

National Continuing Care Residents Association
Financial Soundness Committee
Report to the Board of Directors
September 4, 2015

INTRODUCTION

The NaCCRA Financial Soundness Committee (hereinafter “Committee”) and its Chair were proposed by Dan Seeger, President and authorized by the NaCCRA Board of Directors at its October 18, 2014 meeting. The Chair assembled a Committee from among NaCCRA members who expressed an interest in CCRC financial soundness. Everyone who expressed an interest to be on the Committee is on it. Good progress has been made on the Committee’s first assignment—the preparation of a guide for residents and shoppers to easily assess the financial strength of one continuing care retirement community (CCRC) as compared to other CCRCs and as compared to industry norms.

The Committee is also addressing a second matter. Authorities are considering changes to the way CCRCs account for their funds. The Committee is reviewing these proposed accounting changes and exploring their implications for residents and for the investments residents have made in their communities. The proposed accounting changes will not affect the actual financial state of a community. But in as much as they may reveal weaknesses which have thus far been hidden, some CCRCs may be faced with difficult public relations problems, and therefore, with trouble recruiting residents.

FINANCIAL SOUNDNESS

At the outset, Dan Seeger tasked the Committee with:

“Residents and shoppers need some easy guide to assessing the financial strength of a CCRC, and to assessing the relative financial strength of one CCRC compared to other CCRCs.”

“I do not expect that NaCCRA will want to rate CCRCs or their financial health in the way *Consumer Reports* evaluates products. We want to see if we can devise an analytical tool simple enough for lay people to employ and from which they may draw their own conclusions about a particular CCRC.”

Ideally, a CCRC would make known its financial strength information of importance to residents, especially not-for-profit CCRCs where resident “up front” entry fees are the source of the CCRC’s unsecured risk capital. In the absence of such information, residents are left to their own devices to assess the financial strength of a CCRC.

The task assigned to the Financial Soundness Committee has origins with the U.S. Senate Special Committee on Aging hearing, *Continuing Care Retirement Communities (CCRCs): Secure Retirement or Risky Investment?* held on July 21, 2010. The Great Recession of 2008 was accompanied by financial stress for the CCRC industry and distress for its residents as they or their estates faced angst and delay in return of refundable entry fees.

The Financial Soundness Committee is completing its exploration of the use of data available from the Internal Revenue Service (IRS), *Annual Return of Organization Exempt from Income Tax, Form 990*. The last three years of Form 990 are readily available from the not-for-profit CCRC, Internal Revenue Service, and Internet sources, such as GuideStar. Multiyear financial results and trends are more important than single year financial results.

FINANCIAL ACCOUNTING STANDARDS BOARD

Since 1973, the Financial Accounting Standards Board (FASB) has been the designated organization in the private sector for establishing standards of financial accounting that govern the preparation of financial reports by nongovernmental organizations. Those standards, published as the *FASB Accounting Standards Codification*®, are officially recognized as authoritative by the Securities and Exchange Commission (SEC) and the American Institute of Certified Public Accountants (AICPA). These standards are what are referred to as “generally accepted accounting principles (GAAP).

An Accounting Standards Update is a document that communicates how the *Accounting Standards Codification* is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A CCRC’s audited financial statements are most likely prepared in compliance with GAAP.

FASB has issued one ASU that affects the CCRC industry and proposed a second ASU. These are FASB ASU *Revenue from Contracts with Customers (Topic 606)*, No. 2014-09, May 2014 and FASB *Proposed Accounting Standards Update, Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954), Presentation of Financial Statements of Not-for-Profit Entities*.

ASU *Revenue from Contracts with Customers (Topic 606)* elucidates the use of entry fees by CCRCs to meet their contractual obligations to residents. “... [T]he objective of the guidance in this Topic is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.”¹ Importantly for residents, this ASU rescinds the CCRC industry-specific CCRC accounting of entry fees. Instead, consistent with other industries, CCRCs must relate entry fees to the present and future contractual obligation to provide goods and services; establish a liability for refunds; recognize the financing component of the entry fee, taking into consideration the time value of money; and management’s policy for providing charity care, as well as the level of charity care provided, shall be disclosed in the financial statements.

