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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

Prepared By
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Technical Manager,
Accounting and Auditing Publications
Checklist Supplement and Illustrative Financial Statements for Real Estate Ventures has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.
FSP Section 19,000

Checklist and Illustrative Financial Statements for Real Estate Ventures

Description

.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, and APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, all deal primarily with the accounting and disclosure by an investor in a joint venture or investee.

Financial Accounting and Reporting Standards

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

- SFAS 66, Accounting for Sales of Real Estate, as amended by SFAS 98, 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 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 98, *Accounting For Leases*, amends:
  - SFAS 13, *Accounting for Leases*
  - SFAS 66, *Accounting for Sales of Real Estate*
  - SFAS 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*

and rescinds:
  - SFAS 26, *Profit Recognition on Sales-Type Leases of Real Estate*

In amending SFAS 13 and SFAS 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 13 to provide that a lessor should account for any sales-type lease of real estate under the provisions of SFAS 66 in the same manner as a seller of the same property.

The FASB corrects amendments of SFAS 13 by SFAS 91 to reflect the Board’s intent when SFAS 91 was issued so that initial direct costs are capitalized separately from gross investment.

- SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. Those standards are based on consistent application of a *financial-components approach* that focuses on control. Under that approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. This Statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. It replaces SFAS 125 and it revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of Statement 125’s provisions without reconsideration. This statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. This Statement is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. Disclosures about securitizations and collateral accepted need not be reported for periods ending on or before December 15, 2000, for which financial statements are presented for comparative purposes. This Statement is to be applied prospectively with certain exceptions. Other than those exceptions, earlier or retroactive application of its accounting provisions is not permitted.

- FASB Interpretation 43, *Real Estate Sales*. This Interpretation of SFAS 66, *Accounting for Sales of Real Estate*, clarifies that the phrase “all real estate sales” includes sales of real estate with property improvements or integral equipment that cannot be removed and used separately from the real estate without incurring significant costs. For example, office buildings, manufacturing facilities, power plants, and refineries are included in this description. The Interpretation is effective for all sales of real estate with property improvements or integral equipment entered into after June 30, 1999.

**Illustrative Financial Statements**

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.

Note: This publication was extracted from sections 19,000 through 19,300 of the AICPA Financial Statement Preparation Manual (FSP).
FSP Section 19,100

Instructions

General

.01 This publication includes:

• Financial Statements and Notes Checklist—For use by preparers and auditors of real estate joint venture financial statements.

• Illustrative Financial Statements and Auditor’s Reports—Illustrating real estate joint venture financial statements.

.02 The checklist and illustrative financial statements have been developed by the AICPA Accounting and Auditing Publications staff as nonauthoritative practice aids to be used as a memory jogger to aid in the audit of financial statements of real estate joint ventures. 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.

.03 The checklists and illustrative financial statements are to be used in conjunction with the “Checklists and Illustrative Financial Statements for Corporations” (FSP sections 6000–6500) and have been updated to include relevant disclosure guidance in accounting pronouncements issued through:

• FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets
• FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation
• FASB Technical Bulletin 01-1, Effective Date for Certain Financial Institutions of Certain Provisions of Statement 140 Related to the Isolation of Transferred Financial Assets
• AICPA Statement on Auditing Standards (SAS) No. 94, The Effect of Information Technology on the Auditor’s Consideration of Internal Control in a Financial Statement Audit
• AICPA Statement of Position 01-4, Reporting Pursuant to the Association for Investment Management and Research Performance Presentation Standards
• AICPA Practice Bulletin 15, Accounting by the Issuer of Surplus Notes
• EITF Consensuses adopted through the September 2001 Emerging Issues Task Force (EITF) meeting

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.

Instructions

.04 The checklists consist of a number of questions or statements that are accompanied by references to the applicable authoritative pronouncements. The checklists provide spaces for checking off or initialing each question or point to show that it has been considered. Users should check or initial—
Real Estate Ventures

- Yes—If the disclosure is appropriately made.
- No—If the disclosure has not been made.
- N/A (Not Applicable)—If the disclosure is not applicable.

