We would like to take this opportunity to submit our response to the Blue Ribbon Panel as it regards the survey about Private Company GAAP. We thank you for providing us with this opportunity, as we believe this is an extremely important matter requiring a speedy resolution.

- We have attached the form indicating the type of entity that our Firm represents with our size and client base.
- 2 a) Briefly describe how you use GAAP financial statements in your decision-making concerning private companies.

We are a small CPA firm that performs audits of a couple of small Not-for-Profit entities as well as about a dozen ERISA benefit plans. In addition, we perform reviews and compilations of numerous small private entities, mostly small private businesses ranging from small physician practices to small manufacturers. We are not, per se, users of the financial statements, and in many cases, we assist in the preparation of the client financial statements including the footnotes.

Many of our clients have their financial statements prepared using a comprehensive basis of accounting other than GAAP, usually the income tax basis of accounting and reporting. We and our clients believe that the use of this basis provides essential information about the entity. We believe the users, which include banks, have been accepting of these statements for their information purposes.

2 b) Tell us about any concerns that you may have with respect to the <u>relevance</u> of the information contained in those statements. Please be as specific as possible in your answer.

Audited ERISA benefit plan financial statements – The users of these statements are few. The DOL, the IRS, the Plan Sponsor/Administrator, and the Plan Participants will be the only users of the financial statements. The cost of applying the Fair Value Measurement disclosures to these financial statements is simply ridiculous. The relevance of the disclosure to any of the users is questionable, at best.

The descriptions of Level 1, 2 or 3, and then the breakdown of what assets fall into which category, and how that is determined, and then providing tabular formats with numerical information that goes on for three to four pages is not going to provide a plan participant with any information that they will be able to comprehend nor make any real use thereof. If anything, that footnote might convince a participant that they should simply not invest in the markets through a 401(k) plan.

Not-for-Profit financial statements – The users of these organizations' financial statements are generally limited to members, where applicable, and to funding agencies, which we believe are far more interested in how the funds they provide to the entities are being used than with the intricacies related to how the entities valued their investments in mutual funds.

The management of both benefit plans and not-for-profits on the level that we deal with them, while not inadequate for the purpose of overseeing and running those entities, do not have the financial capabilities to decipher the Fair Value Measurement disclosure rules nor the time to implement the rule. In the end, they look to us to assist in the preparation of the footnote, and for which they must accept responsibility. It makes it more and more difficult for those of us performing audits to maintain our independence when clients are less able to apply accounting rules. If we can't be independent, then the client must hire another firm to apply the rule(s), probably prepare financial statements, so that our firm can perform the audit and remain independent. The cost of applying rules like this just keeps going up while the usefulness of the information, regardless of its reliability, is increasingly doubtful.

3 a) Tell us about any issues or concerns you have with current U.S. GAAP accounting standards as those standards apply to private company financial statements.

We can only speak from the point of our firm, though we hear from many of our colleagues in similar firms, and we can relay what we hear from our clients in applying current U.S. GAAP.

As specifically noted above in question 2, the usefulness of that particular standard is questionable for the users of those statements, and yet requires a great deal of effort just to make judgments about the applicability of the standard. From a cost benefit standpoint, the Fair Value Measurement accounting rule simply doesn't pass the test. And it is more than simply that particular accounting rule.

FASB Concept Statements 1 and 2, while quite lengthy, articulate that financial statements are supposed to contain relevant, useful and reliable information. Those two statements really imply a Principles Based approach. But the rules that have been getting passed by the FASB along with related interpretations over the last 25 or so years require detail application that at times is so involved, that the principle involved was lost along the way – it appears that the forest was lost for the trees.

Some standards that have been passed have a theoretical backing to them. Let's use deferred taxes as an example. Yes, we understand the idea behind deferred taxes and just how some differences are temporary and some are permanent. We have no problem in technically applying a rule like this. We are trained. But, to the average user of a financial statement, particularly the owner/manager or his banker, they call us asking what the heck deferred taxes are.

It appears that standard setting has also become somewhat driven by emergencies, failures, political pressures, and bad press over supposedly fraudulent or inadequate reporting. Rule setting established in a reactionary environment can never provide good results. The squeaky wheels gain the attention in these environments, and those in small business don't squeak loudly and they don't squeak in those circles.

