

***SUMMARY APPRAISAL REPORT  
OF  
MACHINERY AND EQUIPMENT***

**Located at:**

**Central Manufacturing, Inc.  
1935 Main Street  
Any Town, USA 00000**

Effective Date of Appraisal: October 25, 2012

**PREPARED BY:  
Davis Business Appraisers  
1202 Brassie Court  
Chesapeake , VA 23320  
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Certified Machinery/Equipment Appraiser**

# Davis Business Appraisers

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November 1, 2012

Ms. Linda Johnson  
President  
Northwest National Bank  
1234 Main Street  
Client's Town, USA 00000

Dear Ms. Johnson:

Per your request, we respectfully provide a summary appraisal report for certain machinery and equipment items located at Central Manufacturing, Inc., 1935 Main Street, Any Town, KS 00000.

This report has been prepared in compliance with the Uniform Standards of Professional Appraisal Practice. Fee Simple Interest has been reported on the machinery and equipment. We are reporting Fair Market Value in Continued Use as of the effective date of October 25, 2012. Use of this report signifies your acceptance of Limiting Conditions contained in the report and the limitations outlined in the Engagement Agreement.

A summary of all information collected indicates that as of this date the estimated Fair Market Value in Continued Use of all assets contained in this report would be \$1,728,000.

Respectfully submitted,

Davis Business Appraisers

Roland Davis, CMEA

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## **General Information**

An appraisal is a type of investigation into the law of probabilities with respect to valuation. Through the appraiser's experience, training, and integrity, we are able to project the activities of buyers and sellers in the marketplace into an estimation of value. In reaching a conclusion, comparison of assets usually involves adjustments due to the individuality and uniqueness of each asset. Transactions are often influenced by sentiment, bias, specific needs, politics, familiarity, lack of understanding, and other conditions not considered by the impartial appraiser. The appraiser cannot lend credence to these possible factors lest he misrepresent the very reason for his profession.

An appraisal cannot be guaranteed, nor can it always be proven. The opinion of value can, however, be substantiated and final opinion is the result of a thorough professional analysis of a vast quantity of data. An appraisal must not be considered absolute but should be used as a basis of negotiations between concerned parties, whatever their interests.

The valuation process, as followed in the preparation of this report, is an orderly procedure for arriving at an estimate of value. By following this procedure the appraiser begins with a preliminary study of the problem involved and defines the basis from which the appraisal is to be made. A program is then initiated for the accumulation, analysis, and observation of data. The data called for in the preliminary study is then gathered, classified, and analyzed.

In assignments to estimate Fair Market Value in Continued Use, the ultimate goal of the valuation process is a supported conclusion that reflects the appraiser's study of all influences on the value of the assets being appraised. Therefore, the appraiser studies the assets from various applicable viewpoints.

Various approaches are interrelated, and each involves the gathering and analysis of sales, activity, and value data in relation to the assets being appraised. From the analysis, the appraiser derives separate indications of value for the assets being appraised. One or more approaches may be used, depending on their applicability to the particular appraisal assignment.

To complete the valuation process, the appraiser integrates the information drawn from the market research and analysis of data and from the application of appraisal techniques to form a conclusion. This conclusion may be an estimate of value or a range in which the value may fall. An effective integration depends on an appraiser's skill, experience, and judgment.

With the preceding in mind, the reader's attention is invited to the appraisal report and various exhibits which point out the facts and reasoning leading to the final estimate of value.

## Summary of Salient Facts

Identity of Client	Northwest National Bank
Intended User(s)	Ms. Linda Johnson, President, Northwest National Bank
Intended Use	Banking & Collateral and to be used for no other purpose
Property Interest Appraised	Fee Simple
Sales History of Appraised Item(s)	Appraiser is not aware of any sales history thereof
Physical and Economic Property Characteristics Relative to the Assignment	The items discussed in this report are currently utilized in the particular industry as described in the industry report located in the Addenda section. The individual items are described via basic nomenclature.
Class of Property	Manufacturing
Current Use of Property	Manufacturing
Use of Property When Appraised	Manufacturing
Effective Date of Appraisal	October 25, 2012
Date Report Written	November 1, 2012
Date of Inspection	November 1, 2012
Type of Value (as requested by client and approved by appraiser)	Fair Market Value in Continued Use
Final Estimate of Value	\$1,728,000

## Scope of Work

The appraiser has been asked to provide an appraisal effective October 25, 2012 of certain machinery/equipment items located at Central Manufacturing, Inc., 1935 Main Street, Any Town, USA 00000.

It has been requested that fee simple interest be reported as an estimation of the Fair Market Value in Continued Use. The type of value reported has been determined by the appraiser, upon engagement by the client, to be appropriate to the client's needs. It should be noted that if these items should sell under any other scenario, such as in an Orderly Liquidation fashion or a Forced Liquidation fashion (quick sale), then different values, no doubt lesser values would be realized.

This report is identified as a Summary Report that is intended to comply with the reporting requirements as defined under Standards Rule 8-2 (b) of the Uniform Standards of Professional Appraisal Practice (USPAP) for a Summary Appraisal Report. As such, it presents only summary discussions of the data, reasoning, and analyses that are used in the processes to develop the Appraiser's Opinion of Value. Supporting documentation that is not provided with the report concerning data, reasoning and analyses is retained in the appraiser's file. The depth of discussion contained in this report is specific to the needs of the client and for the intended use stated within this report. Not all specific requirements are applicable to every assignment. In this assignment, not all data involving subject sales, offerings, options and listing was obtainable and verifiable, although the appraiser has made every effort to gather the data by direct contact with the various sources through telephone or e-mail. If this detailed data is not included or addressed, the data is considered to be irrelevant. Due to the large number of subject properties oftentimes appraised in a machinery/equipment appraisal, the summary report is the most commonly used report form. Summary reports are accepted on a daily basis by the courts, taxing authorities, lenders, business owners, accountants, and other users of appraisal services. As noted in the book "Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery and Technical Assets, Third Edition, American Society of Appraisers, "MTS (machinery and technical specialties) appraisals usually involve a wide variety and multitude of assets. USPAP recognizes three forms of reports: Self-Contained, Summary, and Restricted Use. MTS appraisal reports typically are prepared as Summary reports. The primary difference between the three types of reports is the level of detail presented. The Self-Contained report 'summarizes' and a Restricted Use Report 'states'."

