

Industrial Development Authority of the City of Lexington, Virginia

Tuesday, October 24, 2017, 5:00 p.m.

300 East Washington Street

City Hall Community Room (First Floor)

1. Call to Order – John DeVogt, IDA Chairman
2. Consideration of the Horse Center’s loan with Cornerstone Bank – Gary Swink
3. Adjourn – John DeVogt, IDA Chairman



## **IDA Agenda Item October 24, 2017**

### **TOPIC:**

Consideration of Virginia Horse Center Refinancing Request

### **BACKGROUND:**

As you are likely aware, the Virginia Horse Center (VHC), in cooperation with the County and City of Lexington, have been working with the USDA for well over a year in an effort to refinance a portion of its debt and obtain additional funding to complete necessary capital maintenance projects. Ultimately, the USDA ran out of funds in the last federal fiscal year which ended on September 30. The next potential opportunity for such an option will not be until Congress passes a budget, which could be as late as approximately June of 2018. In the meantime, the VHC must address the need to retire a loan from New River Bank (NRB) prior to its date of maturity in January 2018. To recap, the outstanding loans are:

- 1) USDA\* - \$10,307,061 remaining. Interest Rate: 4.125%; Maturity date: 2/15/47.  
\* (actually two loans which are generally combined for discussion purposes)
- 2) New River Bank - \$741,900 principal remaining, plus interest from July through payoff date. Interest Rate: 5.5%; Maturity date: January 15, 2018
- 3) Cornerstone Bank - \$250,000 remaining. Interest Rate: 6%. Maturity Date 7/15/19.  
Fund Source – Extra 1% lodging tax from localities

Multiple options for retiring the NRB loan have been explored. The VHC Board has determined that the most advantageous course of action would be to refinance the debt locally through Cornerstone Bank from which the VHC has received favorable terms: 5% interest rate payable monthly; Maturity – 12 months from closing with an option to extend for an additional year. The complete terms of the loan offer are attached. The goal of this short term loan is to bridge the VHC debt service until the USDA loan, or a similar financing from the open market can be obtained, with a target date of June, 2018. The VHC's goal is to close on the loan by mid-November. Please also bear in mind that there is an outstanding life insurance policy in the amount of \$500,000 which the VHC plans to use as working capital to pay accumulated accounts payable. More details are provided by the VHC on this subject in the attachments.

Additionally, the VHC has determined that it could liquidate one of two homes that are situated on the Oak Hill Farm property, east of Maury River Road. Known as the Pultz house, the home is over 100 years old and requires extensive maintenance. The interested buyer is the current tenant, and the sales price is the \$137,600 based upon an independent residential appraisal that the Virginia

Horse Center received in late September. Proceeds from the proposed sale would be held in escrow as part of the collateral to secure the proposed Cornerstone Bank loan. A site map showing the location of the home is attached.

Should the VHC refinance the New River Bank debt with Cornerstone Bank, the property off Alphin Lane which has been designated as a potential site for athletic fields could be removed as collateral, if the County were to pledge collateral equal to the value of that land, allowing a path forward for development and a no cost lease of the property. Details for such an arrangement, to include development of a draft lease agreement and draft site design are still being discussed.

In 2014, the Board of Supervisors, County EDA, Lexington City Council and Lexington IDA all approved an agreement which provided the Virginia Horse Center with an additional 1% of lodging tax revenue to support its debt service requirements. The agreement was amended and extended in 2016. A condition of the agreement requires that any restructuring of debt must be approved by the four bodies. The County has already approved the refinancing.

Many questions about the refinancing have been raised by City staff and members of City Council. VHC's answers to those questions, as well as last year's VHC's audit report and September 2017 financials are attached for your consideration.

**COST(S)/ACCOUNT NUMBER(S):**

There will be no costs for either the IDA or the City related to this action.

**MANAGER'S RECOMMENDATION:**

Approve the Virginia Horse Center's request to refinance the New River Bank's loan with a loan from Cornerstone Bank and make the same recommendation to City Council.

Information received from the Horse Center (1/15)

Virginia Horse Center, in cooperation with the County and City of Lexington, have been working with the USDA for well over a year in an effort to refinance a portion of its debt and obtain additional funding to complete necessary capital maintenance projects. Ultimately, the USDA ran out of funds in the last federal fiscal year that ended on September 30. The next potential opportunity for such an option will not be until Congress passes a budget, which could be as late as approximately June of 2018. In the meantime, the VHC must address the need to retire a loan from New River Bank prior to its date of maturity in January 2018. VHCF's outstanding loans are:

- 1) USDA\* - \$10,307,061 remaining. Interest Rate: 4.125%; Maturity date: 2/15/47.  
\* (actually two loans which are generally combined for discussion purposes)
- 2) New River Bank - \$741,900 principal remaining, plus interest from July through payoff date. Interest Rate: 5.5%; Maturity date: January 15, 2018
- 3) Cornerstone Bank - \$250,000 remaining. Interest Rate: 6%. Maturity Date 7/15/19.  
Fund Source – Extra 1% lodging tax from localities; Purpose – deferred maintenance.

Multiple options for retiring the NRB loan have been explored. The VHC Board has determined that the most advantageous course of action would be to refinance the debt locally through Cornerstone Bank from which the VHC has received favorable terms: 5% interest rate payable monthly; Maturity – 12 months from closing with an option to extend for an additional year. The goal of this short term loan is to bridge the VHC debt service until the USDA loan, or a similar financing from the open market can be obtained, with a target date of June, 2018. The VHC's goal is to close on the loan by mid-November. Once this loan is repaid, VHCF will receive the \$500,000 in life insurance proceeds that it plans to use to settle accounts owing.

Additionally, the VHC has determined that it could liquidate one of two homes that are situated on the Oak Hill Farm property, east of Maury River Road. Known as the Pultz house, the home is over 100 years old and requires extensive maintenance. The interested buyer is the current tenant, and the sales price is the \$137,600 based upon an independent residential appraisal that the Virginia Horse Center received in late September. Proceeds from the proposed sale would be held in escrow as part of the collateral to secure the proposed Cornerstone Bank loan.

In 2014, the Board of Supervisors, County EDA, Lexington City Council and Lexington IDA all approved an agreement, which provided the Virginia Horse Center with an additional 1% of lodging tax revenue to support its debt service requirements. The agreement was amended and extended in 2016. A condition of the agreement was and remains that any restructuring of debt or sale of property must be approved by the four bodies listed above.

AT A REGULAR MEETING OF THE ROCKBRIDGE COUNTY BOARD OF SUPERVISORS HELD AT THE ROCKBRIDGE COUNTY ADMINISTRATIVE OFFICES ON OCTOBER 10, 2017

**AGENDA ITEM:**     **Consideration of VHC Refinancing Request**

**SUBMITTED BY:**    Spencer H. Suter, County Administrator

**DATE:**                October 5, 2017

**SUMMARY OF INFORMATION:**

As you are aware, Virginia Horse Center, in cooperation with the County and City of Lexington, have been working with the USDA for well over a year in an effort to refinance a portion of its debt and obtain additional funding to complete necessary capital maintenance projects. Ultimately, the USDA ran out of funds in the last federal fiscal year which ended on September 30. The next potential opportunity for such an option will not be until Congress passes a budget, which could be as late as approximately June of 2018. In the meantime, the VHC must address the need to retire a loan from New River Bank prior to its date of maturity in January 2018. To recap, the outstanding loans are:

- 1) USDA\* - \$10,307,061 remaining. Interest Rate: 4.125%; Maturity date: 2/15/47.  
\* (actually two loans which are generally combined for discussion purposes)
- 2) New River Bank - \$741,900 principal remaining, plus interest from July through payoff date. Interest Rate: 5.5%; Maturity date: January 15, 2018
- 3) Cornerstone Bank - \$250,000 remaining. Interest Rate: 6%. Maturity Date 7/15/19.  
Fund Source – Extra 1% lodging tax from localities

Multiple options for retiring the NRB loan have been explored. The VHC Board has determined that the most advantageous course of action would be to refinance the debt locally through Cornerstone Bank from which the VHC has received favorable terms: 5% interest rate payable monthly; Maturity – 12 months from closing with an option to extend for an additional year. The goal of this short term loan is to bridge the VHC debt service until the USDA loan, or a similar financing from the open market can be obtained, with a target date of June, 2018. The VHC's goal is to close on the loan by mid-November. Please also bear in mind that there is an outstanding life insurance policy in the amount of \$500,000 which the VHC plans to use to settle accounts owing. The VHC is prepared to discuss this at the meeting on Monday.

