

## Staff Paper Series

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### FINANCING MINNESOTA'S RECREATION FIRMS

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# FINANCING MINNESOTA'S RECREATION FIRMS

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## I. Purpose and Summary

This paper: (1) Outlines principles and procedures pertinent to the financing of private recreational businesses in Minnesota. (2) Reports findings from study of requests to lending agencies for funds to be used in recreational enterprises.

Information supplied can be helpful both to financial firms, private and public, and to managers who may be seeking capital. Data and discussion contained herein is limited in detail by design. Each operation will require more comprehensive information, which is specific to its own nature, in order to treat recreational capital programs adequately.

Rapidly expanding capital demand is a characteristic of modern industry. Its impetus in firms supplying recreational services, derives from pressures to expand in scale and to upgrade the quality of services and facilities. In addition, since many of the industry firms are organized as individual proprietorships, there is an on-going borrowed capital requirement to effect ownership transfers.

In the last section data are compiled, reporting the financing sought by nine different classes of recreational firms. The total number of firms involved is 68.

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The classes of firms are:

Bowling Facilities  
Campgrounds  
Dude Ranches  
Golfing Facilities  
Marinas  
Resorts  
Winter Sports  
Youth Camps  
A miscellaneous category includes seven operations  
all of which are different.

The 68 borrowing investigations reported include two that are for \$500,000 or more, and an additional 10 that are for \$100,000 or more. The smallest amount sought was \$3,000; the largest \$650,000.

Industry initiative in originating these and other requests, and in contacts with Minnesota leaders has produced a growing awareness of the capital need. The potential for recreation industry expansion is not confined to a limited part of Minnesota; rather it exists throughout the state. This report constitutes only one part of the information and action needed toward the end of an adequate system of capital use for the recreational industry in Minnesota.

## II. The Minnesota Recreation Industry; Its Evolving Pattern

Minnesota's natural recreational assets are well recognized. Its over 13,000 lakes, 25,000 miles of streams and 17 million acres of forests provide an outstanding setting for many types of outdoor recreational activities. In addition, public investment in the form of facilities such as roads, parks, waysides and access areas has served to complement these features.

But, in order to constitute an industry in economic terms there must be a marketable package. In Minnesota the bulk of this marketing is done by private firms. A

total of well over 25,000 firms merchandise recreational services, sporting goods, entertainment, travel services and food and lodging away from home. They are involved in the \$765,000,000 of sales to tourists estimated by the Department of Economic Development for 1969. A still larger constellation of firms sells the estimated total of \$2 billion worth of goods and services consumed annually in all recreational and leisure time pursuits in Minnesota.

One of the most readily identified classes of firms selling recreational services in Minnesota is resorts. There are approximately 4,000 resorts of all types and sizes in the state. Since their beginnings here, in the latter part of the 19th century, there have been drastic changes. Basic alterations in location and type follow developments in transportation but are also impelled by the social and economic setting. Early Minnesota resorts were dependent upon railroad and steamboat transportation. Street-cars were a factor in a few cases near large cities. The automobile era brought mass resorting and has witnessed three distinct "generations" in resorting: The primitive fishing camp; upgraded fishing camps; and the emergence of a third generation consisting of larger, more complex facilities, often with fishing as only one activity among many that are available.

All of the above changes in resorting have demanded capital, and at an increasing rate. Third-generation operations, particularly, require both fixed and operating capital on a large scale and at a growing rate. New transportation developments continue to alter the pattern. Currently, freeway construction and air travel are important factors to which the industry must adapt.

Despite their visibility, resorts alone are estimated to account for less than

20 percent of the dollar volume of tourism and a considerably smaller proportion of the total Minnesota recreation expenditures. Instead of a single activity system, Minnesota's vacation-recreation-leisure system presents an intricate pattern. Those parts of the state that are richly endowed with the traditional vacation resources of water, forests and scenery are becoming recreation complexes. In these areas a wide variety of recreation services support the resorts; these include riding stables, marinas, supper clubs, bait shops and golf facilities. They are in addition to firms that add to the complex by supplying food, building materials and equipment for those selling recreational services directly.