The Income Approach would be purely hypothetical in this assignment. The Cost Approach and the Market Data Approach have been utilized for the final value estimate of each item or category with heavy emphasis on the Market Data Approach when possible. The appraiser, when implementing the market data approach, has endeavored to find "sold comparables." That is to say, they are similar items that have actually transferred in ownership. These comparable sales provide the best and most reliable information. However, if actual historical sales

information is not available, the appraiser will oftentimes look to the current market of similar items currently for sale. This information can be useful in estimating value. In this report, a search has been made for "sold" items and items currently "for sale".

The appraiser has gathered data on the subject items from as many sources as practical, including but not limited to the original equipment manufacturer (if possible), dealers and brokers of like equipment, published catalogs, and guides of similar equipment as well as the Internet. Upon gathering data regarding new and similar models with characteristics of the subject equipment, the writer has then analyzed the data in an effort to estimate value.

After conversations with various industry professionals, including the above-mentioned sources, the appraiser endeavored to arrive at a value estimate for the subject equipment. After a value was established, this written report was then formulated to set forth the findings and conclusions of the appraiser. An extreme effort was made to comply with the Uniform Standards of Professional Appraisal Practice in providing the final written report.

This is a report estimating value based on reported conditions. If it is the client's desire to verify the physical condition and/or needed repairs of the machinery/equipment, which is the subject of this report, the client should consult a qualified mechanic/technician. To determine actual mechanical condition is outside of the appraiser's expertise and the scope of this assignment.

This assignment has called for only the larger, more expensive items owned by the client to be appraised. It is understood that oftentimes there also exist smaller, less expensive ancillary/support items that "support" the larger items. These items, too, obviously have value but do not in and of themselves merit the time and expense of an individual valuation. Therefore, it is agreed by the client's use of this report, that if these types of items are mentioned in this report, they will be added under a separate section(s) as opposed to the larger capital items and the appraiser will only apply the Cost Approach (less depreciation) to value. The Market Data Approach will not be applied to the smaller, less significant items, due to time and cost factors required in researching smaller items. These items typically include smaller hand tools, furniture, fixtures, shelving, electronic items, i.e., computers, calculators, copiers, telephone systems, etc., and other less expensive items which are considered to "support" the items, which are the focus of this report. Industry depreciation standards have been applied with little, if any, individual description. Lot pricing is employed with these types of items.

Further, the request to the writer as to the type of report needed was implemented. That is to say, the equipment may be valued in place, in use, and as part of a going concern entity; in place, not in use; in place to be removed; not in place, etc. Many types of equipment items are labor intensive in their millwright, installation, or removal.

This evaluation sets forth the findings and conclusions of the writer, and is based upon an investigation of conditions affecting value, and is subject to the Statement of Limiting Conditions and Definitions. Without reading the Statement of Limiting Conditions and Definitions, the report cannot be fully understood.

The scope of this assignment as explained above has been requested and/or agreed to by the client along with the conditions as stated in the Engagement Agreement.

### Degree to Which the Property is Inspected or Identified

An onsite visit was conducted to view the equipment on November 1, 2012. A visual inspection was made to verify that the equipment exists and is working. The equipment was observed and is assumed to be in good working order, though a detailed mechanical inspection was not made. Overall, the equipment visually appears to be in Good Condition.

### Extent of Research Into Physical or Economic Factors That Could Affect Property

The appraiser has had a number of conversations with manufacturers and suppliers of the subject items. The appraiser has not had access to the profit and loss statements or tax returns of Central Manufacturing, Inc. It is assumed the business is profitable and the machinery/equipment, which is the subject of this report, will remain in place and in use well into the future. While the national and global economies are in a recession according to many as of this writing, it is nevertheless the assumption of the writer that the business will continue in a profitable way.

The purpose of this report is not to comment on profit or loss of the subject business, and if there is concern in those areas, the reader or user of this report should conduct further studies.

### Extent of Data Research

The appraiser, in conversations with all listed sources, described to the best of his ability the characteristics of the subject equipment. It is understood equipment items may be purchased/sold with a variety of peripheral attachments, support items, and other amenities, which could affect value. It is not always possible to know of such factors that may or may not exist. Therefore, it is assumed the subject equipment does in fact have basic qualities needed for operation and would have an expected amount of peripheral amenities associated with the subject item.

All information provided the appraiser is believed to be accurate but not warranted or guaranteed.

### Type and Extent of Analysis Applied in Arriving at Opinions or Conclusions

Conversations were held with manufacturers and dealers providing similar machinery and equipment items. After conversations with manufacturers, dealers, and industry professionals, the appraiser formulated an opinion as to values and market conditions.

### Depth of Onsite Inspection

The appraiser viewed the machinery and equipment, which is the subject of this report, unless otherwise noted. The equipment was verified to be in place and working or capable of working, although a detailed mechanical inspection was not made. The equipment appears to be in an overall Good Condition and was photographed when possible.



### Appropriate Market or Market Level

The most appropriate market or market level would be for this equipment to be utilized as part of a going concern business operation. Obviously, all machinery and equipment items are best utilized with their income producing capabilities functioning.

### Intended User(s)

The intended user(s) of this report is/are Ms. Linda Johnson, President, Northwest National Bank.

### Confidentiality and Privacy

The appraiser will maintain the conformity and privacy of customer information obtained in the course of this assignment in compliance with USPAP and Regulation Practices, Title V of Gramm, Leach, Bliley Financial Modernization Act.

We do not sell information about our client to others. We protect the security and confidential information about the client. We share information outside of our company only when necessary to administer products or services we provide when we have your permission, or when required or permitted by law.