Additionally, the VHC has determined that it could liquidate one of two homes that are situated on the Oak Hill Farm property, east of Maury River Road. Known as the Pultz house, the home is over 100 years old and requires extensive maintenance. The interested buyer is the current tenant, and the sales price is the \$137,600 based upon an independent residential appraisal that the Virginia Horse Center received in late

September. Proceeds from the proposed sale would be held in escrow as part of the collateral to secure the proposed Cornerstone Bank loan. A site map showing the location of the home is attached.

Should the VHC refinance the New River Bank debt with Cornerstone Bank, the property off Alphin Lane which has been designated as a potential site for athletic fields could be removed as collateral, if the County were to pledge collateral equal to the value of that land, allowing a path forward for development and a no cost lease of the property. Details for such an arrangement, to include development of a draft lease agreement and draft site design are still being discussed.

In 2014, the Board of Supervisors, County EDA, Lexington City Council and Lexington IDA all approved an agreement which provided the Virginia Horse Center with an additional 1% of lodging tax revenue to support its debt service requirements. The agreement was amended and extended in 2016. Copies of both documents are attached for your review.

A condition of the agreement was and remains that any restructuring of debt or sale of property must be approved by the four bodies listed above. VHC Executive Director John Nicholson and Chief Financial Officer Sandra Thomas will be in attendance on Tuesday evening to provide details of the potential refinancing and sale of property, and to request the Board's support/authorization in accordance with the agreement. Based on the presentation and discussion, the Board would have the following options:

- 1) Support both the refinancing and property sale requests as presented
- 2) Support one request but not the other
- 3) Support one or both of the requests with conditions
- 4) Support neither request and/or request additional information

**ACTION REQUESTED:**

- 1) Receive a presentation from the VHC.
- 2) Consider the options above and move/vote accordingly.

Attachments (3)



# Virginia Horse Center Site Map



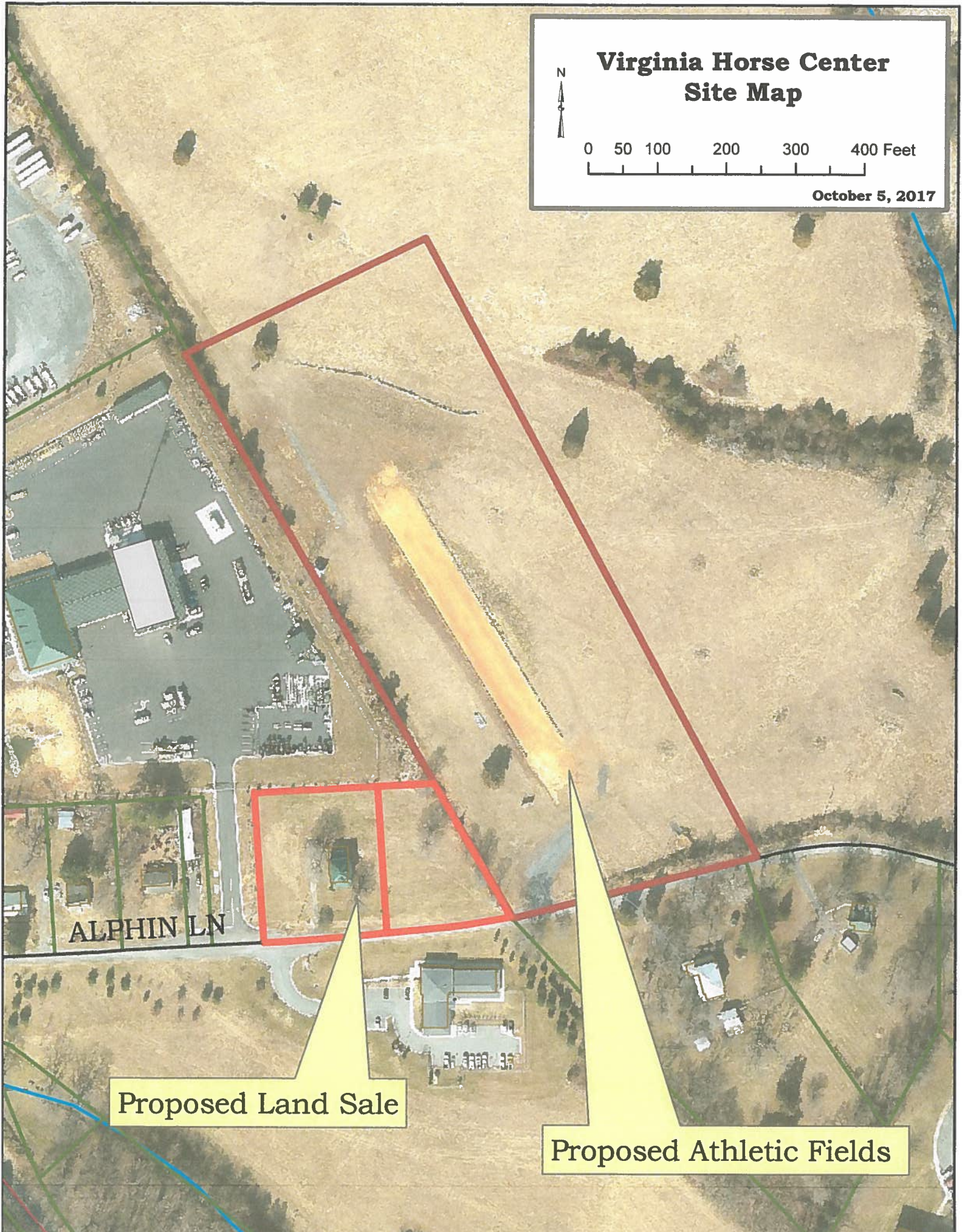
0 50 100 200 300 400 Feet

October 5, 2017

ALPHIN LN

Proposed Land Sale

Proposed Athletic Fields





## Gary Swink

---

**From:** Sandra Thomas <sgt1@me.com>  
**Sent:** Wednesday, October 11, 2017 2:08 PM  
**To:** Gary Swink  
**Cc:** John Nicholson (nicholsonjohnd@gmail.com); Noah Simon  
**Subject:** Re: Cornerstone Financing

Gary,

Thanks for the update and the questions. Please remember the purpose of this loan is to pay off the NRB balloon before it comes due and bridge the period until we can close on the anticipated USDA loan - once Congress passes a budget. Please see my comments in black below.

Please let me know if you have any additional questions. We want to make sure that you, the members of City Council and IDA have everything that they need.

Best,

Sandra

On Oct 11, 2017, at 12:58 PM, Gary Swink <[gswink@lexingtonva.gov](mailto:gswink@lexingtonva.gov)> wrote:

Sandra/John,

I hope this finds both of you well. We plan to have this matter on the agenda for an IDA meeting on the 24th at 5 pm and on Council's agenda on November 2nd. In order to do so, we need more information from you. We have a copy of the information that we believe Spencer used for the Board of Supervisors, but this leaves several questions unanswered. I have listed those questions below:

\* Can you provide a summary of the terms of the Cornerstone loan? Is the loan for \$741,900, or some greater amount to include accrued interest on the NRB loan? We understand the interest rate to be 5%, payable monthly, with no principal repayments. Please verify that this is correct. What collateral (besides the sale proceeds of the Pultz house) will be required by the bank?

The approved loan is \$750,000. We will only borrow what is need to payoff NRB, principal and interest. The loan bears interest at 5% with interest due monthly. No principal is due until maturity. The term is 12 months with an option to renew for an additional 12 months upon payment of \$750. Collateral will be as follows:

1. Lien on the 30 acres on which NRB currently holds a lien;
2. Escrow of \$150,000 of the life insurance proceeds that will be released upon the payoff of NRB;
3. Assignment of a real estate purchase contract on the Pultz House with proceeds to go into escrow upon completion of the transaction.

Number #1 above may be reduced to fewer acres once the County determines the acreage needed fro two soccer fields. This will be done only if the County decides to put cash in escrow at Cornerstone equal to the collateral



value of the acreage. Cornerstone will have collateral at least equal to the loan amount.

- \* What documents will the bank expect the City (or our IDA) to sign? Perhaps nothing? In other words, exactly what are we asking our IDA and Council to approve?

The City, IDA, County, EDA will not need to sign anything. Under the terms of the 2016 occupancy tax extension we must get IDA and City Council approval to refinance debt or liquidate assets. We are asking for the approvals required by this agreement.

- \* Please give us a projected annual debt service schedule (including any planned eventual refinancing through the USDA) for all outstanding debt compared to the lodging tax collections. We will need to demonstrate that the taxes will cover the debt service for all loans.

I will work on this but we still do not know the interest rate or projected closing date of the eventual USDA refinancing.