We ask anyone reading this letter to pick up an annual report of any public company and read the financial statements and related footnotes. We ask you to consider that you are not a CPA or otherwise involved in this project or in the standard setting process. Read the footnotes with regard to variable interest entities. Read the footnotes with regard to defined benefit types of plans offered by these companies. Read the footnotes with regard to income taxes. Read the footnotes with regard to investments and fair values or with regard to derivative investments.

Now consider that you are John Doe, average middle class man who is considering making an investment in one of these public companies. Maybe he would like to acquire \$10,000 worth of common stock in one particular company. \$10,000 is certainly not material to the public company, but very well may be to this gentleman. He picks up this financial statement and he sees the balance sheet, the income statement and the statement of cash flows and he is ok so far in understanding what he reads. Then he turns to the footnotes. It all becomes science fiction. These "better" standards are supposed to be protecting John Doe from making bad decisions. I say that John Doe has been more blinded by many of the rules placed before him and the terminology he must try and decipher.

3 b) Are those issues confined to one or more specific standards, or are they more systematic?

We believe that what is described above is systematic in nature. The rules are essentially created to serve the squeaky wheel, which at the present time is driven by public companies, Wall Street, and politics. While any specific standards mentioned in this letter, in our opinion, are simply bad standards at any level of application, the larger companies are much better able to leverage the cost to apply the standards, regardless that the standards are bad or good. It is easier for a large

company to simply apply the rule than it is to fight the rule and to impair their public image. Smaller businesses don't have the luxury of that choice.

Part of the problem is also terminology. Some of the language that is used to describe specifics in many of the rules use brand new terms, made up for specific rules. Who the heck came up with the term, "Variable Interest Entity?" If part of the goal is to make statements more readable for users, then why not simply make the terminology something the average person can understand?

3 c) Do you believe that those issues or concerns are largely confined to private companies, or are they broader?

We believe that the issue is actually broader. It hurts small businesses much more quickly than it does larger companies simply because of the more immediate impact on small businesses' resources. A smaller business cannot leverage the cost of these rules nearly as effectively as a larger enterprise. But, eventually, even the larger entities will suffer the effects spending far more effort than is worthy for reporting standards that don't supply, what is in our opinion, useful information. Eventually, this system will overburden even the larger entities. This becomes just one more bureaucratic requirement that does not assist a business in producing its products and reducing profits for future research and development. We are seeing signs of this in all areas of our lives, and the cracks are showing. And while overbearing accounting standards are certainly not the entire cause, or even a large portion of the cause, the state of the current economy is impacted by of these overreaching standards. They become just another drop in a bucket that is overflowing.

What short-term and/or long-term actions do you believe are necessary to address those issues or concerns? Please be as specific as possible in your answer, and explain your reasoning.

The actions necessary to correct the overall problem, in our opinion, go far beyond establishing accounting rules, and beyond the scope of what this panel can do. The larger problem is societal, and we need to solve that problem before we can effectively solve the financial reporting rules on a large scale level.

In the short run, we believe that establishing a separate board for private company GAAP makes the most sense. We don't need to recreate the wheel. The core of current GAAP is still sound. What makes an asset an asset, and what makes a liability a liability are still sound.

What needs to be addressed most immediately for those in the small and/or private business world is relief from some pretty severe accounting rules that, in our opinion, provide little benefit for the enormous cost involved in their application. We will list a few specific areas that require relief:

Income taxes, particularly the uncertain tax positions, though, in our opinion, deferred taxes should be eliminated. We believe that income taxes should be recorded based on what is to be paid on a company's tax return. We would prefer a simple footnote that would explain that certain items reported in the financial statements carry a possible tax consequence which might incur a tax or result in a reduction of tax in the future, and list those items without getting into numerical details. Tax laws change so often, it seems ridiculous to be setting up a deferred tax liability or asset based on your best guess of the rates to be used. Small businesses have such a wide swinging effective tax rates from one year to the next, that the establishment of any deferred amount is truly a guess. The uncertain tax positions standard has created such a can of worms that now the IRS wants all companies to report on their returns any uncertain tax positions. And while this is said tongue-in-cheek, "Why not just lead them to where we all cheat?" In our small business clients, there really are so few uncertain positions. Could there be mistakes?

Sure. But, are we going to set aside money for mistakes? Wait, we do! At least, we have always provided a cushion in the tax liability accounts for such things.

