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Checklist supplement and illustrative financial statements for real estate ventures : a financial accounting and reporting practice aid, April 1998 edition

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AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

APRIL 1998 EDITION

CHECKLIST SUPPLEMENT AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR REAL ESTATE VENTURES

A Financial Accounting and Reporting Practice Aid

To be used in conjunction with Checklists and Illustrative Financial Statements for Corporations

Edited by

Michael Deutchman, CPA

Technical Manager, Accounting and Auditing Publications

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1 2 3 4 5 6 7 8 9 0 AAP 9 9 8

FSP Section 19,000

Checklist and Illustrative Financial Statements for Real Estate Ventures

.01 The checklist and illustrative financial statements included in this section have been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as nonauthoritative technical practice aids. Readers should be aware of the following:

- The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated; as a result, pronouncements deemed unlikely to be encountered in financial statements of real estate ventures are not included.

- The checklist and illustrative financial statements are "tools" and in no way represent official positions or pronouncements of the AICPA.

- The checklist and illustrative financial statements are to be used in conjunction with the "Checklists and Illustrative Financial Statements for Corporations" (FSP sections 6000–6600) and have been updated to include relevant accounting pronouncements through AICPA Statement on Auditing Standards No. 85, AICPA Statement on Standards for Accounting and Review Services 7, FASB Statement of Financial Accounting Standards (SFAS) No. 131, AICPA Statement of Position No. 97-2, FASB Interpretation No. 42, FASB Technical Bulletin No. 94-1, AICPA Practice Bulletin No. 15, and FASB Emerging Issues Task Force consensuses through Issue 97-13. The checklist and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

- The checklist and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of generally accepted accounting principles and generally accepted auditing standards.

.02 Users of the checklist and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline at (800) 862-4272.

Note: This publication was extracted from sections 19,000 through 19,300 of the AICPA *Financial Statement Preparation Manual* (FSP).

FSP Section 19,100
Introduction

.01 Real estate joint ventures are entities organized to accomplish a business purpose for the benefit of the members of the group. They are formed in a variety of legal ways. There are corporate joint ventures, partnerships (general or limited), undivided interests, limited liability companies, and limited liability partnerships.

.02 Real estate joint ventures ordinarily are formed to accomplish various activities, such as to sell homes and homesites, to complete development of commercial or residential real estate, or to operate and maintain those facilities.

.03 An AICPA Issues Paper (Issues Paper), "Joint Venture Accounting," dated July 17, 1979, describes certain characteristics common to joint ventures: The entities are "(1) owned, operated, and jointly controlled by a small group as a separate and specific business project; (2) operated for the mutual benefit of the ownership group; (3) frequently organized to share risks and rewards in developing a new market, product, or technology by pooling resources and facilities; (4) operated under arrangements by which each venturer may participate in overall management regardless of the percentage of ownership; (5) usually of limited duration; (6) usually operated as an extension of the business or investment of one or more of the venturers; and (7) owned by a small number of venturers." In addition to real estate activities, joint ventures are used for various purposes including to explore for oil and gas, and construct and operate manufacturing facilities.

Accounting Literature

.04 The accounting literature has given little attention to the accounting by a joint venture. Most literature in this area deals with the accounting by the investor for an investment in a joint venture. For example, the Issues Paper and its addendum issued on October 8, 1979, the AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*, APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, and FASB Statement No. 14, *Financial Reporting for Segments of a Business Enterprise*, all deal primarily with the accounting and disclosure by an investor in a joint venture or investee.

Current Developments

.05 Presented below are certain accounting pronouncements which may be of interest to practitioners engaged in the real estate venture industry:

- SFAS No. 66, *Accounting for Sales of Real Estate*, establishes standards for recognizing profit on real estate transactions and delineates sales into retail and nonretail land sales. Contains detailed flow charts indicating methods of profit recognition.
- SFAS No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, establishes whether costs associated with acquiring, developing, constructing, selling and renting real estate projects should be capitalized. Guidance relative to appropriate methods of allocating capitalized costs to individual components of projects is also provided.
- SFAS No. 98, *Accounting For Leases*, amends:
  - — SFAS No. 13, *Accounting for Leases*

— SFAS No. 66, *Accounting for Sales of Real Estate*

— SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*

and rescinds:

— SFAS No. 26, *Profit Recognition on Sales-Type Leases of Real Estate*

— FASB Technical Bulletin No. 79-11, *Effect of a Penalty on the Term of a Lease*

In amending SFAS No. 13 and SFAS No. 66 it prohibits a lease involving real estate from being classified as a sales type lease unless the lease transfers ownership of the property to the lessee by the end of the lease term.

