Letter of Comment No. 33

File Reference: 1201-100

Date Received:

From:

Chuck Dolezal [CDolezal@excelsiorhvac.com]

Sent:

Tuesday, September 07, 2004 12:22 PM

To:

Director - FASB

Cc: Subject:

John Brady; Robert Rome Comments on Exposure Draft-File Reference No. 1201-100



Fasbdraft2.doc (21 KB)

Attached are my comments concerning the exposure draft...

Technical Director
Financial Accounting Standards Board
Of the Financial Accounting Foundation
401 Merritt 7
P O Box 5116
Norwalk, Connecticut 06856-5116

## Gentlemen:

Thank you for extending to me the opportunity to respond to the "Proposed Statement of Accounting Standards No 1201-100". Under the heading of Definition of Fair Value the first two sentences read, This proposed Statement would define fair value as "the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties". The objective of the measurement is to estimate the price for an asset or liability in the absence of an actual exchange transaction for that asset or liability. What I would like to do is replace the word price as used above with "cost" and request you to address the distortion created in our economy due to inflation. My company owns a building that was constructed in 1978. Several years ago in an effort to clean up a number of outstanding debts, we refinanced the property and recorded a mortgage of significantly larger value than the net book value of the asset that collateralized the transaction. My company is privately owned and thereby when it uses outside financing the relationship of debt to equity plays a significant role in determining cost and risk. The transaction occurred only after an independent certified appraiser valued the property, and an independent lending institution conducted its due diligence.

The problem obviously is that the building as valued in the Assets is significantly lower than the mortgage as recorded in the Liabilities, producing a material distortion in the Net Worth of the company. Time and money have created a need for the Accounting profession to correct an obvious error. By not addressing this topic all accountants who report financial results of companies that have this condition are misstating the results to their readers, despite the fact that they proclaim that the "statements present fairly in all material respects...."

What I'm suggesting is not an opportunity for companies to restate values whenever and however they want, but meaningful criteria that would allow a revaluation to occur. For example, If a company obtains an independent certification of the value of the property and an independent lending bank loans money to the firm based on this value, then a business transaction has occurred that requires the revalued cost to be included in the financial statements. As things stand right now the insurance value, the interest from the loan transaction are based on true value while the books still reflect some outdated historical cost number. If an owner of the company in question retires and has a "Buy –Sell" Agreement that defines the sales price at net book value, he is deprived of

the correct value to which he is entitled. I can not stress enough the degree of error that we are creating due to our failure to address this issue. Please be so kind as to consider the merit of which I speak and eliminate a problem that over time is only going to worsen.