

**STANDARDS AND PROCEDURES
OF PROFESSIONAL APPRAISAL
ETHICS AND PRACTICE**



**PUBLISHED BY
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Association of Machinery and Equipment Appraisers

The appraiser shall conduct himself or herself in all respects according to the Code of Ethics and *Standards and Procedures of Professional Appraisal Practice* of the Association of Machinery and Equipment Appraisers (AMEA) Code of Ethics.

AMEA Code of Ethics

This Code of Ethics contains principles to govern each individual appraiser's conduct and practice. It is each member's duty to adhere to the letter and spirit of his or her practice according to this Code of Ethics. Each individual is obligated and agrees to be responsible for his or her conduct as follows:

- A. Conduct his/her appraisal activities in a professional manner, demonstrating the highest level of integrity, which will reflect credit upon himself/herself, and the accrediting organization, the Association of Machinery and Equipment Appraisers.
- B. The appraiser can accept only those assignments that he/she is competent to perform and has the knowledge and ability to perform in a professional manner.
- C. The client must be fully aware of any interest the appraiser has in the machinery or equipment to be appraised. The appraiser must state clearly that his/her opinion of values is unbiased and objective. These opinions must not be prejudiced by past, present, or any future interests in the machinery and equipment appraised. It is a violation of this Code of Ethics to formulate opinions of value that may be subject or self-serving or that are based on any interests that may affect the validity of the appraisal.
- D. Compensation derived from an appraisal shall be based on the nature and scope of the appraisal. The appraiser shall not derive compensation for any appraisal contingent on predetermined values.
- E. The appraiser shall prepare the appraisal report and the opinions expressed in it are his/hers and not that of another party.
- F. All appraisals are to be held in strict confidence between the appraiser and his client, and shall not be furnished to another party unless specifically requested to do so by his client or a court of law.
- G. The appraiser shall conform in all respects to the Code of Ethics and Standards and Procedures of Professional Appraisal Practice of the Association of Machinery and Equipment Appraisers.
- H. Advertising for or soliciting appraisal assignments in a manner, which is false, misleading or exaggerated, is unethical.

INDEMNIFICATION

The Association of Machinery and Equipment Appraisers and its officers have no responsibility for the accuracy of any appraisal, the conduct of any individual member of AMEA. Each member of AMEA agrees to indemnify the association, its officers and personal representatives from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) which AMEA may suffer or incur, or become subject to in connection with or as a result of having accepted the member into AMEA, the actions and conduct of its members or any appraisal provided by its members.

CENSURE, SUSPENSION AND EXPULSION

The Association of Machinery and Equipment Appraisers (AMEA) has established a code of ethics, which is considered a guiding document outlining principles governing each AMEA appraiser's conduct and practice. Such a document is useful for: 1) appraisers in identifying standards of acceptable practice; 2) employers in determining policies, which affect workers in the profession; and 3) ultimately the consumers as a source of assurance of quality service.

6.1 COMPLYING WITH THE CODE

A code of ethics is only useful if it has accompanying procedures, which guide its application. It is essential that a structure be utilized to mediate disagreements between parties regarding compliance to the code.

The Ethics Committee should consist of five (5) people appointed by the president of the AMEA. It is suggested that the immediate past president should act as chair; the other members may include the current 1st Vice President, a Past President and two other AMEA board members.

The first step in the process includes involvement of the AMEA Ethics Committee Chair. A formal complaint against a member of the AMEA must be received in writing, to the attention of the AMEA staff director, at the AMEA headquarters. The complaint should include the names of the parties involved and a report on what section of the Code was violated. The AMEA staff director will forward the complaint to the Chair of the Ethics Committee. It is the Ethics Committee Chair's responsibility to communicate and gather facts or assign such responsibility to a an Ethics Committee member.

The AMEA Ethics Committee or assigned committee member shall bring the complaint before the entire Ethics Committee for review and recommendation. A copy of all written documentation received by the Ethics Committee chair or assigned committee member will be disseminated to all member of the committee. The committee will discuss the complaint and determine whether an ethics violation has occurred. If the Ethics Committee determines the complaint is not an AMEA ethics violation, a letter stating such will be sent to the complainant and respondent. If the committee deems a violation has occurred, they will, on a timely basis determine what action they recommend to the AMEA board.

The Ethics Committee may recommend any of the following:

1. A letter of reprimand, outlining the steps and timelines necessary to bring the member into compliance with the code.
2. The suspension of membership privilege of the member for up to a year.
3. The expulsion of membership privilege of the member.

