Letter of Comment No: 7
File Reference: FSP78U

Date Received:

Subject: FW: Comments on Proposed FSP, Entrance Fees and Deferred Revenue

----Original Message-----

From: James Rothrock [mailto:jrothrock@episcopalhome.org]

Sent: Monday, November 28, 2005 12:58 PM

To: Director - FASB

Subject: Comments on Proposed FSP, Entrance Fees and Deferred Revenue

Dear Sir or Madam:

I would encourage the FASB to ensure that representation of refundable entrance fees on the balance sheet be appropriately classified in order to ensure readers of the financial statements, including lenders, bond holders, residents, etc., receive relevant and accurate information regarding the financial health of continuing care retirement communities.

The current procedure I have used along with my colleagues follows the following:

- 1) determine historic amount of refunds (base on five year average or other relevant period)
- 2) classify annual average amount of refunds as current liability
- 3) assist our auditors in providing the aggregate amount of refundable fees in the notes

Implications if all refundable fees are reclassified to current liabilities"

- 1) assumes the entity is no longer a going concern*; therefore,
- 2) all liabilities become current
- 3) the future service obligation becomes irrelevant and its calculation should be removed from the AICPA Healthcare Guide
- 4) many providers will no longer meet their current ratio covenant required by various financing firms
- 5) entry fee contracts will have to be revised in order to allow payment of refund over more than one year

In addition I would note that in order for a resident to receive a refund the resident and or responsible party must meet certain conditions, such as removing all property and providing final for all services performed. This is not always a very quick process. Due to the actions required on behalf of residents who request refunds it seems improper to determine refundable entrance fees as available upon "demand." Our situation is very dissimilar to banks in that a resident cannot just walk into the office and make a full withdrawal without giving up anything in return.

*if all refundable fees are returned, there are only monthly fee for service residents if any; therefore, the community may no longer be financially viable.

Regards,

James S. Rothrock, CPA
Vice-President of Finance & CFO
The Episcopal Home Communities
1609 W. Valley Boulevard, Suite 328
Alhambra, CA 91803

Tel: 626.281.3776 Fax: 626.281.2246