The auditor should consider the effect of a “no” answer on his/her report. A “no” answer that is material to the financial statements may warrant a departure from an unqualified opinion (see paragraphs 20–63 of SAS No. 58, Reports on Audited Financial Statements, as amended [AICPA, Professional Standards, vol. 1, AU sec. 508.20–63]). If a “no” answer is checked, the authors recommend that a note be made in the right margin to explain why the disclosure was not made (for example, if the disclosure was not made because it was not material to the financial statements, write “not material” in the right margin). The right margin may be used for other remarks or comments as appropriate, including cross-referencing to applicable workpapers where the support to a disclosure may be found. Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.

.05 The use of these or any other checklists requires the exercise of individual professional judgment. These checklists are not substitutes for the authoritative pronouncements. Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated, nor do they represent minimum requirements. Pronouncements deemed remote for real estate ventures are not included in this document. Users of the checklists and illustrative financial statements are encouraged to tailor them as necessary to meet specific circumstances of each particular engagement.

.06 These checklists and illustrative financial statements have been prepared by the AICPA staff. They have not been reviewed, approved, disapproved, or otherwise acted on by any senior technical committee of the AICPA and do not represent official positions or pronouncements of the AICPA.

.07 If you have further questions, call the AICPA Technical Hotline at 1-888-777-7077.

FSP §19,100.05
FSP Section 19,200

Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a non-authoritative practice aid and is to be used in conjunction with the “Checklists and Illustrative Financial Statements for Corporations (FSP sections 6000–6500).”

.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
EITF = FASB Emerging Issues Task Force Consensus
PB = AICPA Practice Bulletin

.03 Checklist Questionnaire:

This financial statement disclosure checklist is organized into the sections listed below. Carefully review the topics listed and consider whether they represent potential disclosure items for the real estate venture for which you are preparing or auditing financial statements. Place a check mark by the topics or sections that are applicable and complete those sections of the checklist. Other sections may be marked “N/A” or left blank. For example, if the real estate venture had a change in accounting principle, place a check mark by the section “Accounting Changes” and complete that section of the checklist. On the other hand, if the contractor did not have a change in accounting principle, do not place a check mark by “Accounting Changes” and skip that section when completing the checklist.

Place ✓ by
Sections Applicable

- General
  A. Disclosure of Accounting Policies
  B. Accounting Changes
  C. Commitments and Contingencies
  D. Other Matters
  E. Limited Liability Companies and Partnerships

- Balance Sheet
  A. General
  B. Receivables
  C. Properties

- Income Statement
  A. General

FSP §19,200.03
### General

#### A. Disclosure of Accounting Policies

1. Is the method of reporting investments in joint ventures disclosed?  
   [APB 22, pars. 12 and 13 (AC A10.105 and .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:
   - Preacquisition costs?
   - Property taxes and insurance?
   - Project costs (including indirect costs)?
   - Amenities?
   - 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:
   - Is a description provided of the accounting principles followed and the method of applying those principles?  
     [APB 22, par. 12 (AC A10.105); SFAS 66, par. 37 (AC Re1.137)]

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. In addition to the required disclosures for changes in accounting in the Corporate Checklist, FSP section 6,100 (under the section "Changes in Accounting"), have the following disclosures been considered?  
   - Are significant revisions in estimates of the percentage-of-completion disclosed, if the effects are material?  
     [APB 20, par. 33 (AC A06.132)]

   - 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)]

FSP §19,200.03
Financial Statements and Notes Checklist

1. 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. Commitments and Contingencies

1. In addition to the required disclosures for commitments and contingencies in the Corporate Checklist, FSP section 6,100 (under the section “Commitments and Contingencies”), have the following disclosures been considered?
   a. Are the following disclosures regarding improvements for retail land sales operations made:
      (1) 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?
      [SFAS 66, par. 50 (AC Re1.150d and e)]

   b. 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?
   [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 presented in the income statement for the period including the date of sale?
   [SFAS 66, par. 63 (AC Re1.161)]

   b. Is the unrecognized gross profit offset against the related receivable on the balance sheet?
   [SFAS 66, par. 65 (AC Re1.163)]

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 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. Limited Liability Companies and Partnerships

