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Reliance on Other Experts/Professionals

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Appraisers periodically must rely on other experts and professionals in order to complete their assignment. In the course of this process, it is important to consider the information received to see if it makes any sense. It should not come as a big surprise to anyone that some "experts" do not really know what they are doing or make serious mistakes which can adversely affect the appraisal when relied upon without question.

I recently completed a very interesting litigation assignment that pointed out some real issues dealing with reliance on other professionals:

This case involved litigation between a number of extended family members regarding a long-term attempt to divide a large farming operation with an associated grain mill amongst two family factions. There were several key points that I feel should have been resolved by simply considering whether or not they made sense, however, they were litigated instead. The disagreement centered on my value of the grain mill at zero and the value of the grain mill by the opposing expert at about $1 million. The following is a short summary of these points and how they caused problems by another appraiser relying on them:

1. The financial statements for the mill were prepared on a reviewed basis by the Company's Certified Public Accountant. Since the statements were "reviewed," the other appraiser took them as true without question – even though in a reviewed statement the CPA clearly states "a review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion. Management is responsible for the preparation and fair presentation of the financial statements …"

   There were two effective dates for the valuation. The first date, and the only date that the opposing expert used, was December 31, 2011. The CPA issued two financial statements dated as of December 31, 2011 – one in February 2012 and another correcting some major errors in November 2013. The initial financial statement showed net income before taxes of $500,000; the revised financial statement showed net income before taxes of closer to $200,000. As part of the adjustments, accounts receivable was adjusted down by $500,000 and inventory was adjusted up by $200,000. Also, a $200,000 questionable transaction that occurred on December 28, 2011 was ignored – I believe it was an advance made at year end simply to try and transfer earnings into 2011. Clearly there were some "issues" with the December 31, 2011 financial statement.

2. The income tax returns, prepared on a cash basis, showed essentially no income for the last ten years while the accrual based financial statements showed a profit in 2008 and again in 2011, but in no other years.

3. In mid-year 2012, the grain mill was closed by the majority shareholders over the objections of the minority shareholders that were suing to get lots of money. The 2012 year-end financial statement and the 2012-year end tax return both showed the Company losing over $800,000. I kept raising the issue: if the mill really was worth $1 million on December 31, 2011, how did it go to losing $800,000

after collecting all receivables, selling all inventory, and paying off amounts owed to growers. Clearly the value of $1 million was never really there.

4. The grain mill was put together using backyard techniques and a true "farmer" approach. In other words, it was slapped together using whatever could be found, using very old and unsafe equipment, was located a couple miles back on a gravel road, and would have resulted in an insurance professional jumping on his or her pen had they ever visited it. I toured the facility with a long-time grain processing expert – we were both horrified by the condition and way the plant was put together. The other appraisal expert toured the facility, yet stated that he had no expertise in such matters and he relied on the statements of the family member manager that had run the plant and was suing for damages that everything was just fine. In my and the grain facility expert's opinions,' the grain mill could not have been sold to anyone as an ongoing operation; it would have to have been liquidated. The grain mill and its equipment was so bad that I believe had someone been seriously injured or killed that the insurance company would have refused to pay successfully claiming that the application contained lies and misrepresentations about the condition and safety of the facility.

This was an extreme example and one that still surprises me that another "expert" relied on management's representations, ignored the physical condition of the mill facility, ignored the fact that the Company's "reviewed" financial statements which were full of errors and likely still incorrect, and the fact that the Company lost $800,000 the very next year after closing down instead of showing positive assets in excess of liabilities of $1 million. Yet he persisted in claiming that the $1 million in value was real as of December 31, 2011.

This group of examples points out to me the need to consider whether or not some things make sense. If things don't fit together properly or simply don't make sense, perhaps they should be looked at more carefully.

Valuations play a part in all strategic transactions, tax, and many litigation matters. For additional information or advice on a current situation, please do not hesitate to call. **We value real estate, businesses, and personal property including livestock and machinery & equipment.**

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