- \* Why would the proceeds from the sale of the Pultz house be held as collateral for the Cornerstone loan, rather than using the proceeds to reduce the outstanding amount of the loan? If the VHC is successful in refinancing the Cornerstone bridge loan, what is the planned use of the sale proceeds? Debt reduction? Capital projects? Operating needs? Other?

We plan to have the Pultz house proceeds to be held as collateral so that we access these for operating needs once the USDA loan is closed. Throughout the process we have projected that we would get \$500,000 to help stabilize operations. Since this has taken so long a portion of the \$500,000 has been eroded paying debt service at NRB. Leaving the proceeds of the Pultz House in tact for future operating use gives us the greatest flexibility to address future operating, deferred maintenance or capital needs.

- \* What other uses of VHC property, besides the sale of the Pultz house and the athletic fields, are being contemplated once the restrictions of the NRB loan are gone?

We have no additional plans, other than on-going operations. We are merely trading a lien with NRB with one from Cornerstone. We are working with the County to structure this to provide unsecured land for soccer fields. This has been a multi-year conversation and County residents are ready to support this endeavor.

Since there are so many unanswered questions, we would feel a lot more comfortable having someone from the VHC present at our meetings to answer questions. Is anyone available?

John and I will get together on the schedule above.

Thanks,

Gary Swink  
Finance Director/Assistant City Manager  
City of Lexington, Va.  
(540) 462-3731  
[gswink@lexingtonva.gov](mailto:gswink@lexingtonva.gov)



P.O. Box 1561  
Lexington, VA 24450  
Phone 540.463.2222  
Fax 540.463.1160  
www.cornerstonebankva.com

October 11, 2017 - Revised

Virginia Horse Center Foundation  
Attn: Sandra Thomas  
487 Maury River Road  
Lexington, VA 24450

Dear Ms. Thomas,

CornerStone Bank, N.A. ("Lender") is pleased to offer Virginia Horse Center Foundation ("Borrower") the following credit facility. This Commitment will become effective upon your acceptance of the terms and conditions outlined in this letter, and your return of an executed copy and a closing in a manner satisfactory to Lender. "Closing", "close", or "closed" as used herein, shall mean the execution, recordation where necessary, delivery to Lender of all documentation required by this commitment letter, and satisfaction of all terms and conditions specified herein in a timely manner.

**Commitment Type:** Commercial term loan, the "Commitment."

**Amount:** Up to \$750,000 and limited to 65% or 75% of the appraised value of the real estate collateral (depending on property type) and 100% of the value of the a CornerStone Money Market account to be established. The loan amount will be limited to the payoff of debt currently held by New River bank along with closing costs.

**Purpose:** Refinance and payoff two existing loans currently held by New River Bank

**Interest Rate:** A fixed rate of 5.00% interest.

**Repayment Terms:** Interest will be due and payable monthly beginning 30 days from closing. A final payment of all principal, plus accrued but unpaid interest, plus any unpaid fees will be due and payable 12 months from closing (the maturity date). *Upon maturation, the Borrower will have the ability to extend the maturity for an additional 365 days upon the payment of a \$750 extension fee.*

**Collateral 1:** A First Lien Deed of Trust on each of the following land parcels located in Rockbridge County and recorded as:

1. Tax Map #61-A-80F being 2.229 acres
2. Tax Map #61-A-80E being 2.245 acres
3. Tax Map #61-A-80D being 2.001 acres
4. Tax Map #61-A-80A being 7.902 acres
5. Tax Map #60-A-80B being 5.175 acres
6. Tax Map #61-A-80C being 10.437 acres

**Collateral 2:** CornerStone Money Market Account to be opened prior to closing with a minimum balance of \$290,000 which is to be comprised of \$140,000 (and/or an Assignment of Sales Contract proceeds in the same amount) from the sale of two land parcels located in Rockbridge County and recorded as Tax Map parcel #s 61-3-7 and 61-3-8 along with \$150,000 in cash reserves to be transferred from New River Bank.

Real estate collateral documents and requirements will be pursuant to Lender policy. To the extent permitted by law, the collateral specified above shall secure the Commitment and also secure any and all other liabilities, obligations and indebtedness of the Borrower to Lender, now existing or hereafter arising.

**Collateral**

**Substitutions:**

At any time, cash collateral may be substituted for all of part of the real estate securing this note. In the event of a substitution, real estate will be released as collateral so long as the new cash collateral is equal to the lendable equity of the real estate based on Bank Policy advance rates and the initial appraised value of the real estate.

**Appraisal:**

An appraisal of the Real Estate Collateral shall be ordered by and performed for the benefit of the Lender. A state "Certified" real estate appraiser shall be required to appraise the said Collateral. The appraisals must be prepared in compliance with the minimum standards of the Uniform Standards of Professional Appraisal Practice (USPAP), Title XI of FIRREA, and the Lenders internal loan Policy and Procedures.

**Financial Reports:**

The following information will be required:

*Quarterly*

- Internally prepared financial statements of Borrower within 30 days of quarter-end, to include balance sheet and profit and loss statements, prepared in a form acceptable to Lender.

*Annually*

- Audited financial statements of Borrower prepared by a Certified Public Accountant and delivered with 120 days of fiscal year end.

Borrower agrees to provide Lender any additional financial information on Borrower or Guarantor as requested by Lender.

**Fees:**

An origination fee in the amount of \$1,875 shall be fully earned and non-refundable, and due and payable at acceptance.

Any modification or refinance of Commitment may be conditioned by Lender on the payment by Borrower of a non-refundable fee, which shall be in addition to any other fee paid by the Borrower to Lender in connection with the Commitment. Nothing in this paragraph shall obligate Lender to modify or refinance the Commitment, and Lender reserves the right to require the Commitment to be repaid strictly in accordance with established terms and conditions.

A late charge not to exceed the amount permitted by applicable law shall be assessed on any payment remaining unpaid on the tenth day after the payment due date.

**Prepayment**

**Premium:**

Commitment may be prepaid in whole or in part at any time without premium or penalty.

**Title Insurance:**

The Borrower shall furnish the Lender a mortgagee commitment of title insurance issued by a company and in form acceptable to the Lender covering the property and any improvements showing good and marketable title to the property and improvements and insuring the Lender's first lien on the Collateral for the full amount of the Commitment, containing only such title exceptions as are satisfactory to the Lender.

**Closing Attorney or  
Settlement Agent:**

William McClung  
Lexington, VA

**Other Documentation:** This Commitment is subject to the Lender's review and acceptance of the following documentation to be provided by Borrower:

- Resolution from the board approving this loan and authorizing individuals as signers
- Receipt of acceptable and executed sales contract on 61-3-7 and 61-3-8.

**Other Conditions:** This Commitment is subject to the maintenance by Borrower and Guarantor of a condition satisfactory to Lender and the delivery and/or execution of loan, security, and informational documents satisfactory to Lender. Examples of an unsatisfactory condition include, but are not limited to, a material change in management, an adverse change in financial condition, or any default by Borrower on any obligation to Lender or to a third party.

During the term of the Commitment, there shall be no change in control, ownership, or legal structure of Borrower without the prior written consent of Lender.

In no event shall either Borrower or Lender be liable to the other for indirect, special, or consequential damages which may arise out of or are in any way connected with the issuance of this Commitment.

All costs, expenses and fees incurred to close the Commitment and perfect Lender's security interest will be the responsibility of the Borrower, whether or not the transaction contemplated herein closes, unless the failure to close is due solely to Lender's gross negligence or willful misconduct.

In addition to any other defaults normally specified in Lender's documents, to the extent permitted by law, Borrower agrees that a default under this Commitment will also cause a default under any other loan or obligation of the Borrower to Lender and that a default under any other loan or obligation of the Borrower to Lender will cause a default under this Commitment.

Borrower agrees to maintain hazard and liability insurance providing coverage to such risks, in such amounts, and issued by a company acceptable to Lender. If anytime during the term of the Commitment the collateral securing said Commitment is classified as being in a Special Flood Hazard Area, flood insurance may become mandatory. Should flood insurance become mandatory and Borrower fails to purchase flood insurance, Lender is obligated under the terms of the Flood Disaster Act of 1973 and subsequent amendments thereto, to purchase flood insurance on Borrower's behalf. The cost associated with purchasing flood insurance on Borrower's behalf and all reasonably related expenses will be added to the principal balance of Commitment.

All information and representations made by the Borrower to Lender are and will be accurate at closing.

This Commitment shall be governed by the laws of the Commonwealth of Virginia.

This Commitment is for the sole and exclusive benefit of the Borrower and may not be assigned by the Borrower.

This Commitment and all terms and provisions outlined above shall survive the closing and shall be binding on the Borrower after such closing.