1. If the real estate venture is organized as a limited liability company or a limited liability partnership:
   - a. Has a description of any limitation of a member's liability been disclosed?  
   - b. Have the different classes of members' interests and the respective rights, preferences, and privileges of each class been disclosed?  
   - c. As discussed in paragraph 10 of PB 14, if the limited liability company or limited liability partnership does not report separately the amount of each class in the equity section of the statement of financial position, have those amounts been disclosed in the notes?  
   - d. If the limited liability company or limited liability partnership has a finite life, has the date the entity will cease to exist been disclosed?  
   - e. If the limited liability company or limited liability partnership was formed by combining entities under common control or by conversion from another type of entity, do the notes to the financial statements for the year of formation disclose that the assets and liabilities were previously held by a predecessor entity or entities?  
   - f. As encouraged by PB 14, have the relevant disclosures in paragraph 64 of APB 16, Business Combinations, been made by the limited liability company or limited liability partnership if it was formed by combining entities under common control? [PB 14, pars. 15 and 16]

2. If the real estate venture is organized as a limited liability company or a limited liability partnership have the financial statement display issues in paragraphs .08-.14 of practice bulletin 14 been considered? [PB 14, pars. .08-.14]

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 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?
Financial Statements and Notes Checklist

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 Re1.150a-c)]

2. Noncurrent receivables:
   a. If entity has impaired loans receivable has proper disclosure been made on a loan by loan basis?
      [EITF 96-22]

B. Receivables

C. Properties

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

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):
   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. Has consideration been given to disclosing lessee’s risks for construction in excess of agreed upon fees where an effective sale has not been recognized?
   [EITF 97-10]
FSP Section 19,300

Illustrative Financial Statements and Auditor’s Reports

.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 Auditor’s 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, 20X1 and 20X0, 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 auditing standards generally accepted in the United States of America. 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, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

[Firm Signature]
Certified Public Accountants

[City, State]

[February 15, 20X2]
REAL ESTATE JOINT VENTURE COMPANY

Balance Sheets

December 31, 20X1 and 20X0

Assets

<table>
<thead>
<tr>
<th></th>
<th>December 31, 20X1</th>
<th>December 31, 20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating</td>
<td>$ 5,300,000</td>
<td>$ 4,700,000</td>
</tr>
<tr>
<td>Less: accumulated depreciation</td>
<td>(2,320,000)</td>
<td>(2,200,000)</td>
</tr>
<tr>
<td>Net</td>
<td>2,980,000</td>
<td>2,500,000</td>
</tr>
<tr>
<td>Properties held for sale</td>
<td>1,200,000</td>
<td>1,150,000</td>
</tr>
<tr>
<td>Properties held for development</td>
<td>500,000</td>
<td>400,000</td>
</tr>
<tr>
<td>Land</td>
<td>250,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Total Property</td>
<td>4,930,000</td>
<td>4,300,000</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>425,000</td>
<td>318,000</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>225,000</td>
<td>225,000</td>
</tr>
<tr>
<td>Notes receivable</td>
<td>350,000</td>
<td>260,000</td>
</tr>
<tr>
<td></td>
<td>$ 5,930,000</td>
<td>$ 5,103,000</td>
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</table>

Liabilities and Capital

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current maturities of long-term debt</td>
<td>$ 550,000</td>
<td>$ 550,000</td>
</tr>
<tr>
<td>(Note 3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>220,000</td>
<td>220,000</td>
</tr>
<tr>
<td>Accrued expenses and other liabilities</td>
<td>140,000</td>
<td>140,000</td>
</tr>
<tr>
<td>Mortgage loans (Note 3)</td>
<td>5,500,000</td>
<td>4,500,000</td>
</tr>
<tr>
<td>Construction loans (Note 3)</td>
<td>320,000</td>
<td>150,000</td>
</tr>
<tr>
<td>Land loans (Note 3)</td>
<td>125,000</td>
<td>125,000</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>6,855,000</td>
<td>5,685,000</td>
</tr>
<tr>
<td>Capital (Deficit)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ABC Company</td>
<td>(291,000)</td>
<td>(289,700)</td>
</tr>
<tr>
<td>XYZ Company</td>
<td>(291,000)</td>
<td>(289,700)</td>
</tr>
<tr>
<td></td>
<td>(582,000)</td>
<td>(579,400)</td>
</tr>
<tr>
<td>Loss</td>
<td>(158,800)</td>
<td>(2,600)</td>
</tr>
<tr>
<td>Partnership Distributions</td>
<td>(184,200)</td>
<td>0</td>
</tr>
<tr>
<td>Total (Deficit)</td>
<td>(925,000)</td>
<td>(582,000)</td>
</tr>
<tr>
<td></td>
<td>$ 5,930,000</td>
<td>$ 5,103,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
## REAL ESTATE JOINT VENTURE COMPANY

