NaCCRA State Presidents Teleconference

27 January 2016 Minutes

The first bimonthly NaCCRA State Presidents Meeting was held by teleconference starting at 2:00 PM EST on Wednesday, January 27, 2016. Present were Walton Boyer, Dick Clark (CT), Jack Cumming, Denise Davidoff (CT), Helmut Golde (WA), Wilfred Holton (MA), Gerald Hyland (OR), Joan Lewis(VA), Jim McLain (WA), and Brenda Tremoulet (NC). Absent* were Pat Arends (FL), David Curtis (IL), Margaret Griffin (CA), Mike Lilly (OH), Bill Ratcliff (MD), George Tjiattas (PA), and Ron Whalin (NJ). *Two anonymous call-ins could have been listed as absentees.

A discussion of dates and times for these meetings elicited the following: a) meetings should occur bimonthly, b) Mondays and Fridays are to be avoided, c) afternoons (EST) are preferred, d) the second Wednesday of each month is a conflict.

The NaCCRA Membership and Dues Committee is discussing concepts for increasing current membership. Focus at the moment is on some for m of joint membership relationship with the several states. Reactions to the yet very preliminary information concerning NaCCRA interest in holding joint membership dues collection and allocation with the several states was sought. The Washington State organization indicated it had met and agreed to an affiliation agreement with NaCCRA expected to be ratified by NaCCRA at its February 3, 2016 Board meeting. The agreement calls for Partners in Management to collect the dues for Washington State members, maintain the membership records, retain $10 per member for NaCCRA and remit the remainder to Washington State. Connecticut stated that it collected dues from resident councils rather than individuals, and thus the model under consideration did not fit them. It was noted that similar situations existed in New Jersey and Pennsylvania. Virginia reported that it was loosing members, was working hard this year to improve relations with provider management and organizations, and was not ready to consider a joint arrangement at this time. Massachusetts agreed, stating that it had recently changed from community to individual memberships (~700 members) and another change would be very difficult now. North Carolina reported uncertain projections and efforts to inform residents in advance of Board meetings in May or June. That committee recognizes that there are a great variety of membership arrangements within the several state organizations, requiring a variety of differing agreements, and that completing this program with many states will require several years of effort.

State Presidents were requested to look for and nominate individuals in their states that would be good candidates for the following positions: Chair, NaCCRA Financial Soundness Committee, Chair, NaCCRA Resident Bill of Rights Committee, Chair and members, NaCCRA Consumer Guide Committee, and NaCCRA Vice-President for Advocacy. Responses were requested in 60 days where possible. A brief discussion on the types of individuals sought led to a brief description of potential changes in NaCCRA's Bylaws and the conditions leading to their consideration for designated Vice-Presidents, and to a longer discussion of the status of the Financial Soundness Committee effort to develop a CCRC financial assessment tool for CCRC residents and customers.

Comments were solicited on a White Paper designed to describe the conditions leading to the establishment of the NaCCRA Membership and Dues Committee. The intent of the Paper is to better inform and encourage North Carolina residents to agree to combined dues collection. The Paper may also be appropriate and useful in other states as well. A strong response was received to include a description of NaCCRA's past successes and the status of projects still underway in a section answering the question: "What has NaCCRA done for me lately?"

Gerard Hyland made detailed comments on financial assessment and recent activity of the FASB and AICPA concerning CCRCs. He was asked to provide a summary of his comments to the invitees to this teleconference (attached to these minutes).

There being no new business, the next meeting was set for 2:00PM, Wednesday, March 30, 2016, and the meeting adjourned at 3:00 PM.

Walton Boyer

R. G. Hyland Email, January 27, 2016, at 6:28 PM

Walton,

During today's, January 27, 2016, conference call, you requested that I send you and the other participants my recommendation and supporting information for including reference to MSRB in your draft "A White Paper on NaCCRA."

RECOMMENDATION

My recommendation is that you add a sentence or two somewhere after your sentence, "Furthermore, several national and federal organizations have assumed the role of providing standards which the 50 states have widely accepted," The sentences I recommend adding is the following, "The Municipal Securities Rulemaking Board (MSRB) which protects the public interest by promoting a fair and efficient municipal securities market. After entry fees, the most significant source of financing for CCRCs is issuance of municipal bonds."