**Commitment  
Modifications:**

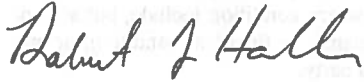
No condition or other term of this Commitment may be waived or modified except in writing signed by Borrower and Lender.



Please call me if you have any questions about the terms of this offer. If this Commitment is not accepted with an executed copy received by Lender within thirty days of the date of this letter and the loan closed on or before December 31, 2017, this Commitment shall be null and void at the option of Lender. To acknowledge your acceptance, please sign below and return to me at your earliest convenience.

We at CornerStone Bank, N.A. look forward to working with you. With best regards, I remain,

Very truly yours,



Robert J. Hobbs  
Commercial Loan Officer

Accepted and agreed to this \_\_\_\_\_ day of \_\_\_\_\_, 2017.

**BORROWER**

Virginia Horse Center Foundation

By:

Homer E. Derrick - Member, Board of Directors

## Noah Simon

---

**From:** Noah Simon  
**Sent:** Thursday, October 12, 2017 6:59 AM  
**To:** Sandra Thomas; Gary Swink  
**Cc:** John Nicholson (nicholsonjohnd@gmail.com); Noah Simon  
**Subject:** RE: Cornerstone Financing

Good morning. I hope you all are well. Thanks for these responses. I will review shortly. I do have one questions – what is plan “B” if the USDA loan doesn’t happen?

Best,

Noah

Noah A. Simon  
City Manager  
City of Lexington  
300 East Washington Street  
Lexington, Virginia 24450  
540.462.3700  
[nsimon@lexingtonva.gov](mailto:nsimon@lexingtonva.gov)  
[www.lexingtonva.gov](http://www.lexingtonva.gov)

---

**From:** Sandra Thomas [mailto:sgt1@me.com]  
**Sent:** Wednesday, October 11, 2017 2:08 PM  
**To:** Gary Swink <gswink@lexingtonva.gov>  
**Cc:** John Nicholson (nicholsonjohnd@gmail.com) <nicholsonjohnd@gmail.com>; Noah Simon <nsimon@lexingtonva.gov>  
**Subject:** Re: Cornerstone Financing

Gary,

Thanks for the update and the questions. Please remember the purpose of this loan is to pay off the NRB balloon before it comes due and bridge the period until we can close on the anticipated USDA loan - once Congress passes a budget. Please see my comments in black below.

Please let me know if you have any additional questions. We want to make sure that you, the members of City Council and IDA have everything that they need.

Best,

Sandra

On Oct 11, 2017, at 12:58 PM, Gary Swink <[gswink@lexingtonva.gov](mailto:gswink@lexingtonva.gov)> wrote:

Sandra/John,

I hope this finds both of you well. We plan to have this matter on the agenda for an IDA meeting

on the 24th at 5 pm and on Council's agenda on November 2nd. In order to do so, we need more information from you. We have a copy of the information that we believe Spencer used for the Board of Supervisors, but this leaves several questions unanswered. I have listed those questions below:

\* Can you provide a summary of the terms of the Cornerstone loan? Is the loan for \$741,900, or some greater amount to include accrued interest on the NRB loan? We understand the interest rate to be 5%, payable monthly, with no principal repayments. Please verify that this is correct. What collateral (besides the sale proceeds of the Pultz house) will be required by the bank?

The approved loan is \$750,000. We will only borrow what is need to payoff NRB, principal and interest. The loan bears interest at 5% with interest due monthly. No principal is due until maturity. The term is 12 months with an option to renew for an additional 12 months upon payment of \$750. Collateral will be as follows:

1. Lien on the 30 acres on which NRB currently holds a lien;
2. Escrow of \$150,000 of the life insurance proceeds that will be released upon the payoff of NRB;
3. Assignment of a real estate purchase contract on the Pultz House with proceeds to go into escrow upon completion of the transaction.

Number #1 above may be reduced to fewer acres once the County determines the acreage needed fro two soccer fields. This will be done only if the County decides to put cash in escrow at Cornerstone equal to the collateral value of the acreage. Cornerstone will have collateral at least equal to the loan amount.

\* What documents will the bank expect the City (or our IDA) to sign? Perhaps nothing? In other words, exactly what are we asking our IDA and Council to approve?

The City, IDA, County, EDA will not need to sign anything. Under the terms of the 2016 occupancy tax extension we must get IDA and City Council approval to refinance debt or liquidate assets. We are asking for the approvals required by this agreement.

\* Please give us a projected annual debt service schedule (including any planned eventual refinancing through the USDA) for all outstanding debt compared to the lodging tax collections. We will need to demonstrate that the taxes will cover the debt service for all loans.

I will work on this but we still do not know the interest rate or projected closing date of the eventual USDA refinancing.

\* Why would the proceeds from the sale of the Pultz house be held as collateral for the Cornerstone loan, rather than using the proceeds to reduce the outstanding amount of the loan? If the VHC is successful in refinancing the Cornerstone bridge loan, what is the planned use of the sale proceeds? Debt reduction? Capital projects? Operating needs? Other?

We plan to have the Pultz house proceeds to be held as collateral so that we access these for operating needs once the USDA loan is closed. Throughout the process we have projected that we would get \$500,000 to help stabilize operations. Since this has taken so long a portion of the \$500,000 has been eroded paying debt service at NRB. Leaving the proceeds of the Pultz House in tact for future operating use gives us the greatest flexibility to address future operating, deferred maintenance or capital needs.

\* What other uses of VHC property, besides the sale of the Pultz house and the athletic fields, are being contemplated once the restrictions of the NRB loan are gone?

We have no additional plans, other than on-going operations. We are merely trading a lien with NRB with one from Cornerstone. We are working with the County to structure this to provide unsecured land for soccer fields. This has been a multi-year conversation and County residents are ready to support this endeavor.

Since there are so many unanswered questions, we would feel a lot more comfortable having someone from the VHC present at our meetings to answer questions. Is anyone available?

John and I will get together on the schedule above.

Thanks,

Gary Swink  
Finance Director/Assistant City Manager  
City of Lexington, Va.  
(540) 462-3731  
[gswink@lexingtonva.gov](mailto:gswink@lexingtonva.gov)

<winmail.dat>

Sandra G. Thomas  
434.825.4966  
[sgt1@me.com](mailto:sgt1@me.com)

