and those differences may be material.

16. We have conducted interviews with the current management of Gracie concerning the past, present and prospective operating results of the company.

17. Except as noted, we have relied on the representations of the owners, management, and other third parties concerning the value and useful condition of all equipment, real estate, investments used in the business, and any other assets or liabilities, except as specifically stated to the contrary in this report. We have not attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances or that the entity has good title to all assets.

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

Valuation Representation

I [we] represent that, to the best of my [our] knowledge and belief:

Note: It is up to each valuation analyst to determine if a calculation and a calculated value can also be an opinion of value. This example assumes that it is not an opinion of value. As such, for illustration purposes only, the word opinion is struck through. See paragraphs 65, 73 and 75 of SSVS.

- The analyses, ~~opinions,~~ and calculated value included in the calculation report are subject to the specified assumptions and limiting conditions, and they are the personal analyses, ~~opinions~~, and calculated value of the valuation analyst.
- The economic and industry data included in the calculation report have been obtained from various printed or electronic reference sources that the valuation analyst believes to be reliable [Any exceptions should be noted]. The valuation analyst has not performed any corroborating procedures to substantiate that data.
- The calculation engagement was performed in accordance with the American Institute of Certified Public Accountants Statement on Standards for Valuation Services. [Option: 2011 National Association of Certified Valuators and Analysts Professional Standards and the Institute of Business Appraisers Professional Standards.]
- The parties for which the information and use of the calculation report is restricted are identified; the calculation report is not intended to be and should not be used by anyone other than such parties.
- My compensation for completing this assignment is fee-based and is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the outcome of the calculation, the amount of the calculated value, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this calculation. [If applicable, state that the analyst's compensation is contingent on the outcome of the calculation].
- Option: The valuation analyst used the work of one or more outside specialists to assist during the calculation engagement. The specialist is Mr. /Ms. _____with the firm _____. [The calculation report should include a statement identifying the level of responsibility, if any, the valuation analyst is assuming for the specialist's work].
- The valuation analyst has no obligation to update the calculation report or the ~~opinion of~~ calculated value for information that comes to my attention after the date of the calculation report.

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

- This calculation report and analysis were prepared under the direction of Val Dude, CPA/ABV [CVA, CBA] with significant professional assistance from Junior B. Staffer. Mr. Dude is a Certified Public Accountant licensed in the State of [State(s)] and is Accredited in Business Valuation by the American Institute of Certified Public Accountants. [Option: National Association of Certified Valuators and Analysts, the Institute of Business Appraisers]

Val Dude, CPA/ABV [CVA, CBA]	Accurate Valuation Group, Inc.

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.
Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

Fair Market Value Analysis
Calculation Engagement and Calculated Value
and
Calculation Report
of
25,000 Common Shares of Gracie Markets, Inc.
as of January 1, 2013

Draft Sample Report and Report Language Examples
[LONGER VERSION]
Not to be distributed or used by any other party for any purpose.

CAUTION FOR USING DRAFT SAMPLE REPORT AND REPORT LANGUAGE EXAMPLES:

This selected draft sample report and the report language examples are to be adjusted and modified by the valuation analyst for the facts and circumstances of each assignment/engagement. The draft sample report and the report language examples presented here are only a tool that is subordinate to the judgment of the valuation professional in charge of the engagement. Technical information, the application of valuation approaches, methods and procedures and data sources are for illustration purposes only or for examples only.

This draft sample report and the report language examples should not be used unless the valuation analyst understands each term, phrase and concept in the draft sample report and the report language examples and has verified that the facts of an engagement were properly captured and applied.

Before using any of this information, valuation analysts MUST have their attorney review this draft sample report and the report language examples to make sure that it reflects the particular needs of each valuation analyst.

The developers, reviewers, Valuation Products and Services, LLC, Financial Valuation Solutions, LLC, and the presenters, assume no responsibility for any errors or omissions in the language, use of the language or reliance on the language and may or may not agree, in whole or in part, with this selected draft sample report, the report language examples and any technical application and selection of data and methods. Use it at your own risk.

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.
Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

Disclaimer of Warranties: The information provided and commented upon in these materials is designed to provide guidance to valuation analysts only. Such information, comments and materials are not to be used as a substitute for professional judgment. The information, comments and materials are to be used for informational purposes only. Any person consulting these materials is solely responsible for implementation of this guide as it relates to the particular matter for which the end user refers to these materials. Implied warranties of merchantability and fitness of purpose, if any exist, and all other warranties, expressed or implied, are expressly waived by any user of these materials. The developers, reviewers, Valuation Products and Services, LLC and Financial Valuation Solutions, LLC or their owners, employees or partnership(s) or the presenters shall not be libel for any direct, indirect, special or consequential damages, including, without limitation, attorneys' fees or costs arising from any use of this draft sample report and the report language examples or the information or material contained herein.

Note: This draft sample report and the report language examples are a tool focusing ONLY on compliance with the calculation reporting standards of the AICPA SSVS No. 1, NACVA Professional Standards and the IBA Professional Standards. All exhibits have been omitted from the draft sample report and report language examples. Exhibits can and often do contain detailed data and analyses that can be an important part of the calculation engagement and calculation report. In this example, this calculation engagement and calculation report are not in compliance with the standards of other standard-setting groups (ASA, USPAP) and do not contain sufficient analysis and/or detail for the valuation purpose stated here (tax planning) or other purposes. This is only an illustration of what should or can go into an SSVS calculation report. In this calculation report, the terms valuation analyst (SSVS) and appraiser (USPAP) can be used interchangeably. In this example, and depending on the facts and circumstances and the information/definitions required in SSVS, ASA and USPAP, this calculation and calculation report are not appropriate for valuation analysts who also abide by ASA standards and USPAP.

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

March 15, 2013

Sherman Peabody, Esq.
1675 Fantasy Street, Suite 1740
St. Louis, Missouri 12345

Re: Calculated Value of 25,000 Common Shares of Gracie Markets, Inc.
as of January 1, 2013

Dear Mr. Peabody:

At your request Accurate Valuation Group, Inc. ("AVG") was retained to prepare a calculation engagement and calculated value and calculation report ("report") to assist you and your client, Mr. Gustave Gracie, [the Court or other] in your [the] calculation of the fair market value [other standard of value] of 25,000 common shares of Gracie Markets, Inc. ("Gracie" or the "Company"), which represents a 5.0% common stock interest in Gracie. Because Gracie is a closely held business, this 5% minority interest does not possess any elements of control (minority interest), has no readily accessible market and is thus non-marketable. The calculated value is considered as a cash or cash-equivalent value. The calculation date is January 1, 2013. This calculation and report are to be used only as of this date and are not valid as of any other date.

We have performed a calculation engagement and present our report in conformity with the Statement of Standards for Valuation Services No. 1 ("SSVS") of the American Institute of Certified Public Accountants. SSVS defines a calculation engagement as "An engagement to estimate value wherein the valuation analyst and the client agree on the specific valuation approaches and valuation methods that the valuation analyst will use and the extent of valuation procedures the valuation analyst will perform to estimate the value of a subject interest. A calculation engagement generally does not include all of the valuation procedures required for a

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.
Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

valuation engagement. If a valuation engagement had been performed, the results might have been different. The valuation analyst expresses the results of the calculation engagement as a calculated value, which may be either a single amount or a range."

SSVS addresses a calculation report as follows: "This type of report should be used only to communicate the results of a calculation engagement (calculated value); it should not be used to communicate the results of a valuation engagement (conclusion of value) (Paragraph 73)." A calculation report has certain requirements as presented in paragraphs 73 to 76 of SSVS. This report complies with these requirements.

This calculation was performed solely to assist in the calculation of value for tax planning [other] purposes, and the resulting estimate of the calculated value should not be used for any other purpose, or by any other party for any purpose, without our express written consent.

[May or may not be appropriate] Our analysis is also in conformance with various revenue rulings, including Revenue Ruling 59-60, which outlines the approaches, methods and factors to be considered in valuing shares of capital stock in closely held corporations for federal tax purposes.

The standard of value is fair market value [fair value, investment value, intrinsic value, other], defined [other definitions of other standards of value] in Revenue Ruling 59-60 as "the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts." Revenue Ruling 59-60 also defines the willing buyer and seller as hypothetical as follows: "Court decisions frequently state in addition that the hypothetical buyer and seller are assumed to be able, as well as willing, to trade and to be well informed about the property and concerning the market for such property." Furthermore, fair market value assumes that the price is transacted in cash or cash equivalents. Revenue Ruling 59-60, while used in tax valuations, is also used in many nontax valuations.

Fair market value is also defined in a similar way in the *International Glossary of Business Valuation Terms*[1] as "the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able

[1] The *International Glossary of Business Valuation Terms* has been jointly adopted by the AICPA, ASA, Canadian Institute of Chartered Business Valuators, NACVA and The IBA.

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts."

The premise of value is going concern.[2] The liquidation premise of value was considered and rejected as not applicable, as the going concern value results in a higher value for the interest than the liquidation value, whether orderly or fixed.

