

ASA CANDIDATE BV REPORT REVIEW CHECKLIST

of Basic Report Requirements and General Report Quality

This checklist offers convenient criteria for reviewing business, professional practice or intangible asset appraisal reports submitted as part of the ASA advancement procedure. It is intended to help you evaluate the appraisal reports you will submit to the Board of Examiners, and it will be used by an examiner in reviewing your report work product. Not all elements on the checklist are required or appropriate for every appraisal report. This checklist is applicable **only** to the ASA advancement process and is **not** intended to be used for any other purpose. However, for purposes of demonstrating your appraisal expertise, we suggest that you select appraisals that include many of the elements covered in this checklist.

The checklist was developed by modifying Dr. Shannon Pratt's "Quick Review Checklist" as published in *Judges & Lawyers Business Valuation Handbook*. Please note that certain items are identified as "Pass/Fail" items. For the purpose of the ASA accreditation, any report that fails to pass one of these particular elements will be rejected immediately, regardless of the quality of the rest of the report.

In order to successfully meet the report review criteria, the two reports submitted must include:

1. At least one comprehensive business valuation report
2. No more than one "discount study" report (e.g., FLP or LLC interest discount study)

It is preferred by the ASA that the two submitted reports be copies of actual reports prepared for an actual client, and it is required that the Candidate be the primary preparer (substantially responsible) of those reports. It is recognized by the ASA that a Candidate may work in a practice area or for a company or government agency where there is a policy or firm report format that specifically precludes the inclusion of one or more of the pass/fail items noted below in appraisal reports. In such a case, the Candidate is allowed to expand the original report to make it a demonstration report. A *demonstration report* is a report prepared by the Candidate, for an actual client, that has been expanded to include items required by the ASA that were not included in the original report because of a company policy. If a Candidate submits a demonstration report, then he or she must clearly indicate that it is a demonstration report and state why a demonstration report is being submitted, including the company policies that limited the completeness of the report.

This checklist provides flexible guidelines to the standard elements often contained in a complete valuation report. Nonetheless, the report writer must recognize that the process of reviewing an appraisal report is, like business valuation itself, more an art than a science; hence, any one report may and will be scored differently by different reviewers.

The comment section at the end of this checklist provides the report writer with targeted feedback on issues of importance to the reviewer. Therefore, the comment section of this checklist is an integral part of the review process and should be studied closely by the report writer.

Candidates are required to fill out page references for each gradeable item listed throughout this checklist. If the component is not applicable to your report, please so indicate by writing “n/a.” (Please note that the graders reserve the right to make the final determination as to whether any particular component is applicable.)

Report Review
Page Reference

IDENTIFICATION OF PROPERTY

_____	Pass	Fail	<u>Pass/Fail</u> —Name of company (and DBA if applicable)
_____			_____ State of incorporation or registration
_____	Pass	Fail	<u>Pass/Fail</u> —Form of ownership (e.g., C corp., S corp., limited partnership, general partnership, etc.)
_____	Pass	Fail	<u>Pass/Fail</u> —Portion to be appraised (e.g., number of shares, percentage general or limited partnership interest, etc.)

IDENTIFICATION OF CLIENT

_____	Pass	Fail	<u>Pass/Fail</u> —Name and standing of party hiring the appraiser
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RELEVANT DATES

_____	Pass	Fail	<u>Pass/Fail</u> —Effective valuation date _____
_____	Pass	Fail	<u>Pass/Fail</u> —Date report prepared _____

PURPOSE OF APPRAISAL

_____	Pass	Fail	<u>Pass/Fail</u> —Is the purpose of the appraisal clearly stated? (<i>Circle the factors considered</i> —gift tax, estate tax, charitable contribution or redemption, marital dissolution, ESOP, buyout of owners, issuance of new stock, dissenting stockholder suit, minority dissolution suit, other.)
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_____ Pass Fail

Pass/Fail—Is the standard (definition) of value appropriate to the stated use of the appraisal?

OWNERSHIP CHARACTERISTICS

(Actual or Assumed)

Degree of control (*Circle the factors considered*—100%, less than 100% but some degree of control, minority interest, other control/lack of control characteristics.)

Marketability issues (*Circle the factors considered*—publicly traded, closely held, put option, ESOP put option, buy/sell agreement, other restrictions on transfer, and other marketability factors.)

DEFINITION OF VALUE

_____ Pass Fail

Pass/Fail—Definition of *standard of value* provided.

Standard of value well defined. (*Circle the factors considered*—fair market value, fair value, investment value, intrinsic value, other.)

Source/authority of definition for *standard of value* provided. (*Circle the factors considered*—statute, buy/sell agreement, case law precedent, other.)

