



*VIRGINIA DEPARTMENT
OF AGRICULTURE AND
CONSUMER SERVICES*

**VIRGINIA HORSE CENTER
FOUNDATION REPORT**

By:

Virginia Department of Agriculture and Consumer Services
and Virginia Racing Commission

January 15, 2021

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EXECUTIVE SUMMARY

Chapter 571 of the 2020 Acts of Assembly requires the Virginia Department of Agriculture and Consumer Services (VDACS) to investigate and enter into negotiations for the involvement of the Commonwealth in the whole or partial operation or management of the Virginia Horse Center (VHC) Foundation. VDACS is required to include in such investigation and negotiations the addition of state-appointed members of the VHC Foundation Board of Directors (Board). Chapter 571 authorizes VDACS to take any steps necessary to accomplish the investigation, including negotiations with the Board. However, VDACS is prohibited from expending state funds for the purchase, transfer, or lease of real property unless such funds are specifically appropriated for that purpose or approved by the General Assembly.

Paragraph F.4 of Item 110 of the 2020 Appropriation Act (Act) requires that the Virginia Racing Commission (Commission) investigate and report on the total amount of money allocated annually pursuant to certain provisions in the Act to the Virginia Equine Alliance to support development of the equine industry in Virginia and any funding that directly or indirectly supports the operations of the VHC or the VHC Foundation. As part of this report, the Commission is required, in cooperation with VDACS, to make a recommendation as to the benefits of involvement of the Commonwealth in the whole or partial operation or management of the VHC Foundation, including the addition of state-appointed members to the VHC Foundation Board. As with the authorization for VDACS pursuant to Chapter 571, the Commission may take any steps necessary to accomplish the investigation, including negotiations with the Board, but shall not expend state funds for the purchase, transfer, or lease of real property unless specifically appropriated for that purpose or approved by the General Assembly.

Given the commonalities in these two required investigations of the VHC Foundation, VDACS and the Commission have worked together to issue a consolidated report that meets the requirements of both the legislative and budgetary mandates. In conversations conducted in order to research this report, the VHC Foundation indicated that it has a plan in place to improve the Virginia Horse Center's financial position and that the involvement of a commonwealth agency in the whole or partial operation or management of the VHC Foundation or state-appointed members of the VHC Foundation Board would not be welcomed at this time. The VHC Foundation has made clear that it wishes to remain a private organization. Based on the information provided by the VHC Foundation, VDACS and the Commission have concluded that the Commonwealth should not engage in the direct management or operation of the VHC Foundation or seek to add state-appointed members to its Board of Directors. The following report includes information to support these recommendations.

BRIEF HISTORY OF THE VHC

In 1969, Governor Mills E. Godwin, Jr. established a task force to study ways to stimulate the growth of the Commonwealth's horse industry. In 1978, Governor John Dalton formed a task force to continue this undertaking, and the group recommended the establishment of a modern, indoor arena for equestrian shows, sales, and other events. However, it wasn't until 1984 that the General Assembly of Virginia acted by selecting a tract near Lexington, Virginia, as the site for an equestrian development project. In March of 1985, Governor Charles Robb signed the bill that created the VHC, and on August 13, 1986, Governor Gerald Baliles hosted the Groundbreaking Ceremony for the new VHC, which would be owned and operated by a 501(c) (3) organization called the VHC Foundation.

The VHC existed as a public-private partnership with the Commonwealth of Virginia for more than two decades. A publicly appointed board oversaw VHC operations, while a private board planned how the center could grow and was responsible for identifying charitable funding to make those projects possible. Over the years, the VHC strove to become a world-class facility capable of hosting regional, national, and international equestrian events. To accomplish this mission, the VHC added an Olympic caliber cross-country course, expanded and improved its Coliseum facility, doubled the number of barns, increased the number of indoor and outdoor rings, and constructed a therapeutic riding center. Not only did the physical scope of the VHC increase over time, but the event calendar also grew.

In 2007, the partnership between the Commonwealth and the VHC Foundation was dissolved. The VHC Foundation Board was awarded the property and assumed an outstanding \$11.5 million U.S. Department of Agriculture (USDA) loan. Today, the VHC continues to operate as a private entity. The facility encompasses nearly 600 acres and hosts both equestrian and non-equestrian events year-round. The facility has 16 show rings, a 4,000 seat coliseum, eight barns with 745 stalls, cross country and combined carriage driving courses, campgrounds, and special event spaces.

According to the VHC Foundation's 2018-2019 Annual Report, the VHC hosted approximately 70 horse shows representing a broad spectrum of breeds and disciplines. Today, the VHC hosts state-wide, regional, and international horse shows that attract exhibitors from across North America. Prior to COVID-19, the VHC expected to host over 70 equine events in 2020, including 17 events owned and operated by the VHC. The facility also hosts non-equine events, such as dog shows, BMX races, the Rockbridge Regional Fair, the Balloons Over Rockbridge Fourth of July Celebration, and an annual renaissance festival.

In 2019, the VHC housed over 10,000 horses for an estimated 43,000 stall nights. Assuming that each horse is accompanied by at least three people (the industry average), this translates to more than 30,000 annual visitors to the Lexington/Rockbridge County area just for equine events. These visitors spend money and add to the local tax base through sales, food, and occupancy taxes. In 2019, the VHC estimates that an additional 16,000 visitors attended non-equine events at the facility. These numbers do not include non-VHC staff who work on events. In total, the VHC Foundation estimates that over 50,000 people visit the facility annually to participate in or watch the 100-plus events that take place annually.

A 2020 economic impact study conducted by Chmura Economics & Analytics (Appendix II) found that the VHC was responsible for a total of \$94.9 million in economic activity in the City of Lexington, Rockbridge County, and other Virginia localities through its operational and capital spending and the economic impact of VHC event attendees. VHC activities also support 896 jobs in the studied area.

OPERATION AND MANAGEMENT OF THE VHC FOUNDATION

In accordance with Chapter 571 of the 2020 Acts of Assembly and paragraph F.4 of Item 110 of the Act, VDACS staff worked with VHC and VHC Foundation staff to research and solicit feedback regarding the involvement of the Commonwealth in the whole or partial operation or management of the VHC Foundation. The following information was compiled based on publicly available financial reports and from information provided directly by VHC Foundation staff.

As noted previously, the VHC initially existed as a public-private partnership. A publicly appointed board oversaw VHC operations, and a private board focused on growing the VHC and identifying charitable funding to make expansion possible. In 2007, the partnership between the Commonwealth and the VHC Foundation was dissolved, and the VHC Foundation was awarded the property and assumed the VHC's \$11.5 million USDA loan.

This loan bears an interest rate of 4.125 percent with an annual payment of \$604,555 due on February 15 of each year through 2047. All except 30 acres of the VHC Foundation's real estate holdings and its other substantial assets secure this loan. The proceeds of the USDA debt were used to reimburse the Commonwealth for monies that it had invested in the VHC. Since becoming fully private, the VHC has worked to achieve long-term financial stability. However, the combination of an ongoing heavy debt burden with the VHC's capital maintenance needs have created a challenging fiscal situation for the VHC Foundation.

In August 2018, the VHC Foundation borrowed \$1.5 million from Cornerstone Bank. Approximately 50 percent of the borrowed funds were used to meet a balloon payment on a 2013 loan from a commercial bank, the proceeds of which had been used to fund operations. The remaining 50 percent of the \$1.5 million loan (approximately \$730,000) was used to address deferred maintenance issues. Interest on the Cornerstone Bank loan is due quarterly, with \$150,000 in principal due annually on August 29 beginning in 2019 through 2024 and a balloon payment of \$659,084 due on August 29, 2025.

Currently, VHC Foundation's operating revenues are insufficient to cover all of its operating costs. As a result, the VHC Foundation relies on charitable gifts to bridge the gap. Total annual expenses reported as of June 30, 2020, are \$4,088,394. This is consistent with the information found in the 2020 and 2019 VCH Foundation Financial Statement and Independent Auditors' Report (Appendix III), which states:

“The operations of the Center, along with its fund-raising activities, are intended to provide sufficient cash flows to be self-sustaining. The results of operations may not provide cash flows for repayment of existing outstanding capital indebtedness. The Center is dependent on charitable giving and local government support. Should any of these sources of income fail to materialize, there would be a substantial effect on the operations and assets of the Center.”

While management is continually trying to increase operating revenues by attracting new and larger equine events and identifying events that can be held during the slow winter months, currently, the VHC Foundation needs donations of approximately \$750,000 annually to fund its operating needs.

In June 2020, VDACS Commissioner Bronaugh wrote to the VHC Foundation Board President to request the information and assistance necessary to complete this report. Through a series of communications in July and August 2020, including a conference call with the VHC Foundation Chief Executive Officer, John Nicholson, and the VHC Foundation Chief Financial Officer, Sandra Thomas, it was relayed that while the VHC does face a challenging financial position, the VHC Foundation is not currently interested in the Commonwealth's involvement in the whole or partial operation or management of the VHC or VHC Foundation.

VHC FOUNDATION FINANCES FROM THE VIRGINIA RACING COMMISSION

The Commission, in accordance with paragraph F.4 of Item 110 of the Act, investigated the money allocated annually pursuant to certain provisions in the Act to the Virginia Equine Alliance to support the development of the equine industry in Virginia and funding that supports the VHC and VHC Foundation operations.

In accordance with 59.1-392 of the Code of Virginia, the Virginia Racing Commission transfers to the VHC Foundation 0.05 percent of all pari-mutuel wagering that takes place in the Commonwealth of Virginia at racetracks and satellite wagering facilities. Per statute, the VHC Foundation also receives a percentage of advance deposit wagering from the Virginia Equine Alliance.

The VHC Foundation received the following amounts based on amount wagered in each of the last five fiscal years (FY):

Fiscal Year	Amount Received
FY 2016	\$41,134
FY 2017	\$40,455
FY 2018	\$31,508
FY 2019	\$32,261
FY 2020	\$40,061

VHC DEBTS AND LOCAL PERFORMANCE AGREEMENTS

As noted previously, the VHC Foundation carries a significant debt burden. Initially, when the \$11.5 million USDA loan was taken out, the Commonwealth provided by statute that the City of Lexington (the City) and Rockbridge County (the County) would add two percentage points to their occupancy taxes. The proceeds from such occupancy tax was intended to be used to service the USDA debt. However, that amount proved to be insufficient to meet the annual USDA debt service, which resulted in the VHC Foundation falling into arrears with the USDA in February 2014 in the amount of \$137,914.

To address this issue, the VHC Foundation, the City, and the County entered into a performance agreement (Agreement) whereby the City and the County authorized an additional one percentage point of occupancy tax, beginning July 1, 2014, and continuing for two years. The taxes collected from this additional percentage point were to be used first to pay off the arrearage and second to fund future debt service requirements. Further, the Agreement provided that any remaining funds could be used for maintenance projects with the advance approval of the City and the County. This Agreement has since been extended through 2024.

The extension of the Agreement will eventually provide funds for VHC maintenance projects, but it will take several years to realize such funds. Because the VHC Foundation required substantial funds to address its growing deferred maintenance issues sooner than the funds would be available, the City, the County, the VHC Foundation, and Cornerstone Bank entered into various agreements

to provide a \$450,000 deferred maintenance loan, which was closed and funded in December 2015 and repaid in full in June 2018 using occupancy tax collections in excess of those needed for USDA debt service.

In 2020 and 2019, local governments provided \$798,487 and \$918,085, respectively, in support derived from a special assessment on lodging. This support, along with contributions in the form of charitable giving, helped the VHC Foundation make principal payments on debt of \$1,342,634 in 2020 and \$1,490,304 in 2019. The total amount of long-term debt and notes payable held by the VHC Foundation remain high when compared to the total income and assets of the organization. At the end of FY 2020, notes payable and long-term debt totaled \$11,376,620.

VHC EVENT REVENUE

Most operating income for the VHC Foundation is derived from revenues generated from events, horse shows, and facility fees charged for the rental of the VHC in addition to contributions made to the VHC in the form of donations and sponsorships. The VHC hosts two types of equestrian shows: horse center owned events and third-party events.

