

Clifton Gunderson LLP's

National *Valuation* and
Forensic Services Practice

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Certified Public Accountants & Consultants

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AICPA Statement on Standards for Valuation Services No. 1

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AICPA Constituencies

- **BV Committee**
- **Litigation Committee**
- **Consulting Services Executive Committee**
- **BV/FLS Executive Committee**
- **Tax Executive Committee**
- **SSARS Committee**
- **Auditing Standards Committee**
- **Members in Industry**
- **PCPS Executive Committee**
- **AICPA Legal Counsel**
- **PFP Executive Committee**

Why issue Standards?

- **AICPA has the responsibility to provide guidance to its members in all areas of practice**
- **BV Standards are designed to improve the consistency and quality of practice among AICPA members providing valuation services**

Hierarchy

- **Standards**
- **Interpretations**
- **Questions and Answers**
 - **(Non-Authoritative Guidance)**

Overall Format

- **Introduction Par. 1-20**
- **Development Par. 21-46**
- **Reporting Par. 47-79**
- **Appendices – Q&A,
Glossaries, Interpretation**

Applicability

- **Applies to all AICPA members providing services to value a business, an interest in a business, a security or an intangible asset**
- **State Board of Accountancy applications**
- **Definition of a business includes not for profit agencies**

Definitions

- **Engagement to estimate value means:**
 - **Engagement alone**
 - Valuation engagement
 - Calculation engagement
 - **Portion of an larger engagement (e.g. a tax engagement to prepare an estate tax return)**
- **Valuation analyst**

Governmental Regulations and Professional Standards

- **Valuation Analysts should be aware of any governmental regulations and other professional standards applicable to the engagement and the extent to which they apply.**
- **Compliance is the valuation analysts responsibility.**



Two Fundamental Factors

- **The Process of Valuation involves:**
- **1. The application of business valuation approaches and methods**
- **2. The exercise of professional judgment in the valuation process**

Nature of the Standards

- Principle Based Standards
- Not a detailed primer on Business Valuation

Exceptions from the Standard

- Not applicable to a member who participates in estimating the value of a subject interest as part of performing an attest engagement.

Exceptions from the Standard

- Not applicable when the value of an interest is provided to the member by the client or a third party and the member does not apply valuation approaches and methods or report on the value

Exceptions from the Standard

- Not applicable to internal use assignments from employers to employee members not in the practice of public accounting.

Exceptions from the Standard

- Not applicable to engagements exclusively for the purpose of determining economic damages, unless those determinations include an engagement to estimate value.

Exceptions from the Standard

- Not applicable to mechanical computations that do not rise to the level of an engagement to estimate value

Exceptions from the Standard

- Not applicable where it is not practical or not reasonable to obtain or use relevant information and, therefore, the member is unable to apply valuation approaches and methods

Jurisdictional Exception

- If any part of this Statement differs from published governmental, judicial or accounting authority, or such authority specifies valuation developmental or valuation reporting procedures, then the valuation analyst should follow the published authority with respect to that part.
- Other parts of this statement continue in full force and effect.

Overall Engagement Considerations

- Professional Competence
 - Undertake only those engagements that the member can reasonably expect to complete with professional competence
 - Performing a valuation engagement with professional competence involves special knowledge and skill

Overall Engagement Considerations

- Professional Competence
 - Possess a level of knowledge that will enable him or her to:
 - Identify, gather and analyze the necessary data
 - Consider and apply the appropriate valuation approaches and methods
 - Use professional judgment in developing the estimate of value

Professional Competence Considerations

- Subject entity and its industry
- Subject interest
- Valuation date
- Scope of the engagement
- Purpose of the engagement
- Assumptions and conditions
- Standard of value
- Report to be issued
- Gov't regulations or other standards

Objectivity

- Impartial
- Intellectually honest
- Disinterested
- Free from conflicts of interest
- Disclosure if conflict, client consent required

Audit Independence

- Sarbox Requirements for public companies
- Ethics Interpretation 101-3 requirements for private companies
- If the valuation is material to the financials, independence is impaired

Understanding with the Client

- Establish an understanding
- Preferably in writing
- If oral, document in working papers
- If for an attest client, **MUST** be in writing
- Modify if engagement changes

Assumptions and Limiting Conditions

- Common to all engagements to estimate value
- Appendix A contains an illustrative list of assumptions and limiting conditions

Scope Restrictions

- Disclosure required

Using the Work of Specialists

- Valuation Analyst should note the level of responsibility, if any, being assumed for the work of the third party specialist
- Specialist's report may be included at the option of the valuation analyst