Description of the Scope of Work Performed and Calculation Procedures

Note: SSVS does not indicate the level of detail for this section. The level of detail is based on the decision of the valuation analyst and the procedures agreed upon with the client. The following is just an example.

To gain an understanding of the operations of Gracie, we reviewed Company financial information and/or operational data as detailed in Appendix/Exhibits __, interviewed Company management, and visited the Company's facility. To understand the environment in which Gracie operates, we researched the status of and trends in the various industries that have an impact on it. We also studied economic conditions as of the valuation date and their impact on Gracie and the industry. To understand the Company's financial condition, we analyzed its financial statements as available.

In our calculation of value, we considered the following relevant factors, which are specified in Revenue Ruling 59-60:

- The history and nature of the business
- The economic outlook of the United States and that of the specific industry in particular
- The book value of the subject company's stock and the financial condition of the business
- The earning capacity of the company
- The dividend-paying capacity of the company
- Whether or not the firm has goodwill or other intangible value
- Sales of the stock and size of the block of stock to be valued
- The market price of publicly traded stocks or corporations engaged in similar industries

[2] The *International Glossary of Business Valuation Terms* defines "Going Concern" as "an ongoing operating business enterprise," and "Going Concern Value" as "the value of a business enterprise that is expected to continue to operate into the future. The intangible elements of Going Concern Value result from factors such as having a trained work force, an operational plant, and the necessary licenses, systems, and procedures in place."

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

or lines of business

Our analysis included, but was not limited to, the above-mentioned factors.

As agreed upon with the client, we applied the [state valuation approaches and methods used] to derive the calculated value of the subject equity interest (5% minority, nonmarketable interest). Our calculated value reflects these findings, our judgment and knowledge of the marketplace, and our expertise in valuation.

Note. This list of information is not required in SSVS. In performing our work, we were provided with and/or relied upon various sources of information, including (but not limited to):

- Audited financial statements for Gracie for the fiscal years ended December 31, 2008 through December 31, 2012
- Tax returns for the Company for the years 2008 through 2012
- Information regarding the management and shareholders of Gracie
- Information regarding the Company's history and current operations
- Gracie's Articles of Incorporation and Bylaws
- Data from Morningstar's *Ibbotson SBBI Valuation Yearbook 20XX*
- Data from Morningstar's *Ibbotson Beta Book*, 20XX
- *Duff & Phelps Risk Premium Report 20XX*
- Federal Reserve statistical releases
- Current and future economic conditions as forecast by various sources, listed in the Appendix
- Miscellaneous other information

The procedures employed in valuing the subject interest in Gracie included such steps as we considered necessary, including (but not limited to):

- An analysis of Gracie's financial statements
- An analysis of Gracie's management's 2013 expectations and other information supplied by management
- Discussions with management
- A visit by one of the valuation analysts to the Company's stores in St. Louis
- An analysis of the retail grocery industry, as well as the retail health and organic food

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.
Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

industry

- An analysis of the general economic environment as of the valuation date, including investors' equity and debt-return expectations
- An analysis of applicable discounts, including the discount for lack of marketability
- An analysis of other pertinent facts and data resulting in our conclusion of value

AVG staff, under the direct supervision of the lead valuation analyst on this engagement, assisted in performing research, populating models with data, and providing other general assistance.

[If applicable] We applied the following hypothetical conditions in performing this calculation engagement: [State hypothetical condition(s)]

Calculated Value

We have performed a calculation engagement, as that term is defined in the Statement of Standards for Valuation Services No. 1 of the American Institute of Certified Public Accountants. We performed certain calculation procedures on 25,000 shares of common stock of Gracie Markets, Inc. as of January 1, 2013, on a minority, nonmarketable basis. The specific calculation procedures are detailed in paragraphs [pages] ____ of our calculation report. The calculation procedures were performed solely to assist in your [the] determination of the calculated value solely for tax planning [other] purposes and the resulting estimate of value should not be used for any other purpose, or by any other party for any purpose. This calculation engagement was conducted in accordance with the SSVS. The estimate of value that results from a calculation engagement is expressed as a calculated value.

In a calculation engagement, the valuation analyst and the client agree on the specific valuation approaches and valuation methods the valuation analyst will use and the extent of valuation procedures the valuation analyst will perform to estimate the value of the subject interest. A calculation engagement does not include all of the procedures required for a valuation engagement, as that term is defined in the SSVS. Had a valuation engagement been performed, the results might have been different.

Based on our calculations as described in this report, which are based solely on the procedures agreed upon as referred to above, and the facts and circumstances as of the calculation date, the resulting calculated value of 25,000 shares of common stock of Gracie Markets, Inc. as of January 1, 2013, on a minority, nonmarketable basis is $1,464,000 or $58.56 per share. This

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

calculated value is subject to the Statement of Assumptions and Limiting Conditions found in Section X of this report and to the Valuation Analyst's Representation found in Section X of this report. We have no obligation to update this report or our calculated value for information that comes to our attention after the date of this report.

Distribution of this report and associated results, which are to be distributed only in their entirety, is intended and restricted to you, your client, and your client's accountants and attorneys, solely to assist you and your client in your [the] calculation of the fair market value of the subject interests for tax planning [other] purposes and is valid only as of January 1, 2013. This report is not to be used with, circulated, quoted or otherwise referred to in whole or in part for any other purpose, or to any other party for any purpose, without our express written consent.

The approaches and methodologies used in our work did not comprise an examination or any attest service in accordance with generally accepted accounting principles, the objective of which is an expression of an opinion regarding the fair presentation of financial statements or other financial information, whether historical or prospective, presented in accordance with generally accepted accounting principles or auditing standards. We express no opinion and accept no responsibility for the accuracy and completeness of the financial information (audited, reviewed, compiled, internal, prospective or tax returns), or other data provided to us by others, and we have not verified such information unless specifically stated in this report. We assume that the financial and other information provided to us is accurate and complete, and we have relied upon this information in performing our valuation.

If you have any questions concerning this valuation, please contact Mr. Val Dude at (123) 456-7890.

Very truly yours,

Accurate Valuation Group, Inc.

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

Assumptions, Limiting Conditions and Valuation Representation

Note: Items 1 to 17 are taken directly from SSVS, either exactly or with slight modifications. Items 18 to 42 are an illustrative list of additional assumptions and limiting conditions that each analyst, along with their attorney, can decide to use in whole or in part.

The primary assumptions and limiting conditions pertaining to the calculated value stated in this calculation report ("report") are summarized below. Other assumptions are cited elsewhere in this report.

1. The calculated value arrived at herein is valid only for the stated purpose as of the date of the calculation.

2. Financial statements and other related information provided by Gracie or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted herein. AVG has not audited, reviewed or compiled the financial information provided to us and, accordingly, we express no audit opinion or any other form of assurance on this information.

3. Public information and industry and statistical information have been obtained from sources we believe to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.

4. We do not provide assurance on the achievability of the results forecasted by Gracie because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.

5. The calculated value arrived at herein is based on the assumption that the current level of management expertise and effectiveness would continue to be maintained and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

6. This report and the calculated value arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. They may not be used for any other purpose or by any other party for any purpose. Furthermore, the report and calculated value are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever. The calculated value is based on information furnished to AVG by Gracie and other sources.

7. Neither all nor any part of the contents of this report (especially the calculated value, the identity of any valuation specialist(s), or the firm with which such valuation specialists are connected or any reference to any of their professional designations) should be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication, including but not limited to the Securities and Exchange Commission or other governmental agency or regulatory body, without the prior written consent and approval of AVG.

8. Future services regarding the subject matter of this report, including, but not limited to testimony or attendance in court, shall not be required of AVG unless previous arrangements have been made in writing.

9. AVG is not an environmental consultant or auditor, and it takes no responsibility for any actual or potential environmental liabilities. Any person entitled to rely on this report, wishing to know whether such liabilities exist, or the scope and their effect on the value of the property, is encouraged to obtain a professional environmental assessment. AVG does not conduct or provide environmental assessments and has not performed one for the subject property.

10. AVG has not determined independently whether Gracie is subject to any present or future liability relating to environmental matters (including, but not limited to CERCLA/Superfund liability) nor the scope of any such liabilities. AVG's calculation takes no such liabilities into account, except as they have been reported to AVG by Gracie or by an environmental consultant working for Gracie, and then only to the extent that the liability was reported to us in an actual or estimated dollar amount. Such matters, if any, are noted in the report. To the extent such information has been reported to us, AVG has relied on it without verification and offers no warranty or representation as to its accuracy or completeness.

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

11. AVG has not made a specific compliance survey or analysis of the subject property to determine whether it is subject to, or in compliance with, the American Disabilities Act of 1990, and this calculation does not consider the effect, if any, of noncompliance.

12. [Sample wording for use if the jurisdictional exception is invoked.] The calculated value in this report deviates from the Statement on Standards for Valuation Services as a result of published governmental, judicial or accounting authority.

