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February 19, 2012

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Subject: Recognition of Revenue: File Reference No. 2011-230

I am among thousands of residents of Continuing Care Retirement Communities (CCRCs) who have paid refundable advance fees. Existing Financial Accounting Standards Board - Accounting Standards Codification (FASB-ASC) 954-430-25-1, 35-3,4 and 55-1,2 permit amortizing refundable advance fees gradually into revenue. The subject draft FASB ASC amendments would discontinue such amortization. It would delete 954-430 in its entirety and replace it with recognition of revenue rules applying to all industries. The Exposure Draft explains that this proposed update is being issued because “numerous requirements for particular industries or transactions ... can result in different accounting for economically similar transactions.”

**I strongly support this change.** Fees which, pursuant to contractual obligations, must be refunded do not constitute revenue. This is true whether or not the timing of the refund payment is conditioned on receipt of a successor’s fee. Pretending revenue which does not exist is costly. Additional bonded debt, including interest and other bond-related expenses, becomes necessary to cover cash losses in the amount of the amortization. Moreover, the refund liability is understated by very large amounts of cumulative amortizations over many years.

The subject document is in need of numerous clarifications.

The definition of “revenue” in the Glossary literally includes not only refundable advance fees but also the proceeds from bonded debt. Both these sources of funds constitute “inflows or other enhancements of assets.” The “cash” line on the statement of assets would increase. But liabilities would also increase as much, or often more in the case of bonded debt. Refundable advance fees and bonded debt are loans. FASB surely does not intend to include bonded debt proceeds in the definition of “revenue.” There is no justification for treating loans from residents differently from loans from bond-holders in this connection. It is recommended that something be added to the definition of “revenue” to connote that the enhancement of assets must exceed any simultaneous related increase in liabilities in order for a transaction to constitute “revenue.” The simplest fix might be to change “enhancement of assets” to “enhancement of net assets.”

Guidance paragraph 81 and proposed 605-10-25-52 set forth two criteria to be met so that an entity can be reasonably assured that it may allocate revenue to satisfy performance obligations. Both criteria are based on entity experience. Pursuant to existing FASB 954-430, entities have

much experience in allocating refundable advance fees to satisfy performance obligations. It is recommended that these two subjective criteria be replaced by an objective criterion, such as consistency with the definition of “revenue,” as revised per the preceding recommendation.

Guidance paragraph 58 and proposed 605-10-30-10 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. ... If the promised amount of consideration differs from the cash selling price of the promised goods or services, then the contract also has a financing component (that is, interest either to or from the customer) that may be significant to the contract.” This would literally apply to refundable advance fees. However, pursuant to CCRC contracts, refundable advance fees do not earn interest. Moreover, the IRS has determined that, unlike interest-free gifts to family members, residents are not required to impute interest on refundable entrance fees. Therefore, it is recommended that 605-10-30-10 be amended to state explicitly that it does not apply to CCRC advance fees.

Retention of a CCRC Illustration would greatly clarify intent. Some CCRC contracts permit a resident to utilize a refundable advance fee for care expenses. The amount spent on care expenses would constitute a recognition of revenue. It is recommended that the existing 954-430-55 Implementation Guidance and Illustration be added to the Proposed Implementation Guidance and Illustrations with the following amendments:

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.”
5. In 55-2, add “(a) If the contract permits use of refundable advance fee for care expenses, the figures shown would be reduced by the amount of such utilization.”
6. In 55-2, delete “*Amortization of Advance Fees Refundable to Residents*” and delete three examples which follow.

The proposal would leave 954-605-05-11, 12, 13, and 14 unchanged, except for the removal from 954-605-05-12 of a reference to 954-430. This extensive description of refundable advance fees in a 605 section on revenue recognition strongly implies that such fees constitute revenue which should somehow be recognized. For consistency with deletion of 954-430, it is recommended that 954-605-05-11, 12, 13, and 14 either also be deleted or be moved to a section unrelated to recognition of revenue.

Guidance paragraphs 109 through 127 and 130 and proposed 605-10-50-1 through 9 and 11 through 21 describe required disclosures. There is no portion of 605-10-50 to implement paragraphs 128 and 129 on amortization. It is recommended that paragraphs 128 and 129 be implemented in 605-10-50.

Proposed 605-10-50-8 and 21 (and corresponding paragraphs 116 and 130) would exempt nonpublic entities from disclosure requirements in the following portions of 605-10-50 (and corresponding paragraphs):

- 6 disaggregate categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors;
- 7 seven examples for #6, including type of contract and timing of transfer of goods and services (it is recommended that an eighth be added: “Non-refundable advance fee revenue to be separated from refundable advance fee non-revenue”);
- 9 reconciliation of contract balances;
- 12 aggregate amount of transaction price allocated to remaining performance obligations and explanation of when the entity expects to recognize that amount as revenue;
- 16 reconciliation of liability recognized for onerous performance obligations;
- 18 methods used to recognize revenue over time and why such methods are a faithful depiction of the transfer of goods and services;
- 19 for performance obligations satisfied at a point in time, judgments in evaluating when a customer obtains control of promised goods or services; and
- 20 methods, inputs, and assumption used to determine transaction price; estimate standalone selling prices; measure obligations for returns and refunds; and measure liability for onerous performance obligations.

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. It is recommended that CCRCs be excluded from the disclosure exemptions for nonpublic entities.