### Overall Condition of Equipment

It is understood the subject equipment is in Good Condition except as noted, and used on a daily basis. Appearance is Good Condition unless otherwise noted.

### Intended Use

It is understood this report is to be used for this purpose and no other:

- Banking & Collateral.

### Property Interest Appraised

It is understood that the property interest appraised is in Fee Simple Interest.

## Statement of Limiting Conditions - Tangible Assets

1. All facts and data set forth in this report are true and correct to the best of the appraiser's knowledge.
2. The fee for this report is not contingent upon the values reported. There have been no guarantees associated with this fee and no liability can be intimated or assumed in any manner.
3. Since this report has been purchased by the addressee, it is assumed by the appraiser that it is to be used by the addressee in determination of value at that point in time. Use of this report by others should be done so with the understanding that no risk or guarantees have been purchased by the owner of the report nor through the fee paid to the appraiser. The appraiser reserves the right to recall all copies of this report to correct any omission or error.
4. Physical condition in most instances has been determined by observation or indication by others. Any unknown conditions existing at the time of inspection could alter the value. No responsibility is assumed for latent defects of any nature whatsoever which may affect value, nor for any expertise required to disclose such conditions.
5. No consideration has been given to liens or encumbrances, which may be against the property.
6. No investigation of legal fee or title to the property has been made and the claim to the property has been assumed to be valid.
7. Neither the appraiser nor any officer or employee of the appraiser's company has any financial interest in the property appraised, unless specifically noted.
8. No additional values or appraisals have been made in regard to such intangibles as patents, rights to manufacture, trademarks, goodwill, going concern value, etc.
9. This report has been prepared in conformity with the Principles of Good Practice and Code of Ethics of NEBB Institute.
10. Other limitations, if any, are clearly defined and individually set out at that point related to the subject.
11. Neither all nor any part of the contents of this report, or copy thereof, shall be reproduced for any purpose other than stated in the report, nor shall it be made available to the media, another appraiser or anyone else without the written consent of the appraiser.
12. For all appraisals subject to satisfactory completion, repairs, or alterations, this report and value conclusions are contingent upon completion of the improvements in a workmanlike manner.

13. Information, estimates and opinions furnished the appraiser and contained in this report were obtained from sources considered reliable and believed to be true and correct; however, no responsibility for the accuracy of such items furnished to the appraiser can be assumed by the appraiser. No liability or responsibility is expressed for results from actions taken by anyone as a result of this report. Further, there is no accountability, obligation, or liability to any third party.
14. Matters of legal nature or tax consequences have not necessarily been considered in this report. The reader should consult a competent attorney or CPA for information and opinions in those areas.
15. In many instances, the appraiser is given information regarding machinery and equipment concerning repairs, accessories, condition, etc., which may or may not be verifiable by the appraiser for a variety of reasons. In such cases, the appraiser must rely on information provided him in searching for comparative data. The appraiser disclaims any responsibility if given erroneous information by any party.
16. Machinery and equipment appraisers are called on for price evaluation and verification for equipment from many different fields of business. It is impossible for any appraiser to be an authority in every field of machinery/equipment. Therefore, the appraiser has endeavored to use basic sound, accepted methodologies in any assignment (i.e., Cost New Less Depreciation and Market Data Approaches). Conversations with those dealing daily in a specific field were conducted, and all final evaluations are founded on prudence and best effort on the part of the appraiser. "Conclusion of opinion of value" is arrived at from years of experience in the sale and appraisal of machinery, equipment, businesses, and commercial properties. The final form of this report is made possible by omitting many details used in estimating, yet not considered essential to the report.
17. The appraiser has endeavored to use due diligence in all market comparisons. If possible, three comparisons of similar items sold usually provide substance for final value determination. However, at times it is not possible to find any direct sales comparisons that have actually sold. In these cases, the appraiser has relied heavily on comments and testimony from sources considered reliable (dealers, auctioneers, manufacturers, wholesaler, etc.) in arriving at the final value estimate.
18. The writer has based his opinion on certain assumptions that have been presented to him. If these basic assumptions should change for any reason, the final valuation could quite likely change. The appraiser reserves the right to make any adjustments considered necessary as additional or more reliable data becomes available.
19. If the request has been for the writer to accept values given by the principals, i.e., hard assets, fixtures, equipment, inventory, etc., then the assignment becomes hypothetical in nature unless the writer has specifically certified the values of such assets in the report.
20. Nomenclature and identification of tangible assets are assumed by the writer to be accurate, but no guarantee is made in this regard.

21. An appraisal is an estimate of value. When the amount is considered a reasonable and proper value under the concept of a definition, then it is applied. For this reason, the value is, in many cases, a rounded number. As stated in *Engineering Valuation and Depreciation*, a textbook published by Iowa State University Press of Ames, Iowa, "All values are of the nature of forecast of events and are subject to the uncertainties of all prophecies."
22. In most cases, equipment is itemized, although certain areas require a group estimate, in which case the listings are shown in the quantity column as "lot." This is usually applied in nominal value areas that require general descriptions for applications elsewhere, or in areas where difficulty of access for total description would have required additional time not justified by the items being valued.
23. It is assumed that all equipment has standard features commensurate with its normal operation. For instance, machine tools would include but not be limited to: belt guards, foot pedals, magnetic or standard starters, switch-gear, safety equipment, wiring, piping and controls, electrical, pneumatic or hydraulic systems, or other peripheral items considered standard for operating the indicated model or type of equipment. This type of detailed listing is not described for each machine due to repetition, time, cost, and description length within the listing. An attempt is made, however, to indicate any non-standard features at an appropriate point within the study.
24. The valuation concept used in this report is one chosen by the client and should not be considered a recommendation by the appraiser as to what might result in any later application of the concept. Concept probability and/or feasibility are beyond the scope of the appraisal. The user of the report is to determine the probability of occurrence. The appraisal is purchased in order to allow an opinion of value under any assumed set of circumstances, as requested and mutually agreed upon by the client and the appraiser.
25. Description of items made a part of this report is believed correct. Any errors or omissions were unintentional and should not affect the value assignment. Description is made with the attempt of allowing reasonable identification although it may not allow specific item identification in all cases unless company number tagging is utilized. Examples of this would be in such areas as cabinets, shelving, file cabinets, various hand tools, and unserialized equipment or equipment without justification for serial number search due to associated value and/or time consideration. In some cases, identification numbers cannot be found.
26. In some cases, an appraiser may indicate that certain equipment was observed in operation. This qualification is applicable only to specific pieces of equipment and should not be construed that other equipment was not operable or under operation at the time of inspection. This note could become extremely important in the future but is considered more of note "in passing" at the time of the on-site evaluation.
27. The subject equipment may or may not conform to OSHA standards (Occupational Safety & Health Administration). The sole responsibility for conforming rests with the owner of the subject equipment and may not necessarily affect the final estimate of value reported herein.

