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A COMPUTER SIMULATION MODEL UTILIZING SELECTED FINANCIAL PLANNING VARIABLES.

The University of Oklahoma, Ph.D., 1975
Accounting

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THE UNIVERSITY OF OKLAHOMA

GRADUATE COLLEGE

A COMPUTER SIMULATION MODEL UTILIZING SELECTED FINANCIAL PLANNING VARIABLES

A DISSERTATION

SUBMITTED TO THE GRADUATE FACULTY

in partial fulfillment of the requirements for the

degree of

DOCTOR OF PHILOSOPHY

by

PATRICIA C. CHRISTMORE

Norman, Oklahoma

1975

A COMPUTER SIMULATION MODEL UTILIZING SELECTED

FINANCIAL PLANNING VARIABLES

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ACKNOWLEDGMENTS

The author is indebted to several people for their assistance in the conduct of this study. Special appreciation is extended to Professor Travis P. Goggans for his help in refining the problem area and for his continuing efforts during the supervision of this study. The author is also indebted to Professor William McGrew whose comments and recommendations consistently improved this study.

The author is appreciative of the assistance of Thomas Blandin and Arnold Viramontes whose technical expertise in the programming of the computer model was invaluable.

Finally, this study is submitted with grateful acknowledgment to those persons who assisted in the testing and development of the program. They graciously allowed access to the financial and personal data necessary for the completion of this study and contributed many valuable suggestions for its improvement.

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A COMPUTER SIMULATION MODEL UTILIZING SELECTED FINANCIAL PLANNING VARIABLES

CHAPTER I

INTRODUCTION

To many individuals the term "estate planning" brings to mind the problems of transmitting vast fortunes to the appropriate beneficiaries with the least possible tax cost. The subject does include these aspects, but further encompasses a much larger territory as indicated by the following definition:

> Estate planning is planning for coordinated production of income, accumulation and preservation of wealth, and utilization of the income and wealth to create, maximize, maintain, and improve the personal happiness and comfort and financial security of the planner's family during and after his lifetime.[1]

It is with this larger definition of estate planning that this study is concerned. Specifically, attention will be directed to the lifetime accumulation of wealth and the production of income and cash flows necessary to "create, maximize, maintain, and improve the personal happiness and comfort and financial security of the planner's family during...his lifetime." Implicit in the definition are the ideas that successful estate planning of the ex ante nature must begin

well in advance of the estate owner's demise and that personal factors are of paramount importance throughout the planning process. Elaborate schemes which limit themselves to financial considerations only and ignore the estate owner's personal goals do him and his family a great disservice and render such schemes all but useless. Accumulation plans as well as dispositive plans must first conform to the estate owner's desires, and then attention may be directed to the appropriate means of accomplishing those desires.

Purpose of Study

The purpose of this study is to develop a computer simulation model to aid the tax or financial planner in projecting future values, incomes and cash flows to a designated future time. The information so developed can then be used as a basis from which various plans for the disposition of the estate can be developed. Or, alternatively, the planner can use the model to facilitate the accomplishment of the estate owner's lifetime financial goals by evaluating the anticipated effects of various investment plans or business changes in terms of value, income and cash flow at a given future time.

Need for Study

There are several reasons for undertaking a study of this nature. The most important reason is that the potential for computer-assisted tax planning has been largely overlooked, particularly in its application to individuals. The computer has been utilized in recent years to relieve the tax practitioner of the more mundane chores involved in the preparation of certain tax returns, but as a planning

device, it has been almost totally ignored. A properly designed program can relieve the planner of the burdens of involved and repetitious calculations and allow him to devote his time and energies to the creative aspects of tax planning. In fact, it was pointed out in a recent article that computer-assisted tax planning may well be essential in the near future:

> The surface has only been scratched in possible applications of the computer as a tax planning tool. Those who begin to participate in computer usage today will be able to continue exploration and adoption of these undiscovered uses, while those practitioners who avoid the commitment may be unable to remain in the race for a relevant tax practice.[2]

In addition to focusing attention on the use of the computer in tax planning, this study emphasizes an area of estate planning which is frequently taken as given--that of building up one's lifetime wealth, comfort, and security. This involves exploring the impact on the estate owner's future financial position if alternative ways of conducting the owner's business and investing excess funds are considered. Needless to say, projections and estimates involving future values are fraught with uncertainties and inherent lack of total preciseness. Nevertheless, future events must be recognized and dealt with if goals are to be successfully met, and avoiding projections because of inevitable impreciseness can render impossible meaningful plans for the future disposition of the estate.

A final reason for this study is that tax practitioners have all too often confined their services to preparation of the annual tax return with only occasional attention given to piecemeal tax planning. An opportunity to extend services to the client has been ignored. The

development of a computer simulation model that brings together the major variables affecting individual financial wellbeing will aid the tax planner in determining, with a minimum of additional work, the current and expected influence on income, cash flow, and wealth of various financial decisions. Such information should prove beneficial to an individual attempting to accomplish specific lifetime goals, whether or not he wishes to pursue possible estate plans.

Scope

The scope of this study will be limited to those factors which appear to most directly affect the character and amount of an individual's financial position. Accordingly, the relevant variables selected for inclusion in this study are:

I. Personal Information
   - A. Marital status, dependents, special factors to be considered concerning spouse or dependents
   - B. Personal living expenses, itemized deductions and exemptions, and the amounts by which these are expected to change over time
   - C. Personal financial goals in terms of desired wealth, income, and cash flow at a designated future time

II. Information Relating to Business Interests
   - A. Form of organization and attitudes toward conducting business in an alternative form
   - B. Business net income and estimated growth or decline over time

C. Cost and fair market values and estimated rates of change over time

D. Cash flow generated by businesses

E. Tax credits passed through to business owner

III. Information Relating to Investments and Liabilities

A. Cost and fair market value with estimated change in value over time for each investment or group of similar investments

B. Income and cash flow generated by each investment or group of similar investments

C. Outstanding balances of liabilities

D. Deductions and cash outflows attributable to liabilities

E. Rate of return required on excess funds

F. State income taxes as a percentage of total federal tax

G. Tax credits produced by investments and available to the owner

Some of the variables are not quantifiable by nature and cannot be functionally related to those that are quantifiable. These factors are, nevertheless, important in the development of alternatives since they include the personal preferences and wishes of the individual for whom planning is being performed. The simulation model will allow the planner to evaluate quickly how planned actions are expected to affect the owner's financial status both now and in the future, but the decisions themselves will be made by the responsible planner in

consultation with the estate owner. The repetitious tasks and functions will be performed by the machine, the decision-making functions can best be accomplished by the planner.

The role of program planning has been outlined in the following terms:

> The role of program planning and analysis should be placed in its proper perspective. It is not a decision-making function. It is a method to identify relevant courses of action and clarify their respective implications in terms of costs and benefits. In this sense, it is a tool to sharpen the judgment and intuition of the decision-maker. In addition to cost and benefit factors, there are numerous qualitative factors that must be considered. The qualitative factors may be over-riding ones in some decisions. But, as a minimum, analysis of the program plan can supply some insight into the effects of selecting particular activities, and assist in generating plans which may be more effective in the attainment of organizational objectives.[3]

Methodology

The study will be performed using a computer program which is a generalized simulation of an individual's economic situation. It encompasses his business, investments, net income and cash flow generated by each, and his personal living expenses, functionally relating the variables so that it can simulate the operation of an individual's financial status. Beginning with the actual assets, liabilities, and personal spending habits and needs of the owner, it simulates his future state by yearly intervals for the designated number of years, based on the assumption that present policies and environment will remain unchanged. The estimated financial position at the designated time horizon is then compared with the desired financial goals, thus giving a measure of the divergence of the two. If, for example,

anticipated cash flow is revealed to be inadequate to meet expected demands, it may be possible to take remedial action now to prevent that undesirable development. Alternative investment plans or business operations can be quickly tested to determine their impact on estimated future liquidity.

The data to be utilized in the simulation model will be gathered on input forms and will consist of the variables previously indicated. The model will be tested for utility and flexibility as well as for mechanical accuracy by gathering sets of information for four individuals with varying ages, business and investment interests, degrees of wealth, and personal requirements. Computer results for one set of data will then be compared to the results obtained by manual calculation to verify the accuracy of the model-generated output. Throughout the study, attention will be directed toward the development and testing of a program that will be utilitarian in addition assuring arithmetic accuracy. Utilitarian aspects will be demonstrated by varying investment input data for two persons in order to observe the expected result on net worth, income, and cash flow at the end of the planning horizon.

During the span encompassed by the planning horizon, it is anticipated that funds will be generated in excess of those required for personal living expenses. A decision must be made concerning the investment of those funds and their influence on the generation of additional income and cash in future years. The model provides for the reinvestment of excess funds at the rate of return required by the individual estate owner. The owner with conservative expectations

would tend to choose a lower rate of return, while the owner who has more optimistic outlooks on investment opportunities would regard a higher rate of return as appropriate.

The simulation model will be designed to accomodate planning for as many as thirty years. However, a maximum planning horizon of ten years is recommended for three reasons. First, projecting values and environments into a very distant future greatly reduces the accuracy of the projections. Secondly, ten years is of sufficient length for many proposed changes in investments and business operations to have produced their major effects. Lastly, personal wishes and circumstances can change drastically. Since the model is designed to facilitate the accomplishment of personal goals, it is essential that goals for a reasonably predictable period be utilized.

Limitations

Within the restricted area of this study, other limitations must be recognized. The projections generated by the computer program can only be as accurate as the information contained in the input document and only as flexible as the program permits. The reliability of the input data will probably be superior for those individuals with a relatively stable business and investment history. Anticipating the probable future course of an established business would generally be less hazardous than would be the case if the owner repeatedly changed from one venture to another. The active commodity trader, for example, would not be a suitable individual for inclusion in this model due to the volatility of his investment income and cash flows. They cannot

be predicted with any assurance of reliability. However, if his commodity activities can be separated from other investments, financial planning could be limited to only those more stable activities.

As to flexibility, it is not feasible to allow for all possible types and quantities of investments in which individuals may involve themselves. Nevertheless, major categories have been provided for and in sufficient quantities that investments can, in some cases, be dealt with separately, but where this is not possible, they may be grouped into investment categories with each group being handled as a separate undertaking.

As has been pointed out, the main emphasis of the program developed as a result of this study will be the lifetime development of an individual's estate. Accordingly, the program will be referred to in future chapters as "BUsiness and Investment Lifetime Development" (BUILD).

FOOTNOTES

1. Charles J. Gaa, "Some Important Considerations in Estate Planning," Aspects of Contemporary Accounting, University of Florida, 1966, p. 45.

2. Harley M. Courtney and Patricia C. Elliott, "Computing for tax planning," The Tax Adviser, May, 1974, p. 297.

3. J. A. McNicole, "Program Planning and Operations Analysis," Canadian Chartered Accountant, October, 1967.

CHAPTER II

COMPOSITION OF THE INPUT FORM AND THE OUTPUT REPORTS

Many factors affect the future financial wellbeing of individuals. Some factors are of a nonquantifiable nature and may serve to circumscribe what would otherwise be a larger range of workable choices. Others can be expressed in numerical terms and be functionally related to each other in such a way that present and future financial positions can be approximated. Both kinds of variables are necessary for the preparation of financial projections and the development of attractive business and investment alternatives.

Information pertaining to major factors of both kinds can be gathered on the input form utilized with the simulation model. Only those variables which can be expressed numerically, however, have been incorporated into the computer model. Qualitative factors, although not included in the machinations of the program, must, nevertheless, be given due consideration when the program output is evaluated and plans for future financial changes are developed. The influence of non-numeric data on the owner's overall plans and responsibilities may be of over-riding importance.

The result of the program computations is presented on a series of reports, one summarizing the owner's present status, and

one for each year in the estate owner's planning horizon. An additional report compares certain projected valuations with the owner's desired values for these areas. The discrepancies between the two sets of data provide insight into potential future strengths or weaknesses. If unfavorable divergences appear, BUILD may be used to test the effect of proposed changes to bring about a closer matching of the two sets of data.

Input Form

An input form has been presented in Chapter IV for each set of data for the persons participating in testing the model. Each form consists of eleven pages and is divided into three main sections. The first section is two pages in length and contains background information pertaining to the estate owner, his family, business activites, and attitudes toward certain types of changes. The second section is eight pages in length and is designed to gather quantitative data relative to personal living expenses, business and investment costs, market values, incomes and cash flows, and estimated annual rates of change in certain of these values. The third section consists of one page on which are placed the estate owner's financial goals at a given future time. These data are manipulated by the program in such a way as to provide projections of future values for investment and business undertakings and comparison of these values with the predetermined goals.

Nonquantifiable Data

Although the nonquantifiable data cannot be incorporated

explicitly into the workings of the model, it is, nevertheless, necessary that the planner be aware of this information and consider it carefully as program output is evaluated. Data in this category fall into two main groups--that dealing with personal preferences and responsibilities and that pertaining to business preferences and needs.

Personal. The input form is designed to gather data concerning the client's spouse, children or other dependents, and such other information as might be helpful in understanding the restrictions imposed upon the estate owner or the directions required of future investment or business plans. Dependents' ages, health, and educational needs may be noted, as well as their other sources of wealth if these exist. Any information that affects the scope of the client's financial planning may be noted.

Business. If the client is engaged in business, background information may be desirable. For example, the nature of the business activity and the legal form in which it is conducted, as well as attitudes of the sole proprietor, partners, or fellow shareholders toward changes in form or activity necessarily influence the type and degree of planning to be done. In some cases, personal data about business associates will be important, and planning will include those associates. Such would be the case if stock redemption agreements or qualified pension and profit-sharing plans were being considered.

Personal and Business Documents. The accumulation of meaningful data for preparation of useful quantitative input will be greatly facilitated by the acquisition of certain documents. Most important

among these are prior years' tax returns, both personal and business, existing formalized agreements between partners or shareholders, and trust, wills, or other instruments affecting the accumulation or distribution of the client's property. Not only will such documents aid in locating existing assets and liabilities, but also more accurate data on income, cash flow, and rates of changes in these amounts can be determined and utilized in the second, quantitative, section of the input form.

Quantitative Data

Through interviews with the estate owner and examination of pertinent documents, numerical data relating to the owner's investments and business activities can be developed and placed on the input form. The data so developed will then be key-punched, read into the computer, and processed in accordance with the programmed instructions outlined in Chapter III. Since the output can only be as accurate and useful as the input data, it is imperative that this data be developed carefully. Precise placement of the various data on the form is explained in future chapters.

Numeric data can be grouped in one of four categories: personal financial information, business financial information, investment information, and financial goals of the estate owner. The categories utilized and details required by any particular estate owner will be determined by the type and extent of his interests.

Personal Financial Information. Included in this category are estimated annual living expenses, estimated itemized deductions

and exemptions, and expected annual percentage changes in amounts over the planning range. These categories are not mutually exclusive, since a portion of annual living expense will probably be spent on items qualifying under the Internal Revenue Code as itemized deductions. No attempt should be made by the planner to eliminate this "double counting" since the program will use the data for different purposes.

In addition to the data indicated above, this category includes space for the estate owner to indicate the planning horizon to be used. The program is designed to accomodate planning for as many as thirty years, although a much shorter period may be found more useful and reliable in many situations. Since the accuracy of projected data may tend to diminish as it is projected farther into the future, a shorter planning horizon will tend to yield more reliable results. If an extremely long period is chosen, the results should be viewed as an indication of the general direction in which the owner's financial affairs are heading rather than being considered an infallible calculation of the precise status at a given future time. With any time horizon other than an extremely short one, annual review of input data and reports generated for reasonableness and continuing accuracy would appear to be very desirable.

A final bit of information to be included in this category is the tax table to be used throughout the program. Two choices are provided. If tax calculations are to be made assuming the owner is single, a "1" is placed in the space provided. If the tax table for a married individual, filing jointly, is to be used, a "2" is placed

in the proper place on the input form. All calculations of annual income after taxes will then be made in accordance with the instructions contained in this section of the form.

Business Financial Information. Included in this group of data is information concerning five areas important to or indicative of the financial wellbeing of a business. The first area is the owner's capital investment. This includes not only his initial and subsequent capital contributions, but also a provision for internal growth through anticipated annual increases (or decreases) in the capital balance. Such changes are expressed by placing an appropriate percentage rate of change in the place provided.

A second kind of necessary business information is an estimate of the fair market value and expected annual rate of change in this amount over the planning horizon. A great deal of judgment and care will be necessary in arriving at a reasonable figure. Expert appraisal may be necessary or the client's estimate may be used depending upon the complexity of the underlying assets and the client's future plans for disposal or retention of the business interest. If the business is service oriented, as many professional activities are, assets used in the production of income may constitute a rather small part of total value.

Of importance in reflecting financial wellbeing is the annual net income of a business. For purposes of the input form, only that portion of income allocable to the estate owner should be included. There may be partners or others with interests in the total income, but their portions are excluded. In developing a

useful income figure, prior years' income statements or tax returns can be consulted in addition to any pertinent current information that may be available. Unusual, nonrecurring items may be eliminated if, in the judgment of the preparer of the input form, a more representative figure will result. The projected annual rate of change in income will depend upon such factors as anticipated general economic conditions, the outlook for the business sector with which this enterprise is connected, and specific, unique factors that have a bearing on the future profitability of the particular business undertaking in question.

Annual cash flow generated by the business can be developed from many of the same sources used to develop the income information. If the business is other than a sole proprietorship, only the portion of cash flow available to the estate owner for further investment in the business or for personal use and investment is of importance for input form purposes. The rate at which cash flow is expected to change over time will be influenced by such factors as future changes in profitability, the method of asset depreciation used, and additional business investment in new depreciable facilities.

The final kind of data required is an estimate of the annual tax credits available to the business owner. In the case of a corporation not electing Subchapter S treatment, no tax credit due to business investments will be available to offset the tax liability of the individual shareholder. The other forms in which the business may be conducted will result in a pass through of investment credit as well as tax credits arising from WIN program employees or foreign

taxes. If credit is passed through, the owner should estimate the annual amount and the rate at which it is expected to change during the planning period. In view of the eratic history of investment credit legislation, he may well decide to estimate the amount and rate of change conservatively.

Investment Financial Information. A third category of quantitative data contains information pertinent to a variety of investments in which the owner may have interests and liabilities for which he may be obligated. Specifically, the types of investments provided for are: cash (checking accounts and time deposits), notes and receivables, stock holdings, bonds, life insurance, real estate, employee benefits, salary, and other assets and receipts. The types of liabilities provided for include mortgages on realty and miscellaneous other liabilities and disbursements.

The information required for each classification of asset or liability depends upon its characteristics. For many assets, their costs, estimated fair market values, income produced, and annual cash flow generated is necessary in addition to estimates of rates of change in values. Certain investments such as life insurance, for example, will not typically produce income and will, in fact, have negative cash flows. Notes and receivables, on the other hand, may have income and cash inflow, but will be decreasing in principal and face value due to the periodic receipt of payments on the face amount. Likewise, certain liabilities will decrease over time as payments are made. These cash outflows are broken down into the part representing principal and that consisting of interest depending upon the interest

rate applicable to the liability. The total payment is a cash outflow, the principal portion reduces the outstanding balance of the liability, and the interest portion is a negative income item.

In addition to gathering information concerning assets and liabilities, the form provides space for listing sources of investment tax credit or other credits other than those available through the business interest, the rate of return required on reinvested cash flows, and the state income tax expressed as a percentage of the federal tax. Other sources of tax credit are necessary to include in order that a complete tax calculation can be made for each year in the planning horizon. The rate at which these amounts will change over time depend, as they did in the case of business tax credits, not only on investment choices but also on the vagaries of future tax legislation. For these reasons, conservative estimates may be appropriate for many estate owners.

The rate of return required on reinvested cash flow is the minimum interest rate the estate owner requires on new investments. This rate is used by the program to calculate the income and cash inflow arising from the cash flow created the previous year. To the extent actual investments yield greater or lesser incomes and cash flows, some inaccuracy will be introduced. This will be minimized, however, if the rate of return is carefully chosen and, in any case, the error will be less than would occur if no estimate were made of future earnings.

The state income tax as a percentage of the total federal tax should be estimated and placed on the input form as Item N. This

figure is necessary for the preparation of a calculation of annual after tax cash flow for each year in the planning horizon.

Financial Goals. The final page of the input form contains space for the estate owner to place financial goals desired at the end of the planning period. These goals can be stated separately for business and investment interests. In the first part of the financial goals section, desired annual income and cash flow are listed for the business or professional interest and for investments. In the second section, the desired sources of net worth are listed in terms of cost and market value generated by business interests and investments.

Precise agreement of predetermined goals and projected results of financial activities in unlikely. However, if the estate owner will carefully consider the goals he has set for himself and will refine them sufficiently to include them in the form required by BUILD, his understanding of his goals and the possibilities of their accomplishment should be enhanced.

It may be necessary for the planner to work closely with the estate owner throughout the process of completing the input form. As a minimum, the planner will thoughtfully review the data for reasonableness, comparing it to information of which he has direct knowledge. Since the careful development of input data is crucial to the realization of useful output, the planner may need to aid the owner extensively in developing information in a form that may be unfamiliar to him. For example, cash flow and income may be nearly synonomous in the owner's mind, although they must be separately developed and used by BUILD. In other situations, the opinion of appraisers or

other experts may be necessary to develop realistic factors for such data as percentage changes in fair market value of real estate holdings or current value of other investments.

Reports Generated

BUILD produces a series of reports based on the data contained in the quantitative sections of the input form. The first report is a statement of the estate owner's present business and investment interests and the income and cash each produces. Next, a series of reports is produced based on projected financial data. The final report compares the projected financial data with the goals the estate owner expressed on the final page of the input form. If congruence between expected results and goals is high, the estate owner may be satisfied with expected results and not wish to explore ways of improving his financial situation. A high degree of divergency, on the other hand, may indicate the desirability of exploring other ways of deploying assets in order that more satisfactory results may be obtained. In this case, BUILD can be useful in quickly testing the effects of various proposals on the expected overall financial picture.