It amends SFAS No. 13 to provide that a lessor should account for any sales-type lease of real estate under the provisions of SFAS No. 66 in the same manner as a seller of the same property.

The FASB corrects amendments of SFAS No. 13 by SFAS No. 91 to reflect the Board's intent when SFAS No. 91 was issued so that initial direct costs are capitalized separately from gross investment.

- SFAS No 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, establishes the consistent application of the financial components approach that focuses on control. Entities recognize assets controlled and liabilities incurred. Entities derecognize assets when control is surrendered and derecognize liabilities when extinguished. It creates additional guidance relative to sales vs. pledges of collateral for secured borrowings.

- SFAS No. 127, *Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125*, defers certain provisions of SFAS No. 125 and renders certain provisions effective for transactions of financial assets occurring after December 31, 1997.

Financial Statements

.06 The financial statements accompanying the disclosure checklist illustrate how a joint venture entity would report its financial condition, results of operations, and cash flows.

.07 Please note that the equity section of those joint venture financial statements presents separately the ownership interest of each venturer based on his equity interest in the joint venture. If the joint venture is a corporation, the equity section would show the equity interest of each corporation. If the joint venture is a partnership, the equity section would be entitled "Partner's Capital," and would list the equity interest of each partner and distinguish between class of partners.

FSP Section 19,200

Financial Statements and Notes Checklist

.01 This checklist has been developed by the AICPA's Technical Publications staff as a non-authoritative practice aid and is to be used in conjunction with the "Checklists and Illustrative Financial Statements for Corporations (FSP sections 6000–6600)."

.02 Explanation of References:

ARB =	Accounting Research Bulletin
APB =	Accounting Principles Board Opinion
SFAS =	FASB Statement of Financial Accounting Standards
AC =	Reference to section number in FASB *Accounting Standards—Current Text*
SOP =	AICPA Statement of Position

.03 Checklist Questionnaire:

	Yes	*No*	*N/A*
General			
A. Disclosure of Accounting Policies			
1. Is the method of reporting investments in joint ventures disclosed? [APB 22, par. 13 (AC A10.106)]	____	____	____
2. Is the consolidation policy disclosed? [ARB 51, par. 5 (AC C51.108); APB 22, pars. 12 and 13 (AC A10.105 and .106)]	____	____	____
3. Is treatment of the following items considered for disclosure:			
a. Preacquisition costs?	____	____	____
b. Interest, property taxes, and insurance?	____	____	____
c. Indirect property costs?	____	____	____
d. Amenities?	____	____	____
e. Incremental revenue from incidental operations? [SFAS 67, pars. 4–10 (AC Re2.104–.110)]	____	____	____
4. Is the method of allocating capitalized costs to components of real estate projects considered for disclosure? [SFAS 67, par. 11 (AC Re2.111)]	____	____	____
5. Disclosure of method of revenue recognition:			
a. Is a description provided of the accounting principles followed and the method of applying those principles?	____	____	____
b. If the percentage-of-completion method is used for condominium projects or time-sharing interests, are the minimum requirements for units sold and project costs incurred before profit is recognized considered for disclosure? [APB 22, par. 12 (AC A10.105); SFAS 66, par. 37 (AC Re1.137)]	____	____	____

	Yes	No	N/A
6. Is income segmented appropriately by activity, i.e., sales of subdivided land, rentals from operating properties, etc., by geography, legal entity, etc.? [SFAS 131, par. 4 (AC S30.103)]	____	____	____

B. Accounting Changes

1. Are significant revisions in estimates of the percentage-of-completion disclosed, if the effects are material? [APB 20, par. 33 (AC A06.132)]	____	____	____
2. If a retail land sale that has been accounted for by the installment method subsequently qualifies and is accounted for by the percentage-of-completion method, is the effect accounted for as a change in accounting estimate and is the effect on income before extraordinary items, net income, and related per-share amounts of the current period disclosed? [APB 20, par. 33 (AC A06.132); SFAS 66, par. 49 (AC Re1.149)]	____	____	____
3. If a sale, other than a retail land sale, which is accounted for using the installment or cost recovery methods, subsequently qualifies and is changed to the full accrual method, is this change disclosed? [APB 22, par. 12 (AC A10.105); SFAS 66, pars. 61 and 64 (AC Re1.159 and .162)]	____	____	____

