Sample Letters and Emails from NaCCRA Members to AICPA

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Vantage House, Columbia, MD

March 16, 2018

Mr. Andy Mrakovcic
Manager, Audit and Attest Standards – Public Accounting
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036

Re: Request for Comments on the February 1, 2018. AICPA "Working Draft: Health Care Entities Revenue Recognition Implementation Issue…. Issue #8-3 – Application of FASB 606, 'Revenue from Contracts with Customers, to Continuing Care Retirement Community Contracts'

The Vantage House chapter of the Maryland Continuing Care Residents Association (MaCCRA), located in Columbia, Maryland submits these comments on this working draft. Our members are Vantage House residents with lifetime contracts for independent living, with assurances for assisted living and skilled nursing services if eventually necessary.

We respect the multi-year effort of the Financial Accounting Standards Board to simplify accounting standards by replacing multiple standards on the recognition of revenue with a single, more generally applicable standard. We are concerned, however, that Standard 606 may produce unintended and inappropriate results depending on how it will be applied to continuing care and retirement communities, especially non-profit organizations. This is especially the case if the AICPA's working draft should be adopted.

A non-profit CCRC is not the typical real estate developer or management organization whose essential motivation is the achievement of profit for its investors or stockholders. The residents of a CCRC are not purchasing an investment such as stocks, bonds, or passive partnerships, with the expectation for current earnings or capital appreciation. The proposal treats the resident contract generally as a monthly contract with the option to renew.

On the contrary, the contract provides a lifetime license to occupy a residential unit, with standby health assistance, if needed. It is, and the parties intend it to be, a lifetime lease, with ancillary benefits. The residents are the real parties in interest, not as investors, but as individuals who are recipients of a lifetime trust between them and the CCRC.

The management of a CCRC is not a typical real estate landlord standing at arms length to the resident lessee. Rather, there is a relationship of trust between the CCRC and the residents in its care. Serving the residents is the very business purpose for which the CCRC was established in the first place. The concept of "community" in "CCRC" is at the heart of the relationship.

With respect to entrance fee payments, we believe the proposed interpretation would not present an accurate or realistic picture of what the fee is or what it is used for. The entrance fee is used in part to produce income to the CCRC, which permits the CCRC to reduce a resident's monthly payments that would otherwise have to be charged. This reduction applies to the resident's lifetime.

Also, a portion of the entrance fee represents an expense for medical services that the CCRC promises to provide at a later date as necessary. The Internal Revenue Service has recognized this fact for purposes of allowing a medical expense deduction on income tax returns.[1]

One effect of the current and proposed accounting treatment of CCRCs is to increase the recognition of revenue in the early years of the resident contract. This leaves artificial deficits in later years that nevertheless must then be met with fee increases that do not reflect increased services. Thus, the application of the prescribed rule departs from depicting reality, one of the principal goals of the accounting rules.

CCRC residents must rely on the lifetime promises of services and care that have induced them to enter the CCRC. They look to the strength of the balance sheet in deciding to enter a CCRC and for reassurance that it continues to be financially sound. Applicable accounting principles should produce balance sheets that reflect the financial condition of the enterprise as realistically as possible, and not utilize inapposite concepts that distort that reality.

1 Internal Revenue Service Rulings 75-302, 76-481, and 93-72.

Thank you for the opportunity to comment.

Sincerely,

Vantage House Chapter Board of Directors, Maryland Continuing Care Residents Association (list of names)

Falcon's Landing

From: Linda Childs [mailto:lindabchilds@gmail.com]
Sent: Saturday, March 17, 2018 3:51 PM

To: Andy Mrakovcic <Andy.Mrakovcic@aicpa-cima.com>
Subject: AICPA and CCRCs

I am a CCRC resident at Falcons Landing in Potomac Falls, Virginia and will be directly impacted by the public circulation of AICPA regulations concerning CCRCs.

We paid an entrance fee, relying on our Marketing Department and contractual assurances of our provider, that entrance fees were a prepayment of contractual fees that would be needed, on a recurring basis, to provide us with housing and other support prices for the rest of our lives.

In no way was it represented to us that our entrance fee was in any way an investment transaction intended to provide at risk capital to our provider. Our entrance fee was paid solely in partial consideration for the lifetime promises included in our continuing care contract.

We urge the accounting profession through its trade association, the AICPA, to recognize the true character of this transaction and to preserve the integrity of the entrance fee, which we paid in good faith, relying on the representations of our community and the contract that we were given to sign.

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Linda B. Childs

Response Letter

From: Andy Mrakovcic <Andy.Mrakovcic@aicpa-cima.com>
Subject: RE: AICPA and CCRCs
Date: March 19, 2018 at 8:17:24 AM EDT
To: Linda Childs <lindabchilds@gmail.com>

Linda,

Thanks very much for providing your comments. I will compile these and all comments received to draft issue 8-3 for task force consideration after the exposure period ends on April 2. The task force will then propose any necessary revisions to the draft paper for discussion with two separate clearance bodies later in the Spring and Summer.

Thanks very much for your interest.

Andy

Falcon's Landing

Mr. Mrakovcic,
My wife and I are CCRC residents at Falcons Landing in Potomac Falls, Virginia. We will be directly impacted if your proposed AICPA regulations concerning CCRCs are adopted.

We paid an entrance fee, relying on a contract that assured us that our Board, our provider, would use our entrance fee as a prepayment for contractual obligations to provide us with Independent living (IL) housing, assisted living (AL) housing and care, and skilled nursing/memory care (NU), and other support for the rest of our lives, for an agreed upon monthly fee that is in addition to the entrance fee.

It was never in any way represented to us that our entrance fee was an investment transaction intended to provide risk capital to our provider. Our entrance fee was paid solely for the lifetime promises included in our continuing care contract.

The audited Annual Financial Statement for Falcons Landing shows that Falcons Landing has a Net Assets Deficit of over $13 million. Should this tax exempt organization be liquidated, the residents would be responsible for paying off this deficit. For many, this would be difficult or impossible as many of us sold our homes, which were our major asset, to pay the entrance fee.

We urge the accounting profession through its trade association, the AICPA, to recognize the true character of this transaction and to preserve the integrity of the entrance fee, which we paid in good faith, relying on the representations of our community and the contract that we signed.

Jim & Nancy Haynes