


B U S I N E S S P L A N
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Real Estate Ventures

Where Dreams Come Home

 John Doe

 10200 Bolsa Ave, Westminster, CA, 92683

 (650) 359-3153

 support@upmetrics.co

 <https://upmetrics.co>

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Executive Summary



Real Estate Ventures (“REV”) is a newly formed S-Corporation wholly owned by Steve and Linda Rogers for purposes of purchasing and owning income-producing real estate. REV fills the void in the local Franklin, Tennessee rental housing market by providing clean, well cared for rental homes to well-qualified tenants. Neither the homes nor the tenants are chosen on a hasty basis, but rather on a purposeful, planned, and methodical basis. The property

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Business Objectives



- Invest in quality well cared for properties that are priced within the local market range
- Locate only well-qualified tenants, desiring to lease long term
- Generate passive income

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Mission Statement



REV’s goal is to invest in quality – both in its properties and in its tenants. One of the largest mistakes made by new real estate investors is poor property selection. Even worse is their tenant selection process, often with little or no background and credit checks. At REV, the owners are extremely devoted to their business and their commitment to the long term can be seen in their extreme dedication to both their properties and their meticulous se

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Guiding Principles



TIP

REV holds the following as its Guiding Principles

1. **Treat the investment as a business first and foremost.**

Many real estate owners will fail to take their investment seriously and keep sloppy or minimal business records. Over time this lack of discipline can permeate into other aspects of the business resulting in a downward slide of the business.

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Keys to Success



TIP

REV is fully committed to make its rental property business a long term success with future plans for expansion. It is this dedication and drives which will set them apart from their local peers. The following are what REV believes are its keys to success:

- **Property management** - The owners of REV will personally manage their rental property and not rely on an outside management team.

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Company Description



Real Estate Ventures, ("REV"), is a newly formed S-Corporation formed for purposes of managing the underlying real estate located in Franklin, Tennessee, a principal city in the Nashville Metropolitan Statistical Area ("MSA"). REV is jointly owned by Steve and Linda Rogers, husband, and wife.

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Ownership



Steve and Linda Rogers are lifelong residents of Franklin, Tennessee. Steve has an established business and has owned his paint business known as ProStar Paint for 15+ years. Linda Rogers, a graduate of Middle Tennessee State University, is a math teacher at Franklin Elementary School.

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Legal Form



Real Estate Ventures is an S-Corporation.

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Start-Up Summary



TIP

Steve and Linda Rogers, the owners of REV have been interested in finding a means to supplement their income. When Linda's mother passed away earlier this year, the couple received approximately \$100,000 in inheritance and they decided to use this windfall to purchase and manage investment income properties. Together they attended several continuing education classes at their local community college and decided upon the subject property.

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Location and Facilities



TIP

REV extensively researched the local market and found it met their key criterion. The Red Mill Estates neighborhood has lush landscaping, larger than average lots, and is primarily owner-occupied. The surrounding neighborhoods are middle-class suburbs with five grocery stores within a 5-mile radius, various restaurants, and shopping malls 3 miles away near the easily accessible I-65. The property is located in the Franklin City Element

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Products

Products/Services Descriptions



TIP

REV provides clean, quality homes in growing markets to well-qualified tenants. The primary source of revenue is rental income. Supplemental income will include:

Forfeited Deposits
Bounced Check fees (NSF)
Late charges

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Competitive Comparison



TIP

There are seven rental income properties within a 1-mile radius of the subject along with several multifamily apartment units. For comparison purposes, the multifamily units have been excluded from this comparison. Rents per square foot range from a high of \$1.11 to a low of \$0.83 per square foot ("PSF"). The average market rent PSF in the Franklin market is \$1.01. The subject rent PSF is \$0.98 and compares favorably with the market.