13. No change of any item in this report shall be made by anyone other than AVG, and we shall have no responsibility for any such unauthorized change.

14. Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject business due to future federal, state, or local legislation, including any environmental or ecological matters or interpretations thereof.

15. If prospective financial information approved by management has been used in our work, we have not examined or compiled the prospective financial information and therefore, do not express an audit opinion or any other form of assurance on the prospective financial information or the related assumptions. Events and circumstances frequently do not occur as expected, and there will usually be differences between prospective financial information and actual results, and those differences may be material.

16. We have conducted interviews with the current management of Gracie concerning the past, present and prospective operating results of the company.

17. Except as noted, we have relied on the representations of the owners, management, and other third parties concerning the value and useful condition of all equipment, real estate, investments used in the business, and any other assets or liabilities, except as specifically stated to the contrary in this report. We have not attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances or that the entity has good title to all assets.

18. The approaches and methodologies used in our work did not comprise an examination in accordance with generally accepted accounting principles, the objective of which is an expression of an opinion regarding the fair presentation of financial statements or other financial information, whether historical or prospective, presented in accordance with

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

generally accepted accounting principles. We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We assume that the financial and other information provided to us is accurate and complete, and we have relied upon this information in performing our calculation.

19. The calculation may not be used in conjunction with any other calculation, appraisal or valuation study. The calculated value stated in this report is based on the program of utilization described in the report, and may not be separated into parts. The calculation was prepared solely for the purpose, function and party so identified in the report. The report may not be reproduced, in whole or in part, and the findings of the report may not be utilized by a third party for any purpose, without the express written consent of Accurate Valuation Group, Inc.

20. Unless otherwise stated in the report, the calculation of the business has not considered or incorporated the potential economic gain or loss resulting from contingent assets, liabilities or events existing as of the valuation date.

21. The working papers for this engagement are being retained in our files and are available for your reference. We would be available to support our calculated value should this be required. Those services would be performed for an additional fee.

22. Any decision to purchase, sell or transfer any interest in the subject company or its subsidiaries shall be your sole responsibility, as well as the structure to be utilized and the price to be accepted.

23. The selection of the price to be accepted requires consideration of factors beyond the information we will provide or have provided. An actual transaction involving the subject business might be concluded at a higher value or at a lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivations of the buyers and sellers at that time. Due to the economic and individual motivational influences which may affect the sale of a business interest, the valuation analyst assumes no responsibility for the actual price of any subject business interest if sold or transferred.

24. All facts and data set forth in our report are true and accurate to the best of the valuation

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

analyst's knowledge and belief.

25. All recommendations as to fair market [other] value are presented as the Valuation Analyst's calculated value based on the facts and data set forth in this report.

26. During the course of the calculation, we have considered information provided by management and other third parties. We believe these sources to be reliable, but no further responsibility is assumed for their accuracy.

27. We made [did not make] an onsite visit to selected Company facilities.

28. This calculation analysis and report, which are to be distributed only in their entirety, are intended solely for use by you, your client, and your client's accountants and attorneys, solely to assist you and your client in your [the] determination of the fair market value [other standard] of the subject interests for tax [other] purposes. It should not be used for any other purpose or distributed to third parties for any purpose, in whole or in part, without the express written consent of Accurate Valuation Group, Inc.

29. If applicable, we have used financial projections approved by management. Furthermore, any projections of future events described in this report represent the general expectancy concerning such events as of the calculation date(s). We have not examined, reviewed or compiled the projected/forecast data or the underlying assumptions in accordance with the standards prescribed by the American Institute of Certified Public Accountants and do not express an opinion or any other form of assurance on the forecast data and related assumptions. The future may or may not occur as anticipated, and actual future operating results may vary from those described in our report. This would not affect our calculated value as of the date of this calculation.

30. We have no responsibility or obligation to update this report for events or circumstances occurring subsequent to the date of this report.

31. Our report is based on historical and/or prospective financial information provided to us by management and other third parties. This information has not been audited, reviewed or compiled by us, nor has it been subjected to any type of audit, review or compilation procedures by us, nor have we audited, reviewed or compiled the books and records of the

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

subject company. Had we audited, reviewed or compiled the underlying data, matters may have come to our attention which would have resulted in our using amounts which differ from those provided; accordingly, we take no responsibility for the underlying data presented or relied upon in this report.

32. Our calculation judgment, shown herein, pertains only to the subject business, the stated value standard (fair market value), as at the stated calculation date, and only for the stated calculation purpose(s).

33. The various estimates of calculated values presented in this report apply to the report only, and may not be used out of the context presented herein.

34. In all matters that may be potentially challenged by a court or other party, we do not take responsibility for the degree of reasonableness of contrary positions that others may choose to take, nor for the costs or fees that may be incurred in the defense of our recommendations against challenge(s). We will, however, retain our supporting workpapers for your matter(s) for a period of time sufficient to meet the needs of applicable legal, regulatory, or other professional requirements for records retention. We will be available to assist in defending our professional positions taken, at our then current rates, plus direct expenses, and according to our then current Standard Professional Agreement.

35. No third parties are intended to be benefited. An engagement for a different purpose, or under a different standard or basis of value, or for a different date of value, or with the use of additional approaches and/or methods, could result in a different calculated value.

36. AVG retains all exclusive rights to copyrights to the report and to control the issuance of copies by others, and the client has no right of diffusion, reproduction, distribution or sale. The client may reproduce 10 [other] copies of the report solely for its internal use. Otherwise, the client may not reproduce the report without the prior written consent of AVG.

37. Our report will not be used for financing, or included in a private placement or other public documents, and may not be relied upon by any third parties.

38. The report assumes all required licenses, certificates of occupancy, consents, or legislative or administrative authority from any local, state or national government, or private entity or

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

organization have been or can be obtained or reviewed for any use on which the calculated value contained in the report are based.

39. The obligations of AVG are solely corporate obligations, and no officer, director, employee, agent, contractor, shareholder, owner or controlling person shall be subject to any personal liability whatsoever to any person, nor will any such claim be asserted by or on behalf of any other party to this agreement or any person relying on the report.

40. AVG does not consent to be "expertised" with respect to matters involving the Securities and Exchange Commission. For purposes of this report, the foregoing sentence means that AVG shall not be referred to by name or anonymously in any filing or document. Should you breach this stipulation and refer to AVG by name or anonymously, you will amend such filing or document upon written request of AVG.

41. We express no opinion for matters that require legal or other specialized expertise, investigation or knowledge beyond that customarily employed by valuation analysts.

42. Unless stated otherwise in this report, we express no opinion as to: 1) the tax consequences of any transaction which may result, 2) the effect of the tax consequences of any net value received or to be received as a result of a transaction, and 3) the possible impact on the market value resulting from any need to effect a transaction to pay taxes.

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

Valuation Representation

I [we] represent that, to the best of my [our] knowledge and belief:

Note: It is up to each valuation analyst to determine if a calculation and a calculated value can also be an opinion of value. This example assumes that it is not an opinion of value. As such, for illustration purposes only, the word opinion is struck through. See paragraphs 65, 73 and 75 of SSVS.

- The analyses, ~~opinions,~~ and calculated value included in the calculation report are subject to the specified assumptions and limiting conditions, and they are the personal analyses, ~~opinions~~, and calculated value of the valuation analyst.
- The economic and industry data included in the calculation report have been obtained from various printed or electronic reference sources that the valuation analyst believes to be reliable [Any exceptions should be noted]. The valuation analyst has not performed any corroborating procedures to substantiate that data.
- The calculation engagement was performed in accordance with the American Institute of Certified Public Accountants Statement on Standards for Valuation Services. [Option: 2011 National Association of Certified Valuators and Analysts Professional Standards and the Institute of Business Appraisers Professional Standards.]
- The parties for which the information and use of the calculation report is restricted are identified; the calculation report is not intended to be and should not be used by anyone other than such parties.
- My compensation for completing this assignment is fee-based and is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the outcome of the calculation, the amount of the calculated value, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this calculation. [If applicable, state that the analyst's compensation is contingent on the outcome of the calculation].
- Option: The valuation analyst used the work of one or more outside specialists to assist during the calculation engagement. The specialist is Mr. /Ms. _____with the firm _____. [The calculation report should include a statement identifying the level of responsibility, if any, the valuation analyst is assuming for the specialist's work].
- The valuation analyst has no obligation to update the calculation report or the ~~opinion of~~ calculated value for information that comes to my attention after the date of the calculation report.

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

- This calculation report and analysis were prepared under the direction of Val Dude, CPA/ABV [CVA, CBA] with significant professional assistance from Junior B. Staffer. Mr. Dude is a Certified Public Accountant licensed in the State of [State(s)] and is Accredited in Business Valuation by the American Institute of Certified Public Accountants. [Option: National Association of Certified Valuators and Analysts, the Institute of Business Appraisers]

Val Dude, CPA/ABV [CVA, CBA]	Accurate Valuation Group, Inc.