BASIC COMPANY INFORMATION

History of company

Description of products/services

Description of the company's markets (industry and/or geographical)

Description of competitive situation faced by the company

Description of management depth/capabilities/succession issues

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<hr/>	Pass	Fail	<u>Pass/Fail</u> —Capital structure (e.g., class of common stock, common and preferred stock, etc.). If more than one ownership class, the characteristics of each should be described.
<hr/>	Pass	Fail	<u>Pass/Fail</u> —Distribution of ownership (and important relationships)
<hr/>			Past transactions in the ownership of the company (or lack thereof)

ECONOMIC AND INDUSTRY OUTLOOK

<hr/>			Economic outlook—National and/or local
<hr/>			Industry outlook—Are the factors stated relevant to the value of this company (versus boilerplate)?
<hr/>			Are specific applications to subject company stated?

SOURCES OF INFORMATION

<hr/>	Pass	Fail	<u>Pass/Fail</u> —Sources of information—List the sources of information used to prepare the report.
<hr/>			Site visits—Describe the nature of the site visit.
<hr/>			Management interviews—Describe the nature of the management interview

Economic and Industry Data

<hr/>			Economic general sources used.
<hr/>			Industry economic sources used.
<hr/>			Industry ratio sources used.

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Company Financial Statements

_____	Pass	Fail	<u>Pass/Fail</u> —Income statement—Company’s historical income statements presented in report or in exhibits with sufficient detail and history to review for possible adjustments. (If missing, an explanation of its absence should be included.)
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_____	Pass	Fail	<u>Pass/Fail</u> —Balance sheet—Company’s historical balance sheets presented in report or in exhibits with sufficient detail and history to review for possible adjustments. (If missing, an explanation of its absence should be included.)
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_____			Cash flow statement—Company’s historical cash flow statements presented in report or in exhibits with adequate detail. (If missing, an explanation of its absence should be included.)
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_____			Comparative ratio analysis—Company’s statements of historical ratios presented in report or in exhibits with adequate detail.(If missing, an explanation of its absence should be included.)
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_____			Periods for which statements were received
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_____			Status of statements (e.g., audited, reviewed, externally compiled, internally compiled)
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Income Approach Data

_____			Source(s) of cost of capital (equity and debt if WACC is being utilized) data (publications, online services, dates of publication, etc.)
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_____			Source and/or basis for long-term cash flow or earnings growth assumption for derivation of capitalization rate using Gordon Growth Model for time zero cap rate or for Horizon value cap rate calculation
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_____			If report applied a debt-free income approach, then it must adequately justify the debt/equity weighting for WACC calculation. If an industry norm or company optimal D/E weighting is used, then the report must present a reasoned basis for weighting.
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Sources of earnings or cash flow growth projections for subject company (who made them, when, what for, what adjustments did the appraiser make to projections, etc.)

Market Approach Data

Specify the sources for guideline or transaction comparative company data.

State whether or not the report applied a debt-free income.

Specify the sources of earnings growth estimates for market comparative companies (who made them, when, what for, etc.).

Asset Approach Data

Sources of data for asset (or liabilities) values relied on

Source of data/assumptions provided if contingent liabilities are identified and capitalized.

FINANCIAL STATEMENT ANALYSIS

Financial Statement Adjustments

Is there adequate explanation of what adjustments were made to the company's financial statements or an explanation of why none were necessary?

Are the financial adjustments reasonable relative to the level of value (control vs. minority interest)? If there appears to be a conflict with premise of value, then is the reason or rationale for the adjustment(s) adequately presented in the report?

Are the magnitudes of the adjustments adequately supported?

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If the market approach was used where guideline company financial statements were available (usually public companies), is there an adequate explanation of what adjustments were made to the guideline company statements or an explanation of why none were necessary?

COMPARATIVE FINANCIAL STATEMENT ANALYSIS

Are the company's financial ratios, income statement, balance sheet, etc. compared with themselves over time to identify trends?

Are the company's financial ratios compared with those of peers in the same industry or with selected ratios of guideline companies?

Have the accounting policies and definitions (LIFO/FIFO, depreciation, amortization, etc.) of ratios computed been put on a comparable basis between the subject company and the guideline companies and/or industry averages used for comparison?

Have other financial statement adjustments been made and justified to "normalize" the company's historical financial performance?

Are the strengths and weaknesses resulting from the financial analysis pointed out?

Are the valuation parameters (e.g., discount or capitalization rates in the income approach, multiples in the market approach) reasonable in light of the financial statement analysis strengths and weaknesses?