Horse center-owned events are shows organized and managed on behalf of the VHC. When a horse center- owned event is hosted, all of the profit is directed to the VHC to cover the cost of operations, ongoing maintenance, and, when possible, capital improvements. Third-party events are held by associations, groups, or individuals that pay to rent the VHC. The VHC receives fees for the use of its facilities, equipment, and staff, but any profit resulting from the show goes to the third party. For both owned and third-party shows, the VHC generates revenue and profits from renting stalls and selling shavings, hay, and feed as well as offering camping spaces, golf cart rental, catering, and concessions. Event revenue amounted to \$2,851,525 in FY 2019 and \$1,832,813 in FY 2020.

COVID-19 IMPACT

The VHC closed on March 16, 2020, due to the COVID-19 pandemic and remained closed until June 15, 2020. This shutdown resulted in VHC receiving no operating income for three months, and VHC was forced to furlough all but three of its employees and cancel 39 shows and events. However, when the VHC reopened, it experienced one of its most successful show seasons in history, with record numbers of participants. As a result, the VHC extended its season into December and added additional shows to its calendar. With the facility reopened, all furloughed staff was rehired and additional staff has been hired, resulting in a payroll that is 30 percent higher in 2020 than it was in 2019.

The reopening of the VHC has proved beneficial to the surrounding community. Prior to the reopening of the VHC, the City and the County were experiencing a 67.11 percent decrease in occupancy tax revenues based on collections in June for May stays. For August collections for July stays (the first full month on record since VHC reopened), the decrease in occupancy taxes was only 24.38 percent compared to the same period in 2019. Despite the decrease in collections, it is projected that the occupancy tax collected along with excesses from prior years will be sufficient to cover the VHC Foundation's debt service requirements at least through June 30, 2021.

If the impact of the pandemic continues to be felt for several years, meeting debt service demands in 2022 and later years could become a concern.

CHARITABLE DONATIONS

In addition to revenues generated by the shows hosted at the VHC, sponsorships and donations are critical to the Virginia Horse Center's success. VHC Foundation Annual Fund gifts are used to bridge the financial gap between the income derived from VHC horse show operations and the cost of annual operating, maintenance, and program expenses. In addition to the Annual Fund, donors can sponsor events, fund a specific project, contribute goods or services, volunteer, or donate to the endowment. The VHC received \$734,610 in contributions in 2020, up from \$362,940 in 2019.

OUTLOOK

While 2020 was an unusual year for the VHC, to ensure the future, the VHC must continue to attract new and larger shows. According to VHC Foundation staff:

“The VHC has rededicated itself to having a positive relationship with the people who come to the facility to show their horses, as well as all who would be constituents of the Center. The Virginia Horse Center has reestablished its viability within the national and state equestrian industry. This has been accomplished, among other things, through financial integrity and transparency. With recent success and stability in sight, the Virginia Horse Center is poised for an ambitious future. VHC is confident that the quality and quantity of horse shows at the Center will continue to grow in the years ahead. The positive national and regional attention received by the VHC is unprecedented in its history”.

Even in the midst of this optimism, there remain certain challenges that the VHC must address. One such challenge is the competitive environment. Privately-funded equestrian competition facilities in North Carolina, Ohio, and Florida are receiving hundreds of millions of dollars in investment by wealthy investors. Additionally, publicly-owned facilities in Kentucky, Maryland, Tennessee, and North Carolina are supported by local and state governments.

The VHC operational budget remains a critical challenge. The annual operating budget, while stable, continues to be partially funded by annual donations. It is hoped that the increasing number of events hosted by the VHC will allow the gap between the business revenue generated by the VHC and its annual operating costs to narrow and eventually close. To provide long-term stability, the VHC is striving to eliminate the need for donors to balance the operational budget so that all donations can be allocated for capital projects to further enhance the facility. In order to achieve this goal, the VHC will likely need to identify a form of alternative income separate from operations and donations. The leadership of the VHC plans to continue its search for alternative revenue sources within Virginia's horse industry to help eliminate its operating deficit.

Although the VHC Foundation Board has indicated it does not currently wish the direct involvement of the Commonwealth in the operation or management of the VHC Foundation, it is open to exploring creative ideas for public/private partnerships to help bridge its financial gaps.

RECOMMENDATION

In part, Paragraph F.4 of Item 110 of the Act requires that the Commission, in cooperation with VDACS, make a recommendation as to the benefits of involvement of the Commonwealth in the whole or partial operation or management of the VHC Foundation.

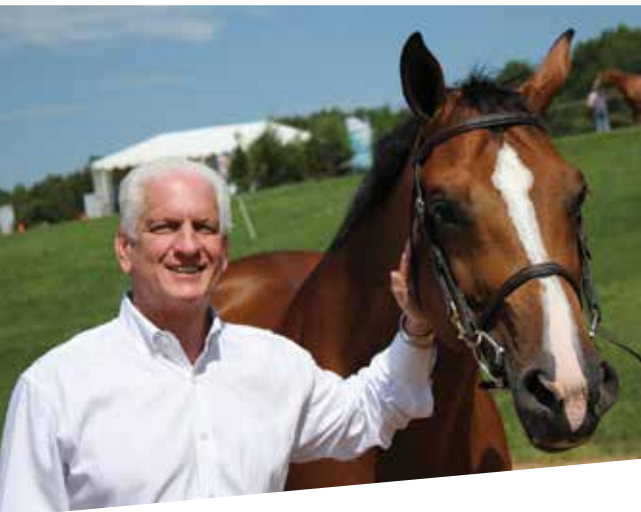
While the VHC Foundation carries a significant ongoing debt burden, the VHC Foundation management indicated that it has a plan in place to improve the VHC's financial position slowly but steadily. Members of the VHC Foundation also made clear through a series of communications conducted as part of the research for this report that the VHC does not wish to have a Commonwealth agency involved in the whole or partial operation or management of the VHC Foundation or state-appointed members of the VHC Foundation Board. The VHC Foundation wishes to remain a wholly private organization. Based on the information provided by the VHC Foundation, neither the Commission nor VDACS recommends that the Commonwealth engage in the direct management or operation, either in part or as a whole, of the VHC Foundation.



2019–2020

ANNUAL REPORT

July 1, 2019 – June 30, 2020



“History will record that this has been the year of the COVID-19 pandemic and that our Horse Center had to be closed for three months. History will also record that this year was dramatically transformational, not only in the physical improvements of the Horse Center, but also in the remarkable resiliency of the Virginia Horse Center. There is a real sense of optimism for our future.”

—John Nicholson, CEO

“Great Job guys! Our check-in/COVID paperwork and temp checks and all that yesterday was smooth and pleasant and we appreciate the opportunity to have horse shows! Thank you!”

— Katie Gardner, Bedford, Virginia

“Many thanks to the VHC staff! We couldn't have done it this year without your planning and assistance with all the new COVID guidelines and compliance measures.”

— Kimberly Shaffer Dickinson, Chesapeake, Virginia



Our Mission

The Virginia Horse Center Foundation provides a world class facility hosting regional, national, and international equestrian events.

The Virginia Horse Center Foundation envisions a unique, bucolic landmark to honor and celebrate the timeless, special bond between mankind and the horse through safe, fair, and spirited equestrian competition.

The Virginia Horse Center Foundation is a 501(c)(3) non-profit organization.

With the support of the Foundation, the Virginia Horse Center serves as an economic and cultural asset for the benefit of the Rockbridge County community and the Commonwealth of Virginia. An important resource to the East-Atlantic equine competition circuit, the Virginia Horse Center hosts all disciplines of equestrian sport, standing at the forefront of Virginia's \$1.2 billion equine community.

This institution is an equal opportunity provider and employer.

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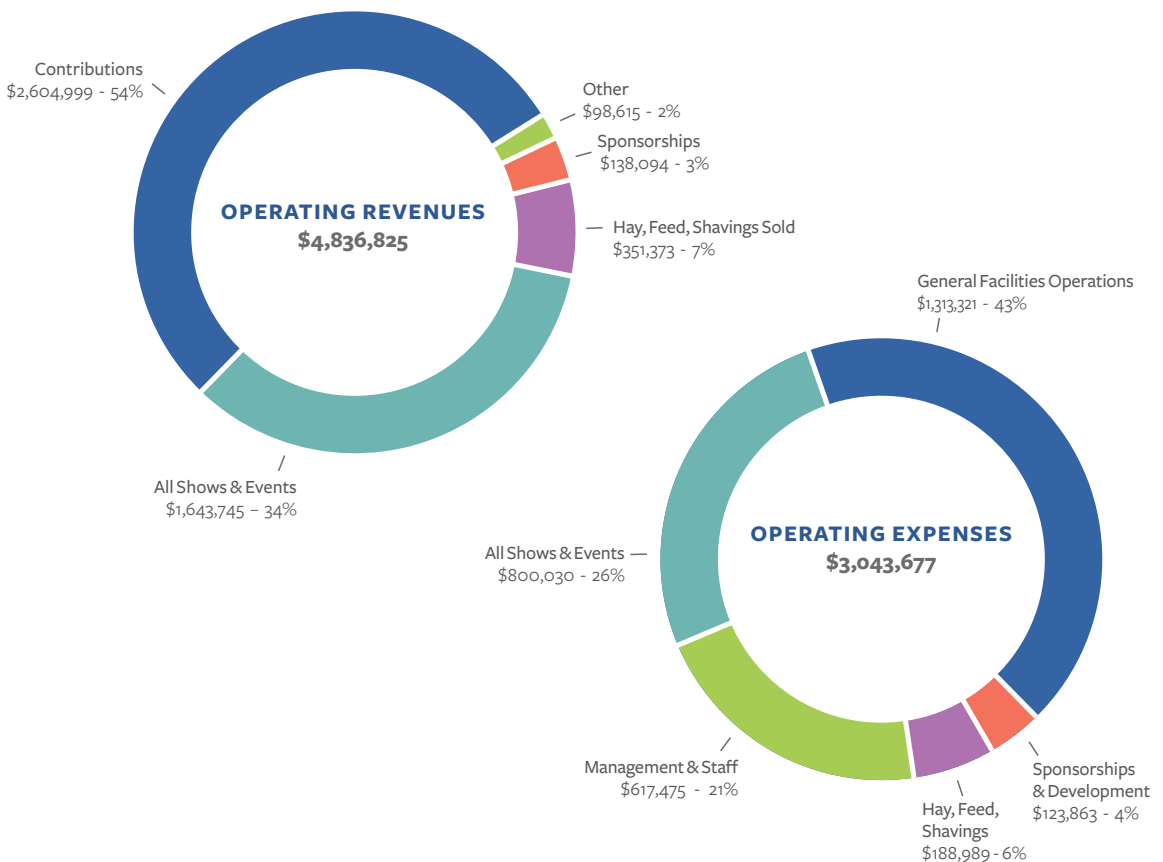
Statement of Accounts

Fiscal Year
2019–2020
As of June 30, 2020

Our primary revenues are generated by shows that we own, followed by revenues generated by third party shows which rent our facility.

ASSETS	2020 (Unaudited)	2019 (Audited)
Cash and cash equivalents	\$ 1,648,360	\$ 1,506,367
Contributions receivable	281,040	292,748
Other assets	46,205	98,732
Property and equipment	19,489,152	17,759,558
TOTAL ASSETS	\$ 21,464,757	\$ 19,657,405
LIABILITIES		
Accounts payable and other current liabilities	\$ 1,137,148	\$ 701,164
Notes payable and long term debt	11,342,185	11,565,531
TOTAL LIABILITIES	\$ 12,479,333	\$ 12,266,695
NET ASSETS		
TOTAL NET ASSETS	\$ 8,985,424	\$ 7,390,710
TOTAL LIABILITIES AND NET ASSETS	\$ 21,464,757	\$ 19,657,405

NOTE: The 2019 information above is derived from the Virginia Horse Center Foundation's audited financial statements. For a complete version, including the Independent Auditor's Report, please contact the Foundation's office. The 2020 audit report was not available as of the printing date of the report.



