

THE

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A silhouette of a soldier in full combat gear, including a helmet and a rifle slung over his shoulder, stands with his back to the camera. He is looking out over a vast, open landscape under a dramatic, cloudy sky at sunset or sunrise. The lighting is warm and golden, creating a somber and contemplative mood. The soldier's figure is dark against the bright, hazy background.

GOVERNMENT CONTRACTING IN A WAR ZONE

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How to Effectively Create
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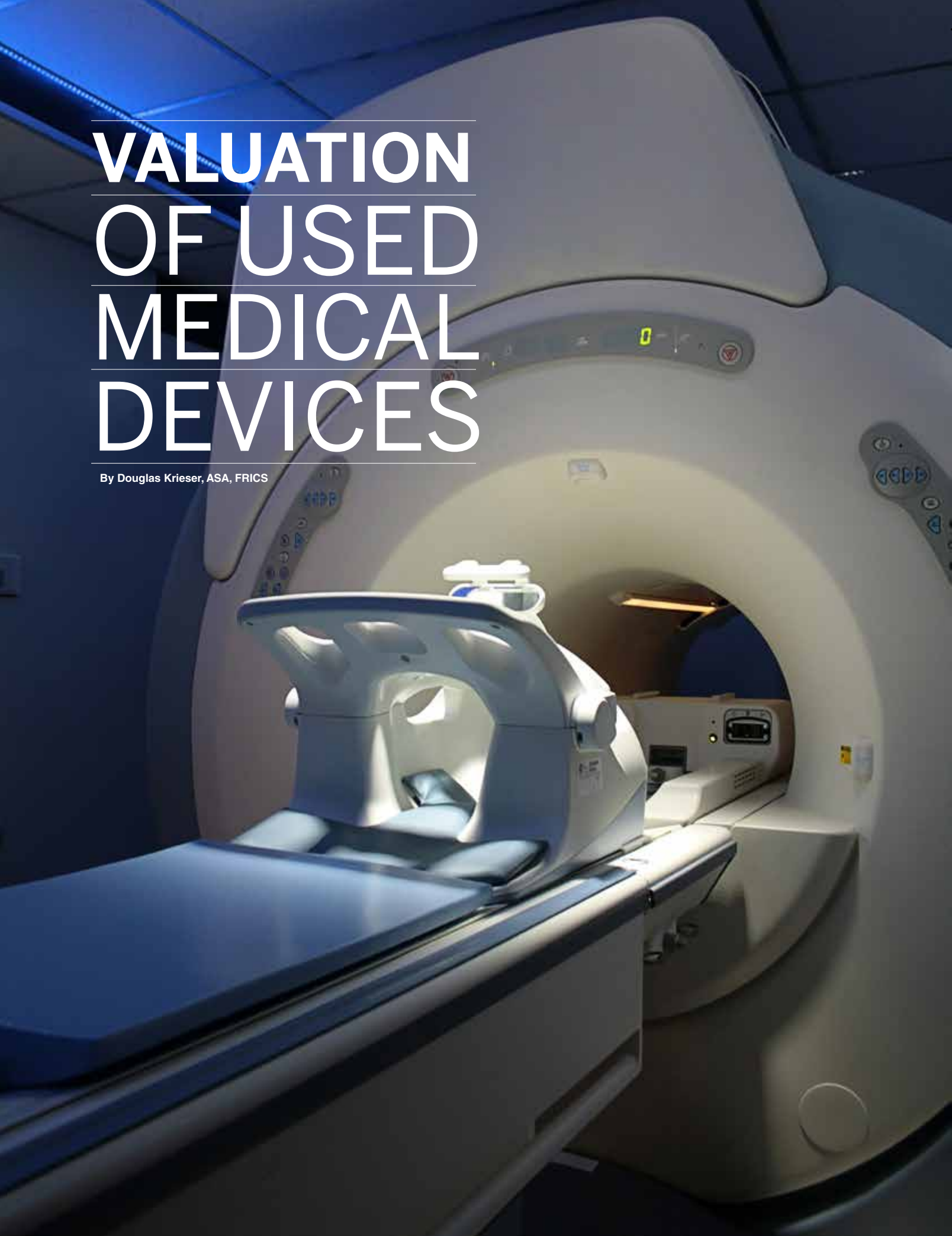
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VALUATION OF USED MEDICAL DEVICES

By Douglas Krieser, ASA, FRICS



INTRODUCTION

When considering the disposal of a piece of equipment the method of disposal may require a formal valuation due to Internal Revenue Service's (IRS) regulations, accounting standards or other reasons. On another hand, if trading-in the equipment, or selling it to another end user, an appraisal may be in order to assure that you are obtaining a fair return on your investment.

