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Robert Durak

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December 2004 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

Prepared By
Robert Durak, CPA
Senior 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.
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 Historically, 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, SOP 78-9, Accounting for Investments in Real Estate Ventures, and APB 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. Recently the FASB issued FASB 46(R), Consolidation of Variable Interest Entities, which interprets ARB 51 and addresses the consolidation of variable interest entities.

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 and SFAS 152, Accounting for Real Estate Time-Sharing Transactions, 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*, as amended by SFAS 152, 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*
  — FTB 79-11, *Effect of a Penalty on the Term of a Lease*

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.


• FASBI 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.

• FASBI 46(R), *Consolidation of Variable Interest Entities*.

• SOP 04-2, *Accounting for Real Estate Time-Sharing Transactions*, provides guidance on a seller’s accounting for real estate time-sharing transactions.

• SFAS 152 amends SFAS 66 and SFAS 67 in association with the issuance of SOP 04-2.

**Illustrative 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.

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

**FSP §19,000.06**
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.

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. 123 (revised 2004), Share-Based Payment
  • FASB Interpretation (FASBI) No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51
  • FASB Technical Bulletin (FTB) No. 01-1, Effective Date for Certain Financial Institutions of Certain Provisions of Statement 140 Related to the Isolation of Transferred Financial Assets
  • FASB Emerging Issues Task Force (EITF) consensuses through the November 2004 meeting
  • FASB Staff Positions (FSP) issued through December 31, 2004
  • AICPA Statement on Auditing Standards (SAS) No. 101, Auditing Fair Value Measurements and Disclosures
  • Auditing Interpretations No. 17 and No. 18 of SAS No. 58, Reports on Audited Financial Statements, as amended, titled “Clarification in the Audit Report of the Extent of Testing of Internal Control Over Financial Reporting in Accordance With Generally Accepted Auditing Standards,” and “References to PCAOB Standards in an Audit Report on a Nonissuer,” respectively
  • AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions

(continued)
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

.03 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—

- **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 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-referring 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.

.04 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.

.05 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.

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

FSP §19,100.03
Financial Statements and Notes Checklist

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 The accounting and reporting for real estate time-sharing transactions is addressed by SOP 04-2. The “Checklists and Illustrative Financial Statements for Corporations” (FSP sections 6000–6500) include the disclosure and presentation requirements of SOP 04-2. As this checklist is to be used in conjunction with the “Checklists and Illustrative Financial Statements for Corporations,” refer to that checklist for disclosure and presentation requirements related to real estate time-sharing transactions.

.04 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

FSP §19,200.04
Real Estate Ventures

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

- Income Statement
  A. General

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:
   a. Preacquisition costs?
   b. Property taxes and insurance?
   c. Project costs (including indirect 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)]

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 6100 (under the section “Changes in Accounting”), have the following disclosures been considered:

FSP §19,200.04
a. Are significant revisions in estimates of the percentage-of-completion disclosed, if the effects are material?  
[APB 20, par. 33 (AC A06.132)]

b. 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)]

c. 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 6100 (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?

   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 presented in the income statement for the period including the date of sale?

   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 the REIT has the ability to exercise at least significant influence on a service corporation 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? (If the service corporation is a variable interest entity as described in FASBI 46, it is subject to the requirements of FASBI 46, and then the consensus in EITF 95-6 does not apply.) [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?

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 PB 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):

FSP §19,200.04
Financial Statements and Notes Checklist

a. Unimproved land?  
   Yes  No  N/A
b. Land under development?  
   Yes  No  N/A
c. Residential lots?  
   Yes  No  N/A
d. Condominiums?  
   Yes  No  N/A
e. Single-family dwellings?  
   Yes  No  N/A
f. Rental properties?  
   Yes  No  N/A
g. Commercial and industrial properties?  
   Yes  No  N/A

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?  
      Yes  No  N/A
   b. Delinquent accounts receivable and the method(s) for determining delinquency?  
      Yes  No  N/A
c. The weighted average and range of stated interest rates of receivables?  
   [SFAS 66, par. 50 (AC Re1.150a-c)]  
      Yes  No  N/A
2. Noncurrent receivables:
   a. If entity has impaired loans receivable has proper disclosure been made on a loan by loan basis?  
      [EITF 96-22]  
      Yes  No  N/A

C. 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):
   a. Unimproved land?  
      Yes  No  N/A
   b. Land under development?  
      Yes  No  N/A
c. Residential lots?  
   d. Condominiums?  
   e. Single-family dwellings?  
   f. Rental properties?  
   g. Commercial and industrial properties?  
   [Generally Accepted]  
      Yes  No  N/A
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]  
   Yes  No  N/A

FSP §19,200.04
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]

* For audits of public companies, Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 1, References in Auditors’ Reports to the Standards of the Public Company Accounting Oversight Board, replaces this sentence with the following sentence: “We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States).”
The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated.

### REAL ESTATE JOINT VENTURE COMPANY

**Balance Sheets**

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

<table>
<thead>
<tr>
<th>Assets</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><strong>Net</strong></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><strong>Total Property</strong></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><strong>Total Assets</strong></td>
<td>$5,930,000</td>
<td>$5,103,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Capital†</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current maturities of long-term debt (Note 3)</td>
<td>$550,000</td>
<td>$550,000</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><strong>Total liabilities</strong></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><strong>Total Capital (Deficit)</strong></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><strong>Total (Deficit)</strong></td>
<td>(925,000)</td>
<td>(582,000)</td>
</tr>
<tr>
<td><strong>Total</strong></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.