Thank you for your SUPPORT

Fiscal Year
2019–2020
As of June 30, 2020

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\$100,000.00 +

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“Famesgate is wonderful! The [Memorial] Park is absolutely gorgeous, it is so beautiful and perfect. We love the VHC, it is so well cared for.”

— Kim Cowart, North Carolina

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 Mr. Rodney Hicks
 Kilmurry Farm, Ms. Mary K. Magner



“
I am a 3rd generation horse trainer, we have been showing at this facility since it opened. It is the best place we come to show horses and we show all over the southeast. The new improvements to the barn, arenas, and facility ... they have definitely put this place over the top!”

—Matt Shiflet, North Carolina

Every effort has been made to list each donor to the Virginia Horse Center Foundation. If you believe the above list contains errors or omissions, please contact the Foundation office.

Ms. Harriet Schiele
 Ms. Diane Sembler Kamins

\$500.00 to \$999.99

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A successful nine-month show season was overshadowed by our closure in mid-March as a result of COVID-19. We hosted the Cowboy Mounted Shooting for the first time in June and saw the return of BMX racing in January.

Our generous supporters helped us begin to transform our facilities to enhance the experience and comfort of exhibitors and spectators alike. We updated a barn, enlarged Fletcher, added LED lighting and gigantic overhead fans in the Coliseum and created a Memorial Park. All of these projects were in the works before pandemic hit but construction continued and all of the projects were ready when we welcomed exhibitions back on June 17.

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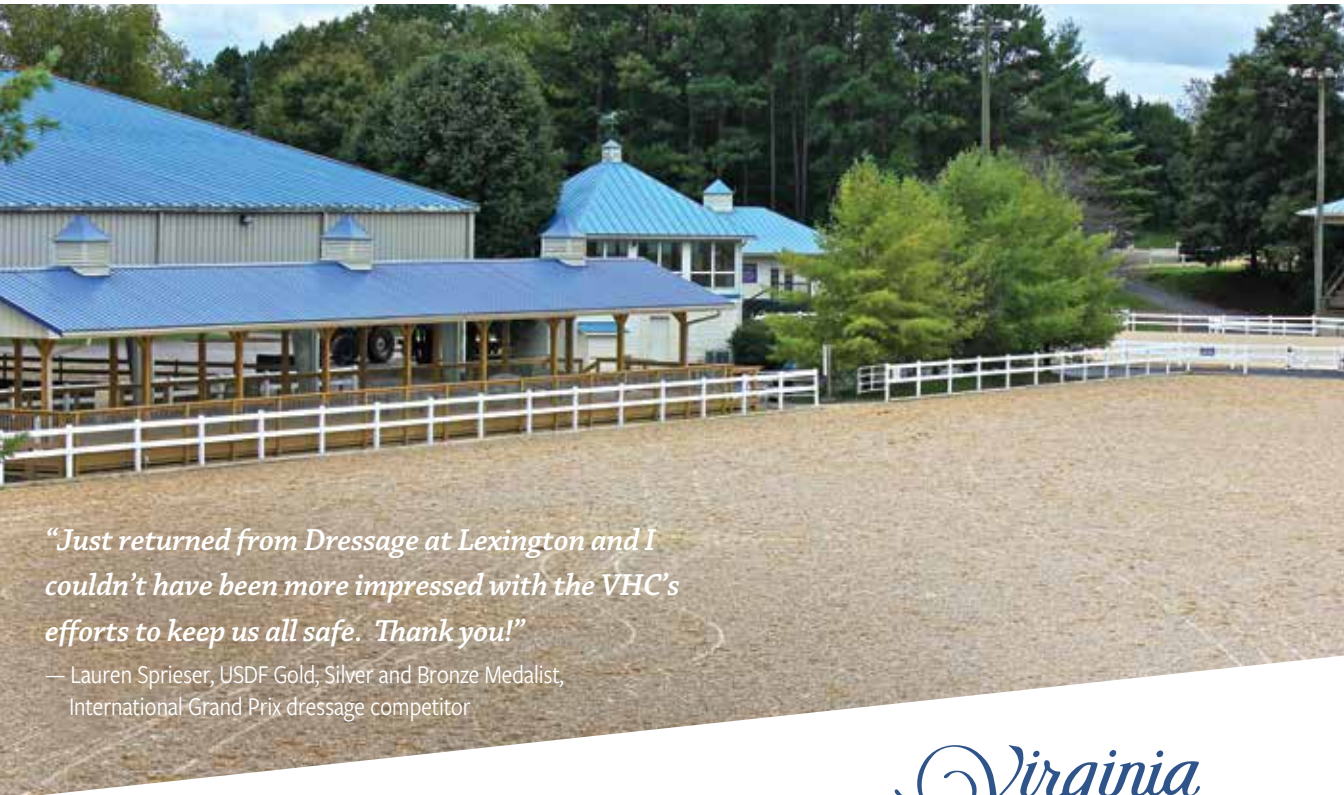
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"Just returned from Dressage at Lexington and I couldn't have been more impressed with the VHC's efforts to keep us all safe. Thank you!"

— Lauren Sprieser, USDF Gold, Silver and Bronze Medalist,
International Grand Prix dressage competitor

Virginia Horse Center Foundation™



PREPARED FOR
The Virginia Horse Center



March 27, 2020

ECONOMIC IMPACT

THE VIRGINIA HORSE CENTER

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1. Executive Summary

The Virginia Horse Center (VHC) generates significant economic impact in Rockbridge County, the city of Lexington, and Virginia.

VHC’s economic impact comes from the following four sources:

- Operations
- Capital Expenditure
- Event Spending
- Visitor Spending

The operations revenue of VHC was \$4.0 million in 2019.

- The estimated economic impact (direct, indirect, and induced) of VHC operations in Rockbridge County is \$5.2 million in 2019, supporting 67 jobs.
- In Lexington, the estimated economic impact (direct, indirect, and induced) of VHC operations in 2019 is \$0.6 million, supporting 4 jobs.
- The estimated economic impact (direct, indirect, and induced) of VHC operations in the state of Virginia is \$7.4 million in 2019, supporting 82 jobs.

The total capital expenditure of VHC was \$0.9 million in 2019 and is expected to increase in the future.

- The estimated economic impact (direct, indirect, induced) of VHC capital expenditure in Rockbridge County is \$0.9 million in 2019, supporting 9 jobs.
- The estimated economic impact (direct, indirect, and induced) of VHC capital expenditure in the city of Lexington is \$0.4 million in 2019, supporting 4 jobs.

- The estimated economic impact (direct, indirect, and induced) of VHC capital expenditure in the state of Virginia is \$1.8 million in 2019, supporting 15 jobs.

For the 79 events that were hosted by the VHC in 2019, event spending is estimated to have reached a total of \$6.1 million.

- In Rockbridge County, the estimated economic impact (direct, indirect, and induced) of VHC event spending is \$3.5 million in 2019, supporting 25 jobs.
- In the city of Lexington, the estimated economic impact (direct, indirect, and induced) of VHC event spending is \$2.7 million in 2019, supporting 16 jobs.
- The estimated economic impact (direct, indirect, and induced) of VHC event spending in the state of Virginia is \$8.8 million, supporting 70 jobs.

It is estimated that 81,316 individuals attended VHC events in 2019. They spent \$62.9 million in Virginia, \$41.7 million in Rockbridge County, and \$3.1 million in the city of Lexington.

- The estimated economic impact (direct, indirect, and induced) of VHC visitor spending in Rockbridge County is \$38.1 million in 2019, supporting 418 jobs.
- The estimated economic impact (direct, indirect, and induced) of VHC visitor spending in the city of Lexington is \$3.7 million, supporting 43 jobs.
- The estimated economic impact (direct, indirect, and induced) of VHC

visitor spending in the state of Virginia is \$76.9 million, supporting 730 jobs.

The overall economic impact of VHC is the sum of all four components.

- In Rockbridge County, the economic impact (direct, indirect, and induced) of VHC is estimated to be \$47.7 million in 2019, supporting 518 jobs (Table 1.1).
- In Lexington, the economic impact (direct, indirect, and induced) of VHC is estimated to be \$7.4 million in 2019, supporting 67 jobs.
- In Virginia, the total economic impact (direct, indirect, and induced) of VHC in 2019 is estimated to be \$95.0 million, supporting 896 jobs.

VHC contributed an estimated total of \$3.1 million in state and local tax revenue in 2019.

Table 1.1: Economic & Fiscal Impact Summary of Virginia Horse Center (2019)

		Direct Impact	Total Impact	Tax Revenue
Rockbridge County	Spending (\$Million)	\$36.5	\$47.7	\$0.93
	Employment	426	518	
City of Lexington	Spending (\$Million)	\$4.1	\$7.4	\$0.12
	Employment	40	67	
Virginia	Spending (\$Million)	\$53.7	\$95.0	\$2.01
	Employment	630	896	

Note: Impacts are measured in the year in which they occur. Numbers may not sum due to rounding.

Source: IMPLAN 2018, VHC, and Chmura

- Rockbridge County is estimated to have received \$0.9 million in tax revenue in 2019.
- The City of Lexington received an estimated \$0.1 million in tax revenue in 2019.
- The tax revenue for the state government is estimated to be \$2.0 million in 2019.
- A significant portion of the state and local tax revenue came from visitor spending, which generated \$0.9 million in tax revenue for the county, \$0.1 million for the city, and \$1.8 million for the state in 2019.

2. Background

The Virginia Horse Center (VHC) was established in 1986 in Rockbridge County in the Lexington area¹ of Virginia. VHC is owned and operated by the Virginia Horse Center Foundation, under the leadership of its Board of Directors. Since its founding over 30 years ago, the Virginia Horse Center has grown to become a world-class facility hosting regional, national, and international equestrian events.

Currently, the Virginia Horse Center covers 600 acres of land, with nine show rings, eight schooling rings, a 4,000-seat coliseum, eight barns, campgrounds, special event spaces, and full café services. The center plays host to dozens of events each year.

In 2001, VHC commissioned an economic impact analysis of the center. The study found that the annual total economic impact of VHC was \$41.4 million in Virginia and \$29.1 million in the Lexington area.²

VHC needs an updated analysis of its current economic impact in Rockbridge County, the city of Lexington, and Virginia. Chmura Economics & Analytics (Chmura) was contracted to estimate the economic impact of VHC based on 2019 data. This analysis can be used by VHC to show the value it generates in the state and local economies, and to gather support from public agencies and private donors.

The rest of this report is organized as follows:

- Section 3 describes the approach and methodology used by Chmura for analyzing the economic impact, including the approach to data collection.
- Section 4 analyzes the economic impact of the Virginia Horse Center.
- Section 5 analyzes state and local tax revenue generated from the Virginia Horse Center.
- Section 6 presents a summary and conclusion.
- The Appendix provides the survey report and survey instrument.

¹ In this report, the Lexington area includes both the city of Lexington and Rockbridge County.

² Source: The Virginia Horse Center's Economic Impact, prepared by Weldon Cooper Center for Public Service, University of Virginia, July 2001.

3. Methodology

3.1. Economic Impact Methodology

The economic impact of the Virginia Horse Center in local and state economies will come from the following four sources:

1. **The ongoing operations of VHC.** This includes operational spending to maintain and manage the facility. It also includes VHC spending to organize VHC-owned events. The center employs professional staff and local contractors to manage its business operations.³

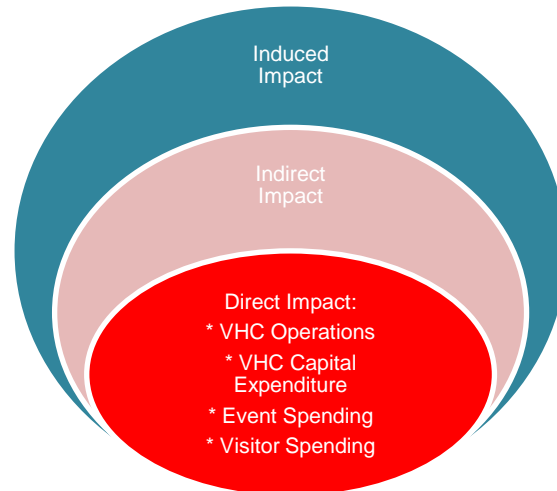
2. **Capital expenditure by VHC.** VHC has spent a significant amount in the past and is planning a major capital campaign in the near future. This capital expenditure generates economic impact in local and state economies.