Change in the vacation-travel pattern to a greater emphasis upon short-stay sight-seeing requires still other facilities. Firms adapted to this pattern include motels, restaurants and various kinds of interpretive services.

A large share of the time and money expenditure on recreation takes place close to home -- on evenings, weekends and in other periods not devoted to gainful employment. Not only are the firms supplying these needs in population centers considered recreational businesses, but increasingly vacationers demand in a resorting-vacationing area all the recreational activities available to them at home! The mix proportions, however, are quite different. Most bowling, golfing and attendance at cultural activities is done near the population centers. But, to illustrate the complexity of demand: Many resorting communities now find ready acceptance of well-conceived musical and theatrical performances.

Minnesota's vast resources of water and sparsely inhabited area are well suited to the traditional outdoor sports of hunting and fishing. These sports are exemplified

by big game hunters numbering over 320,000 and by a reported fishing participation of nearly 50 percent by Minnesota citizens. This latter is the highest of any state. Availability of these outdoor sports on an unlimited basis to all is no longer possible. For this reason there are now opportunities for private operators, but such enterprises also require capital. In 1968, the Minnesota Association of Game Breeders and Shooting Reserves was formed. There were in 1969, 12 privately licensed shooting preserves and approximately 500 game farms. Fish-out ponds are another related type of operation that may often be combined with other recreation services. While put-and-take fish facilities do not require a license, it is estimated that there are at least 25 in Minnesota.

As population density proceeds and as life styles and land use patterns are altered, the recreational activity emphasis also shifts. Canoeing participation is growing rapidly, requiring boat dealers and outfitters. One of the fastest growing manifestations of the urge to get outdoors is that expressed in camping. Overall in the United States, camping activity increased 30 percent from 1960 to 1965. In Minnesota, over 300 privately managed camping areas are available. The sport is characterized by a rapid sophistication in equipment and a corresponding upgrading in facilities offered by operators of campgrounds. As with game farms an association - Minnesota Association of Campground Owners (MACO) - has been organized. Many now have direct hookups for trailer plumbing and swimming areas -- pools and beaches -- are increasingly included in development planning.

Expansion of participation in winter sports is yet another dynamic part of the kaleidoscope of Minnesota recreation to which the industry adapts continuously and



for which capital demands are significant. Some operations serving winter recreation are single purpose such as "commuter" ski hills in the Twin City vicinity. Others consist of additions to already existing recreation businesses. Examples: A campground rents part of its land area for snowmobile operators (In 1969 there were an estimated 130,000 snowmobiles in Minnesota - nearly all purchased within the past 5 years); a resort may add ice fishing houses that are to be rented to users for that purpose (approximately 50,000 ice fishing houses are licensed in Minnesota); a summer facility may winterize in order to extend the season into fall and winter.

While the bulk of Minnesota citizens think of going north for vacations, firms serving the recreation industry are actually distributed throughout the state. As already noted, in part, these firms cluster: (1) about population concentrations and (2) about resources having special adaptation to recreational use. Every community participates in the "leisure revolution" to one degree or another. In addition, those features that may be defined as recreational resources are undergoing continuous alteration. This change occurs as the demand intensifies and broadens, as interpretive interest grows, and as the relative costs of building structures, dams and other site manipulation diminishes. Thus, substantial potential for recreation industry development exists in all parts of Minnesota.

### III. Purposes for Borrowing Capital

The immediately preceding section's discussion, in describing the industry and certain of its features, has outlined major factors bearing upon the demand for capital by recreation firms. Details of purposes for which actual loans were sought are given in the final section of this report.

The accompanying figure summarizes the proposed uses for borrowed capital by firms dealing with the agencies contacted in study conducted for preparation of this report. The reader is cautioned that this is not a statistically random sample, although it is representative of those agencies which were included in the study. No data from private lending agencies are included. It is thought that requests to private lending institutions will average decidedly smaller than the cases reported here.