BACKGROUND IN SUPPORT OF RECOMMENDATION

An expanded description of the MSRB follows:

"The Municipal Securities Rulemaking Board (MSRB) protects investors, state and local governments and other municipal entities, and the public interest by promoting a fair and efficient municipal securities market. The MSRB fulfills this mission by regulating the municipal securities firms, banks and municipal advisors that engage in municipal securities and advisory activities. To further protect market participants, the MSRB provides market transparency through its Electronic Municipal Market Access (EMMA®) website, the official repository for information on virtually all municipal bonds. The MSRB also serves as an objective resource on the municipal market, conducts extensive education and outreach to market stakeholders, and provides market leadership on key issues. The MSRB is a Congressionally-chartered, self-regulatory organization governed by a 21-member board of directors that has a majority of public members, in addition to representatives of regulated entities. The MSRB is subject to oversight by the Securities and Exchange Commission." (Source: MSRB Annual Report 2014, inside front cover [See attachment.]

Disclosure under state law by CCRCs is not always as extensive as a resident might like. Disclosure under federal law for municipal bond holders is frequently superior to that otherwise received by residents. Actually, the disclosure requirements under state disclosure rules for residents, MSRB rules for bond investors, and IRS rules for governance and compliance enforcement are different and provided somewhat different information. Unfortunately, private placement municipal bonds for financing CCRCs have rapidly grown in popularity. Disclosure of private placement bonds is encouraged but not required. CCRCs issuing private placement bonds usually do not disclose information through MSRB.

For an explanation and discussion of not-for-profit municipal bonds by Ziegler, the investment banker to the not-for-profit CCRC industry, and their recommendations on disclosure and transparency see attached **Special Report – Secondary Market Direct Placement**

MSRB recommends disclosure and transparency for private placement bonds. See attached **MSRB Bank Loan Disclosure Market Advisory** and **MSRB-Resources-Bank-Loans.**

The MSRB continues to express an interest in improving disclosure and transparency. "The MSRB long-range plan described in this document seeks to lay out an evolutionary approach to establishing an integrated set of market transparency products that progress continuously toward achieving the MSRB's statutory mandate to remove impediments to and perfect the mechanisms of a free and open market in municipal securities and municipal financial products for the purpose of protecting investors, municipal entities, obligated persons and the public interest." See attached **Long Range Plan**, page 9

NaCCRA should support MSRB goals of improving disclosure and transparency, not to mention the goals of NaCCRA members, by recommending that the MSRB make their bank loan advisory on market disclosure a mandatory requirement.

My recommendation is that NaCCRA find a NaCCRA member who has experience in Securities Exchange Commission (SEC) law to research the subject and draft a letter to the MSRB for the signature of the President of NaCCRA.

Best regards,

Gerard Hyland
Past Chair, Financial Soundness Committee
National Continuing Care Residents Association
Mary's Woods
Lake Oswego, Oregon
Phone: (503) 635-1222

If anyone receiving this email is not acquainted with the resources available to residents about a CCRC from the MSRB, an example of how the resources might be accessed follows:

1. Refer to ***Return of Organization Exempt From Income Tax, IRS Form 990***. If you do not readily have such a form, go to GuideStar at http://www2.guidestar.org/Home.aspx Register for the free service, insert name of CCRC, go to the page for the CCRC, and in the upper right corner click on Form 990. The last three IRS Form 990 are available for free.
2. Go to ***Schedule K*** of Form 990.
3. Record the **CUSIP #** of the bond(s) appearing in **Part I**.
4. Go to the Electronic Municipal Market Access, a service of the MSRB, at http://emma.msrb.org/

5. Insert the **CUSIP #** in the box at the upper right and click enter.
6. The page containing the **Official Statement** will appear. Much good information, especially the appendices.
7. Click on the ***Continuing Disclosure Page***. More good information, including recent.
8. 8. Click on trade activity. Click on ***Trade Price or Trade Yields*** and ***AL***L See what investors think of the bonds over time. Close the ***graph.***
9. Click on ***Ratings***. It is not unusual for CCRC bonds not to be rated.

As an exercise you might try the foregoing procedure for "Marys Woods" and, "Mira Bella" in Medford, Oregon You will note that Marys Woods and Mira Bella are not spelled correctly and Mira Bella is sited in Medford, Oregon, even though it is in Seattle, Washington. Mary's Woods has no CUSIP# because its municipal bonds are private placement. You cannot find it on emma. You will find information for Mirabella.
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RGH

RGH attached five additional documents from Ziegler Research and the Municipal Securities Rulemaking Board (MSRB) not included here because of length.

1. Ziegler Special Report – Ziegler Research: Direct Private Placement Continuing Disclosure Best Practice Guidelines, Dated: April 16, 2012.
2. MSRB Report: Long-Range Plan for Market Transparency Products, Dated: January 27, 2012.
3. MSRB 2014 Annual Report.
4. NSRB Regulatory Notice 2015-03: Bank Loan Disclosure Market Advisory, Dated: January 29, 2015.
5. MSRB Resources on Bank Loans and Other Debt-like Obligations, © Municipal Securities Rulemaking Board. All rights reserved.

