

November 20, 2012

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[Membersupport@aicpa.org](mailto:Membersupport@aicpa.org) (Reference number 723854)

The Maryland Continuing Care Residents' Association (MaCCRA) Chapter at Asbury Methodist Village (AMV) Continuing Care Retirement Community (CCRC) is concerned that some CCRCs, with the concurrence of their auditors, are apparently planning not to comply with FASB Update 2012-01. That rule requires discontinuation of amortization of refundable entrance fees into revenue and increasing the refund liability to the full contractual amount unless residency agreements unequivocally stipulate that refunds may not exceed reoccupancy proceeds.

CCRCs which continue to amortize refundable entrance fees even though their residency agreements do not stipulate that refunds may not exceed reoccupancy proceeds would have the appearance of a competitive advantage. This could hurt the marketing efforts of other CCRCs which are complying with the Update.

CCRCs not making the accounting change will, in fact, be hurting their financial viability. By pretending a revenue which never materializes, they must eventually incur additional costly debt to meet the cash shortfall.

In addition, continuation of amortization of refundable entrance fees risks 100% taxation of investment profits. Refundable entrance fees are amortized based on the expected life of the facility. This indicates that the funds invested in the stock market probably came from the proceeds of tax-free municipal bonds. IRS has determined that such use of such bond proceeds requires 100% arbitrage taxation.

For these reasons, we urge that, as soon as possible, FASB supplement the Update with the complete elimination of amortization of refundable entrance fees. This was proposed in Recognition of Revenue Exposure Draft File Reference No. 2011-230. However, amendments to the Exposure Draft, as we have previously recommended, are necessary. The two most important changes are revision of the definition of "revenue," so as not to (probably inadvertently) include refundable entrance fees, and a long transition period prior to complete discontinuation of conditioning entrance fee refunds on receipt of a successor's entrance fee.