WHO IS AN APPRAISER?

A qualified appraiser is an individual who meets all the following requirements:

- The individual either:
 - » Has earned an appraisal designation from a recognized professional appraiser organization for demonstrated competency in valuing the type of property being appraised, or
 - » Has met certain minimum education and experience requirements.
- The individual regularly prepares appraisals for which he or she is paid.
- The individual demonstrates verifiable education and experience in valuing the type of property being appraised. To do this, the appraiser can make a declaration that, because of his or her background, experience, education, and membership in professional associations, he or she is qualified to make appraisals of the type of property being valued. The declaration must be part of the appraisal. However, if the appraisal was already completed without this declaration, the declaration can be made separately and associated with the appraisal.
- The individual has not been prohibited from practicing before the IRS under section 330(c) of title 31 of the United States Code at any time during the 3-year period ending on the date of the appraisal.

Persons who cannot be qualified appraisers are listed in the Declaration of Appraiser section of the Department of the Treasury, IRS Form 8283 "Noncash Charitable Contribution". Generally, a party to the transaction in which the property being appraised was acquired will not qualify to sign the declaration.

The Declaration of Appraiser section of Form 8283 states:

"I declare that I am not the donor, the donee, a party to the transaction in which the donor acquired the property, employed by, or related

to any of the foregoing persons, or married to any person who is related to any of the foregoing persons. And, if regularly used by the donor, donee, or party to the transaction, I performed the majority of my appraisals during my tax year for other persons.

Also, I declare that I perform appraisals on a regular basis; and that because of my qualifications as described in the appraisal, I am qualified to make appraisals of the type of property being valued. I certify that the appraisal fees were not based on a percentage of the appraised property value. Furthermore, I understand that a false or fraudulent overstatement of the property value as described in the qualified appraisal or this Form 8283 may subject me to the penalty under section 6701(a) (aiding and abetting the understatement of tax liability). In addition, I understand that I may be subject to a penalty under section 6695A if I know, or reasonably should know, that my appraisal is to be used in connection with a return or claim for refund and a substantial or gross valuation misstatement results from my appraisal. I affirm that I have not been barred from presenting evidence or testimony by the Office of Professional Responsibility."

There are a few other requirements under IRS Form 8283. It is recommended that this document be reviewed to assure that all of the appropriate requirements are met and followed.

ASSOCIATED REGULATIONS & STANDARDS

There are several regulations and standards which apply to valuations, some of which are valuation specific and some of which are more general (accounting specific).

One of the overriding set of standards that many appraisers (and all accredited appraisers) follow within the United States is the Uniform Standards of Professional Appraisal Practice (USPAP). This set of standards addresses many subjects including (but not limited to):

- What needs to be considered and included within an appraisal and within an appraisal report
- Appraisal ethics
- Appraisal competency and conduct
- Scope of work and record keeping

USPAP is so important that no appraisal can be performed for the Federal Government unless it meets this set of

standards.

The United States Government has several standards and regulations which govern appraisers.

As stated earlier the IRS has specific rules for appraisers performing valuations for donation purposes. The appraiser has to perform the valuation in a way that assures that the values of the donated items are reasonable and realistic. If not, they can face potentially very expensive fines.

In addition to the IRS, the Financial Accounting Standards Board (FASB) has other standards which govern valuation considerations for the purchase, sale, transfer and disposition of assets as outlined earlier.

Each appraisal association (such as the American Society of Appraisers, the Royal Institute of Surveyors, Association of Machinery and Equipment Appraisers (AMEA), etc.) also has its own set of standards which cover ethics, professional conduct and other pertinent subjects.

IMPLEMENTATION OF VALUATION BEST PRACTICES

Valuation best practices are scenario dependent. A number of typical scenarios are discussed below.

DONATION

According to IRS Form 8283 any claimed deduction for an asset of greater than \$5,000 must be appraised by a qualified appraiser in accordance with generally accepted appraisal standards.

TO BE SOLD:

- If an asset is to be sold, it may be required to be valued for a variety of reasons.
- Any loss or gain from the sale or disposition of the asset as compared to the Net Book Value stated on the asset records should be recorded in accordance with the Generally Accepted Accounting Principles (GAAP). In the case of Federal Agencies the recording of the asset value should be done in accordance with the FASB Statement of Federal Financial Accounting Standards (SFFAS) #6, "Accounting for Property, Plant and Equipment". If the property is impaired, additional guidance is found in SFFAS # 44, "Accounting for Impairment of General Property, Plant



and Equipment Remaining in Use”.