3. **Spending to organize VHC events.** There are dozens of events hosted by VHC each year. Outside the events owned by VHC, its facilities are rented out to other local, state, and national organizations. Those organizations spend a significant amount of money in the study areas to coordinate the events. This spending includes marketing, event logistics, and security.

4. **Visitor spending.** The Virginia Horse Center events attract many visitors to the area, including participants of events and equine enthusiasts who come from across Virginia and out of state. Visitor spending will benefit local, state, and regional businesses.

The four components identified above (operations, capital expenditure, event

Figure 3.1: Economic Impact Analysis Framework



spending, and visitor spending) constitute the direct economic impact of the Virginia Horse Center. The total economic impact also includes the economic ripple effects from the direct impact. Using visitor spending as an example, indirect impacts are benefits to industries that supply regional hotels or restaurants that are patronized by VHC visitors. Induced impacts occur when workers are hired by regional visitor-serving businesses. These workers spend their income in the study areas, benefiting regional and state economies (Figure 3.1).

Direct impacts are estimated based on data from VHC and from a visitor survey implemented by Chmura. Ripple effects of center operations, capital expenditure,

event spending, and visitor spending are estimated using IMPLAN Pro software, which is a model often used by economists to measure the economic impact of events.

This study also estimates the fiscal benefit of the Virginia Horse Center to state and local governments. The state government typically can benefit from sales, individual, and corporate income taxes from operations, capital expenditure, event spending, and visitor spending. For local governments, their taxes include sales; lodging; meals; and business, professional, and occupational license (BPOL) taxes.

³ Please note that in this analysis, the impact of event spending for VHC-owned events is included as part of the VHC operations impact.

3.2. Data Collection

A large quantity of data are collected to complete the economic impact analysis of VHC.

Data on VHC operations, capital expenditure, and event spending were provided by the Virginia Horse Center.

VHC provided a list of events in 2019, the key assumptions used to estimate the total

attendance of VHC events, and the event expenditure.

For visitor spending, especially in the city of Lexington and Rockbridge County, Chmura conducted a survey in early 2020 of participants to various VHC events in 2019. The key information collected includes:

- Number of VHC events attended
- Average spending in the Lexington area and in Virginia while attending VHC events
- Demographic profiles of VHC visitors

Data collected by the Chmura survey were used to estimate visitor spending in the city, county, and state.

4. Economic Impact of the Virginia Horse Center

4.1. Economic Impact of VHC Operations

The daily operations of the Virginia Horse Center generate economic impact in both the region and state.

The revenue of VHC comes from different sources. Over the past three fiscal years, the total revenue of the center has averaged approximately \$4.0 million each year.⁴

The largest component of revenue is the income from staging shows owned by VHC. The major VHC-owned shows include the following:

- Lexington Spring Premiere
- Lexington Spring Encore
- Lexington National
- Bonnie Blue National
- Shenandoah Classic

In 2019, it is estimated that VHC-owned show revenue reached \$2.5 million. Meanwhile, VHC also spent \$1.3 million to organize these shows.

VHC also rents its stables for dozens of events throughout the year. This revenue is collected from third-party organizers, and in 2019, reached \$0.5 million. Other VHC revenue sources include catering and donor contributions.

VHC utilizes its revenue to hire staff members, and to acquire products and services to maintain the facility and organize its own events. Those operations benefit the city, county, and state economies.

Table 4.1: Economic Impact of VHC Operations (2019)

		Direct	Indirect	Induced	Total
Rockbridge County	Spending (\$Million)	\$4.0	\$0.8	\$0.4	\$5.2
	Employment	56	7	3	67
City of Lexington	Spending (\$Million)	\$0.0	\$0.4	\$0.2	\$0.6
	Employment	0	3	1	4
Virginia	Spending (\$Million)	\$4.0	\$1.9	\$1.5	\$7.4
	Employment	56	14	12	82

Note: Impacts are measured in the year when they occur. Numbers may not sum due to rounding.

Source: IMPLAN 2018, VHC, and Chmura

Table 4.1 presents the estimated economic impact of VHC operations in Rockbridge County, the city of Lexington, and Virginia. In 2019, VHC operations generated an economic impact (direct, indirect, and induced) of \$5.2 million in Rockbridge County, supporting 67 jobs. Of the total impact, \$4.0 million is the direct impact in the county, which is equivalent to the total revenue of VHC. Direct employment would be employees of VHC, which was 56.⁵ The indirect impact in the county is estimated to be \$0.8 million and seven jobs. Examples of indirect impact are businesses providing supplies and services for catering requirements and facility maintenance. The induced impact is estimated to be \$0.4 million, supporting three jobs in 2019.

Since VHC is physically located in Rockbridge County, the direct impact of VHC operations in the city of Lexington is zero. However, a number of city

businesses can be hired to support VHC operations, and VHC employees live and spend money in the city as well. It is estimated that the indirect impact of VHC operations in the city is \$0.4 million and three jobs, while the induced impact is estimated to be \$0.2 million, which can support one job in 2019.

The annual economic impact of VHC operations in Virginia is larger than in Rockbridge County or in Lexington, as businesses elsewhere in Virginia can also benefit from VHC operations. The direct impact in Virginia is the same as that in the county, reaching \$4.0 million and 56 jobs in 2019. It is estimated that the annual total impact of VHC operations (direct, indirect, and induced) is \$7.4 million in spending and 82 jobs in Virginia in 2019.⁶

⁴ Source: VHC.

⁵ The employment estimated in this report is based on the place of work, and it includes both full-time and part-time workers, not full-time-equivalent employment.

⁶ Please note that the impact in Virginia includes the impacts in both Rockbridge County and the city of Lexington.

4.2. Economic Impact of Capital Expenditure

Outside operational spending, VHC has also spent millions of dollars over the past several years to expand and improve its facilities. This capital expenditure benefits the county, city, and state economies.

Data from VHC shows that from Fiscal Year (FY) 2015 to FY2020,⁷ total capital expenditure of VHC will reach \$2.1 million. In 2019 alone, capital expenditure amounted to \$0.9 million. In future years, VHC’s capital expenditure is expected to increase.

Table 4.2 presents the estimated economic impact of VHC capital expenditure in Rockbridge County, the city of Lexington, and Virginia in 2019. VHC capital expenditure generated an economic impact (direct, indirect, and induced) of \$0.9 million in Rockbridge County, supporting nine jobs. Of the total impact, \$0.7 million is the estimated direct

Table 4.2: Economic Impact of Capital Expenditure (2019)

		Direct	Indirect	Induced	Total
Rockbridge County	Spending (\$Million)	\$0.7	\$0.2	\$0.1	\$0.9
	Employment	7	1	1	9
City of Lexington	Spending (\$Million)	\$0.2	\$0.1	\$0.1	\$0.4
	Employment	2	1	1	4
Virginia	Spending (\$Million)	\$0.9	\$0.4	\$0.5	\$1.8
	Employment	9	2	3	15

Note: Impacts are measured in the year when they occur. Numbers may not sum due to rounding.

Source: IMPLAN 2018, VHC, and Chmura

capital spending in the county,⁸ while ripple economic impact is estimated to be \$0.3 million.

In Lexington, the total economic impact of VHC capital expenditure is estimated to be \$0.4 million, supporting four jobs in 2019.

The annual economic impact of VHC capital expenditure is largest in Virginia. It

is estimated that the total impact of VHC capital expenditure (direct, indirect, and induced) is \$1.8 million in spending and 15 jobs in the state in 2019.

4.3. Economic Impact of Event Spending

Every year, in addition to staging VHC-owned events at the center, VHC also rents out the facility and stables for dozens of other events which are managed by third-party organizations.

Staging those third-party events at VHC also requires products and services from many local businesses and contractors. However, third-party event expenditure data are not available. Consequently, Chmura used the event spending data of VHC-owned events to estimate the total cost associated with organizing third-party events.

Table 4.3: Economic Impact of Event Spending (Annual 2019)

		Direct	Indirect	Induced	Total
Rockbridge County	Spending (\$Million)	\$2.6	\$0.6	\$0.3	\$3.5
	Employment	18	5	2	25
City of Lexington	Spending (\$Million)	\$1.7	\$0.6	\$0.3	\$2.7
	Employment	12	3	2	16
Virginia	Spending (\$Million)	\$4.7	\$2.3	\$1.8	\$8.8
	Employment	44	14	12	70

Note: Impacts are measured in the year in which they occur. Numbers may not sum due to rounding.

Source: IMPLAN 2018, VHC, and Chmura

⁷ For example, Fiscal Year 2020 starts July 1, 2019 and ends June 30, 2020.

⁸ Please note that this number is smaller than total capital expenditure, as part of it was spent in both the city and in other localities of Virginia.

In 2019, VHC hosted a total of 79 events. Chmura estimated that total event spending reached \$6.1 million. Excluding \$1.4 million in event spending for VHC-owned events,⁹ total expenditure for other events is estimated to be \$4.7 million in 2019.

Table 4.3 presents the estimated economic impact of event spending in Rockbridge County, the city of Lexington,

and Virginia. In 2019, total event spending generated an economic impact (direct, indirect, and induced) of \$3.5 million in Rockbridge County, supporting 25 jobs. Of the total impact, \$2.6 million is the estimated direct event spending in the county, supporting 18 jobs. Ripple economic impact is estimated to be \$0.9 million, supporting seven jobs in 2019.

In the city of Lexington, the total economic impact of event spending is estimated to be \$2.7 million, supporting 16 jobs.

The annual economic impact of event spending is larger in Virginia than in Rockbridge County or Lexington. It is estimated that the annual impact of event spending (direct, indirect, and induced) is \$8.8 million, supporting 70 jobs in Virginia in 2019.

4.4. Economic Impact of Visitor Spending

This section provides a detailed economic impact analysis of visitor spending at the events held at the Virginia Horse Center in 2019, including the spending impact of visitors to both VHC-owned events and other third-party events.

To calculate direct visitor spending resulting from VHC events, the first task is to estimate the number of visitors. For non-equestrian events, VHC was able to provide estimated total attendance. While VHC does not track attendance for equestrian events, it keeps records of the number of stalls utilized for those events. It is assumed that each stall will bring six attendants (three participants and three spectators) to the Lexington area.¹⁰

Using this methodology, it is estimated that the total attendance for all VHC events reached 81,316 in 2019.

After the total number of visitors to VHC events are estimated, the next step is to estimate their spending in Lexington, Rockbridge County, and Virginia. To accomplish this task, Chmura implemented a survey of VHC event participants to estimate the spending

Table 4.4: Economic Impact of Visitor Spending (Annual 2019)

		Direct	Indirect	Induced	Total
Rockbridge County	Spending (\$Million)	\$29.2	\$5.1	\$3.7	\$38.1
	Employment	346	44	28	418
City of Lexington	Spending (\$Million)	\$2.2	\$0.6	\$0.9	\$3.7
	Employment	26	9	9	43
Virginia	Spending (\$Million)	\$44.1	\$16.8	\$16.0	\$76.9
	Employment	522	100	108	730

Note: Impacts are measured in the year when they occur. Numbers may not sum due to rounding.

Source: IMPLAN 2018, VHC, and Chmura

amounts and patterns.¹¹ Data from the survey indicate that:

- Average participants spent \$84.50 per person per day in Virginia.
- There are many VHC events that span multiple days. Including transportation to and from the Lexington area, the average participant spends 9.2 days in Virginia and 6.5 days in the Lexington area.

- Based on reported lodging information, 7% of all room-nights in the Lexington area occur in the city of Lexington.
- Of total visitor spending, the largest spending categories are show fees, lodging, and transportation within Virginia.

Based on the above key spending assumptions from the survey, Chmura estimated that in 2019, visitors to all VHC events spent \$62.9 million in Virginia,

⁹ Spending by VHC on its own events was included in the operational impact of VHC.

¹⁰ Source: The Virginia Horse Center.

¹¹ Please see Appendix 2 for more details regarding the survey.

