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The Manager,
Australian Accounting Standards Board,
By email: standard@aasb.gov.au

Dear Sir/Madam, Subject:- Submission Reporting Entity Phase 2 – Retirement Villages

I am a retired accountant living in a retirement village. The Retirement Villages Act 1986 requires a financial statement of income and expenditure to be presented to residents and audited by a registered auditor. (part 6, sections 3 and 4)
My concern is that the proposed changes will be avoided by retirement villages.

Background. The village owner has 80 retirement villages in Australia with 20,000 residents. The Village accounts consist of a statement of financial performance, financial position, and long term maintenance information. The accounts include the cost of running and maintaining the village. The income ($800K p.a.) comes from service/maintenance fees and from a private water embedded network system. 50% of charges are related party transactions. The village is not a legal entity and has been declared a non- reporting entity. Income and expenditure are not matched in the same accounting period, funds are offset in a slush account outside the financial statements. Details can be provided.

Reply to general matters.
Q21. The proposal, Tier 2 GPFS, R & M, with 9 disclosures is excellent. The concern is that Village Owners and Auditors will find a way around this being applied to retirement villages by classifying not for profit, no public accountability, low $'s, services provided under a contract, no profit is made, increases limited to CPI. The reality is that residents must use the owner to provide services, if income is short then supplied services will be reduced, there are indirect benefits to the owner.
Can retirement villages be specifically included, so the revised standards will be applied to Retirement Villages?

Q22. None is known.

Q23. The proposals provide significant to users because:-

- The proposals would provide a standard for the accounts to be prepared. If accounts were prepared to the proposed standards then there would be no material differences and residents could make informed decisions, and likely different decisions.
- Residents would be advised of related party transactions
- The audit report is for the owner and limits the auditor's responsibility to the owner. The proposals would provide residents with a higher level of assurance. .

Q24. Retirement Villages could improve their reputation by adopting the proposals. This could result in more people moving into retirement villages, enjoying a better life, and improving the Australian economy.

Q25. Costs and benefits of the proposal.

- The incremental cost to the owner to record and prepare Village accounts to the proposed standard would not be significant. With disclosures there is an initial cost to clarify and disclose related party transactions. Any costs would be spread over 80 villages.
- Audit costs of $3300 p.a is based on a non-reporting entity and giving limited assurance. The owner is a reputable company and could comply with the proposed standards for 80 villages. The audit costs should still be low. A review instead of an audit could be an option if audit costs were a problem.
- The benefits are financial reports prepared accounting standards is that the reports are not for the village owner to give the results they would prefer. (break-even) Related party transactions are declared, the audit report would be for Residents, and comply with the requirements of the Retirement Village Act.

Malcolm Bunney. FCPA (Retired)