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Market Analysis



TIP

Franklin, Tennessee, located in Williamson County, is a Principal City in the Nashville Metropolitan Statistical Area ("MSA") and is ranked 31 in the United States. According to the **University Of Tennessee's 2012 Economic Outlook**, Williamson County is one of the fastest-growing counties in the state, expanding by 44.7% over the prior year.

Health Spring, Community Health Systems, Healthways, Home Inst

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Industry Analysis



TIP

The housing market recovery has remained true to the old real estate axiom of "location, location, location." How your local market is faring today – and if it makes more sense to buy or rent, to sell now, or to hold off if possible – is largely determined by unique, local factors and fundamentals. Timely and comprehensive local market information will be even more important in 2013 as buyers continue to seek bargains and sellers look to maximize r

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TIP

A recent survey of Franklin, Tennessee revealed there are currently 67 single-family residences available for rent. The average monthly rental charge ranges from \$2,202 monthly to \$1,058 monthly. The middle tier monthly rent is \$1,283 or \$1,031,532 annualized.

REV's portion of the \$1 million market represents 1.51% of market

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Market Size

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TIP

The primary participants in the rental real estate market are other single-family residences and apartments. However, other indirect competitors include condos, mobile homes, trailers, garage apartments, and duplexes. Sellers of homes that offer rent to own options pose yet another form of competition.

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Industry Participants

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TIP

Within a one mile radius of the subject are 10 apartment complexes and 7 single-family residences available for rent. For comparison, this analysis will focus only on the single-family residences available for rent.

1101 Gown Blvd
2 BDR / 2 BA
\$1,200 month / 1,107 SF

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Main Competitors

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TIP

The 1-mile radius surrounding the subject had a population of 7,199 at the 2010 Census and is expected to grow to 7,363 by the Year 2017. The majority of the homes are owner-occupied with 1,950 housing units and a reported 793 renter-occupied units from the 2010 Census. Rental units are expected to grow to 854 by the Year 2017. The median age in 2010 was 34. Source:

BUSINESSDECISION.INFO

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Market Segments

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Market Tests



TIP

Prior to selecting the rental unit, REV placed an advertisement for rent with the online classifieds at Linda's place of employment, Franklin Elementary. The response was overwhelming! REV had 14 candidates to choose from! The majority of these applicants were fellow teachers or friends of teachers. All applicants were families, both single income and dual income. REV had to inform the turned down applicants that the property was already le

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Target Market Segment Strategy



TIP

REV is targeting families with children – single-family households or dual income households. The target tenant is young, under the age of 35 and is likely to have some additional financial obligations, such as student loan debt and car note debt that they want to pay off prior to considering homeownership. Many of the new teachers at Linda’s school fit the target profile and REV will continue to pursue this target group as tenants

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TIP

Given the option of raising a family in a traditional single-family home compared to an apartment complex, REV’s target tenant prefers the former. The Red Mill Estates neighborhood and surrounding neighborhoods are growing residential neighborhoods making the location ideal for REV’s tenants. With limited direct comparables, the demand for single-family residences available for rental is high in this market.

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Market Needs

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TIP

- Homeownership makes financial sense when the occupant is planning on staying 5+ years and has the cash flow cover the normal repair and maintenance costs. And as we leave the recession behind us over time tenants may vacate to pursue homeownership.
- Renting still makes financial sense for REV’s targeted tenant who does not want the additional cost/time burden of property maintenance

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Market Trends

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TIP

The local single family rental home market increased 1.4% over the prior year.
Source: Zillow Rent Index

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Market Growth

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Positioning



TIP

REV will position itself as the rental property of choice when it comes to quality properties in solid neighborhoods, by actively staying current on local market conditions.

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Marketing Strategy and Implementation



TIP

REV will own, operate, and lease clean, well maintained single-family residences to well-qualified tenants. Others often miss the mark by investing in low-quality properties which will not provide sufficient ROI (return on investment). Additionally, other landlords often fall short in responding to tenants' needs for repairs. When a tenant calls requesting repairs to say a leaky faucet, REV will have a repairman on-premises that same day.

