

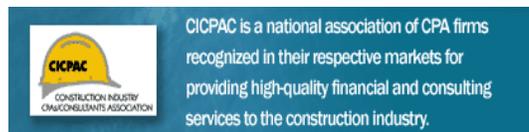
October 18, 2010

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Revenue from Contracts with Customers (Topic 605) Exposure Draft (1820-100)

Thank you for the opportunity to respond to the above referenced exposure draft. As an experienced CPA firm of over 45 employees specializing in audits of construction industry clients throughout Central Illinois, we have several reservations regarding how the proposed revenue recognition standards apply to construction contractors, specifically the recognition of revenue under long-term contracts. A few of the more serious concerns as indicated below:

- 1) Revenue recognition for long-term construction contracts is currently dependent upon estimates as provided by project managers. Under the proposed standards, contracts would have to be segmented and profit margins allocated across these segments, which adds additional layers of estimation. Auditing contract estimates is already sometimes extremely difficult to audit effectively; therefore, we view the additional estimation as adding complexity to the audit process. It is possible that in some cases, auditors will have no choice except to engage engineers as experts to assist with this process.
- 2) The allocation of the contract price and profit margin would no longer be matched up with the schedule of values or bid sheets, which increases the subjectivity, which could cause more inconsistencies among contracts and contractors. Increasing subjectivity could potentially provide opportunity for project managers to massage financial results.



- 3) The proposed standard requires far more detailed disclosures, which would result in more time and additional costs in the audit process. We do not feel that the current required disclosure omit significant information related to revenue recognition related to long-term contracts and do not feel it is necessary to impose more burdensome disclosures.
- 4) The feedback we have received from the end users of our financial statements (sureties, banks, insurance providers, etc.) is that they prefer the format that they are accustomed to and in some cases may request that additional schedules be attached to the GAAP financial statements presenting long-term contracts under the “old” standard. In addition, the feedback that we have received from my construction contractor clients is that they plan to discuss alternative options with the end users hoping that they will accept audit reports with qualified opinions due to a GAAP departure for not presenting long-term contracts under the new standard. We personally feel that starting this trend erodes the significance of the audit opinion.
- 5) Long-term contracts are inherently complex in that they often involve information from numerous subcontractors, require change orders, span over more than one fiscal year, and require constant revisions to the estimated costs as the job progresses. We feel that such complex accounting transactions should not be forced into a “one size fits all” standard for revenue recognition and warrants its own treatment.

The ultimate goal of a revenue recognition standard should be to make the financial statements more meaningful to its users and we feel that it is clear that the proposed standard, as it applies to construction contractors, does not achieve this goal. The proposed standard will increase costs to the contractor with no corresponding benefit and in the midst of an extremely difficult time for this industry. We ask that you strongly consider these issues as they apply to the construction industry, and not as they apply to much more global standard setting theories.

Sincerely,

Martin, Hood, Friese, and Associates, LLC



Mitchell Schluter, CPA
Construction Team Audit Partner