



PRESIDENT'S REPORT

1980 was an important year for the Association. In addition to continuing our work in the area of financial reporting, the Association's Tax and Management Accounting Committees have grown in size and significance. Specific reports on these committees are included in this newsletter.

The Board of Directors has concluded that the Association should publish at least two newsletters during each calendar year, with the winter newsletter providing a broad review of the Association -- its purpose, its activities over the previous year, and current goals of the Association and each of its primary committees. This issue includes the broad review; the summer issue each year will provide members with an interim report on the Association's current activities.

The purpose of the Association is to provide a forum for addressing a wide range of financial management subjects relating to the real estate industry. Our goal is to address these subjects within the Association's membership and to become directly involved in activities outside of the Association which have an impact on the financial management of real estate companies. This would include activities of the Financial Accounting Standards Board, the American Institute of CPAs, the United States Congress and other organizations and institutions.

Our Association has continued to strengthen. Membership exceeds 70 individuals representing a wide range of real estate companies and firms associated with the real estate industry -- public accountants, lenders, and others. In all, over 50 different firms are represented by our membership:

- 21 Investment Builders
- 7 Community Developers
- 8 Real Estate Investment Trusts, Investors or Lenders
- 12 Public Accounting Firms
- 2 Retail Companies
- 1 Hotel Company

PRESIDENT'S REPORT
(continued)

Recently we gained our first member representing a Canadian based real estate company doing business in the United States -- The Cadillac Fairview Corporation Limited. For your information, attached to this newsletter is a current list of members.

Our expanding activities in the areas of tax and management accounting as well as our continued involvement in the financial accounting area should stimulate further growth in our membership -- both in terms of numbers and breadth of interest and experience. Potential members should contact Bud Owings, chairman of our Membership Committee, at (312) 440-3425.

One disappointing aspect of our membership is that we have not focused enough attention on attracting the significant real estate companies which are headquartered on the West Coast or in the southern parts of the country. In an attempt to attract members from West Coast companies, we have scheduled a reception in Los Angeles on February 17 to introduce our Association to a number of these firms.

Increasing membership is, of course, not an end in itself. In order to continue and enhance the value of the Association to the real estate industry and to each of our members, we need the support and involvement of a wide representation of individuals associated with the industry. When we deal with financial management problems, we need broad input to solutions. When we are involved in lobbying efforts, we need to be seen as representing a strong cross section of the real estate industry. And finally, achieving the Association's goals requires the direct efforts of many individuals. I hope that each member can contribute directly to at least one area of the Association's focus.

ANNUAL CONFERENCE --
LA COSTA HOTEL & SPA

Arrangements and the program have been finalized for the Association's Annual Conference, April 21 - 24 in Carlsbad, California. The La Costa Hotel & Spa will provide an excellent place to share in the substantive learning experiences programed as well as to enjoy the sociability of both old and new friends. The program will include both general presentations on many industry subjects and workshops at which attendees can share questions and answers with respect to financial account-

ANNUAL CONFERENCE
(continued)

ing, tax accounting and management accounting subjects. The general presentations will include:

- "The Changing Real Estate Capital Markets" by William S. Bahrenburg of Brooks Harvey & Co.;
- "New Approaches to Valuing Real Estate Equities" by John B. Bailey of Landauer Associates, Inc.;
- "Perspectives of a Real Estate Executive" by Ernest W. Hahn of Ernest W. Hahn, Inc.;
- "An Investment Analysis of Public Real Estate Companies" by Bruce G. Garrison of Underwood Neuhaus & Co.; and
- "Impact of Current Legislative Proposals on the Real Estate Industry" by Henry Schmidt and Wayne Riblett of Peat, Marwick, Mitchell & Co.

The Conference Committee believes that the conference agenda provides both a valuable learning experience and an opportunity to make new acquaintances with people in our industry.