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.
Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

Appendix

Economic Information Sources

Industry Information Sources

Other Information Sources

CV of Responsible Valuation Analyst

Exhibit Heading Examples Only (not required by SSVS)

Exhibit 1 **Summary of Values and Calculated Value**

Exhibit 2 **Spread Historical Financial Statements**

- **Unadjusted**
- **Adjusted**
- **Ratios**

Exhibit 3 **Income Approach**

- **Discounted cash flow model and conclusion of value**

Exhibit 4 **Weighted average cost of capital**

- **Cost of equity**
  - **Ibbotson**
  - **Duff & Phelps**
- **Betas and source**
- **Cost of debt and capital structure**

Exhibit 5 **Market approach**

- **Guideline public company method**
- **Summary and conclusion of value**

Exhibit 6 **Market approach**

- **Guideline public company method details**
- **Financial data, ratios, and comparisons**

Exhibit 7 **Market approach**

- **Guideline company transaction method**

Copyright © 2013 by Financial Valuation Solutions, LLC. All Rights Reserved.

Incomplete, Draft
Not To Be Relied Upon In Whole Or In Part Without Firm And Engagement Specific Modifications

SSVS No. 1 COMPLIANCE CHECKLIST - CALCULATON REPORT
(CALCULATION ENGAGEMENT)
TO BE USED IN CONJUNCTION WITH SSVS COMPLIANCE FLOWCHART

Business Name	Subject Interest	Valuation Date
Valuation Purpose	**Standard of Value**	**Premise of Value**
Analyst (sign and date)	**Manager** (sign and date)	**Principal** (sign and date)

This checklist assists the valuation analyst so that:

1 their work is in compliance with the American Institute of Certified Public Accountants's (AICPA) Statement on Standards for Valuation Services No. 1 (SSVS). This checklist must be used in conjunction with the SSVS Compliance Flowchart and SSVS in order to provide more confidence that SSVS requirements are met.

2 the working papers support the valuation conclusion(s) or calculation(s).

All "NA" answers should be individually explained in the space provided on the last page of this checklist.

Yes	No	NA	SSVS ¶	
				REPORTING GUIDELINES
				The Valuation Report
☐	☐	☐	¶47	Does the analyst understand that a valuation report is a written or oral communication to the client containing the conclusion of value or the calculation of value of the subject interest?
☐	☐	☐	¶48	Does the analyst understand that there are three types of written reports that an analyst may use to communicate the results of an engagement to estimate value: for a valuation engagement, a detailed report or a summary report; and for a calculation engagement, a calculation report (***each of these reports has a separate checklist; please refer to that checklist for additional requirements***)?
☐	☐	☐	¶48c	Does the analyst understand that a calculation report may be used only to communicate the results of a calculation engagement (calculated value); it should not be used to communicate the results of a valuation engagement (conclusion of value; ¶73)?
☐	☐	☐	¶49	Did the analyst indicate in the calculation report the restrictions on the use of the report (which may include restrictions on the users of the report, the uses of the report by such users, or both)?
				Reporting Exemption
☐	☐	☐	¶50	Does the SSVS reporting exemption for certain controversy proceedings apply to the engagement?
				- Does the analyst understand that:
☐	☐	☐		- a valuation performed for a matter before a court, an arbitrator, a mediator or other facilitator, or a matter in a governmental or administrative proceeeding is exempt from SSVS reporting provisions?

Yes	No	NA	SSVS ¶	
				Reporting Exemption (continued)
☐	☐	☐		- that the reporting exemption applies whether the matter proceeds to trial or settles?
☐	☐	☐		- that the exemption applies only to the SSVS reporting provisions and that the developmental provisions of SSVS still apply?
				Calculation Report - Calculation Engagement
			¶73	Did the analyst understand that a calculation report is the only report that should be used to report the results of a calculation engagement?
☐	☐	☐	-	does the report state that it is a calculation report
			-	does the report include the representation of the analyst similar to ¶ 65, but adapted for a calculation engagement; similar to the following examples:
☐	☐	☐		- analyses, opinions, and calculated value are personal to the analyst and are subject to the specified assumptions and limiting conditions (see ¶18)
☐	☐	☐		- economic and industry data obtained from sources believed to be reliable; analyst has not performed corroborating procedures to substantiate data.
☐	☐	☐		- calculation engagement was performed in accordance with AICPA SSVS
☐	☐	☐		- the parties for which the report is intended for and restricted to; report should not be used by anyone other than identified parties
☐	☐	☐		- state whether analyst's compensation is either fee-based or contingent on the outcome of the valuation
☐	☐	☐		- identify any outside specialist; state the level of responsibility, if any, assumed by analyst
☐	☐	☐		- analyst has no obligation to update report or opinion of value for information that comes to his/her attention after the date of the report
☐	☐	☐		- person(s) assuming responsibility for calculation signed the representation in their own name(s); no firm signature. Names of those providing significant professional assistance are listed.
			¶74	Calculation report should identify:
☐	☐	☐	-	any hypothetical conditions used in report, including basis for their use (¶22)
☐	☐	☐	-	any application of the jurisdictional exception (¶ 10)
☐	☐	☐	-	any applicable assumptions and limiting conditions (¶ 18)
☐	☐	☐	-	describe specialist's work used and level of responsibility analyst is assuming, if any (¶20)
☐	☐	☐	-	disclose subsequent events in certain circumstances (¶43)
			¶76	Should include section summarizing the calculated value and include the following or similar statements:
☐	☐	☐	**a**	certain calculation procedures were performed; identify the subject interest and calculation date
☐	☐	☐	**b**	describe the calculation procedures and scope of work performed, or reference section(s) of calculation report where procedures and scope of work are described

Yes	No	NA	SSVS ¶		
Calculation Report - Calculation Engagement (continued)					
				c	describe purpose of calculation procedures, including:
☐	☐	☐		-	calculation procedures performed solely for that purpose
☐	☐	☐		-	resulting calculated value should not be used for any other purpose or by any other party for any purpose
☐	☐	☐		**d**	calculation engagement was conducted in accordance with the AICPA's SSVS
				e	describe business interest's characteristics, including:
☐	☐	☐		-	whether subject interest exhibits control characteristics
☐	☐	☐		-	a statement about the marketability of the subject interest
☐	☐	☐		**f**	estimate of value resulting from a calculation engagement is expressed as a calculated value
				g	general description of a calculation engagement, including:
☐	☐	☐		-	a calculation engagement does not include all of the procedures required for a valuation engagement
☐	☐	☐		-	had a valuation engagement been performed, the results may have been different
☐	☐	☐		**h**	the calculated value, either single amount or a range, is described
☐	☐	☐		**i**	report is signed in the name of valuation analyst or analyst's firm
☐	☐	☐		**j**	date of valuation report is given
☐	☐	☐		**k**	analyst has no obligation to update report or the calculation of value for information that comes to his/her attention after the date of the report
☐	☐	☐	**¶77**		Did the analyst consider using the example report language for reporting on a calculation engagement?

Explanation of "No" or "N/A" answers:

¶ No.	Explanation

Disclaimer of Warranties: The information provided and commented upon in these materials is designed to provide guidance to valuation analysts only. Such information, comments and materials are not to be used as a substitute for professional judgment. The information, comments, and materials are to be used for informational purposes only. Any person consulting these materials is solely responsible for implementation of this guide as it relates to the particular matter for which the end user refers to these materials. Implied warranties of merchantability and fitness of purpose, if any exist, and all other warranties, expressed or implied, are expressly waived by any user of these materials. The developers and reviewers and Valuation Products and Services, LC or their owners, employees or partnership(s) shall not be libel for any direct, indirect, special, or consequential damages, including, without limitation, attorneys' fees or costs arising from any use of these guides or the information or material contained herein.

Copyright © 2007 by FVG Holdings, L.C., Financial Valuation Solutions, LLC and The Financial Valuation Group of Ft. Lauderdale, Inc. All rights reserved.

Financial Valuation and Litigation Expert

VIEWS AND TOOLS FROM LEADING EXPERTS ON VALUATION, FORENSIC/FRAUD AND LITIGATION SERVICES



Editor's Outlook

Jim Hitchner

jhitchner@valuationproducts.com

Season's greetings! We bring you some interesting articles to enjoy over what we hope will be your "holiday down time."

Our front-page article takes a look at a recent BV thread from the professional networking site LinkedIn. We hope to set the record straight as we address some inaccuracies in that discussion.

Next up, Steve Bravo takes a look at synergistic attributes in a fair market value case. He looks to *BTR Dunlop* to find answers to some of his questions and shares those with our readers.

Rod Burkert and Bob Dohmeyer provide a look at a new mean reversion model and explain how to use it to adjust excess compensation. A link is also provided to download the complete model.

Darrell Dorrell poses the question "Does 'Offer Price' Equal 'Value?'" He then provides 20 factors to help our readers answer that question.

Rounding out this issue, Steve Babitsky and James Mangraviti offer a concise list of the mistakes most often made by expert witnesses at deposition.

