

October 11, 2010

Technical Director Financial Accounting Standards Board 401 Merritt 7 PO. Box 5116 Norwalk, CT 06852-5116

RE: File No. 1820-100 Exposure Draft on Revenue Recognition

Thank you for this opportunity to express our concerns to the referenced file. I am currently a controller with Shumate Mechanical LLC. We are a 35 year family owned Heating and Air Conditioning Contractor with annual sales of \$100MM. I have been in the construction industry for the past 25 years working within finance and accounting in both public and private firms. I have been part of the advent of computerized accounting in construction as well as designing for my company at that time its Sarbanes Oxley Compliance program. My job has always been to supply management, investors, sureties, insurers, auditors, and lenders with accurate and timely financial information. To this end I consider myself an expert.

We appreciate the Board's desire to simplify and bring homogeneity to the variety and complexities of revenue recognition practices across many industries and we support this effort specifically within the construction industry. However it is our contention that there is no one best method that will serve all of the affected industries without being beneficial to some and detrimental to others.

Currently SOP 81-1 works very well for the construction industry, time tested and true. Certainly it could benefit from some revision to encompass all contract types, but for over 25 years it has provided our industry with a sound accounting and financial reporting framework. Quite simply put the percentage of completion method is the only language spoken in long term contracting. It is also the underlying principle of our software systems, therefore the determinant of our support workflow and staffing, and the basis by which we manage our projects from commencement to completion. It is a logical extension to the bid process, in that the vast majority of contracts are awarded in totality, not phases, and allows us and our financial partners to readily understand the economic relationship with our customer, and the profitability and performance of the whole project.

We firmly believe that the segmented "performance obligation" approach proposed in this draft presents a radical departure from the existing construction industry standards and will result in distorted financial information and extensive increases in costs due to:

- Potential for arbitrary and subjective assignment of revenue to the performance obligations
- Violation of cost and revenue matching principle, costs would be incurred out of period as revenue is posted at completion of performance obligation
- Erratic swings in revenue and profitability from period to period
- Lack of straightforward information on large contracts resulting in the difficulty of Financial partners to understand performance to total contract

1820-100 Comment Letter No. 66

- Allocating project resources to the performance obligations rather than to the logical progression of tasks
- Disrupting cash flow and increasing borrowing needs by extending billing cycles to completion dates versus standard monthly cycles consistent with labor and vendor payments
- Software redesign consultation, development, testing, training, and upgrade downtime
- Extra time and staff to run both methods of revenue recognition, keeping two sets of books, one for GAAP and one for our sureties and lenders
- Considerable effort in attempting to arrange the purchase and delivery of equipment and materials to job sites within the completion timeframe of the associated performance obligation, thereby losing volume discounts and incurring additional shipping costs
- Significant additional CPA and auditor hours in reviewing and testing Work in Process schedules, as each contract would essentially be a collection of several auditable segments
- Transitional costs redesigning bid process to reflect completion of phase method, lost bids and underpriced jobs due to inherent guess work for potential performance obligations

To sum up we are convinced that if the Boards pursue this single model of revenue recognition, for the construction industry it will result in:

- Additional inconsistencies and weaknesses in revenue recognition
- A vague and arbitrary basis for addressing revenue recognition issues
- A definite lack of confidence in Construction financial information, especially in the interim, and the inability to compare these across industries
- Convolution of the preparation of financial statements by requiring extraordinary supplemental schedules and narrative

We are absolutely certain of these points and also understand that they are directly opposite to the Board's stated objectives in the Discussion Paper. By contrast it appears that for the construction industry SOP 81-1 already meets the objectives that FASB is hoping to accomplish for all of the affected industries. Shifting away from this methodology to something that is more suitable to, let's say, the software industry, will only prove injurious to the construction industry and its customers.

Again we applaud the Board's intentions and efforts thus far to improve revenue recognition, but for the record we respectfully submit our opposition to the proposal of this Exposure Draft. We are hopeful that this undertaking will have mostly exposed the need for more than one method of revenue recognition for fundamentally unique industries.

Sincerely,

Roy Robinson Controller

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