

March 5, 2012

To: membersupport@aicpa.org - Reference number 723854
cc: director@fasb.org - Reference number 2011-230

From: Bill Root, waroot23@gmail.com; tel. 301 987 6418

Subject: CCRC Accounting

References: 1. AICPA Audit and Accounting Guide: Health Care Entities 7/1/2011
2. FASB Exposure Draft File Reference No. 2011-230
Deadline for Comments: March 13, 2012

I am one of thousands of CCRC residents whose investments in the form of refundable advance fees are at risk. It is recommended that, prior to March 13, AICPA submit comments to FASB advocating the following revisions to its Exposure Draft and that, if and when that Draft becomes final without such revisions, the AICPA Guide nevertheless interpret the FASB ASC along these lines:

1. Add a CCRC illustration based on 954-430-55 revised as follows:
 - 1) In 55-1, delete references to 954-430-25, 954-430-35, and 954-430-40.
 - 2) In 55-1, delete “b. The facility has an estimated 30-year life” and reletter c, d, and e to become b, c, and d.
 - 3) In 55-2 Year Admitted 14 Refunded to the Previous Occupant, change 97,500 to 112,500 (most CCRC contracts do not limit the amount of the refund to the refundable amount of the successor’s advance fee).
 - 4) In 55-2, delete “(a) Per contract, the amount is limited to 75% of proceeds of reoccupancy up to amount originally paid by previous owner” and substitute “Conditioning payment of refunds on receipt of a successor’s fee, as shown in this column, is authorized as an option until 2025. After that date, such a condition is not authorized. Effective immediately, if the contract permits use of a refundable advance fee for care expenses, the figures shown would be reduced by the amount of such utilization.”
 - 5) In 55-2, delete “*Amortization of Advance Fees Refundable to Residents*” and delete three examples which follow.

Justification: Amortization of refundable advance fees into revenue should be discontinued as soon as possible, even before the 2015 effective date of the revised FASB. This is because satisfying the contractual refund obligation only after receipt of a successor’s fee does not create any revenue. Amortization of refundable fees in compliance with existing 954-430-25, 35, and 55 not only overstates revenue each year by the amount amortized that year but also understates liabilities by the cumulative amount of amortization over many years.

Simple deletion of all parts of 954-430, as proposed in the Exposure Draft, may not accomplish the apparent intent of discontinuing amortization of refundable advance fees. This would leave the “cumulative amount of revenue recognized” in the form of CCRC refundable fees constrained only by proposed paragraph 81, and corresponding FASB ASC 605-10-25-52. These proposals would apply to all industries. A CCRC might conclude that it was “reasonably assured to be entitled” to such amortization, because both of the criteria which must be met for such assurance are based on the entity’s experience. CCRCs have experienced such amortization in compliance with existing FASB rules for years.

Deletion of all parts of 954-430 also implies the intent to discontinue the practice of conditioning refund payment on receipt of a successor’s fee. This practice is not sustainable indefinitely. At some point, there will be no successor. However, discontinuation would require changes in contractual terms which could not be accomplished by 2015. Moreover, many CCRCs have become dependent on this practice for their short-term financial viability. It will take time to develop and put into place an adequate alternative. Therefore, an extended transition period will be required before the practice can be completely discontinued.

2. In paragraph 82, and corresponding FASB ASC 605-10-25-53. add the following “experience ... not predictive of the amount of consideration to which the entity will be entitled”:
 - (e) The amount of consideration pursuant to a discontinued FASB authorization, such as amortization of refundable CCRC advance fees.

Justification: See justification re paragraph 81 in recommendation #1 above. In addition, it is recommended that AICPA not revive experience criteria described in 954-430-30-1. The Reference 1 AICPA Guide states in paragraph 14.18:

“In situations in which the refundable amount declines over time to a fixed amount or zero, the guidance in paragraph 19 is applied.”

Paragraph 19 states:

“For other contracts, the refundable amount must be estimated (underlining added) (and the estimated amount of advance fees that is expected to be refunded ... should be accounted for and reported as a liability. The remaining amount of refundable advance fees (underlining added) should be accounted for as deferred revenue within the “Liability” section of the balance sheet. According to FASB ASC 954-430-30-1, the estimated amount of advance fees that are expected to be refunded to current residents under the terms of contracts should be based on the individual facility’s own experience or, if records are not available, the experience of comparable facilities.”