C. Contingencies and Commitments

1. Are the following disclosures regarding improvements for retail land sales operations made:			
a. Estimated total costs and estimated dates of expenditures for improvements for major areas from which sales are being made over each of the five years following the date of the financial statements?	____	____	____
b. Recorded obligations for improvements? [SFAS 66, par. 50 (AC Re1.150)]	____	____	____
2. Are other significant commitments disclosed, such as commitments to purchase or construct real estate or provide financing to affiliates? [SFAS 5, pars. 18 and 19 (AC C59.120)]	____	____	____

D. Other Matters

1. If the installment method of profit recognition is used, are the following items disclosed:			
a. The sales value, unrecognized gross profit, and total cost of the sale in the income statement or notes for the period including the date of sale?	____	____	____
b. The revenue and cost of sales presented as separate items in the income statement or notes when profit is recognized as earned? [SFAS 66, par. 59 (AC Re1.157)]	____	____	____
2. If the cost recovery method of profit recognition is used:			
a. Is the sales value, unrecognized gross profit, and total cost of the sale in the income statement for the period including the date of sale disclosed?	____	____	____

	Yes	No	N/A
b. Is the unrecognized gross profit offset against the related receivable on the balance sheet?	____	____	____
c. Is the gross profit presented as a separate item of revenue on the income statement, when it is recognized as earned? [SFAS 66, par. 63 (AC Re1.161)]	____	____	____
3. If the deposit method of profit recognition is used, is disclosure made that the property and related existing debt are subject to a sales contract? [SFAS 66, par. 65 (AC Re1.163)]	____	____	____
4. If a real estate investment trust (REIT) has an investment in a service corporation (SC), are the guidelines from EITF 95-6 used when determining whether to use the equity method of accounting for its investment in the SC or whether to consolidate the SC? [EITF 95-6]	____	____	____
5. If the REIT has the ability to exercise at least significant influence on the SC as per EITF 95-6, and this results in a change in the method of accounting, are the financial statements issued by the REIT restated? [EITF 95-6]	____	____	____
E. **Risks and Uncertainties** (SOP 94-6, *Disclosure of Certain Significant Risks and Uncertainties*, is effective for financial statements issued for fiscal years ending after December 15, 1995.)			
1. Is a description of the major products and services the venture sells or provides and the principal markets, including the location of those markets disclosed? [SOP 94-6, par. 10]	____	____	____
2. If the venture operates in more than one business, are the relative importance of its operations in each business and the basis for the determination (for example, assets, revenues, or earnings) disclosed? [SOP 94-6, par. 10]	____	____	____
3. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included in the financial statements? [SOP 94-6, par. 11]	____	____	____
4. Is disclosure regarding an estimate made when known information available prior to the issuance of the financial statements indicates that (*a*) it is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events and (*b*) the effect of the change would be material to the financial statements? [SOP 94-6, par. 13]	____	____	____
5. Does the disclosure in Step 4 above, indicate the nature of the uncertainty and include an indication that it is at least reasonably possible that a change in estimate will occur in the near term?[1] [SOP 94-6, par. 14]	____	____	____

[1] If risk reduction techniques are used to mitigate losses or the uncertainty that may result from certain events, these disclosures are encouraged but not required.

