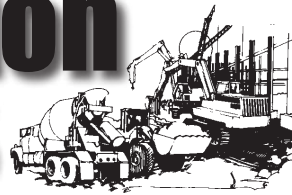


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# Construction NEWS



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## **Business Management**

# Key Advantages, Pitfalls Of Joint Venture Partnerships

By RICHARD E. GAVIN, CPA, CCIFFP

With stimulus projects on the horizon and other large jobs requiring team efforts, joint ventures provide a unique and successful way to win bids. Joint ventures allow you to differentiate yourself from the competition, offering multiple specialties through one entity. There are a number of advantages to utilizing joint ventures. Some of these include: sharing risk, reducing competition, offering combined experience, combining bonding or other credit resources, and getting involved in new areas. Using a joint venture to gain experience in a new area can be part of a company's strategic plan and has worked with a number of our clients.

However, there are many pitfalls to avoid. For example, know your partner—working with another company is challenging enough; know that you are compatible and that you can trust them. It is extremely important to have a solid joint venture agreement. It should designate responsibilities, both financially and professionally, and should be signed prior to the start of work. You must ensure proper records are set up; the joint venture must be monitored on

a regular basis. In addition, any disagreements over costs incurred, payments made, etc. should be addressed immediately.

Many of our clients have experience with joint ventures, but the case study for this month is about a company that was not prepared for this type of partnership. An absentee partner can be dangerous—for both parties—it is imperative that both sides are fully engaged and involved.

A contractor entered a joint venture with a minority interest ("Minority Partner"). The company they were working with ("Majority Partner") and Minority Partner agreed to split the financial responsibilities; Majority Partner was to take care of all of the books and records, while Minority Partner would select an accountant to prepare and audit the annual financial statements. This was a good balance, making sure no one was in the dark. During the first year, the Majority Partner had their accountants conduct the audit, which was not in the agreement. The Minority Partner called us into to review the financials, and everything seemed to be fine, until we started to examine it a little further.

We discovered that there were

a number of discrepancies for expenses being charged back by the Majority Partner to the joint venture. The joint venture agreement stated that certain equipment would be rented from the joint venture partners. They

the proceeds were deposited elsewhere (not into the joint venture account). When looking deeper, we found a sales agreement on the Majority Partner's letterhead stating the terms of the equipment sale. All of these items were violations

of the joint venture agreement—but this was just the start of their issues.

The Majority Partner was responsible (according to the joint venture agreement) for providing insurance for the job. The partners agreed that the joint venture would be charged the maximum exposure rates based upon the Majority Partner's policy.

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agreed to specific rental rates that were defined in the joint venture agreement; we found overcharges to the joint venture for days the equipment was not being used and incorrect rates. The Minority Partner had a Project Manager to approve all invoices and schedules; unfortunately, this was not occurring in a timely fashion.

We continued to analyze expenses and found that certain equipment owned by the joint venture was sold by the Majority Partner at the end of the job and

Upon further investigation, we found that in certain instances the joint venture was charged twice for the same coverage period. In addition, the joint venture was paying the deductible portion of insurance claims. This would have been acceptable if the joint venture hadn't already been charged for the maximum exposure, which included these deductibles.

Another issue uncovered had to do with check signing and expenses. The joint venture agreement stated that all checks above

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a certain dollar amount were required to have dual signatures, one from the Majority Partner, and one from the Minority Partner. We found various instances where the Majority Partner would write multiple checks to themselves for less than the amount required for dual signatures. This allowed them to cash checks not approved by the Minority Partner. This enabled the Majority Partner to reimburse themselves for expenses that were supposed to be approved by the joint venture. In addition, it was also discovered that the Majority Partner was paying their unrelated legal invoices through the joint venture.

Partners in a joint venture must be fully involved in the process. While the Minority Partner should have been more aggressive in monitoring expenses, both sides are expected to be honest and truthful. A joint venture is an agreement to work with each other, heading toward a common goal. As an absentee partner, you risk

serious damage to your company and its financial condition. Review invoices, checks, and financials in a timely fashion. Make sure you know the status of the job—being unaware of your partner withdrawing money means you've had a role in aggravating these issues. Review all of the agreements with your advisors and protect yourself.

Joint ventures can be extremely beneficial to an organization, especially in this economic environment, but you need to conduct proper due diligence before entering into and during this type of arrangement.

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