Present Financial Status

Net Worth. The first report is essentially a balance sheet in which individual assets and liabilities are gathered, grouped into the various categories provided on the input form, and expressed in terms of cost or principal in the first column and fair market value in the second column. The costs of all assets are totaled, and from

this is subtracted the total principal of outstanding liabilities. By a similar method, the fair market values of all the assets are totaled, and the total fair market values of liabilities is subtracted. The results of these procedures is the net worth of the estate owner in cost and fair market value.

Income. Taxable income or loss attributable to each type of asset as well as the deductible expenses associated with the various liabilities are gathered in column three. By summing the income from assets and subtracting the total deductions resulting from liabilities, a net income figure is derived. This figure is not identical to taxable income since itemized deductions and exemptions have not been deducted. It does correspond, however, to the adjusted gross income figure provided for in the Internal Revenue Code.

Cash Flow. In the final column is listed the cash flow produced or required by each category of asset or liability. Occasionally this may be the same as income, but in many situations it will differ. Certain investments, for example, produce cash inflows that exceed taxable income due to the deductibility of certain noncash expenses for tax purposes. An example of such an investment is found in assets that are depreciated over their useful lives, the depreciation being a deductible expense that does not require the present outlay of cash. Other investments, such as life insurance policies, may be expected to produce only the negative cash flows of premium payments with no portion being tax deductible. Conversely, liabilities may be expected to require cash outflows that exceed the tax deductible portion attributable to interest. The sum of positive

and negative cash flows results in the net cash generated by business and investment activities. This is not the same as cash available for reinvestment since personal living expenses and federal and state income taxes have not yet been deducted.

Projected Financial Data

Report Number 2 is a series of reports, one for each year in the estate owner's planning horizon. These reports begin with the data contained in Report Number 1, but project it to future years using the information developed with regard to estimates of changes in value, expected earnings, and cash flows. The data projected for each year is arranged in a format similar to that used for Report Number 1 with a few rather important differences with respect to taxable income, after tax cash flow, and investment of cash flow.

Taxable Income. In Report Number 1, the income figure was the sum of taxable income and deductible expenses attributable to business interests and various groups of investments. To find taxable income, the business and investment income must be reduced by the itemized deductions and exemptions of the estate owner. Data concerning these amounts are contained on page three of the input form together with information concerning their expected rate of change over the relevant time span. In addition to computing the expected income for the particular year covered by the report, BUILD computes the corresponding expected deduction for exemptions and itemized deductions. The amount is subtracted from projected income to arrive at taxable income for that year.

After Tax Cash Flow. For each year in the planning horizon, BUILD computes the cash produced or required by business or professional interests, investments, and liabilities. From this figure, it is necessary to deduct cash required for the estate owner's personal living expenses and federal and state income taxes to arrive at cash available for future investments. The amount available each year will necessarily vary in accordance with the projected cash available from investments, the income taxes attributable to expected income, and the projected amounts needed for the personal living expenses of the estate owner and his family.

Investment of Cash Flow. Cash available for investment from the first year of the planning period is included with the assets of the second year under the category labeled "Investment of Cash Flow." The first report of the Report Number 2 series will not register an amount under that heading. Succeeding years, however, will state the amounts produced in previous years. Since precise investment plans for excess cash are not known, some assumptions must be made with regard to the income and cash flow that these funds will produce for the use of future years. The rate of return required by the estate owner and specified in the input form is used to project the contributions of cummulative excess funds to future taxable income and cash flows.

Comparison of Projected Financial Data and Goals

Report Number 3 highlights those variances existing between projected financial information and goals aspired to by the estate

owner. These differences are displayed in four areas--cost, fair market value, income and cash flow--for both business interests and investments.

Assuming the goals have been realistically determined and the underlying data carefully and accurately developed, the existence of a significant disparity presumes some type of corrective action. The precise action to be taken is contingent upon several factors, the principal ones of which include opportunities for alternative action, qualitative, personal constraints, and the area in which the divergence exists. For example, if expected cash flow is less than that desired, the estate owner may have opportunities to improve the variance. The means selected to accomplish this, though, may affect some other variance. The type of investment that improves cash flow may simultaneously reduce taxable income, or may be of the type that reduces cost due to the return of investment. On the other hand, investment alternatives may be such that opportunities existing for the improvement of fair market value variances may produce no improvement in cash inflows. Under these conditions, the estate owner will have choices to make, but, as a minimum, he will have information which may provide insight into the consequences of his decisions.

Summary

An input form has been developed in order that substantially all major factors affecting personal estate building may be gathered for each owner. The form allows for both qualitative, personal information which will shed light on the restrictions or directions

required of future estate modifications, as well as numeric data concerning the owner's financial interests of a personal and business nature and certain changes in this data that are expected to take place over the planning period.

Based on the data contained in the input form, three reports are produced. The first is a statement of the estate owner's current position expressed in cost, estimated fair market value, income, and cash flow generated. The second report is a series of statements prepared for each year in the period under consideration. The program instructions call for annual projected data in the areas of cost, fair market value, taxable income, and after tax cash flow. The final report compares the data projected for the end of the planning period with that desired. Unfavorable variances between the projected values and the owner's goals indicate that possible corrective action may be desirable. Favorable variances give a measure of assurance that goals are likely to be realized. BUILD does not prescribe the type of corrective action to be taken, but it does indicate that such action may be necessary, and it does allow the owner certain information to aid him and his planners in the decision-making process.

CHAPTER III

DESCRIPTION OF PROGRAMMED INSTRUCTIONS

BUILD instructions call for accumulation and computation of cost, fair market value, income, and cash flow data relating to investments, business interests, and personal items. The data put into the program or computed by it are used to produce a series of reports designed to aid the estate owner and his advisers in assessing his present financial position or selecting and implementing future corrective measures. This chapter will describe the computations BUILD is instructed to make and the procedures it will follow in generating and utilizing information.

Calculations of Cost, Fair Market Value, Income and Cash Flow

For purposes of preparing a balance sheet on the owner's present position and in order to project his position so that pro forma financial statements can be prepared for each year of his planning period, financial input and data from which future projections can be made is necessary. It is essential that this information be carefully gathered since it is an inventory of assets, liabilities, incomes, and cash flows upon which present and future calculations

will be based and upon which important financial and personal decisions may turn.

Calculations for Business Interests

Cost. Business cost is the owner's unrecovered investment in a business undertaking. For sole proprietorships, the concept corresponds to owner's capital. In a corporate undertaking, the cost of the purchase of stock is the appropriate figure. Cost of an investment in a Subchapter S corporation or in a partnership is the initial investment increased by additional investments and undistributed earnings, or reduced by losses and withdrawals. The present cost figure is placed on the input form and used by the computer in the preparation of Report Number 1.

For reports on projected future cost, data must be presented from which the computer can calculate appropriate future amounts. If the business venture is operated as a sole proprietorship, partnership, or Subchapter S corporation, expansion will require future investment by the owner or retention of business income for internal growth. If additional investment is necessary, or if less cash withdrawals are made due to business expansion, the rate at which cost is expected to increase will be placed on the input form and used to calculate future cost. Since increases in cost reduce cash available to the owner, cash flow will be reduced each year by the increase in investment.

If the business is organized in the form of a non-electing corporation, changes in expansion will not be reflected by the

individual shareholder except in the form of larger or smaller dividends flowing from the corporation and in changes in market value of his stock investment. Additional capital investment by the shareholder will simply be reflected when additional purchases of shares of stock are made.

Fair Market Value. An estimate of the current fair market value of the business interest will be placed on page three of the input form. The ease or difficulty with which this figure can be determined will depend in large measure on the form of the business undertaking and the underlying assets. For a service-oriented professional person, the fair market value of the business may be relatively insignificant in comparison to that of an organization whose income is produced by business assets. Expert appraisal may be needed in the latter situation as well as in determining an appropriate rate of change in value over time. Another factor that will impact upon value is the continuity of the business in the event of the owner's death or retirement. If family members or business associates will continue its operation, value will be that of an ongoing business rather than that applicable to a liquidating interest.

Income. For purposes of report preparation, income will be taxable income adjusted for any nonrecurring items. Although prior years' income tax returns provide clues for determination of a suitable figure, the estate owner can undoubtedly furnish insight into selecting a representative amount. In addition, his closeness to changing conditions in his business and its environment will aid the estate owner in establishing a suitable rate of change in expected

income over the time horizon. Given the present taxable income and an assumed rate of change in income, BUILD will compound the present income each year in the planning period.

Cash Flow. Annual cash inflow produced by the business activity is listed on the input form along with other information relating to business wellbeing. As with the determination of income, a representative figure which eliminates nonrecurring cash drains or sources will produce the most useful figure for planning purposes. Computer instructions direct the increase or decrease in the initial figure as the result of two influences over the planning period. First, an estimated rate of change in cash flow over time is developed and applied to the initial figure by means of a compounding procedure similar to that used in compounding value, cost, or income. Secondly, increases or decreases in cost will affect annual cash flow. Increases in cost imply reductions in cash available to the business owner, and, therefore, result in reductions of cash flows. On the other hand, if disinvestment is taking place, cash flow will be increased.

Investment Calculations

On Report Number 1 are presented the historic costs or outstanding balances for each investment group along with their fair market values, incomes, and cash flows. Data related to individual investments are placed on the indicated spaces on the input form. The information is keypunched, read into the computer, and then summed and a total reported for each group under the proper column of each

report. The computer totals business and investment costs and from this subtracts the total outstanding liabilities. The result is owner net worth expressed in terms of historic cost. A like procedure is followed in totaling fair market values and subtracting outstanding liabilities to arrive at net worth in terms of fair market value. For some purposes this may be a more useful manner of expression. Taxable income or loss produced by assets and liabilities is also summed as is the cash flow utilized or produced by the various business and investment interests.

The manner in which amounts in each of these areas are projected to future years depends upon the nature of the obligation or property itself. Therefore, the investment categories provided for on the input form will be separately considered below, or, if the instructions for calculating future amounts are similar, groups of like assets will be described together.

Cash. Cash investments are primarily of two types--demand deposits which produce neither income nor cash flows and time deposits which produce both. For purposes of this program, it has been assumed that demand deposits remain at a constant amount. Time deposits, by contrast, will increase at the rate assigned to that deposit. Each year's interest will be added to the principal and the new principal will then earn interest in future years. Interest income generated each year will be picked up by the computer as taxable income. Cash flow in an amount equal to the interest income will be produced, but it will not be listed in the reports with other cash sources. Rather, this amount will be automatically reinvested at its original rate of

interest and added to the principal on deposit.

Notes and Receivables. Program instructions call for the outstanding balance of each separate note or receivable to be reduced each year by the portion of each payment that applies to principal. The input data required is composed of the outstanding balance at the present time, the total annual payment to be received, and the interest rate. BUILD computes the interest income and the payments on principal and reduces the outstanding balance by the principal portion. If the note extends for a longer term than the planning horizon, a new declining balance is reported for each year. Should the note be fully paid before the end of the planning span, no further calculations will be made. The outstanding balance will have been reduced to zero. Both cost and fair market value each year are reported at the outstanding balance calculated for that year.

Income for the current and future years will be calculated by the computer. The outstanding balance of each note will be multiplied by its respective interest rate, and the result will be included with other taxable income. Interest income will decline each year as payments are received on the principal of the note.

Cash stemming from notes and receivables will be determined by reference to the annual payments received. The total amount of each payment will be considered cash inflow irrespective of the portion that applies to interest or principal. This figure will remain constant over the relevant planning period.

Shares of Stock. Cost of shares of stock will remain at the historic cost figure for Report Number 1 and all subsequent reports.

There is no provision for increasing or decreasing the cost of stock investments over the time span. Fair market value, however, will be compounded at the rate provided for in the input form. Each separate stock investment or group of similar stocks will increase or decrease in value at the stated rate.

Income and cash flow attributable to stock investments will be identical amounts determined by the cash dividends distributed to shareholders. There is no provision for increases or decreases in these amounts.

Bonds. In the input form, bonds are listed at their original costs adjusted by amortized premium or discount to their carrying values as of the current date. Carrying value for future years will be calculated by BUILD. If the bonds were purchased at a price in excess of the face value, the excess (premium) will be reduced over the years to maturity until cost (carrying value) equals the face amount. When this occurs, the bonds have reached maturity and the estate owner will receive cash for the bonds.

If the bonds were purchased at a price less than face value, the discount will be added over the years to maturity to the carrying value of the bonds until the carrying value equals the face value. At this point, the bonds have reached maturity and cash is received for them.

The only items of information needed on the input form are the present carrying value, the effective yield of the investment, number of years to maturity, and the nominal interest rate. The amount of premium to be subtracted or discount to be added is

determined by the difference between the cash interest received and the taxable income earned as specified by the effective yield. Each year's taxable income will change as the carrying value increases or decreases. The precise amount will be calculated by the computer. Cash flow will be found each year by summing total cash interest receipts and adding to this the face value of any matured bonds as calculated above.

Fair market value for bonds will be considered the same as carrying value, since the method of determining income outlined above assumes the bonds are being held as long-term investments. Accordingly, temporary fluctuations in market value are of less concern than might otherwise be the case.

Life Insurance. For the first report, both cost and fair market value are reported at the current cash surrender value of the life insurance policies. Although actual cost may differ considerably from cash surrender value, the latter figure appears to be the more relevant one since insurance includes elements of nondeductible personal expense and reflecting such amounts in a balance sheet would be of little value to the estate owner and his planner.

Increases in cost and market value will occur each year in accordance with the percentage rate applicable to each policy. The rate of increase in value is applied to the annual premium payments and then added to the previous cash surrender value in arriving at a new, adjusted value.

The annual cash outflow will be the sum of annual premium payments on each policy. There is no provision for changes in these

amounts over the planning horizon.

No allowance has been made for taxable income arising from life insurance or for deductible expense. Relatively few insurance policies produce dividends in excess of the premiums paid and thereby give rise to taxable income. Also, premiums paid on personal life insurance policies are not tax deductible.

Real Estate. Cost of real estate is the historic cost of the property. This will remain unchanged over the planning period. Determination of current fair market value may require expert appraisal as may the ascertainment of an appropriate rate of change in value for each property or group of similar property. Value will be compounded annually at the rate specified.

Income to be reported for each property is its taxable income without regard to deductions due to indebtedness incurred in purchasing or carrying the property. Likewise, cash flow will not reflect payments made on such indebtedness. These adjustments are handled in the section entitled "Mortgages on Realty" and are collected with other liabilities. Income will differ from cash flow by the amounts resulting from depreciation or other non-cash expenses. The amounts so reported on the input form will remain unchanged over the period covered.

Employee Benefits. This category is intended to include such investments as employee retirement plans that build up the estate owner's equities through either the employer's contributions, the employee's contributions, or a combination of the two. Cost for these purposes is the employee's total investment in the plan. It is

expected that the cost will eventually be recovered by the employee upon retirement or by his beneficiaries in the event of his death. This is in contrast to life insurance policies which require a cash outlay, only part of which may build up assets obtainable by the policy owner.

The fair market value of the benefit depends upon several factors and must be separately determined for each investment. If the employer's contributions to the plan vest in the employee, they, along with any earnings of the plan will increase the value of the asset. If the only portion of value obtainable by the employee is his contributions and earnings, a lower rate of increase in value will be in order.

Normally, such plans will produce no immediately taxable income, but taxation will occur when the benefits are withdrawn upon retirement. In the case of a tax-sheltered annuity, the effects can be shown in an alternative way. The employee benefits section of the input form could reflect negative income in the amount of the employee contribution and the salary section of the form could report the salary from which the payment is made at the entire amount, unreduced for the payment.

Cash flow, if any, is expected to be negative for each employee benefit plan. Only the amount invested by the employee will be placed on the input form, and this amount will increase the cost of the plan each year. If withdrawals are being made from the plan, fair market value will reduce at the rate specified, and cash flow will, in that case, be positive.

Salary. There is no provision in the program for cost or fair market value with respect to salaries. Income and cash flow may be the same, but occasionally this will not be the case. For example, if the employee authorizes payroll deductions for contributions to tax-sheltered annuities, the amount of taxable income will be less than the cash inflow. The amount of the deduction will then be shown as a negative cash flow in the employee benefits section. Or, as described above, taxable income and cash flow could be reported as the same figure, with the portion used for the annuity shown as a negative income in the employee benefits section. Both income and cash flow will be compounded at the rate provided on the input form. The chosen rate will reflect employment and promotion policies of the employer to the extent these can be determined.

Other Assets and Receipts. Assets and sources of income or cash not included in other sections of the input form may be listed in this category. Provision is made for cost, estimated fair market value and changes in value, taxable income, and cash flow. Cost will remain constant at the original figure placed on the input form. Fair market value will compound at the rate indicated for each asset in this category. No allowance is made for income and cash flow to change over the planning period. Therefore, if the amounts are not constant each year, an average or representative amount should be used for each.

Mortgages on Realty. As the name indicates, this section includes indebtedness incurred on the purchase or carrying of real property. Cost and fair market value in Report Number 1 are the

current outstanding balances of the liabilities. The balances will be reduced over time as a result of periodic payments.

Three kinds of information are necessary to fulfill the computer instructions: current outstanding balances of the liabilities, annual payments on each, and the interest rate applicable to each. From this information, BUILD is instructed to compute the tax deductible interest expense for each obligation by multiplying the outstanding balance of the liability by its respective interest rate. The interest expense, subtracted from the total payment made on the obligation, results in the portion of the payment that applies to principal. This portion is then subtracted from the carrying value of the liability to arrive at a new, reduced balance.

Although interest expense will be declining each year, cash outflow will remain the same. It is composed of the entire payment made on each debt. When the outstanding balance of any debt has been reduced to zero, BUILD will cease computations for that debt.

Other Liabilities and Disbursements. This category is designed to include liabilities not associated with real estate holdings as well as any other sort of obligation extending over a period of time. The outstanding balance of the liability is reported as both cost and fair market value. Some types of disbursements may not involve an enforceable claim against the estate owner but may be of the nature of a moral obligation. One of the participants in testing the program had this sort of disbursement due to the support of an elderly relative. A principal amount was not due, but annual payments were made. Since these payments did not include interest and principal elements, the

the cut-off of the payments was governed by the number of annual payments to be made. When it is unknown how long payments will continue, one can assume they will continue at least as long as the planning horizon and indicate in the appropriate column on the input form a number of payments in excess of the number of years in the planning period.

If the obligation is such that an outstanding principal is owed, the applicable interest rate is inserted in the form and calculations similar to those described in the previous section are made. The deductible interest expense is calculated based on the reducing principal of the debt and the corresponding interest rate, and cash outflow is determined by reference to the amount of annual payment to be made.

Instructions for Preparation of Report Number 1

Report Number 1 is assigned the function of gathering four categories of information on assets and liabilities currently owned. The four types of information are: cost or carrying value, fair market value, taxable income or deductible expense, and cash inflows or outflows. In the previous section, general outlines of the instructions followed by BUILD in arriving at these figures have been described. In this section, the instructions for compiling Report Number 1 will be outlined.

Accumulations of Cost

BUILD is instructed to compile a balance sheet in Report Number 1 based on the historic costs and carrying values of assets and

outstanding balances of liabilities. The amounts reported are the beginning data placed on the input form. BUILD will sum by categories all amounts placed in the cost columns of the input form. For example, if the cash section of the form reports balances for three checking accounts and two savings accounts, the program will instruct the computer to add together the five amounts and report their total in the cost column of the first report in the investment category labeled "Cash." A similar process is followed for each of the remaining asset categories. A summation is then made of the separate investment totals, and the result is listed as "Total Assets" in the cost column. Similarly, outstanding balances of liabilities are summed for the two categories "Mortgages on Realty" and "Other Liabilities and Disbursements." The two category totals are added together and the summation reported as "Total Liabilities" under the cost column. "Total Liabilities" is then subtracted from "Total Assets" to arrive at the estate owner's net worth calculated in terms of historic cost.

Accumulations of Estimated Market Value

The BUILD program calls for accumulations of estimated fair market values by asset or liability category. The amounts used in the first report are those contained on the input form. In some cases the values will be the same as costs. This will be so for cash, notes and receivables, long-term bond investments, life insurance, and mortgages and other liabilities. In other cases, estimated fair market values may bear little resemblance to cost. As with cost accumulations, values of assets are summed by category and from this is subtracted the

total value of liabilities. The result is owner net worth in terms of estimated value.

Reporting Taxable Income

A report on the estate owner's present circumstances requires information on his current income produced by business interests or investments. The current annual income from each of these sources is listed on the input form. The computer sums income by categories and places it on Report Number 1 in the third column. Since negative income is produced by liabilities, this is deducted from the normally positive income produced by assets, and the result is reported at the bottom of the third column of the first report. This is not income upon which federal and state taxes will be calculated, since personal expenditures for itemized deductions or exemptions have not yet been deducted.

Reporting Cash Flow

Cash produced or required by each type of asset or liability is obtained from the original data placed on the input form. Occasionally, income and cash flow will be the same, as when taxable income is totally received in the form of cash inflows or deductible expenses are completely paid for with cash. Other types of obligations and assets, though, may produce very dissimilar amounts. For cash accounts, income and cash flow would be the same, but the program is designed to add interest income to the principal of the cash invested, therefore, no cash inflow is reflected for these investments. The sum of cash outflows yields cash flow arising from business and investment

undertakings. This is not the same as "After Tax Cash Flow," since cash required by personal living expenses and income taxes have not been deducted.

Preparation of Reports on Projected Financial Status

A report on financial status will be prepared for each year in the planning period designated on page three of the input form. All amounts used in preparation of these reports will be those calculated according to the instructions designed for each type of asset or liability and discussed earlier in this chapter. Four additional types of calculations to be made are those pertaining to determinations of taxable income, federal and state taxes on that income, cash required for personal living expenses, and after tax cash flow.

Computations of Costs

Cost, for the report prepared for the end of the first year of the planning period, is the original cost increased or decreased in accordance with the instructions previously outlined. Cash investments will be increasing each year as a result of the compounding interest calculation BUILD is instructed to make. Notes and receivables, in contrast, will usually be decreasing as payments are received. Other costs will remain unchanged if no provision has been made for specific changes.