Development Standards

- Types of Engagement
- Paragraph 21
 - Full Valuation Engagement
 - Calculation Engagement

Valuation Engagement

- Engagement calls for the valuation analyst to estimate the value of the subject interest and
- The valuation analyst is free to apply the valuation approaches and methods he/she deems appropriate in the circumstances
- Valuation engagement results in a **conclusion of value**, either a single amount or a range of value

Calculation Engagement

- The valuation analyst and the client agree on the specific valuation approaches and methods to be used and the extent of the valuation procedures the analyst will perform and
- The valuation analyst estimates the value in compliance with the agreement
- The results are expressed as an calculated value, either as a single amount or as a range

Hypothetical Conditions

- May be required for legal purposes or for comparison purposes
- When used, disclosure required indicating the basis for their use

Valuation Engagement

- Analyze the Subject Interest
- Consider and apply appropriate valuation approaches and methods
- Prepare and maintain appropriate documentation

Analysis of the Subject Interest

- Nature and history of the subject
- Scope of the engagement
- Valuation date
- Standard of value
- Premise of value

Analysis of the Subject Interest (Cont.)

- Intended use of valuation
- Financial information
- Non financial information
 - Organization structure
 - Management team
 - Markets
 - Competition
 - Key customers and suppliers



Valuation Approaches

- Income Approach
- Asset Approach
- Market Approach

Valuation Methods

- Income Approach
 - Capitalization of Benefits method
 - Discounted future benefits method

Capitalization of benefits method

- Normalization adjustments
- Nonrecurring revenue & exp.
- Taxes
- Capital structure and financing costs
- Risk adjustments

Discounted Future Benefits Method

- Forecast/projection assumptions
- Forecast/projection earnings or cash flows
- Terminal value computation

Intangible Asset Considerations

- Remaining useful life
- Current and anticipated future use of the asset
- Position of the asset in its life cycle
- Appropriate discount rate
- Appropriate contributory asset charge

Valuation Methods

- Asset Approach
- Adjusted net asset method
 - Identify assets and liabilities
 - Value of assets and liabilities
 - Liquidation costs (if any)
 - Appropriate forms of depreciation and obsolescence

Valuation Methods

- Market Approach
 - Guideline public company method
 - Guideline company transactions method
 - Guideline sales of interests in the subject entity method

Valuation Methods for Intangibles

- Comparable uncontrolled transactions method
- Comparable profit margin method
- Relief from Royalty method

Rules of Thumb

- Technically, not a valuation method
- Typically a reasonableness check
- Should generally not be used as the only method to estimate value

Valuation Adjustments

- Discounts and Premiums
- Made to pre-adjustment value
- Examples of discounts include a discount for lack of control and a discount for lack of marketability

Valuation Adjustments

- When valuing control interests
 - Nonoperating assets
 - Nonoperating liabilities
 - Excess or deficient operating assets
- When valuing noncontrol interests

Conclusion of Value

- Correlate and reconcile the results under the different approaches and methods used
- Assess the reliability of the results
- Determine a conclusion using one methodology or a blend of more than one methodology

Subsequent Events

- Standard supports the “known or knowable” concept
- Subsequent events are generally not taken into consideration
- Option for voluntary disclosure by the valuation analyst

Documentation

- The valuation analyst should retain the documentation for a period of time sufficient to meet the needs of applicable legal, regulatory, or other professional records retention requirements.

Calculation Engagement

- Does not include all of the procedures in a full valuation engagement
- Valuation analyst should consider most of the fundamental factors considered in a full valuation

Valuation Reporting

- A valuation report is a written or oral communication to the client containing the conclusion of value or the calculated value of the subject interest

Valuation Engagement Reports

- Detailed Report
- Summary Report

Detailed Report

- Provides sufficient information to permit intended users to understand the data, reasoning, and analyses underlying the valuation analyst's conclusion of value

Summary Report

- Provides an abridged version of the information that would be provided in a detailed report

Calculation Engagement Report

- Communicates the result of a calculation engagement
- Identifies that the work performed was a calculation engagement and describes the work done by the valuation analyst

Reporting Exemption for Certain Controversy Proceedings

- A valuation engagement performed for a matter before a court, an arbitrator, a mediator or other facilitator, or a matter in a governmental or administrative proceeding is exempt from the reporting provisions of this standard
- Developmental provisions still apply

Detailed Report

- A detailed report should include, as applicable, the following sections:
 - Letter of transmittal
 - Table of contents
 - Introduction
 - Sources of Information

Detailed Report (Cont.)