† In May 2003, the FASB issued SFAS 150, **Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity**. The Statement established standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity and requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Paragraphs 26-28 of the Statement also govern disclosure requirements, which include, but are not limited to, disclosing the nature and terms of financial instruments and the rights and obligations embodied in those instruments along with settlement information. FSP 150-3 defers the effective date for applying the provisions of SFAS 150. Readers should read FSP 150-3 to understand the various effective dates of SFAS 150. FSP 150-3 is available at the FASB Web site (www.fasb.org).

FSP §19,300.03
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 31, 20X1</th>
<th>Year Ended December 31, 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 cash flows from operating activities:</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 cash flows from financing activities:</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>$318,000</td>
</tr>
<tr>
<td><strong>Reconciliation of net income to net cash provided by operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$(158,800)</td>
<td>$(2,600)</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>120,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Purchase of properties</td>
<td>(750,000)</td>
<td>(400,000)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>458,000</td>
<td>357,000</td>
</tr>
<tr>
<td>Interest income</td>
<td>(45,200)</td>
<td>(32,400)</td>
</tr>
<tr>
<td>Net change in receivables and payables</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities:</strong></td>
<td>$(376,000)</td>
<td>$25,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
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 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>
</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>
</tr>
<tr>
<td>Land</td>
<td>12%</td>
<td>125,000</td>
<td>125,000</td>
<td>125,000</td>
<td>125,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$6,495,000</td>
<td>$995,000</td>
<td>$550,000</td>
<td>$550,000</td>
</tr>
</tbody>
</table>

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.

FSP §19,300.06
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]

For audits of public companies, Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 1, References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board, replaces this sentence with the following sentence: "We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States)."
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><strong>Cost Basis</strong></td>
<td><strong>Current Value</strong></td>
<td><strong>Cost Basis</strong></td>
<td><strong>Current Value</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Property:</strong></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><strong>Total</strong></td>
<td><strong>$5,930,000</strong></td>
<td><strong>$5,103,000</strong></td>
<td><strong>$10,250,000</strong></td>
<td><strong>$9,303,000</strong></td>
</tr>
</tbody>
</table>

| Liabilities and Capital† | | | | |
| **Current maturities of long-term debt (Note 4)** | $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 (Note 4) | 5,500,000 | 4,500,000 | 5,500,000 | 4,500,000 |
| Construction loans (Note 4) | 320,000 | 150,000 | 320,000 | 150,000 |
| Land loans (Note 4) | 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) |
| **Gain (loss)** | (582,000) | (579,400) | (582,000) | (579,400) |
| **Partnership distributions** | (158,000) | (2,600) | (158,000) | (2,600) |
| **Revaluation equity** | (185,000) | 0 | (185,000) | 0 |
| **Total** | **(925,000)** | **(582,000)** | **3,395,000** | **3,618,000** |

| **Total** | **$5,930,000** | **$5,103,000** | **$10,250,000** | **$9,303,000** |

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

---

† In May 2003, the FASB issued SFAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. The Statement established standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity and requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Paragraphs 26-28 of the Statement also govern disclosure requirements, which include, but are not limited to, disclosing the nature and terms of financial instruments and the rights and obligations embodied in those instruments along with settlement information. FAS 150-3 defers the effective date for applying the provisions of SFAS 150. Readers should read FSP 150-3 to understand the various effective dates of SFAS 150. FSP 150-3 is available at the FASB Web site (www.fasb.org).
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>Year Ended December</th>
<th>Year Ended December</th>
</tr>
</thead>
<tbody>
<tr>
<td>20X1</td>
<td>20X0</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td><strong>Cash flows from operating activities:</strong></td>
</tr>
<tr>
<td>Cash received from rentals</td>
<td>$ 714,000</td>
</tr>
<tr>
<td>Cash paid for operations</td>
<td>(340,000)</td>
</tr>
<tr>
<td>Purchase of operating properties</td>
<td>(600,000)</td>
</tr>
<tr>
<td>Purchase of properties held for sale</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Purchase of properties held for development</td>
<td>(100,000)</td>
</tr>
<tr>
<td><strong>Total Cash flows from operating activities</strong></td>
<td>(376,000)</td>
</tr>
</tbody>
</table>

| **Cash flows from investing activities:** | **Cash flows from investing activities:** |
| Interest income | 45,200 | 32,400 |

| **Cash flows from financing activities:** | **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) | |
| **Net increase in cash and cash equivalents** | 437,800 | (350,000) |

| **Cash and cash equivalents at beginning of year** | **Cash and cash equivalents at beginning of year** |
| 318,000 | 610,600 |

| **Cash and cash equivalents at end of year** | **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** | **Net income** |
| $ (158,800) | $ (2,600) |

| Adjustments to reconcile net income to net cash provided by operating activities: | 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** | **Net cash provided by operating activities** |
| $ (376,000) | $ 25,000 |

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 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><strong>$4,320,000</strong></td>
<td><strong>$4,200,000</strong></td>
</tr>
</tbody>
</table>

FSP §19.300.11
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>$3,850,000</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 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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* * * * *

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