\$41.7 million in Rockbridge County, and \$3.1 million in the city of Lexington.

A portion of visitor spending, such as show fees, is paid to VHC and other event organizers, which is used to stage the events. That spending is already included in the economic impact from VHC operations and event spending. The remaining visitor spending benefits other businesses in the Lexington area and in Virginia.

Table 4.4 presents the impact of visitor spending in the county, city, and state. In Rockbridge County, total visitor spending generated an economic impact (direct, indirect, and induced) of \$38.1 million, supporting 418 county jobs. Of the total impact, \$29.2 million (excluding show fees) is the estimated direct visitor spending in the county, supporting 346 jobs. The indirect impact is estimated to be \$5.1 million and 44 jobs, while the induced impact is estimated to be \$3.7 million and 28 jobs in 2019.

In the city of Lexington, the total economic impact (direct, indirect, and included) of visitor spending is estimated to be \$3.7 million, supporting 43 jobs in 2019.

The annual economic impact of visitor spending is larger in Virginia than in Rockbridge County or the city of Lexington. It is estimated that the annual impact of visitor spending (direct, indirect, and induced) is \$76.9 million in spending and 730 jobs in Virginia in 2019.

4.5. VHC Economic Impact Summary

Combining VHC operations, capital expenditure, event spending, and visitor spending, Table 4.5 summarizes the overall economic impact of the Virginia Horse Center in 2019. In Rockbridge County, the total economic impact (direct, indirect, and induced) is estimated to be \$47.7 million, supporting 518 jobs. Though not located within the city of Lexington, the VHC generated an estimated \$7.4 million in economic impact in the city in 2019, supporting 67 jobs. The total economic impact of VHC in Virginia is estimated to reach \$95.0 million that supported 896 jobs in Virginia.

Table 4.5: Economic Impact Summary of Virginia Horse Center (2019)

		Direct	Indirect	Induced	Total
Rockbridge County	Spending (\$Million)	\$36.5	\$6.7	\$4.5	\$47.7
	Employment	426	57	35	518
City of Lexington	Spending (\$Million)	\$4.1	\$1.7	\$1.5	\$7.4
	Employment	40	15	12	67
Virginia	Spending (\$Million)	\$53.7	\$21.4	\$19.8	\$95.0
	Employment	630	130	136	896

Note: Impacts are measured in the year when they occur. Numbers may not sum due to rounding.

Source: IMPLAN 2018, VHC, and Chmura

5. Fiscal Impact

The Virginia Horse Center generates tax revenue for the Commonwealth of Virginia and the local governments of Rockbridge County and the City of Lexington. The state can benefit from the following three

main tax streams: sales, individual income, and corporate income. For local governments, major tax revenue from VHC activities includes sales; meals; lodging; and business, professional, and

occupational license (BPOL) taxes. To be conservative, only tax revenue from the direct impact is estimated.¹²

5.1. Tax Revenue from VHC Operations

VHC is a state-supported agency, and its operations are exempt from state and local taxes, such as corporate income and BPOL taxes. However, the wages and salaries of its staff members are subject to state individual income tax. In addition, the catering revenue at VHC is subject to state and local sales taxes and the local meals tax. Similarly, the state and local governments will collect sales and lodging taxes from camping revenue at VHC.¹³

Chmura estimates the individual income tax based on the average payroll provided by VHC and applied an income tax rate of 4.5%.¹⁴ The state individual income tax is estimated to be \$56,245 in 2019 (Table 5.1).

Virginia has a 5.3% state sales tax, with 4.3% of retail sales going to the state

government, and the remaining 1% going to local governments. Based on the catering and camping revenue of VHC, the estimated state sales tax was \$10,876 in 2019, while local sales tax was \$2,529.

Catering sales by VHC is also subject to the county's meals tax at a rate of 4.0%.

Rockbridge County is estimated to receive \$4,176 in meals tax from VHC operations in 2019.

Finally, camping revenue will generate lodging tax for Rockbridge County at a rate of 7.0%. The county lodging tax is thus estimated to be \$10,397 in 2019.

Table 5.1: Estimated Fiscal Impact-Operations

	Rockbridge County	City of Lexington	Virginia	Total Tax
Individual Income	\$0	\$0	\$56,245	\$56,245
Sales	\$2,529	\$0	\$10,876	\$13,405
Meals	\$4,176	\$0	\$0	\$4,176
Lodging	\$10,397	\$0	\$0	\$10,397
Total Taxes	\$17,102	\$0	\$67,120	\$84,222

Note: Impacts are measured in the year when they occur. Numbers may not sum due to rounding.

Source: Chmura

¹² This approach is recommended by Burchell and Listokin in *The Fiscal Impact Handbook*. Source: Burchell, R.W. and Listokin, D. 1978. *The Fiscal Impact Handbook: Estimating Local Costs and Revenues of Land Development*. Center for Urban Policy Research, New Brunswick, NJ; Rutgers, The State University of New Jersey.

¹³ Source: Virginia Horse Center.

¹⁴ Virginia has a progressive state income tax system where high-income individuals pay higher percentages of their income as income tax. The rate used in this study is estimated based on the average wage of jobs supported by VHC.

5.2. Tax Revenue from Capital Expenditure

From capital expenditure, the state government can collect corporate and individual income taxes from contractors working on capital projects, while local governments can receive BPOL taxes from spending in their jurisdictions.

Chmura uses the following methodology to estimate state taxes. The IMPLAN model provides an estimate of the profit margin and proportion of employment compensation as a share of total capital expenditure. For example, the IMPLAN model shows that for an average Virginia building contractor, profit accounts for 5.0% of total revenue while employment compensation accounts for 43% of total revenue. With this information, Chmura estimates total profit and wages attributed

Table 5.2: Estimated Fiscal Impact-Capital Expenditure

	Rockbridge County	City of Lexington	Virginia	Total Tax
Individual Income	\$0	\$0	\$19,361	\$19,361
Corporate Income	\$0	\$0	\$2,397	\$2,397
BPOL	\$662	\$346	\$0	\$1,008
Total Taxes	\$662	\$346	\$21,758	\$22,766

Note: Impacts are measured in the year when they occur. Numbers may not sum due to rounding.

Source: Chmura

to capital expenditure before applying the state corporate income tax rate of 6% and average state personal income tax rate of 5.1%. As a result, in 2019, state individual and corporate income taxes from capital expenditure are estimated to be \$19,361 and \$2,397, respectively (Table 5.2).

Both Rockbridge County and the City of Lexington collect BPOL tax from contractor spending in their jurisdictions. The BPOL tax is estimated to be \$662 for the county and \$346 for the city in 2019.

5.3. Tax Revenue from Event Spending

Chmura uses a similar approach to calculate state and local tax revenue from event spending.

In 2019, state individual and corporate income taxes from event expenditure are estimated to be \$72,244 and \$12,677, respectively (Table 5.3).

Table 5.3: Estimated Fiscal Impact-Event Spending

	Rockbridge County	City of Lexington	Virginia	Total Tax
Individual Income	\$0	\$0	\$72,244	\$72,244
Corporate Income	\$0	\$0	\$12,677	\$12,677
BPOL	\$6,015	\$5,338	\$0	\$11,354
Total Taxes	\$6,015	\$5,338	\$84,922	\$96,275

Note: Impacts are measured in the year when they occur. Numbers may not sum due to rounding.

Source: Chmura

Both Rockbridge County and the City of Lexington can collect BPOL tax from businesses from their jurisdictions hired to

stage the events. The BPOL tax from event spending is estimated to be \$6,015

for the county, and \$5,338 for the city in 2019.

5.4. Tax Revenue from Visitor Spending

Visitor spending will generate significant tax revenue for the state and local governments.

For the state government, it is estimated that individual income tax can reach

\$615,966 while corporate income tax is estimated at \$252,580 in 2019.

Visitor spending on retail, lodging, and food services are subject to state and local sales taxes. In 2019, Virginia is estimated to receive \$969,544 in sales tax. The

county and city governments are estimated to receive \$149,511 and \$11,190 in sales tax, respectively.

The meals tax rate is 4.0% for Rockbridge County and 6.0% for the City of Lexington and is applied to visitor spending on food.

Meals tax revenue for the county and city are estimated to be \$144,223 and \$29,392, respectively, in 2019.

The county's lodging tax is 7.0% while the city charges 8.0%. Based on the estimated visitor spending on lodging in both locales, lodging tax revenue is estimated to be \$553,151 for the county and \$61,779 for the city.

Finally, BPOL tax is collected from all visitor spending categories, with different BPOL tax rates being applied to retail, personal services, and business services. The BPOL tax revenue is estimated to be \$60,588 for the county and \$13,022 for the city.

Table 5.4: Estimated Fiscal Impact-Visitor Spending

	Rockbridge County	City of Lexington	Virginia	Total Tax
Individual Income	\$0	\$0	\$615,966	\$615,966
Corporate Income	\$0	\$0	\$252,580	\$252,580
Sales	\$149,511	\$11,190	\$969,544	\$1,130,245
Meals	\$144,223	\$29,392	\$0	\$173,615
Lodging	\$553,151	\$61,779	\$0	\$614,930
BPOL	\$60,588	\$13,022	\$0	\$73,610
Total Taxes	\$907,473	\$115,383	\$1,838,090	\$2,860,945

Note: Impacts are measured in the year when they occur. Numbers may not sum due to rounding.

Source: Chmura

5.5. Tax Revenue Summary

Combining tax revenue from VHC operations, capital expenditure, event spending, and visitor spending, Chmura estimates that VHC contributed an estimated total of \$3.1 million in state and local tax revenue in 2019. The estimated tax for the state government is \$2.0 million. Rockbridge County and the City of Lexington are estimated to have received \$931,253 and \$121,066 in tax revenue, respectively.

Table 5.5: Estimated Fiscal Impact-Total

	Rockbridge County	City of Lexington	Virginia	Total Tax
Individual Income	\$0	\$0	\$763,816	\$763,816
Corporate Income	\$0	\$0	\$267,654	\$267,654
Sales	\$152,040	\$11,190	\$980,420	\$1,143,650
Meals	\$148,399	\$29,392	\$0	\$177,791
Lodging	\$563,548	\$61,779	\$0	\$625,327
BPOL	\$67,266	\$18,706	\$0	\$85,971
Total Taxes	\$931,253	\$121,066	\$2,011,890	\$3,064,209

Note: Impacts are measured in the year when they occur. Numbers may not sum due to rounding.

Source: Chmura

6. Summary

In Rockbridge County, the total economic impact (direct, indirect, and induced) is estimated to be \$47.7 million, supporting 518 jobs (Table 6.1). Even though the VHC is not located in the city of Lexington, the center generated an estimated \$7.4 million in economic impact in Lexington in 2019, supporting 67 jobs. The total economic impact of VHC in Virginia is estimated to be \$95.0 million in 2019 that supported 896 jobs in the state.

Chmura’s analysis also shows that VHC contributed an estimated total of \$3.1 million in state and local tax revenue in 2019. VHC contributed \$2.0 million tax revenue for the state government, 0.9

Table 6.1: Economic & Fiscal Impact Summary of Virginia Horse Center (2019)

		Direct Impact	Total Impact	Tax Revenue
Rockbridge County	Spending (\$Million)	\$36.5	\$47.7	\$0.93
	Employment	426	518	
City of Lexington	Spending (\$Million)	\$4.1	\$7.4	\$0.12
	Employment	40	67	
Virginia	Spending (\$Million)	\$53.7	\$95.0	\$2.01
	Employment	630	896	

Note: Impacts are measured in the year when they occur. Numbers may not sum due to rounding.

Source: IMPLAN 2018, VHC, and Chmura

million for Rockbridge County, and 0.1 million for the City of Lexington in 2019.

This economic and fiscal impact analysis indicates that VHC is an important economic asset in the Lexington area.

Appendix 1: Impact Analysis Glossary

Impact Analysis—an examination of business-business and business-consumer economic relationships capturing all monetary transactions in a given period, allowing one to calculate the effects of a change in an economic activity on the entire economy (input-output analysis).

Direct Impact—economic activity generated by a project or operation. For construction, this represents activity of the contractor; for operations, this represents activity by tenants of the property.