R. G. Hyland Email, January 28, 2016, at 12:57PM

Walton,

During yesterday's, January 27, 2016, conference call, you requested that I send to you and to the other participants my recommendation with supporting information on the importance of promptly appointing a "Chair NaCCRA Financial Soundness Committee" [see your email below] and your comment relating to the "Federal Accounting Standards Board (FASB)" in your "A White Paper on NaCCRA." The most pressing issue relating to appointment of a Chair and the FASB is participation in the implementation of the FASB ASU "Revenue from Contracts with Customers (Topic 606)," No. 2014-09. The person most suited to participate in the implementation of a FASB ASU is a NaCCRA member who is also a member of the American Institute of Certified Public Accountant (AICPA). He/she would be expected to have the education, experience, and skill to represent residents, and he/she would have the greatest acceptance by the AICPA. The Chair of the NaCCRA Financial Soundness Committee and the person who represents NaCCRA to the AICPA do not have to be the same person. The importance of participation is to be sure that residents obtain reporting of entry fees in financial statements in a manner that provides residents with use-ful information about the nature, amount, use, timing, and uncertainty of entry fees including for use in financing, charity care, transfer to affiliates, and care of residents.

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 account-ing princi-ples (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 Enti-ties (Topic 958) and Health Care Entities (Topic 954), Presentation of Financial State-ments of Not-for-Profit Entities.*** The rest of this email speaks only to ASU on ***Reve-nue from Contracts with Customers (Topic 606****)*. This ASU is the most timely to consider.

ASU ***Reve-nue 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 use-ful information to users of financial statements about the nature, amount, timing, and uncer-tainty 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 indus-tries, 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.

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 permit-ted. 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.

Why was ASU 606 issued?
"Revenue is an important number to users of financial statements in assessing an entity's financial performance and position. However, previous revenue recognition requirements in U.S. generally accepted accounting principles (GAAP) differ from those in International Financial Reporting Standards (IFRS), and both sets of requirements were in need of improvement. Previous revenue recognition guidance in U.S. GAAP comprised broad revenue recognition concepts together with numerous revenue requirements for particular industries or transactions, which sometimes resulted in different accounting for economically similar transactions. In contrast, IFRS provided limited guidance and, consequently, the two main revenue recognition standards, IAS 18, *Revenue,* and IAS 11, *Construction Contracts,* could be difficult to apply to complex transactions. Additionally, IAS 18 provides limited guidance on important revenue topics such as accounting for multiple-element arrangements.

Accordingly, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS that would:

1. Remove inconsistencies and weaknesses in revenue requirements.
2. Provide a more robust framework for addressing revenue issues.
3. Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.
4. Provide more useful information to users of financial statements through improved disclosure requirements.
5. Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer.

To meet those objectives, the FASB is amending the *FASB Accounting Standards Codification®* and creating a new Topic 606, Revenue from Contracts with Customers, and the IASB is issuing IFRS 15, *Revenue from Contracts with Customers*. The issuance of these documents completes the joint effort by the FASB and the IASB to meet those objectives and improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and IFRS." (Source: FASB ASU "Revenue from Contracts with Customers (Topic 606)," No. 2014-09, p. 1, May 2014)

The three volume ASU Topic 606 is attached and can be found at:
http://www.fasb.org/cs/ContentServer?pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176164076069
http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176164076098
http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176164076149

Summaries of ASU Topic 606 by FASB [FASB in Focus ASU 2014-09 Topic 6060] and by AICPA [AICPA frc brief revenue recognition] are attached.

The American Institute of Certified Public Accountants (AICPA) Revenue Recognition Task Forces are currently developing revenue recogni-tion implementation guidance on how to apply this new revenue recognition standard. The work of the Health Care Entities Revenue Recognition Task Force is of particular interest to CCRC residents. A summary of its review to

date can be found at
http://www.aicpa.org/interestareas/frc/accountingfinancialreporting/revenuerecognition/pages/rrtf-healthcare.aspx
Their work product(s) is/are expected to be made available for public review and comment.

While anyone can submit comments to AICPA, a member of AICPA will have the best likelihood of possessing the appropriate skills and acceptance by AICPA. As with my email of yesterday regarding MSRB, NaCCRA commenting to AICPA seems to offer the greatest national impact on behalf of CCRC residents for the least amount of NaCCRA effort as compared.

Best regards,

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

RGH attached five additional documents from the AICPA and FASB not included here because of length.

1. AICPA Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standards, July 2014.
2. FASB In Focus: Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), May 28, 2014.
3. FASB Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), pp. 1-150.
4. FASB Accounting Standards Update No. 2014-09B, (Topic 606), pp. 151-507.
5. FASB Accounting Standards Update No. 2014-09BC, (Topic 606), pp. 508-700.