Accounting for variable interest entities (VIEs) needs to be overhauled. First, terminology needs to be simplified. Terms like brother company, sister company, parent company, etc. would go a long way in reducing confusion. Requiring a small manufacturing company to consolidate with the single member LLC that is owned by the same person and which leases the building to the manufacturer is silly, given the lending institutions/users of either entity are generally the same. This simply creates more busy work for little or no benefit. Yes, theoretically, should they be consolidated? Yes. But in many situations like this, the single member LLC has no real books, because for tax purposes, it is treated like a schedule C on the owner's 1040. In effect, we need to consolidate items from this person's personal assets and liabilities.

Accounting for derivatives needs to be highly simplified, both in terms of its technical application and in the terminology used. We cannot speak as proficiently on this topic as many others. We have only one client to which this actually applies (an interest rate swap), and after spending a fair amount of time understanding the rule and then the impact, it turns out to be immaterial for application. Unfortunately, in order to determine if it was immaterial or not, the time had to be invested to understand the rule, its application, and the fact that it was indeed immaterial. And the user of the financial statement is the entity that provided the interest rate swap. We believe that relief from the actual accounting needs to be given, and some simplified disclosure that gets to the heart of the company being involved in an interest rate swap would be sufficient.

Fair value measurement disclosures, in our opinion, provide absolutely no useable information in ANY circumstance that we will encounter in our practice. We attended a seminar on audits of employee benefit plans that included lan Dingwall of the DOL as one of the main presenters. Mr. Dingwall indicated that he thought that "FAS 157" was useless, but he also said that he was going to make sure that audited plan financial statements contain the disclosures. What is the point to that kind of absurdity? Just to make sure that the plan administrators follow the rules and that we auditors are making sure to audit that application, even when it provides useless information? What a country!!! Last year, in assisting a client apply FAS 157 to their plan's financial statement footnotes, one of our owners spent 12 hours in accumulating the information and aligning it into level 1, 2 and 3 categories, coming up with appropriate labels and descriptions, and then laying it all out into a beautiful three page layout. It was a thing of beauty! And afterwards, he was stomping around the firm's office saying, "The world is going to hell in a handbasket, and yet, here am I, rearranging the chairs on the deck of the Titanic!!!" In our opinion, fair value measurement disclosures simply need to be eliminated for private entities. Frankly, they should be eliminated for ALL entities.

5 a) To what extent, if any, would an SEC requirement for public companies to adopt IFRS at a date certain affect you answers above? Why?

We don't deal with public companies. We deal with small business entities and benefit plans that generally have from 150 to 500 participants. If the SEC requires public companies to adopt IFRS, it doesn't mean a thing to us. Should an SEC ruling about public companies require that small businesses roll over and adopt IFRS just because they say public companies will do it? We are tired of the government telling us what to do. They act as if they have this ability to know what is best for everyone else based on the premise that the rest of us don't know how to conduct our own affairs. Well, given that those that run government are people just like you and us here, and are pretty much unable to know how to conduct their own affairs, as they define through implication, what makes them think that they can decide for all of mankind?

If the SEC were to require the adoption of IFRS, we could see that influence passing down into the smaller private entity world and slowly becoming a requirement from lending institutions, etc. But until then, we should stick to accounting and reporting that makes the most sense for our situations.

5 b) To what extent, if any, would other outside factors affect your answers above? Which factors and why?

In the end, and what we believe that this Blue Ribbon Panel was assembled to produce, was a consensus of private company financial statement users to determine what it is that the users are looking for in financial statements. We have no problem with the users determining what kind of information it is they are seeking in a set of financial statements. The information needs of private company financial statement users are different from the requirements of the politicians, bureaucrats and the Wall Street financial analysts. We are sure that the users can be a bit more practical about what they would accept.

6 Is there any other input that you'd like to convey to the Panel?

We don't believe that we need to completely reinvent the wheel. The base conceptual framework of GAAP still exists, and it is largely sound. What needs repairing are some of the specific accounting standards and their application to private entities. We believe that a separate "board" could be established. That body could take the FASB Concept Statements, particularly Statements 1 and 2, and running down the balance sheet and other statements, area by area, determine which current standards still make sense, which parts of specific standards need to be removed or repaired, and which standards should be eliminated. We are only one small firm, and we tend to take a simplistic approach. We firmly believe that less is more, and that quality information beats the hell out of indecipherable quantity.

7 Do these responses represent your individual views or are they submitted to represent the views of the organization with which you are associated?

These views represent my views and the views of this Firm.