**Statements of Income**

*Years Ended December 31, 20X1 and 20X0*

<table>
<thead>
<tr>
<th></th>
<th>December 31, 20X1</th>
<th>December 31, 20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net rental income</td>
<td>$714,000</td>
<td>$660,000</td>
</tr>
<tr>
<td>Interest income</td>
<td>45,200</td>
<td>32,400</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>759,200</td>
<td>692,400</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(340,000)</td>
<td>(238,000)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(458,000)</td>
<td>(357,000)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>(120,000)</td>
<td>(100,000)</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>(918,000)</td>
<td>(695,000)</td>
</tr>
<tr>
<td>Net income</td>
<td>$(158,800)</td>
<td>$(2,600)</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
REAL ESTATE JOINT VENTURE COMPANY

Statements of Cash Flows

Years Ended December 31, 20X1 and 20X0

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31, 20X1</th>
<th>Year Ended December 31, 20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash received from rentals</td>
<td>$ 714,000</td>
<td>$ 671,000</td>
</tr>
<tr>
<td>Cash paid for operations</td>
<td>(340,000)</td>
<td>(246,000)</td>
</tr>
<tr>
<td>Purchase of operating properties</td>
<td>(600,000)</td>
<td>(400,000)</td>
</tr>
<tr>
<td>Purchase of properties held for sale</td>
<td>(50,000)</td>
<td>0</td>
</tr>
<tr>
<td>Purchase of properties held for development</td>
<td>(100,000)</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>(376,000)</td>
<td>25,000</td>
</tr>
<tr>
<td>Cash flows from investing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>45,200</td>
<td>32,400</td>
</tr>
<tr>
<td>Cash flows from financing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td>1,170,000</td>
<td>0</td>
</tr>
<tr>
<td>Interest payments</td>
<td>(458,000)</td>
<td>(350,000)</td>
</tr>
<tr>
<td>Distribution to partners</td>
<td>(184,200)</td>
<td></td>
</tr>
<tr>
<td>Receipt of note</td>
<td>(90,000)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>437,800</td>
<td>(350,000)</td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents</td>
<td>107,000</td>
<td>(292,600)</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>318,000</td>
<td>610,600</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td>$ 425,000</td>
<td>$ 318,000</td>
</tr>
<tr>
<td>Reconciliation of net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$ (158,800)</td>
<td>$ (2,600)</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>120,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Purchase of properties</td>
<td>(750,000)</td>
<td>(400,000)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>458,000</td>
<td>357,000</td>
</tr>
<tr>
<td>Interest income</td>
<td>(45,200)</td>
<td>(32,400)</td>
</tr>
<tr>
<td>Net change in receivables and payables</td>
<td></td>
<td>3,000</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>$ (376,000)</td>
<td>$ 25,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
REAL ESTATE JOINT VENTURE COMPANY
Notes to the Financial Statements
December 31, 20X1 and 20X0

Note 1: The Company
In 20X0, 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, 20X1, consist of the following:

<table>
<thead>
<tr>
<th>Interest rate</th>
<th>Total</th>
<th>20X2</th>
<th>20X3</th>
<th>20X4</th>
<th>20X5</th>
<th>20X6 or later</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage</td>
<td>7−9%</td>
<td>$6,050,000</td>
<td>$550,000</td>
<td>$550,000</td>
<td>$550,000</td>
<td>$550,000</td>
</tr>
<tr>
<td>Construction</td>
<td>Floating 3%</td>
<td>320,000</td>
<td>320,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>12%</td>
<td>125,000</td>
<td>125,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

$6,495,000 $995,000 $550,000 $550,000 $550,000 $3,850,000

Note 4: Commitments
As of December 31, 20X1, 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.
Independent Auditor's Report