At the end of the first year, all costs calculated for that year or carrying over from original input data will be summed and the newly calculated carrying values of liabilities will be subtracted to

arrive at projected cost of net worth at the end of that year. A similar procedure will be followed in subsequent years with one important exception. For all years after the first year, another asset category called "Investment of Cash Flow" will be added. For the second year, the amount to be included in this category will be the after tax cash flow generated in the first year. In the third year of the planning period, that category will include the amounts generated the first year, amounts earned on that sum during the second year, plus after tax cash flow produced in the second year. Subsequent years include the cash flows produced in prior years plus the earnings on those amounts compounded at the rate provided for on page ten of the input form.

Accumulations of Market Values

Estimated fair market values for the first year and subsequent years will be calculated in accordance with the instructions discussed earlier. Some values will be the same as cost, others will be increasing or decreasing over time depending upon their characteristics and economic environments. Fair market value of "Investment of Cash Flow" will be the same as its cost and will be calculated as described previously.

At the end of each year, all values calculated for that year or carried forward from the original data will be summed and the values of the liabilities will be subtracted to arrive at projected fair market value at the end of the year. New values will be calculated and displayed for each year of the Report Number 2 series.

Calculation of Taxable Income

Taxable income and deductions for each year are either computed according to the instructions outlined or are carried forward from the original data in those cases in which annual average income from an investment has been used. In addition to the deductions and income arising from investments and liabilities, one other type of calculation must be made to arrive at income subject to tax. On page three of the input form, information has been gathered relating to the estate owner's estimated annual itemized deductions and exemptions and the rate at which these are expected to change over time. For Report Number 2 for the first year, this deduction is the amount shown on the input form increased or decreased at the rate given. The amount so calculated is subtracted from taxable income attributable to assets and liabilities to arrive at income subject to federal and state income taxes.

Calculation of After Tax Cash Flow

The calculation of cash flow available for future investment requires the computation of two additional kinds of data: federal and state income taxes arising from taxable income and cash required for personal living expenses of the estate owner and his family. The cash flow due to investments and liabilities is calculated for each year in accordance with the instructions previously discussed. For some liabilities or assets, cash inflow or outflow will be the same as income, but for others it will be quite different due to the separation of income elements from return of capital.

Federal and State Income Taxes. The input form indicates the tax schedule to be used in computing federal income taxes. State taxes are calculated as a percent of federal taxes with the appropriate percent indicated on page ten of the input form. Also contained in the input form are various tax credits arising from business or investment activities. BUILD is instructed to compute the federal income tax, calculate and add to this amount the correct state income tax, and subtract from this sum the total tax credits given in the input form or calculated from the information given for the various credits. The result is the estate owner's estimated tax liability for the year. This is a negative cash flow on the report for that year.

Personal Living Expenses. On page three of the input form, the estate owner estimates the annual cash needed for the personal living expenses of himself and his family. This may include expenditures for items that are tax deductible as itemized deductions. No effort should be made to eliminate such amounts from personal living expenses since total living expenses will be used by the program for a different purpose than will itemized deductions. A space is also provided in which the owner can estimate the rate of change of living expenses over the planning horizon. If a rate is provided, it will be used to compound annual living expenses in arriving at estimated amounts for future years. The amount provided or computed will be reported in column four of the annual reports for the Report Number 2 series. Cash produced by investments and business interests will be reduced by the income taxes on that year's income and by personal living expenses of the estate owner and his family. The resulting

total is "After Tax Cash Flow" which will be reported as "Investment of Cash Flow" in next year's report.

Comparisons of Projected Financial Status and Goals

The final set of programmed instructions calls for the preparation of Report Number 3, Comparison of Projected Financial Status with Desired Financial Goals. In this report, financial goals are compared in four areas with the expected values in those areas as shown in the final report of the planning horizon for the Report Number 2 series.

On page eleven of the input form, the estate owner is asked to state the financial goals he wishes to reach at the end of the planning period. The goals are grouped according to business and professional sources, and are expressed in terms of cost, fair market value, income and cash flows arising from those origins. These goals are then compared to the projected amounts in each of these areas, and the differences are reported. If the estate owner regards the disparities as significant, he may wish to explore methods of improving his expected future financial state. The precise means by which he can achieve an improved condition cannot be identified by the BUILD program. However, as a minimum, insight can be provided into the consequences of selecting particular, alternative activities. The program can sharpen the decision-making abilities of the estate owner and his advisers.

Summary

In this chapter, a general outline has been drawn of the

instructions contained in the BUILD program. The program uses the data contained on the input form to prepare Report Number 1, a statement which expresses the estate owner's current financial status with regard to cost, estimated fair market value, income and cash flow.

The computer is further instructed to utilize input data to calculate future costs or carrying values, project market values, and estimate income and cash flows arising from business activities and other investments. The results of these projections and calculations are presented on Report Number 2. A separate report is prepared for each year in the planning horizon established by the estate owner. The data contained in the final report of the second series is then compared to the owner's predetermined financial goals and a measure of disparity is obtained. If the variances should prove to be unfavorable, the program can be used to quickly test the impact of various strategems designed to improve the owner's financial condition or meet his personal requirements.

CHAPTER IV

TESTING PROCEDURES FOR COMPUTER SIMULATION MODEL

Procedures for testing the BUILD program were designed to accomplish two objectives: assure accuracy and establish its utility. The mechanical accuracy of the program was established during the development and testing by manual calculations of the computer-generated output. The ability of the program to conveniently handle a wide range of realistic circumstances was determined by the careful selection of individuals whose data would be used for testing.

Selection of Persons for Program Testing

Four individuals were found who exhibited the desired diversity. Those persons selected varied considerably in age, type of profession or business interest, present investments and opportunities for alternative investments, degree of wealth, and nonquantitative, personal factors. Ages range from 37 to 65, and present net worths vary from $90,000 to $2,100,000. Business interests and professions represented include a medical doctor, an engineer and his business-owner wife, a salaried chief of maintenance for a large public institution, and a semi-retired bank executive. Investments consist of such diverse interests as life insurance policies, part ownership

of an orange grove, and inventories of raw turquoise and geodes.

Those persons kind enough to participate in the development of this program have been assured complete anonymity. Accordingly, each will be referred to only by the client code assigned, and specific descriptions of property locations or other identifying references will be eliminated. Further, names of dependents, businesses, and business associates will be changed to insure privacy.

Range of Ages

Requirements of Different Ages. In selecting individuals with suitable data, a wide range of ages appeared to be desirable for two primary reasons. First, if the program is to be helpful in the accumulation of a lifetime estate and in making more efficient use of existing resources, estates of persons in various stages of estate development should be included. Then, if different needs or requirements due to age differences were manifested, program modifications might be possible to accomodate those differences. If individuals of varying ages could not be accomodated through BUILD, this limitation would then be recognized.

Modular Use of BUILD. Secondly, if persons of various ages do have different requirements, insight could be gained into the use of the simulation model as part of a modular approach to financial and tax planning. For example, younger persons in the beginning or midst of building or accumulating an estate, might tend to be interested in additional programs which would aid in overall estate growth. Such a person might wish to explore the long-term impact of

incorporating his business and establishing a pension plan more attractive than that available to an unincorporated enterprise. Or, he could be interested in a program that aids him in deciding whether to lease or buy equipment needed in his business. Either of these types of programs could be developed and used in conjunction with BUILD. A model already exists which can aid the salaried corporate executive in choosing the most attractive compensation package given his tax bracket, current cash requirements, and personal preferences. Programs available or to be developed in such areas as these could very well be integrated with BUILD in the overall development of an individual's lifetime security.

An older person might wish to pursue alternative ways of disposing of his estate at a given future time. In such circumstances, he would be interested not only in the amount of the probable future estate, but the proportions contained in various categories of assets. The program could be used to answer such questions as: What will be the projected value of the estate for tax purposes? Or, what degree of liquidity can be expected if present types of investments are continued or certain new ones undertaken?

Several programs which would aid the estate owner in developing various plans for the disposition of his estate are already available for noncommunity property states. Such programs could use as input, the projected data developed through BUILD and thus extend the modular approach to lifetime financial planning to include ex ante estate planning as well.

Diversity of Professional or Business Interests

By selecting test data from individuals with diverse professions and businesses, it would appear that the program could be made flexible and adaptable to a broad spectrum of conditions and circumstances. Accordingly, the program was tested with the data of persons exhibiting a substantial amount of occupational variety. FDY 001 is employed as head of maintenance for a large state facility. ROR 001 is an internist who has been in practice for about five years. The third set of test data was furnished by HAN 001 and is actually that of two persons, a husband and wife, each of whom has separate business or professional interests. He is an engineer with a hobby that may develop into a full-time business, and she is the owner-manager of two pre-school nursuries and kindergartens and has substantial investments in real estate. The final set of data is that of WEA 001, a semi-retired bank executive who participates in a wide range of financial activities.

Although the participating individuals necessarily do not represent all possible professions or businesses, it appears that diversity sufficient to establish program flexibility is represented. It seems that little extra realism or adaptability would be gained by the addition of numerous other sets of data.

Differences in Net Worths

Extent of Net Worths. The four persons participating in the testing and development procedures provided large variations in the sizes of their respective estates. In terms of cost and fair market

value, net worths presently are:

Estate Owner	Net Worths Cost	Net Worths Fair Market Value
ROR 001	$ 90,535	$ 105,935
HAN 001	276,972	318,671
FDY 001	94,431	101,960
WEA 001	2,114,930	3,809,970

Sources of Wealth. FDY 001 has relied entirely on salary to provide funds for living expenses and investments. Those investments that have been undertaken have been heavily concentrated in savings accounts, mutual funds, and employee reitrement plans. He has never owned real property other than the two building lots which were purchased two years ago. Even his home has been provided by his employer as part of his compensation.

ROR 001 has only recently begun to accumulate funds with which he can invest. Some resources were required in his medical practice, but little additional funds are expected to be necessary there. Other than that, a real estate investment, heavily mortgaged, is his main present investment. As his medical practice develops, he expects to extend the scope of his financial activities.

WEA 001 is the owner of a considerable fortune and has rather far-flung properties. Investments include farmland planted in cotton, onions, and pecans, shares of stock in various local and national companies, personal loans, rental property, and interests in an orange grove. He has been semi-retired for several years but retains a lively

interest in the augmentation and management of his many properties.

In the midst of estate accumulation is HAN 001. The husband is an engineer employed by a space technology firm. However, his undergraduate education was in geology, and his interests continue in this area. The bulk of their assets, though, are contained in the kindergartens and pre-school facilities operated by his wife, in their real estate ventures, and some stock holdings. Some diversity is present in their current portfolio, but both husband and wife have expressed the desire to be less dependent upon his salary and her continued operation of the day-care business.

Alternatives. All of the participants discussed above have alternative routes they may wish to explore. In fact, there are generally many possibilities. ROR 001, for example, expects to earn more from his medical practice than will be required for current living needs and may have continuing needs for suitable investments. As the resources available for investment expand, choices will undoubtedly also increase. WEA 001, due to his close association with the financial community of the Southwest over the years and his considerable resources, has many investment choices. FDY 001 is somewhat more limited than the other participants due to his relative lack of financial sophistication combined with rather limited resources. Two primary strong points, though, are that he has proportionately large amounts of liquid assets and he is eager to restructure his investments. HAN 001 has a moderate degree of liquidity and a decided preference for "local" investments, i.e., those that involve familiar situations with which they can become actively involved. Stocks, bonds, or

other intangible investments cause them a great deal of stress, and, therefore, will probably not be considered among their feasible alternatives.

Variety of Qualitative Personal Factors

To be a useful tool, BUILD must, in addition to accomodating a variety of ages, business and investment interests, and net worths, serve the needs of persons with diverse personal circumstances which may tend to direct and circumscribe the financial planning in which they engage. WEA 001, for example, is energetically involved in building his estate, but is, nevertheless, considering various ways of transmitting his wealth to his only child, an adult daughter. The daughter's circumstances are such that giving direct control to her is not considered appropriate. FDY 001, on the other hand, has continuing financial responsibility for one minor child and is concerned with meeting this responsibility as well as providing for his own forthcoming retirement. The doctor, ROR 001, has young children and a wife without professional training. He has the dual goals of providing for their immediate financial security and accumulating future wealth. HAN 001 have adult children who are financially independent, but they are providing support for an elderly relative.

BUILD cannot prescribe ways in which these individuals can meet their obligations and realize their ambitions. It can, however, aid tremendously in the process of projecting the expected impact of plans developed by the estate owner, his tax adviser, and his financial councelor on the future financial health of the owner. As a result of

being cognizant of the owner's personal requirements, the adviser can point out characteristics of certain investments that are likely to enhance or encumber the owner's ability to realize his goals and meet his responsibilities.

Input Data for Four Participants

In this section are sets of input data for the four participants selected for developing and testing the computer model during the course of this study. Broad outlines have been drawn of the general characteristics, both monetarily and personally, of each person. These outlines will be filled in as input forms and program reports are presented for each.

ROR 001

Input Form. The following eleven pages contain the input information for ROR 001. Contained in the first two pages of the form is any personal information relating to his responsibilities, preferences, or requirements that will add insight and clarify relevant courses of action. The remaining nine pages comprise the financial data that will be keypunched and used to produce Reports 1, 2, and 3. The time span chosen by ROR 001 is ten years, the longest of the four participants.

Client Code ROR 001

GENERAL PERSONAL AND BUSINESS INFORMATION

1. Name ROR 001 2. Birthdate April 11, 1937
3. Home address _____ 4. Telephone _____
5. Marital status Married 6. Spouse's name Linda
7. Spouse's birthdate May 7, 1938
8. Children or other dependents:

	Name	Relationship	Birthdate
a.	Kevin	Son	10-23-64
b.	James	Son	9-14-66
c.	Gregory	Son	11-07-69
d.			
e.			

9. Special factors to be considered in planning for spouse's or dependent's care:

Wife's only income is from trust fund--$1,800 per year. No professional training.

10. Business name ROR 001, M.D. 11. Telephone _____

12. Business address _____

13. Nature and form of business activity Internist. Sole proprietorship

14. Attitudes toward alternative business forms Wishes to explore possibilities of forming a professional corporation.

15. Names and ages of partners or principal shareholders, if applicable _____

16. Documents necessary, when applicable:

	Acquired	
	Yes	No
a. Federal and state individual tax returns for three most recent years	X	
b. Federal and state business tax returns for three most recent years	X	
c. Partnership agreement or shareholders contracts		
d. Trust agreements, wills, or other documents (specify) Copies of insurance policies	X	

PERSONAL, BUSINESS AND INVESTMENT FINANCIAL PLANNING INFORMATION

I. Personal financial information:

	Amount	Projected Annual Rate of Change
1. Estimated annual living expenses	35,000 C1-11	0500 (18)
2. Estimated annual itemized deductions and exemptions	14,000 (25)	0600 (32)
3. Number of years for which planning will be done		10 (39)
4. Federal tax schedule to be used		2 (46)

II. Business financial information:

1. Business investment cost	26,000 C2-11	0600 (18)
2. Estimated fair market value	20,000 (25)	(32)
3. Annual net income	84,000 (39)	0900 (46)
4. Annual cash flow	85,000 (53)	0900 (60)
5. Annual investment tax or other credit passed through to business owner	100 (67)	(74)

III. Financial information relating to investments:

A. CASH

	Description	Amount	Interest Rate
	Checking Accounts:		
1.	First National Bank	5,500 C3-11	
2.		(18)	
3.		(25)	
4.		(32)	
	Savings Accounts and Time Deposits:		
1.	Children's savings accounts	8,800 C4-11	0575 (18)
2.	Mutual Building and Loan	12,300 (25)	0575 (32)
3.		(39)	(46)
4.		(53)	(60)

B. NOTES AND RECEIVABLES

	Description	Outstanding Balance	Amount of Annual Payment	Interest Rate
1.		C5-11	(18)	(25)
2.		(32)	(39)	(46)
3.		C6-11	(18)	(25)
4.		(32)	(39)	(46)

C. SHARES OF STOCK

	Description	Cost	Market Value	Income	Rate of Change in Value
1.	M.W.A. Industries	7,400 C7-11	9,800 (18)	(25)	0800 (32)
2.		(39)	(46)	(53)	(60)
3.		C8-11	(18)	(25)	(32)
4.		(39)	(46)	(53)	(60)

D. BONDS

	Description	Carrying Value	Yield Rate	Cash Flow	Years to Maturity
1.		C9-11	(18)	(25)	(32)
2.		(39)	(46)	(53)	(60)
3.		C10-11	(18)	(25)	(32)
4.		(39)	(46)	(53)	(60)

E. LIFE INSURANCE

	Description	Cash Surrender Value	Annual Premium	Rate of Increase In Value
1.	Mountain States	5,290	(3,250)	6400
		C11-11	(18)	(25)
2.	Prudential--children's policies	985	(1,200)	3600
		(32)	(39)	(46)
3.		C12-11	(18)	(25)
4.		(32)	(39)	(46)

F. REAL ESTATE

	Description	Cost	Market Value	Income	Cash Flow	Rate of Change In Value
1.	Home	94,000	105,000			1200
		C13-11	(18)	(25)	(32)	(39)
2.	Condominium--Santa Fe	67,000	75,000	5,950	9,300	1000
		(46)	(53)	(60)	(67)	(74)
3.		C14-11	(18)	(25)	(32)	(39)
4.		(46)	(53)	(60)	(67)	(74)
5.		C15-11	(18)	(25)	(32)	(39)
6.		(46)	(53)	(60)	(67)	(74)
7.		C16-11	(18)	(25)	(32)	(39)
8.		(46)	(53)	(60)	(67)	(74)

G. EMPLOYEE BENEFITS

1.		C17-11	(18)	(25)	(32)	(39)
2.		(46)	(53)	(60)	(67)	(74)
3.		C18-11	(18)	(25)	(32)	(39)
4.		(46)	(53)	(60)	(67)	(74)

H. SALARY

	Source	Income	Cash Flow	Rate of Change In Amount
1.		C19-11 (18)	(25)	

I. OTHER ASSETS AND RECEIPTS

	Description	Cost	Market Value	Income	Cash Flow	Rate of Change In Amount
1.	Linda'a trust fund	C20-11 (18)		1,800 (25)	1,800 (32)	(39)
2.		(46)	(53)	(60)	(67)	(74)
3.		C21-11 (18)		(25)	(32)	(39)
4.		(46)	(53)	(60)	(67)	(74)

J. MORTGAGES ON REALTY

	Description	Out-standing Balance	Amount of Annual Payment	Interest Rate
1.	Home	74,000	6,460	0775
		C22-11	(18)	(25)
2.	Condominiums	50,740	5,900	0800
		(32)	(39)	(46)
3.				
		C23-11	(18)	(25)
4.				
		(32)	(39)	(46)
5.				
		C24-11	(18)	(25)
6.				
		(32)	(39)	(46)
7.				
		C25-11	(18)	(25)
8.				
		(32)	(39)	(46)

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K. OTHER LIABILITIES AND DISBURSEMENTS

	Description	Outstanding Balance	Amount of Annual Payment	Number of Payments	Interest Rate
1.	Installment obligations--home furnishings	12,000 C26-11	5,000 (18)	3 (25)	1200 (32)
2.		(39)	(46)	(53)	(60)
3.		C27-11	(18)	(25)	(32)
4.		(39)	(46)	(53)	(60)

L. TAX CREDITS

	Source	Amount	Rate of Change
1.		C28-11	(18)
2.		(25)	(32)
3.		(39)	(46)
4.		(53)	(60)

M. RATE OF RETURN REQUIRED ON REINVESTED CASH FLOW 1000 C29-11

N. STATE TAX AS A PERCENT OF FEDERAL TAX 1400 C30-11

IV. FINANCIAL GOALS

A. Annual net income and cash flow desired at end of planning horizon:

Source	Income	Cash Flow
1. Conduct of business or profession	170,000 C31-11	175,000 (18)
2. Generated by investments	70,000 (25)	75,000 (32)

B. Net worth desired at end of planning horizon:

Source	Cost	Market Value
1. Conduct of business or profession	40,000 C32-11	20,000 (18)
2. Generated by investments	350,000 (25)	700,000 (32)

Reports on Present and Projected Status. An examination of Report Number 1 reveals that ROR 001 has a present net worth that required an investment of $90,535, has a fair market value estimated at $105,935, and generates $81,729 in income, and $74,290 in cash flow. Changes in these figures are reflected in the series of reports presented for each year in the ten-year planning horizon. In addition, each of the reports in the series reflects the appropriate amount of itemized deductions and exemptions and arrives at taxable income. The amount of federal and state taxes is computed and deducted along with personal living expenses in deriving an after-tax cash flow figure. For ROR 001, the after-tax cash flow reported in the first report of this series is $9,341. This amount is included in the second report of the series as "Investment of Cash Flow," and the income and cash produced in turn by this reinvested cash is assumed to be at the rate of ten percent as provided for in the input form.

At the end of the ten-year planning span, cost of investments (net of liabilities) is projected at $378,321, projected fair market value is $725,151, estimated income before itemized deductions is $219,074, and cash flow is estimated at $210,599 before living expenditures and taxes. When compared with the beginning figures, it appears that ROR 001 will make substantial increases in all four areas.

Comparison of Projected Values and Goals. Report Number 3 contains a comparison of the estimated amounts presented on the last report of the series with the desired values for these financial indicators as listed on page eleven of the input form. For this

person, unfavorable divergences are projected in three areas: cost, $11,679; income, $20,926; and cash flow, $34,401. A favorable variance of $5,151 is indicated for the estimated fair market value. As a percentage of total cost, the cost divergence is not particularly alarming--only about three percent less than that desired. The same is not true, though, for income and cash flow variances which are approximately eight percent and fourteen percent, respectively, of the desired amounts. Assuming the goals have been realistically and carefully determined, the doctor may decide that corrective action is to be undertaken. If so, the impact of various investment options can be quickly tested by altering that input affected by the proposals and comparing the expected results with his goals.

Report Number 1 is reproduced on the following page, while the series of reports on projected financial status are contained on the succeeding ten pages. Report Number 3 is found on page 80.