Based on previous experience, we have blocked out enough rooms at La Costa to accommodate the expected attendance, but we must firm-up these reservations with deposits and names of attendees by February 21. Therefore, please respond as soon as possible to the Conference invitation which has been mailed to all members under separate cover. Also, do not hesitate to invite guests who might be interested in the Conference and/or becoming members of the Association. The Conference represents an excellent opportunity for people to get acquainted with our organization. We are looking forward to sharing both the business and social programs with all of our members, potential members and guests. If your invitation has been misplaced, call Don Goldsmith at (612) 343-2605.

MANAGEMENT ACCOUNTING
COMMITTEE

All of us are interested in improving the effectiveness of the fiscal operations of our companies. The Management Accounting Committee was established to provide a forum for sharing information regarding accounting and control concepts and techniques used in the daily accounting processes of a real estate company. Under the

MANAGEMENT ACCOUNTING
COMMITTEE
(continued)

leadership of its chairman, Larry Greenwald, the Committee met for two days this past fall to organize its specific agenda for the Annual Conference. This meeting was so successful that the large number of topics identified could be the basis of literally days of workshops. These topics include:

- revenue recognition and reporting;
- collections and cash management;
- common area maintenance accounting;
- the concept of total occupancy costs;
- tenant sales reporting and audits;
- tenant billing systems; and
- a dozen other management accounting subjects.

Several of these topics will be discussed at the Annual Conference. If the level of interest and enthusiasm continues with respect to these management accounting subjects, the Committee may plan additional workshops during 1981.

If anyone is particularly interested in participating in the activities of the Management Accounting Committee, please contact Larry Greenwald directly at (317) 636 - 1600.

TAX COMMITTEE

The Tax Committee, under the leadership of John Szymanski, serves a valuable purpose for members. It maintains a continuous liaison with major real estate lobbying groups such as the National Realty Committee, participates in the legislative process through direct communication with legislators and provides a forum for members to share concerns and experiences respecting tax accounting and tax planning for real estate companies. The Committee was responsible for sending to key legislators the Association's letter regarding the Capital Cost Recovery Act. Also, the Committee is responsible for those aspects of the Annual Conference which deal with taxes. The Committee has prepared the enclosed tax notes.

Anyone interested in joining the Tax Committee may contact John Szymanski at (301) 992-6468.

FINANCIAL ACCOUNTING
STANDARDS COMMITTEE

The Financial Accounting Standards Committee (FASC) consists of seven members and two associate members, generally from public accounting, who act as advisors. Members and advisors are rotated periodically. Eli Akresh serves as chairman of the FASC.

During NAREC's early years, the FASC has focused primarily on dealing with a broad range of accounting principles and proposed changes to existing principles which impact reporting the financial position and operating results of real estate companies. The Association represents the first such organization of our industry formed to deal actively with accounting and financial reporting matters.

The basic functions and objectives of the FASC are to:

- Inform its members of current accounting and financial reporting issues relating to real estate;
- Formulate the position of its members, including interpretations, with respect to accounting and reporting issues;
- Present its position on proposed accounting principles to the appropriate accounting rule-making bodies -- the FASB, AICPA and SEC;
- Coordinate with these bodies for the purpose of establishing meaningful accounting and financial reporting guidelines for the real estate industry.

We believe we are attaining our established goals and objectives and have made substantial progress toward influencing future accounting requirements for the real estate industry.

Our Association is now a well-respected force and is being called on to represent the real estate industry by both the FASB and AICPA. The following appointments have been made as a result of NAREC membership:

- George Yungmann
 - Chairman of the FASB's Real Estate Industry Task Group on Financial Reporting and Changing Prices.
 - Member of the AICPA's Real Estate Accounting Committee.

FINANCIAL ACCOUNTING
STANDARDS COMMITTEE
(continued)

- Bud Owings
 - Member of the FASB's Task Force on Specialized Accounting and Reporting Principles and Practices Contained in AICPA Guides and Statements of Position.
- Eli Akresh
 - Member of the AICPA Task Force on Non-Recourse Debt.

