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

(Sent via U.S. mail and email to director@fasb.org) and (www.iasb.org)
(Via U.S. Mail and Electronic Mail)

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

To the Technical Director and FASB Board Members:

As construction company financial executives and former financial auditors 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 company, our customers, and our industry. The current guidance in the Exposure Draft for recognizing revenue at the “performance obligation” level presents significant challenges for us and our company and carries the very real risk of adverse economic effects on our industry stemming from an inferior method of revenue recognition. The inherent subjectivity of the process described for identifying and allocating revenue to performance obligations will lead to less consistency and transparency in the financial reporting process in the industry. The inherent subjectivity also opens to the door to financial engineering and outright manipulation. There are significant concerns in the surety community about any approach that diminishes consistency and increases subjectivity. As a result, surety credit will become more difficult to obtain in the future in order to offset the risks associated with inferior accounting rules.

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. Each contract stands on its own whereby the contractor reports those results by Contract in its financial statements, The Surety makes its credit decision on a contract-by-contract basis, not on specific performance obligations, because the potential liability to the Surety would result from guarantees of full and complete performance to the owner of the project. Implementation of this method of estimating / accounting / reporting by performance obligation in the contractor’s information / accounting systems would require a major investment of time and money for the contractor. Because a substantial majority of nonresidential contractors in the US have revenue of less than $15 million per year, the cost and time is prohibitive even without addressing the fact that reporting by performance obligation would not provide meaningful financial information to the owner of the business since the contractor’s obligation is under the whole construction contract, not specific performance related obligations. Therefore,
construction companies lack a basis for determining the price at which they would sell the components of a contract separately and as such characteristics of distinct profit margin will not be met (in most cases) there is no more than a single performance obligation for most construction contracts.

We concur with the guidance in the Exposure Draft regarding continuous transfer and we believe it is appropriately reasoned.

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 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.

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 companies be given at least two additional years to comply with the proposed standard once it becomes effective for public companies.

Sincerely,

GRUNAU COMPANY, INC.

[Signatures]

Jeffrey A. Hintze, CPA / CCIFP
Chief Financial Officer

Jesse Ehlers, CPA
Assistant Controller
October 21st, 2010

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To the Technical Director and FASB Board Members:

We are a CPA firm providing attestation, tax, consulting, contract compliance, contractor training programs, establishing / evaluating internal controls for contractors and other professional services primarily to construction contractors in the Midwest for almost forty years and we are extremely concerned about the effect the proposed standard will have on the users of contractor financial statements.

Since the advent of SOP-81-1 in 1981 (now known as ASC 605-35), the percentage-of-completion method of accounting has served admirably the needs of construction contractors (general and specialty contractors). This method has an almost universal acceptance of recognizing revenue from construction contracts, specifically the credit grantors of contractors (surety underwriters and bankers) project owners and state / local regulatory agencies that pre-qualify contractors.

We believe that abandoning SOP-81-1 / ASC 605-35 is not in the best interest of the contractors or the users of their financial statements. In addition, it would cause excessive costs to educate users in understanding and applying a method of revenue recognition that does not represent the interrelated scope of work that is required of the contractor under its contract with the owner or in the case of the disability contractor with the general contractor. Each contract stands on its own whereby the contractor reports those results by Contact In its financial statements. The Surety makes its credit decision on a contract-by-contract basis, not on specific performance obligations, because the potential liability to the Surety would result from guarantees of full and complete performance to the owner of the project. Implementation of this method of estimating / accounting / reporting by performance obligation in the contractor's information / accounting systems would require a major investment of time and money for the contractor. Because a substantial majority of non-residential contractors in the US have revenue of less that $15 million per year, the cost and time is prohibitive even without addressing the fact that reporting by performance obligation would not provide meaningful financial information to the owner of the business since the contractor’s obligation is under the whole construction contract, not specific performance related obligations. The construction contractor’s risks are inseparable.

As a CPA firm, over 90% of our clients are construction contractors (non-residential – general and specialty contractors) and ranging in work put in place from $5.0 million to over $250 million. We are active members in several National and Local Contractor organizations. They Include: Associated General Contractors of America (AGC); Construction Financial Management Association (CFMA); Surety Association;
Transportation Builders Association; among several national and local organizations. Through our membership in the Surety Association we obtained a copy of the Comment Letter from the National Association of Surety Bond Producers (NASBP) sent to you on October 13, 2010. As stated in the NASBP Comment Letter dated October 13, 2010 we agree with and reinforce the following excerpt from their letter:

"The proposed performance obligation would, in theory, permit dividing a construction contract into multiple performance obligations. Furthermore, different contracts might vary in the number of identified performance obligations for each contract. Permitting such an outcome ignores the essential nature of construction contracts, each of which comprises a set of inextricably related activities and makes achieving consistency in financial statements for construction firms a near impossibility."

The current guidance in the Exposure Draft carries the risk of adverse economic effects on the construction industry stemming from an inferior method of revenue recognition. The inherent subjectivity creates an opportunity for outright financial statement manipulation and diminishes consistency from contract-to-contract and year-to-year results.

