September 16, 2011

Board of Trustees
Financial Accounting Foundation
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Dear Trustees:

I write on behalf of the Colorado Society of CPAs Board of Directors to support the recommendations of the Blue Ribbon Panel on Private Company Financial Reporting regarding differential standards and a separate standard-setting body for private companies. The time has come.

We appreciate the Financial Accounting Standards Board's (FASB) efforts to address concerns of private companies and those who serve them, including their CPAs and their bankers. Yet, notwithstanding the FASB's best intentions, current standards do not today and have not, for decades, met the needs of users of private company financial statements. It is time to create a separate body to identify appropriate exceptions to current standards and to develop additional standards which address the different needs of this important segment of American business.

Stories abound of the issues privately held companies and their professional service providers encounter which do not lend themselves to current standards. We share here insights from a Colorado Society of CPAs member who practices in the banking arena:

> *As a CPA working with privately held companies in meeting their financing needs for over 15 years, I have developed significant thought process on the critical areas of financial reporting both from a GAAP perspective as well as from the reality of running a small business with limited resources. The following examples highlight the need to bifurcate reporting standards for smaller companies which cannot comply in a reasonable manner and at a reasonable cost with the ever-expanding GAAP requirements as they currently exist:*

- ***A manufacturing entity with a separate LLC that holds patents and other intangible assets:*** *The bank understands the legal and other reasons for having this separate, mostly dormant entity and is not interested in seeing the financials consolidated as required by FIN46. The intangible asset valuation process is fraught with significant subjectivity and does not assist in the overall underwriting process, even if the result is positive.*

- ***Operating leases that may be required to be booked as capital leases regardless of size, ownership, former GAAP tests, etc.:*** *This greatly confuses and in some cases can trip debt to worth covenants with standard leases that simply "go away" at the end of the term. Banks do not want the financials cluttered up with this information; we are usually aware of these arrangements and are ok as long as true capital-type leases are reported properly.*

- ***Real estate holdings:*** *Even if entirely dependent on the operating company for rents paid, banks typically do not want these results consolidated into the FYE statements since month-to-month statements do not include this information. And, we are the ones financing or at the* *very least aware of those real estate assets. Secondly, loan covenants can only legally encumber the entity that is borrowing the money, so related LLCs, etc. are just that – related, but not primary borrowers.*

Some of the proposed rules, such as revenue recognition, could significantly alter the entire financial reporting model and materially burden an enterprise in complying with them. Further, they greatly change the historical presentation of a company's financials and are not being met with positive results by users of small company financial statements.

Modified cash and modified accrual accounting users, such as medical practices, professional service firms, homebuilders, and smaller retail establishments such as restaurants, liquor stores, etc. do not greatly benefit from full GAAP financials. Banks often are willing to accept a non-GAAP statement; even a GAAP departure Review or Audit often will suffice.

Finally, we believe that the proof for the need to have a separate body of GAAP for private companies, and a separate standards setting board, lies in the fact that a significant number of our members are qualifying their auditor's reports to note departures from GAAP *that are requested by the users of the financial statements* in order to make them more meaningful for their purposes. This alone indicates the fundamental fact—general purpose GAAP, as currently constituted, is no longer generally accepted by the users of financial statements of private companies.

We understand moving in this new direction requires many changes and financial wherewithal. We encourage the Foundation to put in place whatever mechanisms are necessary to make the changes and invest the resources so that U.S. private companies can report their financial conditions using reporting standards that fit their needs and the needs of those who work with them.

Truly, the time has come. Let's move forward rather than continue the more than three-decades-long discussion.

Cordially,

Mary E. Medley

Mary E. Medley, CEO
For the Board of Directors

Cc: Barry Melancon, President/CEO, American Institute of CPAs