

Del Webb Corporation

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January 12, 1996

Letter of Comment No: 61
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Director of Research and Technical Activities
File Reference 154-D
Financial Accounting Standards Board
401 Merritt 7
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Subject: Exposure Draft - Consolidated Financial Statements: Policy and Procedures

As proposed, the Financial Accounting Standards Board exposure draft, "Proposed Statement of Financial Accounting Standards - Consolidated Financial Statements: Policy and Procedures," dated October 16, 1995, (Exposure Draft) can be interpreted in a way that produces unintended results. Specifically, the Exposure Draft can be interpreted to require a home builder/developer to consolidate the operations of a community association (described in detail below). This potential interpretation presents concerns for my company, Del Webb Corporation, as it would be confusing and add complexity without adding any meaningful value to the financial statements. Thank you for the opportunity to comment on these concerns so that they can receive the full attention of the Board at the hearing on February 20 and 21, 1996.

Company Background

Del Webb Corporation (Del Webb) is one of the nation's leading developers and home builders of age-restricted master-planned active adult communities. Del Webb had revenues of \$800 million in 1995 and is publicly traded on the New York Stock Exchange. The build out period (ground breaking through the sale of the final home) of Del Webb's master planned communities range from 5-15 years (1,500-10,000 homes). The process involved in developing the communities includes acquiring the land, master planning and developing the community and construction of extensive amenities such as golf courses and recreation centers. Del Webb acts as the general contractor on all home construction (homes are constructed and sold to individual home buyers - no lots are sold to other home builders). Each community establishes a community association (non-profit) and Del Webb contributes all common area land, including amenities (golf courses, swimming pools, tennis courts, recreation centers, etc.) to the association at no cost to the association. Del Webb, having capitalized these costs during the construction phase,

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amortizes a portion of these costs to cost of sales each time a home is closed over the life of the community. The association records the contributed assets as "land, buildings and equipment" and as contribution income that flows through to the balance sheet as "permanently restricted net assets." Del Webb has no legal ownership of the association (e.g., not a stockholder or partner). Del Webb does, however, control the board of directors of the association until approximately 75% of all of the homes in the community are sold. Del Webb subsidizes the cash deficits of each association until the association breaks even, which is estimated to be at the community's completion.

Concerns of Del Webb

- 1) The exposure draft defines the term "control" as the power to use or direct the use of another entity's assets just like the controlling entity can use its own assets. Del Webb does control the board of directors of each association; however, for legal and policy reasons Del Webb cannot use the association's assets just like their own. At all communities Del Webb makes commitments to the home buyers (written and through advertising) that the amenities have or will be contributed to the association. Del Webb is not able to have the community association board of directors reverse the contribution. Once the amenities are contributed from Del Webb and the association is organized, the association (separate management and accounting staff) is accounted for as a separate entity. All operations are tracked separately and cash received from homeowner assessments, golf course fees, and subsidies are not commingled with Del Webb assets nor can Del Webb use those funds just like its own assets. The control of the board by Del Webb is to allow us to make decisions such as how much to charge for monthly assessments; allow for adequate time to hire and train association staff; install systems, policies and procedures; hold elections for homeowners to be elected to the association board of directors and establish the related subcommittees of the board; and properly train association board members for their duties and responsibilities including the oversight of the management of the amenities. This process takes several years. The control of the association board is not to allow Del Webb to control the funds of the association or to use the association's assets as our own.
- 2) Del Webb, depending on the life-stage of the community, has in previous years amortized through cost of sales some portion of the amenities contributed to the association. Consolidation would put the contributed amenities back on Del Webb's books and thus inflate assets and minority interest equity. This consolidation would violate the conservatism principle since it would gross up assets, equity, revenue and expenses, despite the fact that Del Webb cannot own the assets (no expectation or legal right to benefit and no dividend or future sales proceeds). Thus, assets,

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revenues and expenses would be recorded in Del Webb's financial statements that have no future economic benefit to Del Webb.

- 3) Del Webb questions the value of "for-profit" companies consolidating "non-profit" operations. It appears that all that would be accomplished is showing grossed-up assets, equity, revenues and expenses on Del Webb's financial statements which would be confusing, add complexity and be misleading to users of our financial statements.

Recommendation

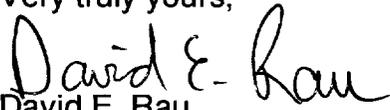
To eliminate the concerns addressed above, the following recommendation is made to be incorporated into the Consolidated Financial Statements Policy and Procedures Standard:

For consolidation to be required, an entity should have both

- (1) control over another entity, and
- (2) a significant participation in the economic risks and rewards of the ownerships of the assets of the controlled entity.

Hopefully, other companies with similar situations have responded. We think the above concerns warrant companies with these situations to be directly excluded from the final standard, or adding language that would grant a substance-over-form exclusion. If you have any questions or comments, I would appreciate the opportunity to discuss them with you. Thank you for your attention to these important concerns of Del Webb and other developer/homebuilding companies.

Very truly yours,


David E. Rau

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c: Phil Dion, CEO, Del Webb Corporation
John Spencer, CFO, Del Webb Corporation