The reprimand, suspension, or expulsion of the member requires a 2/3rd vote of the entire AMEA board.

If the Ethics Committee recommends reprimand, suspension or expulsion, the Ethics Committee will notify the parties involved of its recommendation and at the next available board meeting, the AMEA board will set aside time (at a closed meeting open only to current board members and not more than two representatives of each party involved in the dispute and the AMEA staff director) to listen to the Ethics Committee report. Either or both parties involved in the dispute may choose to have a 10-minute statement and if necessary, direct questions to the Ethics Committee or the representative(s) of the parties involved in the dispute.

Without the presence of the individuals involved in the dispute, the AMEA board will then vote to determine the action taken.

A written notice of the board's decision is to be sent certified mail. In the event the board votes to reprimand, suspend, or expel the member; it shall be communicated as quickly as possible to all AMEA members. If a letter of reprimand is sent and corrective steps are not completed in the required timeline, the member will automatically be brought before the Board for termination.

Any AMEA board member that is a party to an AMEA ethics complaint shall be prohibited from participating in any Ethics Committee and/or board activity relating to such complaint.

STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE

The Association of Machinery and Equipment Appraisers (AMEA) recognizes the importance of the Uniform Standards of Professional Practice (USPAP). All AMEA members are required to adhere to the USPAP standards. Within certain segments of the appraisal process, AMEA has additional standards.

The following list sets forth the minimal prerequisites for developing an appraisal opinion and writing an appraisal report. All members are expected to adhere to the following:

A.) A written engagement letter, contract, or purchase order, prior to commencement of the appraisal assignment, which clearly describes the appraisal fee, appraisal location, and the assignment's scope and nature.

B.) A clearly written report furnished to the client containing the following:

1. Confirmation of request, including name of the individual requesting appraisal report.

2. A clear understanding of the purpose of the appraisal assignment, subsequently defining that purpose and the identification of the "***Intended Use***" and "***Intended User***" of the report.

3. Location of machinery and equipment or assets appraised, company name or division and address of facility(ies).

4. Name of the individual who personally inspected the machinery and equipment, the date that the items were viewed and the date the appraisal report was prepared.

5. A disclosure to the client of his or her degree of expertise and experience. This should include a statement of the appraiser's qualifications including and not limited to:

a. Knowledge and training,

b. Familiarity with and knowledge of the machinery and equipment,

c. Years in business,

d. Membership status, i.e. currently a member of AMEA and that he or she is an "Accredited Machinery and Equipment Appraiser" (AEA) or a "Certified Machinery and Equipment Appraiser" (CEA) and any other associations that he or she belongs to, such as a state or local Chambers of Commerce.

6. A disclosure to the client that determination of value are understood to be the opinion of the appraiser and his or her opinion cannot be interpreted as a guarantee of value.

7. A statement of the objectives and methodology of the appraisal including a statement in the report indicating a clear definition of the selected evaluation approach and a justification of his or her opinion of value. This justification should state: support for authoritative opinions of value, the information considered, the

appraisal procedures followed, and the reasoning that supports the analyses which may include 'highest and best use analysis', opinions, personal observations, analyses, and conclusions and valuations as reported in the appraisal. Where appropriate; state when new and used equipment dealers have been consulted for comparable prices; and when catalogs, trade publications and results of comparative auction sales have been utilized.

8. A statement regarding the type of appraisal presented: summary, self-contained, or restricted use appraisal. Typically an appraisal of machinery and equipment is a summary report but may be any of the three.

9. A statement of any assumptions or limiting factors that may affect the appraisal, preferably grouped together this statement discloses any apparent or known extraordinary conditions and indicate any impact on value.

10. A statement of the Scope of Work: Typically the Scope of Work identifies the Type and Extent of Research and Analysis used to prepare a credible appraisal assignment.

11a. A statement that fees for the appraisal are not contingent upon values reported.

11b. A statement in the appraisal report indicating the appraiser and/or any officer of his company's present or future interest in the machinery and equipment. (Code of Ethics Letter C)

12. A clear description of each asset appraised, listing significant value characteristics which may include; but are not limited to, asset type, size, or capacity, serial number, age, accessories, or tooling. Each item should be identified, either with an asset number or machinery number used by the client, or a numerical sequence assigned each asset by the appraiser. This allows the intended user a clear understanding of that, which has been appraised.

