

Report of Private Company Financial Reporting Committee 2007

The Private Company Financial Reporting Committee (“PCFRC”) is part of a broad initiative by the Financial Accounting Standards Board (“FASB” or “the Board”) and the American Institute of Certified Public Accountants (“AICPA”) to further improve the FASB's current standard-setting process to better meet the financial reporting needs of private companies and the users of their financial statements. The PCFRC considers user needs and conducts cost-benefit analysis to make formal recommendations to FASB about existing and prospective GAAP. Under protocols set up with the FASB, the Board must consider all recommendations, and decisions made concerning those recommendations become a part of the Board minutes.

The PCFRC was initiated in January 2007 with the appointment of Judith H. O’Dell CPA as chair. As specified in the committee charter, the chair selects committee members. Activity in January and February was centered around seeking and interviewing candidates to fill the twelve positions on the committee. The chair and staff conducted outreach to constituent organizations such as the Financial Executives Institute (“FEI”), the Risk Management Association, the Institute of Management Accountants, America’s Community Bankers, the Independent Community Bankers, the National Venture Capital Association, the Surety Association of America, the AICPA, and others soliciting names of interested candidates. Over sixty individuals were interviewed and the committee selection process was completed in March, 2007. The committee consists of four users of private company financial statements (two commercial bank lenders, one surety and one venture capitalist), four preparers from different size companies in various industries, and four CPA practitioners from various size firms.

Other activities in early 2007 consisted of setting up a website at www.pcfrc.org where meeting agenda materials and highlights are posted as well as recommendation letters. The mechanism for a Resource Group was set up. The Resource Group consists of those interested in following the work of the committee and currently has grown to approximately 250 people. The Resource Group is used for outreach on specific projects and as members of PCFRC task forces when necessary.

The PCFRC held an organizational conference call in March, setting meeting dates and possible agenda items. Meetings are held around the country and are open to the public. The committee decided to set aside time during each meeting for visitors to address the committee and this has provided valuable input to the committee’s work.

The first committee meeting was held May 10 and 11 in Chicago. User members made presentations to the group explaining how they use private company financial statements. George Batavick and Russ Golden of the FASB talked about the nature of the FASB and how it operates, as an educational session for the committee members. The committee prioritized projects and assigned them to task forces of committee members. The PCFRC was asked to consider FASB’s subsequent events project and issued its first recommendation letter shortly after the meeting.

In June the PCFRC issued its second recommendation to FASB on Proposed FASB Staff Position 154-a *Considering the Effects of Prior-Year Misstatements When Quantifying Misstatements in Current-Year Financial Statements*. FASB decided to drop the project.

The July meeting in Denver focused on results of outreach efforts concerning FIN 46R and FIN 48, both of which were identified as having issues that were proving troublesome for private companies. The PCFRC also discussed current FASB projects regarding the definition of a private company, the concept

of a reporting entity, and the financial statement presentation project, identifying potential issues that might affect private companies.

At the September meeting in Dallas, the committee approved a recommendation letter requesting the delay of implementation of FIN 48 for private companies, citing uncertainties surrounding the applicability to pass-through entities and noting that the timing of the issuance of the standard meant that many private company financial statement users, preparers, and CPA practitioners were unaware or just becoming aware of the implications of FIN 48. The Board voted at its November 7, 2007 meeting to grant the delay for private companies. Outreach continues on FIN 48 issues.

Also at this meeting, PCFRC discussed the SEC Concept Release allowing companies to report using International Financial Reporting Standards and discussed the ramifications this proposal could have on private company financial reporting if the proposal were adopted. In recognition of the importance and magnitude of this SEC Concept Release, the PCFRC communicated to the FASB: 1) its support of current efforts to converge US and international accounting standards as that process is currently working, and 2) the need for a comprehensive parallel initiative for private company financial reporting, involving the key constituents of that reporting. These comments were included in the Financial Accounting Foundation's letter to the SEC.

The PCFRC continued its discussion on the International Accounting Standards Board's ("IASB") Small and Medium Entities project. Further work on this will continue in 2008.

The PCFRC began the process of identifying key issues private company financial reporting constituents are facing with FASB Statement No. 123R as well as impairment issues related to goodwill and other long-term assets.

The December meeting was held in Norwalk. The PCFRC members discussed an outreach questionnaire on FIN 48 disclosure and presentation requirements for private companies. The questionnaire will be issued in January, 2008. The PCFRC voted to issue a recommendation letter to FASB setting forth the committee's definition of a private company as a "non-issuer" as defined by the SEC. Other matters discussed were the financial statement presentation project, the Small and Medium Entity project of the IASB and outreach on Statement 123R and goodwill, long term asset valuation and impairment issues. The PCFRC then joined FASB's Small Business Advisory Committee at their meeting the following day.

During 2007, Judith O'Dell traveled extensively around the country to inform constituents about the PCFRC. Presentations included:

- AICPA Spring Council- video presentation
- Maryland Association of CPAs Business and Industry Committee
- FASB Small Business Advisory Committee
- AICPA Technical Issues Committee
- AICPA National Accounting and Auditing Symposium
- Deloitte & Touche web cast for clients
- National Association of Accountants for Cooperatives annual conference
- AICPA Board of Directors
- Mayer Hoffman McCann accounting and auditing conference
- Financial Executive International Baltimore Chapter dinner meeting
- North Carolina Association of CPA accounting and auditing conference
- Connecticut Society of CPAs Accounting and Auditing Committee
- Michigan Society of CPAs Accounting and Auditing Conference

- Maryland Association of CPAs pod cast
- Illinois Society of CPAs Accounting and Auditing Committee telephone conference

Presentations by other members of the PCFRC included:

- AICPA Controllers conference
- AICPA Credit Unions conference
- National Association of Black Accountants
- The Associated General Contractors of America
- Ohio CPAs annual summit
- Northeast Ohio Council of Smaller Enterprises
- Risk Management Association risk review roundtables
- Financial Executives International Private Company Forum
- Alabama Society of CPAs annual meeting
- CPAmerica annual national conference
- AICPA National Accounting and Auditing Symposium
- PKF annual national conference
- Risk Education web cast series
- Association of Firms national web cast
- AICPA Compilation & Review Engagement web cast