Expansion in size of an existing operation accounted for about one-third of the proposed uses. "Upgrading" of quality is second in importance; this use combines the two factors "purchase of equipment and facilities" and "general upgrading" which add to 22 percent. It will be noted that there is a close relationship of these latter to expansion in size. Many kinds of upgrading make possible extension of season and appeal to added markets and may, in effect, increase business capacity, as well as give more intensive use of present capacity.

Nine percent planned new facilities on sites where none had previously existed.

A crude measure of suitability of the capital generally available is noted in the 13 percent seeking to refinance. Since managers sometimes sought to refinance in combination with other steps such as upgrading or expansion, this use of capital also indicates change in plans.

The five percent seeking capital to purchase an existing business is surprisingly low. Thirty-six of the 57 firms for which organization information was available were individual proprietorships (16 were corporations; 5 were partnerships). The fact that individual proprietorships do not have equity capital available to them and the observed turnover in recreation business ownership suggest that financing means other than the agencies polled in this investigation are used by most operators when purchasing an existing business.

Proposed Uses of Borrowed Capital  
Minnesota Recreation Firms 1968-1969

Use	Percent of Total *			
Expand size				34%
Refinance				13%
Purchase equip. & facilities				13%
General upgrading				9%
Build new				9%
Buy existing business				5%
Working capital				3%
Disaster loan				3%

\* Total of 80 proposed uses, some reported more than one use.

#### IV. Financing Sources and Procedures

Beginning procedures for individuals and firms needing financing for recreation enterprises are suggested in this section. Emphasis is placed upon first steps in the financing procedure, and upon means of obtaining information that can improve the chances for success.

Among the most readily available sources of funds are the following:

- A. Local Banks. It is recommended that discussion with a local banker be among the first steps taken in securing recreation business financing. A local banker is familiar with the financial patterns of community firms, and in addition he can assist with obtaining finances even in situations where the proposed loan cannot be handled by his bank.
- B. Small Business Administration. This agency's primary purpose is to assist small firms with the financing of intermediate term loans. Time periods of loans are ordinarily 1 to 10 years, and in the case of buildings may be for periods of 15 to 25 years. The recommended approach is through a bank, since SBA can only lend in cases where other money is not available. On the other hand, any businessman may contact SBA officials directly. SBA deals in two kinds of loans:
  - (1) Guaranteed loans - are obtained through conventional banking institutions but SBA may guarantee up to 90 percent of the loan
  - (2) Direct loans - are made from funds appropriated for that purpose. Direct loans are limited in availability. However, where obtainable, the interest rates are advantageous.

- C. Farmer's Home Administration. This agency ordinarily loans only to operating farmers but will lend to such individuals for supplementary recreational enterprises. In common with SBA, it also requires that commercial sources of credit not be available to the borrower. Currently, limits are \$60,000 on real estate and \$35,000 on chattel loans. For those qualifying, interest rates are advantageous and capital loans may be made for maturity periods up to 40 years. One loan class, "Group Association Loans", is available to non-profit organizations and may be made for recreational developments that will shift the land entirely into a non-farm use.
- D. Individuals. Capital borrowed from an individual on a note poses a security problem due to its dependence upon a specific individual. There are, however, many situations in which satisfactory financing by individuals may be arranged. In addition to notes, these may include the formation of partnerships and corporations, but all should be based upon adequate legal advice, and "sound business analysis".

Operators who seek added capital also often need information both on procedures and on technical matters. In addition to the agencies named above, the operator may wish to contact the Minnesota Department of Economic Development, or the Agricultural Extension Service. Specialized information is also available through many other agencies of local, State and Federal governments.

Opportunities for success in a loan application can be improved substantially by adequate preparation. All lending institutions require information for use in evaluating

the loan application. Preparation of this information will contribute insights to the operator as well. Among the items that should be systematically prepared are:

- (1) A feasibility analysis including physical factors of construction, utilities, roads, etc.; a market analysis and other relevant factors.
- (2) Projected income and expense for the proposed project; this projection should indicate the probable rate at which borrowed capital can be repaid.
- (3) In the case of an existing business, a summary of income and expense from recent years should be available along with a balance sheet and/or net worth statement.
- (4) A statement of managerial experience.

