

October 22, 2010

Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk CT 06856-5116  
Attn: Technical Director – File Reference No. 1820-100  
(Via Electronic Mail)

**Re: Comments on the FASB and IASB's Exposure Draft on Revenue Recognition from Contracts with Customers**

Ladies and gentlemen,

As a CPA serving the construction industry, we are extremely interested in the Boards project on revenue recognition and it is our desire to ensure that high-quality accounting for the construction industry is maintained.

We have significant concerns over how the new standard may be applied to our clients and our industry. The current guidance in the Exposure Draft for recognizing revenue at the "performance obligation" level presents significant challenges for us and carries the very real risk of adverse economic effects on our industry stemming from an inferior method of revenue recognition.

We believe the reason that the Boards are hearing negative feedback from the construction industry experts has to do with the fact that the proposed revenue recognition rules are divorced from economic reality. Contractors bid, build, and maintain books on projects at the individual contract level and not on segregated "performance obligations. Contractors sell a complete integrated package where the risks are inseparable within a contract. Until the project is complete, contractors retain the risk related to all elements of the project.

Specifically, we request that the Boards recognize that in most cases, ALL construction activities for a given project are highly interrelated and have overall risks which are inseparable. Therefore, construction companies lack a basis for determining the price at which it would sell the components of a contract separately and as such characteristics of distinct profit margin will not be met, in most cases, and hence there are typically no more than a single performance obligation for most construction contracts.

With respect to determining the contract price, we believe that variable consideration (i.e. bonuses or penalties) should be excluded from the calculation of contract revenue until such time as their realization is reasonably assured. Until that time, the inclusion is highly subjective and as a matter of course, we believe that most users of financial statements will not want to see such amounts included in revenue until their realization is reasonably assured.

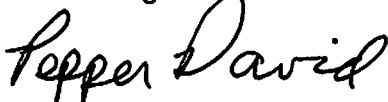
Our primary concerns regarding the impact on the construction industry if contractors are forced to adopt a new standard that departs from the key tenets of SOP 81-1 are:

- The vast majority of the primary users of the financial statements (sureties, banks, etc.) do not want to see this change. The industry members and the users of their financial statements in the industry believe that financial statements prepared following SOP 81-1 present the most accurate depiction of the status of contracts and related financial position of the contractor.
- Small and mid-sized contractors will be unable to afford to operate in this new environment. They represent the largest number of contractors generating financial statements.
- Significant subjectivity in financial reporting is introduced related to the identification of separate performance obligations, determination of the contract price, and the allocation of contract price to separate performance obligations.
- This subjectivity will lead to a loss of consistency and enhanced opportunities for manipulation.
- The loss of consistency and enhanced opportunities for manipulation will lead to a constriction of surety credit.
- To combat a restriction in surety credit, contractors will be led, for business purposes, to seek alternatives to reporting under GAAP.
- Alternatively, internal costs will rise for financial reporting in an industry that traditionally operates on thin margins and at a time when many contractors are operating with almost no margin.
- Contractors will be required to keep multiple sets of books, unlike today where management reporting, external reporting, and tax reporting are all virtually synonymous.
- Software programs will need to be updated to accommodate the segmentation and re-aggregation of contracts to balance the external financial reporting rules with internal management needs.
- External financial reporting costs will increase dramatically due to the risks associated with significantly subjective estimates. The time and expense incurred by the outside auditors will increase as their work is further complicated and more fieldwork is required to complete the audit. In a reasonable number of situations, auditors will be required to engage third-party experts to help evaluate significant subjective assumptions – costs that will be passed along to the contractor.

While we appreciate the Boards efforts to create a single standard to apply to virtually all industries and transactions, we maintain a belief that the key principals of the proposed standard need to be interpreted in such a way to preserve the key tenets of SOP 81-1. Otherwise, the Boards run the very real risk of creating inferior accounting rules when applied to the construction industry.

Finally, we ask that private construction companies be exempted from the proposed standard even if it becomes effective for other companies.

Kindest regards,



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Topeka, Kansas