Best wishes to you for a restful, peaceful holiday season. Thank you for your support throughout the year.

'LinkedOut'

A Response to a Business Valuation Standards Discussion

We at VPS and *FVLE* occasionally monitor various LinkedIn discussion groups that pertain to business valuation (BV). Some of these discussions are very informative and professional; others are not. That's where our expression "LinkedOut" comes from. We have been following a recent discussion thread on BV standards, one that has generated great comments and insight but also—well—bad comments and lack of insight. Regardless, this discussion has attracted a lot of activity.

The initial question posted was as follows: "When valuing an operating company, is it necessary to mention *USPAP* in addition to *SSVS 1* when talking about the standards adhered to?" This is a great question, the answer to which can sometimes be confusing. This article will attempt to remove the confusion in a positive way and address this area with balance and objectivity. You'll see none of what we call the "designation wars" here. We think that the AICPA, ASA, IBA, NACVA and the Appraisal Foundation (USPAP) are all fine organizations and do a good job serving their members or constituencies. This will be an unbiased discussion. As Michael Corleone says in *The Godfather,* "It's not personal, Sonny. It's strictly business."

We will answer the original question first and then address various additional questions and comments posted in this discussion group thread. We will then respond to the various questions and comments from this LinkedIn discussion group. We have not attached names to the various comments as that will not serve the purpose here, which is to try to set the record straight. Some of the questions and comments have been edited for clarity.

Continued on page three

EXPERTS in this Issue

Jim Hitchner
Editor's Outlook 1
Steve Bravo
on Synergy and Fair Market Value 7
Rod Burkert and Bob Dohmeyer
on the Mean Reversion Model to Adjust Excess Compensation 9
Darrell Dorrell
on Price vs. Value 13
Steve Babitsky and James Mangraviti
on the Top Ten Mistakes Expert Witnesses Make 19
Panel of Experts 21
Cost of Capital Corner 24

The original four-member team that actually wrote the AICPA's BV standards, *SSVS No. 1*, included Ed Dupke, chair; Jim Alerding; Greg Forsythe and Jim Hitchner. It is important to note that Dupke, Alerding and Hitchner are CPA/ABVs. All four former members of the original BV standards task force are ASAs. Alerding is also a CVA. To bolster the accuracy of our discussion here, Dupke and Alerding reviewed this article and agree with all the answers and responses to the questions and comments posted. Here is a LinkedIn question that was recently posted:

"When valuing an operating company, is it necessary to mention USPAP in addition to SSVS 1 when talking about the standards adhered to?"

Only members of the American Society of Appraisers (ASA) are required to adhere to the *Appraisal Foundation's Uniform Standards of Professional Appraisal Practice (USPAP)*. In the U.S., no other BV group is required to follow *USPAP.* This includes the American Institute of Certified Public Accountants (AICPA), the Institute of Business Appraisers (IBA) and the National Association of Certified Valuators and Analysts (NACVA). However, any valuation analyst (analyst) can adhere to USPAP if he or she chooses to do so.

If you are a certified public accountant (CPA) and are a member of the AICPA, you must follow the AICPA's *Statement on Standards for Valuation Services No. 1, Valuation of a Business, Business Ownership Interest, Security or Intangible Asset (SSVS)*. If you are a CPA who is not a member of the AICPA, you likely have to follow *SSVS* if your state board of accountancy follows AICPA rules and regulations. For this discussion, we assume the CPA must follow *SSVS*. So, if you are a CPA you must follow *SSVS* but do not have to follow *USPAP.* As such, it is not necessary for a CPA to mention or adhere to *USPAP.* This is also true of certified business appraisers (CBA) from the IBA and certified valuation analysts (CVA) and accredited valuation analysts (AVA) from NACVA.

Let's move on to our responses to the many questions and comments posted on this LinkedIn Group.

Question/Comment 1: *SSVS* is a standard created by and for the accounting community and is limited to financial reporting appraisals only, in my view. *USPAP* is the only standard mentioned by the IRS in its definitions of qualified appraiser and qualified appraisal. Advocates of *SSVS* would like to believe *SSVS* is defacto for the industry, but it is not, regardless of the hype. If it were as ideal as USPAP for tax appraisals, the Service would advocate for it as much as they have for *USPAP*. "Pick one and use it" is my advice. If you wish to please the accounting community's insatiable need for consistency… Non-CPA appraisers recognize *SSVS* for what it is: something created by the accounting community to gain appeal and BV mind-share, nothing more.

Response 1: *SSVS* was indeed created by and for the accounting community. It is incorrect that *SSVS* is limited to financial reporting appraisals. While *SSVS* does apply to financial reporting appraisals, it also applies to all other types of valuations including tax, ESOPs, disputes, dissenters' rights, marital and business divorces, etc. While *USPAP* was indeed the only standard mentioned by the IRS in one of its publications, there is absolutely no inference that other standards do not meet the same qualification. In fact, various conversations with current and former IRS employees indicate that *SSVS* would meet the requirements for a qualified appraisal.

It was never the intention of the AICPA to have *SSVS* become the "defacto" standard. It is targeted to members of the AICPA and most CPAs within most state boards of accountancy. It is not required for anyone else and there is no intention that it be anymore than what it is– for CPAs. As to any hype, we are not aware of any hype that non-CPAs should comply with *SSVS*. While there has been a great deal of education on *SSVS*, that is not "hype."

As to which standards to comply with, we believe you should comply with whatever the standards are of any organizations/groups to which you belong. If you do not want to adhere to an organization's standards, then simply quit that organization. If you do not currently belong to any such organization, then adherence to either *USPAP* or the *SSVS* will enhance the efficacy of your product.

SSVS was not created by the accounting community to gain appeal and BV mind-share. As previously discussed, it was created to give CPAs guidance and to promote good practices. Given that three members of the original AICPA business valuation standards task force reviewed this article, we can assure you that this was the sole intention. Furthermore, to make a global statement that this is the view of non-CPAs is unsupportable. The following was a succinct comment about *SSVS* from one of the members of the AICPA BV Standards Writing Task Force.

> The *SSVS* was not put together so CPAs could strut around saying, 'We have a standard.' They took six years to develop, and a lot of effort went into getting them right. We had the AICPA looking over our shoulder with their over 100 years of standard-writing experience, helping us to get it right. It was needed because we felt that the ABV needed to have a set of standards to provide quality to holding the designation, and we also wanted to corral the CPAs doing valuation work and get them to follow standards to improve the overall quality of work in valuation done by CPAs.

Question/Comment 2: It is my firm belief that *SSVS* has no place in estate/gift tax (EGT) appraisals, but that *USPAP* has a place in financial reporting appraisals.

Response 2: CPAs must conform to *SSVS*, so they must follow *SSVS* in estate/gift appraisals as well as other types of valuations. We agree that if you belong to an organization that

Continued on next page

requires adherence to *USPAP,* that *USPAP* has a place in financial reporting appraisals. As stated previously, analysts may also elect to follow *USPAP* in any type of appraisal, including financial reporting. The following was a succinct comment about *SSVS* and estate and gift tax appraisals.

> There are, literally, a few thousand appraisers following *SSVS* when preparing EGT valuations, including myself. And speaking just for myself, I have never run into a problem with that.

Please note that we believe there are many more than just a few thousand appraisers following *SSVS.* CPAs, whether they are accredited in business valuation (ABV) or not, must follow *SSVS.*

Question/Comment 3: I wonder how many CPAs who reference only *SSVS* (and not *USPAP*) in a high profile EGT case would be challenged by opposing counsel— and found to be wanting. I am curious to know, also, if the double-dippers will find themselves in a compromised position when they come under clever challenge. While the standards are not mutually exclusive, they don't appear to be identical either. Making all potential users of our BV work satisfied seems to me to be a path to insufficiency or maybe even failure.

Response 3: A great many CPAs reference only *SSVS* in estate and gift tax, as well as many other appraisal services. The reason is that they *must* adhere to *SSVS,* and many do not belong to any other BV groups that require *USPAP* compliance. Furthermore, there are many CPAs who are members of the ASA. This group is required to follow *SSVS, USPAP* and the ASA standards. See the following response from this discussion thread.

> There is no requirement to use *USPAP* for EGT valuations. The IRS will accept any reasonable set of standards and the *SSVS* certainly falls in that category. There are thousands of CPAs using *SSVS* and to my knowledge the IRS has not challenged the use of those standards. To say that one cannot use solely *SSVS* for EGT is simply false.

Question/Comment 4: But be aware that the standards are not as complimentary as some may suggest, as illustrated by the AICPA-based challenges to *USPAP*. It is a power grab of sorts. Be prepared to defend your compliance with *USPAP* and to defend how you can potentially drive on both sides of the road at once.