If this Exposure Draft is issued with no significant changes that affect the construction contractors reporting of revenue recognition, it is anticipated that sureties and bankers will require additional financial information that presents information under the current revenue recognition standards. This will place increased burdens and costs on construction firms that cannot afford to incur those costs, especially in this current economy. Many construction contractors most likely will choose to issue financial statements using an OTHER COMPREHENSIVE BASIS OF ACCOUNTING (OCBOA) by applying the current percentage-of-completion method, which may entail a qualified opinion. If a substantial majority of construction contractors apply OCBOA using the current percentage of completion method of accounting, the reputation of the accounting profession could be impacted in a negative manner since the users of financial statements will discover that we as a profession are not able to convince our clients as to what GAAP is for the construction industry.

**Example 11 – Construction Contract**

The example presented in the Exposure Draft on page 57, B43 presents a contract that appears to be an Engineer Procure and Construct (EPC) contract with a performance guarantee requirement. A substantial majority of the contracts written (in number, not in dollar value) in the United States are not EPC contracts but rather are bid and build contracts and at times, will include the design portion. You will see EPC contracts in certain industries like power, paper, or certain other facilities where they are looking for a certain output. In summary this type of contract presented in Example 11, the EPC, is the exception, not the norm. Based on the preceding analysis, it is our recommendation that FASB eliminate Example 11 and engage the AGC, CFMA, SFAA and NASBP to write an Example that will be more representative of the type of contract and situation that will reflect the business contract that a construction contractor will enter into in the normal course of its business. Or, as an alternative, start with the example that is in the current Construction Contractors audit guide and have this group review and update where necessary.

**SOP-81-1 – Background**

One of the partners in our firm had the benefit of working with one of the Authors of SOP-81-1 prior to and after its implementation in 1981. He has worked with over 500+ construction contractors during his public accounting career and believes, as do many other CPA’s that have served construction contractors for the
majority of their public accounting careers, that the authors of SOP 81-1 “got it right”. The construction industry has achieved the almost complete application of revenue recognition and the users of its financial statements, even the IRS, understand and agree with the application of the percentage of completion method. Any effort to undermine or eliminate SOP-81-1 “would only be a step backward for our (construction) industry” and the accounting profession “due to the fact that the proposed revenue recognition rules are divorced from economic reality.”

"The objective of this (draft) IFRS is to establish the principles that an entity shall apply to report useful information to users of its financial statements about the amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer." It is our belief, along with most construction professionals and industry associations that SOP-81-1 meets this objective.

Summary:

1. The proposed changes in the Recognition of Revenue for construction contractors based on performance obligations does not reflect the reality of the construction contract. Each contract stands on its own whereby the contractor reports those results by Contract in its financial statements. The Surety makes its credit decision on a contract-by-contract basis, not on specific performance obligations, because the potential liability to the Surety would result from guarantees of full and complete performance to the owner of the project.

2. Implementation of this proposed method to the estimating / accounting / reporting by performance obligation in the contractor’s information / accounting systems would require a major investment of time and money for the contractor reporting by performance obligation. It would not provide meaningful financial Information to the owner of the business since the contractor’s obligation is under the whole construction contract, not specific performance related obligations.

3. Many construction contractors most likely will chose to issue financial statements using an OTHER COMPREHENSIVE BASIS OF ACCOUNTING (OCBOA) by applying the current percentage-of-completion method under SOP-81-1.

4. Example 11 should be revised with the current example eliminated since it is not representative of a substantial majority of the types of construction contracts that construction contractors in the US perform under on a regular basis.

5. There is no cost / benefit from the proposed changes.

6. Since FASB has provided an exemption from this Exposure draft for the leasing, banking and insurance industries we believe construction contractors should also be exempted.

7. SOP-81-1 meets the objective of the exposure draft. CFMA, from responses by its membership has found that:

a. “There is not a single contractor, surety, banker or auditor with whom we have spoken that supports the repeal of SOP 81-1 (ASC 605.35) in favor of a new comprehensive revenue recognition standard.” and

b. “The recurrent theme we hear from those we represent is that FASB shouldn’t be trying to fix something that isn’t broken”

C. We agree with these statements and have confirmed them through communications with our construction clients, sureties and bankers.
Our Requests:

We respectively request that the FASB Board take into account these current practices and issues addressed above and consider the following for the construction industry so that the quality of financial reporting for construction contractors is not impacted negatively:

- We agree with other CPA's, construction associations and construction grantors that the application of the Exposure Draft be deferred for at least a reasonable period of time, which we believe should be at least two years, while FASB reviews the key tenets of SOP-81-1 with the overall objective to:
  - Review the reasons for the planned abandoning of SOP-81-1 and provide that document to the industry associations referred to above and Accountants / CPAs' in the industry and serving contractors requesting an in-depth report from those groups as to why SOP-81-1 should not be abandoned and should continue as GAAP.
  - Incorporating SOP-81-1, perhaps in its entirety, into the final document;
  - Eliminate Example 11 and provide a more representative Example of a construction contract; or
  - Permanently exempt construction contractors from these new standards so that the quality and consistency of financial reporting for construction firms remains as is under SOP-81-1 while only incorporating changes as required by other IFRS.

Sincerely,

The VanderBloemen Group

The VanderBloemen Group, LLC, and:

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