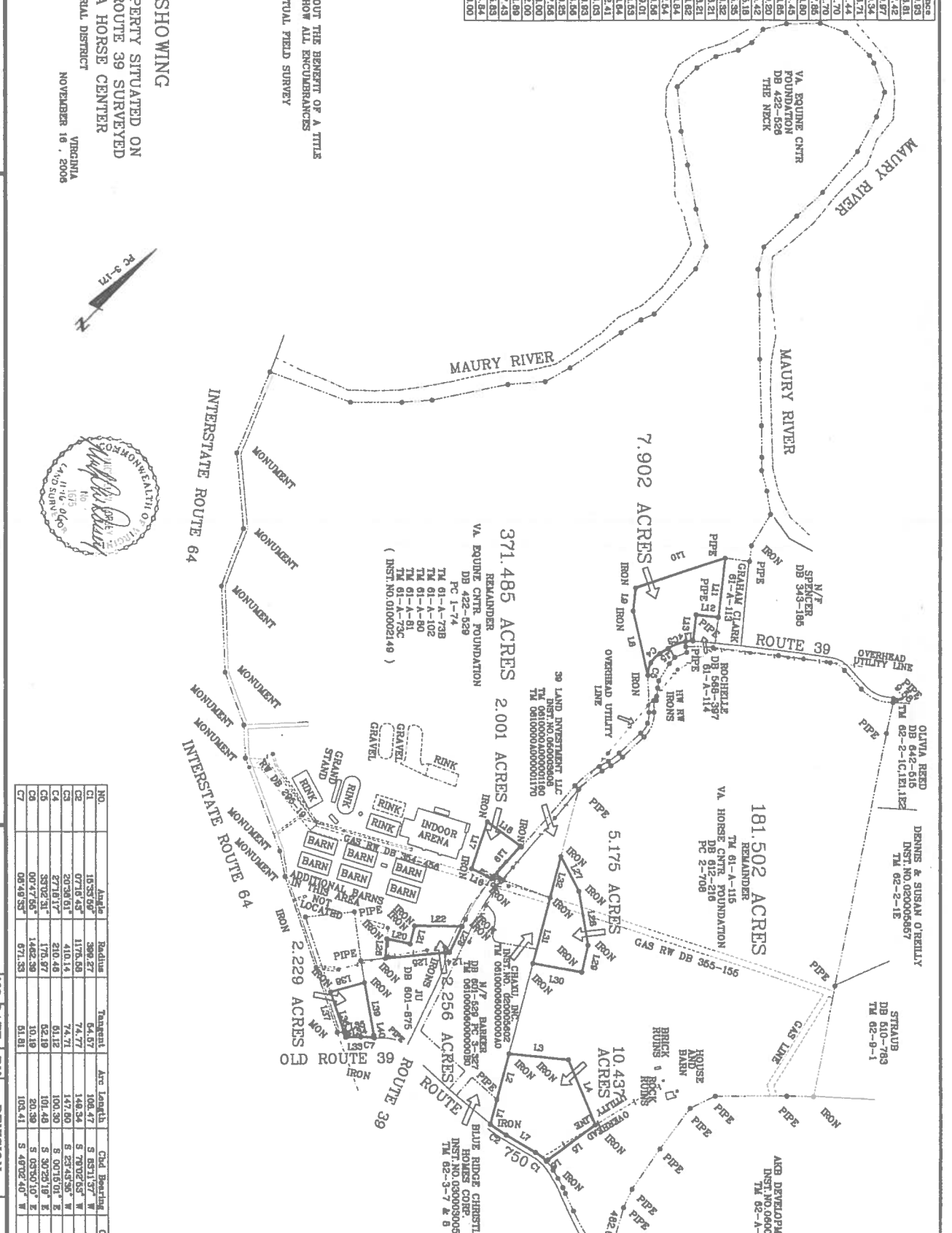


NO.	Bearing	Distance
1	N 90°01'45" W	199.93
2	N 20°07'02" W	359.61
3	N 50°28'47" E	447.42
4	S 67°24'53" E	649.87
5	S 09°58'58" W	460.54
6	S 08°58'58" W	184.71
7	S 75°24'53" W	284.44
8	N 57°31'48" W	161.70
9	N 35°53'26" W	111.70
10	N 26°53'07" E	737.66
11	S 98°58'50" E	466.80
12	S 51°39'30" W	174.45
13	S 98°16'05" E	203.66
14	S 40°11'53" W	59.20
15	S 12°17'52" W	76.42
16	S 70°43'02" W	175.16
17	N 26°28'06" W	585.35
18	N 81°14'31" E	350.32
19	S 05°56'09" E	516.21
20	N 56°56'13" E	199.82
21	N 31°06'14" W	143.62
22	N 45°34'07" E	573.84
23	S 39°42'56" E	232.54
24	S 39°42'56" W	20.56
25	S 39°36'02" W	479.01
26	N 40°47'06" W	151.53
27	S 72°50'55" E	503.64
28	S 64°29'52" E	422.41
29	S 31°49'41" E	214.03
30	S 56°01'54" W	590.63
31	N 29°17'02" W	580.53
32	N 29°14'35" W	580.53
33	S 44°34'43" W	117.56
34	N 47°53'59" W	18.00
35	N 47°53'59" W	22.00
36	S 42°59'21" W	11.88
37	N 65°38'21" W	327.43
38	N 29°44'29" E	276.63
39	S 64°38'26" E	414.84
40	S 64°38'26" E	20.00

NOTES:  
THIS SURVEY DONE WITHOUT THE BENEFIT OF A TITLE REPORT AND MAY NOT SHOW ALL ENCUMBRANCES  
THIS PLAT BASED ON ACTUAL FIELD SURVEY

PLAT SHOWING

PARCELS OF PROPERTY SITUATED ON BOTH SIDES OF ROUTE 39 SURVEYED FOR THE VIRGINIA HORSE CENTER WALKERS CREEK MAGISTERIAL DISTRICT  
ROCKBRIDGE COUNTY VIRGINIA  
SCALE: 1" = 500'  
NOVEMBER 16, 2006



NO.	Angle	Bearing	Temporary	Ac Length	Chd Bearing	Chd Length
C1	18°53'59"	S99°27'	54.57	146.34	S 86°11'57"	100.14
C2	27°18'42"	N176°35'	74.71	147.60	S 23°45'36"	147.50
C3	50°38'07"	N210°14'	61.12	100.30	S 00°16'01"	99.38
C4	57°58'15"	S29°21"	176.97	101.49	S 30°25'10"	100.08
C5	50°07'44"	144°2'30"	20.39	10.19	S 03°50'10"	20.39
C7	08°49'53"	071°33'	61.81	103.41	S 49°02'40"	103.31

DORSEY SURVEYING P.L.C.  
POST OFFICE BOX 1098  
LEXINGTON, VA 24450  
540-463-4893

DORSEY SURVEYING P.L.C.

F.B.	NO. DATE	BY	REVISION	FILE NO.
HSE122001				874

HORSE CENTER 2001 MONUMENT NAME 10-28-06 DISK SHEET OF

## Gary Swink

---

**From:** Sandra Thomas <sgt1@me.com>  
**Sent:** Sunday, October 15, 2017 9:16 AM  
**To:** Gary Swink  
**Cc:** John Nicholson (nicholsonjohnd@gmail.com); Noah Simon  
**Subject:** Re: Cornerstone Financing  
**Attachments:** Proposed payoff 10.17.17.xlsx

Gary,

Attached is a revised debt service schedule that shows all of the debt. I have assumed that once the USDA loan is approved we will get a bridge loan from Cornerstone for the entire amount and then start using occupancy taxes for interest. I have also assumed that we will close the new USDA loan in 2019 once the stormwater project is complete and the first debt service payment will be made in 2020.

On another note, I leave on Wednesday, 10/18 and will be out of the country until late on 11/1. While I will have email most of the time I will not have detailed information with me. It will be most helpful if you could let me know what else you might need early this week.

Best,

Sandra

On Oct 11, 2017, at 12:58 PM, Gary Swink <[gswink@lexingtonva.gov](mailto:gswink@lexingtonva.gov)> wrote:

Sandra/John,

I hope this finds both of you well. We plan to have this matter on the agenda for an IDA meeting on the 24th at 5 pm and on Council's agenda on November 2nd. In order to do so, we need more information from you. We have a copy of the information that we believe Spencer used for the Board of Supervisors, but this leaves several questions unanswered. I have listed those questions below:

- \* Can you provide a summary of the terms of the Cornerstone loan? Is the loan for \$741,900, or some greater amount to include accrued interest on the NRB loan? We understand the interest rate to be 5%, payable monthly, with no principal repayments. Please verify that this is correct. What collateral (besides the sale proceeds of the Pultz house) will be required by the bank?
- \* What documents will the bank expect the City (or our IDA) to sign? Perhaps nothing? In other words, exactly what are we asking our IDA and Council to approve?
- \* Please give us a projected annual debt service schedule (including any planned eventual refinancing through the USDA) for all outstanding debt compared to the lodging tax collections. We will need to demonstrate that the taxes will cover the debt service for all loans.
- \* Why would the proceeds from the sale of the Pultz house be held as collateral for the Cornerstone loan, rather than using the proceeds to reduce the outstanding amount of the

**Virginia Horse Center Foundation**  
**Proposed Repayment Plan**

	<u>Collections</u>	<u>Existing USDA Debt</u>	<u>Cornerstone Debt</u>	<u>Bridge Once USDA Approved</u>	<u>Proposed USDA Debt</u>	<u>Total</u>
Balance available 9/30/17	809,859					809,859
Expected collections Oct/Nov/Dec 2017	293,342					293,342
<b>Net, 12/31/17</b>						<b>1,103,201</b>
Expected collections 2018 (1)	925,000					925,000
Debt service		(604,555)	(132,500)	(77,550)	-	(814,605)
<b>Net, 12/31/18</b>						<b>1,213,596</b>
Expected collections 2019 (1)	925,000					925,000
Debt service		(604,555)	-	(77,550)	-	(682,105)
<b>Net, 12/31/19</b>						<b>1,456,491</b>
Expected collections 2020 (1)	925,000					925,000
Debt service		(604,555)	-	-	(199,000)	(803,555)
<b>Net, 12/31/20</b>						<b>1,577,936</b>
Expected collections 2021 (1)	925,000					925,000
Debt service		(604,555)	-	-	(199,000)	(803,555)
<b>Net, 12/31/21</b>						<b>1,699,381</b>
Expected collections 2022 (1)	925,000					925,000
Debt service		(604,555)	-	-	(199,000)	(803,555)
<b>Net, 12/31/22</b>						<b>1,820,826</b>