28. Any controversy arising out of or relating to this report shall be settled by arbitration in accordance with the rules, then in effect, of the American Arbitration Association in Chesapeake, VA. In the unlikely event that differences concerning our services or fees should arise, that are not resolved by mutual agreement, our liability for this engagement will be limited to a return of the fees we have received for this engagement.
29. Since the 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.
30. As stated, this is a report estimating value based on "reported" condition. If it is the client's desire to verify physical condition and/or needed repair of the items, which are the subject of this report, the client should consult a qualified mechanic/technician. To determine actual mechanical condition is outside of the appraiser's expertise and the scope of this assignment. If the condition of the equipment is other than as reported to the appraiser, the estimated value could be unreliable. The appraiser reserves the right to change the value estimate if additional information comes forward as to condition or other factors, which could affect value.
31. This is a Summary Appraisal Report. Additional information may be necessary and will be provided to qualified requests by the writer.
32. It should be noted that the term "certified," or "certified appraisal" as used in this report refers to certification and testing from various recognized appraisal and consulting societies, organizations, or institutes.
33. This report is not to be used for insurance purposes unless specifically stated to do so.

## **Definitions of Condition**

### **Very Good (VG)**

This term describes an item of equipment in excellent condition capable of being used to its fully specified utilization for its designated purpose without being modified and not requiring any repairs or abnormal maintenance at the time of inspection or within the foreseeable future.

### **Good Condition (GC)**

This term describes those items of equipment which have been modified or repaired and are being used at or near their fully specified utilization but the effects of age and/or utilization indicate that some minor repairs may have to be made or that the item may have to be used to some slightly lesser degree than its fully specified utilization in the foreseeable future.

### **Fair Condition (FC)**

This term describes those items of equipment which are being used at some point below their fully specified utilization because of the effects of age and/or application and which require general repairs and some replacement of minor elements in the foreseeable future to raise their level of utilization to or near their original specifications.

### **Poor Condition (PC)**

This term is used to describe those items of equipment, which can only be used at some point well below their fully specified utilization, and it is not possible to realize full capability in their current condition without extensive repairs and/or replacement of major elements in the very near future.

### **Scrap Condition (X)**

This term is used to describe those items of equipment which are no longer serviceable and which cannot be utilized to any practical degree regardless of the extent of the repairs or modifications to which they may be subjected. This condition applies to items of equipment which have been used for 100% of their useful life or which are 100% technologically or functionally obsolescent.

## **Fair Market Value in Continued Use Definition**

Fair Market Value in Continued Use is the estimated amount, expressed in terms of money (cash or financing terms equivalent to cash), that may reasonably be expected for a property in an exchange between a willing buyer and a willing seller, with equity to both, neither under any compulsion to buy or sell, and both fully aware of all relevant facts, including installation, as of a specific date and assuming that the business earnings support the value reported. This amount includes all normal direct and indirect costs, such as installation and other assemblage costs to make the property fully operational.

*As defined by Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery & Technical Assets, Second Edition, by the American Society of Appraisers.*

## Machinery and Equipment Definitions

The following values are defined in the publication *Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery & Technical Assets*, Second Edition, by the American Society of Appraisers.

1. **Fair Market Value** is the estimated amount, expressed in terms of money (cash or financing terms equivalent to cash), that may reasonably be expected for a property in an exchange between a willing buyer and a willing seller, with equity to both, neither under any compulsion to buy or sell, and both fully aware of all relevant facts, as of a specific date.
2. **Fair Market Value - Removal** is the estimated amount, expressed in terms of money, that may reasonably be expected for an item of property in an exchange between a willing buyer and a willing seller, with equity to both, neither under any compulsion to buy or sell and both fully aware of all relevant facts, considering removal of the property to another location, as of a specific date.
3. **Fair Market value in Continued Use** is the estimated amount, expressed in terms of money, that may reasonably be expected for a property in an exchange between a willing buyer and a willing seller, with equity to both, neither under any compulsion to buy or sell, and both fully aware of all relevant facts, including installation, as of a specific date and assuming that the business earnings support the value reported. This amount includes all normal direct and indirect costs, such as installation and other assemblage costs to make the property fully operational.
4. **Fair Market Value - Installed** is the estimated amount, expressed in terms of money that may reasonably be expected for an installed property in an exchange between a willing buyer and a willing seller, with equity to both, neither under any compulsion to buy or sell, and both fully aware of all relevant facts, including installation, as of a specific date. This amount includes all normal direct and indirect costs, such as installation and other assemblage costs, necessary to make the property fully operational.
5. **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.  
Source: FASB 2006 (Used by accountants to determine a net exit value.)
6. **Orderly Liquidation Value** is the estimated gross amount, expressed in terms of money, that could be typically 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.
7. **Forced Liquidation Value** is the estimated gross amount, expressed in terms of money, that could typically 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.