	Yes	No	N/A
6. If the estimate in Step 4 above involves a loss contingency covered by SFAS 5, *Accounting for Contingencies*, do disclosures include an estimate of the possible loss or range of loss, or state that such an estimate cannot be made?[2] [SOP 94-6, par. 14]	____	____	____
7. Is disclosure of the concentrations described in paragraph 22 of SOP 94-6 made, if, based on information known to management prior to issuance of the financial statements, the criteria in paragraph 21 of SOP 94-6 are met? [SOP 94-6, pars. 21 and 22]	____	____	____
8. Have the optional disclosures in paragraphs 14 and 15 of SOP 94-6 been considered? [SOP 94-6, pars. 14 and 15]	____	____	____
F. Recognition of Environmental Remediation Liabilities (SOP 96-1, effective for fiscal years beginning after December 15, 1996)			
1. Has a liability been provided for environmental remediation provided that litigation has commenced or it is probable there will be assertion of claim and that based on available information the entity will be held responsible? [SOP 96-1, par. 108]	____	____	____
2. In determining the amount of the liability has the client included the following costs, direct costs, cost of compensation for employees involved in the remediation effort, precleanup activities, performance of remedial actions under superfund, government oversight, operation and maintenance of the remedy? [SOP 96-1, par. 124]	____	____	____
3. Has proper allocation been made of the entities share of liability? [SOP 96-1, par. 136]	____	____	____
4. Has the fair value of potential recovery, from sources such as insurance companies been properly reflected? [SOP 96-1, pars. 140 and 141]	____	____	____
5. Has the charge to income been properly reflected and if appropriate have costs been capitalized? [SOP 96-1, par. 147]	____	____	____
6. If it is determined that a loss is contingent, is disclosure made for the nature of the loss contingency? If feasible, an estimate of loss exposure and if relevant, a statement that a change in estimate will occur in the near term? [SOP 96-1, par. 162]	____	____	____
7. If it is determined that a loss is probable but it is not reasonable to estimate the loss has adequate disclosure been made of this? [SOP 96-1, par. 167]	____	____	____

Balance Sheet

A. General

1. Is an unclassified balance sheet considered where it is not possible to clearly define the operating cycle and classification of current assets

[2] See footnote 1.

	Yes	No	N/A
and liabilities on the basis of the one-year rule in ARB 43, Chapter 3A, paragraph 5? [Generally Accepted]	____	____	____
2. Are real estate assets grouped in a manner that discloses the company's operations (the following are examples of classifications to consider):			
a. Unimproved land?	____	____	____
b. Land under development?	____	____	____
c. Residential lots?	____	____	____
d. Condominiums?	____	____	____
e. Single-family dwellings?	____	____	____
f. Rental properties?	____	____	____
g. Commercial and industrial properties? [Generally Accepted]	____	____	____

B. Receivables

1. Are the following disclosures regarding accounts receivable of enterprises with retail land sales operations disclosed:			
a. Maturities of accounts receivable for each of the five years following the date of the financial statements?	____	____	____
b. Delinquent accounts receivable and the method(s) for determining delinquency?	____	____	____
c. The weighted average and range of stated interest rates of receivables? [SFAS 66, par. 50 (AC Re1.150)]	____	____	____
2. Noncurrent receivables:			
a. If entity has impaired loans receivable has proper disclosure been made on a loan by loan basis? [EITF 96-22]	____	____	____

C. Investments

1. For investments by the real estate venture in other entities accounted for under the equity method, are the following items disclosed:			
a. The name of each joint venture and percentage of ownership?	____	____	____
b. The accounting policies of the investor with respect to investments in joint ventures?	____	____	____
c. The difference, if any, between the amount at which an investment is carried and the amount of underlying equity in the investee's net assets and the accounting treatment of the difference?	____	____	____
d. For those investments in common stock for which a quoted market price is available, the aggregate value of each identified investment based on the quoted market price (this is not required for investments in common stock of subsidiaries)?	____	____	____
e. If investments in subsidiaries not consolidated prior to adoption of SFAS 94, *Consolidation of All Majority-Owned Subsidiaries*, are, in the aggregate, material in relation to financial position or results			

Yes *No* *N/A*

of operations, summarized information as to assets, liabilities, and results of operations for such subsidiaries (in the notes or in separate statements), either individually or in groups, as appropriate?

f. If investments in joint ventures are, in the aggregate, material in relation to the financial position or results of operations, summarized information as to assets, liabilities, and results of operations of the investees (in the notes or in separate statements), either individually or in groups, as appropriate?

g. Material effects of possible conversions, exercises, and other contingent issuances of an investee on the investor's share of reported earnings or loss if conversion of outstanding convertible securities, exercise of outstanding options and warrants, and other contingent issuances of an investee may have a significant effect on an investor's share of reported earnings?

h. The names of any significant investments in which the investor holds less than 20 percent of the voting stock and the investment is accounted for on the equity method together with reasons why the equity method is considered appropriate?
[APB 18, par. 20 (AC I82.110)]

2. Are the following items relating to investments by the real estate venture in other entities accounted for under the cost method disclosed:

a. The accounting policies of the investor with respect to investments in joint ventures?
[APB 18, par. 20 (AC I82.110)]

b. The amount of dividends or distributions received in the current period?
[Generally Accepted]

c. The names of any significant investments in which the investor holds 20 percent or more of the voting stock and the investment is not accounted for on the equity method, together with reasons why the equity method is not considered appropriate?
[APB 18, par. 20 (AC I82.110)]