Recognition of the Association as an industry representative has been accomplished by active participation in the accounting rule-making processes. This participation includes the issuance of various letters and position papers as well as providing testimony at public hearings. We have taken an active role on such major subjects as changing prices, interest capitalization, reporting earnings, accounting for leases and joint venture accounting. A complete listing of NAREC's 35 position papers is attached to this newsletter.

The FASC has concentrated on the subject of financial reporting and changing prices as it relates to income-producing real estate. In addition to several position papers issued to the FASB on this topic, we issued an extensive paper and testified at the FASB's public hearing in July, 1980. Our recommendation to the FASB covered objectives of financial reporting, depreciation of real estate and the reporting of current values. Perhaps our most important recommendation was to substitute a capital maintenance charge for the current depreciation charge. The FASC's testimony at the public hearing was presented by Bob Threatt, Bud Owings and Eli Akresh. In addition, George Yungmann testified at these hearings as Chairman of the FASB's Real Estate Task Group on Changing Prices.

The FASC developed the first industry interpretation of authoritative accounting literature. NAREC's interpretation provided guidance to its membership concerning the AICPA's Statement of Position 78-3 on accounting for initial rental operations of real estate projects.

The subject of capitalization of interest, which significantly impacts the real estate industry, has been a major subject for the Association. Through the issuance of position papers and testimony at the FASB public hearing, NAREC expressed the industry's position on this matter. FASB Statement No. 34 closely approximates the recommendations developed by the FASC.

FINANCIAL ACCOUNTING
STANDARDS COMMITTEE
(continued)

The FASC's current agenda includes a number of very important subjects to our industry. We will be focusing our attention on the following topics in the succeeding months:

- Accounting for Depreciation - The FASC has provided input to the AICPA Real Estate Accounting Committee's issue paper "Accounting for Depreciation on Real Estate." George Yungmann and several of our associate members from public accounting are involved in the development of this issues paper. We expect that AcSEC will send the paper to the FASB in 1981.
 - Reporting Earnings and Reporting Funds Flows, Liquidity and Financial Flexibility - The Association has issued a position paper to the FASB's Discussion Memorandum on Reporting Earnings. A second Discussion Memorandum was issued in December, 1980 on the subject of Reporting Funds Flows, Liquidity and Financial Flexibility. We are in the process of forming a subcommittee to deal with this Discussion Memorandum. Any member who is particularly interested in serving on this subcommittee should contact George Yungmann directly at (301) 992-6470. We feel that both of these subjects are very important to our industry and we anticipate a significant effort by the FASC in this area in future years.
 - Joint Venture Accounting - The Association has issued numerous letters and position papers dealing with the broad subject of joint venture accounting. This matter has received some attention at the FASB level but with their many priorities, a thorough review of joint venture accounting has made little progress.
 - Accounting for Franchise Fee Revenue - Although the Association is not concerned with the specific accounting principles contained in this Exposure Draft, we are vitally concerned with the process, established by FASB Statement No 32, that the FASB will be using to deal with specialized accounting and reporting principles and practices contained in AICPA Statements of Position and Guides that impact real estate. Because of our concern, the FASC will comment on the process as reflected in this first FASB Exposure Draft.
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NAREC POSITION PAPERS
July, 1977 to July, 1980