#### V. Some Fundamentals of the Role of Capital in Recreational Firm Management

This section reviews the basic function of capital and its application to firms in the recreation industry. Readers seeking further detail are referred to basic economic texts; the treatment here is, of necessity, brief.

Capital in fundamental terms is stored productivity that can be used in further production. It is one of the three basic elements of production - the other two being land and labor. In its most basic sense "land" can only be defined as space. To many recreational firms, however, land has other attributes which include location with respect to markets, and physical features such as water, forests and terrain. "Labor" includes the human input, ranging from physical handling to the application of complex skills.

In our economic system, the capital role is escalating at a rapid rate. One

partial measure is the value of current assets of U.S. corporations - up better than 80 percent in the 1955 to 1965 period, from \$224 billion to \$406 billion. A partial measure of the increase in borrowed capital is given by the growth of commercial bank loans from \$69 billion in 1954 to \$167 billion in 1964.

Capital in real terms is generated by devoting effort to the production of items that are not used for current consumption. Most such items are used to increase productive capacity (supply inventories are, to an extent, an exception). They include: equipment, transportation means (including roads) and buildings. When work is performed upon land to make it more usable, as in the development of a beach, this in a strict sense is capital formation. These latter are the means of "storing" productivity, which is not immediately consumed, in forms that will improve productive efficiency.

Since capital improves the efficiency of other factors of production -- land and labor--it is to the advantage of recreation firms to increase the capital controlled by them at as fast a rate as possible. Capital can be acquired in three ways: (1) by reducing consumption, (2) by devoting effort to the production of equipment, buildings, etc., and (3) through borrowing.

Borrowing permits a firm to acquire capital without first "saving" it through deferred consumption or diverted production. Limits to borrowing are imposed in a complex manner, involving capability of the business manager and the assessment of future risks on the part of the manager and on the part of the lender. Future risk assessment is necessary since borrowing assumes that future productivity will be enhanced sufficiently to pay the lender for the use of his capital (interest) and repay

the borrowed sum. It involves a forecast of the performance of the manager, the physical development and operation of a facility and a market evaluation.

#### VI. Financing Sought by Recreation Firms

In this section financing sought or discussed by 68 firms offering recreational services are reported. The dollar value ranged from \$3,000 to \$650,000. The user is well advised to consider items that are and are not considered.

- (1) The data is an actual list compiled from activities of real firms. The fact that this list is drawn from contacts with actual firms is regarded as its most useful feature. While it was necessary to purposely limit information to avoid disclosure of identities, the following general information, when available, is given:
  - the type of business
  - form of organization (corporation, partnership, single proprietorship)
  - the dollar amount financing sought
  - the purpose or purposes proposed for the borrowed capital
- (2) The list was compiled from records of certain public agencies only. Included were lending agencies, development agencies and the University of Minnesota, Agricultural Extension Service. Records of private lending agencies were not used.
- (3) The list is not necessarily random. No attempt was made to assess the actual total borrowed capital needs of all Minnesota recreation firms, and for all classes of firms. Thus, the compilation may well distort the relative importance of the different kinds and sizes of firms seeking added capital.



However, the scope, variety and nature of capital need is thought to be reasonably well portrayed.

- (4) Nearly all cases shown are drawn from the 12-month period September 1968 to August 1969. There are a few that are drawn from experiences of a year or two earlier.
- (5) It was possible to secure the financing as requested, in some cases. In others, changes were made, but not all were downward revisions - one of the examples reported here ultimately found financial resources at a level several times that shown.
- (6) The list does not indicate what the level of capital requirements should be for these firms. Neither does it attempt to assess the overall capital requirements for the recreation industry of Minnesota.