3. Are the following items relating to investments in real estate ventures accounted for under the proportionate consolidation method disclosed:

a. The accounting policies of the investor with respect to investment in joint ventures?
[APB 18, par. 20 (AC I82.110)]

b. If investments in joint ventures are, in the aggregate, material in relation to the financial position or results of operations of the investor, summarized information as to assets, liabilities, and results of operations of the investees (in the notes or in separate statements), either individually or in groups, as appropriate?
[Generally Accepted]

D. Properties

1. Is the method of determining net realizable value considered for disclosure?
[Generally Accepted]

	Yes	No	N/A

Income Statement

A. General

1. Are revenue and cost of operations classified by principal type of activity (the following are examples of classifications to consider):

	Yes	No	N/A
a. Unimproved land?	____	____	____
b. Land under development?	____	____	____
c. Residential lots?	____	____	____
d. Condominiums?	____	____	____
e. Single-family dwellings?	____	____	____
f. Rental properties?	____	____	____
g. Commercial and industrial properties? [Generally Accepted]	____	____	____
2. If notes are sold is the transaction treated as a sale if there is no significant right of reversion for the transferor? [SFAS 125, par. 23 (AC F38.111)]	____	____	____

Practice Tip

If lessees are obligated for costs in excess of agreed upon fees a sale should generally not be recognized unless the lessee effectively obtains title to said property at the conclusion of the lease term.

	Yes	No	N/A
3. Is proper disclosure made of lessees risks for construction in excess of agreed upon fees where an effective sale has not been recognized? [EITF 97-10]	____	____	____

Exhibit A
Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of

---

Practice Tip

Real estate projects that are complete and ready for use are presented at lower of cost or fair value to sell less sales costs.

Accordingly, the following disclosure items should be considered.

A. Impairment

1. If an impairment loss is recognized for assets to be held and used, are the following disclosures made in financial statements that include the period of the impairment write-down:

	Yes	No	N/A
a. A description of the impaired assets and the facts and circumstances leading to the impairment?	____	____	____

	Yes	No	N/A
b. The amount of the impairment loss and how fair value was determined?	____	____	____
c. The caption in the income statement in which the impairment loss is aggregated if that loss has not been presented as a separate caption or reported parenthetically on the face of the statement?	____	____	____
d. The business segment(s) affected, if applicable? [SFAS 121, par. 14 (AC I08.132)]	____	____	____
2. If assets to be disposed of are accounted for in accordance with paragraphs 15–17 of SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, are all of the following disclosed in financial statements that include a period during which those assets are held:			
a. A description of assets to be disposed of, the facts and circumstances leading to the expected disposal, the expected disposal date, and the carrying amount of those assets?	____	____	____
b. The business segment(s) in which assets to be disposed of are held, if applicable?	____	____	____
c. The loss resulting from the application of paragraph 15 of SFAS 121?	____	____	____
d. The gain or loss, resulting from changes in the carrying amounts of assets to be disposed of that arises from application of paragraph 17 of SFAS 121?	____	____	____
e. The caption in the income statement in which the gains or losses in *c.* and *d.* are aggregated if those gains or losses have not been presented as a separate caption or reported parenthetically on the face of the statement?	____	____	____
f. The results of operations for assets to be disposed of to the extent that those results are included in the entity's results of operations for the period and can be identified? [SFAS 121, par. 19 (AC I08.138)]	____	____	____
3. If an impairment loss is recognized, is it reported as a component of income from continuing operations before income taxes? [SFAS 121, pars. 13 and 18 (AC I08.131 and .137)]	____	____	____

FSP Section 19,300
Illustrative Financial Statements

.01 The illustrative financial statements have been presented in two different formats. The second format includes current value information. Practitioners may find this additional information useful as guidance in appropriate circumstances. The illustrative statements are not intended to illustrate all disclosures required by GAAP or all of the disclosures covered in the financial statement checklist.

.02

Independent Auditors' Report

To the Management of Real Estate Joint Venture Company

We have audited the accompanying balance sheets of Real Estate Joint Venture Company as of December 31, 19X1 and 19X0, and the related statements of income and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Real Estate Joint Venture Company as of December 31, 19X1 and 19X0, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

[*Signature*]

[*February 15, 19X2*]

The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated.