However, there are no contracts in which the amount of the advance fee to be refunded on any given date must be estimated. If there were, neither the CCRC nor a departing resident would know for sure how much should be refunded. “Situations in which the refundable amount declines over time to a fixed amount or zero” is a subset of “contracts providing for a fixed amount or percentage to be refunded.” For that subset, the percentage which determines the fixed

refund amount for any date varies (usually each month). The second underlined portion of the above quotation should be changed to “The remaining non-refundable amount of these advance fees.” In your efforts to clarify accounting for refundable advance fees, whether in the form of recommended changes to the FASB ASC Exposure Draft or in future editions of the AICPA Guide, please do not retain wording with respect to required refund estimates nor to descriptions of the non-refundable portion of an advance fee as being “refundable.”

3. Revise the definition of “revenue” in the FASB Exposure Draft Glossary to be an increase in net assets (assets less liabilities) and, with respect to not-for-profit entities, an increase in unrestricted net assets, provided that the increase in net assets is not achieved by understating liabilities.

Justification: The FASB Exposure Draft Glossary defines “revenue” substantially as an increase in assets or a decrease in liabilities. This definition literally, but unjustifiably, would include:

- an increase in cash assets from the proceeds of bonded indebtedness, even though accompanied by an increase in liabilities by as much or more;
- a decrease in liabilities by payment of debt principal, even though accompanied by a decrease in cash assets by as much or more;
- an increase in cash assets from the proceeds of a refundable advance fee, even though this should be accompanied by an equivalent liability increase; and
- a decrease in liabilities by paying an advance fee refund, even though accompanied by an equivalent cash asset decrease.

The recommended not-for-profit definition is for consistency with current and continuing FASB ASC 958-225-45-5.

The recommended proviso is to clarify that the present FASB authorized reduction of CCRC refundable advance fee liabilities by the cumulative amount of the amortization of such fees is to be discontinued.

4. Either delete proposed 954-605-05-11, 12, 13, and 14 or move these to a section unrelated to recognition of revenue.

Justification: These sections describe refundable advance fees. The 605 number indicates a relevance to recognition of revenue. Such fees should not be recognized as revenue.

5. Amend paragraph 58 and corresponding 605-10-30-10 to exclude CCRC advance fees.

Justification: These state:

“in determining the transaction price, an entity shall adjust the promised amount of consideration to reflect the time value of money if the contract has a financing component that is significant to the contract.”

CCRC advance fees have “a financing component that is significant to the contract.” The interest or dividends earned by investing them is separately accounted for as investment income.

Therefore, adding a time value of money to the transaction price of receipt of advance fees would be double counting.

Refunds of refundable advance fees do not include any interest. Fee-payers should not have to include imputed interest in taxable income, as IRS requires on interest-free loans to family members, because the interest-free status of the refundable advance fee was not an option chosen by the fee-payer.

6. Implement paragraphs 128 and 129 in 605-10-50.

Justification: These paragraphs require a reconciliation of the opening and closing balances of assets recognized from the costs to obtain or fulfill a contract, including amortization for each reporting period. They are ineffective unless implemented in FASB ASC.

7. Revise paragraphs 116 and 130, and corresponding 605-10-50-8 and 21, to exclude CCRCs from the exemptions for nonpublic entities from disclosure requirements in the following:
- paragraph 114, and 605-10-50-6, disaggregate categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors;
 - paragraph 115, and 605-10-50-7, disaggregation examples;
 - paragraph 117, and 605-10-50-9, reconciliation of contract balances;
 - paragraph 119, and 605-10-50-12, aggregate amount of transaction price allocated to remaining performance obligations and explanation of when the entity expects to recognize that amount as revenue;
 - paragraph 123, and 605-10-50-16, reconciliation of liability recognized for onerous performance obligations;
 - paragraph 125, and 605-10-50-18, methods used to recognize revenue over time and why such methods are a faithful depiction of the transfer of goods and services;
 - paragraph 126, and 605-10-50-19, for performance obligations satisfied at a point in time, judgments in evaluating when a customer obtains control of promised goods or services; and
 - paragraph 127, and 605-10-50-20, methods, inputs, and assumptions used to determine transaction price; estimate standalone selling prices; measure obligations for returns and refunds; and measure liability for onerous performance obligations.

Justification: Successful CCRCs must be run like businesses, whether they are for-profit or not-for-profit. Their success is dependent on resident fees, which are virtually the only source of financing for both operating and capital expenses, including retirement of debt when due. Residents should be regarded as having a right to be fully informed. By being thereby better able to protect their large investments, they are also helping to protect the CCRC as an institution. Unlike bond-holders, residents have no leverage to obtain information in any way other than required disclosure.

8. Revise paragraph 115, and corresponding FASB ASC 605-10-50-7, to add an eighth disaggregation of revenue example:
 - h. Non-refundable advance fee revenue to be separated from refundable advance fee non-revenue.

Justification: Combining liabilities for deferred revenue from non-refundable fees with liabilities for refundable fees for which revenue should not be recognized obfuscates the differences.