CLIENT CODE: ROR001 DATE: 04/11/75

REPORT NUMBER 1

PRESENT FINANCIAL STATUS

ITEM	COST	ESTIMATED MARKET VALUE	INCOME	CASH FLOW
ASSETS:				
CASH	26,600	26,600	1,213	
NOTES AND RECEIVABLES				
STOCKS	7,400	9,800		
BONDS				
LIFE INSURANCE	6,275	6,275		<4,450>
REAL PROPERTY	161,000	180,000	5,950	9,300
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	26,000	20,000	84,000	85,000
SALARY				
OTHER ASSETS AND RECEIPTS			1,800	1,800
TOTAL ASSETS	227,275	242,675	92,963	91,650
LIABILITIES:				
MORTAGES ON REAL PROPERTY	124,740	124,740	9,794	12,360
OTHER LIABILITIES AND DISBURSMENTS	12,000	12,000	1,440	5,000
TOTAL LIABILITIES	<136,740>	<136,740>	<11,234>	<17,360>
NET WORTH, INCOME, AND CASH FLOW	90,535	105,935	81,729	74,290

CLIENT CODE: ROR001

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 1

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	27,813	27,813	1,213	
NOTES AND RECEIVABLES				
STOCKS	7,400	10,584		
BONDS				
LIFE INSURANCE	8,787	8,787		<4,450>
REAL PROPERTY	161,000	200,100	5,950	9,300
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	27,560	20,000	91,560	91,090
SALARY				
OTHER ASSETS AND RECEIPTS			1,800	1,800
INVESTMENT OF CASH FLOW				
TOTAL ASSETS	232,560	267,284	100,523	97,740
LIABILITIES:				
MORTAGES ON REAL PROPERTY	122,174	122,174	9,794	12,360
OTHER LIABILITIES AND DISBURSMENTS	8,440	8,440	1,440	5,000
TOTAL LIABILITIES	<130,614>	<130,614>	<11,234>	<17,360>
NET WORTH, INCOME, AND CASH FLOW	101,946	136,670	89,289	80,380
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<14,840>	
TAXABLE INCOME			74,449	
FEDERAL AND STATE INCOME TAXES				<34,289>
PERSONAL LIVING EXPENSES				<36,750>
AFTER TAX CASH FLOW				9,341

CLIENT CODE: ROR001

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 2

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	29,095	29,095	1,282	
NOTES AND RECEIVABLES				
STOCKS	7,400	11,430		
BONDS				
LIFE INSURANCE	11,299	11,299		<4,450>
REAL PROPERTY	161,000	222,462	5,950	9,300
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	29,213	20,000	99,800	99,335
SALARY				
OTHER ASSETS AND RECEIPTS			1,800	1,800
INVESTMENT OF CASH FLOW	9,341	9,341	934	934
TOTAL ASSETS	247,348	303,627	109,766	106,919
LIABILITIES:				
MORTAGES ON REAL PROPERTY	119,403	119,403	9,590	12,360
OTHER LIABILITIES AND DISBURSMENTS	4,452	4,452	1,012	5,000
TOTAL LIABILITIES	<123,855>	<123,855>	<10,603>	<17,360>
NET WORTH, INCOME, AND CASH FLOW	123,493	179,772	99,163	89,559
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<15,730>	
TAXABLE INCOME			83,433	
FEDERAL AND STATE INCOME TAXES				<40,177>
PERSONAL LIVING EXPENSES				<38,587>
AFTER TAX CASH FLOW				10,795

CLIENT CODE: ROR001

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 3

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	30,450	30,450	1,356	
NOTES AND RECEIVABLES				
STOCKS	7,400	12,344		
BONDS				
LIFE INSURANCE	13,811	13,811		<4,450>
REAL PROPERTY	161,000	247,342	5,950	9,300
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	30,965	20,000	108,782	108,324
SALARY				
OTHER ASSETS AND RECEIPTS			1,800	1,800
INVESTMENT OF CASH FLOW	20,136	20,136	2,013	2,013
TOTAL ASSETS	263,762	344,083	119,901	116,987
LIABILITIES:				
MORTAGES ON REAL PROPERTY	116,413	116,413	9,371	12,360
OTHER LIABILITIES AND DISBURSMENTS	13	13	534	5,000
TOTAL LIABILITIES	<116,400>	<116,400>	<9,905>	<17,360>
NET WORTH, INCOME, AND CASH FLOW	147,362	227,683	109,996	99,627
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<16,673>	
TAXABLE INCOME			93,323	
FEDERAL AND STATE INCOME TAXES				<46,837>
PERSONAL LIVING EXPENSES				<40,516>
AFTER TAX CASH FLOW				12,274

CLIENT CODE: RORO01

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 4

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	31,884	31,884	1,434	
NOTES AND RECEIVABLES				
STOCKS	7,400	13,331		
BONDS				
LIFE INSURANCE	16,323	16,323		<4,450>
REAL PROPERTY	161,000	275,026	5,950	9,300
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	32,822	20,000	118,572	118,125
SALARY				
OTHER ASSETS AND RECEIPTS			1,800	1,800
INVESTMENT OF CASH FLOW	32,410	32,410	3,241	3,241
TOTAL ASSETS	281,839	388,974	130,997	128,016
LIABILITIES:				
MORTAGES ON REAL PROPERTY	113,185	113,185	9,133	12,360
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<113,185>	<113,185>	<9,133>	<12,360>
NET WORTH, INCOME, AND CASH FLOW	168,654	275,789	121,863	115,656
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<17,673>	
TAXABLE INCOME			104,190	
FEDERAL AND STATE INCOME TAXES				<54,365>
PERSONAL LIVING EXPENSES				<42,541>
AFTER TAX CASH FLOW				18,750

CLIENT CODE: RCR001

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 5

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	33,400	33,400	1,517	
NOTES AND RECEIVABLES				
STOCKS	7,400	14,397		
BONDS				
LIFE INSURANCE	18,835	18,835		<4,450>
REAL PROPERTY	161,000	305,832	5,950	9,300
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	34,791	20,000	129,243	128,811
SALARY				
OTHER ASSETS AND RECEIPTS			1,800	1,800
INVESTMENT OF CASH FLOW	51,160	51,160	5,116	5,116
TOTAL ASSETS	306,586	443,624	143,626	140,577
LIABILITIES:				
MORTAGES ON REAL PROPERTY	109,702	109,702	8,877	12,360
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<109,702>	<109,702>	<8,877>	<12,360>
NET WORTH, INCOME, AND CASH FLOW	196,884	333,922	134,748	128,217
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<18,733>	
TAXABLE INCOME			116,015	
FEDERAL AND STATE INCOME TAXES				<62,724>
PERSONAL LIVING EXPENSES				<44,668>
AFTER TAX CASH FLOW				20,825

CLIENT CODE: RORO01

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 6

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	35,004	35,004	1,604	
NOTES AND RECEIVABLES				
STOCKS	7,400	15,548		
BONDS				
LIFE INSURANCE	21,347	21,347		<4,450>
REAL PROPERTY	161,000	340,115	5,950	9,300
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	36,878	20,000	140,874	140,463
SALARY				
OTHER ASSETS AND RECEIPTS			1,800	1,800
INVESTMENT OF CASH FLOW	71,985	71,985	7,198	7,198
TOTAL ASSETS	333,614	503,999	157,426	154,311
LIABILITIES:				
MORTAGES ON REAL PROPERTY	105,942	105,942	8,601	12,360
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<105,942>	<105,942>	<8,601>	<12,360>
NET WORTH, INCOME, AND CASH FLOW	227,672	398,057	148,824	141,951
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<19,856>	
TAXABLE INCOME			128,968	
FEDERAL AND STATE INCOME TAXES				<72,083>
PERSONAL LIVING EXPENSES				<46,901>
AFTER TAX CASH FLOW				22,967

CLIENT CODE: ROR001

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 7

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	36,699	36,699	1,696	
NOTES AND RECEIVABLES				
STOCKS	7,400	16,791		
BONDS				
LIFE INSURANCE	23,859	23,859		<4,450>
REAL PROPERTY	161,000	378,271	5,950	9,300
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	39,090	20,000	153,552	153,167
SALARY				
OTHER ASSETS AND RECEIPTS			1,800	1,800
INVESTMENT OF CASH FLOW	94,952	94,952	9,495	9,495
TOTAL ASSETS	363,000	570,572	172,493	169,312
LIABILITIES:				
MORTAGES ON REAL PROPERTY	101,885	101,885	8,303	12,360
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<101,885>	<101,885>	<8,303>	<12,360>
NET WORTH, INCOME, AND CASH FLOW	261,115	468,687	164,189	156,952
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<21,047>	
TAXABLE INCOME			143,142	
FEDERAL AND STATE INCOME TAXES				<82,496>
PERSONAL LIVING EXPENSES				<49,246>
AFTER TAX CASH FLOW				25,210

CLIENT CODE: RORO01

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 8

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	38,492	38,492	1,793	
NOTES AND RECEIVABLES				
STOCKS	7,400	18,134		
BONDS				
LIFE INSURANCE	26,371	26,371		<4,450>
REAL PROPERTY	161,000	420,740	5,950	9,300
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	41,435	20,000	167,371	167,018
SALARY				
OTHER ASSETS AND RECEIPTS			1,800	1,800
INVESTMENT OF CASH FLOW	120,162	120,162	12,016	12,016
TOTAL ASSETS	394,860	643,899	188,930	185,684
LIABILITIES:				
MORTAGES ON REAL PROPERTY	97,506	97,506	7,981	12,360
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<97,506>	<97,506>	<7,981>	<12,360>
NET WORTH, INCOME, AND CASH FLOW	297,354	546,393	180,949	173,324
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<22,309>	
TAXABLE INCOME			158,640	
FEDERAL AND STATE INCOME TAXES				<94,157>
PERSONAL LIVING EXPENSES				<51,708>
AFTER TAX CASH FLOW				27,459

CLIENT CODE: RORO01 DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 9

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	40,388	40,388	1,897	
NOTES AND RECEIVABLES				
STOCKS	7,400	19,584		
BONDS				
LIFE INSURANCE	28,883	28,883		<4,450>
REAL PROPERTY	161,000	468,012	5,950	9,300
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	43,921	20,000	182,434	182,119
SALARY				
OTHER ASSETS AND RECEIPTS			1,800	1,800
INVESTMENT OF CASH FLOW	147,621	147,621	14,762	14,762
TOTAL ASSETS	429,213	724,488	206,843	203,531
LIABILITIES:				
MORTAGES ON REAL PROPERTY	92,780	92,780	7,634	12,360
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<92,780>	<92,780>	<7,634>	<12,360>
NET WORTH, INCOME, AND CASH FLOW	336,433	631,708	199,208	191,171
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<23,647>	
TAXABLE INCOME			175,561	
FEDERAL AND STATE INCOME TAXES				<107,243>
PERSONAL LIVING EXPENSES				<54,293>
AFTER TAX CASH FLOW				29,635

CLIENT CODE: ROR001 DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF PLANNING HORIZION

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	42,393	42,393	2,006	
NOTES AND RECEIVABLES				
STOCKS	7,400	21,150		
BONDS				
LIFE INSURANCE	31,395	31,395		<4,450>
REAL PROPERTY	161,000	520,636	5,950	9,300
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	46,556	20,000	198,853	198,584
SALARY				
OTHER ASSETS AND RECEIPTS			1,800	1,800
INVESTMENT OF CASH FLOW	177,256	177,256	17,725	17,725
TOTAL ASSETS	466,000	812,830	226,334	222,959
LIABILITIES:				
MORTAGES ON REAL PROPERTY	87,679	87,679	7,259	12,360
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<87,679>	<87,679>	<7,259>	<12,360>
NET WORTH, INCOME, AND CASH FLOW	378,321	725,151	219,074	210,599
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<25,065>	
TAXABLE INCOME			194,009	
FEDERAL AND STATE INCOME TAXES				<121,704>
PERSONAL LIVING EXPENSES				<57,007>
AFTER TAX CASH FLOW				31,888

CLIENT CODE: ROR001 DATE: 04/11/75

REPORT NUMBER 3

COMPARISON OF PROJECTED FINANCIAL STATUS
WITH DESIRED FINANCIAL GOALS

ITEM	COST	MARKET VALUE	INCOME	CASH FLOW
DESIRED FINANCIAL GOALS AT END OF PLANNING HORIZON:				
SOURCE: BUSINESS OR PROFESSION	40,000	20,000	170,000	170,000
INVESTMENTS	350,000	700,000	70,000	75,000
TOTAL	390,000	720,000	240,000	245,000
PROJECTED FINANCIAL STATUS AT END OF PLANNING HORIZON:				
SOURCE: BUSINESS OR PROFESSION	46,556	20,000	198,853	198,584
INVESTMENTS	331,765	705,151	20,221	12,015
TOTAL	378,321	725,151	219,074	210,599
DIFFERENCE BETWEEN GOALS AND PROJECTED AMOUNTS	<11,679>	5,151	<20,926>	<34,401>

WEA 001

Input Form. The input information relating to WEA 001's personal preferences and financial data is presented on the following eleven pages. Arrangement of the data follows the format described for ROR 001 and calls for a planning horizon of five years.

GENERAL PERSONAL AND BUSINESS INFORMATION

1. Name WEA 001 2. Birthdate February 7, 1907
3. Home address _____ 4. Telephone _____
5. Marital status Divorced 6. Spouse's name _____
7. Spouse's birthdate _____
8. Children or other dependents:

	Name	Relationship	Birthdate
a.	Judy Marquez	Daughter	April 18, 1942
b.			
c.			
d.			
e.			

9. Special factors to be considered in planning for spouse's or dependent's care:

Daughter is currently married to third husband. Any plans for gifts or estate transfers are to be arranged in such a way that Judy will not have outright control over the property and her husband will have no property rights.

10. Business name California Citrus Fruits 11. Telephone _____

12. Business address Southern California

13. Nature and form of business activity Partnership formed to develop orange grove.

14. Attitudes toward alternative business forms No change in business form is desired.

15. Names and ages of partners or principal shareholders, if applicable _____

16. Documents necessary, when applicable:

	Acquired	
	Yes	No
a. Federal and state individual tax returns for three most recent years	X	
b. Federal and state business tax returns for three most recent years	X	
c. Partnership agreement or shareholders contracts	X	
d. Trust agreements, wills, or other documents (specify) Will and trust instruments	X	

PERSONAL, BUSINESS AND INVESTMENT FINANCIAL PLANNING INFORMATION

I. Personal financial information:

	Amount	Projected Annual Rate of Change
1. Estimated annual living expenses	66,000 C1-11 (25)	0500 (18)
2. Estimated annual itemized deductions and exemptions	17,500 (25)	0700 (32)
3. Number of years for which planning will be done		5 (39)
4. Federal tax schedule to be used		1 (46)

II. Business financial information:

1. Business investment cost	236,000 C2-11 (18)	
2. Estimated fair market value	245,000 (25)	1600 (32)
3. Annual net income	18,500 (39)	0800 (46)
4. Annual cash flow	35,000 (53)	0600 (60)
5. Annual investment tax or other credit passed through to business owner	300 (67)	(74)

III. Financial information relating to investments:

A. CASH

	Description	Amount	Interest Rate
	Checking Accounts:		
1.	El Paso National Bank	6,500 C3-11	
2.	First National Bank	35,000 (18)	
3.	Farmer's and Merchant's National Bank	12,000 (25)	
4.		(32)	
	Savings Accounts and Time Deposits:		
1.	Certificates of deposit	119,000 C4-11	0750 (18)
2.	Certificates of deposit	45,000 (25)	0800 (32)
3.		(39)	(46)
4.		(53)	(60)

B. NOTES AND RECEIVABLES

	Description	Outstanding Balance	Amount of Annual Payment	Interest Rate
1.	Sale of ranch land	189,600	24,000	0700
		C5-11	(18)	(25)
2.	Note receivable	21,960	3,600	1000
		(32)	(39)	(46)
3.	Note receivable	18,680	1,800	0500
		C6-11	(18)	(25)
4.				
		(32)	(39)	(46)

C. SHARES OF STOCK

	Description	Cost	Market Value	Income	Rate of Change in Value
1.	Bank stock	69,700	218,800	18,160	0500
		C7-11	(18)	(25)	(32)
2.	Burroughs	46,900	127,500	9,420	0500
		(39)	(46)	(53)	(60)
3.	General Electric	62,400	131,200	8,150	0500
		C8-11	(18)	(25)	(32)
4.	Mesilla Valley Investments	116,750	113,290	5,340	0500
		(39)	(46)	(53)	(60)

D. BONDS

	Description	Carrying Value	Yield Rate	Cash Flow	Years to Maturity
1.	Various municipals	268,000		14,300	16
		C9-11	(18)	(25)	(32)
2.	Greyhound Corporation	42,460	0800	3,000	12
		(39)	(46)	(53)	(60)
3.	Pillsbury	61,940	1,000	5,000	15
		C10-11	(18)	(25)	(32)
4.					
		(39)	(46)	(53)	(60)

E. LIFE INSURANCE

	Description	Cash Surrender Value	Annual Premium	Rate of Increase In Value
1.				
		C11-11	(18)	(25)
2.				
		(32)	(39)	(46)
3.				
		C12-11	(18)	(25)
4.				
		(32)	(39)	(46)

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F. REAL ESTATE

Description	Cost	Market Value	Income	Cash Flow	Rate of Change In Value
1. City office building	472,000	650,000	39,000	73,000	1000
	C13-11	(18)	(25)	(32)	(39)
2. Ranch land	126,000	425,000	18,000	23,000	0800
	(46)	(53)	(60)	(67)	(74)
3. Ruidoso cabins	196,000	360,000	41,000	49,000	1200
	C14-11	(18)	(25)	(32)	(39)
4. Home	64,000	200,000			1000
	(46)	(53)	(60)	(67)	(74)
5. Valley farmland	86,000	700,000	36,000	38,000	1200
	C15-11	(18)	(25)	(32)	(39)
6.					
	(46)	(53)	(60)	(67)	(74)
7.					
	C16-11	(18)	(25)	(32)	(39)
8.					
	(46)	(53)	(60)	(67)	(74)

G. EMPLOYEE BENEFITS

1.					
	C17-11	(18)	(25)	(32)	(39)
2.					
	(46)	(53)	(60)	(67)	(74)
3.					
	C18-11	(18)	(25)	(32)	(39)
4.					
	(46)	(53)	(60)	(67)	(74)

H. SALARY

Source	Income	Cash Flow	Rate of Change In Amount
1.	C19-11	(18)	(25)

I. OTHER ASSETS AND RECEIPTS

Description	Cost	Market Value	Income	Cash Flow	Rate of Change In Amount
1. Lectures	C20-11	(18)	3,000 (25)	3,000 (32)	(39)
2.	(46)	(53)	(60)	(67)	(74)
3.	C21-11	(18)	(25)	(32)	(39)
4.	(46)	(53)	(60)	(67)	(74)

J. MORTGAGES ON REALTY

	Description	Out-standing Balance	Amount of Annual Payment	Interest Rate
1.	Office building	180,960	29,000	0800
		C22-11	(18)	(25)
2.				
		(32)	(39)	(46)
3.				
		C23-11	(18)	(25)
4.				
		(32)	(39)	(46)
5.				
		C24-11	(18)	(25)
6.				
		(32)	(39)	(46)
7.				
		C25-11	(18)	(25)
8.				
		(32)	(39)	(46)

K. OTHER LIABILITIES AND DISBURSEMENTS

	Description	Outstanding Balance	Amount of Annual Payment	Number of Payments	Interest Rate
1.		C26-11	(18)	(25)	(32)
2.		(39)	(46)	(53)	(60)
3.		C27-11	(18)	(25)	(32)
4.		(39)	(46)	(53)	(60)

L. TAX CREDITS

	Source	Amount	Rate of Change
1.	Ranch gasoline tax credits	200 C28-11	(5000) (18)
2.	Cottonland conservation projects	350 (25)	(5000) (32)
3.		(39)	(46)
4.		(53)	(60)

M. RATE OF RETURN REQUIRED ON REINVESTED CASH FLOW 1000 C29-11

N. STATE TAX AS A PERCENT OF FEDERAL TAX 1600 C30-11

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IV. FINANCIAL GOALS

A. Annual net income and cash flow desired at end of planning horizon:

Source	Income	Cash Flow
1. Conduct of business or profession	15,000 C31-11	40,000 (18)
2. Generated by investments	300,000 (25)	325,000 (32)

B. Net worth desired at end of planning horizon:

Source	Cost	Market Value
1. Conduct of business or profession	236,000 C32-11	500,000 (18)
2. Generated by investments	2,500,000 (25)	5,800,000 (32)

Reports on Present and Projected Status. Report Number 1, reproduced on page 95, indicates that WEA 001 has the following present financial status: net worth cost, $2,114,930; net worth fair market value, $3,809,970; net income, $220,611; and cash flow, $284,770. Although his assets include all categories other than life insurance and salaries, by far the most valuable type of property owned is real estate which makes up $2,335,000 of the total fair market value. An examination of the input form reveals that judicious purchases of farmland account for the low bases of real property investments.

In the Report Number 2 series are five reports--one for each year in the relevant planning range. Over the next five years, net worth investment is expected to increase to $2,489,667 while fair market value increases to $6,143,980. Net income from investments is projected at $263,545 and cash flow is anticipated to be $324,809 before taxes and living expenses. These reports are found on pages 96 through 100.

Comparison of Projected Values and Goals. A comparison of predetermined goals with corresponding projected values reveals unfavorable variances in all points of comparison. Although annual cash flow from investments is expected to increase by about $40,000 over the next five years, it is, nevertheless, still $40,000 less than the desired amount. Projected cost is $246,333 less than that desired. A closer examination of the Report Number 2 series reveals that while cash flow from investments is increasing, so are income taxes and projected personal living expenditures. Cash flow after taxes is actually decreasing over this period resulting in decreasing amounts of cash to

invest in new undertakings. It appears that a fruitful area for investigation would be investments that exhibit "tax shelter" characteristics, i.e., investments with reduced taxable income due to early write-offs of non-cash expenses but significant early returns of capital investment which could then be profitably reinvested. Report Number 3 is found on page 101.

