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Transparency in Collaboration*Principles of Transparency Specific to Implementation Aids for Users**Part 7 of 7 in a Series**By**Michael J. Mard, CPA/ABV/CFF, ASA***Summary**

Collaboration in litigation requires transparency, but prior to this series of articles, little had been written about it. This is the final of a series of articles discussing and setting forth principles of transparency related to business valuations and financial analyses performed in a collaborative process setting.

Previous articles in this series, proposed 1) specific principles of transparency applicable to a financial analyst, including a business valuator, working in a collaborative process, 2) general and specific principles to assure transparency of the work performed by a financial expert in a collaborative process, 3) review and discussion of the three valuation approaches – Cost, Market, and Income, and 4) business valuation discounts and premiums. My proposals are preliminary and are intended to form a basis for future discussion and development. This final article provides suggested checklists for use by lawyers and non-appraisers. It is my hope that these checklists will be an easy-to-use guide for the non-appraiser, principally the user, of the valuation analysis and report and that the implementation of these aids will assist in providing the user the transparency required to make informed decisions as defined in this series.

Business Valuation or Real Estate Appraisal?

The following checklist helps determine which discipline – business valuation or real estate appraisal – is the pertinent discipline when valuing an entity.

Yes No Is the entity:

- A commercial, industrial, or service organization pursuing an economic activity?
- An equity interest (such as a security in a corporation or partnership interest)?
- A fractional interest, minority interest — i.e., less than 100% of the entity?
- Difficult to split up (perhaps because the owners do not have a direct claim on the assets)?

Yes No Does the entity:

- Derive its revenues from providing goods or services?
- Primarily use assets such as machinery, equipment, employee skill and talent in providing goods or services?
- Depend on assets other than or in addition to real estate to generate earnings?
- Conduct an economic activity which is more important than the location of the real estate where the economic activity is being conducted?
- Likely have a value that fluctuates with conditions in its industry (as opposed to fluctuations in the real estate market)?

Yes No Does the entity have:

- Intangible assets such as patents, trademarks, copyrights, franchises, licenses, customer lists, employment contracts, non-compete covenants, and goodwill which the entity uses to generate earnings?
- Substantial assets that can be moved?
- A variety of tangible and intangible assets which interact to produce economic activity?
- Significant operating expenses such as marketing, advertising, research, transportation?
- Substantial labor expenses?
- Management which substantially adds to the profit of the company?

Yes answers in the majority	BUSINESS VALUATION
No answers in the majority	REAL ESTATE APPRAISAL
Mix of yes and no answers	MAY NEED BOTH DISCIPLINES

NOTE: Disclaimer Excluding Any Warranties: These checklists are designed to provide guidance to analysts, auditors, management and users but are not to be used as a substitute for professional judgment. These procedures must be altered to fit each assignment. The practitioner and user take sole responsibility for implementation of these guides. The implied warranties of merchantability and fitness of purpose and all other warranties, whether expressed or implied, are excluded from this transaction and shall not apply to these guides. The Financial Valuation Group shall not be liable for any indirect, special, or consequential damages. You may use with permission.

Key Information Requirements**Financial**

- Historical and prospective financial information on:
- turnover
 - contribution
 - marketing
 - manufacturing / production
 - R&D / marketing / capital expenditure
- Unusual, non-recurring events
- Accounting principles and methods
- Contingent assets / liabilities
- Details of acquisition of assets
- Licensing arrangements
- Serious offers received for the asset

Market Characteristics

- Product / service awareness:
- spontaneous
 - prompted
- Market share / position
- Consumer loyalty
- Image / esteem
- Geographical coverage
- Extension potential (products, markets, channels)
- Product history and life cycle
- Buyer purchase criteria
- Marketing mix
- Demographics

Industry Structure

- Structure of industry
- Nature of competition
- Barriers to entry
- Availability of substitutes
- Bargaining leverage of buyers
- Availability of supply
- Distribution arrangements
- Major industry trends
- Social, political, regulatory, environmental and economic factors

Legal

- Registered or statutory rights
- categories of goods or services
 - jurisdictions
 - pending applications
- Common law or similar rights (including assessment of legal protection)
- Duration of property rights
- Details of licensing arrangements
- Legal matters outstanding, (e.g., infringements)
- Availability of supply
- Distribution arrangements
- Major industry trends
- Social, political, regulatory, environmental and economic factors

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Non-Appraiser's Guide to Reviewing Business Valuation Reports**Yes No Are the following clearly stated?**

- Specific definition of what is being appraised (1)
- Purpose of appraisal (1)
- Date of valuation (1)
- Date of report preparation (1)
- Standard of value, including reference to statutes if a statutory standard is applicable (1)

Yes No Are the following adequately described to give you a basic knowledge of:

- Form of ownership (corporate, partnership, etc.)? (2)
- History of the company? (1)
- Major assets, both tangible and intangible (goodwill, patents, etc.)? (1)
- Products or services? (1)
- Markets or customers? (1)
- Competition? (1)
- Management? (2)
- Who owns the company?
- How the company is capitalized?
- Outlook for the economy, industry and company? (1)
- Past transactional evidence of value (sale of stock, etc.)? (1)
- Sensitivity to seasonal or cyclical factors? (2)
- State of incorporation?
- Sources of information? (2)

Yes No Financial analysis (1):

- Is there a exhibits of the firm's financial statements? (2)
- Are there exhibits summarizing balance sheets and income statements for a sufficient period of time? (2)
- Are any adjustments made to the financial statements as explained? (2)
- Are company financial statements compared to those of its industry? (2)
- If discounted future earnings or cash flows are used, are the appropriate statements summarized and key assumptions included? (2)

Yes No Valuation Methodology and Report:

- Are the methods used identified and the reasons for their selection discussed? (1)
- Are the steps followed in the application of the method(s) understandable and lead you to the value conclusion? (1)
- When applicable, are sales of similar businesses or capital stock of publicly traded similar businesses used for comparison? (3)
- Does the report explain how any discounts, capitalization rates or valuation multiples were determined or used? (2)
- Is the terminology used in the report defined so that it is understandable?
- Does the report identify the appraisers and have the appraisers signed the report? (1)
- Does the report contain the statement of certification signed by the appraiser? (1)

Yes No Does the appraiser's statement of qualifications present relevant qualifications for this appraisal?

- Education
- Technical training
- Professional designations
- Professional appraisal organization memberships and activities
- Type and years of experience
- Does the report contain a statement of confidentiality? (2)

Yes No Does the report contain a statement of assumptions and limiting conditions (1), regarding:

- Conflicts of interest? (2)
- Reliance on data and information supplied by others without verification? (2)
- The valuation only being valid for the valuation date and stated purpose? (2)

Yes No Reviewer's judgment:

- Does the report, in your opinion, cover all the material factors that affect the value of the business? (2)
- Is the value conclusion reasonable, as a result of all the factors presented in the report?

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Endnotes:

(1) Specifically mentioned in The Appraisal Foundation's Uniform Standards of Professional Appraisal Practice, the American Society of Appraisers' Business Valuation Standards and American Institute of CPAs Practice Aid 93-3 (now a Rule and Regulation of all Florida CPAs).

(2) Specifically mentioned only by American Society of Appraisers.

(3) Specifically mentioned only by The Appraisal Foundation.