- It is recommended that this document, and other relevant accounting standards, be reviewed to assure that all of the appropriate requirements are met and followed.

In addition, if the asset is to be traded in or sold, it may be valuable to get the asset appraised (especially if it is a major asset such as an anesthesia machine, a C-Arm, etc.) in order to assure that the price it is being sold for or the offer being accepted is equitable to all parties.

LEVEL OF TRADE AND APPROPRIATE VALUE PREMISE:

- When considering a valuation, the appropriate (and sometimes required) value premise and level of trade needs to be carefully considered.
- For a donation, the IRS definition to be followed is “Fair Market Value” (FMV) which is defined in the instructions to Form 8283 as follows:
 - » “FMV is the price a willing, knowledgeable buyer would pay a willing, knowledgeable seller when neither has to buy or sell.”
 - » This is akin to the price an end user would pay to a used equipment dealer to purchase the same assets in the same condition.
- When valuing an asset for accounting purposes, the term “Fair Value” may be used. “Fair Value” is defined as “... the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between marketplace participants at the measurement date.” (FASB Accounting Standards Codification (ASC) 820: Fair Value Measurement).
- When considering selling an asset (or group of assets) to another end user, the definition is typically also “Fair Market Value”. The American Society of Appraisers defines “Fair Market Value” (slightly differently than the IRS but with several of the same components) as:

Fair Market Value: An opinion expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, as of a specific date. (In the valuation of personal property,

this definition must be further defined based on the function, use and Intended Use of the appraisal.)ⁱ

- When trading in an asset, the value may be “Fair Market Value” or “Orderly Liquidation Value” (OLV) which the American Society of Appraisers defines as:

Orderly Liquidation Value: An opinion of the gross amount, expressed in terms of money, that typically could be realized from a liquidation sale, given a reasonable period of time to find a purchaser (or purchasers), with the seller being compelled to sell on an as-is, where-is basis, as of a specific date.ⁱⁱ

- Depending on the terms of the deal, the actual value may vary with the desire of the sales representative to sell a particular product.
- If an item is to be disposed of at an auction or potentially sold to a dealer for re-sale, the premise of value may be “Orderly Liquidation Value” or “Forced Liquidation Value” (FLV) which the American Society of Appraisers defines as:

Forced Liquidation Value: An opinion of the gross amount, expressed in terms of money, that typically could be realized from a properly advertised and conducted public auction, with the seller being compelled to sell with a sense of immediacy on an as-is, where-is basis, as of a specific date.ⁱⁱⁱ

Many of the terms above are words of art within the appraisal profession and may or may not be familiar. Terms such as “cost

are probably more familiar. When disposing of an asset, there may be a consideration of utilizing one of these values as a “proxy” for the true “value” of an asset. Unfortunately, the answer is no. Why? “Cost new”, “original cost” or “replacement cost” reflect the cost of an item which is new. Every item (even brand new items) suffers from some form of depreciation or obsolescence (in common terms, a loss in value) once put into service. As such, they cannot be used as a proxy for FMV, OLV, or FLV.

“Depreciated cost” or “Net Book Value” are accounting terms and refer to the depreciation of an item for tax or other accounting purposes. This is purely a mathematical calculation for the recovery of the value of an asset over time and has no bearing on the true value of an asset over time. A case in point is that, over a period of time, an asset’s “Net Book Value” will decrease to zero, whereas the real value of an asset rarely, if ever, reaches zero. There is always some form of value attributable to the parts of the item itself.

“Trade in Value” is a nebulous term and often has no basis in the true value of an asset. As stated earlier, the “Trade in Value” is directly aligned with the desire of the sales representative to sell a particular product. It may be higher or lower than what the market would actually bear if the very same item were sold directly to another end user or at an auction.

When considering the disposition of an asset, the disposition method and the regulations which apply to that method often suggest or dictate a particular premise of value.



new”, “original cost”, “replacement cost”, “depreciated cost”, “net book value”, etc.

Consulting with your accountant, tax advisor, and a trusted appraiser can make sure that the assets are valued appropriately

given the particular disposition scenario.

The definition and application of the proper value premise is imperative given the purpose and intent use of the valuation. There can be great disparity in value conclusions if this is not applied appropriately.

PERFORMING CREDIBLE VALUATIONS

Performing credible and reliable valuations takes both training and experience. As stated earlier, the IRS and the Government have specific requirements that dictate who can perform an appraisal. In addition, the majority of the work performed for accounting purposes requires that the work go through an audit process. Specific expertise and knowledge is required in order to pass these audits.