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SWOT Analysis



TIP

SWOT stands for strengths, weaknesses, opportunities, and threats. A SWOT analysis is a method for strategic planning that evaluates these four elements as they relate to REV's business objectives. The following section helps demonstrate REV's marketing strategy:

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Strengths

The rental property is well located in a growing neighborhood with easy access to neighborhood schools, shopping, and restaurants. Located less than 5 minutes from I-65, the commute to Nashville is less than 20 minutes.

REV has an approved tenant in place with a security deposit. The tenant has excellent credit and payment history. The tenant is known by REV and works as a teacher at the same school as Linda Rogers.

Upgrades to the property will be made by a reputable contractor with a 15-year history with the owners of REV. The owners of REV will paint the property themselves which will further reduce expenses.

REV will come out of pocket in excess of \$67,000 toward the house purchase and capital improvements resulting in a low, loan to value (LTV) ratio of 50%.

The owners of REV have 'day jobs' and thus have additional income sources and savings to draw from to support business operations.

S

Weaknesses

New entrants into real estate property management, REV has limited experience owning and managing investment income properties.

W

Opportunities

Franklin has low vacancy levels at 6% compared to the national average of 7.9%.

The property is located in a strong growing community and the fastest growing county in the state.

REV has an opportunity to participate in a \$1 million local real estate rental market.

O

Threats

Investment real estate is economically tied – changes in unemployment, rent spikes, and changes in the economy could adversely impact demand for rental units.

Declination in the local neighborhood could impact the attractiveness of rents.

Cost overruns in the construction budget and failure to complete upgrades in time could impact REV's cash flow.

T

Strategy Pyramid



TIP

REV will only lease solid, clean, well-maintained investment properties that generate positive cash flow.

In order to meet these objectives, REV will not make the mistakes many new landlords make and perform thorough due diligence prior to purchasing any property; All prospective properties must meet the following requirements:

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Unique Selling Proposition (USP)



TIP

The owners of REV love what they do! And it shows in from the quality of the properties they invest into the caliber of tenants they lease to. They thoroughly review the property and analyze the real estate market. REV will continually monitor and evaluate the local market trends. They are in this for the long term!

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Competitive Edge



TIP

REV utilizes a thorough due diligence process prior to purchasing and investing in any property. By doing their homework, REV can competitively price their rents – often at or below market. Thoroughly knowing their market gives REV a competitive edge over their competitors. Further, Steve's background in painting and his extensive connections in the construction field in the local Franklin market gives REV a competitive edge when it comes to knowing the local market.

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Marketing Strategy and Positioning



TIP

REV's marketing strategy incorporates a **Focus Strategy** – that is, it targets a specific target market. REV concentrates their marketing efforts on attracting solid, creditworthy tenants that are motivated to live in growing, thriving communities.

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TIP

REV is a high-quality real estate investment corporation. REV carefully and methodically selects its rental properties in growing neighborhoods, with low vacancy rates. The properties are clean, well maintained, and provide positive cash flow. In keeping with their high-quality standards, REV's tenants, reflect these attributes as well and have exceptional credit scores, timely rental payment history, and a strong desire to live long term with their families.

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Positioning Statement

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TIP

REV utilizes Competition-Based Pricing – in which prices are based on the market. The company's thorough due diligence process assures that they never buy the highest-priced property or the lowest price for that matter.

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Pricing Strategy

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TIP

REV will primarily rely on advertising in the Franklin Elementary School Online Classified Ads and **Word of Mouth** advertising.

As properties become available, REV will post signage in front of the property. As a last resort, REV will post classified ads with the local newspaper and Craigslist.

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Promotion and Advertising Strategy

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TIP

REV's website features properties available to rent, the business phone number to contact for information regarding renting or who to contact for repairs. Additionally, the website will have links to complete an online application and links to key articles for tenants such as the importance of obtaining sufficient renters insurance for example.

