

September 14, 2010

TO: AICPA/FAF/NASBA "Blue-Ribbon" Panel on Standard Setting for Private Companies

We would like to take this opportunity to offer our comments and concerns regarding the issues being addressed by the Panel. BeachFleischman PC is located in Tucson, Arizona, servicing primarily nonpublic entities in the states of Arizona, California, New Mexico and Texas. The majority of our clients are closely-held businesses or local not-for-profit interests. Our clients range from multi-million dollar medical/hospital practices and manufacturers to bio-tech companies and construction contractors. We believe that our years of experience with this variety of industries and interests in the private company arena provide us with a substantial basis for understanding the issues in private company reporting and what we believe best suits the preparers and users of private company financial information.

Item 3a – 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 believe that current U.S. GAAP, while firm in its foundations, has become centrally focused on the purported needs of public company interests. While we understand that the complexity of the accounting issues encountered by extremely large public companies operating in a global marketplace has forced the standard setters to take interest in and address the issues, we believe there is a significant disconnect between the needs of the users of the financial statements of Microsoft, for example, compared to the users of the financial statements of a single-owner construction company in Arizona. The FASB seems to have lost sight of the broad realm of companies that are being affected by the standards being set, and instead are focused only on what is needed in the public arena, with an afterthought for the interests of private companies, usually brought on by an onslaught of criticism from the private company preparers and users, as opposed to a premeditated consideration for all preparers and users.

Item 3b – Are those issues or concerns confined to one or more specific standards, or are they more systemic?

Some of the more recent issues that have brought to light the growing disconnect are FAS 141/142 with respect to existing Goodwill, FIN46, FIN48, and FAS157. In addition, the current lease project, which intends to abandon the idea of an operating lease, and the overall movement to fair value reporting. Each one of these standards are focused on the needs of users in the public company arena, and in general are not in touch with the needs of the users of private company financial statements as well as some of the limitations of preparers in the private company arena. For example, the valuation of Goodwill at fair value makes sense until you attempt to apply the standard to a construction company with \$10M of annual revenues and a \$3M balance sheet, which includes \$200K of existing goodwill. The goodwill is material to the balance sheet, but it does not make sense from a cost-benefit perspective for this company to engage a valuation expert (since they typically would not have this expertise in house) at an annual cost of \$12,000. As another example, the most common FIN46 application we find is an operating entity whereby the sole owner also owns the facility that the business uses, owned separately in a SMLLC. Consolidation seems obvious, however the users of the

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financial statements (lenders, bonding agents, etc.) have no interest in seeing the consolidated statements; they are interested purely in the financial results of the operating entity. The result of this disconnect is a significant increase in the number of financial statements we report on that include a GAAP departure. Previously, GAAP departure financial statements were the exception. Nowadays, they are becoming more prevalent. When we start to see more and more reports that have GAAP departures, and more than one GAAP departure, we begin to ask ourselves at what point is GAAP no longer relevant to these entities? Finally with respect to FAS157, the application of this standard to a defined contribution plan under which all of the assets are participant-directed does not make sense. The intent of FAS157 (and is later modifications as ASC820) is obviously to disclose to the readers and users of the financial statements the risks that may be present in an investment portfolio; however, in the participant-directed arena, the risk is in essence individually selected and, therefore, to disclose all of this additional information does not seem relevant, nor do we see any benefit derived for the additional time and cost incurred.

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

When considering the examples in the previous paragraph, the last item regarding FAS157 has no public vs. private issue as our position would hold true for an 11-K filer or a small, 122- participant 401(k) plan. As such, the issues are not only limited to public vs. private, but overall to a consideration of the users of the financial information and when standards are appropriate for those users.

Item 4 – 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.

We believe the best overall solution to addressing the disconnect is the establishment of a separate Board and separate U.S. GAAP for private company financial reporting. We believe the new Board should consist of members who spend the majority of their time, if not all of their time, preparing, auditing or using financial information of private companies, and that the inclusion of individuals from academia be limited. The gap between the needs of users in the public company arena and the private company arena is too broad for one board to address. Having separate boards would allow each board to focus more time on the needs of its defined user group, which should then lead to standards that are more relevant to each group. Relevancy is really the underlying issue. When a standard is completely irrelevant to a particular user group, its validity is not only questioned, but so is the group that issued it. Right now we have an environment where preparers, users and CPAs in the private company arena essentially think the FASB is totally out of touch with the market and its constituents. This loss of respect for the FASB is not conducive to the accounting world as a whole and maintaining the respect of its constituents.

As far as a standalone set of standards, we believe this is the best solution. In the private company arena, it is very common to have a bookkeeper in charge of financial reporting, or to have individuals who are trained accountants, but not CPAs. This makes the preparers extremely reliant on their outside CPA to assist in interpretation of the standards and drafting of GAAP financial statements, issues recently considered to potentially violate the independence standard. This puts the CPA in the position of having to implement standards that confuse the client and their financial statement users and increases the cost of service for something that is of no benefit and even is viewed as a detriment to their financial statement presentation. The creation of a standalone set of standards, which are purposefully relevant to private company users should, as a byproduct, make the standards more meaningful and easier to understand for those individuals we are serving.

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

If IFRS becomes the required basis of accounting for all public companies, then the current system would work, but IT would need to be completely overhauled, with the removal of all current FASB members, to be replaced with those who are knowledgeable of the needs of the preparers and users of private company financial information (as discussed in Item 4). Essentially, current U.S. GAAP would have to be re-written, especially with the recent codification.

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

No comment.

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

The main point expressed in this response is that our clientele feel that our profession, and as a result our firm, are not in touch with the market we serve. GAAP no longer is "generally accepted" by our clients.

We would like to thank the AICPA/FAF/NASBA "Blue Ribbon" Panel for the time and attention being devoted to addressing the issues in the current system of standard setting for private companies in the United States. Over the past five years, we have been truly concerned about the relevancy of recently issued standards to private companies, including our clients; however, we haven't felt that the FASB was aware or understood that there was a disconnect between accounting standards and users, or was sympathetic to users outside the public company arena. Thank you for bringing the issues to the forefront and addressing them head-on. We look forward to a practical solution that best serves the needs of the preparers and users of private company financial information.

Item 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 the consensus opinion of the Accounting and Assurance Department of BeachFleischman PC, with concurrence of our firm's management committee.

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