**Virginia Horse Center Foundation**  
**Proposed Repayment Plan**

	<u>Collections</u>	<u>Existing USDA Debt</u>	<u>Cornerstone Debt</u>	<u>Bridge Once USDA Approved</u>	<u>Proposed USDA Debt</u>	<u>Total</u>
Expected collections 2023 (1)	925,000					925,000
Debt service		(604,555)	-	-	(199,000)	(803,555)
<b>Net, 12/31/23</b>						<b>1,942,271</b>
Expected collections 2024 (1)	925,000					925,000
Debt service		(604,555)	-	-	(199,000)	(803,555)
<b>Net, 12/31/24</b>						<b>2,063,716</b>
Expected collections 2025 (2)	616,661					616,661
2025 Debt service		(604,555)	-	-	(199,000)	(803,555)
<b>Net, 12/31/25</b>						<b>1,876,821</b>
Expected collections 2026 (2)	616,661					616,661
2026 Debt service		(604,555)	-	-	(199,000)	(803,555)
<b>Net, 12/31/26</b>						<b>1,689,927</b>
Expected collections 2027 (2)	616,661					616,661
2027 Debt service		(604,555)	-	-	(199,000)	(803,555)
<b>Net, 12/31/27</b>						<b>1,503,032</b>
Expected collections 2028 (2)	616,661					616,661
2028 Debt service		(604,555)	-	-	(199,000)	(803,555)



**Virginia Horse Center Foundation**  
**Proposed Repayment Plan**

	<u>Collections</u>	<u>Existing USDA Debt</u>	<u>Cornerstone Debt</u>	<u>Bridge Once USDA Approved</u>	<u>Proposed USDA Debt</u>	<u>Total</u>
Net, 12/31/28						1,316,138
Expected collections 2029 (2)	616,661					616,661
2029 Debt service		(604,555)	-	-	(50,881)	(655,436)
Net, 12/31/29						1,942,261

(1) - Based upon calendar 2016 collections.

(2) - Based upon 66.6% of 2016 collections, assuming the additional 1% terminates in 2024.

## Gary Swink

---

**From:** Noah Simon  
**Sent:** Monday, October 16, 2017 6:21 PM  
**To:** Gary Swink  
**Subject:** FW: Virginia Horse Center

Noah A. Simon  
City Manager  
City of Lexington  
300 East Washington Street  
Lexington, Virginia 24450  
540.462.3700  
[nsimon@lexingtonva.gov](mailto:nsimon@lexingtonva.gov)  
[www.lexingtonva.gov](http://www.lexingtonva.gov)

---

**From:** Michele Hentz  
**Sent:** Monday, October 16, 2017 10:22 AM  
**To:** Frank Friedman <[FFriedman@lexingtonva.gov](mailto:FFriedman@lexingtonva.gov)>; Marylin Alexander <[MAlexander@lexingtonva.gov](mailto:MAlexander@lexingtonva.gov)>; Chuck Smith <[CSmith@lexingtonva.gov](mailto:CSmith@lexingtonva.gov)>; J. Patrick Rhamey <[PRhamey@lexingtonva.gov](mailto:PRhamey@lexingtonva.gov)>; David Sigler <[DSigler@lexingtonva.gov](mailto:DSigler@lexingtonva.gov)>; Leslie Straughan <[lstraughan@lexingtonva.gov](mailto:lstraughan@lexingtonva.gov)>  
**Cc:** Noah Simon <[nsimon@lexingtonva.gov](mailto:nsimon@lexingtonva.gov)>  
**Subject:** Virginia Horse Center

In order to be prepared for Nov 2 meeting re: VHC, I'd like to have the following information prior to the meeting:

- 1) Up to date Financial Reports. We were receiving financial reports monthly, but then it stopped. We haven't received VHC financial statements since May. We should have them through September.
- 2) Will we receive the Audited Financial Report for FY17? Does the City have that in hand?
- 3) VHC's cash flow is of concern and Noah noted in his last weekly report that LOC had to be used to cover payroll. VHC spent down the \$500K McBroom life policy proceeds. Are the restricted cash balances for capital/maintenance only? Is payroll paid out of unrestricted cash only? What are the aging A/Rs and the aging A/Ps? The balance sheet doesn't show allowance for doubtful accounts. Is the A/R number on balance sheet a net number?
- 4) It's my understanding that USDA requires the full one year amount of debt service in bank account. How is VHC going to do this?
- 5) It would be helpful to know the number of shows/events booked for 2018, estimated revenue, and how does that compare to 2017 and 2016.

Thank you,

---

Michele F. Hentz  
Council Member  
City of Lexington  
300 E. Washington St.  
Lexington, VA 24450  
540-462-3700-work  
540-460-5714-cell  
[MHentz@lexingtonva.gov](mailto:MHentz@lexingtonva.gov)

### #3. Life Insurance Proceeds

The life insurance proceeds were paid directly to New River Bank and have been held by the bank as collateral. Only with the refinancing, with substitute collateral, will the Horse Center get access to these funds to use to stabilize its operations. At least \$150,000 of these proceeds will remain in escrow with Cornerstone as collateral for the loan.

### LOC

The VA Horse Center has a line of credit (LOC) with Cornerstone Bank for working capital due to the seasonality and bumpiness of its business. This LOC allows for the Horse Center to borrow up to \$150,000 as needed as long as the loan has a zero balance for at least 30 days annually. The VA Horse Center LOC had a zero balance from July 17, 2017 until earlier this month. On October 3, 2017 the VA Horse Center borrowed \$75,000 on the line of credit. The proceeds of the loan were primarily used to pay payroll of \$54,000 and an \$18,000 two-month water bill.

This borrowing was required because of the timing of the collection of two show bills totaling \$62,861, more than enough to cover payroll. The first show bill for \$35,924 was for the State 4-H Horse Show that ended 9/17. This show bill must be approved by extension service personnel in Blacksburg and then sent to Richmond for payment. Generally, it takes about two weeks to get this check but this year it was delayed until last week due to staff shortages. The second show bill for \$26,937 was for the ASHAV (Saddlebred) show that ended 9/30. This check took about a week to get to us so was not available to meet payroll.

On October 17, VA Horse Center repaid \$25,000 on the LOC reducing the balance to \$50,000. This was done in connection with reviewing the amount needed to meet 10/20 payroll and other must pay invoices. As a result, the LOC balance at 10/17/17 is \$50,000 contrasted with a balance at 10/17/16 of \$125,000. This improvement is due to strong fall shows and agreements with certain vendors that we will pay them in full with the proceeds of the life insurance proceeds.

### Accounts receivable

Accounts receivable are a net number due to the way that the Horse Center uses Quickbooks to report accounts receivable. As of 9/30/17 our allowance for bad debts was \$5,066 on accounts receivable of \$77,208. Of this total \$62,861, included in current below, is discussed above. The aging is as follows:

Current	\$69,202	Paid in full as of 10/17/17
1-30	972	2 NSF checks trying to collect
31-60	-	
61-90	-	
>90	1,200	

Website advertising	5,833	Website advertising to be paid monthly. All recorded as a receivable as a "pledge"
	<u>\$ 77,208</u>	

Generally, bad debts on accounts receivable is not an issue for the Horse Center. The 2016 Roanoke Valley Horse Show is the exception. In the past three years, this is the only show for which the Horse Center has experienced a lost. NSF checks are a greater issue but none of those are significant. Additionally, if an exhibitor does not pay an account in full they are no longer eligible to compete in horse shows sanctioned by USEF.

### Restricted Funds

Restricted funds are those that have restrictions set by third parties on their usage. These include amounts that the the Horse Center needs permission to use to meet USDA debt service e.g. occupancy tax proceeds and gifts made by donors to fund footing or a new website. Unless given for personnel costs these cannot be used for payroll.

### Accounts Payable

As of 9/30/17 the aging of the Horse Center's payable was as follows:

Current	104,836	21.4%
1-30	89,367	18.2%
31-60	78,024	15.9%
61-90	56,454	11.5%
>90	161,921	33.0%
	<u>490,602</u>	<u>100.0%</u>

If the life insurance proceeds had been received as of 9/30/17 the aging would be as follows:

Current	75,315	49.2%
1-30	36,888	24.1%
31-60	14,860	9.7%
61-90	-	0.0%
>90	25,864	16.9%
	<u>152,927</u>	<u>100.0%</u>

\$4,000 - work was not done to HC satisfaction. Resolved in October. Remainder is a note to be paid at \$5,000 per month through Feb.



#4. Until the new USDA debt is closed, this requirement has been waived. Management of the Horse Center, the City and the County are working on proposing options where the occupancy collections by the City and the County are considered the "debt service reserve". Worst case is that proceeds of the requested loan will be used for this reserve and that the Horse Center will not be able to fund the storm water maintenance project. This will be addressed in connection with the USDA loan approval.

