



# Equipment Appraisers Association of North America

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## EAANA Newsletter

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Attention EAANA Members:

The following is in regards to FAS 157 and Fair Value - 2009.

Until recently we didn't have to worry about differing standards of value depending upon the *context* in which an appraisal would be used, but only with regard to the *proposed use* of the appraisal: insurance, collateral for a loan, possible sale of the asset(s), and so on.

However, under new SEC rules, auditors have begun to dictate how appraisals used for financial accounting purposes should be conducted—a departure from just selecting the standard and letting the appraiser go to do his “thing”. Simultaneously, in a different quarter, the IRS is beginning to invoke harsh penalties on appraisers that they think are distorting value to reduce taxes for their clients. This is why Valerie sent out an “alert” a month ago to get us thinking about this matter of different standards for different users. For some purposes we may now have to do our work as defined by an outside body, be it the Financial Accounting Standards Board (FASB), the OCC or the IRS.

Further confusing the matter is the seemingly identical definitions being used for *fair market value* (tax) vs. *fair value* (financial reporting.) Current accounting rules for public companies require a “fair value” standard as defined in FAS 157:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Now this sounds a lot like the Federal tax definition of *fair market value* (originally intended for federal estate and gift tax purposes only) that has taken on nearly universal application, thanks to USPAP. The U. S. Federal Tax Code, Sections 20.2031-1(b) (Estate Tax) and 25.2512-1 (Gift Tax), defines *fair market value* as:

The price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell, and both having reasonable knowledge of the relevant facts.

However, FASB affirms in FAS 157 that it intends fair value to be an *exit* price, not a purchase price, meaning its value in orderly liquidation in an appropriate market, in order to be in conformity with other accounting principles, and that the highest and best markets for the asset as a stand-alone are the appropriate markets to consider.

This accounting redefinition of *fair value* occurred because the FASB found that the purchase price and the potential re-sale value of certain kinds of assets, particularly certain intangibles, often diverged.

In FAS 157 the Financial Accounting Standards Board has stated that:

To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

FAS 157 defines observable and unobservable inputs as follows:

*Observable inputs* are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.

*Unobservable inputs* are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

In general, auditors are requiring that the most observable inputs be used first, which is good for EAANA members, since your mission requires you to use a market based approach as the primary determinant of value. Also, with regard to the levels described above, as long as your methodology is clearly described in your report the accountants should be able to decide what level of input was used. Individual auditors may be more difficult to work with regarding these matters than others, and we will have to write more in our reports for financial statement purposes regarding sample and method than before. There are examples in FAS 157 that the accountants will be using for guidance in judging the adequacy of your report. It will be very important to know what these examples are, and the Board's thinking, if you do work in the mergers and acquisitions arena. We will be discussing this further at the Annual Membership meeting in January.

Noreen Dornenburg

## GET TO KNOW THE MEMBERS



### Joseph M. Quicquaro, CSA

I would like to thank EAANA for the invitation to introduce myself. It is truly a privilege to be a member of the EAANA. I would like to take this opportunity to honor and recognize David Lang as my mentor and the one who encouraged me to join this fine organization.

I began my appraisal practice in 1990 providing services to attorneys, restaurant operators, and other appraisers in the Pittsburgh area. Current industry related designations include:

**EAANA:** Equipment Appraisers Association of North America, Member 2002-2009,  
CSA, Certified Senior Appraiser. Accredited 2004, 2009

**CFSP:** National Association of Food Equipment Manufacturers  
Certified Food Service Professional. Level II, Advanced September 2003, Current 2009

**ServeSafe:** Certification #5201038 National Restaurant Association Educational Foundation accredited by the American national Standards Institute (ANSI) – Conference for Food Protection (CFP) Certified 1/2007, Expires 1/2012

With over thirty seven years of experience, selling, and specifying equipment, I now specialize in retail, industrial and commercial fixtures, office equipment, food service manufacturing, super market, fast food, bakeries, restaurant, convenience stores, wholesale distribution, food equipment manufacturing, and custom stainless fabrication.

Restaurants are feeling the brunt of current economic conditions and equipment suppliers who focus on new restaurant construction are experiencing a decline in new equipment sales as much as 30-40%. Many growth driven chain operators now have a hold on new construction and those who are expanding have reduced their initial capital investment by converting competitor locations that have closed.

In order to better service my current and prospective clients, I have changed my business name to Quicquaro & Associates, LLC and I am currently developing a new web site for that business called restaurantappraisals.net. My focus will be to develop and implement new services to include equipment leasing, project funding, job and equipment cost analysis, a trading post and equipment appraisal services that can be initiated on line. Various articles and publications will be featured and specialized equipment consulting services will be offered. Thank you all for taking the time to get to know me and if you have any questions or comments please feel free to call any time.

## EAANA NEWS & UPDATES

### 20th Annual Membership Meeting

The 20th Annual Membership Meeting is scheduled for January 29 & 30, 2010. Please make your plans to attend, and don't forget to make your room reservations. The meeting will begin at 8:00AM on Friday, January 29, 2010. We are looking forward to a profitable meeting with speakers that include Andy Fanter from Cyclocast-Intercast, and Eric Kaplan of Kaplan Papadakis & Gournis, P.C. Fred Frank and Noreen Dornenburg will also be giving a presentation. Make your plans to come.

#### Welcome New Members

Darryl P. Walters, FL  
Lucas D. Evans, IL  
Allen Waugh, Canada

#### USPAP

We will be having a 7 hour USPAP class on January 28, 2010. Please get your registration forms in as soon as possible so we can make the proper arrangements.

#### Update Profile

Please review your directory profile and your EAANA website profile to make sure that it is correct and up to date. Notify Valerie of any changes.

**This is the 20th year for EAANA, and we would like to celebrate it with a champagne toast on Friday night at the Annual Membership meeting dinner January 29, 2010. If you would like to help sponsor this memorable event please contact Valerie at 1800-790-1053 or mail@eaana.org. You can give as little as \$25.00, and you will be recognized at the meeting for your contribution.**