CLIENT CODE: WEA001 DATE: 04/11/75

REPORT NUMBER 1

PRESENT FINANCIAL STATUS

ITEM	COST	ESTIMATED MARKET VALUE	INCOME	CASH FLOW
ASSETS:				
CASH	217,500	217,500	12,525	
NOTES AND RECEIVABLES	230,240	230,240	16,402	29,400
STOCKS	295,750	590,790	41,070	41,070
BONDS	372,400	372,400	9,590	22,300
LIFE INSURANCE				
REAL PROPERTY	944,000	2,335,000	134,000	183,000
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	236,000	245,000	18,500	35,000
SALARY				
OTHER ASSETS AND RECEIPTS			3,000	3,000
TOTAL ASSETS	2,295,890	3,990,930	235,087	313,770
LIABILITIES:				
MORTAGES ON REAL PROPERTY	180,960	180,960	14,476	29,000
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<180,960>	<180,960>	<14,476>	<29,000>
NET WORTH, INCOME, AND CASH FLOW	2,114,930	3,809,970	220,611	284,770

CLIENT CODE: WEA001 DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 1

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	230,025	230,025	12,525	
NOTES AND RECEIVABLES	217,242	217,242	16,402	29,400
STOCKS	295,750	620,329	41,070	41,070
BONDS	373,990	373,990	9,590	22,300
LIFE INSURANCE				
REAL PROPERTY	944,000	2,581,200	134,000	183,000
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	236,000	284,200	19,980	37,100
SALARY				
OTHER ASSETS AND RECEIPTS			3,000	3,000
INVESTMENT OF CASH FLOW				
TOTAL ASSETS	2,297,007	4,306,986	236,567	315,870
LIABILITIES:				
MORTAGES ON REAL PROPERTY	166,436	166,436	14,476	29,000
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<166,436>	<166,436>	<14,476>	<29,000>
NET WORTH, INCOME, AND CASH FLOW	2,130,571	4,140,550	222,091	286,870
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<18,725>	
TAXABLE INCOME			203,366	
FEDERAL AND STATE INCOME TAXES				<144,942>
PERSONAL LIVING EXPENSES				<69,300>
AFTER TAX CASH FLOW				72,628

CLIENT CODE: WEA001

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 2

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	243,507	243,507	13,482	
NOTES AND RECEIVABLES	203,308	203,308	15,467	29,400
STOCKS	295,750	651,344	41,070	41,070
BONDS	375,731	375,731	9,741	22,300
LIFE INSURANCE				
REAL PROPERTY	944,000	2,853,884	134,000	183,000
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	236,000	329,672	21,578	39,326
SALARY				
OTHER ASSETS AND RECEIPTS			3,000	3,000
INVESTMENT OF CASH FLOW	72,628	72,628	7,262	7,262
TOTAL ASSETS	2,370,924	4,730,074	245,601	325,358
LIABILITIES:				
MORTAGES ON REAL PROPERTY	150,750	150,750	13,314	29,000
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<150,750>	<150,750>	<13,314>	<29,000>
NET WORTH, INCOME, AND CASH FLOW	2,220,174	4,579,324	232,286	296,358
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<20,035>	
TAXABLE INCOME			212,251	
FEDERAL AND STATE INCOME TAXES				<152,294>
PERSONAL LIVING EXPENSES				<72,765>
AFTER TAX CASH FLOW				71,299

CLIENT CODE: WEA001 DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 3

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	258,019	258,019	14,512	
NOTES AND RECEIVABLES	188,371	188,371	14,463	29,400
STOCKS	295,750	683,910	41,070	41,070
BONDS	377,637	377,637	9,907	22,300
LIFE INSURANCE				
REAL PROPERTY	944,000	3,155,950	134,000	183,000
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	236,000	382,419	23,304	41,685
SALARY				
OTHER ASSETS AND RECEIPTS			3,000	3,000
INVESTMENT OF CASH FLOW	143,927	143,927	14,392	14,392
TOTAL ASSETS	2,443,704	5,190,233	254,650	334,847
LIABILITIES:				
MORTAGES ON REAL PROPERTY	133,810	133,810	12,060	29,000
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<133,810>	<133,810>	<12,060>	<29,000>
NET WORTH, INCOME, AND CASH FLOW	2,309,894	5,056,423	242,590	305,847
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<21,437>	
TAXABLE INCOME			221,153	
FEDERAL AND STATE INCOME TAXES				<159,592>
PERSONAL LIVING EXPENSES				<76,403>
AFTER TAX CASH FLOW				69,852

CLIENT CODE: WEA001 DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 4

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	273,640	273,640	15,622	
NOTES AND RECEIVABLES	172,356	172,356	13,386	29,400
STOCKS	295,750	718,104	41,070	41,070
BONDS	379,725	379,725	10,088	22,300
LIFE INSURANCE				
REAL PROPERTY	944,000	3,490,620	134,000	183,000
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	236,000	443,606	25,168	44,186
SALARY				
OTHER ASSETS AND RECEIPTS			3,000	3,000
INVESTMENT OF CASH FLOW	213,779	213,779	21,377	21,377
TOTAL ASSETS	2,515,250	5,691,830	263,712	344,333
LIABILITIES:				
MORTAGES ON REAL PROPERTY	115,514	115,514	10,704	29,000
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<115,514>	<115,514>	<10,704>	<29,000>
NET WORTH, INCOME, AND CASH FLOW	2,399,736	5,576,316	253,007	315,333
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<22,937>	
TAXABLE INCOME			230,070	
FEDERAL AND STATE INCOME TAXES				<166,868>
PERSONAL LIVING EXPENSES				<80,223>
AFTER TAX CASH FLOW				68,242

CLIENT CODE: WEA001 DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF PLANNING HORIZION

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	290,455	290,455	16,816	
NOTES AND RECEIVABLES	155,184	155,184	12,229	29,400
STOCKS	295,750	754,007	41,070	41,070
BONDS	382,012	382,012	10,287	22,300
LIFE INSURANCE				
REAL PROPERTY	944,000	3,861,474	134,000	183,000
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	236,000	514,582	27,181	46,837
SALARY				
OTHER ASSETS AND RECEIPTS			3,000	3,000
INVESTMENT OF CASH FLOW	282,021	282,021	28,202	28,202
TOTAL ASSETS	2,585,422	6,239,735	272,786	353,809
LIABILITIES:				
MORTAGES ON REAL PROPERTY	95,755	95,755	9,241	29,000
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<95,755>	<95,755>	<9,241>	<29,000>
NET WORTH, INCOME, AND CASH FLOW	2,489,667	6,143,980	263,545	324,809
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<24,542>	
TAXABLE INCOME			239,003	
FEDERAL AND STATE INCOME TAXES				<174,138>
PERSONAL LIVING EXPENSES				<84,234>
AFTER TAX CASH FLOW				66,437

CLIENT CODE: WEA001 DATE: 04/11/75

REPORT NUMBER 3

COMPARISON OF PROJECTED FINANCIAL STATUS
WITH DESIRED FINANCIAL GOALS

ITEM	COST	MARKET VALUE	INCOME	CASH FLOW
DESIRED FINANCIAL GOALS AT END OF PLANNING HORIZON:				
SOURCE: BUSINESS OR PROFESSION	236,000	500,000	15,000	40,000
INVESTMENTS	2,500,000	5,800,000	300,000	325,000
TOTAL	2,736,000	6,300,000	315,000	365,000
PROJECTED FINANCIAL STATUS AT END OF PLANNING HORIZON:				
SOURCE: BUSINESS OR PROFESSION	236,000	514,582	27,181	46,837
INVESTMENTS	2,253,667	5,629,398	236,364	277,972
TOTAL	2,489,667	6,143,980	263,545	324,809
DIFFERENCE BETWEEN GOALS AND PROJECTED AMOUNTS	<246,333>	<156,020>	<51,455>	<40,191>

HAN 001

Input Form. Input data for the third participant is contained on the following eleven pages. It differs from that of the other persons participating in the study in that both husband and wife make significant contributions to the economic wellbeing of the family, and, therefore, the data is that of two persons. It is interesting to note that dual careers presented no unusual problems insofar as preparation of input data was concerned. Neither, in this instance, were there particular difficulties in setting goals, interpreting financial reports, or determining appropriate remedial action. However, it appears that when more than one person is involved in these activities, it may be necessary that compromises be made, or, if the data lends itself to separation, separate input data and output may be desirable. The planning horizon selected by HAN 001 is six years.

Client Code HAN 001

GENERAL PERSONAL AND BUSINESS INFORMATION

1. Name HAN 001, Husband and wife 2. Birthdate November 3, 1926

3. Home address _____ 4. Telephone _____

5. Marital status Married 6. Spouse's name _____

7. Spouse's birthdate October 27, 1927

8. Children or other dependents:

	Name	Relationship	Birthdate
a.	Donna Lea	Daughter	6-12-46
b.	David	Son	12-09-47
c.	Donna Lea Courtney	Mother	1-14-03
d.			
e.			

9. Special factors to be considered in planning for spouse's or dependent's care:

Children are self-sufficient adults. HAN 001 provide total support for Donna Lea Courtney.

10. Business name Little Playmates 11. Telephone _____

12. Business address 1000 Fairfax Road and 2318 N. Alabama

13. Nature and form of business activity Day-care and kindergarten facilities. Sole proprietorship.

14. Attitudes toward alternative business forms Would not consider any other form of business organization.

15. Names and ages of partners or principal shareholders, if applicable _____

16. Documents necessary, when applicable:

	Acquired	
	Yes	No
a. Federal and state individual tax returns for three most recent years	X	
b. Federal and state business tax returns for three most recent years		
c. Partnership agreement or shareholders contracts		
d. Trust agreements, wills, or other documents (specify) Gift tax returns for two years. Copies of wills.	X	

PERSONAL, BUSINESS AND INVESTMENT FINANCIAL PLANNING INFORMATION

I. Personal financial information:

	Amount	Projected Annual Rate of Change
1. Estimated annual living expenses	21,000	0700
	C1-11	(18)
2. Estimated annual itemized deductions and exemptions	8,200	0500
	(25)	(32)
3. Number of years for which planning will be done		6
		(39)
4. Federal tax schedule to be used		2
		(46)

II. Business financial information:

1. Business investment cost	53,300	0500
	C2-11	(18)
2. Estimated fair market value	59,000	0600
	(25)	(32)
3. Annual net income	14,200	0800
	(39)	(46)
4. Annual cash flow	15,300	0800
	(53)	(60)
5. Annual investment tax or other credit passed through to business owner	100	0800
	(67)	(74)

III. Financial information relating to investments:

A. CASH

	Description	Amount	Interest Rate
	Checking Accounts:		
1.	Citizens' National Bank	4,500 C3-11	
2.	Alamogordo State	3,600 (18)	
3.		(25)	
4.		(32)	
	Savings Accounts and Time Deposits:		
1.	First National Bank	12,000 C4-11	0600 (18)
2.	Juarez time deposits	18,000 (25)	1100 (32)
3.		(39)	(46)
4.		(53)	(60)

B. NOTES AND RECEIVABLES

	Description	Outstanding Balance	Amount of Annual Payment	Interest Rate
1.	Note receivable	10,748	1,800	0700
		C5-11 (18)	(25)	
2.		(32)	(39)	(46)
3.		C6-11 (18)	(25)	
4.		(32)	(39)	(46)

C. SHARES OF STOCK

	Description	Cost	Market Value	Income	Rate of Change in Value
1.	Keystone S-4 (5,580 shares)	33,480	11,160		
		C7-11 (18)	(25)		(32)
2.	Kansas Gas and Electric (125 shares)	2,053	1,537	164	
		(39)	(46)	(53)	(60)
3.		C8-11 (18)	(25)		(32)
4.		(39)	(46)	(53)	(60)

D. BONDS

	Description	Carrying Value	Yield Rate	Cash Flow	Years to Maturity
1.	Galaxy Furniture	14,286	0840	1200	12
		C9-11	(18)	(25)	(32)
2.					
		(39)	(46)	(53)	(60)
3.					
		C10-11	(18)	(25)	(32)
4.					
		(39)	(46)	(53)	(60)

E. LIFE INSURANCE

	Description	Cash Surrender Value	Annual Premium	Rate of Increase In Value
1.	Prudential, $45,000 policy on husband	16,420	(708)	9800
		C11-11	(18)	(25)
2.				
		(32)	(39)	(46)
3.				
		C12-11	(18)	(25)
4.				
		(32)	(39)	(46)

F. REAL ESTATE

	Description	Cost	Market Value	Income	Cash Flow	Rate of Change In Value
1.	Home	43,000	54,000			1200
		C13-11	(18)	(25)	(32)	(39)
2.	Duplexes--8 units	78,500	85,000	14,235	17,660	0600
		(46)	(53)	(60)	(67)	(74)
3.	Telshor lots	11,200	42,000	(300)	(300)	1200
		C14-11	(18)	(25)	(32)	(39)
4.	Vacation home	8,400	14,500	(350)	2,600	1400
		(46)	(53)	(60)	(67)	(74)
5.						
		C15-11	(18)	(25)	(32)	(39)
6.						
		(46)	(53)	(60)	(67)	(74)
7.						
		C16-11	(18)	(25)	(32)	(39)
8.						
		(46)	(53)	(60)	(67)	(74)

G. EMPLOYEE BENEFITS

1.						
		C17-11	(18)	(25)	(32)	(39)
2.						
		(46)	(53)	(60)	(67)	(74)
3.						
		C18-11	(18)	(25)	(32)	(39)
4.						
		(46)	(53)	(60)	(67)	(74)

H. SALARY

	Source	Income	Cash Flow	Rate of Change In Amount
1.	I & M Engineering	26,500	26,500	0600
		C19-11	(18)	(25)

I. OTHER ASSETS AND RECEIPTS

	Description	Cost	Market Value	Income	Cash Flow	Rate of Change In Amount
1.	Turquoise	3,965	8,400	800	800	1200
		C20-11	(18)	(25)	(32)	(39)
2.		(46)	(53)	(60)	(67)	(74)
3.		C21-11	(18)	(25)	(32)	(39)
4.		(46)	(53)	(60)	(67)	(74)

J. MORTGAGES ON REALTY

	Description	Out-standing Balance	Amount of Annual Payment	Interest Rate
1.	Duplexes	36,480	3,980	0775
		C22-11	(18)	(25)
2.		(32)	(39)	(46)
3.		C23-11	(18)	(25)
4.		(32)	(39)	(46)
5.		C24-11	(18)	(25)
6.		(32)	(39)	(46)
7.		C25-11	(18)	(25)
8.		(32)	(39)	(46)

K. OTHER LIABILITIES AND DISBURSEMENTS

	Description	Out-standing Balance	Amount of Annual Payment	Number of Payments	Interest Rate
1.	Support of Donna Lea Courtney	C26-11	3,000 (18)	10 (25)	(32)
2.		(39)	(46)	(53)	(60)
3.		C27-11	(18)	(25)	(32)
4.		(39)	(46)	(53)	(60)

L. TAX CREDITS

	Source	Amount	Rate of Change
1.		C28-11	(18)
2.		(25)	(32)
3.		(39)	(46)
4.		(53)	(60)

M. RATE OF RETURN REQUIRED ON REINVESTED CASH FLOW 1000 C29-11

N. STATE TAX AS A PERCENT OF FEDERAL TAX 1300 C30-11

IV. FINANCIAL GOALS

A. Annual net income and cash flow desired at end of planning horizon:

Source	Income	Cash Flow
1. Conduct of business or profession	22,000 C31-11	23,000 (18)
2. Generated by investments	80,000 (25)	85,000 (32)

B. Net worth desired at end of planning horizon:

Source	Cost	Market Value
1. Conduct of business or profession	75,000 C32-11	90,000 (18)
2. Generated by investments	325,000 (25)	525,000 (32)

Reports on Present and Projected Status. On the following pages are reports relating to HAN 001's present financial status and the expected yearly values if present business and investment environments remain unchanged. Report Number 1 indicates a net worth costing $276,972 and an estimated fair market value of $318,671. Nearly two thirds of estate value is due to real estate investments, although the cost of those properties is slightly less than one half of the total cost of net worth. Income and cash flow are $57,074 and $58,036, respectively, arising from three main sources: real estate rentals, business net income, and salary. Since the latter two sources account for two thirds of their total income, HAN 001's desire to be less dependent on her business and his salary is far from realized.

At the end of the six-year planning period, net worth cost and fair market value are projected to be $419,092 and $621,910, respectively. A total of $98,242 of after-tax cash flow is expected to have been produced over the years and could be directed into investments which could help the estate owners realize their personal and financial goals. Their present investments are not expected to produce more than one third of the total income or cash flow at the end of this planning period.

Comparison of Projected Values and Goals. Report Number 3, page 123, indicates mixed success in attaining desired financial goals with present investment policies. While cost and fair market value are expected to result in favorable variances, income and cash flow are considerably less than that desired. This is particularly evident

when desired investment income, $80,000, is compared with projected investment income, $65,485, and desired investment cash flow, $85,000 is compared with the projected amount $66,648.

CLIENT CODE: HAN001

DATE: 04/11/75

REPORT NUMBER 1

PRESENT FINANCIAL STATUS

ITEM	COST	ESTIMATED MARKET VALUE	INCOME	CASH FLOW
ASSETS:				
CASH	38,100	38,100	2,700	
NOTES AND RECEIVABLES	10,748	10,748	752	1,800
STOCKS	35,533	12,697	164	164
BONDS	14,286	14,286	1,200	1,200
LIFE INSURANCE	16,420	16,420		<708>
REAL PROPERTY	141,100	195,500	13,585	19,960
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	53,300	59,000	14,200	15,300
SALARY			26,500	26,500
OTHER ASSETS AND RECEIPTS	3,965	8,400	800	800
TOTAL ASSETS	313,452	355,151	59,901	65,016
LIABILITIES:				
MORTAGES ON REAL PROPERTY	36,480	36,480	2,827	3,980
OTHER LIABILITIES AND DISBURSMENTS				3,000
TOTAL LIABILITIES	<36,480>	<36,480>	<2,827>	<6,980>
NET WORTH, INCOME, AND CASH FLOW	276,972	318,671	57,074	58,036

CLIENT CODE: HAN001

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 1

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	40,800	40,800	2,700	
NOTES AND RECEIVABLES	9,700	9,700	752	1,800
STOCKS	35,533	12,697	164	164
BONDS	14,286	14,286	1,200	1,200
LIFE INSURANCE	17,113	17,113		<708>
REAL PROPERTY	141,100	214,150	13,585	19,960
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	55,965	62,540	15,336	13,859
SALARY			28,090	28,090
OTHER ASSETS AND RECEIPTS	3,965	9,408	800	800
INVESTMENT OF CASH FLOW				
TOTAL ASSETS	318,462	380,694	62,627	65,165
LIABILITIES:				
MORTAGES ON REAL PROPERTY	35,327	35,327	2,827	3,980
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<35,327>	<35,327>	<2,827>	<3,980>
NET WORTH, INCOME, AND CASH FLOW	283,135	345,367	59,800	61,185
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<8,610>	
TAXABLE INCOME			51,190	
FEDERAL AND STATE INCOME TAXES				<19,842>
PERSONAL LIVING EXPENSES				<22,470>
AFTER TAX CASH FLOW				18,873

CLIENT CODE: HAN001

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 2

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	43,760	43,760	2,961	
NOTES AND RECEIVABLES	8,579	8,579	679	1,800
STOCKS	35,533	12,697	164	164
BONDS	14,286	14,286	1,200	1,200
LIFE INSURANCE	17,806	17,806		<708>
REAL PROPERTY	141,100	234,771	13,585	19,960
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	58,763	66,292	16,562	15,047
SALARY			29,775	29,775
OTHER ASSETS AND RECEIPTS	3,965	10,536	800	800
INVESTMENT OF CASH FLOW	18,873	18,873	1,887	1,887
TOTAL ASSETS	342,665	427,600	67,613	69,925
LIABILITIES:				
MORTAGES ON REAL PROPERTY	34,084	34,084	2,737	3,980
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<34,084>	<34,084>	<2,737>	<3,980>
NET WORTH, INCOME, AND CASH FLOW	308,581	393,516	64,875	65,945
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<9,040>	
TAXABLE INCOME			55,835	
FEDERAL AND STATE INCOME TAXES				<22,587>
PERSONAL LIVING EXPENSES				<24,042>
AFTER TAX CASH FLOW				19,316

CLIENT CODE: HAN001

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 3

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	47,007	47,007	3,248	
NOTES AND RECEIVABLES	7,379	7,379	600	1,800
STOCKS	35,533	12,697	164	164
BONDS	14,286	14,286	1,200	1,200
LIFE INSURANCE	18,499	18,499		<708>
REAL PROPERTY	141,100	257,589	13,585	19,960
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	61,701	70,269	17,886	16,334
SALARY			31,561	31,561
OTHER ASSETS AND RECEIPTS	3,965	11,800	800	800
INVESTMENT OF CASH FLOW	38,189	38,189	3,818	3,818
TOTAL ASSETS	367,659	477,715	72,863	74,929
LIABILITIES:				
MORTAGES ON REAL PROPERTY	32,745	32,745	2,641	3,980
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<32,745>	<32,745>	<2,641>	<3,980>
NET WORTH, INCOME, AND CASH FLOW	334,914	444,970	70,221	70,949
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<9,492>	
TAXABLE INCOME			60,729	
FEDERAL AND STATE INCOME TAXES				<25,510>
PERSONAL LIVING EXPENSES				<25,724>
AFTER TAX CASH FLOW				19,715

CLIENT CODE: HAN001

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 4

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	50,571	50,571	3,565	
NOTES AND RECEIVABLES	6,095	6,095	516	1,800
STOCKS	35,533	12,697	164	164
BONDS	14,286	14,286	1,200	1,200
LIFE INSURANCE	19,192	19,192		<708>
REAL PROPERTY	141,100	282,853	13,585	19,960
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	64,786	74,485	19,316	17,728
SALARY			33,454	33,454
OTHER ASSETS AND RECEIPTS	3,965	13,216	800	800
INVESTMENT OF CASH FLOW	57,904	57,904	5,790	5,790
TOTAL ASSETS	393,432	531,299	78,390	80,188
LIABILITIES:				
MORTAGES ON REAL PROPERTY	31,302	31,302	2,537	3,980
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<31,302>	<31,302>	<2,537>	<3,980>
NET WORTH, INCOME, AND CASH FLOW	362,130	499,997	75,853	76,208
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<9,966>	
TAXABLE INCOME			65,887	
FEDERAL AND STATE INCOME TAXES				<28,631>
PERSONAL LIVING EXPENSES				<27,524>
AFTER TAX CASH FLOW				20,053