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VALUATION METHODOLOGY

Income Approach—Historical

- _____ Are the income variables clearly defined and their selection supported (e.g., net cash flow to equity, net cash flow to invested capital, net income, pretax income, etc.)?
- _____ Is the basis for the income variable's time frame adequately disclosed (why average of years, weighted average, or L.T.M.)?
- _____ Are the estimates of earnings or cash flows to be capitalized adequately supported as being representative of future earning power?
- _____ Is the capitalization rate adequately supported, and is it the appropriate rate for the definition of the income variable being capitalized?
- _____ Is the level of adjusted income consistent with the stated level of value being derived (e.g., control level adjustments being made to derive the value of a controlling interest)? If not, is the issue adequately discussed in the report?

Income Approach—Future

- _____ Are the company's projected income statements presented with adequate detail (nominal, common sized, trend analysis) and in a form comparable to historical income statements?
- _____ Are the company's projected balance sheets presented with adequate detail (nominal, common sized, trend analysis) and in a form comparable to historical balance sheets?
- _____ Are the company's projected cash flow statements presented with adequate detail and in a form comparable to historical cash flow statements?

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_____			Are the company's projected financial ratios (days receivable, days inventory, days payable, etc.) in a form comparable to historical ratios? If the future ratios are assumed to be significantly different from historical ratios, then are the variances explained or justified?
_____	Pass	Fail	<u>Pass/Fail</u> —If projections of balance sheets or income statements were utilized in the valuation, key assumptions underlying the projections must be identified and discussed.
<i>Market Approach</i>			
_____			Are the criteria for selection of guideline public companies or merger and acquisition transactions clearly spelled out?
_____			Is the population from which the companies have been drawn clearly specified?
_____			Is it clear that all qualified companies from the specified population have been considered?
_____			Does the report clearly specify what market multiples are used and why they are appropriate?
_____			In selecting each multiple to be applied to the subject company out of the range of observed multiples for that company, does the report justify the level of the multiple chosen?
_____			Does the report provide an adequate explanation of the weight ultimately accorded to each of the methods used?
_____			If market transaction is applied, does the report identify the level or amount of detail limitation of available information?
<i>Asset Based Approach</i>			
_____			Are all the tangible assets and liabilities adjusted that should be adjusted?

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Are intangible assets appropriately adjusted?

Are all off-balance-sheet assets and liabilities, actual or contingent, recognized and taken into consideration (or is there a statement that there are no off-balance-sheet assets or liabilities)?

Is the support for the amounts of the adjustments convincing?

Excess Earnings Method

Are all tangible assets satisfactorily adjusted to current values?

Is there a satisfactory explanation of the estimate of the market's required rate of return on the company's operating tangible assets?

Is the level of income being capitalized clearly defined?

Is the estimate of earning power being capitalized reasonably supported as a representation of ongoing earning power?

Has an appropriate amount of reasonable owner's compensation been deducted as an expense in arriving at the amount of earning power to be capitalized?

Is the capitalization rate applied to excess earnings adequately supported?

Is there some type of "sanity check" (check for reasonableness) on the result (e.g., is the overall capitalization rate reasonable, or is the number of years that would be required for the business or practice's earnings to pay the alleged value reasonable)?

OVERALL VALUATION METHODOLOGY

Are the various approaches to value explained?

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Are reasons given for using and not using various approaches to value?

Are the approaches adequate considering the entity and/or interest appraised and for the stated purpose of the report?

ARE THE DATA USED APPROPRIATE FOR THE VALUATION DATE?

Cost of Capital Data—If the build-up or CAPM procedure is used:

Is the risk-free rate as of the effective valuation date?

Are other components, such as equity risk premium, current as of the year of valuation?

Is the equity risk premium appropriate for the method used (large stock equity premium or total return on small company stocks)?

Is the net adjustment for company- and industry-specific factors adequately explained?

Is the size premium appropriately selected and explained?

Market Approach Data—If the guideline public company method is used:

Are the market prices for the guideline companies the prices as of the effective valuation date?

Are the fundamental data for the guideline companies for the same time periods as the fundamental data for the subject company (e.g., P/3-year average earnings applied to 3-year average earnings)?

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Market Approach—If the guideline transaction (merger and acquisition) method is used:

_____ Are the transactions close enough to the valuation date to be relevant?

_____ If the transactions are somewhat removed from the valuation date, is this addressed or discussed?

_____ If the transactions are from a private database, are the limitations of the quality and applicability of the data discussed (e.g., difference in location, lack of information regarding the terms of each transaction, lack of knowledge of financial history/condition of selling company, lack of detailed information other than general SIC code regarding the acquired company)?

Asset Data

_____ Are asset appraisals in reasonable proximity to the valuation date?

_____ If asset appraisals are somewhat removed in time from the valuation date, are adjustments for differences in market conditions addressed?