.03

REAL ESTATE JOINT VENTURE COMPANY

Balance Sheets

December 31, 19X1 and 19X0

	December 31, 19X1	*December 31, 19X0*
Assets		
Property:		
Operating	$ 5,300,000	$ 4,700,000
Less: accumulated depreciation	(2,320,000)	(2,200,000)
Net	2,980,000	2,500,000
Properties held for sale	1,200,000	1,150,000
Properties held for development	500,000	400,000
Land	250,000	250,000
Total Property	4,930,000	4,300,000
Cash and cash equivalents	425,000	318,000
Marketable securities	225,000	225,000
Notes receivable	350,000	260,000
	$ 5,930,000	$ 5,103,000
Liabilities and Capital		
Current maturities of long-term debt	$ 550,000	$ 550,000
Accounts payable	220,000	220,000
Accrued expenses and other liabilities	140,000	140,000
Mortgage loans	5,500,000	4,500,000
Construction loans	320,000	150,000
Land loans	125,000	125,000
Total liabilities	6,855,000	5,685,000
Capital (Deficit)		
ABC Company	(291,000)	(289,700)
XYZ Company	(291,000)	(289,700)
	(582,000)	(579,400)
Loss	(158,800)	(2,600)
Partnership Distributions	(184,200)	0
Total (Deficit)	(925,000)	(582,000)
	$ 5,930,000	$ 5,103,000

The accompanying notes are an integral part of the financial statements.

.04

REAL ESTATE JOINT VENTURE COMPANY

Statements of Income

Years Ended December 31, 19X1 and 19X0

	December 31, 19X1	*December 31, 19X0*
Net rental income	$ 714,000	$ 660,000
Interest income	45,200	32,400
Total revenue	759,200	692,400
Operating expenses	(340,000)	(238,000)
Interest expense	(458,000)	(357,000)
Depreciation and amortization	(120,000)	(100,000)
Total expenses	(918,000)	(695,000)
Net income	$(158,800)	$ (2,600)

The accompanying notes are an integral part of the financial statements.

.05

REAL ESTATE JOINT VENTURE COMPANY

Statements of Cash Flows

Years Ended December 31, 19X1 and 19X0

	Year Ended December 31, 19X1	*Year Ended December 31, 19X0*
Cash flows from operating activities:		
Cash received from rentals	$ 714,000	$ 671,000
Cash paid for operations	(340,000)	(246,000)
Purchase of operating properties	(600,000)	(400,000)
Purchase of properties held for sale	(50,000)	0
Purchase of properties held for development	(100,000)	0
	(376,000)	25,000
Cash flows from investing activities:		
Interest income	45,200	32,400
Cash flows from financing activities:		
Borrowings	1,170,000	0
Interest payments	(458,000)	(350,000)
Distribution to partners	(184,200)	
Receipt of note	(90,000)	
	437,800	(350,000)
Net increase in cash and cash equivalents	107,000	(292,600)
Cash and cash equivalents at beginning of year	318,000	610,600
Cash and cash equivalents at end of year	$ 425,000	$ 318,000
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ (158,800)	$ (2,600)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	120,000	100,000
Purchase of properties	(750,000)	(400,000)
Interest expense	458,000	357,000
Interest income	(45,200)	(32,400)
Net change in receivables and payables		3,000
Net cash provided by operating activities	$ (376,000)	$ 25,000

The accompanying notes are an integral part of the financial statements.

.06

REAL ESTATE JOINT VENTURE COMPANY

Notes to the Financial Statements

December 31, 19X1 and 19X0

Note 1: The Company

In 19X0, the ABC Company entered into a joint venture agreement with XYZ Company to form the Real Estate Joint Venture Company ("Joint Venture"). The joint venture was formed to acquire land for development, develop said land for residential and commercial uses and to operate and sell individual properties.

Note 2: Significant Accounting Policies

(*a*) Sales of Property

Gains from sales are recognized when numerous criteria relating to the sale are met. If sales are made that do not meet said criteria, sales are not recognized until criteria are met using the installment or cost recovery methods as appropriate under the circumstances.

(*b*) Depreciation

Is recorded for all operating properties over a forty year term.

(*c*) Income Taxes

The joint venture pays no income taxes and is taxed as a partnership under provisions of the IRC. Individual participants include their distributive share of profits and losses on their own taxable entities.