CLIENT CODE: HAN001

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 5

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	54,484	54,484	3,914	
NOTES AND RECEIVABLES	4,721	4,721	426	1,800
STOCKS	35,533	12,697	164	164
BONDS	14,286	14,286	1,200	1,200
LIFE INSURANCE	19,885	19,885		<708>
REAL PROPERTY	141,100	310,845	13,585	19,960
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	68,025	78,954	20,861	19,239
SALARY			35,461	35,461
OTHER ASSETS AND RECEIPTS	3,965	14,801	800	800
INVESTMENT OF CASH FLOW	77,957	77,957	7,795	7,795
TOTAL ASSETS	419,956	588,630	84,207	85,711
LIABILITIES:				
MORTAGES ON REAL PROPERTY	29,747	29,747	2,425	3,980
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<29,747>	<29,747>	<2,425>	<3,980>
NET WORTH, INCOME, AND CASH FLOW	390,209	558,883	81,781	81,731
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<10,464>	
TAXABLE INCOME			71,317	
FEDERAL AND STATE INCOME TAXES				<31,996>
PERSONAL LIVING EXPENSES				<29,450>
AFTER TAX CASH FLOW				20,285

CLIENT CODE: HAN001

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF PLANNING HORIZION

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	58,783	58,783	4,299	
NOTES AND RECEIVABLES	3,251	3,251	330	1,800
STOCKS	35,533	12,697	164	164
BONDS	14,286	14,286	1,200	1,200
LIFE INSURANCE	20,578	20,578		<708>
REAL PROPERTY	141,100	341,877	13,585	19,960
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	71,426	83,691	22,529	20,875
SALARY			37,588	37,588
OTHER ASSETS AND RECEIPTS	3,965	16,577	800	800
INVESTMENT OF CASH FLOW	98,242	98,242	9,824	9,824
TOTAL ASSETS	447,164	649,982	90,319	91,503
LIABILITIES:				
MORTAGES ON REAL PROPERTY	28,072	28,072	2,305	3,980
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<28,072>	<28,072>	<2,305>	<3,980>
NET WORTH, INCOME, AND CASH FLOW	419,092	621,910	88,014	87,523
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<10,987>	
TAXABLE INCOME			77,027	
FEDERAL AND STATE INCOME TAXES				<35,568>
PERSONAL LIVING EXPENSES				<31,511>
AFTER TAX CASH FLOW				20,444

CLIENT CODE: HAN001 DATE: 04/11/75

REPORT NUMBER 3

COMPARISON OF PROJECTED FINANCIAL STATUS
WITH DESIRED FINANCIAL GOALS

ITEM	COST	MARKET VALUE	INCOME	CASH FLOW
DESIRED FINANCIAL GOALS AT END OF PLANNING HORIZON:				
SOURCE: BUSINESS OR PROFESSION	75,000	90,000	22,000	23,000
INVESTMENTS	325,000	525,000	80,000	85,000
TOTAL	400,000	615,000	102,000	108,000
PROJECTED FINANCIAL STATUS AT END OF PLANNING HORIZON:				
SOURCE: BUSINESS OR PROFESSION	71,426	83,691	22,529	20,875
INVESTMENTS	347,666	538,219	65,485	66,648
TOTAL	419,092	621,910	88,014	87,523
DIFFERENCE BETWEEN GOALS AND PROJECTED AMOUNTS	19,092	6,910	<13,986>	<20,477>

FDY 001

Input Form. FDY 001's input information does not involve complex business or investment data, nor does it include unusual personal circumstances. It does present a rather typical picture of a middle income family who depends chiefly upon one provider and his salary to supply not only daily financial needs, but also provide some security for himself and his wife when he reaches retirement four years hence. This participant is very nearly at the peak of his earning capacity and does not have extensive investments or outside income. He wishes to explore ways of augmenting his income both now and at retirement through judicious deployment of his present assets. The bulk of any financial planning will have to be accomplished during the forthcoming four years. Therefore, that is his chosen planning horizon.

Client Code FDY 001

GENERAL PERSONAL AND BUSINESS INFORMATION

1. Name FDY 001 2. Birthdate January 12, 1919

3. Home address _____ 4. Telephone _____

5. Marital status Married 6. Spouse's name Joyce

7. Spouse's birthdate August 23, 1923

8. Children or other dependents:

	Name	Relationship	Birthdate
a.	Deana	Daughter	7-2-58
b.	Charles	Son	7-11-56
c.	Martin	Son	9-18-53
d.			
e.			

9. Special factors to be considered in planning for spouse's or dependent's care:

Joyce occasionally teaches art in the local high school, and could, if necessary, do so on a full-time basis. Deana will graduate from high school in 1976, and plans to go to college. Charles will be self-sufficient in one more year.

10. Business name _____ 11. Telephone _____

12. Business address _____

13. Nature and form of business activity _____

_____

14. Attitudes toward alternative business forms _____

_____

15. Names and ages of partners or principal shareholders, if applicable _____

_____

_____

16. Documents necessary, when applicable:

	Acquired	
	Yes	No
a. Federal and state individual tax returns for three most recent years	X	
b. Federal and state business tax returns for three most recent years		
c. Partnership agreement or shareholders contracts		
d. Trust agreements, wills, or other documents (specify) copies of all insurance policies	X	

PERSONAL, BUSINESS AND INVESTMENT FINANCIAL PLANNING INFORMATION

I. Personal financial information:

	Amount	Projected Annual Rate of Change
1. Estimated annual living expenses	10,500 C1-11	0800 (18)
2. Estimated annual itemized deductions and exemptions	4,250 (25)	 (32)
3. Number of years for which planning will be done		4 (39)
4. Federal tax schedule to be used		2 (46)

II. Business financial information:

1. Business investment cost	C2-11	(18)
2. Estimated fair market value	(25)	(32)
3. Annual net income	(39)	(46)
4. Annual cash flow	(53)	(60)
5. Annual investment tax or other credit passed through to business owner	(67)	(74)

III. Financial information relating to investments:

A. CASH

	Description	Amount	Interest Rate
	Checking Accounts:		
1.	First National Bank	1,100 C3-11	
2.		(18)	
3.		(25)	
4.		(32)	
	Savings Accounts and Time Deposits:		
1.	Federal Credit Union	8,680 C4-11	0600 (18)
2.	Certificates of Deposit	12,000 (25)	0750 (32)
3.		(39)	(46)
4.		(53)	(60)

B. NOTES AND RECEIVABLES

	Description	Outstanding Balance	Amount of Annual Payment	Interest Rate
1.		C5-11	(18)	(25)
2.		(32)	(39)	(46)
3.		C6-11	(18)	(25)
4.		(32)	(39)	(46)

C. SHARES OF STOCK

	Description	Cost	Market Value	Income	Rate of Change in Value
1.	Financial Industrial Mutual Fund	26,047	18,173	496	0500
		C7-11	(18)	(25)	(32)
2.	El Paso Electric Co.	500	500	50	0600
		(39)	(46)	(53)	(60)
3.		C8-11	(18)	(25)	(32)
4.		(39)	(46)	(53)	(60)

D. BONDS

	Description	Carrying Value	Yield Rate	Cash Flow	Years to Maturity
1.		C9-11	(18)	(25)	(32)
2.		(39)	(46)	(53)	(60)
3.		C10-11	(18)	(25)	(32)
4.		(39)	(46)	(53)	(60)

E. LIFE INSURANCE

	Description	Cash Surrender Value	Annual Premium	Rate of Increase In Value
1.	Great Western--children's policies	765	(925)	3333
		C11-11	(18)	(25)
2.	Great Commonwealth--$10,624	1,783	(593)	8500
		(32)	(39)	(46)
3.	National Service Life--$3,000	615	(82)	5100
		C12-11	(18)	(25)
4.	National Life and Accident--$1,000	284	(17)	4200
		(32)	(39)	(46)

F. REAL ESTATE

	Description	Cost	Market Value	Income	Cash Flow	Rate of Change In Value
1.	Building lots (2)	9,500	10,500	(50)	(50)	1200
		C13-11	(18)	(25)	(32)	(39)
2.		(46)	(53)	(60)	(67)	(74)
3.		C14-11	(18)	(25)	(32)	(39)
4.		(46)	(53)	(60)	(67)	(74)
5.		C15-11	(18)	(25)	(32)	(39)
6.		(46)	(53)	(60)	(67)	(74)
7.		C16-11	(18)	(25)	(32)	(39)
8.		(46)	(53)	(60)	(67)	(74)

G. EMPLOYEE BENEFITS

1.	Retirement fund	16,292	28,960		(1,428)	1200
		C17-11	(18)	(25)	(32)	(39)
2.	First Investment Annuity Co.	6,865	8,600		(1,320)	0400
		(46)	(53)	(60)	(67)	(74)
3.		C18-11	(18)	(25)	(32)	(39)
4.		(46)	(53)	(60)	(67)	(74)

H. SALARY

Source	Income	Cash Flow	Rate of Change In Amount
1. Head of maintenance	21,208 C19-11	22,528 (18)	0500 (25)

I. OTHER ASSETS AND RECEIPTS

Description	Cost	Market Value	Income	Cash Flow	Rate of Change In Amount
1. Mexican government obligations	10,000 C20-11	10,000 (18)	1,000 (25)	1,000 (32)	 (39)
2.	 (46)	 (53)	 (60)	 (67)	 (74)
3.	 C21-11	 (18)	 (25)	 (32)	 (39)
4.	 (46)	 (53)	 (60)	 (67)	 (74)

J. MORTGAGES ON REALTY

	Description	Out-standing Balance	Amount of Annual Payment	Interest Rate
1.		C22-11 (32)	(18) (39)	(25) (46)
2.				
3.		C23-11 (32)	(18) (39)	(25) (46)
4.				
5.		C24-11 (32)	(18) (39)	(25) (46)
6.				
7.		C25-11 (32)	(18) (39)	(25) (46)
8.				

K. OTHER LIABILITIES AND DISBURSEMENTS

	Description	Out-standing Balance	Amount of Annual Payment	Number of Payments	Interest Rate
1.		C26-11	(18)	(25)	(32)
2.		(39)	(46)	(53)	(60)
3.		C27-11	(18)	(25)	(32)
4.		(39)	(46)	(53)	(60)

L. TAX CREDITS

	Source	Amount	Rate of Change
1.		C28-11	(18)
2.		(25)	(32)
3.		(39)	(46)
4.		(53)	(60)

M. RATE OF RETURN REQUIRED ON REINVESTED CASH FLOW 0800 C29-11

N. STATE TAX AS A PERCENT OF FEDERAL TAX 1200 C30-11

IV. FINANCIAL GOALS

A. Annual net income and cash flow desired at end of planning horizon:

Source	Income	Cash Flow
1. Conduct of business or profession	C31-11	(18)
2. Generated by investments	32,000 (25)	35,000 (32)

B. Net worth desired at end of planning horizon:

Source	Cost	Market Value
1. Conduct of business or profession	C32-11	(18)
2. Generated by investments	130,000 (25)	170,000 (32)

Reports on Present and Projected Status. Unlike ROR 001 who also has a present net worth costing slightly more than $90,000, FDY 001 is not at the beginning of his lifetime estate accumulation. From his present assets and those he can accumulate within the next four years, FDY 001 must weave a satisfactory standard of living and financial security. A review of Report Number 1 reveals few assets other than cash, some stock holdings in mutual funds, and employee retirement benefits. Current income is $24,124, coming almost exclusively from salary with minor amounts of interest and dividends. Cash flow is $19,657, with significant amounts diverted to the payment of insurance premiums on his children's policies and retirement plans for himself. A positive factor in his financial picture is the fact that he has no outstanding liabilities.

Over the four-year planning period, the cost of his net worth is expected to increase to $127,912 and the fair market value is projected to be $152,580. Anticipated income and cash flow are $30,030 and $25,528, respectively. Examination of the Report Number 2 series reveals that salary will continue to be the single largest source of income and cash flow, but income generated by savings accounts, previous years' investment of cash flow, and other sources will increase slightly.

Comparison of Projected Values and Goals. Report Number 3 indicates expected unfavorable divergences as follows: cost, $2,088; fair market value, $17,420; income, $1,970; and cash flow, $9,472. The latter variance is the one causing the greatest concern to FDY 001. As his salary increases over the planning horizon, he expects a much

greater amount of cash to be available each year. However, increased living expenses as his last child completes college plus an increase of about $1,800 in annual income taxes prevent his reaching the desired result. Those sources of income he does possess are fully taxable with the exception of pension fund earnings which are not now available to him. Improvements in his projected situation will require considerable ingenuity and careful evaluation of his personal preferences and needs.

CLIENT CODE: FDY001 DATE: 04/11/75

REPORT NUMBER 1

PRESENT FINANCIAL STATUS

ITEM	COST	ESTIMATED MARKET VALUE	INCOME	CASH FLOW
ASSETS:				
CASH	21,780	21,780	1,420	
NOTES AND RECEIVABLES				
STOCKS	26,547	18,673	546	546
BONDS				
LIFE INSURANCE	3,447	3,447		<1,619>
REAL PROPERTY	9,500	10,500	50	50
EMPLOYEE BENEFITS	23,157	37,560		<2,748>
BUSINESS OR PROFESSION				
SALARY			21,208	22,528
OTHER ASSETS AND RECEIPTS	10,000	10,000	1,000	1,000
TOTAL ASSETS	94,431	101,960	24,124	19,657
LIABILITIES:				
MORTAGES ON REAL PROPERTY				
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES				
NET WORTH, INCOME, AND CASH FLOW	94,431	101,960	24,124	19,657

CLIENT CODE: FDY001 DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 1

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	23,200	23,200	1,420	
NOTES AND RECEIVABLES				
STOCKS	26,547	19,611	546	546
BONDS				
LIFE INSURANCE	4,308	4,308		<1,619>
REAL PROPERTY	9,500	11,760	50	50
EMPLOYEE BENEFITS	25,905	41,379		<2,748>
BUSINESS OR PROFESSION				
SALARY			22,268	23,654
OTHER ASSETS AND RECEIPTS	10,000	10,000	1,000	1,000
INVESTMENT OF CASH FLOW				
TOTAL ASSETS	99,460	110,258	25,184	20,783
LIABILITIES:				
MORTAGES ON REAL PROPERTY				
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES				
NET WORTH, INCOME, AND CASH FLOW	99,460	110,258	25,184	20,783
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<4,250>	
TAXABLE INCOME			20,934	
FEDERAL AND STATE INCOME TAXES				<5,239>
PERSONAL LIVING EXPENSES				<11,340>
AFTER TAX CASH FLOW				4,204

CLIENT CODE: FDY001

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 2

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	24,719	24,719	1,519	
NOTES AND RECEIVABLES				
STOCKS	26,547	20,596	546	546
BONDS				
LIFE INSURANCE	5,169	5,169		<1,619>
REAL PROPERTY	9,500	13,171	50	50
EMPLOYEE BENEFITS	28,653	45,628		<2,748>
BUSINESS OR PROFESSION				
SALARY			23,381	24,836
OTHER ASSETS AND RECEIPTS	10,000	10,000	1,000	1,000
INVESTMENT OF CASH FLOW	4,204	4,204	336	336
TOTAL ASSETS	108,792	123,487	26,732	22,301
LIABILITIES:				
MORTAGES ON REAL PROPERTY				
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES				
NET WORTH, INCOME, AND CASH FLOW	108,792	123,487	26,732	22,301
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<4,250>	
TAXABLE INCOME			22,482	
FEDERAL AND STATE INCOME TAXES				<5,794>
PERSONAL LIVING EXPENSES				<12,247>
AFTER TAX CASH FLOW				4,260

CLIENT CODE: FDY001

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 3

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	26,344	26,344	1,625	
NOTES AND RECEIVABLES				
STOCKS	26,547	21,630	546	546
BONDS				
LIFE INSURANCE	6,030	6,030		<1,619>
REAL PROPERTY	9,500	14,751	50	50
EMPLOYEE BENEFITS	31,401	50,359		<2,748>
BUSINESS OR PROFESSION				
SALARY			24,550	26,077
OTHER ASSETS AND RECEIPTS	10,000	10,000	1,000	1,000
INVESTMENT OF CASH FLOW	8,464	8,464	677	677
TOTAL ASSETS	118,286	137,578	28,348	23,883
LIABILITIES:				
MORTAGES ON REAL PROPERTY				
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES				
NET WORTH, INCOME, AND CASH FLOW	118,286	137,578	28,348	23,883
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<4,250>	
TAXABLE INCOME			24,098	
FEDERAL AND STATE INCOME TAXES				<6,378>
PERSONAL LIVING EXPENSES				<13,226>
AFTER TAX CASH FLOW				4,279

CLIENT CODE: FDY001

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF PLANNING HORIZION

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	28,082	28,082	1,738	
NOTES AND RECEIVABLES				
STOCKS	26,547	22,716	546	546
BONDS				
LIFE INSURANCE	6,891	6,891		<1,619>
REAL PROPERTY	9,500	16,521	50	50
EMPLOYEE BENEFITS	34,149	55,627		<2,748>
BUSINESS OR PROFESSION				
SALARY			25,777	27,380
OTHER ASSETS AND RECEIPTS	10,000	10,000	1,000	1,000
INVESTMENT OF CASH FLOW	12,743	12,743	1,019	1,019
TOTAL ASSETS	127,912	152,580	30,030	25,528
LIABILITIES:				
MORTAGES ON REAL PROPERTY				
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES				
NET WORTH, INCOME, AND CASH FLOW	127,912	152,580	30,030	25,528
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<4,250>	
TAXABLE INCOME			25,780	
FEDERAL AND STATE INCOME TAXES				<7,056>
PERSONAL LIVING EXPENSES				<14,284>
AFTER TAX CASH FLOW				4,188

CLIENT CODE: FDY001

DATE: 04/11/75

REPORT NUMBER 3

COMPARISON OF PROJECTED FINANCIAL STATUS
WITH DESIRED FINANCIAL GOALS

ITEM	COST	MARKET VALUE	INCOME	CASH FLOW
DESIRED FINANCIAL GOALS AT END OF PLANNING HORIZON:				
SOURCE: BUSINESS OR PROFESSION				
INVESTMENTS	130,000	170,000	32,000	35,000
TOTAL	130,000	170,000	32,000	35,000
PROJECTED FINANCIAL STATUS AT END OF PLANNING HORIZON:				
SOURCE: BUSINESS OR PROFESSION				
INVESTMENTS	127,912	152,580	30,030	25,528
TOTAL	127,912	152,580	30,030	25,528
DIFFERENCE BETWEEN GOALS AND PROJECTED AMOUNTS	<2,088>	<17,420>	<1,970>	<9,472>

Testing Alternative Investment Options

In the previous section, data for four individuals were presented. The input forms, reports on present and projected financial status, and comparisons of projected status with desired, predetermined goals illustrated the functioning of BUILD under a variety of situations. In this section, BUILD will be used to examine the effects of various investment and business alternatives on the projected data at the end of the planning horizon. For illustrative purposes, two individuals have been selected--HAN 001 and FDY 001. Since this section will contain revised data and reports for both persons, their input forms and reports will be identified by the client codes HAN 002 and FDY 002 to prevent confusion with their original data.

HAN 002

Input Form. Since only the quantitative data relating to business interests and investments has been changed, the input form contained on the following pages will include only the nine pages on which such data is presented. Much of the information will remain unchanged, but HAN 002 wishes to explore the effects of several changes they are considering.

The first change is noted on the card C2-67 on the input form. There, tax credits have been increased from $100 to $600 due to the employment of persons who are eligible for the Work Incentive Program provided for by Sec. 432(b)(1) of the Social Security Act. Under this provision, a tax credit equal to 20 percent of the pay received by qualified individuals can be taken by the employer. In

this situation, the wife is able to employ qualified people in her day-care business.

A second, more fundamental change they wish to pursue is the opening of a lapidary shop and the purchase of several tons of Mexican geodes to be held for appreciation in value and occasional sales. Accomplishing this will require the use of $12,000 presently on deposit with the First National Bank plus a four-year, $12,000 loan available at an interest rate of 12 percent. These changes are shown on input cards C4-11, C20-46, C21-11, C26-11, and C28-11.