In the event that a property is available, the site will feature photos

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Website

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TIP

REV is uniquely sized to both personally own and manage its investment properties. Through their extensive contacts in the Franklin area, REV hopes to rely on Word of Mouth advertising and not be forced to allocate a large portion of their budget to advertising costs. However, in the event that property remains vacant for 30+ days, REV has a policy in place to purchase classified advertising space in both the local newspaper and on Craigslist.

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Marketing Programs

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Sales Strategy



TIP

REV will meet with prospects right on site. The prospects will be greeted and treated with the utmost professionalism in a relaxed and respectful environment. The first meeting is an opportunity for the owners of REV to decide on leasing to the prospective tenant. If the prospect seems disagreeable, unpleasant, or makes unrealistic requests, REV will not lease the property. If however the prospect is professional and has reasonable

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TIP

The following table represents the estimated sales from the rental unit the initial three years of operations. The analysis assumes 100% leased and no escalations in rent the initial two years.

Annual Sales Forecast	Year 1	Year 2	Year 3
Rental Property A	\$14,300	\$15,600	\$15,600
Less Vacancy			

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Sales Forecast

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TIP

The owners of REV personally lease their properties and do not need to pay incentives to sales agents. However, just like sales agents, the owners of REV are motivated to lease properties quickly- after all vacant properties do not generate revenue! Although the owners of REV are motivated to get tenants in quickly they will not 'rush' at the expense of sacrificing quality. If REV is unable to find a prospective tenant in a reasonable amount of time (approx

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Sales Programs

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Legal



TIP

Clean title and zoning, will be instrumental in purchasing investment real estate. The title search and tax record search must confirm this prior to REV purchasing any property. The title search must be free of liens.

All maintenance and repairs will be performed by bonded and licensed contractors that are in good standing with the state.

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Milestones

Following are the Milestones REV believes will allow them to meet their objectives.

Milestones	Date
Find ideal property - which meets REV's stringent requirements for ROI, value	09/01/XX
Approve construction budget	10/01/XX
Locate approved contractor	12/01/XX
Secure commercial real estate loan	01/01/XX
Renovate property	02/01/XX
Lease property to well qualified tenant	03/01/XX
Purchase 2nd rental income property	Year Four
Purchase 3rd rental income property	Year Five

Exit Strategy



TIP

In the event, the rental unit remains vacant for an extended period of time or in the event that extreme repairs and depletes all cash reserves, the secondary recourse will be to the owners. After the owners have depleted their personal reserves, the property will be sold. Proceeds will be used to satisfy obligations to creditors and any surplus will be returned to the owners.

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Organization and Management

The following section highlights ownership and future staffing expectations of REV:

Organizational Structure



TIP

Both Linda and Steve Rogers will own and manage the subject of real estate. Steve Rogers will perform routine maintenance requirements and repairs. Linda Rogers will manage the daily bookkeeping requirements. She will submit payments to vendors such as trash service and recycling service, and forward the required information to REV's certified public accountant for preparation of the annual income taxes.

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Management Team



STEVE ROGERS

Owner - steve@example.com

Steve Rogers will oversee the day to day maintenance of the rental unit. On a monthly basis, he will replace air filters, inspect the grounds, and make notations of the overall physical condition of the property. The tenant will be put on notice for example if the yard needs to be mowed or weeds appear to be an issue. The tenant will have sufficient time to remedy the notice and will be fined daily until the issue has been resolved.

Steve has successfully owned and operated his painting business for 15+ years and is in the neighborhood on a daily basis. He will drive by the property frequently for visual inspections of the property. He is readily available in the event the tenant has any repair needs.



LINDA ROGERS

Assistant - linda@example.com

Linda Rogers will oversee the day to day bookkeeping needs for the rental property.

All tenants will be required to agree to EFT (electronic funds transfer) for monthly payments – which should minimize the need to collect rents.

Management Team Gaps



TIP

REV does not have an accountant or attorney on its staff. Income tax preparation and consulting services will be provided by the owner's long term personal public accountant. REV will rely on their title company to verify a clear title.