Response 4: Actually, the standards of the AICPA, ASA, IBA, NACVA and the Appraisal Foundation's *USPAP* are quite complimentary. The original group that wrote the AICPA standards was very careful to review all the other standards and to make them as similar as possible. For example, *SSVS* and *USPAP* are very similar. In the last few years, NACVA and the IBA did an admirable job in revising and merging their standards. That process also made them complimentary to *SSVS.* There are some differences, but the overall standards are very similar. The ASA has more specific requirements than the other three sets of standards but, again, they are generally very similar.

We are not aware of any AICPA-based challenges to *USPAP.* There is no power grab. This is fiction, not fact. As to driving on both sides of the road, which we assume means adhering to multiple standards, see the following responses from this discussion thread.

- Being the conservative accountant that I am, it sounds like there would be no downside to making sure I am in compliance with both *USPAP* and *SSVS.*
- As a non-CPA who has worked inside of a CPA firm and continues to sub-contract with CPA firms, I am required to be in compliance with *SSVS 1.* As an ASA, I am required to be in compliance with *USPAP* for the appraisal services that I perform, and ASA's BV standards. Just to keep things interesting, I am an AVA and therefore required to be in compliance with the NACVA professional standards. I have found nothing that prevents me from being in compliance with these standards at the same time. Sure, there are terminology differences, but I don't think that there are substantive differences between what these standards are trying to accomplish for us professionals…
- I am also subject to all three standards and find they complement each other nicely and actually work to make our work stand out in some respects when we can say we are in compliance with all three.
- I am a full-time ASA appraiser who also happens to be a registered CPA (not licensed and do not perform any attest functions as a CPA) and am a member of the AICPA. So, my understanding is that I must comply with *SSVS* in addition to *USPAP.* My read of the *SSVS,* however, did not reveal serious areas of disagreement with *USPAP.*
- I have studied the standards of all five major credentialing organizations, and I haven't found any significant areas of disagreement or incongruence with *USPAP.*
- If my only designation was the 'AVA,' as issued by NACVA, and the only set of standards that I was subject to was the NACVA professional standards, I personally would have no problem calling myself a 'qualified appraiser,' as required by the Treasury regs. Would the IRS accept my assertion? Given the 'SKEET' test: skills, knowledge, education, experience and training, I think I'd pass the test.

Question/Comment 5: First, only CPAs utilize *SSVS,* non-CPAs do not— nor would many of us want to. That is a point of clarity that I don't think has been made. Again, only CPAs have any requirement to use *SSVS.* The number of non-CPAs in the BV profession is something that should be considered as well.

Response 5: It is not true that only non-CPAs utilize *SSVS.* There are a great many non-CPA analysts who

Continued on next page

work for either a CPA or a CPA firm where they follow *SSVS*. We have heard very few complaints about this. Non-CPAs who do not work for a CPA or CPA firm may do as they wish. They can follow *SSVS* or *USPAP* or any other set of standards. This is really a non-issue.

Question/Comment 6: I am reminded by an email that I just received that I provide "opinions" of value, not "conclusions" of value. The former is an appraiser term; the latter is an accounting term. Subtle perhaps, but telling as well.

Response 6: All appraisers, regardless of their affiliations, prepare *conclusions* of value. The word *opinion* comes up in two well-known contexts: legal and accounting. An appraiser, whether a CPA or not, can offer an opinion of value. There is no prohibition against CPAs offering opinions of value and many do so, particularly in a dispute/legal environment. In a courtroom, the expert must have an opinion. See the following response from this discussion thread concerning the accounting side.

> Actually 'opinion' is an accounting term, referring to financial statement auditing, as in an unqualified opinion, qualified opinion, disclaimer opinion, and an adverse opinion. It was precisely for this reason that *SSVS* instead uses the term 'conclusion.' Similarly, *SSVS* uses the term 'representation,' rather than 'certification.'

Question/Comment 7: Maybe I'm missing something, but it seems to me the *USPAP* vs. *SSVS* vs. other standards "battle" was won/lost/drawn years ago already. We're now in the era of "let's work with what we have and keep going." CPAs will always do valuation work, and ASAs will always include a large constituency of non-CPAs. Okay. Fine. Move on. My understanding is that several organizations continue to look for ways to collaborate on standards writing as well as other opportunities to serve their members. They'll tell us when they have something substantive to share. We all benefit when the sister organizations propel us through competition to continue to learn and serve client needs well.

Response 7: We agree. There is a lot more cooperation among the four U.S. BV groups concerning standards than many members know about. For example, NACVA presented a multi-standards presentation at its 2012 Annual Consultants Conference on June 22. Its title was "Unifying Industry Standards - Bringing Everyone to the Table." There were representatives from NACVA, IBA, ASA, AICPA and the Canadian Institute of Chartered Business Valuators. The panelists agreed that there were a lot more points in common than differences and that complying with multiple standards was not really that difficult.

Another example is when the Appraisal Foundation convened in a meeting in Washington, DC on April 23, 2012. The program title was, "The Business Valuation Profession as it Relates to Financial Reporting: Where Are We Headed?" While this meeting was focused on valuations for financial reporting, the discussion again shows the cooperation among various groups. For example, one of the co-chairs was the managing director in a business valuation firm and the other co-chair was a partner in the valuation group of a Big Four accounting firm. Both co-chairs were ASAs. There were representatives from the Securities & Exchange Commission, the Financial Accounting Standards Board, academia, the Public Company Accounting Oversight Board, the CFA Institute, the Appraisal Foundation, a large international appraisal firm and representatives from the Big Four accounting firms. The discussion addressed BV standards as well as valuation procedures, best practices and quality control and enforcement. It was a very collaborative atmosphere.

Participants at the meeting included representatives from NACVA, the International Association of Consultants, Valuators and Analysts, ASA, the Royal Institution of Chartered Surveyors, the Appraisal Institute, the AICPA, Office of the Comptroller of the Currency, International Valuation Standards Council, the National Association of Realtors and various appraisal, accounting and investment advisory firms.

You couldn't have gotten a more diverse group to discuss valuation issues. The discussion and question/answer sessions were blunt, professional and enlightening. We hope to hear more from the Appraisal Foundation's efforts to solve some of our professions problems.

Question/Comment 8: As long as *SSVS* is out there in its current form, the analyst undertakes significant risk in forming an opinion based on a calculation. By definition, a calculation engagement does not lead to an opinion of value. An appraisal does. However, and more importantly, is the scope you have undertaken sufficient to render the opinion you advocate? Again I refer to the *USPAP* Scope of Work Rule as a great litmus check for this question.

Response 8: First off, all four U.S. BV groups allow calculations. As such, they recognize a need in the BV profession to have a lesser work product. This need also exists for clients and client representatives such as accountants and attorneys. Calculations can be used for such services as preliminary estate planning, preliminary mergers and acquisition analyses and preliminary values for settlement purposes in litigation. Note the word *preliminary* in each of these examples of when calculations can be used. However, it is also true that there is no requirement to have *only* preliminary calculations. CPAs are free to provide calculations any way they see fit as long as it complies with *SSVS.*

The most important limiting language in *SSVS* for a calculation is as follows:

> A valuation analyst performs a calculation engagement when (1) the valuation analyst and the client agree on the valuation approaches and methods the valuation analyst will use and the extent of procedures the valuation analyst will perform in the process of calculating the value of a subject interest (these procedures will be more

Continued on next page

> limited than those of a valuation engagement)…The valuation analyst expresses the results of these procedures as a calculated value…A calculation engagement does not include all of the procedures required for a valuation engagement… (p. 13, 21.*b*.)
>
> (1) a calculation engagement does not include all of the procedures required for a valuation engagement and (2) had a valuation engagement been performed, the results may have been different. (p. 34, 76.*g*.)

Some CPAs are providing calculations, calculated values and calculation reports as their only and final value in a litigation setting. Some are also offering calculated values as their opinion of value. Remember, in a litigation setting an expert opinion must be with "reasonable certainty." While there is no prohibition against this, from a practical perspective, why would you want to? If you are admitting that a calculation engagement does not include all of the procedures required for a valuation engagement and had a valuation engagement been performed, the results may have been different, how can this be with reasonable certainty? Saying that your opinion of the calculated value of XYZ Company is $4,000,000 is like saying that my opinion (with reasonable certainty) of the calculated value (without reasonable certainty) of XYZ Company is $4,000,000.