PERSONAL, BUSINESS AND INVESTMENT FINANCIAL PLANNING INFORMATION

I. Personal financial information:

	Amount	Projected Annual Rate of Change
1. Estimated annual living expenses	21,000 C1-11	0700 (18)
2. Estimated annual itemized deductions and exemptions	8,200 (25)	0500 (32)
3. Number of years for which planning will be done		6 (39)
4. Federal tax schedule to be used		2 (46)

II. Business financial information:

1. Business investment cost	53,300 C2-11	0500 (18)
2. Estimated fair market value	59,000 (25)	0600 (32)
3. Annual net income	14,200 (39)	0800 (46)
4. Annual cash flow	15,300 (53)	0800 (60)
5. Annual investment tax or other credit passed through to business owner	600 (67)	0800 (74)

III. Financial information relating to investments:

A. CASH

	Description	Amount	Interest Rate
	Checking Accounts:		
1.	Citizens' National Bank	4,500 C3-11	
2.	Alamogordo State	3,600 (18)	
3.		(25)	
4.		(32)	
	Savings Accounts and Time Deposits:		
1.	Juarez time deposits	18,000 C4-11	1100 (18)
2.		(25)	(32)
3.		(39)	(46)
4.		(53)	(60)

B. NOTES AND RECEIVABLES

	Description	Outstanding Balance	Amount of Annual Payment	Interest Rate
1.	Note receivable	10,748	1800	0700
		C5-11	(18)	(25)
2.				
		(32)	(39)	(46)
3.				
		C6-11	(18)	(25)
4.				
		(32)	(39)	(46)

C. SHARES OF STOCK

	Description	Cost	Market Value	Income	Rate of Change in Value
1.	Keystone S-4	33,480	11,160		
		C7-11	(18)	(25)	(32)
2.	Kansas Gas and Electric	2,053	1,537	164	
		(39)	(46)	(53)	(60)
3.					
		C8-11	(18)	(25)	(32)
4.					
		(39)	(46)	(53)	(60)

D. BONDS

	Description	Carrying Value	Yield Rate	Cash Flow	Years to Maturity
1.	Galaxy Furniture	14,286	0840	1200	12
		C9-11	(18)	(25)	(32)
2.					
		(39)	(46)	(53)	(60)
3.					
		C10-11	(18)	(25)	(32)
4.					
		(39)	(46)	(53)	(60)

E. LIFE INSURANCE

	Description	Cash Surrender Value	Annual Premium	Rate of Increase In Value
1.	Prudential policy	16,420	(708)	9800
		C11-11	(18)	(25)
2.				
		(32)	(39)	(46)
3.				
		C12-11	(18)	(25)
4.				
		(32)	(39)	(46)

F. REAL ESTATE

Description	Cost	Market Value	Income	Cash Flow	Rate of Change In Value
1. Home	43,000	54,000			1200
	C13-11	(18)	(25)	(32)	(39)
2. Duplexes	78,500	85,000	14,235	17,660	0600
	(46)	(53)	(60)	(67)	(74)
3. Telshor lots	11,200	42,000	(300)	(300)	1200
	C14-11	(18)	(25)	(32)	(39)
4. Vacation home	8,400	14,500	(350)	2,600	1400
	(46)	(53)	(60)	(67)	(74)
5.	C15-11	(18)	(25)	(32)	(39)
6.	(46)	(53)	(60)	(67)	(74)
7.	C16-11	(18)	(25)	(32)	(39)
8.	(46)	(53)	(60)	(67)	(74)

G. EMPLOYEE BENEFITS

1.	C17-11	(18)	(25)	(32)	(39)
2.	(46)	(53)	(60)	(67)	(74)
3.	C18-11	(18)	(25)	(32)	(39)
4.	(46)	(53)	(60)	(67)	(74)

H. SALARY

	Source	Income	Cash Flow	Rate of Change In Amount
1.	I & M Engineering	26,500 C19-11	26,500 (18)	0600 (25)

I. OTHER ASSETS AND RECEIPTS

	Description	Cost	Market Value	Income	Cash Flow	Rate of Change In Amount
1.	Turquoise	3,965 C20-11	8,400 (18)	800 (25)	800 (32)	1200 (39)
2.	Geodes	6,400 (46)	8,500 (53)	(60)	(67)	1500 (74)
3.	Lapidary shop	18,000 C21-11	18,000 (18)	4,000 (25)	4,000 (32)	1200 (39)
4.		(46)	(53)	(60)	(67)	(74)

J. MORTGAGES ON REALTY

	Description	Out-standing Balance	Amount of Annual Payment	Interest Rate
1.	Duplexes	36,480	3,980	0775
		C22-11	(18)	(25)
2.				
		(32)	(39)	(46)
3.				
		C23-11	(18)	(25)
4.				
		(32)	(39)	(46)
5.				
		C24-11	(18)	(25)
6.				
		(32)	(39)	(46)
7.				
		C25-11	(18)	(25)
8.				
		(32)	(39)	(46)

K. OTHER LIABILITIES AND DISBURSEMENTS

	Description	Outstanding Balance	Amount of Annual Payment	Number of Payments	Interest Rate
1.	Personal loan for lapidary shop	12,000 C26-11	4,200 (18)	4 (25)	1200 (32)
2.	Support of Donna Lea Courtney	(39)	3,000 (46)	10 (53)	(60)
3.		C27-11	(18)	(25)	(32)
4.		(39)	(46)	(53)	(60)

L. TAX CREDITS

	Source	Amount	Rate of Change
1.	Lapidary shop	300 C28-11	(5000) (18)
2.		(25)	(32)
3.		(39)	(46)
4.		(53)	(60)

M. RATE OF RETURN REQUIRED ON REINVESTED CASH FLOW 1000 C29-11

N. STATE TAX AS A PERCENT OF FEDERAL TAX 1300 C30-11

IV. FINANCIAL GOALS

A. Annual net income and cash flow desired at end of planning horizon:

Source	Income	Cash Flow
1. Conduct of business or profession	22,000 C31-11	23,000 (18)
2. Generated by investments	80,000 (25)	85,000 (32)

B. Net worth desired at end of planning horizon:

Source	Cost	Market Value
1. Conduct of business or profession	75,000 C32-11	90,000 (18)
2. Generated by investments	325,000 (25)	525,000 (32)

Reports on Revised Financial Status. Following the format established in the previous section, HAN 002's revised data will be presented in three reports. Report Number 1 contains the present financial status reflecting the revised input information. Report Number 2 projects their financial status, year by year, for the six years of their planning horizon. A comparison of the projected status at the end of year six with that of the comparable original report reveals that all measures of financial condition are expected to improve if the contemplated changes are made.

Comparison of Revised Values and Goals. Report Number 3 indicates that a comparison of projected values based on the revised data with the predetermined goals will show an improvement in all areas. Cash flow and income are expected to remain short of the desired amounts, but will improve by about $4,000 annually for cash flow and $3,000 for income. Investment in assets is projected to increase by about $7,500 and market value by about $38,000. It appears that the contemplated changes will result in an overall financial improvement for HAN 002. The changes would also lessen their dependence on his salary and help them accomplish this qualitative, personal goal.

CLIENT CODE: HAN002

DATE: 04/11/75

REPORT NUMBER 1

PRESENT FINANCIAL STATUS

ITEM	COST	ESTIMATED MARKET VALUE	INCOME	CASH FLOW
ASSETS:				
CASH	26,100	26,100	1,980	
NOTES AND RECEIVABLES	10,748	10,748	752	1,800
STOCKS	35,533	12,697	164	164
BONDS	14,286	14,286	1,200	1,200
LIFE INSURANCE	16,420	16,420		<708>
REAL PROPERTY	141,100	195,500	13,585	19,960
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	53,300	59,000	14,200	15,300
SALARY			26,500	26,500
OTHER ASSETS AND RECEIPTS	28,365	34,900	4,800	4,800
TOTAL ASSETS	325,852	369,651	63,181	69,016
LIABILITIES:				
MORTAGES ON REAL PROPERTY	36,480	36,480	2,827	3,980
OTHER LIABILITIES AND DISBURSMENTS	12,000	12,000	1,440	7,200
TOTAL LIABILITIES	<48,480>	<48,480>	<4,267>	<11,180>
NET WORTH, INCOME, AND CASH FLOW	277,372	321,171	58,914	57,836

CLIENT CODE: HAN002

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 1

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	28,080	28,080	1,980	
NOTES AND RECEIVABLES	9,700	9,700	752	1,800
STOCKS	35,533	12,697	164	164
BONDS	14,286	14,286	1,200	1,200
LIFE INSURANCE	17,113	17,113		<708>
REAL PROPERTY	141,100	214,150	13,585	19,960
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	55,965	62,540	15,336	13,859
SALARY			28,090	28,090
OTHER ASSETS AND RECEIPTS	28,365	39,343	4,800	4,800
INVESTMENT OF CASH FLOW				
TOTAL ASSETS	330,142	397,909	65,907	69,165
LIABILITIES:				
MORTAGES ON REAL PROPERTY	35,327	35,327	2,827	3,980
OTHER LIABILITIES AND DISBURSMENTS	9,240	9,240	1,440	4,200
TOTAL LIABILITIES	<44,567>	<44,567>	<4,267>	<8,180>
NET WORTH, INCOME, AND CASH FLOW	285,575	353,342	61,640	60,985
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<8,610>	
TAXABLE INCOME			53,030	
FEDERAL AND STATE INCOME TAXES				<20,077>
PERSONAL LIVING EXPENSES				<22,470>
AFTER TAX CASH FLOW				18,438

CLIENT CODE: HAN002

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 2

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	30,277	30,277	2,197	
NOTES AND RECEIVABLES	8,579	8,579	679	1,800
STOCKS	35,533	12,697	164	164
BONDS	14,286	14,286	1,200	1,200
LIFE INSURANCE	17,806	17,806		<708>
REAL PROPERTY	141,100	234,771	13,585	19,960
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	58,763	66,292	16,562	15,047
SALARY			29,775	29,775
OTHER ASSETS AND RECEIPTS	28,365	44,356	4,800	4,800
INVESTMENT OF CASH FLOW	18,438	18,438	1,843	1,843
TOTAL ASSETS	353,147	447,502	70,805	73,881
LIABILITIES:				
MORTAGES ON REAL PROPERTY	34,084	34,084	2,737	3,980
OTHER LIABILITIES AND DISBURSMENTS	6,148	6,148	1,108	4,200
TOTAL LIABILITIES	<40,232>	<40,232>	<3,846>	<8,180>
NET WORTH, INCOME, AND CASH FLOW	312,915	407,270	66,959	65,701
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<9,040>	
TAXABLE INCOME			57,919	
FEDERAL AND STATE INCOME TAXES				<22,957>
PERSONAL LIVING EXPENSES				<24,042>
AFTER TAX CASH FLOW				18,702

CLIENT CODE: HAN002

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 3

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	32,716	32,716	2,439	
NOTES AND RECEIVABLES	7,379	7,379	600	1,800
STOCKS	35,533	12,697	164	164
BONDS	14,286	14,286	1,200	1,200
LIFE INSURANCE	18,499	18,499		<708>
REAL PROPERTY	141,100	257,589	13,585	19,960
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	61,701	70,269	17,886	16,334
SALARY			31,561	31,561
OTHER ASSETS AND RECEIPTS	28,365	50,015	4,800	4,800
INVESTMENT OF CASH FLOW	37,140	37,140	3,714	3,714
TOTAL ASSETS	376,719	500,590	75,950	78,825
LIABILITIES:				
MORTAGES ON REAL PROPERTY	32,745	32,745	2,641	3,980
OTHER LIABILITIES AND DISBURSMENTS	2,685	2,685	737	4,200
TOTAL LIABILITIES	<35,430>	<35,430>	<3,379>	<8,180>
NET WORTH, INCOME, AND CASH FLOW	341,289	465,160	72,570	70,645
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<9,492>	
TAXABLE INCOME			63,078	
FEDERAL AND STATE INCOME TAXES				<25,994>
PERSONAL LIVING EXPENSES				<25,724>
AFTER TAX CASH FLOW				18,927

CLIENT CODE: HAN002

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 4

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	35,423	35,423	2,707	
NOTES AND RECEIVABLES	6,095	6,095	516	1,800
STOCKS	35,533	12,697	164	164
BONDS	14,286	14,286	1,200	1,200
LIFE INSURANCE	19,192	19,192		<708>
REAL PROPERTY	141,100	282,853	13,585	19,960
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	64,786	74,485	19,316	17,728
SALARY			33,454	33,454
OTHER ASSETS AND RECEIPTS	28,365	56,404	4,800	4,800
INVESTMENT OF CASH FLOW	56,067	56,067	5,606	5,606
TOTAL ASSETS	400,847	557,502	81,349	84,004
LIABILITIES:				
MORTAGES ON REAL PROPERTY	31,302	31,302	2,537	3,980
OTHER LIABILITIES AND DISBURSMENTS	1,192	1,192	322	4,200
TOTAL LIABILITIES	<30,110>	<30,110>	<2,859>	<8,180>
NET WORTH, INCOME, AND CASH FLOW	370,737	527,392	78,489	75,824
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<9,966>	
TAXABLE INCOME			68,523	
FEDERAL AND STATE INCOME TAXES				<29,298>
PERSONAL LIVING EXPENSES				<27,524>
AFTER TAX CASH FLOW				19,002

CLIENT CODE: HAN002

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 5

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	38,428	38,428	3,005	
NOTES AND RECEIVABLES	4,721	4,721	426	1,800
STOCKS	35,533	12,697	164	164
BONDS	14,286	14,286	1,200	1,200
LIFE INSURANCE	19,885	19,885		<708>
REAL PROPERTY	141,100	310,845	13,585	19,960
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	68,025	78,954	20,861	19,239
SALARY			35,461	35,461
OTHER ASSETS AND RECEIPTS	28,365	63,616	4,800	4,800
INVESTMENT OF CASH FLOW	75,069	75,069	7,506	7,506
TOTAL ASSETS	425,412	618,501	87,009	89,422
LIABILITIES:				
MORTAGES ON REAL PROPERTY	29,747	29,747	2,425	3,980
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<29,747>	<29,747>	<2,425>	<3,980>
NET WORTH, INCOME, AND CASH FLOW	395,665	588,754	84,583	85,442
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<10,464>	
TAXABLE INCOME			74,119	
FEDERAL AND STATE INCOME TAXES				<32,714>
PERSONAL LIVING EXPENSES				<29,450>
AFTER TAX CASH FLOW				23,278

CLIENT CODE: HAN002

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF PLANNING HORIZION

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	41,764	41,764	3,336	
NOTES AND RECEIVABLES	3,251	3,251	330	1,800
STOCKS	35,533	12,697	164	164
BONDS	14,286	14,286	1,200	1,200
LIFE INSURANCE	20,578	20,578		<708>
REAL PROPERTY	141,100	341,877	13,585	19,960
EMPLOYEE BENEFITS				
BUSINESS OR PROFESSION	71,426	83,691	22,529	20,875
SALARY			37,588	37,588
OTHER ASSETS AND RECEIPTS	28,365	71,762	4,800	4,800
INVESTMENT OF CASH FLOW	98,347	98,347	9,834	9,834
TOTAL ASSETS	454,650	688,253	93,366	95,513
LIABILITIES:				
MORTAGES ON REAL PROPERTY	28,072	28,072	2,305	3,980
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<28,072>	<28,072>	<2,305>	<3,980>
NET WORTH, INCOME, AND CASH FLOW	426,578	660,181	91,061	91,533
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<10,987>	
TAXABLE INCOME			80,074	
FEDERAL AND STATE INCOME TAXES				<36,484>
PERSONAL LIVING EXPENSES				<31,511>
AFTER TAX CASH FLOW				23,538

CLIENT CODE: HAN002

DATE: 04/11/75

REPORT NUMBER 3

COMPARISON OF PROJECTED FINANCIAL STATUS
WITH DESIRED FINANCIAL GOALS

ITEM	COST	MARKET VALUE	INCOME	CASH FLOW
DESIRED FINANCIAL GOALS AT END OF PLANNING HORIZON:				
SOURCE: BUSINESS OR PROFESSION	75,000	90,000	22,000	23,000
INVESTMENTS	325,000	525,000	80,000	85,000
TOTAL	400,000	615,000	102,000	108,000
PROJECTED FINANCIAL STATUS AT END OF PLANNING HORIZON:				
SOURCE: BUSINESS OR PROFESSION	71,426	83,691	22,529	20,875
INVESTMENTS	355,152	576,490	68,532	70,658
TOTAL	426,578	660,181	91,061	91,533
DIFFERENCE BETWEEN GOALS AND PROJECTED AMOUNTS	26,578	45,181	<10,939>	<16,467>

FDY 002

Input Form. The client code FDY 002 will be used to indicate the input form and reports based on proposed changes in FDY 001's financial activities. Only pages three through eleven of the input form have been included here since the first two pages contain only qualitative information that will not change.

FDY 002 wishes to explore ways in which he can more profitably utilize his existing resources and make his approaching retirement more secure and enjoyable. Since he is an active person and enjoys the activities associated with maintaining property, FDY 002 is particularly interested in the impact that purchases of rental properties would have on his pro forma financial picture.

Should he decide upon this course of action, several changes in input data will be required. He proposes to use the $12,000 currently invested in certificates of deposit, some of the funds presently in the Federal Credit Union, plus the cash surrender value he would receive by cancelling most insurance policies to purchase equities in three rental properties. The properties so acquires have been placed on the input form on C13-46, C14-11, and C14-46. The mortgages he would assume are shown on C22-11, C22-32, and C23-11. The cash surrender value received by cancelling the children's policies will be given to them and placed in their savings accounts.

Client Code FDY 002

PERSONAL, BUSINESS AND INVESTMENT FINANCIAL PLANNING INFORMATION

I. Personal financial information:

	Amount	Projected Annual Rate of Change
1. Estimated annual living expenses	10,500 C1-11	0800 (18)
2. Estimated annual itemized deductions and exemptions	4,250 (25)	(32)
3. Number of years for which planning will be done		4 (39)
4. Federal tax schedule to be used		2 (46)

II. Business financial information:

1. Business investment cost	C2-11	(18)
2. Estimated fair market value	(25)	(32)
3. Annual net income	(39)	(46)
4. Annual cash flow	(53)	(60)
5. Annual investment tax or other credit passed through to business owner	(67)	(74)

III. Financial information relating to investments:

A. CASH

	Description	Amount	Interest Rate
	Checking Accounts:		
1.	First National Bank	1,100 C3-11	
2.		(18)	
3.		(25)	
4.		(32)	
	Savings Accounts and Time Deposits:		
1.	Federal Credit Union	5,200 C4-11	0600 (18)
2.		(25)	(32)
3.		(39)	(46)
4.		(53)	(60)

B. NOTES AND RECEIVABLES

	Description	Outstanding Balance	Amount of Annual Payment	Interest Rate
1.		C5-11	(18)	(25)
2.		(32)	(39)	(46)
3.		C6-11	(18)	(25)
4.		(32)	(39)	(46)

C. SHARES OF STOCK

	Description	Cost	Market Value	Income	Rate of Change in Value
1.	Financial Industrial Mutual Fund	26,047	18,173	496	0500
		C7-11	(18)	(25)	(32)
2.	El Paso Electric Co.	500	500	50	0600
		(39)	(46)	(53)	(60)
3.		C8-11	(18)	(25)	(32)
4.		(39)	(46)	(53)	(60)

D. BONDS

	Description	Carrying Value	Yield Rate	Cash Flow	Years to Maturity
1.		C9-11	(18)	(25)	(32)
2.		(39)	(46)	(53)	(60)
3.		C10-11	(18)	(25)	(32)
4.		(39)	(46)	(53)	(60)

E. LIFE INSURANCE

	Description	Cash Surrender Value	Annual Premium	Rate of Increase In Value
1.	National Life and Accident	284	(17)	4200
		C11-11	(18)	(25)
2.		(32)	(39)	(46)
3.		C12-11	(18)	(25)
4.		(32)	(39)	(46)

F. REAL ESTATE

	Description	Cost	Market Value	Income	Cash Flow	Rate of Change In Value
1.	Building lots (2)	9,500	10,500	(50)	(50)	1200
		C13-11	(18)	(25)	(32)	(39)
2.	Two bedroom rental house	12,500	12,500	480	1,200	0600
		(46)	(53)	(60)	(67)	(74)
3.	Duplexes	16,800	16,800	525	1,600	0600
		C14-11	(18)	(25)	(32)	(39)
4.	Rent home--east	9,800	9,800	200	750	0600
		(46)	(53)	(60)	(67)	(74)
5.		C15-11	(18)	(25)	(32)	(39)
6.		(46)	(53)	(60)	(67)	(74)
7.		C16-11	(18)	(25)	(32)	(39)
8.		(46)	(53)	(60)	(67)	(74)

G. EMPLOYEE BENEFITS

1.	Retirement fund	16,292	28,690		(1,428)	1200
		C17-11	(18)	(25)	(32)	(39)
2.	First Investment Annuity Co.	6,865	8,600		(1,320)	0400
		(46)	(53)	(60)	(67)	(74)
3.		C18-11	(18)	(25)	(32)	(39)
4.		(46)	(53)	(60)	(67)	(74)

H. SALARY

	Source	Income	Cash Flow	Rate of Change In Amount
1.	Salary--head of maintenance	21,208 C19-11	22,528 (18)	0500 (25)

I. OTHER ASSETS AND RECEIPTS

	Description	Cost	Market Value	Income	Cash Flow	Rate of Change In Amount
1.	Mexican government obligations	10,000 C20-11	10,000 (18)	1,000 (25)	1,000 (32)	 (39)
2.		 (46)	 (53)	 (60)	 (67)	 (74)
3.		 C21-11	 (18)	 (25)	 (32)	 (39)
4.		 (46)	 (53)	 (60)	 (67)	 (74)

Client Code FDY 002

J. MORTGAGES ON REALTY

	Description	Out-standing Balance	Amount of Annual Payment	Interest Rate
1.	Two bedroom rental home	7,300	720	0525
		C22-11	(18)	(25)
2.	Duplexes	10,400	936	0575
		(32)	(39)	(46)
3.	Rental home--east	5,920	624	0475
		C23-11	(18)	(25)
4.				
		(32)	(39)	(46)
5.				
		C24-11	(18)	(25)
6.				
		(32)	(39)	(46)
7.				
		C25-11	(18)	(25)
8.				
		(32)	(39)	(46)

K. OTHER LIABILITIES AND DISBURSEMENTS

	Description	Outstanding Balance	Amount of Annual Payment	Number of Payments	Interest Rate
1.	Children's gifts in lieu of insurance	C26-11	300 (18)	4 (25)	(32)
2.	Children's gifts in lieu of insurance	(39)	300 (46)	3 (53)	(60)
3.		C27-11	(18)	(25)	(32)
4.		(39)	(46)	(53)	(60)

L. TAX CREDITS

	Source	Amount	Rate of Change
1.		C28-11	(18)
2.		(25)	(32)
3.		(39)	(46)
4.		(53)	(60)

M. RATE OF RETURN REQUIRED ON REINVESTED CASH FLOW 0800 C29-11

N. STATE TAX AS A PERCENT OF FEDERAL TAX 1200 C30-11

IV. FINANCIAL GOALS

A. Annual net income and cash flow desired at end of planning horizon:

Source	Income	Cash Flow
1. Conduct of business or profession	C31-11	(18)
2. Generated by investments	32,000 (25)	35,000 (32)

B. Net worth desired at end of planning horizon:

Source	Cost	Market Value
1. Conduct of business or profession	C32-11	(18)
2. Generated by investments	130,000 (25)	170,000 (32)

Reports on Revised Financial Status. Report Number 1 has been prepared based on the assumption that FDY 002 has carried through his plans for investing in three rental properties. The immediate effect of carrying out this plan will be a decrease of about $3,000 in the cost of his investments. This is due to giving the children the money received for surrendering their insurance policies and to using some cash for a nonrecurring personal expenditure. Income is expected to decrease due to the deduction of interest expense arising from the mortgages on rental property. Cash flow, however, should increase by about $2,000 as a result of the receipt of rental income and the lack of payments on insurance policies.

