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Letter of Comment No: 2
File Reference: FSP78U

Ms. Susan Cosper
Via e-mail

Dear Ms. Cosper,

We would like to comment on the proposed FSP that will provide guidance for balance sheet reporting of the refundable portion of entrance fee deposits and the deferred revenue associated with entrance fees for continuing care retirement communities. We strongly oppose classifying those liabilities and deferred revenues as current rather than long-term.

It is our opinion that FASB statement No. 78, Classification of Obligations That Are Callable by the Creditor, is not applicable to the refundable entrance fee arrangements of continuing care retirement communities. Paragraph 5 of FAS 78 clarifies the current liability classification "to include obligations that, by their terms, are due on demand or will be due on demand within one year (or operating cycle, if longer) from the balance sheet date, even though liquidation may not be expected within that period." Paragraph 5 also states that the current liability classification "include(s) long-term obligations that are or will be callable by the creditor" presumably within the next twelve months or operating cycle.

The refundable portion of entrance fee deposits and the deferred revenue associated with entrance fees for continuing care retirement communities are neither necessarily due on demand nor callable within the next operating cycle. These fees are refundable only upon the occurrence of an event, usually the property being vacated. In most instances, the fee is still not refundable until the property is reoccupied. To classify these liabilities and deferred revenues as current is unrealistic and misleading. The attached schedule of refunded entrance fees for an actual organization for the calendar year 2004 shows that only \$27,615 of the \$2,428,225 total fees refunded for that year were held short term. That is only 1.14%.

Financial statements are intended to give a clear picture of the financial position of an entity. In striving for a realistic view, we must be careful not to overstep the boundaries of conservatism. Since we cannot predict future events, we must use

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historical trends and data to make estimates. Since each organization has different contractual obligations for refunding entrance fees, a universal approach is not realistic. Preparers must be given the opportunity to make the classification as to liquidity based on the facts and circumstances in a particular situation.

We appreciate your consideration of our comments. We would be happy to discuss them with you further. Please feel free to contact us with any questions or for clarification of any of the above issues.

Sincerely,

JoEllen H. Wilkes, CPA
James A. Lucas and Company, LLP