(*d*) Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Note 3: Loans Payable

Mortgage, construction and land loans payable as of December 31, 19X1, consist of the following:

	Interest rate	*Total*	*19X2*	*19X3*	*19X4*	*19X5*	*19X6 or later*
Mortgage	7–9%	$6,050,000	$550,000	$550,000	$550,000	$550,000	$3,850,000
Construction	Floating 3% Over prime	320,000	320,000				
Land	12%	125,000	125,000				
		$6,495,000	$995,000	$550,000	$550,000	$550,000	$3,850,000

Note 4: Commitments

As of December 31, 19X1, the joint venture had remaining commitments of approximately $400,000 on construction contracts and was contingently liable for approximately $75,000 of notes discounted with banks.

Note 5: Contingencies

There are claims and actions pending against the joint venture. In the opinion of management, the amounts, if any, that may be awarded for those claims and actions would not be material to the company's financial position.

.07

Independent Auditor's Report

We have audited the accompanying historical cost-balance sheets of Real Estate Joint Venture as of December 31, 19X1 and 19X0 and the related historical-cost statements of income, participants' equity and cash flows for each of the years ended December 31, 19X1 and 19X0. We also have audited the supplemental current-value balance sheets of Real Estate Joint Venture as of December 31, 19X1 and 19X0. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the historical-cost financial statements referred to above present fairly, in all material respects, the financial position of Real Estate Joint Venture as of December 31, 19X1 and 19X0, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As described in Note 3, the supplemental current-value financial statements have been prepared by management to present relevant financial information that is not provided by the historical-cost financial statements and are not intended to be a presentation in conformity with generally accepted accounting principles. In addition, the supplemental current-value financial statements do not purport to present the net realizable, liquidation, or market value of the Company as a whole. Furthermore, amounts ultimately realized by the Company from the disposal of properties may vary significantly from the current values presented.

In our opinion, the supplemental current-value financial statements referred to above present fairly, in all material respects, the information set forth in them on the basis of accounting described in Note 3.

[*Signature*]

[*Date*]

.08

REAL ESTATE JOINT VENTURE COMPANY

Balance Sheets

December 31, 19X1 and 19X0

	19X1 Cost Basis	*19X0 Cost Basis*	*19X1 Current Value*	*19X0 Current Value*
Assets				
Property:				
Operating	$ 5,300,000	$ 4,700,000	$ 7,200,000	$6,600,000
Less: accumulated depreciation	(2,320,000)	(2,200,000)		
Net	2,980,000	2,500,000	7,200,000	6,600,000
Properties held for sale	1,200,000	1,150,000	1,300,000	1,250,000
Properties held for development	500,000	400,000	500,000	400,000
Land	250,000	250,000	250,000	250,000
Total property	4,930,000	4,300,000	9,250,000	8,500,000
Cash and cash equivalents	425,000	318,000	425,000	318,000
Marketable securities	225,000	225,000	225,000	225,000
Notes receivable	350,000	260,000	350,000	260,000
Total	$ 5,930,000	$ 5,103,000	$10,250,000	$9,303,000
Liabilities and Capital				
Current maturities of long-term debt	$ 550,000	$ 550,000	$ 550,000	$ 550,000
Accounts payable	220,000	220,000	220,000	220,000
Accrued expenses and other liabilities	140,000	140,000	140,000	140,000
Mortgage loans	5,500,000	4,500,000	5,500,000	4,500,000
Construction loans	320,000	150,000	320,000	150,000
Land loans	125,000	125,000	125,000	125,000
Total loans	6,855,000	5,685,000	6,855,000	5,685,000
Capital, (Deficit)				
ABC Company	(291,000)	(289,700)	(291,000)	(289,700)
XYZ Company	(291,000)	(289,700)	(291,000)	(289,700)
	(582,000)	(579,400)	(582,000)	(579,400)
Gain (loss)	(158,000)	(2,600)	(158,000)	(2,600)
Partnership distributions	(185,000)	0	(185,000)	0
Revaluation equity			4,320,000	4,200,000
Total	(925,000)	(582,000)	3,395,000	3,618,000
	$ 5,930,000	$ 5,103,000	$10,250,000	$9,303,000

The accompanying notes are an integral part of the financial statements.