Overhead—construction inputs not provided by the contractor.

Indirect Impact—secondary economic activity that is generated by a project or operation. An example might be a new office building generating demand for parking garages.

Induced (Household) Impact—economic activity generated by household income resulting from direct and indirect impacts.

Ripple Effect—the sum of induced and indirect impacts. In some projects, it is more appropriate to report ripple effects

than indirect and induced impacts separately.

Total Economic Impact—the sum of the direct, indirect and induced impact.

Fiscal Impact—the tax revenue for federal, state or local governments derived from the direct economic impact. Appendix 2 shows the fiscal impact when ripple effects are also included.

Multiplier—the cumulative impacts of a unit change in economic activity on the entire economy.

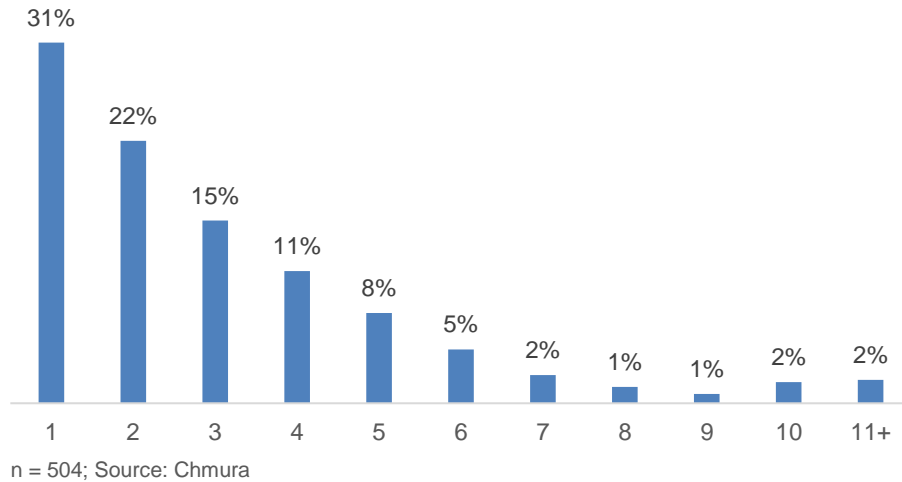
Appendix 2: Visitor Survey Report

A.2.1. Survey Report

In January 2020, Chmura conducted a survey regarding the economic and fiscal impact of the Virginia Horse Center. This survey asked active contacts of the Virginia Horse Center Foundation (VHCF) about their trips to the Horse Center over the past 12 months. After distributing the online survey to 6,583 contacts, Chmura received 768 survey responses for a response rate of 11.7%. Of those 768 responses, 593 respondents (77%) attended at least one event at the VHC over the past 12 months.

Of all respondents who attended at VHC events over the past 12 months, 31% attended one event (Figure A2.1). Over one-fifth of respondents (22%) attended two events, 15% attended three events, 11% attended four VHC events, and 8% attended five events. Several respondents (13%) attended six or more VHC events over the past 12 months.

Figure A2.1 Events Attended by Active VHCF Members



Of the respondents who attended an event at the VHC over the past 12 months, 75% of respondents made at least one overnight trip. Respondents spent an average of 6.5 days in the Lexington area and 2.6 days in Virginia outside of Lexington during their trips to the VHC over the past 12 months. The average size of each respondent’s travel party was 3.8 people during their trips to the VHC.

The majority of VHCF active contacts who visited the VHC also brought animals in their travel party (Figure A2.2). Close to four out of five (79%) respondents brought at least one horse. Almost half of these visitors (47%) brought one or two horses, and nearly one-third (32%) brought three or more horses with them. Over one-third of visitors also brought one or more dogs with them.

Figure A2.2 Horses and Dogs Brought to the VHC

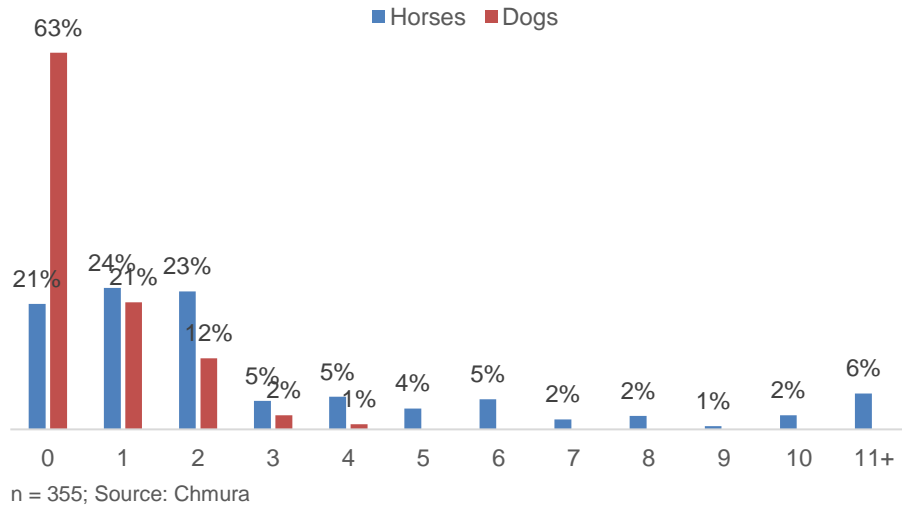


Table A2.1: Average 12-Month Travel Party Spending for Events at the VHC

	Lexington Area	Virginia (Outside Lexington)
Lodging	\$112	\$35
Food & Drink	\$55	\$12
Transportation within Virginia	\$37	\$81
Transportation to Virginia	\$12	\$7
Shopping	\$55	\$8
VHC events/admissions/parking	\$6	\$1
Show fees	\$176	\$56
Farrier costs	\$10	\$16
Veterinary costs	\$9	\$15
Other horse/dog expenses	\$35	\$19
Other expenses	\$17	\$3
Total	\$522	\$252

Source: Chmura

Travel parties visiting the VHC spent an average of \$773 in Virginia for trips over the past 12 months. Of those expenditures, \$522 was spent in the Lexington area and \$252 was in Virginia, but outside of Lexington (Table A2.1). The average travel party spent \$176 on show fees and \$112 on lodging in the Lexington area over the past year. Shopping and food were the next largest expenditures in the Lexington area at \$55 each. Transportation within Virginia was the largest expense for outside the Lexington area at \$81.

Visitors to the VHC often stay at nearby hotels. The Best Western Plus at Hunt Ridge and the Sleep Inn & Suites Virginia Horse Center were the two most popular hotels for travel parties visiting the VHC. Over one-quarter (29%) of respondents stayed at the Best Western Plus at Hunt Ridge, and 23% stayed at the Sleep Inn & Suites VHC (Table A2.2). The Comfort Inn VHC (15%), Howard Johnson by Wyndham Lexington (13%), and the Wingate by Wyndham Lexington (11%) were the next most popular hotels.

Most survey respondents are from Virginia (75%). Of all respondents, 8% are from North Carolina, 4% are from Maryland, and 4% are also from Pennsylvania. An additional 2% of respondents are from West Virginia, and another 2% are from the District of Columbia. No more than 1% of survey respondents came from any other state. The following map shows a cropped view of most respondents from the east coast.

Figure A2.3: East Coast Survey Respondents by ZIP Code

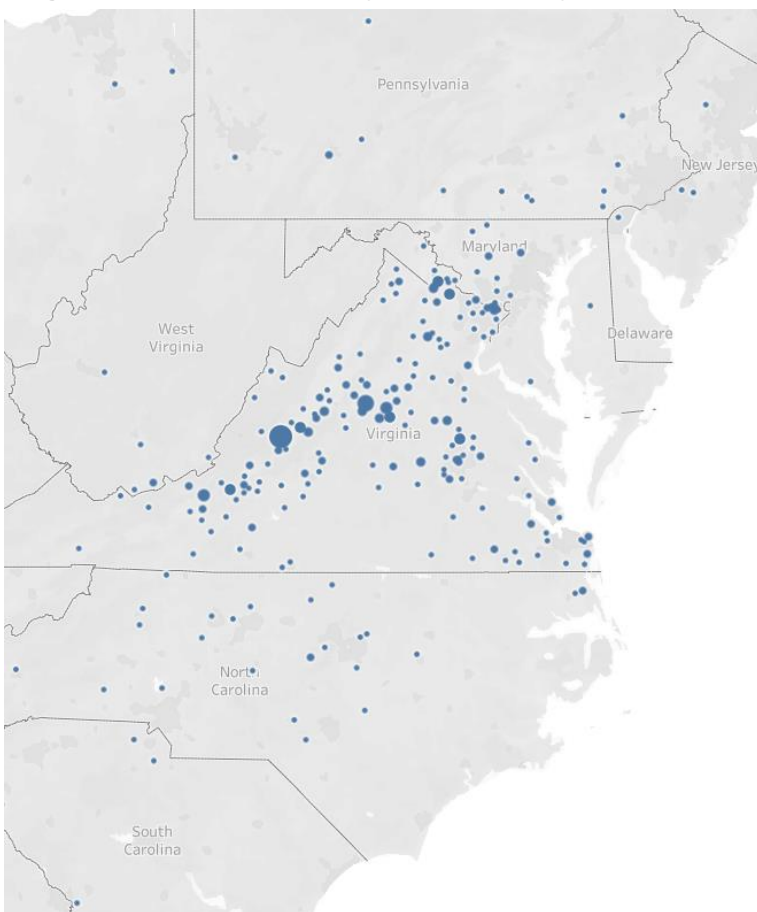


Table A2.2: Hotels Frequented by VHC Travel Parties

	Percent of Respondents
Best Western Plus at Hunt Ridge	29%
Sleep Inn & Suites Virginia Horse Center	23%
Comfort Inn Virginia Horse Center	15%
Howard Johnson by Wyndham Lexington	13%
Wingate by Wyndham Lexington	11%
Best Western Lexington Inn	9%
Holiday Inn Express Lexington	7%
Hampton Inn Lexington-Historic District	6%
Super 8 by Wyndham Lexington VA	6%
Motel 6 Lexington VA	5%
Quality Inn & Suites Lexington	5%
Robert E. Lee Hotel	2%
Sheridan Livery Inn	1%
The Georges	1%
Econo Lodge Lexington Downtown	1%
Other	16%

Source: Chmura

A.2.2. Survey Instrument

Cover Letter

[subject:] Virginia Horse Center

Good afternoon,

The Virginia Horse Center wants to understand its economic and fiscal impact in the region and in the state, and gathering information from visitors, event participants, and other stakeholders is a vital piece of this study. The Virginia Horse Center has engaged Chmura Economics & Analytics for this effort.

The Virginia Horse Center informed us that you may have participated in at least one of their events in the past year, and you are invited to participate in this survey. Your responses will be kept strictly confidential and will only be used in aggregation with other responses. We would greatly appreciate your feedback via a short questionnaire: [SURVEY LINK].

Thank you for your perspective and participation. Please contact surveys@chmuraecon.com if you have any questions.

Implementation Instructions

Programming notes in brackets.

