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BUSINESS APPRAISERS

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Business Appraisal Practice

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Editor's Column: Should You Elect to Follow USPAP?

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As we all know, IBA members are not required to follow the Uniform Standards of Professional Appraisal Practice (USPAP). However, should you elect to do so (or if you are a member of another professional society that mandates compliance with USPAP), I recommend that you be very familiar with it. As a member of both the American Society of Appraisers and the Appraisal Institute, I am required to follow USPAP and I must take a seven hour update class every two years. I also spend a considerable amount of time reading USPAP regularly in order to ensure my compliance to its standards. Complying with both IBA Standards and with USPAP is not difficult, but it does take some dedication to be familiar with both sets of standards.

As mentioned, not all appraisers are mandated to comply with the Uniform Standards of Professional Appraisal Practice, and unfortunately some of those who are required to do so, simply do not. USPAP is updated and reprinted every couple of years. The current version is the 2010-2011 Edition. USPAP is published by the Appraisal Standards Board, a division of The Appraisal Foundation set up by Congress after the S&L crisis in the early 1980's. It outlines how appraisers should both perform appraisals and write appraisal reports for real estate, personal property, and business appraisals.

The Appraisal Foundation has a number of member organizations each of which requires its appraiser members to follow USPAP. Real estate appraisers, for the most part, are required to follow USPAP, while many business and equipment appraisers are either not a member of an organization that requires them to follow USPAP, or they are simply not that familiar with the standards and thus simply do not follow them.

USPAP has five sections: Definitions, Preamble, Rules, Standards and Standards Rules, and Statements on Appraisal Standards. There are ten Standards and Standards Rules. They are:

1. Real Property Appraisal, Development
2. Real Property Appraisal, Reporting
3. Appraisal Review, Development and Reporting
4. Real Property Appraisal Consulting, Development
5. Real Property Appraisal Consulting, Reporting
6. Mass Appraisal, Development and Reporting
7. Personal Property Appraisal, Development
8. Personal Property Appraisal, Reporting
9. Business Appraisal, Development
10. Business Appraisal, Reporting

Courses are offered each year by a number of organizations that cover USPAP, including the changes and updates. The initial class for someone new to USPAP is fifteen hours long; annual or bi-annual updates are seven hour courses. Beyond the class, there is a practical application where appraisers must typically refer to the document regularly to ensure compliance.

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Periodically, I am asked to review another appraiser's work to see if it complies with USPAP and, if it does not comply with the standards, to identify problem areas. I am often amazed to find that many business appraisers state in their certification that they followed USPAP, however, a review of their report shows that they are apparently not at all familiar with the standards.

A common example is failure to follow Standards Rule 9-3 which reads:

In developing an appraisal of an equity interest in a business enterprise with the ability to cause liquidation, an appraiser must investigate the possibility that the business enterprise may have a higher value by liquidation of all or part of the enterprise than by continued operation as is. If liquidation of all or part of the enterprise is the indicated premise of value, an appraisal of any real property or personal property to be liquidated may be appropriate.¹

I rarely see a business appraiser address this issue even when they claim to be following USPAP standards. Addressing this issue can be something as simple as disclosing and demonstrating that the appraiser investigated the possibility, but the value of the business as an operating entity exceeds the liquidation value.

I recommend that business appraisers elect to follow USPAP, especially those that may be involved in litigation assignments. These standards are not that difficult to follow and I believe that adhering to USPAP will put you in a much stronger position than you would be should you fail to follow its standards.

Other Comments:

Thanks to Bob Cimasi and Health Capital Consultants for writing the outstanding article entitled "Valuation in the Era of Healthcare Reform: A Brief Primer on the Impact of Recent Legislation" which appears in this issue.

Please note that the inclusion of the health care article in this issue has required us to shift the second half of Robert Reilly's article published in the 1st quarter 2010 issue to the third quarter issue.

Clarification to the First Quarter 2010 article entitled "Which Discount and/or Premium Applies?"

When using the Guideline Public Company Method, using a control adjusted income stream will result in a Control, Marketable indication of value in similar fashion to the use of a control adjusted income stream vs. an income stream available to a minority interest holder results in a

¹ *Uniform Standards of Professional Appraisal Practice*. 2010-2011 Edition. Published by The Appraisal Foundation, p. U-72.

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control or non-controlling indication of value. Typically, whenever the income stream can be adjusted it is preferable to do so rather than to use a discount.

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