8. **Liquidation Value in Place** is the estimated gross amount, expressed in terms of money that could typically be realized from a failed facility assuming that the entire facility would be sold intact with a limited time to complete the sale, as of a specific date.
9. **Salvage Value** is the estimated amount, expressed in terms of money that may be expected for the whole property or a component of the whole property that is retired from service for possible use elsewhere, as of a specific date.
10. **Scrap Value** is the estimated amount, expressed in terms of money that could be realized for the property if it were sold for its material content, not for a productive use, as of a specific date.
11. **Insurance Cost New** is the replacement or reproduction cost new as defined in the insurance policy less the cost new of the items specifically excluded in the policy, as of a specific date.
12. **Insurable Value Depreciated** is the insurance replacement or reproduction cost new less accrued depreciation considered for insurance purposes, as defined in the insurance policy or other agreements, as of a specific date.

## Methods of Valuation

Appraisal methods employed in arriving at the final conclusion as to value on all of the equipment in this section include the Cost Approach Analysis and the Market Data Approach Analysis. At times, the Income Approach Analysis is used. However, on equipment of this type, it would be deemed unadvisable, as it is the result of a purely hypothetical value.

### Cost Approach Analysis

The Cost Approach Analysis is defined as a "method in which the value of a property is derived by estimating the replacement cost of the improvements and deducting therefrom the estimated depreciation." There are three primary forms of depreciation: physical, functional and economic. Physical depreciation is often curable and may involve cosmetic appearance (but, in fact, could go deeper). Functional depreciation means that the machinery has had a loss in productivity due to wear and tear. Economic depreciation (sometimes referred to as External Depreciation) occurs outside of the subject property which results in a loss of value. In determining depreciation, the appraiser has used his judgment and prudence in determining the depreciation factor which could be a combination of all three forms described in total. Experience with this type of equipment has proven the use of a formula, which is as follows:

$$\text{Fair Market Value} = \frac{\text{Remaining Life}}{\text{Normal Life}} \times \text{Cost New}$$

This formula again has proven to be effective on numerous occasions.

### The Market Data Approach

This approach is an appraisal technique in which the market value estimate is predicated upon prices being paid in actual market transactions and current listings, the former fixing the lower limit of value in a static or advancing market and fixing the higher limit of value in a declining market; and the latter fixing the higher limit in any market. It is a process of correlation and analysis of similar recently sold properties. The reliability of this technique is dependent upon:

1. The degree of comparability of each property with the property under appraisal;
2. The time of the sale;
3. The verification of the sale data;
4. The absence of unusual conditions affecting the sale.

## The Income Approach

The Income Approach to value is used only when solid data involving income and expenses for a particular item can be established. It is considered hypothetical in most situations involving machinery and equipment, and though while considered, has not been applied in the final value estimate.

### Reasoning that Supports the Analysis, Opinions and Conclusions

In an effort to provide Cost Less Depreciation Analysis, the appraiser has used, when possible, the actual manufacturer (or dealers) of the subject equipment. At times, new replacement models are offered when the subject model is no longer being made. When this condition exists, the appraiser endeavors to correlate and adjust for various factors involved. If the actual manufacturer of the equipment is not available or cannot be reached for any reason, then dealers or distributors are contacted when possible for verification of similar items with similar utility. Sometimes the manufacturer, distributors, and dealers can provide information for the Market Data Approach as well, since they are oftentimes aware of equipment on the used market, even selling similar equipment at times. A search is also made of similar items in the general market place that have sold and are presently offered for sale. Unless specifically stated, the Income Approach has not been applied in this assignment for reasons mentioned above.

#### Sources Contacted

The following sources were contacted in this assignment:

- \* Cardinal Manufacturing
- \* Dynamic Machine Tool Co.
- \* Hartwig Machine Tools
- \* Kansas Oklahoma Machine Tool Co.
- \* The Book Pricing Guide
- \* The Internet

### Results of Analysis of Subject Sales, Offers, Options and Listings

Details are maintained in the appraiser's files and will be provided upon request from the client.

#### **Additional Considerations**

#### Title of Appraised Equipment

It is understood the items listed in this report are owned and belong to Central Manufacturing, Inc., 1935 Main Street, Any Town, USA 00000. The writer makes no guarantee, however, concerning ownership or clear title.

#### Measurable Marketplace

There are distinct levels of trade and each may have its own market value. The writer is under the opinion that other companies similar to Central Manufacturing, Inc., who provide similar products and services, would be the most appropriate market.

#### Market Conditions

### Estimated Exposure Time

Exposure time is the estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal. This is a retrospective opinion based on an analysis of past events assuming a competitive and open market. The appraiser believes that if properly exposed to the open market the subject item(s) would have sold in approximately 180 days.

### Extraordinary Assumptions and/or Hypothetical Conditions

An Extraordinary Assumption is an assumption directly related to a specific assignment, as of the effective date of the assignment results, which if found to be false could alter the appraiser's opinions or conclusions. Extraordinary Assumptions presume as fact otherwise uncertain information about physical, legal or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

A hypothetical condition is a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but used for purposes of analysis. Hypothetical conditions are contrary to known facts about physical, legal or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

1. It is believed there are no hidden defects which are not discernible from a visual inspection and which could affect value.
2. Issues resulting from the above condition could affect the assignment results.

## **Comments Regarding Capital Equipment**

The appraiser has attempted to analyze all subject sales comparisons, offers, options, and listings in accordance with USPAP Standards Rule 7-5. Data found was limited and in some cases unobtainable. The appraiser has had conversations with dealers, manufacturers, brokers, and others. The Internet has also been used, all in an effort to determine detail and characteristics of the appraised item(s). Data that was found has been weighted in the final value estimate or otherwise considered irrelevant.