Survey Instrument

1. Have you visited the Horse Center in the past 12 months?
 - a. Yes [continue]
 - b. No [thank and terminate]
2. How many events have you visited at the Virginia Horse Center in the past 12 months? _____
 Please list them all to the best of your recollection.
3. Of your visits to the Horse Center over the past 12 months, how many visits were day-trips? _____
4. For overnight trips to the Horse Center, how many days did you spend in the Lexington area and Virginia?
 - a. Lexington area: _____
 - b. Virginia (excluding Lexington area): _____
 - c. N/A; all my trips were day-trips.
5. On average over the past 12 months, how many people were in your travel party when you visited the Horse Center, including yourself?
6. On a per-trip average, how many horses (or other animals) did your **travel party** bring to the Virginia Horse Center events in the past 12 months?
 - a. Horses: _____
 - b. Other animals: _____ (please specify animal)
 - c. I did not bring any animals
7. Please estimate your **travel party's total spending** in the past 12 months as it relates to your visits to the Horse Center? Please do your best to distinguish where your spending occurred. [2 columns: Lexington area and Virginia (outside Lexington area)]
 - a. Lodging (including camping fees): _____
 - b. Food & Drink: _____
 - c. Transportation within Virginia (e.g. trailer purchase, car rental, taxi, Uber, gas, parking): _____
 - d. Transportation to Virginia (e.g. plane, train, bus, gas): _____
 - e. Shopping (gifts, clothing, personal items): _____
 - f. Virginia Horse Center events/admissions/parking: _____
 - g. Show fees: _____
 - h. Farrier costs: _____
 - i. Veterinary costs: _____
 - j. Other horse (or other animal) expenses (food, barn, etc.) fees: _____

- k. Other: _____
8. If you spent any nights at a local hotel during your visits to the Horse Center, please list the number of nights spent at each hotel over the past 12 months:
- a. I did not spend any nights at a local hotel during my visits to the Horse Center
 - b. Best Western Plus at Hunt Ridge: _____
 - c. Sleep Inn & Suites Virginia Horse Center: _____
 - d. Super 8 by Wyndham Lexington VA: _____
 - e. Wingate by Wyndham Lexington: _____
 - f. Comfort Inn Virginia Horse Center: _____
 - g. Motel 6 Lexington VA: _____
 - h. Holiday Inn Express Lexington: _____
 - i. Best Western Lexington Inn: _____
 - j. The Georges: _____
 - k. Sheridan Livery Inn: _____
 - l. Hampton Inn Lexington-Historic District: _____
 - m. Robert E. Lee Hotel: _____
 - n. Econo Lodge Lexington Downtown: _____
 - o. Quality Inn & Suites Lexington: _____
 - p. Howard Johnson by Wyndham Lexington: _____
 - q. Other: _____: _____
9. What is your home ZIP code?
10. Thank you for your feedback. May we contact you with follow-up questions? If so, please provide your name, email, and/or phone number. [optional]
- a. Name: _____
 - b. Email: _____
 - c. Phone Number: _____

[Thank & terminate survey]

Appendix III

VIRGINIA HORSE CENTER FOUNDATION
Financial Statements and
Independent Auditors' Report
June 30, 2020 and 2019

Virginia Horse Center Foundation
Financial Statements and
Independent Auditors' Report
June 30, 2020 and 2019

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DAVID B. HAWKINS, CPA
BO HAYWOOD, CPA
LUCAS C. PENIX, CPA

To the Board of Directors
Virginia Horse Center Foundation
Lexington, Virginia 24450

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Virginia Horse Center Foundation, which comprise the statements of financial position as of June 30, 2020 and 2019, the related statements of activities, of cash flows and the functional allocation of expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Horse Center Foundation as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2020 on our consideration of The Virginia Horse Center Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Virginia Horse Center Foundation's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Pritz & Haudman", with a stylized flourish at the end.

October 28, 2020

Virginia Horse Center Foundation
Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
<u>Assets:</u>		
Cash and Cash Equivalents	\$ 318,081	\$ 73,220
Restricted Cash and Cash Equivalents (Note 7)	1,330,279	1,433,147
Accounts Receivable (Note 2)	78,171	35,932
Contributions Receivable (Note 4)	196,881	292,748
Inventories (Note 2)	38,509	22,754
Prepaid Expenses	6,613	35,139
Property & Equipment, net (Note 6)	19,393,177	17,759,558
Other Assets	5,027	4,907
Total Assets	21,366,738	19,657,405
 <u>Liabilities:</u>		
Accounts Payable	500,660	343,239
Accrued Salaries & Payroll Taxes	144,505	71,536
Accrued Interest Payable (Note 5)	263,072	177,491
Deferred Revenue	213,393	108,898
Notes Payable and Long Term Debt (Note 5)	11,376,620	11,565,531
Total Liabilities	12,498,250	12,266,695
 <u>Net Assets:</u>		
Without Donor Restrictions	8,249,296	6,967,328
Net Assets with Donor Restrictions (Note 8)	619,192	423,382
Total Net Assets	8,868,488	7,390,710
Total Liabilities and Net Assets	21,366,738	19,657,405

The accompanying notes are an integral part of these financial statements.

Virginia Horse Center Foundation
Statements of Activities
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Changes in Net Assets without Donor Restrictions:		
Revenues, Gains & Support		
Events, Shows, & Facility Fee Income	\$ 1,832,813	\$ 2,851,525
Grants (Note 3)	851,444	958,173
Merchandise & Supplies Sales, net (Note 2)	167,371	288,853
Facility Sponsorships	40,671	40,981
Contributions (Note 4)	734,610	362,940
Other Income	16,984	18,923
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions (Note 8)	111,157	87,824
Satisfaction of Asset Acquisition Restrictions	1,613,312	-
Expiration of Time Restrictions (Note 8)	2,000	155,168
Total Revenues, Gains & Support	<u>5,370,362</u>	<u>4,764,387</u>
Expenses & Losses:		
Events, Shows, & Facility Operations	2,754,191	3,728,850
Management & General Expenses	1,210,355	1,260,447
Fund Raising Expenses	123,848	126,905
Total Expenses & Losses	<u>4,088,394</u>	<u>5,116,202</u>
Change in Net Assets without Donor Restrictions	1,281,968	(351,815)
Changes in Net Assets with Donor Restrictions:		
Contributions (Note 4)	1,922,279	438,788
Net Assets Released From Restrictions (Note 8)	<u>(1,726,469)</u>	<u>(242,992)</u>
Change in Net Assets with Donor Restrictions	<u>195,810</u>	<u>195,796</u>
Change in Net Assets	1,477,778	(156,019)
Net Assets, Beginning of Year	<u>7,390,710</u>	<u>7,546,729</u>
Net Assets, End of Year	<u>8,868,488</u>	<u>7,390,710</u>

The accompanying notes are an integral part of these financial statements.

Virginia Horse Center Foundation
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 1,477,778	\$ (156,019)
Adjustments to reconcile the change in net assets to cash flows from operating activities:		
Depreciation and amortization	643,817	612,829
(Gain) loss on disposal of property	61,431	-
Patronage certificate refund	(120)	-
Change in contributions receivable	95,867	(182,311)
Change in accounts receivable	(42,239)	34,940
Change in grants receivable	-	399,297
Change in inventories	(15,755)	12,114
Change in prepaid expenses	28,526	(25,415)
Change in accounts payable	(20,732)	92
Change in accrued salaries and payroll taxes	72,969	(19,871)
Change in accrued interest payable	85,581	17,871
Change in deferred revenue	104,495	61,908
Cash Flows from Operating Activities	2,491,618	755,435
Cash flows from investing activities		
Capital expenditures for property and equipment	(2,158,384)	(236,516)
Cash Flows from Investing Activities	(2,158,384)	(236,516)
Cash flows from financing activities		
Costs to Issue New Debt	-	(11,649)
Proceeds from issuance of debt	350,000	1,752,000
Principal payments on debt	(541,241)	(1,420,944)
Cash Flows from Financing Activities	(191,241)	319,407
Change in Cash and Cash Equivalents	141,993	838,326
Cash and Cash Equivalents, Beginning of Year	1,506,367	668,041
Cash and Cash Equivalents, End of Year	1,648,360	1,506,367
From Statements of Financial Position:		
Cash and Cash Equivalents	\$ 318,081	\$ 73,220
Restricted Cash and Cash Equivalents	1,330,279	1,433,147
Total Cash and Cash Equivalents	1,648,360	1,506,367

The accompanying notes are an integral part of these financial statements.

Virginia Horse Center Foundation
Functional Allocation of Expenses
For the Year Ended June 30, 2020

	Program	Management & General	Fundraising	Total
Salaries and wages	\$ 612,669	\$ 294,653	\$ 18,970	\$ 926,292
Other employee benefits	18,664	7,816	-	26,480
Payroll taxes	57,574	20,848	1,623	80,045
Repairs and maintenance	245,290	5,091	2,555	252,936
Rental equipment	101,812	3,116	-	104,928
Accounting services	-	65,806	-	65,806
Audit	-	23,750	-	23,750
Advertising & signage	7,127	2,705	-	9,832
Contracted services	426,906	5,012	93,267	525,185
Utilities	192,269	82,633	-	274,902
Employee travel	-	15,406	170	15,576
Show and judge travel	77,157	92	-	77,249
Interest expense	-	502,007	-	502,007
Depreciation	641,487	-	-	641,487
Insurance	-	62,921	-	62,921
Printing & publishing	10,253	29	5,481	15,763
Supplies	60,674	4,895	472	66,041
Postage	327	2,739	1,310	4,376
Association fees and dues	54,733	1,671	-	56,404
Fuel	19,325	-	-	19,325
Other	10,463	10,563	-	21,026
Legal fees	-	200	-	200
Other professional fees	-	17,006	-	17,006
Bank charges and fees	6,817	18,223	-	25,040
Taxes	704	1,742	-	2,446
Prizes	209,940	-	-	209,940
Loss on asset abandonment	-	61,431	-	61,431
Totals	2,754,191	1,210,355	123,848	4,088,394

The accompanying notes are an integral part of these financial statements.

Virginia Horse Center Foundation
Functional Allocation of Expenses
For the Year Ended June 30, 2019

	<u>Program</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 797,002	\$ 350,250	\$ 22,299	\$ 1,169,551
Other employee benefits	15,309	4,334	-	19,643
Payroll taxes	73,403	27,564	2,343	103,310
Repairs and maintenance	198,121	27,717	-	225,838
Rental equipment	52,033	-	391	52,424
Accounting services	-	61,237	-	61,237
Audit	-	23,250	-	23,250
Advertising & signage	18,448	5,075	134	23,657
Contracted services	924,616	1,630	91,345	1,017,591
Utilities	166,051	106,429	-	272,480
Employee travel	336	18,892	168	19,396
Show and judge travel	175,380	-	-	175,380
Interest expense	-	507,315	-	507,315
Depreciation	610,876	-	-	610,876
Insurance	-	59,867	-	59,867
Printing & publishing	10,892	1,309	9,805	22,006
Supplies	87,907	6,595	-	94,502
Postage	491	3,409	214	4,114
Association fees and dues	96,546	5,310	-	101,856
Fuel	30,346	21	-	30,367
Other	43,464	11,070	206	54,740
Other professional fees	-	7,513	-	7,513
Bank charges and fees	2,997	29,730	-	32,727
Taxes	-	1,830	-	1,830
Prizes	424,617	100	-	424,717
Bad debt expense	15	-	-	15
Totals	<u>3,728,850</u>	<u>1,260,447</u>	<u>126,905</u>	<u>5,116,202</u>

The accompanying notes are an integral part of these financial statements.

Virginia Horse Center Foundation
Notes to Financial Statements
June 30, 2020 and 2019

Note 1 - Description of the Entity:

The Virginia Horse Center Foundation (also known as "The Virginia Horse Center" or the "Center") is a Virginia nonstock corporation. The Center is exempt from most Federal and Virginia income taxes under Internal Revenue Code Section 501(c)(3). The Center is not classified as a private foundation.

Its current mission and vision statements are:

Mission

The Virginia Horse Center Foundation provides a world class facility hosting regional, national and international equestrian events.

Vision

The Virginia Horse Center Foundation envisions a unique, bucolic landmark to honor and celebrate the timeless, special bond between mankind and the horse through safe, fair, and spirited equestrian competition.

The Virginia Horse Center is a 573 acre state-of-the-art environment for horse shows and other events. There are currently eight barns to accommodate 750 horses in permanent stabling. Approximately 1,200 horses can be accommodated indoors in permanent and temporary stabling. Four of the barns are winterized. Their proximity to a 4,000 seat indoor coliseum allows the event calendar to extend throughout the year. The Virginia Horse Center has fourteen show rings including two large arenas, one of which is Olympic level and two cross-country courses, including FEI (International) level courses.

The Center offers two campgrounds, event food service, catering service with banquet facilities and other amenities. The Center also coordinates programs and stages horse related events and activities that serve to enhance Virginia's equine industry.

Note 2 - Statement of Significant Accounting Policies:

The accompanying financial statements of the Virginia Horse Center have been prepared on the accrual basis. The accounting policies described below have been applied in preparation of the accompanying financial statements.