Other comments from this discussion follow:

- And I can see some attorney trying to get some poor hapless 'expert' to state his 'opinion' of the 'calculated value.'
- It [a calculation] is not in conflict with the *SSVS* to testify as to a calculation. Just making that clear. That is not a violation of the *SSVS.* However, one would be rather silly to do so. The calculation provisions were put into the *SSVS* to aid the CPA/ABV in instances where something less than a full valuation was needed. That occurs in a non-litigation situation. It was wanted by the profession when *SSVS* was put together and it is a very useful tool in some cases. It is not likely to ever be taken out of the *SSVS.*
- Unless I am misunderstanding something, when you testify as an expert, you testify as to your opinion. With a calculation, you have not formed an opinion.
- While I agree in part to your assessment of calculation engagements, they do have a place. We use them extensively in a transition planning exercise for business owners. We typically provide a range of value under three scenarios— a value on a minority, nonmarketable interest basis, a financial control basis and 'strategic' value basis. The 'report' is not designed to be used for any gifting or, for that matter, to support any filing with any 'authority.' It is in its simplest form a discussion vehicle.
- There is nothing in *SSVS 1* that restricts one from saying their opinion of the calculated value is X, but we made it clear that we would not do it or recommend others using opinion with a calculation level of service. I make it very clear in our calculation reports and our accompanying engagement letter that we will not testify to a calculated value that is provided for planning and settlement purposes only. We have often been engaged to upgrade our calculation to a conclusion when a particular matter does not settle, and for the record, normally do full conclusions at the outset anyway. That said, I find it is a great service to be able to provide calculations based on agreed upon parameters, when the circumstances warrant and most of this calculation work is outside of litigation anyway for tax planning, M&A and the like.
- We are often asked to provide a calculation service when in fact they are asking for an opinion of value to be used either in a litigation environment or for a gift for example. We always decline— our process tries to ferret out the reasons— the real reasons behind the potential assignment. Calculation engagements are useful when the user understands the limits of the service and we are not trying to provide a 'cheaper' service to suffice for what we should be providing.
- As for the reporting standard for calculations, it is important for the user of a calculation to understand what is being provided. The requirements and suggested wording for a calculation report clearly state what a calculation is and what it is not. As pointed out, feel free to highlight, make bold, or add any other limiting phrases you like to your report. If you are concerned about other calculation reports, they are the responsibility of the preparer and as noted, if anyone uses a calculation in litigation they do so at their own peril.

CONCLUSION

Ed Dupke, former chair of the AICPA BV Standards Writing Task Force, offers a concise summation:

> As as ASA, I follow and respect the ASA Standards and *USPAP.* As a CPA and as one of the authors, I follow and respect *SSVS.* I think that the standards committees of NACVA and IBA did an outstanding job in bringing their standards together. I respect the work those talented individuals did. I would hope that in the near future, we could reach a point where we all agree that there is quality in all of these standards and respect each others work conforming to these standards.

We want to thank all the nameless participants who posted in this LinkedIn discussion. While some were more vitriolic than others, it at least got the discussion going. We'll end this article with an appropriate comment from one of the LinkedIn participants. "Only BV appraisers could make over 100 comments on the topic '*USPAP* vs. *SSVS*.'"

This page left intentionally blank.

The Question of Calculations and USPAP— Another Round



CARLA G. GLASS,
CFA, FASA

Hill Schwartz Spilker Keller LLC
Dallas, Texas
cglass@hsskgroup.com

Editor's Note: *Carla Glass, CFA, FASA is a former member of the Appraisal Standards Board (Board) of The Appraisal Foundation. She served on the Board from 2001 to 2006 and was the chair in 2005. She is the only business valuation professional to have served as chair of the Board. She also has served as the chair of the ASA Business Valuation Committee and the ASA International Education Committee.*

Jay E. Fishman, FASA, the only other business valuer to have recently served on the Board (as well as in many other roles on bodies representing our profession), provided excellent input and comments regarding this article. However, it should be noted that neither of them currently serves on the Board, and their statements do not represent an official position of the Board.

Regarding statements made in this article pertaining to SSVS-1, Carla consulted with James R. Hitchner, CPA/ABV/CFF, ASA, who served on the initial AICPA BV Standards Writing Task Force. Carla greatly appreciates the counsel and input of these two individuals.

The question has been asked: Is performance of a calculation engagement in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP)? I decided to study the language in the various standards documents and write this article, hopefully contributing some clarity.

The documents that will be addressed are:

- Statement on Standards for Valuation Services 1 (SSVS-1) of the American Institute of Certified Public Accountants (AICPA)
- Uniform Standards of Professional Appraisal Practice (USPAP) of The Appraisal Foundation (2014-2015 edition)
- BVS-I: General Requirements for Developing a Business Valuation (BVS-I) of the American Society of Appraisers (ASA)

In studying the language in each individual standard, it is important to focus on specific terms and their definitions within each standard. While the terms themselves might be the same or similar, the definitions of the terms are different in the different sets of standards. *To understand a given set of standards, the terms used within that set of standards must be understood as they are defined in that set of standards.* To emphasize certain points, some quoted phrases are italicized.

In reviewing documents for this article, I found it easier to compare the language of USPAP to the language in the SSVS-1 than to compare USPAP to BVS-I. Therefore, this article will focus first on SSVS-1 and USPAP and then discuss BVS-I at the end.

THE TERMS

Certain terms defined in SSVS-1 are key to understanding the relevant parts of SSVS-1, as follows:

Engagement to Estimate Value. An engagement, or any part of an engagement (for example, a tax, litigation, or acquisition-related engagement), that involves estimating the value of a business, business ownership interest, security or intangible asset. Also known as valuation service.

Valuation Engagement. An engagement to estimate value in which a valuation analyst determines an estimate of the value of a subject interest by performing appropriate valuation procedures, as outlined in the AICPA SSVS, and is *free to apply the valuation approaches and methods he or she deems appropriate for the circumstances.*

Calculation Engagement. An engagement to estimate value wherein the *valuation analyst and the client agree* on the specific valuation approaches and valuation methods that the valuation analyst will use and the extent of valuation procedures the valuation analyst will perform to estimate the value of a subject interest. A calculation engagement *generally does not include all of the valuation procedures required for a valuation engagement.* If a valuation engagement had been performed, the results might have been different. The valuation analyst expresses the results of the calculation engagement as a calculated value, which may be either a single amount or a range.

As defined, an *engagement to estimate value* includes both a *valuation engagement* and a *calculation engagement.*

Let's now move on to the relevant terms in USPAP.

Appraisal- *(noun)* the act or process of developing an opinion of value; an opinion of value.

Continued on next page

expert TIP

In studying the language in each individual standard, it is important to focus on specific terms and their definitions within each standard.

Appraisal- *(adjective)* of or pertaining to appraising and related functions such as appraisal practice or appraisal services.
Comment: An *appraisal* must be numerically expressed as a specific amount, as a range of numbers, or as a relationship (e.g., not more than, not less than) to a previous value opinion or numerical benchmark (e.g., assessed value, collateral value).

Scope of Work- the type and extent of research and analysis in an appraisal or appraisal review assignment.

It is important to pause and elaborate on a couple of points regarding the definition of *appraisal* in USPAP.

An understanding of the word *opinion* as used in this definition of *appraisal* is key. We note that, in certain legal settings, the word *opinion* has been defined as a conclusion reached "with reasonable certainty." However, USPAP does not define *opinion* this way. In fact, USPAP does not define *opinion* internally at all, leaving it to a general (commonly referred to as Webster's) interpretation. The online version of the *Miriam Webster Dictionary* as of December 30, 2013, defines *opinion* as "a belief, judgment, or way of thinking about something: what someone thinks about a particular thing." This definition of *opinion* does not tie the word to a concept of "reasonable certainty." It is my opinion that the color blue is pretty. This does not provide any reasonably certainty about the color blue.

Tied to a possible misunderstanding of the intended meaning of *opinion* as used in the definition of *appraisal* in USPAP is a misunderstanding of the USPAP definition of *appraisal* itself. Many analysts believe that the word *appraisal* means an opinion of value based on some sort of "full" procedures— or a "thorough" analysis— or, in USPAP terms, a more extensive *scope of work*.[1] However, *this is an incorrect belief.* The word *appraisal* as used in USPAP is intended to mean an opinion reached as the result of a variety of *scopes of work* – from very limited to very extensive (more on this follows).

COMPARISON OF SSVS-1 AND USPAP

Now, back to a comparison of the definitions. To compare SSVS-1 and USPAP terminology, it seems that the SSVS-1 term *engagement to estimate value* (or what is the result of an engagement to estimate value) is similar to USPAP's term *appraisal*.[2] Also, performance of a *valuation engagement* or *calculation engagement* in SSVS-1 is a matter of choosing a *scope of work* in USPAP, with a *calculation engagement* reflecting a lesser *scope of work.* However, you might need convincing of this. To me, the evidence that is most convincing comes from tracing a bit of history about USPAP, going back to the 2005 edition.

The 2005 edition of USPAP had the same definition of *appraisal* as that in the current edition (quoted previously). However, it had additional parts. It included a definition of *complete appraisal* and *limited appraisal,* with a *complete appraisal* being one that did not invoke the Departure Rule (which existed at the time) and a *limited appraisal* being one that invoked the Departure Rule. Invoking the Departure Rule meant (in very simplified terms for purposes of this discussion) not completing an approach or other procedures that would "normally" be completed (very similar to the exclusion of certain procedures in a *calculation engagement*).

A complete explanation/interpretation of the old Departure Rule and how it affected use of the three approaches to value (and other procedures) are not necessary here. However, the message it conveyed was very similar to that conveyed in SSVS-1. First, (in the USPAP terms) there are certain procedures that typically are considered "applicable" in the valuation of certain types of property. For example, the market and income

Continued on next page



approaches are often "applicable" in the valuation of a profitable operating business, while the asset-based approach is often "applicable" in the valuation of an asset-holding entity.

