



Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

VIA EMAIL

August 10, 2006

Financial Accounting Standards Board and
American Institute of Certified Public Accountants

**Re: Invitation to Comment
Enhancing the Financial Accounting and
Reporting Standard - Setting Process for Private
Companies (No. 1310-100)**

Thank you for the opportunity to express our views concerning the matters discussed in the Invitation to Comment.

Smith Elliott Kearns & Company, LLC is a regional CPA firm practicing in Maryland, West Virginia and Pennsylvania. We are registered with the PCAOB; however, the majority of our clients are private companies. We believe our views which follow are consistent with those of our private company clients as well as the banks, bonding companies and other users of their financial statements with whom we interact. We appreciate the attention and effort of the AICPA and FASB to enhance the financial accounting and reporting standard-setting process for private companies. We believe this to be a very important issue.

As noted in the first paragraph of the Invitation to Comment, compliance with GAAP standards for many for-profit private companies is a choice rather than a requirement. Very frequently, the choice has become an Other Comprehensive Basis of Accounting, primarily the income tax basis. That choice has been made because our clients and the users of their financial statements do not view the information that would result from compliance with many FASB standards to be worth the cost. We believe this effort to address the needs of users of private company financial statements is critical because the income tax basis does not necessarily represent a good alternative to GAAP statements; however, the users "settle" for the income tax basis because of the cost/benefit considerations.

One of the reasons cited in opposition to differences in the standards for private companies is the possibility of additional costs to preparers, accountants, etc. We believe the opposite to be true. Clients and accounting firms both incur additional costs to provide information that financial statement users do not find useful.

We agree with the FASB's conceptual framework and the objective that financial accounting should provide information that is useful in making decisions; however, we also believe that some of the current FASB statements do not make the financial information of private companies more useful and may in fact make it more confusing and therefore, less useful. We acknowledge that the FASB currently attempts to identify the concerns of private company constituents; however, the fact that many of our private company clients use the income tax basis indicates there is a significant amount of work to perform in this area.

Paragraph 8 of the Invitation to Comment acknowledges that users of private company financial information may have different informational needs. The users of private company financial statements also have much greater access to a private company to secure additional information if such information is deemed relevant to the user. As an example, if the existence and identity of Variable Interest Entities (VIE) were disclosed in private company financial statements instead of consolidation being required, the user (usually a lender) could always request additional information about the VIE if it was deemed necessary.

We also cite this example to respectfully disagree with the Board's conclusion that all enterprises, including private companies, should be subject to the same recognition and measurement requirements. We believe that in some cases for private companies, disclosure is sufficient as opposed to requiring the same recognition and measurement requirements.

We offer the following responses to the specific questions posed in the Invitation to Comment:

- 1 and 2** We believe that the proposal in paragraphs 16-29 will improve the accounting standard-setting process for private companies and ensure that the financial reporting needs of constituents of private companies are met. We believe that the changes to the FASB standard-setting process in paragraphs 18 and 19 are especially critical to the success of this effort. In our opinion, the level of commitment of the FASB and its staff to focus on the needs of private companies from the beginning of the standard-setting process through the issuance of a final standard will determine the degree of improvement to the standard-setting process for private company financial reporting.
- 3** We agree that financial statement user needs and cost-benefit considerations should be the basis for differences in GAAP for private companies. As stated earlier, these are the same criteria that our clients currently use to choose between GAAP and OCBOA.
- 4** If the FASB and its staff drive this process and make it a priority to focus on private company needs, and if the Committee receives significant staff resources, the Committee can probably function on a volunteer basis. However, if the Committee must identify and initiate opportunities to improve private company financial reporting in both existing and proposed standards, we believe the Committee needs to be compensated in order to devote the time necessary to make this effort successful.

Private companies generally do not have the resources to provide high level financial personnel for committee representation without suffering from their absence. Either those representatives will not volunteer, or they will not be able to devote sufficient time to give this effort the attention that is necessary.

- 5 We agree the Committee should be free to set its own agenda and priorities, except that if the Committee is to serve as a resource to the Board, the Committee must also make itself available to the FASB to respond to requests for input based on the FASB's priorities.

We appreciate the opportunity to respond to the Invitation to Comment and look forward to participating with the AICPA and FASB to improve financial reporting for private companies.

Sincerely,

SMITH ELLIOTT KEARNS & COMPANY, LLC

A handwritten signature in black ink, reading "Michael P. Manspeaker". The signature is written in a cursive style with a large initial "M" and a long, sweeping underline.

Michael P. Manspeaker, CPA
Member of the Firm