#5. See attached calendar for next year (fiscal 2019). At this point the Horse Center is only aware of the loss of one show – IEA National Finals that moves annually. Additionally, the Down Under Horsemanship Clinic (not significant) will not return since it moves around the country. It has several winter non-equestrian events that are confirmed but not yet on the calendar and are in discussions with at least one large show that has not yet determined its 2018 location.

## Visitors Welcome

### January

- 3- M1 Winter Schooling (call for reservations)
- 6-7 Tincher Pitching Softball Clinic
- 11-14 DOTC and SCCTC Canine Agility Trials
- 13 Winter Tournament
- 13 Rockbridge Youth Wrestling
- 18 *Stonewall Country USHJA Outreach Show*
- 18-21 *Stonewall Country Horse Show I "A"*
- 27 Winter Tournament
- 27 Eventing in Virginia Jumper Derby

### February

- 1 *Stonewall Country USHJA Outreach Show*
- 2-4 *Stonewall Country Horse Show II "A"*
- 10 *Polar Bear Show*
- 10 Eventing in Virginia Jumper Derby
- 15-18 Star City Canine Agility
- 16-18 Winter Tournament/UPHA Show
- 23-24 Lone Star Rodeo

### March

- 1-4 Hollins Spring Welcome Horse Show "A"
- 10-11 *House Mountain Horse Show (Hunter/Jumpers)*
- 17-18 Trimble's Ridge Hunter/Jumper Show
- 17 Eventing in Virginia Jumper Derby
- 23-25 No Bull Barrel Racing

### April

- 6-8 Heart of Virginia Alpaca Show
- 6-8 VPHC Colors of Spring Horse Show
- 7 RAHC Bull & Oyster Festival
- 12-14 Great American Trail Horse Sale
- 14-15 Lee Jackson Classic Appaloosa
- 14-15 Virginia Starter Horse Trials & XC Schooling
- 20-21 UPHA Chapter 18 Saddlebred Show
- 21 Community Foundation for Rockbridge, Bath & Allegheny County 5K
- 21-22 Old Dominion Pony Club Dressage Rally
- 25-29 *Lexington Spring Premiere "AA" Hunter/Jumper Show*

## 2019 Tentative Schedule of Events

### May

- 2-6 *Lexington Spring Encore "AA" Hunter/Jumper Show*
- 9-12 *Bonnie Blue National Horse Show USEF Rated*
- 13 Hear the Beat Horse Show
- 17-20 Old Dominion Miniature Horse Club
- 19-20 Lexington Spring Dressage Rosinburg Event
- 24-27 Virginia International CCI1\*/CIC2\* Horse Trials

### June

- 1-2 Old Dominion Gaited Horse Show
- 1-3 Virginia Barrel Classic
- 2 *Dressage with a View*
- 3 Hear the Beat Horse Show/4-H Qualifier
- 9-10 *House Mountain Horse Show (Hunter/Jumpers)*
- 14-17 *Blue Ridge Arabian Horse Show "A"*
- 16-17 Old Dominion Pony Club Jumping Rally
- 20-23 Roanoke Shenandoah Valley Horse Show
- 29-J1 AVA Region IX Equestrian Vaulting Championships

### July

- 1 Lexington Sunrise Rotary 4th of July Fireworks
- 4-8 Arabian Horse Association Region 15 Championship
- 6-8 Balloons over Rockbridge
- 10-11 *House Mountain Horse Show (Hunter/Jumpers)*
- 13-15 Dressage at Lexington
- 26-28 *Southern States Horse Show*
- 27-28 Virginia Presidential Paso Fino
- 28-29 American Connemara Pony Region III Show
- 28-29 Virginia Starter Horse Trials & XC Schooling

### August

- 2-5 East Arabian Championships
- 7 Virginia Hunter Championships
- 8-12 *Lexington National Horse Show "AA"*
- 16-19 National Barrel Horse Assoc. Colonial Nationals
- 12-25 *The Virginia Young Horse Festival*
- 25 Sallie B. Wheeler /US Hunter Breeding National Champ.
- 23-26 Eastern Regional Andalusian Horse Club
- 31-S2 VPHC Color Classic & Fall Futurity (Paints)

## Most Shows Free

### September

- 1-2 East Coast Halter Futurity
- 1 *Dressage With a View*
- 2 Hear the Beat Horse Show (Therapeutic Riding Fundraiser)
- 6-8 *Rockbridge Regional Fair*
- 8-9 Trimble's Ridge Hunter/Jumper Show
- 13-16 VA 4-H State Champ. Horse and Pony Show
- 21-23 Virginia State Barrel Finals
- 22 Glenmore Hunt Pony Club
- 26-29 ASHAV Horse Show (Saddlebreds)
- 29-30 Virginia Starter Horse Trials & XC Schooling

### October

- 5-7 Buck Brannaman Clinic
- 6-7 *House Mountain Horse Show (Hunter/Jumpers)*
- 11-14 Virginia Dressage Association Finals
- 17-21 Bureau of Land Management Wild Horse/Burro Adoption
- 20-21 Therapeutic Riding Association of Virginia Horse Show

### November

- 1-4 Virginia Horse Trials CCI\*/CIC2\*
- 8-11 Virginia Horse Shows Assoc. Championships
- 16-18 Southwest Virginia Hunter-Jumper Assoc. Finals
- 18 Winter Tournament

### December

- 8 Hear the Beat/Christmas Edition
- 13-15 Lexington-Rockbridge Christmas Basket Program

*As of October 11, 2017*

*Virginia  
Horse Center*  
Foundation™

*"This institution is an equal opportunity provider and employer"*

---

**VIRGINIA HORSE CENTER FOUNDATION**  
**Financial Statements and**  
**Independent Auditors' Report**  
**June 30, 2017 and 2016**

Virginia Horse Center Foundation  
Financial Statements and  
Independent Auditors' Report  
June 30, 2017 and 2016

Index

	<u>Page</u>
Independent Auditors' Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 12
* * * * *	
Items Required by Government Auditing Standards:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters	13 - 14

# *Raetz and Hawkins, P.C.*

A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS  
128 SOUTH RANDOLPH STREET  
LEXINGTON, VIRGINIA 24450  
TELEPHONE 540-463-7121  
FAX 540-463-1514  
E-MAIL: [cpa@raetzandhawkins.com](mailto:cpa@raetzandhawkins.com)

GREG C. RAETZ, CPA  
DAVID B. HAWKINS, CPA  
BO HAYWOOD, 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, 2017 and 2016 and the related statements of activities and of cash flows 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.

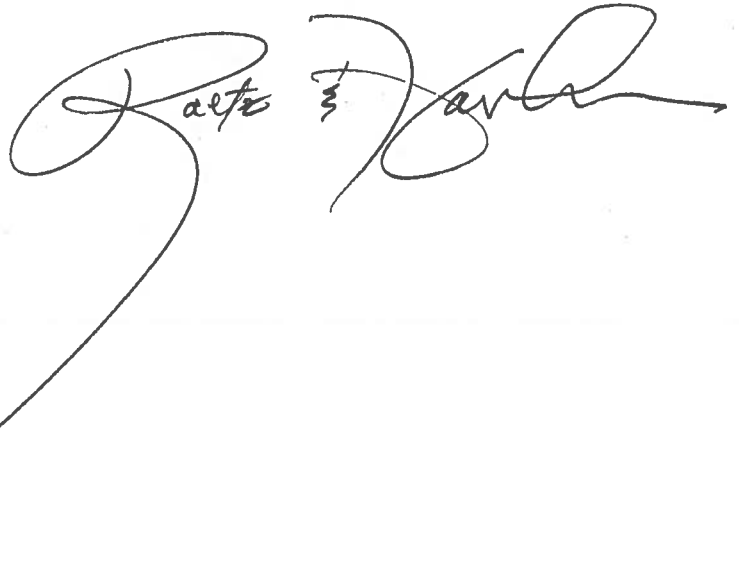
**Opinion**

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, 2017 and 2016, 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 11, 2017 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.

October 11, 2017

A large, stylized handwritten signature in black ink, appearing to read "Peter J. Davis". The signature is written in a cursive style with a long, sweeping underline that extends to the left.