DISCOUNTS AND PREMIUMS

Discount for Lack of Marketability

_____ Has the discount been applied only to methods that produce actively traded values?

_____ If applied to a control value, does the report disclose that marketability discounts are based on minority stock studies?

_____ Are the sources of marketability discount data disclosed?

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Does the report disclose the reasons the discount was selected (e.g., why the average discount of 35% is appropriate)?

Discount for Lack of Control

Has the discount been applied only to valuation methods that produce a control value?

If control premiums studies or transactions are used as a basis for a minority discount, does the report explain that the minority interest discount is the inverse of the premium and, if applicable, is the computation presented in the report?

Have the sources of control premium data been disclosed?

Does the report disclose the reasons the discount was selected?

Control Premiums

Has the premium been applied only to valuation methods that produce minority values?

Does the report disclose the reasons the premium was selected?

Have the sources of control premium data been disclosed?

With a report that makes significant adjustments to adjust the company's earning power to a control level, is there a discussion of the potential impact on the applicable control premium?

Other Discounts

Have any other discounts been clearly disclosed?

Has the basis for determining the discount been appropriately disclosed?

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_____ Have appropriate sources of supporting data been adequately disclosed?

VALUATION SYNTHESIS AND CONCLUSION

_____ Pass Fail **Pass/Fail**—Are the valuation methods all on one consistent level of value (e.g., all on a minority interest basis or all on a controlling interest basis)?

_____ Is the relative degree of weight accorded to each approach satisfactorily explained?

_____ Considering the level of value produced by each method, are proper discounts or premiums applied, if applicable?

_____ If there are nonoperating or excess assets, have they been treated appropriately in light of the definition of value sought and the ownership characteristics? Also, was the income/expense from these non-operating assets removed from the company’s adjusted earning power?

APPRAISER’S QUALIFICATIONS

Experience and Professional Involvement

_____ Length and type of experience

_____ Professional involvement (e.g., teaching, speaking, writing, committee/officer, professional association involvement)

APPRAISER’S CERTIFICATION

_____ Pass Fail **Pass/Fail**—Signed statement of disinterestedness (or disclosure of interest) included.

_____ Pass Fail **Pass/Fail**—Conformance (or lack of conformance) to any professional standards (e.g., USPAP, ASA BV Standards, etc.) explained.

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_____	Pass	Fail	<u>Pass/Fail</u> —Statement is included that compensation is not contingent on value reported or on any predetermined value.
_____	Pass	Fail	<u>Pass/Fail</u> —Statement included that no person other than those identified had any significant professional input.
_____	Pass	Fail	<u>Pass/Fail</u> —Statement included that, to the best of our knowledge, all statements are true and correct.

STATEMENT OF CONTINGENT AND LIMITING CONDITIONS

_____	Pass	Fail	<u>Pass/Fail</u> —Statement included that the opinion of value is only for the stated effective valuation date and only for the stated valuation purpose.
_____			Statement included listing reliance on data supplied by others without independent verification (the typical report will have a fairly lengthy list of assumptions and limiting conditions of which the reviewer should be aware).
_____			Are the listed assumptions and limiting conditions appropriate for the engagement?

OVERALL EVALUATION

_____	Is the report understandable to the reader?
_____	If the report and listed data sources were handed to another competent appraiser, could all of the data provided be independently checked for accuracy and thoroughness?
_____	Is there replicability? That is, could another competent appraiser follow the thought process leading to the conclusion (not necessarily agree with the conclusion, but be able to understand how it was formed)?
_____	Did the appraiser clearly appraise the property that was identified to be appraised?

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_____			Is the appraisal methodology appropriate for the purpose of the appraisal, the relevant standard of value, the ownership characteristics (e.g., minority marketability, etc.) and any controlling case law precedent?
_____			Is the report internally consistent (e.g., nothing in one place that seems to contradict something somewhere else)?
_____			Is the report comprehensive (e.g., does it do everything it promises to do; are all the topics included that seem necessary to support the conclusions reached)?
_____			Are there any obvious omissions in the report?
_____			Does the report logically lead to convincing support for the conclusion(s) reached?
_____			Is the professional format acceptable (spelling, grammar, layout)?
_____	Pass	Fail	<u>Pass/Fail</u> —Signature included. Also, if original report was signed by two or more individuals, then a signed statement from the other appraiser(s) is required stating that the report was primarily the work product of the Candidate. Only one person/Candidate can claim to be the primary preparer of a given report.

Candidate's Name: _____

Name of the Report: _____

Date of the Report: _____

REPORT REVIEW SCORING

	# Items Passed	# Items Failed
PASS/FAIL SCORE	_____	_____
THIS REPORT HAS	PASSED	FAILED

COMMENTS

_____	_____
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