## Capital Equipment

Item #	Type	Manufacturer	Model / Description	Serial / VIN No.	Year / Age	Condition	Remaining Useful Life In Years*	Comments	Estimated Fair Market Value in Continued Use
1	CNC Turning Center	Mori Seiki	SL-303 BMC 1700	566	N/A	Good Condition	10	Includes Chip Conveyor, Live Turret Tooling, 4 ea. Live Tool Holders (3,000 RPM)	\$130,000
2	Verticle Machining Center	Mori Seiki	SV-503B/50	644	N/A	Fair Condition	10	N/A	\$148,000
3	Horizontal Machining Center with Six-Station Linear Pallet Pool System	Mori Seiki	SH 500 4 Axis	644	N/A	Very Good Condition	10	Includes Cell Controller, 7 Pallets, 7 Tooling Blocks, 1 Setup Station, 120-''Tool Magazine, 1280 Meters Memory, High Pressure Coolant, Omat-Opt Mill Software	\$510,000
4	Five Axis Vertical Machining Center	Mazak	Vortex 815/120	156889	N/A	Very Good Condition	10	10,000 rpm spindle with 50 taper, 60-tool magazine, high pressure coolant thru spindle, helical interpolation and rigid tapping	\$520,000
5	Vertical Mounting Center	Komo	40/240	26427-03-01-99	N/A	Good Condition	10	Traveling column machine, full enclosure	\$300,000
Estimated Fair Market Value in Continued Use Total									\$1,608,000

\* This estimate assumes all items receive periodic maintenance according to instructions of original manufacturing companies (or their successors) and by use of replacement components (new, used, remanufactured, or reverse-engineered) available either from those companies or from alternative suppliers in the aftermarket.

## **Shop Support and Ancillary Items**

In addition to the capital equipment of the previous section, there also exist a number of shop and ancillary items, which are of supporting nature. They are included at the request of the client as they do have value. These items are valued using industry depreciation standards, historical metrics, prudence, and experience (Cost Less Depreciation Approach). Items, such as the subject, are typically valued in bulk and include but are not limited to:

Inspection Tools

Shelving

Racks

Carts

Tooling

Small Hand Tools

Small Grinders

Small Drills

Welders

Cleaning Equipment

Lockers

Miscellaneous Shop Items

Est. Fair Market Value in Continued Use: \$75,000

## **Furniture, Fixtures and Equipment**

In addition to the items of the previous sections, there also exist a number of items of furniture, fixtures and equipment nature. They are included at the request of the client as they do have value. These items are valued using industry depreciation standards, historical metrics, prudence, and experience (Cost Less Depreciation Approach). Items such as the subject are typically valued in bulk and include but are not limited to:

Desks

File Cabinets

Credenzas

Chairs

Conference Tables/Chairs

Dividers

Lamps

Tables

Bookcases

Miscellaneous Office Furnishings

Est. Fair Market Value in Continued Use: \$28,000



## **Electronic Support Items**

In addition to the items of the previous sections, there also exist a number of items of electronic nature. They are included at the request of the client as they do have value. These items are valued using industry depreciation standards, historical metrics, prudence, and experience (Cost Less Depreciation Approach). Items, such as the subject, are typically valued in bulk and include but are not limited to:

Computers

Software

Printers

Copiers

Fax Machines

Telephone System

Calculators

Miscellaneous Electronic Items

Est. Fair Market Value in Continued Use: \$17,000

## **Final Value Summary and Reconciliation**

Based on the information supplied to the appraiser, using due diligence and discussions with individuals who sell new and used similar equipment, the appraiser has used a combination of the Cost Less Depreciation Approach and the Market Data Approach for each capital equipment item with a primary emphasis on the Market Data Approach when possible. If good, reliable, market data did not exist or was unclear, the Cost Approach was implemented. All data used has been retained in the appraiser's work file as required in a summary report.

For item numbers: 3  
the Cost Less Depreciation Approach was considered. However, the Market Data Approach was weighted as being more appropriate in establishing value as significant comparable data was available

For item numbers: 1, 2, 4, 5

the Market Data Approach was considered. However, the Cost Less Depreciation Approach was weighted as being more appropriate in establishing value as significant data was unavailable or unverifiable.

For item numbers: None

the Cost Less Depreciation and the Market Data Approaches were considered. However, the Income Approach was weighted as being more appropriate in establishing value as income and expense records could be studied.

The total estimated Fair Market Value in Continued Use of the subject items is as follows:

		FMV-CU
Capital Equipment Items	\$	1,608,000
Shop Support and Ancillary Items	\$	75,000
Furniture, Fixtures and Equipment Items	\$	28,000
Electronic Support Items	\$	17,000
<hr/>		
Total:	\$	1,728,000
Rounded:	\$	1,728,000

## Appraiser's Certificate

I certify to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.
4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. 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.
7. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
8. I have made a personal inspection of the property that is the subject of this report.
9. No one provided significant personal property appraisal assistance to the person signing this certification.
10. Because of my training as an appraiser and my experience in numerous business transactions, I am qualified to perform this assignment.
11. I have performed no (or the specified) other services, as an appraiser or in any other capacity, regarding the property that is the subject of the work under review, within the three-year period immediately preceding acceptance of this assignment.

### Non-Discrimination

In arriving at the estimated reasonable value, the writer has not been improperly influenced in any manner by the race, religion, or national origin of any person.

### Certification and Re-Certification

**John Doe**, CMEA, is in compliance with the NEBB Institute certification or re-certification program.

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**John Doe**, CMEA

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Date

## **Appraiser's Qualifications**

Roland Davis, CMEA

Professional designations and work experience for Roland Davis, CMEA, include:

Roland Davis, CMEA has been awarded the CMEA designation (Certified Machinery/Equipment Appraiser) by the NEBB Institute. CMEAs are located throughout the United States and several foreign countries, and are used by banks, other lending institutions, CPAs, attorneys, business buyers/sellers and others to provide needed financial information for a variety of reasons.