Both USPAP (2005 edition) and SSVS-1 would agree that, for a *complete appraisal* and/or a *valuation engagement,* the procedures deemed "applicable" should be completed. However, both USPAP and SSVS-1 also realized that the procedures generally considered applicable to a certain type of property might, in certain circumstances, not be required. When one (or more) of these typically "applicable" procedures is eliminated in a particular engagement, it is called a *calculation engagement* in SSVS-1 and was called a *limited appraisal* in the 2005 USPAP.

In the 2006 edition, the Departure Rule as well as the terms *complete appraisal* and *limited appraisal* were eliminated, and these were replaced with the Scope of Work Rule. Use of the word *appraisal* within USPAP did not change. In the 2005 (and prior) editions, the more general term *appraisal* incorporated both a *complete appraisal* and a *limited appraisal*. In the 2006 (and subsequent) editions, the term *appraisal* still applies to both. The differentiating labels of *complete* or *limited* disappeared, but the concepts did not. Whether one was completing what used to be called a *complete* or *limited* appraisal became, in the 2006 edition, a decision regarding the extent of the *scope of work.* The purpose of the Scope of Work Rule is to allow, and provide procedures for, performing projects with various extents of research and analysis. Excluding procedures that might "normally" be considered applicable would be considered a "lesser" scope of work (or, in SSVS-1 terms, doing a *calculation engagement*) and the Scope of Work Rule has certain requirements in this case (more on this later).

A CALCULATION ENGAGEMENT IN USPAP

It is my belief that these previous paragraphs and quotes indicate that what is called an *appraisal* in USPAP covers both a *valuation engagement* and a *calculation engagement.* In USPAP, a *valuation engagement* would have a more extensive scope of work than a *calculation engagement.* So, the answer is yes, a *calculation engagement* ***can*** be performed in compliance with USPAP.

However, in performing a *calculation engagement* in compliance with USPAP, the appraiser needs to be aware of the USPAP requirements that are different from, or in addition to, the SSVS-1 requirements.

A complete treatment of USPAP requirements for a *calculation engagement* is beyond this article. But, as a partial treatment, in order to perform a *calculation engagement* and remain in compliance with USPAP, the valuation analyst would need to adhere to the Scope of Work Rule. Although the Scope of Work Rule should be read for a complete understanding, a few parts key to this discussion are addressed here.

- To perform a *calculation engagement,* USPAP would require that the lesser scope of work be deemed appropriate for the intended use of the conclusion (said another way, appropriate for the purpose of the engagement). USPAP indicates that the appropriateness of a given *scope of work* is to be determined in the context of the intended use of the assignment results.
- Also, USPAP indicates that the appraiser is responsible for making sure that the scope of work performed is appropriate. To emphasize the point, whether a *calculation engagement* is appropriate for a given project is a judgment for which USPAP holds the appraiser responsible/ accountable. USPAP gives appraisers "broad flexibility," but also responsibility, in determining the appropriate scope of work.
- USPAP requires that the appraiser not allow the *scope of work* to be limited "to such a degree that the assignment results are not credible in the context of the intended use."
- There are certain reporting requirements regarding disclosure of the scope of work performed.

It is my view that these requirements of the Scope of Work Rule give further evidence that a *calculation engagement* is an *appraisal* in USPAP. The Scope of Work Rule was specifically written to allow for a full spectrum of extents of research and analysis.

As a part of this discussion, it should be noted that use of the term *calculation engagement* is intended to identify it as something less than a *valuation engagement.* Because USPAP no longer requires a label such as *calculation* or *limited* to identify that an *engagement* is something less than a *valuation engagement* or a *complete appraisal,* some of these additional USPAP requirements exist to provide clarity to intended users of the analysis—to put them "on notice" regarding the reduced *scope of work.*

THE CALCULATION REPORT AND USPAP

Which leads to a second question: Does the *calculation report* (in SSVS-1) comply with USPAP? Just as there are some (few) differences between a *valuation report* and a USPAP-compliant report, there are some (few) differences between a *calculation report* and a USPAP-compliant report. One difference is that USPAP requires an explanation of exclusion of any of the three approaches to value. If such an approach is deemed not typically "applicable" in the valuation of a particular type of asset, then a simple statement of that should suffice. However, if an approach is typically "applicable" but deemed not "necessary" in the context of the intended use for a *calculation engagement,* then a bit more explanation would be appropriate. Additionally, USPAP requires that the client (and any other intended users) be specified, as well as the standard and premise of value.

Continued on next page

CONCLUSIONS REGARDING CALCULATIONS, SSVS-1 AND USPAP

- A *calculation engagement* can be performed in compliance with USPAP. In USPAP terms, it is simply called an appraisal with a lesser *scope of work.* The most important differences are that, under USPAP, the reduced *scope of work* must be appropriate for the intended use (purpose) of the assignment and the responsibility for this decision rests with the appraiser.
- A *calculation report* can, with relatively few changes, be made compliant with USPAP.

THINGS THAT ARE LESS THAN A CALCULATION ENGAGEMENT

It is also important to note that paragraph 9.(a) of SSVS-1, which is a part of the "Exceptions from this Statement," indicates the following:

> This Statement is not applicable to mechanical computations that do not rise to the level of an engagement to estimate value; that is when the member does not apply valuation approaches and methods and does not use professional judgment.

The mechanical computation described in this statement is also generally addressed in USPAP (although not using those words). Simply stated, if an appraiser (as defined in USPAP) performed such a mechanical computation, USPAP has no specific development or reporting requirements. However, it would require that the mechanical computation be performed competently and ethically (in other words, the USPAP Competency Rule and Ethics Rule would apply).

THE AMERICAN SOCIETY OF APPRAISERS' BVS-1

Now, let's move on to BVS-1. In comparison to the discussions above, the language in BVS-1 seems less precise. Calculations are covered in BVS-I of the ASA Business Valuation Standards. Part "C" of BVS-I states that the "nature and type of the engagement must be defined" and that "an acceptable type of engagement will generally be one of the three types detailed" in BVS-I. The three types are: an *appraisal,* a *limited appraisal,* and a *calculation.*

Appraisal is defined in BVS-I part C.1. as "the act or process of determining the value of a business, business ownership interest, security, or intangible asset." This definition, standing on its own, seems to be similar to what would be derived from an *engagement to estimate value* (in SSVS-1) or similar to the definition of *appraisal* in USPAP. However, reading on to the rest of BVS-1 indicates otherwise.

The three types of engagements within the BVS-I are best understood by comparing portions of the descriptions directly to each other. One difference among the three is their stated objective:

> The objective of an Appraisal is to express an unambiguous opinion as to the value of a business, business ownership interest, security, or intangible asset which opinion is supported by all procedures that the appraiser deems to be relevant to the valuation.
>
> The objective of a Limited Appraisal is to express an *estimate* as to the value of a business, business ownership interest, security, or intangible asset. *The development of this estimate excludes some additional procedures that are required in an appraisal.*
>
> The objective of a Calculation is to *provide an approximate indication of value* of a business, business ownership interest, security, or intangible asset *based on the performance of limited procedures agreed upon by the appraiser and the client.*

Each of the three types lists four qualities of that type of engagement. The wording of the fourth quality in each case is key to this discussion:

Appraisal- The valuation considers all conceptual approaches deemed to be relevant by the appraiser

Limited Appraisal- The valuation is based on the conceptual approach(es) deemed by the appraiser to be most appropriate

Calculation- The calculation may be based upon conceptual approaches agreed upon with the client

So, the two key differences in the statements made about a *limited appraisal* compared to a *calculation* are:

- Use of the terms "estimate" versus "approximate indication"
- The phrase "agreed upon by the appraiser and the client" is introduced in the description of the calculation

There is nothing apparent in these descriptions that would indicate that these three levels of scope of work are not inherently in compliance with USPAP. However, similar to discussions above, USPAP would place certain responsibilities on the appraiser if he or she agreed to perform a *limited appraisal* or a BVS-1 *calculation,* and there would be other USPAP requirements.

CONCLUSION

An SSVS-1 *calculation engagement,* as well as a BVS-1 *limited appraisal* and/or *calculation,* can be done in compliance with USPAP. However, USPAP differs from SSVS-1 and from BVS-1 in that it places responsibility to decide whether such engagements are appropriate squarely on the shoulders of the appraiser. USPAP provides guidance as to how to make such a decision.

Also, USPAP would call the results of both a *valuation engagement* and a *calculation engagement* an *appraisal.* Because USPAP does not require use of a term such as *calculation* to indicate that the scope of work undertaken is something *less,* it has other requirements to clarify what *scope of work* was undertaken.

[1] This belief might have originated with the concepts tied to Appraisal in ASA's BVS-1, which will be discussed in a subsequent section.

[2] Although USPAP refers to it as a process, not as an engagement.