

From: Stephen D. Collins, CPA
To: Comment Letters
Subject: Comments on the Private Company Financial Reporting Proposal
Date: August 8, 2006

Sample & Bailey, CPAs P.C., is a one office, local firm located in northern Colorado. Our financial statement services practice serves private companies, not-for-profit entities, and governments. We do not provide financial statement services for U.S. public companies. We believe our firm and our clients are representative of a typical local firm practice found throughout the United States.

Our firm is supportive of the “public, non-public” initiative. We are optimistic such a measure would help restore relevancy to private company financial reporting, and allow better utilization of the resources clients allocate to professional accounting services. In short, this proposal is a positive step for accounting standards. All companies have implemented standards and interpretations that are increasingly complex in the past few years; the case for relevancy of certain of these standards to private companies has been increasingly difficult.

I have practiced in the area of financial statement services since 1977. I do not recall advising a client to depart from GAAP and accept a qualified opinion or modified report in that period of time until recently. I advised two clients to do so in 2005, because implementation of an interpretation was not in the client’s best interest from a relevancy and cost benefit standpoint. I do not believe this GAAP avoidance approach is in the best interest of private company financial reporting, but I do believe it is increasingly common due to standards aimed at public company disclosures being foisted upon private companies.

I would like to comment on the discussion of GAAP standards being a matter of choice for private companies in the introductory paragraph (paragraph one) of the joint proposal. I agree that many private companies do have a choice regarding implementation of GAAP. However, GAAP is the language of business (including private companies); it is how business people communicate in relation to an enterprise’s financial position and financial performance. The income tax basis of accounting or “Other Comprehensive Basis of Accounting” is not a reasonable substitute. I completely agree with the statement that compliance with GAAP is dictated by the perception of quality and acceptance of GAAP versus other available reporting alternatives. Therefore the challenge is to continue to make GAAP relevant for private companies, users of their financial statements, and their professional accounting advisors.

Paragraph 2. b. of the joint proposal refers to the potential additional costs for various constituencies related to different standards for private companies. I believe much of this gap already exists between private companies and public companies (SEC reporting basis). I also believe that many practitioners and advisors already exclude public companies from their client base. The statistics I have seen indicate that public company audits are performed by a relatively small number of public accounting firms in relation

to the total firms in public practice. I do not know, but I would guess that the firms that conduct the bulk of audits of public companies have a relatively easy task in segregating staff between public and private company engagements.

The following addresses the specific items suggested in the draft:

1. Do you believe the proposal contained in paragraphs 16-29 will improve the accounting standard-setting process for private companies?

Answer: Yes, we believe the current structure does not adequately consider the needs of non-public entity users.

2. Do you believe that the proposed changes will help ensure that the financial reporting needs of constituents of private companies are met?

Answer: Yes, these changes can only improve the process.

3. The FASB and the AICPA believe that any differences in generally accepted accounting principles (GAAP) for private companies should be based on financial statement user needs and cost-benefit considerations. Do you agree?

Answer: Yes, this appears to be the basis for all accounting standards.

4. The FASB and AICPA believe that members of the committee (except the chair) should not be compensated beyond reasonable reimbursement of expenses. Do you agree?

Answer: No, this is an important issue and needs resources allocated accordingly. The document suggests eleven members meeting up to six times per year. In order to perform this function with the necessary diligence, this volunteer approach would command an inordinate amount of time for those committee members. It is a credit to financial professionals that they would be willing to volunteer this amount of time; however, I believe this would lead to increased turnover of members, fewer members willing to stand for reappointment, and the potential that qualified members could not make this type of volunteer commitment due to other obligations to their employers and families.

If the cost of this process is an issue, my suggestion is that the number of committee members be reduced and some form of compensation / stipend be paid to offset the financial burden of the use of the members' time. Although a private company does not necessarily equate to a small company, it is likely that some of the best prospective members would come from small companies, firms and other organizations. These smaller entities are impacted significantly by the loss of a key financial person within their organization for this type of commitment.

5. The FASB and the AICPA believe the committee should set its own agenda and priorities. Do you agree?

Answer: Yes, an independent committee is essential.

Our firm and clients are pleased that the AICPA and FASB would provide this joint proposal. We believe that relevancy of financial statements and related disclosures could be improved considerably by recognizing fundamental differences in the users of these financial statements. We encourage both organizations to move this process forward, which will ultimately result in better financial reporting by both private and public companies.