**Partial List of Businesses Appraised** - The following is a partial list of the types of businesses that have been appraised by CMEAs:

Accounting Practices	Hospitals
Architectural & Engineering Services	High Tech Manufacturing Companies
Advertising Agencies	Historical Buildings
Aerial Spraying Services	Hotels
Airports	Ice Cream Stores
Appliance Sales & Repair	Interior Decorating Shops
Art & Craft Supply Stores	Insurance Agencies
Asphalt Plants/Sand Pits	Janitorial Companies
Attorney's Practices	Ladies Retail Clothing
Auto Body Shops	Liquor Stores
Auto Dealerships	Lumber Yards
Auto Parts Stores	Machine Shops
Auto Repair Garages	Maid Service Franchises
Bakeries	Mall Specialty Shops
Banks	Manufacturing Companies
Beauty Shops	Medical Clinics
Bridal Shops	Millwork Shops
Building Product Supplies	Motels
Candy Shops	Moving and Storage Companies
Catalog & Mail Order Houses	National Franchises
Chemical Manufacturers	Newspapers
Chemical Distributors	Oil and Gas Refineries
Clinics	One Hour Photo Stores
Clubs/Taverns	Photography Studios
Collection Agencies	Physicians Practices
Construction Companies	Plumbing Contracting Services
Convenience Stores	Printing Companies
Cosmetic Stores	Radio/TV Repair Companies
Country Clubs	Real Estate Sales Agencies
Dairy Farms	Recreational Vehicle Dealerships
Dental Practices	Refuse Hauling Companies
Distribution Companies	Restaurants
Dog Kennels	Rock Quarries
Donut Shops	Rodeo Stadiums
Dry Cleaners	Sandwich Shops
Electrical Contracting Services	Schools
Exercise Gyms	Supper Clubs
Fabric Stores	Swimming Pool Builders
Fast Food Restaurants	Travel Agencies
Farms	Trucking Companies
Flower Shops	Veterinary Clinics
Food Processing Plants	Video Rental & Sales Shops
Furniture Stores	Wallpaper Stores
Gasoline Stations	Welding Shops
Gift Shops	Well Drilling Companies
Golf Courses	Well Servicing Companies
Grocery Stores	Wholesale Businesses
Hardware Stores	Woodworking Shops
Hobby Shops	Wrecker/Towing Services

# **ADDENDA**

## **Additional Definitions and Terms from USPAP**

Various terms are used throughout the appraisal report. The following are definitions of the terms:

1. **ADVOCACY** - Representing the cause or interest of another, even if that cause or interest does not necessarily coincide with one's own beliefs, opinions, conclusions, or recommendations.
2. **APPRAISAL** - (noun) The act or process of developing an opinion of value; an opinion of value. (Adjective) of or pertaining to appraising and related functions such as appraisal practice or appraisal services.
3. **APPRAISAL CONSULTING** -The act or process of developing an analysis, recommendation, or opinion to solve a problem, where an opinion of value is a component of the analysis leading to the assignment results.
4. **APPRAISAL FOUNDATION** - The Appraisal Foundation incorporated as an Illinois not for Profit Corporation on November 30, 1987.
5. **APPRAISAL PRACTICE** - Valuation services performed by an individual acting as an appraiser, including but not limited to appraisal, appraisal review, or appraisal consulting.
6. **APPRAISER** - One who is expected to perform valuation services competently and in a manner that is independent, impartial, and objective.
7. **APPRAISER PEERS** - Other appraisers who have expertise and competency in the same or a similar type of assignment.
8. **APPRECIATION** - Increase in value due to increase in cost to reproduce, value over the cost, or value at some specified earlier point in time brought about by greater demand, improved economic conditions, increasing price levels, reversal of depreciating environmental trends, improved transportation facilities, direction of community or area growth, or other factors.
9. **ASSIGNMENT** - A valuation service provided as a consequence of an agreement between an appraiser and a client.
10. **ASSIGNMENT RESULTS** - An appraiser's opinions and conclusions developed specific to an assignment.
11. **ASSUMPTION** - that which is taken to be true.
12. **BIAS** - A preference or inclination that precluded an appraiser's impartiality, independence, or objectivity in an assignment.
13. **BUSINESS ENTERPRISE** - An entity pursuing an economic activity.

14. CLIENT - The party or parties who engage an appraiser (by employment or contract) in a specific assignment.
15. CONFIDENTIAL INFORMATION - Information that is either: Identified by the client as confidential when providing it to an appraiser and that is not available from any other source; or
16. COST - The amount required to create, produce, or obtain a property
17. DEPRECIATION - A loss of utility and hence value from any cause. An effect caused by physical deterioration and/or obsolescence.
18. ECONOMIC OBSOLESCENCE - Impairment of desirability of useful life arising from factors external to the property, such as economic forces or environmental changes which affect supply-demand relationships in the market. Loss in the use and value of a property arising from the factors of economic obsolescence is to be distinguished from loss in value from physical deterioration and functional obsolescence, both of which are inherent in the property. Also referred to as Location or Environmental Obsolescence.
19. EXTRAORDINARY ASSUMPTION - an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinion or conclusions.
20. FEASIBILITY ANALYSIS - A study of the cost-benefit relationship of an economic endeavor.
21. FUNCTIONAL OBSOLESCENCE - Impairment of functional capacity or efficiency. Functional obsolescence reflects the loss in value brought about by such factors as overcapacity, inadequacy, and changes in the art that affect the property item itself or its relation with other elements comprising a larger property. The inability of a structure to perform adequately the function for which it is currently employed.
22. HIGHEST AND BEST USE - That reasonable and probable use that will support the highest present value, as defined, as of the effective date of the appraisal.
23. HYPOTHETICAL CONDITION - That which is contrary to what exists but is supposed for the purpose of analysis.
24. INTANGIBLE PROPERTY (INTANGIBLE ASSETS) - Nonphysical assets, including but not limited to franchises, trademarks, patents, copyrights, goodwill, equities, securities, and contracts as distinguished from physical assets such as facilities and equipment.
25. INTENDED USE - The use or uses of an appraiser's reported appraisal, appraisal review, or appraisal consulting assignment opinions and conclusions, as identified by the appraiser based on communication with the client at the time of the assignment.