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Personnel Plan



TIP

Steve and Linda Rogers will own and operate REV but draw no salary; both owners have outside incomes and will not draw salaries from the properties.

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Financial Plan

Important Assumptions

Construction Budget

REV estimates a 1-month completion. Work will be performed by a contractor that is well known by the owners. The contractor is bonded, licensed, and in good standing with the state.

Source of Funds

The owners of REV received approximately \$100,000 in inheritance and have access to liquidity to fund start-up costs and meet operating shortfalls. However, they plan to invest a portion of these proceeds into additional rental income properties. An additional source of funds comes from both owners 'day jobs' - Steve Rogers owns his own house painting business and Linda Rogers is a math teacher at Franklin Elementary

Profit and Loss

Vacancy levels in Franklin are a low 6% and are substantially lower than the national average of 7.9%. The analysis assumes 100% occupancy over the 3 years reviewed.

Start-Up Costs

The following table represents start-up costs.

Start-Up Expenses	Amount
Operating Capital	\$ -
Salaries and Wages	\$ -
Insurance Premiums / Prepaids	\$ 1,000
Beginning Inventory	\$ -
Legal and Accounting Fees	\$ -
Rent Deposits	\$ -
Utility Deposits	\$ -
Supplies	\$ 500
Advertising and Promotions	\$ -
Licences	\$ 100
Other Initial Costs	\$ 200
Working Capital (cash on hand)	\$ 1,500
Total Start-Up Expenses	\$3,300
Start-Up Assets	
Real Estate	\$ -
Buildings	\$ 107,500
Leasehold Improvements	\$ 10,000
Total Start-Up Assets	\$117,500
Total Required Start-Up Costs	\$120,800

Source and Use of Funds

The owners of REV received approximately \$100,000 in inheritance and have access to liquidity to fund start-up costs and meet operating shortfalls. However, they plan to invest a portion of these proceeds into additional rental income properties. An additional source of funds comes from both owners' day jobs' - Steve Rogers owns his own house painting business and Linda Rogers is an elementary school math teacher at Franklin Elementary. The following table shows the proposed Source and Use of Funds:

Source and Use of Funds	Column2
Sources of Funds	
Owner's Injection	\$ 67,050
Commerical Loan	\$ -
Commerical Mortgage	\$ 53,750
Line of Credit	-
Total Source of Funds	\$ 120,800
Use of Funds	
Fixed Assets	\$ 117,500
Operating Capital	\$ 3,300
Total Use of Funds	\$ 120,800

Projected Profit and Loss

The proforma profit and loss are based on the initial 3 years associated with the subject property.

	Year1	Year2	Year3
Sales	\$29,137	\$172,500	\$315,000
Direct Cost of Sales	\$6,799	\$50,350	\$93,600
Other Costs of Sales	\$0	\$0	\$0
Total Cost of Sales	\$6,799	\$50,350	\$93,600
Gross Margin	\$22,338	\$122,150	\$221,400
Gross Margin %	76.67%	70.81%	70.29%
Expenses			
Payroll	\$5,000	\$90,000	\$120,000
Marketing/Promotion	\$180	\$300	\$400
Depreciation	\$6,000	\$15	\$45,000
Building Expense	\$804	\$400	\$800
Equipment Expense	\$3,000	\$0	\$0

	Year1	Year2	Year3
Utilities	\$5,719	\$8,000	\$15,000
Phone/Fax	\$1,266	\$1,500	\$1,800
Legal	\$500	\$250	\$250
Rent	\$3,996	\$0	\$0
Repair Maintenance	\$3,798	\$1,500	\$4,500
Inventory	\$966	\$1,000	\$2,500
Auto/Truck Expense	\$9,600	\$5,000	\$5,000
Total Operating Expenses	\$40,829	\$107,965	\$195,250
Profit Before Interest and Taxes	(\$18,491)	\$14,185	\$26,150
EBITDA	(\$12,491)	\$14,200	\$71,150
Interest Expense	\$5,778	\$4,877	\$3,077
Taxes Incurred	\$0	\$2,792	\$6,922
Net Profit	(\$24,269)	\$6,516	\$16,151
Net Profit/Sales	-83.29%	3.78%	5.13%

Projected Cash Flow

The statement of cash flow shows the incoming and outgoing cash of the business.