¹ [ASU No. 2014-09, p. 16, par. 606-10-10-1]

For a public entity, this ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. A public entity is an entity that is any one of the following: (1) a public business entity, (2) a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, (3) an employee benefit plan that files or furnishes financial statements to the SEC.

For all other nonpublic entities, this ASU is effective for annual reporting periods beginning after December 15, 2017. A nonpublic entity may elect to apply this guidance earlier.

The American Institute of Certified Public Accountants (AICPA) Revenue Recognition Task Forces are currently developing revenue recognition implementation guidance on how to apply this new revenue recognition standard.

FASB Proposed Accounting Standards Update, Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954), Presentation of Financial Statements of Not-for-Profit Entities seeks "...to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The FASB's Not-for-Profit Advisory Committee (NAC) and other stakeholders indicated that existing standards for financial statements of not-for-profit entities (NFPs) are sound but could be improved to provide better information to donors, creditors, and other users of financial statements."²

NaCCRA responded to FASB's request for comments by letter from Dan Seeger on August 17, 2015 by agreeing with FASB

"that 'existing standards for financial statements of not-for-profit entities (NFPs) ... could be improved to provide better information to donors, creditors, and other users of financial statements.' Residents who pay up front entry fee are unsecured creditors, frequently the largest class of creditors. Existing standards for financial statements of not-for-profit entities need improvement for use by, and protection of, residents."

"Most important to residents is assurance that the advance payment of entry fees paid to a CCRC for housing and services through end-of-life, is preserved for that purpose and, if a refundable entry fee, in whole or part, that those funds are readily available for refund. Residents frequently sell their home to raise the funds to move to a CCRC. The funds are a major portion of their savings. Residents are at a point in life where they cannot start over if their funds are not available for the intended purpose. Financial statements need to be clear on the availability of entry fees for the intended purpose."

"In addition, residents would like to know the adequacy of:

- Cash to pay expenses and other forthcoming liabilities;
- Adequacy of a surplus of revenues over expenses to maintain the business; and
- Net assets to assure the business is not burning through cash provided by residents to pay for future resident housing, services, and refunds."

² FASB *Proposed Accounting Standards Update, Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954), Presentation of Financial Statements of Not-for Profit Entities*, April 22, 2015, p. 1.

For further information and copies of the ASUs, see FASB at <http://www.fasb.org/home>

COMMITTEE MEMBERSHIP

The Committee consists of three *ex officio* members (past, current, and future presidents), three members with financial/accounting experience, one member who represented residents in a CCRC federal bankruptcy proceeding, and three members without financial/accounting experience. The members, all CCRC residents, are Al LeBang, Gerard Hyland, Frank Little, Judy Moss, Bill Ratcliff, William Root, Dan Seeger, Mary Beth Tompane, Ruth Walsh, and Jennifer Young.

ONGOING ACTIVITIES

The Committee continues to monitor FASB for ASU's that might be of interest to NaCCRA members. The AICPA is also being monitored. They are expected to make available for comments their guidance for implementation of FASB ASU *Revenue from Contracts with Customers (Topic 606)*, No. 2014-09, May 2014.

In the meantime, the Committee has returned to the primary task assigned to it by Dan Seeger,

“Residents and shoppers need some easy guide to assessing the financial strength of a CCRC, and to assessing the relative financial strength of one CCRC compared to other CCRCs.”

“I do not expect that NaCCRA will want to rate CCRCs or their financial health in the way *Consumer Reports* evaluates products. We want to see if we can devise an analytical tool simple enough for lay people to employ and from which they may draw their own conclusions about a particular CCRC.”

The Committee was working toward a proposed completion date of October 31, 2015, the day of the next NaCCRA Meeting in Boston, MA.

With the resignation of Dan Seeger as President of NaCCRA and Judy Moss as President Elect, the Chair of the Financial Soundness Committee has offered his resignation and suspended Committee activities until the Interim President Ruth Walsh and the forthcoming, newly reconstituted Board of Directors can decide their pleasure for the future of the NaCCRA Financial Soundness Committee.

This report is submitted in fulfillment of the Committee's responsibilities under Article XI of the NaCCRA Bylaws.

Respectfully submitted,

Gerard Hyland
Chair, Financial Soundness Committee