- Analysis of subject entity and related information
- Analysis of financial data
- Valuation approaches and methods considered and used
- Valuation adjustments
- Non-operating assets, liabilities and excess or deficient operating assets

Detailed Report (Cont.)

- Representation of the valuation analyst
- Reconciliation of estimates and conclusion of value
- Qualifications of the valuation analyst
- Appendices and exhibits

Detailed Report (Cont.)

- The above listed report sections and the detailed information within the sections may be positioned in the body of the report or elsewhere in the report at the discretion of the valuation analyst

Introduction Section

- The introduction section of a detailed report may include the following:
 - Identity of the client
 - Purpose and intended use
 - Intended users
 - Identity of the subject entity

Introduction Section (Cont.)

- Description of the subject interest
- Whether the interest has control characteristics
- Valuation date
- Report date
- Type of report issued

Introduction Section (Cont.)

- Standard of Value
- Premise of Value
- Assumptions and Limiting Conditions
- Scope restrictions
- Hypothetical conditions

Introduction Section (Cont.)

- If a specialist was used, describe how the specialist's work was relied upon
- Subsequent events disclosure (optional)
- Application of the jurisdictional exception
- Additional information deemed useful

Introduction Section (Cont.)

- If the above information is not included in the introduction section, it should be included elsewhere in the report

Representation of the Valuation Analyst

- Each written report should contain the representation of the valuation analyst –
- Examples of representations include:

Sample Representations

- The analyses, opinions, and conclusion of value included in the valuation report are subject to the assumptions and limiting conditions and they are the personal analyses, opinions, and conclusion of value of the valuation analyst

Sample Representations

- The economic and industry data included in the valuation report have been obtained from various printed or electronic reference sources that the valuation analyst believes to be reliable but no corroborating procedures have been performed to substantiate the information

Sample Representations

- The valuation engagement was performed in accordance with the AICPA Statement on Standards for Valuation Services

Sample Representations

- The parties for which the information and use of the valuation report is restricted are identified; the valuation report is not intended to be and should not be used by anyone other than such parties.

Sample Representations

- The valuation analyst's compensation is fee based or is contingent on the outcome of the valuation
- 1990 Agreement with FTC

Sample Representations

- The valuation analyst used the work of one or more outside specialists to assist during the engagement. Identify the specialist and the level of responsibility being assumed for the specialist's work

Sample Representations

- The valuation analyst has no obligation to update the report or the opinion of value for information that comes to his or her attention after the date of the valuation report

Sample Representations

- The valuation analyst and the person or persons assuming responsibility for the valuation should sign the representation in their own name. The names of those providing significant professional assistance should be identified

Representation Letter from the Client

- It may be appropriate for the valuation analyst to obtain written representations regarding information that the subject entity's management provided to the valuation analyst
- The decision to request a representation letter from management is a matter of judgment for the valuation analyst

Qualifications of the Valuation Analyst

- The report should contain information regarding the qualifications of the valuation analyst

Conclusion of Value

- This report section should present a reconciliation of the valuation analyst's estimate or various estimates of the value of the subject interest
- This section should also include the following or similar statements:

Conclusion of Value

- A valuation engagement was performed, including the subject interest and the valuation date

Conclusion of Value

- The analysis was performed solely for the purpose described in the report and the resulting estimate of value should not be used for any other purpose

Conclusion of Value

- The valuation engagement was conducted in accordance with the Statement on Standards for Valuation Services of the AICPA

Conclusion of Value

- The estimate of value resulting from a valuation engagement is expressed as a conclusion of value

Conclusion of Value

- The scope of work or data available for analysis is explained, including any restrictions or limitations

Conclusion of Value

- A statement describing the conclusion of value, either as a single amount or a range

Conclusion of Value

- The conclusion of value is subject to the assumptions and limiting conditions and to the valuation analyst's representation

Conclusion of Value

- The report is signed either in the name of the valuation analyst or the valuation analyst's firm
- The date of the valuation report is included



Conclusion of Value

- The valuation analyst has no obligation to update the report or the conclusion of value for information coming to his or her attention after the date of the report
- Sample wording is provided to be used at the option of the valuation analyst

Appendices and Exhibits

- Appendices and exhibits may be used for required information or information that supplements the detailed report. Often, the assumptions and limiting conditions and the valuation analyst's representation are included in the appendices

Summary Report

- Abridged version of the detailed report
- Paragraph 71 contains a listing of items that should be included in a summary report
- Appendices and exhibits may also be used as part of a summary report

Calculation Report

- Reports the results of a calculation engagement
- Include a representation adapted to a calculation engagement
- Paragraph 76 includes items to be included in a calculation report
- Appendices and exhibits are appropriate

Calculation Report

- Paragraph 77 includes sample wording that may be used at the option of the valuation analyst to report a calculated value

Oral Report

- May be used for either a valuation engagement or a calculation engagement
- Should include all information the valuation analyst believes necessary to relate the scope, assumptions, limitations, and the results of the engagement to the recipient of the oral report

Effective Date

- This Statement applies to engagements to estimate value accepted on or after January 1, 2008. Earlier application is encouraged.