	Year1	Year2	Year3
Cash Received			
Cash from Operations			
Cash Sales	\$29,137	\$172,500	\$315,000
Subtotal Cash from Operations	\$29,137	\$172,500	\$315,000
Additional Cash Received			
Sales Tax, VAT, HST/GST Received	\$0	\$0	\$0
New Current Borrowing	\$15,000	\$0	\$0
New Other Liabilities (interest-free)	\$0	\$0	\$0
New Long-term Liabilities	\$0	\$0	\$0

	Year1	Year2	Year3
Sales of Other Current Assets	\$0	\$0	\$0
Sales of Long-term Assets	\$0	\$0	\$0
New Investment Received	\$1,944,390	\$0	\$0
Subtotal Cash Received	\$1,988,527	\$172,500	\$315,000
Expenditures			
Expenditures from Operations			
Cash Spending	\$5,000	\$90,000	\$120,000
Bill Payments	\$47,111	\$432,961	\$75,327
Subtotal Spent on Operations	\$52,111	\$522,961	\$195,327
Additional Cash Spent			
Sales Tax, VAT, HST/GST Paid Out	\$0	\$0	\$0
Principal Repayment of Current Borrowing	\$1,932	\$2,000	\$2,000
Other Liabilities Principal Repayment	\$0	\$0	\$0
Long-term Liabilities Principal Repayment	\$2,400	\$12,000	\$20,000
Purchase Other Current Assets	\$40,000	\$10,000	\$10,000
Purchase Long-term Assets	\$1,500,000	\$0	\$0
Dividends	\$0	\$0	\$0
Subtotal Cash Spent	\$1,596,443	\$546,961	\$227,327
Net Cash Flow	\$392,084	(\$374,461)	\$87,673
Cash Balance	\$401,834	\$27,373	\$115,047

Projected Balance Sheet

The balance sheet shows healthy growth of net worth and a strong financial position.

	Year1	Year2	Year3
Assets			
Current Assets			
Cash	\$401,834	\$27,373	\$115,047

	Year1	Year2	Year3
Inventory	\$8,480	\$399,543	\$305,943
Other Current Assets	\$53,500	\$63,500	\$73,500
Total Current Assets	\$463,814	\$490,416	\$494,489
Long-term Assets			
Long-term Assets	\$1,594,047	\$1,594,047	\$1,594,047
Accumulated Depreciation	\$44,700	\$44,715	\$89,715
Total Long-term Assets	\$1,549,347	\$1,549,332	\$1,504,332
Total Assets	\$2,013,161	\$2,039,748	\$1,998,821
Liabilities and Capital			
Current Liabilities			
Accounts Payable	\$4,315	\$38,386	\$3,308
Current Borrowing	\$15,168	\$13,168	\$11,168
Other Current Liabilities	\$0	\$0	\$0
Subtotal Current Liabilities	\$19,483	\$51,554	\$14,476
Long-term Liabilities	\$40,600	\$28,600	\$8,600
Total Liabilities	\$60,083	\$80,154	\$23,076
Paid-in Capital	\$1,944,390	\$1,944,390	\$1,944,390
Retained Earnings	\$32,957	\$8,688	\$15,204
Earnings	(\$24,269)	\$6,516	\$16,151
Total Capital	\$1,953,078	\$1,959,594	\$1,975,745
Total Liabilities and Capital	\$2,013,161	\$2,039,748	\$1,998,821
Net Worth	\$1,953,078	\$1,959,594	\$1,975,745