.09

Real Estate Joint Venture

Statements of Income

Years Ended December 31, 19X1 and 19X0

	December 31, 19X1	*December 31, 19X0*
Net rental income	$ 714,000	$ 660,000
Interest income	45,200	32,400
Total revenue	759,200	692,400
Operating expenses	(340,000)	(238,000)
Interest expense	(458,000)	(357,000)
Depreciation and amortization	(120,000)	(100,000)
Total expenses	(918,000)	(695,000)
Net income	$(158,800)	$ (2,600)

The accompanying notes are an integral part of the financial statements.

.10

REAL ESTATE JOINT VENTURE COMPANY

Statements of Cash Flows

Years Ended December 31, 19X1 and 19X0

	Year Ended December 19X1	*Year Ended December 19X0*
Cash flows from operating activities:		
Cash received from rentals	$ 714,000	$ 671,000
Cash paid for operations	(340,000)	(246,000)
Purchase of operating properties	(600,000)	(400,000)
Purchase of properties held for sale	(50,000)	0
Purchase of properties held for development	(100,000)	0
	(376,000)	25,000
Cash flows from investing activities:		
Interest income	45,200	32,400
Cash flows from financing activities:		
Borrowings	1,170,000	0
Interest payments	(458,000)	(350,000)
Distribution to partners	(184,200)	
Receipt of note	(90,000)	
	437,800	(350,000)
Net increase in cash and cash equivalents	107,000	(292,600)
Cash and cash equivalents at beginning of year	318,000	610,600
Cash and cash equivalents at end of year	$ 425,000	$ 318,000
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ (158,800)	$ (2,600)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	120,000	100,000
Purchase of properties	(750,000)	(400,000)
Interest expense	458,000	357,000
Interest income	(45,200)	(32,400)
Net change in receivables and payables		3,000
Net cash provided by operating activities	$ (376,000)	$ 25,000

The accompanying notes are an integral part of the financial statements.

.11

REAL ESTATE JOINT VENTURE COMPANY

Notes to the Financial Statements

December 31, 19X1 and 19X0

Note 1: The Company

In 19X0, the ABC Company entered into a joint venture agreement with XYZ Company to form the Real Estate Joint Venture Company ("Joint Venture"). The joint venture was formed to acquire land for development, develop said land for residential and commercial uses and to operate and sell individual properties.

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(*a*) Sales of Property

Gains from sales are recognized when numerous criteria relating to the sale are met. If sales are made that do not meet said criteria the result of sales, sales are not recognized until criteria are met using the installment or cost recovery methods as appropriate under the circumstances.

(*b*) Depreciation

Is recorded for all operating properties over a forty year term.

(*c*) Income Taxes

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(*d*) Cash and Cash Equivalents

The company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Note 3: Current value reporting

Management of the Company believes that properties have appreciated in value and therefore current value substantially exceeds cost basis. In estimating current values of the company's assets and liabilities estimates and judgments have been made, however, they are not subject to precise quantification or verification and may change over time due to economic factors.

Current values of operating properties have been determined by calculating the present value of future net cash flows factoring in an expected vacancy rate.

Current values of operating properties held for sale have been estimated based upon comparable sales, where available, negotiated contracts and other relevant data.

Current values of properties in development and raw land are carried at cost.

Revaluation Equity

The difference between cost and current values of assets is reported in the revaluation section of participant's equity. The components of revaluation are as follows:

	19X1	*19X0*
Value of interest in operating properties	$ 7,200,000	$ 6,600,000
Value of properties held for sale	1,300,000	1,250,000
Depreciated cost of properties	(4,180,000)	(3,650,000)
Total Revaluation Equity	$ 4,320,000	$ 4,200,000

Note 4: Loans Payable

Mortgage, construction and land loans payable as of December 31, 19X1, consist of the following:

	Interest rate	*Total*	*19X2*	*19X3*	*19X4*	*19X5*	*19X6 or later*
Mortgage	7–9%	$6,050,000	$550,000	$550,000	$550,000	$550,000	$3,850,000
Construction	Floating 3% Over prime	320,000	320,000				
Land	12%	125,000	125,000				
		$6,495,000	$995,000	$550,000	$550,000	$550,000	$3,850,000

Note 5: Commitments

As of December 31, 19X1, the joint venture had remaining commitments of approximately $400,000 on construction contracts and was contingently liable for approximately $75,000 of notes discounted with banks.

Note 6: Contingencies

There are claims and actions pending against the joint venture. In the opinion of management, the amounts, if any, that may be awarded for those claims and actions would not be material to the company's financial position.

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