| | <u>Subject</u> | <u>Date</u> |
|--------------|---|-------------|
| Sent to FASB | Financial Reporting and Changing Prices: Specialized Assets - A Supplement to FASB Statement No. 33 | 7/11/80 |
| | Determining Materiality for Capitalization of Interest Cost - An Amendment of FASB Statement No. 34 | 6/13/80 |
| | FASB Exposure Draft - Disclosure of Guarantees, Project Financing Arrangements, and Other Similar Obligations - An Amendment of FASB Statement No. 5 | 5/14/80 |
| | FASB Exposure Draft - Balance Sheet Classification of Deferred Income Taxes - An Amendment of APB Opinion No. 11 | 5/14/80 |
| | Proposed Interpretation of Interpretation No. 25, Accounting for an Unused Investment Tax Credit | 1/09/80 |
| | FASB Discussion Memorandum - An Analysis of Issues Relating to Reporting Earnings | 1/08/80 |
| | Qualitative Characteristics: Criteria for Selecting and Evaluating Financial Accounting and Reporting Policies | 11/02/79 |
| | FASB Technical Bulletins | 9/20/79 |
| | FASB Real Estate Task Group - Interim Report on FASB Exposure Drafts: Financial Reporting and Changing Prices and Constant Dollar Accounting | 8/30/79 |
| | Specialized Accounting and Reporting Principles and Practices in AICPA Industry Accounting Guides, Industry Audit Guides, and Statements of Position | 7/25/79 |
| | Estimates of Residual Values by Lessors and Lessees - An Amendment of Statement No. 13 | 7/10/79 |
| | Proposed Statement of Accounting Standards - Financial Reporting and Changing Prices | 5/04/79 |
| | Capitalization of Interest Costs - Proposed Statement of Financial Accounting Standards | 3/29/79 |

NAREC POSITION PAPERS
July, 1977 to July, 1980 (continued)

| | <u>Subject</u> | <u>Date</u> |
|-----------------------------|---|-------------|
| Sent to FASB (continued) | Discussion Memorandum - Accounting for Interest Costs | 3/07/79 |
| | Profit Recognition on Sales-Type Leases of Real Estate | 2/27/79 |
| | Determining Contingent Rentals | 2/23/79 |
| | Accounting for Sales with Leasebacks | 2/23/79 |
| | Industry Accounting Matters and Accounting Questions of Limited Application | 1/09/79 |
| | Lessee's Use of the Interest Rate Implicit in the Lease | 1/05/79 |
| | Lessee's Use of the Interest Rate Implicit in the Lease - An Amendment of Statement No. 13 | 1/05/79 |
| | Accounting for Investments in Real Estate Ventures -- Supplement to paper of 9/20/78 | 10/31/78 |
| | Accounting for Investments in Real Estate Ventures | 9/20/78 |
| | Discussion Memorandum - Interim Financial Accounting and Reporting | 9/18/78 |
| | Accounting for Purchase of Leased Asset by the Lessee During the Term of the Lease | 7/17/78 |
| | Leases Involving Only Part of a Building | 7/17/78 |
| | Accounting for Interest Costs - Letter Supplementing Position Taken at FASB Public Hearing | 5/01/78 |
| | Accounting for Interest Costs - Presented at Public Hearing | 4/04/78 |
| | Accounting for Costs to Sell and Rent, and Initial Rental Operations, of Real Estate Projects - Letter advising FASB that accounting for interest included in SOP | 3/17/78 |
| | Accounting for Leases - Initial Direct Costs | 9/19/77 |

NAREC POSITION PAPERS
July, 1977 to July, 1980 (continued)

| | <u>Subject</u> | <u>Date</u> |
|-----------------------|---|-------------|
| Sent to AcSEC | Accounting for Real Estate Acquisition, Development, and Construction Costs | 9/27/79 |
| | Accounting for Investments in Real Estate Ventures | 7/14/78 |
| | Accounting for Costs to Sell and Rent, and Initial Rental Operations, of Real Estate Projects | 11/17/77 |
| | Application of Deposit Installment and Cost Recovery Methods in Accounting for Sales of Real Estate | 11/17/77 |
| | Accounting for Investments in Real Estate Ventures | 10/31/77 |
| Sent to NAREC Members | Accounting for Initial Rental Operations of Real Estate Projects - NAREC Interpretation | 7/17/79 |

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