13. A value of each item or group of items appraised and a total dollar value of all assets appraised. Where appropriate: a total value for a group of assets with each individual major item listed, or a total value for a group of assets without necessarily listing each individual asset.

14. The effective date: the date at which the value opinion in an appraisal applies, which may or may not be the day of inspection, the date of the market conditions that provide the context for the value opinion. (Explanation I)

15. A signed and sealed certification page.

16. A signed and sealed certificate of value page.

C.) A permanent record must be kept for at least five (5) years after preparation or at least two (2) years after final disposition or any judicial proceeding in which testimony was given. The permanent

record will contain both a copy of the appraisal furnished to the client and any substantiating data used in arriving at the opinion of value.

Sample I Intended Use and Intended User

“This report is intended for use only by (identify the client) and (identify and other known users by name or type), and is intended only for use in (describe the use – i.e. Asset Based Financing, Acquisition of Assets, Merger of Assets, Bankruptcy, Divorce, Estate Planning, Bond Issues, Insurance Purposes, Equitable Distribution in conjunction with business planning purposes, or business decisions, etc.). Use of this report by others is not intended by the appraiser, nor is the report intended for any other use unless express written consent is further granted.”

Sample II Evaluation Approach

The cost, income and market approaches to value have been considered for this appraisal and has either been utilized where necessary or deemed inappropriate for the value conclusions found therein.

Sample III Recommended Sample Statement of Conditions

All facts and data set forth in this report are based upon an estimate of value only and are true and accurate to the best of the appraiser’s knowledge and belief.

No investigation has been made into the title to the property and all items as listed are assumed to be the property of the Subject Company.

No consideration has been given to liens or encumbrances, which may be against the property other than those discussed in this report.

I have no (or the specified) present or prospective interest in the property that is the subject of this report, and I have no (or the specified) personal interest or bias with respect to the parties involved.

The appraised property has been personally inspected unless otherwise stated.

This appraisal has been made in accordance with accepted appraisal practices in accordance with the Association of Machinery and Equipment Appraisers *Standards and Procedures of Professional Appraisal Ethics and Practice* and the *Uniform Standards of Professional Appraisal Practice* and reflects the best judgment of the appraiser. When appropriate, new and used equipment dealers have been consulted for comparable prices, and catalogs, trade publications and results of auction sales comparable have also been utilized.

Information provided by others has been assumed to be correct for the purposes of this report and no responsibility is taken for the accuracy of it.

Since conclusions by the appraiser are based upon judgments, isolation of any single element as the sole basis of comparison to the whole appraisal may be inaccurate.

The fees for this appraisal are not contingent upon values reported.

Consideration for possible environmental hazards from any source goes beyond the scope of this appraisal. It is assumed that there are no hidden or unseen conditions of the equipment, which would render it more or less valuable.

Other limitations or assumptions, if any, are clearly defined and individually set out at that point relating to the subject.

The appraiser is not required to give testimony, be present in court of law, or appear before any commission or board by reason of this appraisal, unless prior arrangements have been made.

Sample V Certification page

I certify that, to the best of my knowledge and belief:

The statements of fact contained in this report are true and correct.

I certify that, to the best of my knowledge and belief, the statements of fact contained in this report are true and correct.

The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and is my personal, impartial, and unbiased professional analyses, opinions, and conclusions and not a guarantee of value.

I have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved.

I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

I have performed no (or the specified) services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.

My engagement in this assignment was not contingent upon developing or reporting predetermined results.

My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice and the standards of the Association of Machinery & Equipment Appraisers.

I have (or have not) made a personal inspection of the property that is the subject of this report. (If more than one person signs this certification, the certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraised property.)

No one provided significant personal property appraisal assistance to the person signing this certification. (If there are exceptions, the name of each individual providing significant personal property appraisal assistance must be stated.)

Sample VI

Scope of Work

The Scope of Work addresses the Type and Extent of Research and Analysis utilized to develop an Opinion of Value. The Data Collected in the Course of Research and Analysis may include, but is not limited to: Market Data from Used Equipment Dealers that Sell Comparable Equipment; Conversations with New Equipment Manufacturer's; Consultation with Auctioneers, Liquidators and Equipment Brokers of Comparable Equipment; In-House Data Bases; Industry Data Bases; Trade Journals and Industry Periodicals.

Explanation I

Effective Date

An appraiser is asked to perform an appraisal for the estate of an individual whom has passed away. The effective date of the appraisal will be the date of his death, neither necessarily the date of the inspection nor the date the appraisal is completed.