### BOWLING FACILITIES

1. Bowling Establishment  
Corporation  
Financing Sought: \$60,000  
Purpose: Refinance present debt
2. Bowling Alley  
Sole proprietorship  
Financing Sought: \$55,000  
Purpose: To purchase from present owner
3. Bowling Alley  
Partnership  
Financing Sought: \$40,000  
Purpose: To purchase new lanes
4. Bowling Alley  
Corporation  
Financing Sought: \$30,000  
Purpose: To purchase equipment
5. Bowling Alley  
Sole Proprietorship  
Financing Sought: \$8,000  
Purpose: Disaster loan - to restore grounds

### CAMPGROUNDS

1. Campsite  
Corporation  
Financing Sought: \$70,000  
Purpose: Expand capacity
2. Trailer Park  
Sole Proprietorship  
Financing Sought: \$41,000  
Purpose: To purchase from present owner
3. Campground  
Sole Proprietorship  
Financing Sought: \$35,000  
Purpose: To build new a 100 unit campground on site not presently developed for recreation.

CAMPGROUNDS (continued)

4. Campground  
Sole Proprietorship  
Financing Sought: \$35,000  
Purpose: To build new tent and trailer campground with toilets, shower, etc. on undeveloped site
5. Campground  
Sole Proprietorship  
Financing Sought: \$25,000  
Purpose: To construct new campground on undeveloped site
6. Campground  
Sole Proprietorship (franchise operation)  
Financing Sought: \$25,000  
Purpose: To build camping facilities on undeveloped site
7. Campground  
Sole Proprietorship  
Financing Sought: \$8,000  
Purpose: Upgrade facilities and expand capacity

DUDE RANCHES

1. Dude Ranch (holds square dances; horse stables)  
Corporation  
Financing Sought: \$125,000  
Purpose: Build added facilities; refinance present debt
2. Dude Ranch  
Corporation  
Financing Sought: \$12,000  
Purpose: Build stables; purchase horses; purchase equipment
3. Dude Ranch  
Sole Proprietorship  
Financing Sought: \$10,000  
Purpose: Expand facilities - put in golf driving range

GOLFING FACILITIES

1. Golf Course  
Sole Proprietorship  
Financing Sought: \$100,000  
Purpose: To expand size of course
2. Golf Course  
Corporation  
Financing Sought: \$50,000  
Purpose: To assist with construction of golfing facilities
3. Golf Course  
Corporation  
Financing Sought: \$35,000  
Purpose: To construct nine holes
4. Miniature Golf Course  
Partnership  
Financing Sought: \$30,000  
Purpose: To refinance present debt
5. Golf Course  
Corporation (membership club)  
Financing Sought: \$15,000 to \$18,000  
Purpose: To refinance debt; to provide operating capital
6. Golf Course  
Organization: not available  
Financing Sought: \$15,000  
Purpose: To add nine holes to an existing facility (necessary land already owned)
7. Golf Course  
Sole Proprietorship  
Financing Sought: \$5,000  
Purpose: for "improvements"
8. Other Golf Facilities
  - Construct Driving Range
  - Refinance Debt

## MARINAS

1. Marina  
Corporation  
Financing Sought: \$93,000  
Purpose: Disaster loan - to reconstruct ships and dock
2. Marine Service  
Organization: not available  
Financing Sought: \$55,000  
Purpose: not available

## RESORTS

1. New Year-round Resort  
Individual Proprietorship  
Financing Sought: \$500,000 (initial phase)  
Purpose: To build a new resort on undeveloped lake site
2. New Resort Complex  
Individual Proprietorship  
Financing Sought: \$400,000  
Purpose: New recreation complex on high quality lake shore
3. Housekeeping Resort  
Partnership  
Financing Sought: \$250,000  
Purpose: Addition of cottages, recreation facilities and waterfront improvement
4. Housekeeping Resort  
Individual Proprietorship  
Financing Sought: \$210,000  
Purpose: Double cottage number; to change program emphasis to family recreation - add golf and swimming pool facilities
5. Resort  
Corporation  
Financing Sought: \$200,000  
Purpose: Refinance debt, add new lodge plus swimming pool

RESORTS (continued)

