

From: [Marjorie Weber](#)
To: [Director - FASB](#)
Subject: Comment Letter - File Reference No. 1820-100
Date: Friday, October 22, 2010 9:30:48 PM
Importance: High

Dear Sir(s) and Madam(s):

I am the CFO for Irontree Construction Inc. a small commercial plumbing contractor in Mesa, Arizona. And as such, I am concerned about the proposed changes to Revenue Recognition as it pertains to the Construction Industry. I am also a long time member of CFMA (Construction Financial Management Association) and a Past Chair of ICCIFP (Institute of Certified Construction Industry Professionals). I am aware that you have received correspondence from CFMA and other industry organizations which have also expressed concern over the Exposure Draft released in June. I will not repeat many of their points – only those related to small contractors for which I have direct experience. I might also mention I have been in the industry over 30 years and celebrated my 29th anniversary with Irontree last week.

As you may know many small contractors (which make up a sizable amount of construction companies in the US) are family owned and operated. Though I am not a family member, many of the employees of Irontree are. This company was started, as most small companies are, by an entrepreneur who had 30 years experience in the plumbing trade who just wanted to work for himself. He didn't understand much of the business side of owning his own construction company, but as he still says today, he hired those that did. Today our company averages revenue in the \$5 million range and we employ about 40 people, with the founders' son as President and COO. Considering the economy in the US, and Arizona in particular, we consider ourselves very fortunate to still be in business. Many of our peers are not. We have stayed in business and kept employees by keeping all costs down; **knowing what those costs are**; performing work as promised; and building trustworthy relationships with our customers and professional partners.

Knowing what those costs are – that is the core of my concern over the prospect of abandoning percentage of completion by calculating **costs** to complete, in favor of a system that uses Performance Obligations and separating costs from the income equation. This method, as proposed, would have little value for any contractor in the budgeting and planning process and would be over burdensome for all small contractors. Our operations management reviews **costs only** as a measurement of success or failure on any job. And we look at all contracts as a group of activities that are interrelated with risks that are not easily or effectively separated.

The old saying which I know has been repeated over and over to you “if it's not broke, don't fix it” could not be truer in this instance. Percentage of Completion accounting has worked well for construction companies for well over 30 years. It is easily understood and applicable in even small companies such as Irontree. Comments were made that some of the terminology was antiquated and needs updating. I would disagree. Even if FASB still sees fit to include construction in the revenue changes, contractors will continue to refer to contracts as contracts not performance obligations. They will continue to use percent of completion as we believe this is the most accurate method to recognize revenue in the construction industry. Our customers, bankers, insurance, and bonding companies will still request percent of completion reporting. Which will

result in a choice for most contractors to make – to go “off GAAP” for Financial Statements or perform double reporting. Small contractors will not be able to afford to do both; their choice will be an easy one.

In conclusion, I would ask the Boards to seriously consider my objections and those of many of my industry partners by keeping the tenets of SOP 81-1 in any change to revenue recognition for long-term contracts. Or at least exempt the construction industry from the new standard.

Respectfully submitted,

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