We have audited the accompanying historical cost-balance sheets of Real Estate Joint Venture Company as of December 31, 20X1 and 20X0 and the related historical-cost statements of income and cash flows for each of the years ended December 31, 20X1 and 20X0. We also have audited the supplemental current-value balance sheets of Real Estate Joint Venture Company as of December 31, 20X1 and 20X0. 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 auditing standards generally accepted in the United States of America. 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 Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

[Firm Signature]
Certified Public Accountants

[City, State]
[Date]
REAL ESTATE JOINT VENTURE COMPANY

Balance Sheets

December 31, 20X1 and 20X0

<table>
<thead>
<tr>
<th>Assets</th>
<th>20X1</th>
<th>20X0</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost Basis</td>
<td>Cost Basis</td>
<td>Current Value</td>
<td>Current Value</td>
</tr>
<tr>
<td>Property:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating</td>
<td>$5,300,000</td>
<td>$4,700,000</td>
<td>$7,200,000</td>
<td>$6,600,000</td>
</tr>
<tr>
<td>Less: accumulated depreciation</td>
<td>(2,320,000)</td>
<td>(2,200,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net</td>
<td>2,980,000</td>
<td>2,500,000</td>
<td>7,200,000</td>
<td>6,600,000</td>
</tr>
<tr>
<td>Properties held for sale</td>
<td>1,200,000</td>
<td>1,150,000</td>
<td>1,300,000</td>
<td>1,250,000</td>
</tr>
<tr>
<td>Properties held for development</td>
<td>500,000</td>
<td>400,000</td>
<td>500,000</td>
<td>400,000</td>
</tr>
<tr>
<td>Land</td>
<td>250,000</td>
<td>250,000</td>
<td>250,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Total property</td>
<td>4,930,000</td>
<td>4,300,000</td>
<td>9,250,000</td>
<td>8,500,000</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>425,000</td>
<td>318,000</td>
<td>425,000</td>
<td>318,000</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>225,000</td>
<td>225,000</td>
<td>225,000</td>
<td>225,000</td>
</tr>
<tr>
<td>Notes receivable</td>
<td>350,000</td>
<td>260,000</td>
<td>350,000</td>
<td>260,000</td>
</tr>
<tr>
<td>Total</td>
<td>5,930,000</td>
<td>5,103,000</td>
<td>10,250,000</td>
<td>9,303,000</td>
</tr>
</tbody>
</table>

Liabilities and Capital

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Capital, (Deficit)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ABC Company</td>
<td>(291,000)</td>
<td>(289,700)</td>
<td>(291,000)</td>
</tr>
<tr>
<td></td>
<td>XYZ Company</td>
<td>(291,000)</td>
<td>(289,700)</td>
<td>(291,000)</td>
</tr>
<tr>
<td></td>
<td>Gain (loss)</td>
<td>(158,000)</td>
<td>(2,600)</td>
<td>(158,000)</td>
</tr>
<tr>
<td></td>
<td>Partnership distributions</td>
<td>(185,000)</td>
<td>0</td>
<td>(185,000)</td>
</tr>
<tr>
<td></td>
<td>Revaluation equity</td>
<td></td>
<td>4,320,000</td>
<td>4,200,000</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>(925,000)</td>
<td>(582,000)</td>
<td>3,395,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$5,930,000</td>
<td>$5,103,000</td>
<td>$10,250,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
Real Estate Joint Venture Company

Statements of Income

Years Ended December 31, 20X1 and 20X0

<table>
<thead>
<tr>
<th></th>
<th>December 31, 20X1</th>
<th>December 31, 20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net rental income</td>
<td>$714,000</td>
<td>$660,000</td>
</tr>
<tr>
<td>Interest income</td>
<td>45,200</td>
<td>32,400</td>
</tr>
<tr>
<td>Total revenue</td>
<td>759,200</td>
<td>692,400</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(340,000)</td>
<td>(238,000)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(458,000)</td>
<td>(357,000)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>(120,000)</td>
<td>(100,000)</td>
</tr>
<tr>
<td>Total expenses</td>
<td>(918,000)</td>
<td>(695,000)</td>
</tr>
<tr>
<td>Net income</td>
<td>$(158,800)</td>
<td>$ (2,600)</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
REAL ESTATE JOINT VENTURE COMPANY  
Statements of Cash Flows  
Years Ended December 31, 20X1 and 20X0