As with other professionals such as certified public accountants (CPAs), attorney and doctors, appraisers have their own professional organizations. The major and most prominent professional organizations which have tangible asset appraisers as members include: the American Society of Appraisers (ASA), the Royal Institute of Chartered Surveyors (RICS) and the Association of Machinery and Equipment Appraisers (AMEA).

These societies set ethical standards, provide advanced training, set Continuing Education Requirements (CEAs) and assist in policing their members. All of this adds value to the user of their appraisal services. Members of professional societies such as those listed are held to a high standard of ethics and training.

Hiring an accredited appraiser, i.e. an Accredited Senior Member of the ASA, a Member of the RICS (MRICS), a Fellow of the ASA (FASA) or the RICS (FRICS), or a Certified Equipment Appraiser (CEA) of the AMEA, assures that the appraiser has up to date training and has to abide by USPAP and other professional and ethical standards.

However, membership in a society does not mean the appraiser has the appropriate experience or competency to perform valuations of medical equipment. Medical equipment is very unique in that its value is often determined by seemingly unrelated regulations and Government rules such as Medicare reimbursements and FDA decisions. How much Medicare reimburses for various modalities and procedures can have a significant impact on the value of medical equipment on the used market.

In addition, rulings by the FDA can make equipment essentially worthless overnight. Values for medical equipment vary significantly over time and the appraiser has to be aware of the value drivers, be able to spot the value trends and know how to interpret them. They also have to know what the present and future technology changes are and how they may affect value. Hiring an appraiser who understands the specific medical industry and the various value drivers is very important in providing a credible a reliable valuation.

All of the societies mentioned previously enforce some form of competency requirement on their members. This means that an appraiser has to tell the client if they do not possess the appropriate knowledge or skill level to value a particular type of asset or value assets for a particular reason. These societies also provide advanced training on various subject matters in order to make their members competent to value various asset classes.

There are a number of people who are not appraisers who say they can provide values, including manufacturer representatives/dealers, used equipment dealers and auctioneers. Some of these people may specialize in medical equipment and, thus, on the surface, may appear to be good sources for an “appraisal” of medical assets. They are not for a variety of reasons. Manufacturer representatives/dealers have a bias toward selling new equipment and thus, may not provide a “true” value for the equipment being appraised. The same goes for used equipment dealers and auctioneers. They may have a bias one way or another. A good appraiser is truly unbiased in all ways.

In addition, the manufacturer representatives/dealers, used equipment dealers and auctioneers may not be able to provide the type or report or documentation which is required in order to back up their valuations if challenged by the IRS, the auditor, a court of law, or others.

A used equipment dealer or auctioneer may provide good appraisal services. However, in order to do this, they need to know how to wear two hats...that of a dealer and that of an (unbiased) appraiser. They also should be a member of one of the mentioned professional associations and follow USPAP.

CONCLUSION

While there are many scenarios that may generate a requirement for the valuation

of medical equipment there are certain imperatives that should govern such valuations. Those imperatives include, but are not limited to:

- Implementation of an unbiased appraisal
- Use of accredited appraisers
- Maintaining alignment with the relevant accounting standards
- Compliance with relevant IRS guidelines

Accurate medical equipment appraisals empower medical organizations to make stronger negotiations and potentially save their organizations from leaving thousands of dollars on the negotiation table.

SOURCES

- i Definitions taken from American Society of Appraisers, Valuing Machinery & Equipment: The Fundamentals of Appraising Machinery and Technical Assets Third Edition (Washington, D.C.: American Society of Appraisers, 2000, 2005, 2011)
- ii ibid
- iii ibid

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Douglas R. Krieser, ASA, FRICS is a Managing Director at Valcon Partners, LTD, a tangible asset valuation and consulting firm based out of Crystal Lake, Illinois. Mr. Krieser has over 30 years' experience in the valuation of various healthcare related tangible assets and tangible asset consulting. Mr. Krieser has authored various articles, written courses, provided webinars and seminars, and has given presentations at national conferences on topics related to the appraisal of medical equipment. He is also a contributor to the latest editions of *Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery and Technical Assets (Second Edition)* published by the American Society of Appraisers. He is very active in the American Society of Appraisers (ASA) where he has held many leadership positions. In addition to his membership in the ASA, Mr. Krieser is also a Fellow of The Royal Institution of Chartered Surveyors (RICS) which is based in London England. Mr. Krieser is also the valuation subject matter expert (SME) on the ASTM subcommittee on the Decommissioning and Disposal of Medical Supplies, Medical Equipment, and Hospitals. Mr. Krieser holds a B.S. in Industrial Engineering from Marquette University.