Appendices

- Appendix A – Illustrative list of assumptions and limiting conditions
- Appendix B – International Glossary of Business Valuation Terms
- Appendix C – Glossary of additional terms

Appendices

- Appendix D – Interpretation 1-01, Scope of Applicable Services
- Provides a general interpretation as well as illustrations of practice issues in applying this Statement on Standards for Valuation Services.

Appendix D Illustrations

- Litigation Engagements
- Tax Engagements
- PFP Engagements
- Other engagements

Terminology Differences

- **ASA and others –**
 - **Appraiser's Certification**

- **AICPA –**
 - **Valuation Analyst's Representation**

Terminology Differences

- **ASA and others**
 - Information contained in the report is true and correct, to the best of our knowledge and belief
- **AICPA**
 - Information has been obtained from sources believed to be reliable, but we have performed no procedures to corroborate

Valuation Report – Paragraph 69

- The report conclusion may, **at the option of the analyst**, contain language similar to the following:
 - We have performed a valuation engagement, as that term is defined in the Statement on Standards for Valuation Services of the American Institute of Certified Public Accountants, of DEF Company as of [valuation date]. This analysis was performed solely to assist in the matter of [purpose of the valuation] and the resulting estimate of value should not be used for any other purpose or by any other party for any purpose. This valuation engagement was conducted in accordance with the SSVS. The estimate of value that results from a valuation engagement is expressed as a conclusion of value.

Valuation Report (Cont.)

- [If applicable] We were restricted or limited in the scope of our work or data available for analysis as follows: [describe restrictions of limitations].

Valuation Report (Cont.)

- Based on our analysis as described in this valuation report, the estimate of value of DEF Company as of [valuation date] was [value, either a single amount or a range]. This conclusion is subject to the Statement of Assumptions and Limiting Conditions found in [reference to applicable section of valuation report] and to the Valuation Analyst's Representation found in [reference to applicable section of valuation report]. We have no obligation to update this report or our conclusion of value for information that comes to our attention after the date of this report.
- Signature
- Date

Calculation Report – Paragraph 77

- This section may, **at the option of the analyst**, include language similar to the following:
- We have performed a calculation engagement, as that term is defined in the Statement on Standards for Valuation Services (SSVS) of the American Institute of Certified Public Accountants. We performed certain calculation procedures on DEF Company as of [valuation date]. The specific calculation procedures are detailed in paragraphs [reference to paragraph numbers] of our calculation report. The calculation procedures were performed solely to assist in the matter of [purpose of valuation procedures] 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.

Calculation Report (Cont.)

- 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 in a valuation engagement, as that term is defined in the SSVS. Had a valuation engagement been performed, the result might have been different.

Calculation Report (Cont.)

- Based on our calculations as described in this report, which are based solely upon the valuation procedures agreed upon as referred to above, the resulting calculated value of DEF Company as of [valuation date] was [value, either a single amount or a range]. This calculated value is subject to the Statement of Assumptions and Limiting Conditions found in [reference to applicable section of the valuation report] and to the Valuation Analyst's Representation found in [reference to applicable section of valuation report]. We have no obligation to update this report on our calculation of value for information that comes to our attention after the date of this report.
- Signature
- Date

Contingent Fee Provision

- In 1990 the Federal Trade Commission sued the AICPA for restraint of trade because commissions and contingent fees were not allowed.
- The consent decree was effective August 3, 1990
- The AICPA agreed to not to forbid commissions and contingent fees
- The consent decree remains in effect



IRS Notice 2006-96

- Defines qualified appraiser
 - A person who regularly received compensation for performing appraisals of this type
 - Mentions credentials
- Defines qualified appraisal
 - Substantially conforms to USPAP

BV Standards Task Force

- Jim Alerding
- Jim Hitchner
- Greg Forsythe
- Ed Dupke, Chair
- Special thanks: Robert Reilly

- For You and For the Profession