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 20X1</th>
<th>Year Ended December 20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash received from rentals</td>
<td>$ 714,000</td>
<td>$ 671,000</td>
</tr>
<tr>
<td>Cash paid for operations</td>
<td>(340,000)</td>
<td>(246,000)</td>
</tr>
<tr>
<td>Purchase of operating properties</td>
<td>(600,000)</td>
<td>(400,000)</td>
</tr>
<tr>
<td>Purchase of properties held for sale</td>
<td>(50,000)</td>
<td>0</td>
</tr>
<tr>
<td>Purchase of properties held for development</td>
<td>(100,000)</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(376,000)</td>
<td>25,000</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>45,200</td>
<td>32,400</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td>1,170,000</td>
<td>0</td>
</tr>
<tr>
<td>Interest payments</td>
<td>(458,000)</td>
<td>(350,000)</td>
</tr>
<tr>
<td>Distribution to partners</td>
<td>(184,200)</td>
<td></td>
</tr>
<tr>
<td>Receipt of note</td>
<td>(90,000)</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>437,800</td>
<td>(350,000)</td>
</tr>
<tr>
<td><strong>Net increase in cash and cash equivalents</strong></td>
<td>107,000</td>
<td>(292,600)</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at beginning of year</strong></td>
<td>318,000</td>
<td>610,600</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td>$ 425,000</td>
<td>$ 318,000</td>
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<tr>
<td><strong>Reconciliation of net income to net cash provided by operating activities:</strong></td>
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<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$ (158,800)</td>
<td>$ (2,600)</td>
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<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
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<td>100,000</td>
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<td>(400,000)</td>
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<td>(45,200)</td>
<td>(32,400)</td>
</tr>
<tr>
<td>Net change in receivables and payables</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>$ (376,000)</td>
<td>$ 25,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
Note 1: The Company

In 20X0, 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 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

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: 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:

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of interest in operating properties</td>
<td>$7,200,000</td>
<td>$6,600,000</td>
</tr>
<tr>
<td>Value of properties held for sale</td>
<td>1,300,000</td>
<td>1,250,000</td>
</tr>
<tr>
<td>Depreciated cost of properties</td>
<td>(4,180,000)</td>
<td>(3,650,000)</td>
</tr>
<tr>
<td><strong>Total Revaluation Equity</strong></td>
<td>$4,320,000</td>
<td>$4,200,000</td>
</tr>
</tbody>
</table>
Note 4: Loans Payable

Mortgage, construction and land loans payable as of December 31, 20X1, consist of the following:

<table>
<thead>
<tr>
<th>Interest rate</th>
<th>Total</th>
<th>20X2</th>
<th>20X3</th>
<th>20X4</th>
<th>20X5</th>
<th>20X6 or later</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage</td>
<td>7-9%</td>
<td>$6,050,000</td>
<td>$550,000</td>
<td>$550,000</td>
<td>$550,000</td>
<td>$550,000</td>
</tr>
<tr>
<td>Construction</td>
<td>Floating 3%</td>
<td>320,000</td>
<td>320,000</td>
<td>320,000</td>
<td>320,000</td>
<td>320,000</td>
</tr>
<tr>
<td>Over prime</td>
<td>12%</td>
<td>125,000</td>
<td>125,000</td>
<td>125,000</td>
<td>125,000</td>
<td>125,000</td>
</tr>
<tr>
<td>Land</td>
<td></td>
<td>$6,495,000</td>
<td>$995,000</td>
<td>$550,000</td>
<td>$550,000</td>
<td>$550,000</td>
</tr>
</tbody>
</table>

Note 5: Commitments

As of December 31, 20X1, 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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- Defined Contribution Pension Plans ................................................. No. 008777XZ
- Employee Health and Welfare Benefit Plan ................................... No. 008778XZ
- Health Care Organizations ............................................................. No. 008775XZ
- Life Insurance ................................................................................. No. 008783XZ
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- Investment Companies ................................................................. No. 008782XZ
- Real Estate Ventures ................................................................. No. 008785XZ

Post Binder ......................................................................................... No. 007921XZ
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Common Interest Realty Associations ........................................ No. 012491XZ
Construction Contractors ..................................................... No. 012098XZ
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Financial Statement Audit (1996) .......................................... No. 012451XZ
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Checklist Title: _____________________________________________________________

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