December 13, 2011

Ms. Susan M. Cosper  
Technical Director  
Financial Accounting Standard Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Re: FASB Comment Letter on Proposed Accounting Standards Update, Technical Corrections, File Reference No. 2011-190

Dear Ms. Cosper:

Thank you for the opportunity to comment on the above referenced ASU, specifically as it applies to changes affecting Continuing Care Retirement Communities (CCRCs).

ParenteBeard LLC is a large regional accounting firm located in the Mid Atlantic region and ranked in the top 25 firms in the US. Our Senior Living Services Practice provides audit and consulting services to several hundred CCRCs, skilled nursing and assisted living facilities, and subsidized housing projects for the elderly.

Paragraph 3 of the Proposed Update

Paragraph 3 of the Proposed Update provides transition guidance for the amendments addressed in paragraph 47. Paragraph 3 indicates that “transition guidance should be applied to affected transactions as of the beginning of the fiscal year in which this proposed Update is initially applied” for amendments addressed in paragraph 47. We believe this approach will result in a significant lack of comparability when an organizations chooses (or is required) to issue comparative financial statements. We believe the amendments addressed in paragraph 47 should result in retrospective application to all prior periods presented (i.e. restatement of net assets as of the earliest period presented).

Further, we believe that paragraph 3 needs to be clear that the application of the amendments in paragraph 47 can be accounted for and disclosed as a cumulative effect of a change in accounting principle and that entities should apply the provisions of ASC 250-10-50-1 when accounting for and disclosing this change. We do not believe this change should be reported as a correction of an error; this change may impact many CCRCs across the country and, in our opinion, is primarily due to a lack of clarity in the original authoritative guidance related to the accounting for refundable advance fees. We believe the reference to “correction of an error” in paragraph 3 should be eliminated (insofar as it relates to paragraph 47) as it may create some confusion when entities apply the provisions of the Proposed Update.
Paragraphs 46 and 47 of the Proposed Update

Paragraphs 46-49 of the Proposed Update address Amendments to Topic 954. Paragraphs 46 and 47 specifically address Amendments that may have an impact on CCRCs. We have two observations on these paragraphs:

- Our first observation relates to the impact that the Amendments in paragraphs 46 and 47 may have on existing authoritative guidance in ASC 954-440-35-1-3, which states:

  **35-1** The obligation of a continuing care retirement community to provide future services and the use of facilities to current residents shall be subsequently measured annually in order to determine whether a liability shall be reported in the financial statements.

  **35-2** If the advance fees and periodic fees charged are insufficient to meet the costs of providing future services and the use of facilities, the continuing care retirement community shall record a liability based on actuarial assumptions (such as mortality and morbidity rates), on estimates of future costs and revenues, and on the specific continuing care retirement community’s historical experience and statistical data. The liability is equal to the amount that is expected to be incurred to provide services and the use of facilities to individuals over their remaining lives under continuing care contracts (including resident-care, dietary, health care, facility, interest, depreciation, and amortization costs) in excess of the related anticipated revenues.

  **35-3** The liability related to continuing-care contracts shall be the present value of future net cash flows, minus the balance of unamortized deferred revenue, plus depreciation of facilities to be charged related to the contracts, plus unamortized costs of acquiring the related initial continuing-care contracts, if applicable. The calculation shall be made by grouping contracts by type, such as all contracts with a limit on annual increases in fees, contracts with unlimited fee increases, and so forth. Cash inflows shall include revenue contractually committed to support the residents and inflows resulting from monthly fees including anticipated increases in accordance with contract terms. This shall include third-party payments, contractually or statutorily committed investment income from services related to continuing care retirement community activities, contributions pledged by donors to support continuing care retirement community activities, and the volume of deferred nonrefundable advance fees. Cash outflows shall be composed of operating expenses, including interest expense and excluding selling, and general and administrative expenses. Anticipated cost increases affecting these operating expenses shall be considered in determining cash outflows. The expected inflation rate as well as other factors shall be considered in determining the discount rate. In calculating the liability, the specific continuing care retirement community’s historical experience or statistical data relating to the residents’ life spans shall be used. The life spans used shall be the same as those used to amortize deferred revenue (see paragraph 954-430-35-1). For a new continuing care retirement community, either relevant data of similar communities in the area or relevant national industry statistics may be used if they are deemed to be representative.
The key consideration above is the inclusion of **unamortized deferred revenue in the calculation.**

As a result of the Proposed Update, refundable advance fees for certain CCRCs may be reclassified and reported as refundable liabilities and not as deferred revenue; as such, will this change the historical calculation methodology? Will entities be permitted to include the balance of refundable advance fees that are classified and reported as refundable liabilities and not as deferred revenue so long as the refunds are payable only upon re-occupancy of the contact holder’s unit (for this purpose, the refund payable would not need to be limited to the proceeds of re-occupancy of a contract holder’s unit)? If that is the case, we would recommend that ASC 954-440-35-3 be amended to add this clarification. If that is not the case, we would recommend that ACS 954-440-35-3 be amended to specifically exclude refundable advance fees that are classified as refundable liabilities from the calculation of the obligation to provide future services and use of facilities.

We are also recommending that additional language be added to the second sentence in paragraph 46 to conform to the amendment addressed in paragraph 47 (which amends ASC 954-430-25-1). Consideration should be given to adding the italicized verbiage to the second sentence, as follows — "The amendment clarifies that the guidance for deferral of revenue in a continuing care retirement community should be followed when a contract between a continuing care retirement community and a resident stipulates that a portion of the advance fee may be refundable if the contract holder’s unit is reoccupied by another person **and that any refund payable is limited to the proceeds of reoccupancy of a contract holder’s unit.**"

Overall, we generally agree with the amendments in paragraphs 46 and 47 and believe that they may assist in reducing inconsistencies related to the accounting for refundable advance fees. Thank you for the opportunity to comment on the amendments in the Proposed Update. If you have any questions on the matters discussed in this letter, do not hesitate to contact us for further discussion or clarification.

Sincerely,

[Signature]