At the end of the four-year planning horizon, it is projected that he will have more than made up the initial $3,000 difference in investment cost, and will, in fact, have increased his net worth over that projected in the FDY 001 reports. Fair market value is expected to increase substantially, $14,000, even though projected rates of increase in value are a relatively modest six percent for the rental properties. Taxable income in the fourth year is shown to be down slightly, but after tax cash flow is anticipated to be almost $4,000 greater under the revised data.

Comparison of Revised Values and Goals. If the proposed changes are carried out, FDY 002 will continue to reflect unfavorable variances in three measurement areas, but they will not be as large as expected under the present situation. Cost of net worth is expected to have a slight positive variance, fair market value is projected to be much improved with a $14,000 increase. Taxable income will be less

than before due to the partial sheltering of rental income by depreciation deductions. Annual cash flow should be substantially improved if the proposed changes are made.

The proposed changes appear to be desirable from several viewpoints. First, they are expected to improve FDY 002's financial situation in the manner discussed above. Secondly, they should continue to provide supplemental income after retirement. Lastly, rental property seems to fulfill FDY 002's desire for involvement in useful employment after retirement, and this is an area in which he has some expertise and interest.

CLIENT CODE: FDY002 DATE: 04/11/75

REPORT NUMBER 1

PRESENT FINANCIAL STATUS

ITEM	COST	ESTIMATED MARKET VALUE	INCOME	CASH FLOW
ASSETS:				
CASH	6,300	6,300	312	
NOTES AND RECEIVABLES				
STOCKS	26,547	18,673	546	546
BONDS				
LIFE INSURANCE	284	284		<17>
REAL PROPERTY	48,600	49,600	1,155	3,500
EMPLOYEE BENEFITS	23,157	37,560		<2,748>
BUSINESS OR PROFESSION				
SALARY			21,208	22,528
OTHER ASSETS AND RECEIPTS	10,000	10,000	1,000	1,000
TOTAL ASSETS	114,888	122,417	24,221	24,809
LIABILITIES:				
MORTAGES ON REAL PROPERTY	23,620	23,620	1,262	2,280
OTHER LIABILITIES AND DISBURSMENTS				600
TOTAL LIABILITIES	<23,620>	<23,620>	<1,262>	<2,880>
NET WORTH, INCOME, AND CASH FLOW	91,268	98,797	22,958	21,929

CLIENT CODE: FDY002

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 1

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	6,612	6,612	312	
NOTES AND RECEIVABLES				
STOCKS	26,547	19,611	546	546
BONDS				
LIFE INSURANCE	291	291		<17>
REAL PROPERTY	48,600	53,206	1,155	3,500
EMPLOYEE BENEFITS	25,905	41,379		<2,748>
BUSINESS OR PROFESSION				
SALARY			22,268	23,654
OTHER ASSETS AND RECEIPTS	10,000	10,000	1,000	1,000
INVESTMENT OF CASH FLOW				
TOTAL ASSETS	117,955	131,099	25,281	25,935
LIABILITIES:				
MORTAGES ON REAL PROPERTY	22,602	22,602	1,262	2,280
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<22,602>	<22,602>	<1,262>	<2,280>
NET WORTH, INCOME, AND CASH FLOW	95,353	108,497	24,018	23,655
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<4,250>	
TAXABLE INCOME			19,768	
FEDERAL AND STATE INCOME TAXES				<4,832>
PERSONAL LIVING EXPENSES				<11,340>
AFTER TAX CASH FLOW				7,483

CLIENT CODE: FDY002

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 2

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	6,942	6,942	330	
NOTES AND RECEIVABLES				
STOCKS	26,547	20,596	546	546
BONDS				
LIFE INSURANCE	298	298		<17>
REAL PROPERTY	48,600	57,103	1,155	3,500
EMPLOYEE BENEFITS	28,653	45,628		<2,748>
BUSINESS OR PROFESSION				
SALARY			23,381	24,836
OTHER ASSETS AND RECEIPTS	10,000	10,000	1,000	1,000
INVESTMENT OF CASH FLOW	7,483	7,483	598	598
TOTAL ASSETS	128,523	148,050	27,010	27,715
LIABILITIES:				
MORTAGES ON REAL PROPERTY	21,529	21,529	1,209	2,280
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<21,529>	<21,529>	<1,209>	<2,280>
NET WORTH, INCOME, AND CASH FLOW	106,994	126,521	25,801	25,435
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<4,250>	
TAXABLE INCOME			21,551	
FEDERAL AND STATE INCOME TAXES				<5,461>
PERSONAL LIVING EXPENSES				<12,247>
AFTER TAX CASH FLOW				7,727

CLIENT CODE: FDY002

DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF YEAR 3

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	7,292	7,292	350	
NOTES AND RECEIVABLES				
STOCKS	26,547	21,630	546	546
BONDS				
LIFE INSURANCE	305	305		<17>
REAL PROPERTY	48,600	61,317	1,155	3,500
EMPLOYEE BENEFITS	31,401	50,359		<2,748>
BUSINESS OR PROFESSION				
SALARY			24,550	26,077
OTHER ASSETS AND RECEIPTS	10,000	10,000	1,000	1,000
INVESTMENT OF CASH FLOW	15,210	15,210	1,216	1,216
TOTAL ASSETS	139,355	166,113	28,817	29,574
LIABILITIES:				
MORTAGES ON REAL PROPERTY	20,399	20,399	1,152	2,280
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<20,399>	<20,399>	<1,152>	<2,280>
NET WORTH, INCOME, AND CASH FLOW	118,956	145,714	27,664	27,294
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<4,250>	
TAXABLE INCOME			23,414	
FEDERAL AND STATE INCOME TAXES				<6,128>
PERSONAL LIVING EXPENSES				<13,226>
AFTER TAX CASH FLOW				7,940

CLIENT CODE: FDY002 DATE: 04/11/75

REPORT NUMBER 2
PROJECTED FINANCIAL STATUS--
END OF PLANNING HORIZION

ITEM	PROJECTED COST	PROJECTED MARKET VALUE	PROJECTED INCOME	PROJECTED CASH FLOW
ASSETS:				
CASH	7,663	7,663	371	
NOTES AND RECEIVABLES				
STOCKS	26,547	22,716	546	546
BONDS				
LIFE INSURANCE	312	312		<17>
REAL PROPERTY	48,600	65,880	1,155	3,500
EMPLOYEE BENEFITS	34,149	55,627		<2,748>
BUSINESS OR PROFESSION				
SALARY			25,777	27,380
OTHER ASSETS AND RECEIPTS	10,000	10,000	1,000	1,000
INVESTMENT OF CASH FLOW	23,150	23,150	1,852	1,852
TOTAL ASSETS	150,421	185,348	30,701	31,513
LIABILITIES:				
MORTAGES ON REAL PROPERTY	19,211	19,211	1,093	2,280
OTHER LIABILITIES AND DISBURSMENTS				
TOTAL LIABILITIES	<19,211>	<19,211>	<1,093>	<2,280>
NET WORTH, INCOME, AND CASH FLOW	131,210	166,137	29,608	29,233
ITEMIZED DEDUCTIONS AND EXEMPTIONS			<4,250>	
TAXABLE INCOME			25,358	
FEDERAL AND STATE INCOME TAXES				<6,885>
PERSONAL LIVING EXPENSES				<14,284>
AFTER TAX CASH FLOW				8,064

CLIENT CODE: FDY002 DATE: 04/11/75

REPORT NUMBER 3

COMPARISON OF PROJECTED FINANCIAL STATUS
WITH DESIRED FINANCIAL GOALS

ITEM	COST	MARKET VALUE	INCOME	CASH FLOW
DESIRED FINANCIAL GOALS AT END OF PLANNING HORIZON:				
SOURCE: BUSINESS OR PROFESSION				
INVESTMENTS	130,000	170,000	32,000	35,000
TOTAL	130,000	170,000	32,000	35,000
PROJECTED FINANCIAL STATUS AT END OF PLANNING HORIZON:				
SOURCE: BUSINESS OR PROFESSION				
INVESTMENTS	131,210	166,137	29,608	29,233
TOTAL	131,210	166,137	29,608	29,233
DIFFERENCE BETWEEN GOALS AND PROJECTED AMOUNTS	1,210	<3,863>	<2,392>	<5,767>

Summary

In this chapter, testing procedures applicable to the BUILD program have been set forth. Individuals whose data is used for testing were selected using several criteria. First, a rather wide range of ages was required. The purpose of this requirement was two-fold: (1) to determine if estate owners of different ages had different requirements or circumstances that would make BUILD more or less suitable for their purposes, and (2) to determine the need for or desirability of other programs to produce data for input or to utilize as input data created by this program. It appears that the greatest age-related differences are due to personal requirements that direct the course of future planning. Younger estate owners seem to be interested primarily in simply increasing their estates, and older owners tend to be more concerned with the types of assets owned and their place in the retirement picture or their suitability for certain beneficiaries of their estate.

A second desired characteristic was a wide range of wealth. The purpose of this requirement was to determine if the size of net worth is related to the usefulness of the program and, if so, in what manner. Degree of wealth did appear to influence the structure of the program but mainly through the variety of alternatives open to the owner. In general, the greater his wealth, the greater were the estate owner's opportunities for change. The mere size of the numbers, however, presented no special programming problems.

Thirdly, a variety of investment and business interests was considered to be a desirable attribute in order that flexibility and

utility of the program under diverse conditions might be ascertained. Accordingly, participants were chosen who possessed financial interests in a substantial array of activities and a broad assortment of businesses or professions. As a result of this testing, it was found that BUILD is sufficiently flexible to accomodate a variety of investment preferences. One significant limitation that should be noted is that the program is not suitable for an individual with an unstable investment pattern, i.e., one that frequently changes specific investments or their amounts. For such a person, projections would tend to be tenuous at best.

Lastly, participants were chosen who had differing personal circumstances and requirements. One is married with young children, another is married with nearly grown children, one is divorced and has no one financially dependent upon him, the fourth is married with adult children but with responsibility for an elderly relative. Some persons preferred one type of investment while others chose or needed another. Diverse personal situations did not appear to affect the mechanical requirements of the quantitative portion of the program, but did affect the direction of financial planning and tended to limit the alternatives that would otherwise be available to the estate owner.

Input data and reports relating to present financial status, projected status if current policies are maintained, and a comparison of projected status with the owner's financial goals were presented for the four selected participants. When significant divergences appear between projected data and predetermined goals, some type of

corrective action is presumed. The specific option selected will depend upon the financial and personal needs of the owner and his dependents.

Two of the participants, HAN 001 and FDY 001, were used to illustrate the use of BUILD in testing various types of corrective actions. HAN 001 is considering investing in a business in which he has long been interested. He wishes to determine the probable impact of such a venture on his longer range financial situation. His wife plans to begin hiring employees eligible for the Work Incentive Program and thus claim a tax credit for a portion of their wages. FDY 001 wishes to test the financial consequences of converting certain present assets into rental property. The BUILD program can be used to quickly calculate the effects over the planning horizon of both HAN 002 and FDY 002's proposed actions. BUILD can provide some insight into the probable consequences, but it cannot prescribe remedial courses of action.

CHAPTER V

SUMMARY AND CONCLUSION

The purpose of this study has been to develop a computer model that will simulate the operation of financial activities of individuals. The model was then used as an aid in developing the lifetime wealth, comfort, and security of the test participants. By incorporating in the model factors relating to the quantitative aspects of the estate, projections have been made of the expected future status of each test participant in terms of investment cost, estimated market value, income, and cash flow produced by each investment or business component. For decision-making purposes, evaluation of reports has been made with regard to the estate owner's total environment, including personal preferences and needs.

Accumulation of Information

During the course of this study, it was necessary to select from among the many possible variables only those most closely associated with the welfare of individual estate owners. Once the variables were selected, a means of organizing the information to be used by the computer program was devised.

Selection of Variables

The variables chosen for use in the BUILD program are of two types: quantitative and qualitative. The qualitative variables were not explicitly incorporated into the program, but were considered in evaluating program reports. Selected quantitative information was incorporated into the model and functionally related to other data to simulate operation of the owner's estate.

Personal Requirements. By their nature, the personal needs and preferences of test participants did not lend themselves to quantification. They did, however, guide the direction of future plans and limit an otherwise larger range of options. During this study, variables of this kind were frequently found to be closely associated with family obligations or individual preferences, but they may arise from business considerations or the requirements of business associates. Whatever their source, due consideration was given to these factors in evaluating available options and interpreting present circumstances.

Business and Investment Data. The quantitative variables selected related primarily to business interests and investments. Data was gathered for cost and estimated fair market value of each undertaking and the annual income and cash generated by each. When this information had been gathered, the owner and planner determined the current use of resources, and formed a foundation from which alternatives were explored and projections made of estimated status at a given future time. The specific categories of assets and liabilities provided for were: cash, notes and receivables, shares

of stock, bonds, life insurance, real estate, employee benefits, salary, other assets and receipts, mortgages on realty, and other liabilities and disbursements.

In order to make the necessary projections, data and programmed instructions were required that would enable the program to make such calculations. Accordingly, data was gathered for: interest rates on assets and liabilities, annual payments received or paid on notes or obligations, annual income from certain investments and their estimated rates of change in value, and the annual cash generated or required by assets and liabilities. In addition, information was gathered with regard to tax credits arising from businesses or investments, estimated state income tax as a percentage of the federal tax, and the estate owner's assumed rate of return on investments of excess cash.

Personal Financial Data. Although the majority of the quantitative information required related to business interests and investments, some personal data was necessary for the program. To calculate federal and state taxes each year, the estate owner's itemized deductions and exemptions and the rate of estimated change in this amount was acquired from each participant. In addition, information was gathered on each participant's personal living expenses and the estimated rate at which these would change over time. This information was used to calculate the annual after tax cash flow. The time horizon used by the program was also indicated by each participant. This controlled the number of years for which the program would project and calculate information.

Financial Goals. A final type of quantitative data was required with regard to business and investment financial goals the estate owner wished to attain by the close of the planning period. The goals were stated in terms of desired cost, market value, income, and cash flow arising from each category.

Input Form

Following the selection of factors to be included, it was necessary to devise an appropriate means by which they could be accumulated and organized. A form was developed which allowed the estate owner and the planner to set forth the types of data required and to make comments about any personal matter that might be of consequence in interpreting the program output or directing the future course of investment planning.

Nonquantitative Information. The first two pages of the input form were designed to accumulate general information of a nonquantitative nature. It contained comments and facts pertaining to dependents, their ages and special requirements, background information on the owner's business and business associates to the extent such information was appropriate, and the owner's attitude toward changes in these activities. It was noted which forms and documents had been acquired and which were still needed. None of the information contained in the first section of the input form was utilized in the mechanical operation of the program. It was an essential part of the overall program since the type of data contained there was occasionally controlling when decisions were made regarding future actions.

Financial Data. The second section of the input form contained quantitative financial data that became a functional part of the BUILD program. Business and investment data relating to cost, estimated fair market value, income, and cash flow were gathered for each participant during the testing and development procedures. In addition to providing for information relating to present financial interests, the form allowed for information necessary for the projection of future values, outstanding balances, taxable income, and cash sources available for future investments.

The third section of the form contained the financial goals of the estate owners. This information was used by the program in producing comparisons of projected financial data with the goals set by each owner. Significant variances gave indications of the attainability of the predetermined goals. Corrective action was indicated in several instances.

Preparation of Reports

Program instructions directed the preparation of three types of computer-generated reports. Report Number 1 presented the estate owner's current financial position. Report Number 2 contained a series of pro forma reports prepared for each year in the planning period. The final report compared projected data at the end of the planning period with the owner's predetermined goals as stated in the input form.

Report Number 1

In the first report, assets were listed by group totals and

summed, and liabilities were also listed and summed. The difference between total assets and total liabilities was reported as owner net worth in columns one and two. Column one contained net worth in terms of historical costs, while column two presented estimated fair market values. The income and sources of cash derived from these groups was listed in columns three and four, respectively.

Report Number 2

BUILD instructions directed the preparation of a pro forma report for each year of the planning span based on data contained in the input form and computer-generated information. Assets were reported at their historical costs or computed carrying values, new balances for liabilities were computed each year in accordance with the information gathered for each obligation, and taxable income and cash flow were calculated. Each year, the amount available for investment at the required rate of return was determined by subtacting federal and state income taxes from the cash produced by investments.

Report Number 3

The final report compared the pro forma data reported in the final year of the Report Number 2 series with the goals set by the estate owner. Unfavorable variances from the goals indicated that corrective action was necessary if the owner expected to realize his ambitions at the end of the planning period. Divergences did not indicate specific courses of action which would improve the expected problem, but they did aid the planner in discerning potentially troublesome developments. BUILD also provided a tool whereby the

intuition and judgment of the estate owner and planner was sharpened and alternatives were tested.

Testing Procedures

Testing procedures applied to the BUILD program were designed to insure mechanical accuracy of the computer-generated figures and the overall utility of the program. Mechanical precision was carefully verified throughout the development of the program by manual calculation of data and comparison with computer-generated data. The serviceableness and flexibility of the program was designed and tested through the careful selection of participants whose data reflected certain desired characteristics.

Selection of Participants

During the testing of the model, four individuals were chosen who exhibited considerable diversity in both personal characteristics and financial activities. Ages ranged from 37 to 65, net worths varied from $90,000 to $2,100,000, diverse business and professional interests were represented, and a variety of investments were encountered. Personal conditions and circumstances exhibited a degree of variety at least equal to that found in the quantitative characteristics. One participant was single, the others were married, and all differed considerably in their financial responsibilities to dependents or others.

Age differences were found to have no effect on the usefulness of the program to various estate owners. However, this factor did affect the use made of the program output. Older estate owners

tended to be more concerned with the projected values of certain assets and their impact on estate and gift taxes and the equalization of values among estate beneficiaries. Younger estate owners were interested in testing the effects of investment options and obtaining the best use of their resources. Their emphasis was directed toward building a larger estate rather than methods of dispostion.

Size of the owner's net worth presented no particular difficulties with regard to the design of the program. This factor did influence the variety of alternatives available to the owner, and thus the program's ability to manage diverse situations. The size of the numbers alone, however, were not of significance in program usefulness or flexibility.

Of greater importance in designing and testing the model, was the diversity of professional, business, and investment undertakings. Asset and liability categories were provided on the input form and instructions designed to accomodate a wide variety of circumstances. Flexibility was obtained to a rather large degree, but limitations must nevertheless be recognized. The most severe limitation is that BUILD cannot realistically accomodate the activities of an investor who buys and sells frequently, or radically changes his investment pattern. Projections based on rapidly fluctuating information would tend to lack reliability and are unsuitable for this study.

The variety of personal requirements, desires, and circumstances did not affect the operation of the program since it dealt only with quantitative data. Nevertheless, these factors did have

considerable influence on the direction of future planning and tended to limit the options available to estate owners.

Modifications of Financial Arrangements

In order to test and demonstrate the model's use as a means of exploring various investment options, the input data for two participants was modified. Both HAN 001 and FDY 001 wished to consider changes in their financial arrangements, and the program was used for this purpose. Only that data that would change as a result of financial rearrangements was modified. The effects of these changes over the planning period were observed by comparing the expected values at the end of the planning period with the goals originally determined by the estate owner. Variances between expected values and goals determined with the original input and those resulting from the revised data revealed the change expected as a result of the revised data. Although an estate owner might decide against adoption of the plan under consideration, as a minimum he would have financial knowledge upon which to base his decisions. The rapidity with which alternatives can be explored made it possible to obtain timely information to add insight to the planning process.

Conclusion

During this study, several facts were observed. First, computer-assisted tax and financial planning is not only feasible, but also necessary if projections of future costs, values, incomes, and cash flows are to be made. Manual calculations are often prohibitively time-consuming, particularly if several options are being

considered.

Secondly, there is a need for additional computer-assisted planning models. This study typifies the modular approach to such programs in contrast to the conventional unitary design which can only be used alone rather than in conjunction with supplementary programs. However, there is a need for sub-programs which will provide input for specific business and investment problems or which will utilize the output produced by BUILD in the solution of other problems.

A few programs exist which, if modified to some extent, would fill the requirements for a modular approach. One such program aids doctors in determining whether to lease or buy certain equipment used in their practices. Information developed by this program could become input data to BUILD, and the impact of leasing or buying could be explored within the framework of the individual's overall financial activites. Another program exists by which the optimum depreciation method can be computer-selected for certain business assets. Sub-programs such as these and others yet to be developed can relieve the planner of the tedious manual calculations that have often rendered financial planning for individuals impractical.

Additional programs are needed to utilize the information provided by this simulation model in solving other problems. For example, programs which are designed to explore gift and estate tax alternatives could use the information resulting from the BUILD calculations to determine the most satisfactory methods of transmitting the estate to designated beneficiaries. Also, given a projected future size and composition of an estate, programs could be developed

to aid the executor in selecting satisfactory valuations and making the many elections available to and required of an estate administrator.

A final conclusion resulting from this study is that in tax and financial planning for individuals, a team approach may occasionally be desirable. Expertise may be needed with regard to appraisal values, the development of investment alternatives, or the drafting of legal documents. That the accountant should assume a dominant role in initiating and continuing estate planning activities appears to be both appropriate and practical. The accountant meets with the estate owner on a recurring basis. As a minimum, they will meet annually for the preparation of the yearly tax report and perhaps more frequently in dealing with day-to-day business problems. As a result of his continuing contact with the client, the accountant will probably already have much of the information necessary for the analysis of the estate and the development of appropriate alternatives. He may have also acquired an understanding of the owner's responsibilities and desires and sharpened his insight into the client's economic activities and opportunities as well.

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