6. Resort  
Sole Proprietorship  
Financing Sought: \$150,000  
Purpose: Add lodge plus cabins
7. Resort  
Sole Proprietorship  
Financing Sought: \$125,000  
Purpose: To purchase from present owner
8. Resort  
Sole Proprietorship  
Financing Sought: \$75,000  
Purpose: To purchase from present owner
9. Resort  
Sole Proprietorship  
Financing Sought: \$70,000  
Purpose: To construct ten new cabins
10. Resort  
Corporation  
Financing Sought: \$70,000  
Purpose: Construct new lodge and refinance debt
11. Resort  
Sole Proprietorship  
Financing Sought: \$60,000  
Purpose: Major upgrading including plumbing system
12. Resort  
Sole Proprietorship  
Financing Sought: \$40,000  
Purpose: To purchase from present owner
13. Resort  
Sole Proprietorship  
Financing Sought: \$40,000  
Purpose: To construct new lodge
14. Resort  
Sole Proprietorship  
Financing Sought: \$39,800  
Purpose: Expand capacity

RESORTS (continued)

15. Resort  
Sole Proprietorship  
Financing Sought: \$35,000  
Purpose: To construct five new cabins
16. Resort  
Organization - not available  
Financing Sought: \$28,500  
Purpose: To construct a lodge
17. Resort  
Sole Proprietorship  
Financing Sought: \$25,000  
Purpose: To remodel existing units; to construct new capacity
18. Resort  
Sole Proprietorship  
Financing Sought: \$22,000  
Purpose: To construct new cabins
19. Resort  
Sole Proprietorship  
Financing Sought: \$20,000  
Purpose: To upgrade quality of facilities
20. Resort  
Sole Proprietorship  
Financing Sought: \$17,400  
Purpose: Add two cabins; debt refinancing
21. Resort  
Sole Proprietorship  
Financing Sought: \$17,000  
Purpose: Add a campground; debt refinancing
22. Resort  
Sole Proprietorship  
Financing Sought: \$16,400  
Purpose: Refinance debt
23. Resort  
Family Partnership  
Financing Sought: \$10,000  
Purpose: To construct two new cabins

RESORTS (continued)

24. Resort  
Sole Proprietorship  
Financing Sought: \$10,000  
Purpose: Construct new cabins
25. Resort  
Sole Proprietorship  
Financing Sought: \$6,000  
Purpose: Construct a new cottage
26. Other requests for lending to resorts
  - add trailer park and campground
  - install sewage system
  - floodproof resort facilities (located near rivers)

WINTER SPORTS

1. Winter sports and year-round resort complex  
Corporation  
Financing Sought: \$650,000 (first phase)  
Purpose: To construct on an undeveloped site (including hills and excellent lake) a skiing-resorting-lodging-eating facility
2. Ski Resort  
Corporation  
Financing Sought: \$65,000  
Purpose: Purchase new equipment; expand capacity
3. Ski Resort  
Sole Proprietorship  
Financing Sought: \$45,000  
Purpose: To upgrade quality of facility: add new lifts
4. Ski Area  
Sole Proprietorship  
Financing Sought: \$38,000  
Purpose: Purchase new equipment
5. Resort  
Partnership  
Financing Sought: \$3,000  
Purpose: Purchase and/or construct ice fishing houses



YOUTH CAMPS

1. Boys Camp  
Sole Proprietorship  
Financing Sought: \$65,000  
Purpose: Refinance present debt
2. Boys Camp  
Sole Proprietorship  
Financing Sought: \$50,000  
Purpose: Upgrade facilities
3. Childrens Day Camp  
Corporation  
Financing Sought: \$25,000  
Purpose: To construct a new day camp

OTHER RECREATION SERVICES

1. Shooting Preserve  
Corporation  
Financing Sought: \$100,000  
Purpose: To refinance present debt
2. Recreation Property  
Sole Proprietorship  
Financing Sought: \$100,000  
Purpose: To purchase from present owner
3. Recreation Farm Complex  
Sole Proprietorship  
Financing Sought: \$50,000  
Purpose: Construct major recreation hall, children's games area,  
horseback riding facility, canoeing, swimming and other  
activity areas.
4. Pony Rides  
Sole Proprietorship  
Financing Sought: \$6,000  
Purpose: Refinance present debt

"OTHER" (continued)

5. Air Taxi  
Corporation  
Financing Sought: \$5,000  
Purpose: Provide working capital
6. Trout Farm  
No other information available
7. Country Club  
Purpose: Construction