




**National Rural Electric
Cooperative Association**

A Touchstone Energy® Cooperative 

Via email to commentletters@pcfr.org File Reference No. 1025-300

August 11, 2006

Technical Director-File Reference 1310-100
Private Company Financial Reporting www.pcfr.org
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Re: *Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies: A Joint Proposal by the Financial Accounting Standards Board and the American Institute of Certified Public Accountants*

Dear Sir or Madam:

The National Rural Electric Cooperative Association “NRECA” is the not-for-profit national service organization representing approximately 930 not-for-profit, member-owned rural electric cooperatives. The great majority of these cooperatives are distribution cooperatives that provide retail electric service to over 39 million consumer-owners in 47 states. NRECA members also include 65 generation and transmission cooperatives that supply wholesale electric power to their distribution cooperative member-owners. Rural electric cooperatives were formed by their member-owners to provide electric service to their members at the lowest reasonable cost consistent with adequate and reliable service standards.

NRECA appreciates the opportunity to provide the Financial Accounting Standards Board “FASB” and the American Institute of Certified Public Accountants “AICPA”

with our comments on the Joint Proposal by the FASB and the AICPA: *Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies*. Furthermore, we applaud the efforts of the FASB and the AICPA to create a formal mechanism to consider the needs of private companies and the users of private company financial information in the standard-setting process.

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

NRECA has long advocated that the FASB take the unique needs of private companies, including rural electric cooperatives, into account in the standard-setting process. While we are pleased with our relationship with the FASB and its staff, there is at present no formal mechanism in place for the FASB to consider the needs of rural electric cooperatives and other private entities in the standard setting process. We believe that the proposed Committee will enhance the likelihood that private companies will get an adequate forum to air their views during the standard-setting process.

2. Specific to paragraphs 16-29 do you believe that the proposed changes will help ensure that the financial reporting needs of constituents of private companies be met?

NRECA believes that the proposed changes will help ensure that the financial reporting needs of private companies are met. However, we would specifically request that the

composition of the Committee be carefully considered. We believe that it is most important that members of the Committee have private company experience.

Additionally, given the unique nature of the not-for-profit cooperative business model and size and impact upon the nation's economy of cooperative forms of enterprise, we believe that having one or more cooperative representatives on the Committee would be most helpful in ensuring that the needs of the users of the cooperative sector's financial statements are adequately considered in the standard setting process. Rural electric cooperatives are owned by their members and are required to use generally accepted accounting principles as applicable to enterprises in general, in spite of the fact that our business model dictates that we operate on a not-for-profit basis at cost. One of the fundamental principles of cooperative operation is the subordination of capital.

Subordination of capital means that rural electric cooperatives pay a return *of* as opposed to a return *on* the capital provided to the cooperative by the membership. Rural electric cooperatives achieve at cost operation by the return of capital provided by the membership. There are very real and tangible differences in the cooperative business model from the for-profit model applicable to enterprises in general. It is our hope that the actions of the Committee will ensure that the needs of cooperatives in the United States are considered during the standard-setting process. We look forward to working with the FASB and AICPA and the Committee to enhance financial reporting by private industry in general and rural electric cooperatives in particular.

3. The FASB and AICPA believe that any differences in GAAP for private companies should be based on financial statement user needs and cost/benefit considerations. Do you agree?

We concur with that statement. We have seen the impact of the cost of implementation of recent standards upon rural electric cooperatives and would welcome a thorough analysis of the needs of the users of our financial statements as well as an analysis of the costs and benefits of any proposed new standard which would impact rural electric cooperatives. Frequently, the cost of new standards is embedded not just in the cost of implementation, but is also reflected in increased auditor fees. We are finding much less competition between auditors when cooperatives issue requests for proposals for audit services and the cost of audit assurance services continues to increase at a significant rate. While this phenomenon may be a risk management technique by the auditing profession in response to the increasing complexity of GAAP and financial reporting in general, the fact that auditing standards now require firms to maintain specific industry expertise may force firms to focus on industries in which they have chosen to concentrate and may make it less likely that there will be widespread interest in request for proposals by rural electric cooperatives for assurance services.

Where real differences in business models exist, as we believe they do in the not-for-profit cooperative community as compared to private enterprises that are established on a for-profit basis, we would respectfully request that the promulgation of GAAP for private enterprises take such differences into account, when and where appropriate. We do not

believe that the users of our financial statements obtain value by having to, if effect, reconcile the cooperative business model with the standard for-profit business model as may ultimately be the case with many of the current standard setting projects under consideration such as the business combinations project, the fair value project, and the project on pensions and postretirement benefits. For example, the assumption by the FASB in the business combinations project that the act of a cooperative offering goods and services to its members at the lowest possible cost on a not-for-profit basis is fundamentally equivalent to a for-profit enterprise attempting to earn a profit for its shareholders is, we believe, fundamentally flawed. Further, the FASB's assumption that a change of control always occurs in a business combination between two cooperatives is a finding that is neither consistent with our experience as an industry nor with the traditional and historic cooperative principles of operation. With regard to the fair value project, recognition of asset values at their highest and best use has little meaning to the membership of a rural electric cooperative that operates on a not-for-profit basis. Indeed, since the only source of funds to recover the cost of assets is the membership, why would the membership agree to pay more to recover the costs of assets that have been marked up to fair value based on the "highest and best use" of the asset as may applicable to an enterprise that pays a return on its capital? In other words, why would the members of a rural electric cooperative agree to pay more for electricity in order to comply with a GAAP accounting standard that might require the value of the assets acquired in a business combination to be marked up to fair value that might be relevant to an entity that pays a return on capital as opposed to a return of capital? The answer is, of course, that they would not agree to pay for the marked up cost of such assets and consequently, the

value of the assets would be written down to the level that the membership would agree to pay which, in our industry, has typically be net book value. This is but one example where recent proposed changes to GAAP may not be serving the best interests of the member-owners of rural electric cooperatives.

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

We do agree in principle. However, we believe that in order for the Committee to achieve its goals, it is of paramount importance that some portion of the membership of the committee be made up of accountants that work for private enterprises and the users of their financial statements and the auditor practioners that serve those types of enterprises. We suspect that the time demands upon the individual members of the Committee will be considerable and will increase. It may be difficult to find individuals in the private sector whose employers will be gracious enough to allow them time away from their daily duties and responsibilities to serve on the Committee. As difficult as this task may seem, we think that representation on the Committee of practicing accountants and their auditor practioners is necessary if the goals of the Joint Proposal are to be achieved.

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

We concur. We believe that the Committee must be free to address the areas of most pressing need as determined by the members of the Committee. It does appear in paragraph 18, item e, that the FASB has the last word on whether differences in private company GAAP are warranted. We trust that the open and deliberative process employed by the FASB will also be applied to any decisions made on recommendations of the Committee. We are curious, however, why the description in paragraph 24 refers to a “certain level of autonomy” for the Committee. This “certain level” is not defined or further discussed. We trust that the Committee will be free to set its own agenda and priorities in fact as well as in appearance.

We would be pleased to discuss any of our views with you, should you so desire. We consider this Joint Proposal by the FASB and AICPA to be a very important element in the continuing evolution of financial reporting to provide more timely and accurate information to users of private company financial statements.

Sincerely,

s/Russell D. Wasson
Director of Tax, Finance and Accounting Policy