Contributions and Grants

The Virginia Horse Center reports gifts of cash and other assets as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished net assets with donor restrictions are reclassified in the statement of activities as net assets released from restrictions.

The Center reports gifts of land, buildings, and equipment as contributions without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as contributions with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Center reports expirations of donor restrictions when donated or acquired long-lived assets are placed in service.

Cash flows

The Center uses the indirect method of presenting its cash flows, whereby the change in net assets is reconciled to cash flows from operating activities.

Virginia Horse Center Foundation
Notes to Financial Statements
June 30, 2020 and 2019

Note 2 - continued:

Cash and cash equivalents

The Virginia Horse Center considers cash and cash equivalents to include checking account balances and other short-term liquid investments which can be converted to a known amount of cash and carry an insignificant risk of change in value. The Center may maintain balances which are not federally insured or are in excess of the federally insured limits. The Center has not experienced any losses on such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment

Property and equipment is stated at cost. Depreciation expense is provided on the straight-line basis over estimated useful lives as follows:

Land Improvements	10-30 years
Buildings	15-40 years
Equipment	5-15 years
Vehicles	5 years

Functional Allocation of Expenses

The costs of providing the operations, programs, and other activities of the Virginia Horse Center have been summarized on a functional basis in the statement of activities. Accordingly, certain costs, such as salaries, benefits, utilities, supplies, and other generic operating expenses, have been allocated among the programs and supporting services benefitted. Wherever possible, direct costs for specific functions were identified and assigned; for instance, salaries based upon records of the specific duties performed by individual employees.

Non-monetary Transactions

Gifts of marketable securities are recorded at fair value on the date received. Exchange transactions for goods and services are also recorded at fair value. The Virginia Horse Center also received contributed goods and services from various individuals and organizations which have not been recorded in the accompanying financial statements because their value has not been susceptible to reasonable estimation and objective measurement.

Fringe Benefits

Earned but unused employee vacations have been reported together with applicable payroll taxes as accrued expenses.

Accounts Receivable and Revenue

Revenues from facility rentals, shows, sales, services, sponsorships, and special events are recognized upon completion of each event. Commissions and facility sponsorships are recognized in the period for which the revenue is designated by the underlying contract. Registrations, show fees, and reservations received in advance are reported as deferred revenue. Accounts receivable at June 30, 2020 and 2019 are reported net of an allowance for bad debts of \$5,066. The entire accounts receivable balance is expected to mature in 2021.

Virginia Horse Center Foundation
Notes to Financial Statements
June 30, 2020 and 2019

Note 2 - continued:

Inventories

At June 30, 2020 and 2019, inventories consist of \$414 and \$1,545, respectively, in food and beverage and \$38,095 and \$21,209, respectively, in stable supplies. Inventories are stated at the lower of cost or market on the first-in / first-out basis.

Advertising and Promotion

Costs incurred for advertising and promotion are expensed as incurred. Advertising expense was \$8,393 and \$15,614 in 2020 and 2019, respectively.

Merchandise and Supplies Sales

Sales of bedding, feed and other merchandise reported as revenues in the accompanying statement of activities for the years ended June 30, 2020 and 2019 are comprised of the following:

	2020	2019
Sales	\$ 356,360	\$ 641,850
Cost of Sales	188,989	352,997
Net	167,371	288,853

Reclassifications

Certain amounts reported in prior years in the financial statements have been reclassified to conform to the current year's presentation.

Note 3 - Economic Dependency and Performance Agreements:

The operations of the Center, along with its fund-raising activities, are intended to provide sufficient cash flows to be self-sustaining. The results of operations may not provide cash flows for repayment of existing outstanding capital indebtedness. The Center is dependent upon charitable giving and local government support. Should any of these sources of income fail to materialize, there would be a substantial effect on the operations and assets of the Center. Local governments provided \$798,487 and \$918,086 in support derived from a special assessment of lodging taxes in 2020 and 2019, respectively, that must be dedicated to payment of the USDA long term debt and to debt service related to capital projects. These amounts are included in grants on the Statements of Activities.

Rockbridge County, Virginia and City of Lexington, Virginia have entered into performance agreements with the Virginia Horse Center Foundation. Under the agreements, the two local governments have dedicated up to 3% of local transient occupancy taxes collected to support the USDA loan payments. Any surplus over the required USDA debt service may be used for capital maintenance projects with advance permission of the local economic development authorities and appropriation by the board of supervisors and/or city council. The agreements impose operating and financial covenants on the Center. Rockbridge County has the right to develop athletic fields on 8.708 acres of land under terms of a 50-year lease entered into in 2017.

Note 4 - Contributions Receivable and Contributions Revenue:

Contributions receivable at June 30, 2020 and 2019 are reported net of a discount to present value of \$13,519 and \$20,253 respectively, computed at 5.50%. Contributions receivable are expected to mature as follows: 2021 - \$110,400; 2022 - \$50,000; and 2023 - \$50,000. Contributions from related parties recognized as revenue in 2020 and 2019 aggregated \$1,251,368 and \$121,740 respectively.

In 2020, of \$2,656,889 in aggregate contribution revenue, \$1,467,459 or 55.2% was received from five donors. In 2019, of \$801,728 in aggregate contribution revenue, \$475,571 or 59.3% was received from six donors.

Virginia Horse Center Foundation
Notes to Financial Statements
June 30, 2020 and 2019

Note 5 - Notes Payable and Long Term Debt:

Details of notes payable and long term debt are as follows:

	<u>2020</u>	<u>2019</u>
\$11,500,000 USDA Rural Development Community Facilities Loan bearing interest at 4.125% due in annual installments of \$604,555 beginning 2/10/10 and ending 2/15/47	\$ 9,642,185	\$ 9,926,071
Revolving line of credit bearing interest at Prime Rate plus 2%, interest payable monthly	150,000	102,000
Note payable bearing interest at 5.85%, secured by real estate and assignment of tax distribution, with interest payments due quarterly and annual payments of \$150,000 with a lump sum payment of principal and interest of \$659,084 due on August 29, 2025, net of unamortized debt issuance costs of \$7,366.	1,342,634	1,490,304
Note payable bearing interest at 5.4% with interest paid quarterly and annual principal installments maturing on June 30, 2023	200,000	-
Other loans	41,801	47,156
	<u>11,376,620</u>	<u>11,565,531</u>

All of the Center's real estate (except 22 acres) and substantially all other assets of the Center have been pledged as collateral for the USDA loan. Under terms of the loan, the Center is subject to certain USDA regulations and covenants. The Center is required to maintain a restricted deposit account in the amount of at least \$604,555 as a debt service reserve as shown in Note 7. Withdrawals are permitted under circumstances specified in the loan agreement. Monthly replenishment payments of \$5,038 are required at any time the account is less than the specified amount.

Principal maturities of the notes payable and long term debt are as follows: 2021 - \$612,031; 2022 - \$421,118; 2023 - \$428,666; 2024 - \$386,909, 2025 - \$396,169 and thereafter \$9,131,727. Interest expense accrued was \$499,646 and \$505,781 in 2020 and 2019, respectively. Interest expense paid was \$414,065 and \$487,910 in 2020 and 2019, respectively.

Virginia Horse Center Foundation
Notes to Financial Statements
June 30, 2020 and 2019

Note 6 - Property and Equipment:

Details of property and equipment are as follows:

	2020	2019
Land	\$ 7,318,640	\$ 7,318,640
Land Improvements	3,369,942	1,954,811
Buildings	15,965,079	15,101,759
Equipment & software	682,068	523,611
Vehicles	68,108	67,366
Construction In Progress	22,510	267,561
	<u>27,426,347</u>	<u>25,233,748</u>
Less accumulated depreciation	(8,033,170)	(7,474,190)
Property and equipment, net	<u>19,393,177</u>	<u>17,759,558</u>

At June 30, 2020, the Center reported \$61,431 as a loss on asset abandonment in the Functional Allocation of Expenses representing assets not fully depreciated that were replaced in the current year facility renovations.

Note 7 - Restricted Cash and Equivalents:

Transactions in the restricted cash accounts for the years ended June 30, 2020 and 2019 were as follows:

	Restricted Loan Proceeds	USDA Debt Service	Debt Escrow	VA Hunter Championship	Restricted Gifts	Total Restricted Cash & Equivalents
Balance at June 30, 2018	\$ -	\$ 165,112	\$ 286,050	\$ 77,258	\$ 45,842	\$ 574,262
Deposits	1,025,825	1,331,909	191	161,070	84,590	2,603,585
Withdrawals	(569,863)	(671,099)	(286,241)	(139,188)	(78,309)	(1,744,700)
Balance at June 30, 2019	455,962	825,922	-	99,140	52,123	1,433,147
Deposits	447,223	905,994	-	122,817	2,306,205	3,782,239
Withdrawals	(851,717)	(836,893)	-	(216,375)	(1,980,122)	(3,885,107)
Balance at June 30, 2020	<u>51,468</u>	<u>895,023</u>	<u>-</u>	<u>5,582</u>	<u>378,206</u>	<u>1,330,279</u>

Certain loan proceeds have been restricted to use for capital projects and deferred maintenance by the performance agreements described in Note 3. The Center maintains a restricted treasury under terms of a contract for operations of the Virginia Hunter Championships.

Virginia Horse Center Foundation
Notes to Financial Statements
June 30, 2020 and 2019

Note 8 - Net Assets With Donor Restrictions:

Net assets with donor restrictions are available for the following purpose or periods:

	<u>2020</u>	<u>2019</u>
Program Restricted	\$ 93,789	\$ 155,634
Asset Restricted	328,522	260,000
Time Restricted	196,881	7,748
	<u>619,192</u>	<u>423,382</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors as follows:

	<u>2020</u>	<u>2019</u>
Asset Restrictions Satisfied:		
Barn renovation	\$ 555,101	\$ -
Dee Dee Complex (formerly Fletcher Arena)	445,657	-
Lighting Project	259,747	-
IT Project	166,787	-
Memorial Park	153,120	-
Other	32,900	-
Total Asset Restrictions Satisfied	<u>1,613,312</u>	<u>-</u>
Program Restrictions Satisfied	111,157	87,824
Time Restrictions Expired	2,000	155,168
Total Restriction Releases	<u>1,726,469</u>	<u>242,992</u>

Note 9 – Liquidity and Availability of Resources:

The Foundation's financial assets available for general expenditure within one year at June 30 are as follows:

	<u>2020</u>	<u>2019</u>
Cash & cash equivalents	\$ 318,081	\$ 73,220
Restricted cash and equivalents	44,720	120,429
Accounts receivable	78,171	35,932
Contributions receivable	110,400	159,001
Total	<u>551,372</u>	<u>388,582</u>

As described in note 3, grants from local governments are available only for debt service payments.

Virginia Horse Center Foundation
Notes to Financial Statements
June 30, 2020 and 2019

Note 10 - Non Monetary contributions:

For the years ended June 30, 2020 and 2019, the Center received \$98,918 and \$45,339, respectively, in non-monetary contributions.

Note 11 – Subsequent Events:

The Virginia Horse Center Foundation has evaluated subsequent events for disclosure and recognition through October 28, 2020, the date these financial statements were available to be issued.

Note 12 – Global Pandemic:

Operating activities of the Virginia Horse Center Foundation were materially affected beginning in March 2020 by economic and social shutdown orders issued by government officials in an effort to control the continuing spread of the COVID-19 virus in the United States. Management has taken measures that are deemed appropriate for the continuing operations of the Virginia Horse Center Foundation. Horse shows did not occur between mid-March and early June 2020. Financial consequences to the Virginia Horse Center Foundation due to changes in horse show restrictions and further pandemic mandates cannot be quantified at this time.

“Items Required by “Government Auditing Standards”

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To the Board of Directors
Virginia Horse Center Foundation
Lexington, Virginia 24450

Independent Auditors' Report

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Virginia Horse Center Foundation as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Virginia Horse Center Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Virginia Horse Center Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Virginia Horse Center Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Virginia Horse Center Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Baetz + Harding". The signature is written in a cursive style with a large, sweeping flourish at the end.

October 28, 2020