26. **INTENDED USER** - The client and any other party as identified, by name or type, as users of the appraisal, appraisal review, or appraisal consulting report by the appraiser on the basis of communication with the client at the time of the assignment.
27. **JURISDICTIONAL EXCEPTION** - An assignment condition that voids the force of a part or parts of USPAP, when compliance with part or parts of USPAP is contrary to law or public policy applicable to the assignment.
28. **MARKET PRICE** - The amount actually paid, or to be paid, for a property in a particular transaction differs from market value in that it is an accomplished or historic fact, whereas market value is and remains an estimate until proven. Market price involves no assumption of prudent conduct by the parties, absence of undue stimulus, or any other condition basic to the market value concept.
29. **MARKET VALUE** - A type of value, stated as an opinion, that presumes the transfer of property (i.e., a right of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the definition of the term identified by the appraiser as applicable in an appraisal.
30. **PERSONAL PROPERTY** - Identifiable tangible objects that are considered by the general public as being "personal" - for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate.
31. **PRESENT VALUE** - The current monetary value. It is the today's cash lump sum, which represents the current value of the right to collect future payments. It is the discounted value of aggregate future payments.
32. **PRICE** - The amount asked, offered, or paid for property.
33. **REPORT** - Any communication, written or oral, of an appraisal, appraisal review, or appraisal consulting service that is transmitted to the client upon completion of an assignment.
34. **SCOPE OF WORK** - The amount and type of information researched and the analysis applied in an assignment. Scope of work includes, but is not limited to, the following: the degree to which the property is inspected or identified; the extent of research into physical or economic factors that could affect the property; the extent of data research; and the type and extent of analysis applied to arrive at opinions or conclusions.
35. **SIGNATURE** - Personalized evidence indicating authentication of the work performed by the appraiser and the acceptance of the responsibility for content, analyses, and conclusions in the report.

36. **SUPPLEMENTAL STANDARDS** - Requirements issued by government agencies, government sponsored enterprises, or other entities that establish public policy which add to the purpose, intent and content of the requirements in USPAP, that have a material effect on the development and reporting of assignment results.
37. **VALUE** - The monetary relationship between properties and those who buy, sell, or use those properties.
38. **VALUATION PROCESS** - Services pertaining to aspects of property value.
39. **WORKFILE** - Documentation necessary to support an appraiser's analysis, opinions, and conclusions.

## Engagement Agreement

This letter is to confirm my understanding of your request to appraise the following property by way of a:

- Summary Report  
 Summary Report (Desktop)

Type of Property \_\_\_\_\_

Name \_\_\_\_\_

Address \_\_\_\_\_

City, State, Zip Code \_\_\_\_\_

The following parameters of this engagement are also based upon our previous communication. Appraiser is to use the approaches to value he/she feels is applicable or a blending thereof, in determining value.

Date of Value \_\_\_\_\_

Intended Use \_\_\_\_\_

Intended Users \_\_\_\_\_

Type of Value (FMV) (OLV) (FLV) \_\_\_\_\_

You have requested that I prepare a Summary Appraisal Assignment as defined by the Uniform Standards of Professional Appraisal Practice:

1. *The appraisal report will not be given to any other party without the appraiser's approval.*
2. *The appraiser will report the type of value requested by the client by researching the market and industry, apply the appropriate approaches to value, and provide a written report of his findings.*
3. *The appraiser is indemnified against any and all problems that may arise from the use of this report. You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence.*
4. *You agree that, in the event we are judicially determined to have acted negligently in the execution of this engagement damages shall be limited to an amount not to exceed the fee received by us for this engagement.*
5. *Our liability for injury or loss, if any, arising from the services we provide to you shall not exceed \$5,000 or our fee, whichever is greater. There shall be no punitive damages. Increased liability limits may be negotiated upon your written request, prior to commencement of our services, and your agreement to pay an additional fee.*
6. *Your obligation for indemnification and reimbursement shall extend to any controlling person of Marketing & Consultant Services, Inc., including any director, officer, employee, subcontractor, affiliate or agent.*
7. *If in the future the appraiser is called on to testify in court or at deposition regarding the written report, the appraiser will be paid the going hourly rate charged by the appraiser to cover professional time, the gathering of materials, reviewing the case and preparing for testimony along with other expenses incurred.*
8. *If called on to defend this report to any other party, the appraiser's expenses and hourly rate will be billed on a monthly basis or as incurred.*
9. *The client will shoulder the responsibility of legal costs incurred by the appraiser when defending this appraisal.*
10. *Client agrees that the Limiting Conditions, as stated in the report, will be acceptable with the level of work and detail of work to be performed as outlined in the "Scope" section of the report. A sample of the Scope Section has been provided and received by the client.*
11. *Only the larger items of machinery/equipment will be appraised using the whole range of appraisal methodology. The balance of smaller support items will be valued by way of industry depreciation standards and historical metrics. These smaller items will be valued and reported in bulk.*
12. *In the unlikely event of a dispute, the parties under the terms of this agreement shall be subject to arbitration. Arbitration shall be conducted in the state of residence of the appraiser.*
13. *The appraiser certifies that he has not appraised or otherwise had involvement with the property hereby being appraised in the last three years.*

As a result of our previous communication, and at your request, I will report this Summary Appraisal Assignment according to one of the report formats outlined in Standard Rule Eight of the Uniform Standards of Professional Appraisal Practice. Specifically, you have requested that the assignment be reported as a Summary Report Format. I have determined that the chosen report format is consistent with the nature of the assignment and the intended use of the report.

As previously agreed, the fee for this assignment will be \$\_\_\_\_\_. The estimated delivery date for the report will be \_\_\_\_\_.

Thank you for the opportunity to be of service. Please sign and date this engagement letter and return the original to our office.

\_\_\_\_\_  
Date

\_\_\_\_\_  
Client

\_\_\_\_\_  
Appraiser Signature

\_\_\_\_\_  
Client Signature

# **PHOTOGRAPHS**



Item 1



Item 2



Item 3



Item 4



Item 5