When completing an appraisal report that has an effective date in a different economic time period than the present, you must use only the information that was available at that time. For example, the values for an appraisal with the effective date for the year 1999 will be significantly different than the values of today.

Leasing companies require appraisals to have an effective date sometime in the future as they have to determine the value of the property at the end of the lease.

Definition of Values

Market Value (Fair Market Value)

A professional opinion of the estimated most probable price expressed in terms of currency to be realized for property in an exchange between a willing buyer and a willing seller, with equity to both, neither being under any compulsion to buy or sell, and both parties fully aware of all relevant facts as of the effective date of this appraisal report.

Market Value - In Place

A professional opinion of the estimated most probable price expressed in terms of currency to be realized for property in an exchange between a willing buyer and a willing seller, with equity to both, neither being under any compulsion to buy or sell, and both parties fully aware of all relevant facts, as installed for intended utilization, as of the effective date of this appraisal report.

Forced Liquidation Value (Auction)

A professional opinion of the estimated most probable price expressed in terms of currency which could typically be realized at a properly advertised and conducted public auction sale, held under forced sale conditions and under present day economic trends, as of the effective date of the appraisal report. Conclusions taken into consideration are physical location, difficulty of removal, physical condition, adaptability, specialization, marketability, overall appearance and psychological appeal. Further, the ability of the asset group to draw sufficient prospective buyers to insure competitive offers is considered. All assets are to be sold on a piecemeal basis 'as is' with purchasers responsible for removal of assets at their own risk and expense. Any deletions or additions to the total assets appraised could change the psychological and/or monetary appeal necessary to gain the price indicated.

Orderly Liquidation Value

A professional opinion of the estimated most probable price expressed in terms of currency which the subject equipment could typically realize at a privately negotiated sale, properly advertised and professionally managed, by a seller obligated to sell over an extended period of time, usually within six to twelve months, as of the effective date of the appraisal report. Further, the ability of the asset group to draw sufficient prospective buyers to insure competitive offers is considered. All assets are to be sold on a piecemeal basis 'as is' with purchasers responsible for removal of assets at their own risk and expense. Any deletions or additions to the total assets appraised could change the psychological and/or monetary appeal necessary to gain the value indicated.

New Replacement Cost Value

A professional opinion of the cost expressed in terms of currency, F.O.B. the manufacturer's plant, to purchase a new item of like quality and specifications. If such an item is unavailable, the appraiser has used his or her best judgment in estimating a value as of the effective date of the appraisal.

Approaches to Value

Market Approach

One of the three recognized approaches used in appraisal analysis, this approach involves the collection of market data pertaining to the subject assets being appraised. This approach is also known as the 'Comparison Sales Approach'. The primary intent of the market approach is to determine the desirability of the assets and recent sales or offerings of similar assets currently on the market in order to arrive at an indication of the most probable selling price for the assets being appraised. If the comparable sales are not exactly similar to the asset being appraised, adjustments must be made to bring them as closely in line as possible with the subject property.

Cost Approach

One of the three recognized approaches used in appraisal analysis, this approach is based on the proposition that the informed purchaser would pay no more for a property than the cost of producing a substitute property with the same utility as the subject property. It considers that the maximum value of a property to a knowledgeable buyer would be the amount currently required to construct or purchase a new asset of equal utility. When subject asset is not new, the current cost must be adjusted for all forms of depreciation as of the effective date of the appraisal.

Income Approach

One of the three recognized approaches used in appraisal analysis, this approach considers value in relation to the present worth of future benefits derived from ownership and is usually measured through the capitalization of a specific level of income. This approach is the least common approach used in the valuation of machinery and equipment since it is difficult to isolate income attributable to such assets.

Depreciation

Defined as the actual loss in value or worth of a property from all causes including those resulting from physical deterioration, functional obsolescence, and economic obsolescence.

PHYSICAL DETERIORATION

A form of depreciation where the loss in value or usefulness of an asset is attributable solely to physical causes such as wear and tear and exposure to the elements.

FUNCTIONAL OBSOLESCENCE

A form of depreciation where the loss in value is due to factors inherent in the property itself and due to changes in design, or process resulting in inadequacy, over capacity, excess construction, lack of functional utility, or excess operating costs.

ECONOMIC OBSOLESCENCE

A form of depreciation or loss in value, caused by unfavorable external conditions. These can include such things as the economics of the industry, availability of financing, loss of material and labor sources, passage of new legislation, and changes in ordinances.