**Virginia Horse Center Foundation**  
**Statements of Financial Position**  
**June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Assets:</b>		
Cash and Cash Equivalents	\$ 57,026	\$ 10,569
Accounts Receivable (Note 2)	26,450	87,869
Grants Receivable (Notes 3 and 7)	475,385	330,508
Contributions Receivable (Note 4)	284,474	185,684
Inventories (Note 2)	51,539	35,556
Prepaid Expenses	17,836	19,393
Restricted Investments (Note 8)	733,507	329,993
Property & Equipment, net (Note 6)	18,789,617	19,368,590
Other Assets	4,398	4,398
	<u>20,440,232</u>	<u>20,372,560</u>
<b>Total Assets</b>		
<b>Liabilities:</b>		
Overdraft Payable	-	9,764
Accounts Payable	576,967	376,265
Accrued Salaries & Payroll Taxes	95,015	64,207
Accrued Interest Payable (Note 5)	170,368	178,979
Deferred Revenue	63,838	49,160
Long Term Debt (Note 5)	11,589,493	11,828,673
	<u>12,495,681</u>	<u>12,507,048</u>
<b>Total Liabilities</b>		
<b>Net Assets:</b>		
Unrestricted Net Assets	6,939,360	7,469,586
Temporarily Restricted Net Assets (Note 9)	1,005,191	395,926
	<u>7,944,551</u>	<u>7,865,512</u>
<b>Total Net Assets</b>		
<b>Total Liabilities and Net Assets</b>	<u>20,440,232</u>	<u>20,372,560</u>

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



**Virginia Horse Center Foundation**  
**Statements of Activities**  
**For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Changes in Unrestricted Net Assets:		
Revenues, Gains & Support		
Events, Shows, & Facility Fee Income	\$ 2,904,174	\$ 2,889,564
Grants (Notes 3 and 7)	969,946	919,259
Merchandise & Supplies Sales, net (Note 2)	266,975	259,337
Commissions & Advertising	42,024	45,439
Contributions (Note 4)	110,958	245,091
Fund Raising Events	-	50,000
Other Income	16,613	50,643
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions (Note 10)	179,639	252,930
Expiration of Time Restrictions (Note 10)	357,191	120,250
Total Unrestricted Revenues, Gains & Support	<u>4,847,520</u>	<u>4,832,513</u>
Expenses & Losses:		
Events, Shows, & Facility Operations	3,926,088	3,465,925
Management & General Expenses	1,359,516	1,321,387
Fund Raising Expenses	92,142	89,140
Total Expenses & Losses	<u>5,377,746</u>	<u>4,876,452</u>
Change in Unrestricted Net Assets	(530,226)	(43,939)
Changes in Temporarily Restricted Net Assets:		
Contributions (Note 4)	1,146,095	414,079
Net Assets Released From Restrictions (Note 10)	<u>(536,830)</u>	<u>(373,180)</u>
Change in Temporarily Restricted Net Assets	<u>609,265</u>	<u>40,899</u>
Change in Net Assets	79,039	(3,040)
Net Assets, Beginning of Year	<u>7,865,512</u>	<u>7,868,552</u>
Net Assets, End of Year	<u><u>7,944,551</u></u>	<u><u>7,865,512</u></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, 2017 and 2016**

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 79,039	\$ (3,040)
Adjustments to reconcile the change in net assets to cash flows from operating activities:		
Depreciation and amortization	632,439	626,817
Contributions restricted for debt service	(518,690)	(68,323)
Nonmonetary contributions	-	(56,500)
Patronage certificate refund	-	(460)
Change in net unconditional promises to give	(98,790)	(40,706)
Change in accounts receivable	61,419	(67,097)
Change in grants receivable	(144,877)	(187,341)
Change in inventories	(15,983)	(13,439)
Change in prepaid expense	1,557	1,595
Change in other assets	-	2,080
Change in accounts payable	181,539	(168,961)
Change in accrued expenses	30,808	(23,019)
Change in accrued interest payable	(8,611)	76,429
Change in deferred revenue	14,678	(10,391)
Cash Flows from Operating Activities	214,528	67,644
Cash flows from investing activities		
Restricted investment deposits	(721,267)	(631,616)
Restricted investment withdrawals	317,753	382,454
Capital expenditures	(29,214)	(129,580)
Cash Flows from Investing Activities	(432,728)	(378,742)
Cash flows from financing activities		
Overdraft payable	(9,764)	9,764
Contributions restricted for debt service	518,690	68,323
Costs to issue new debt	-	(2,250)
Proceeds from issuance of debt	140,000	482,855
Principal payments on debt	(384,269)	(340,683)
Cash Flows from Financing Activities	264,657	218,009
Change in Cash and Cash Equivalents	46,457	(93,089)
Cash and Cash Equivalents, Beginning of Year	10,569	103,658
Cash and Cash Equivalents, End of Year	57,026	10,569

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

**Virginia Horse Center Foundation**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**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 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 1200 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, a five-mile cross-country course, and a combined driving course.

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 restricted support 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, temporarily restricted net assets are reclassified in the statement of activities as net assets released from restrictions.

The Center reports gifts of land, buildings, and equipment as unrestricted support 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 restricted support. 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, 2017 and 2016

**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 advertising 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, 2017 and 2016 are reported net of an allowance for bad debts of \$5,066. The entire accounts receivable balance is expected to mature in 2018.

**Virginia Horse Center Foundation**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**Note 2 - continued:**

**Inventories**

At June 30, 2017 and 2016, inventories consist of \$16,806 and \$10,048, respectively, in food and beverage and \$34,733 and \$25,508, 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 \$8,834 in 2017 and \$6,239 in 2016.

**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, 2017 and 2016 are comprised of the following:

	2017	2016
Sales	\$ 628,787	\$ 618,262
Cost of Sales	361,812	358,925
Net	266,975	259,337

**Note 3 - Economic Dependency:**

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 \$924,749 and \$893,341 in support derived from a special assessment of lodging taxes in 2017 and 2016 that must be dedicated to payment of the USDA long term debt and to approved capital projects.

**Note 4 - Contributions Receivable:**

Contributions receivable at June 30, 2017 and 2016 are reported net of a discount to present value of \$7,435 and \$8,116 respectively, computed at 5.50%. Contributions receivable are expected to mature as follows: 2018 - \$160,476; 2019 - \$123,433; 2020 - \$4,000; and 2021 - \$4,000. At June 30, 2017, gross contributions receivable included amounts pledged by related parties aggregating \$77,700. Contributions from related parties recognized as revenue in 2017 and 2016 aggregated \$263,335 and \$341,599 respectively.

In 2017, of \$1,257,053 in aggregate contribution revenue, \$784,690 or 62.4% was received from six donors. In 2016, of \$659,170 in aggregate contribution revenue, \$458,322 or 69.5% was received from five donors.

Virginia Horse Center Foundation  
Notes to Financial Statements  
June 30, 2017 and 2016

**Note 5 - Notes Payable and Long Term Debt:**

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

	2017	2016
\$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	\$ 10,307,061	\$ 10,473,660
Two notes payable to a bank bearing interest at 5.5%, secured by real estate and deposits of \$512,410, requiring quarterly payments of \$17,476 and maturing with balloon installments on January 15, 2018, net of unamortized debt issuance costs of \$7,321 in 2016 and \$2,682 in 2017	746,256	768,723
Revolving line of credit bearing interest at Prime Rate plus 2%, guaranteed by two related parties, interest payable monthly	150,000	95,000
Note payable bearing interest at 6% with interest paid quarterly and principal due in four annual installments beginning July 15, 2016, net of unamortized debt issuance costs of \$2,015 in 2016 and \$1,565 in 2017	348,435	447,985
Other loans	37,741	43,305
	11,589,493	11,828,673

All of the Center's real estate (except 30 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 violated selected covenants in the USDA financing. A "workout agreement" has been executed between the Center and USDA under which the Center has until February 15, 2020 to cure the conditions representing covenant violations. See Note 14.

Principal maturities of the notes payable and long term debt are as follows: 2018 - \$1,189,233; 2019 - \$323,060; 2020 - \$326,152; 2021 - \$209,586; 2022 - \$212,705 and thereafter \$9,333,004. Interest expense accrued was \$504,223 in 2017 and \$515,988 in 2016. Interest expense paid was \$512,834 in 2017 and \$439,560 in 2016.

**Virginia Horse Center Foundation**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**Note 6 - Property and Equipment:**

Details of property and equipment are as follows:

	2017	2016
Land	\$ 7,393,640	\$ 7,393,640
Land Improvements	1,954,811	1,954,811
Buildings	15,216,292	15,197,130
Equipment & software	488,960	459,745
Vehicles	60,765	60,765
	<u>25,114,468</u>	<u>25,066,091</u>
Less accumulated depreciation	(6,324,851)	(5,697,501)
Property and equipment, net	<u>18,789,617</u>	<u>19,368,590</u>

**Note 7 - Performance Agreement:**

Effective for the fiscal year beginning July, 1 2014 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.

**Note 8 - Restricted Investments:**

Under terms of its USDA loan, the Center is required to maintain a restricted deposit account in the amount of at least \$604,555 as a debt service reserve. 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. The Center holds the restricted account in a separate bank account.

Transactions in the restricted investments accounts for the years ended June 30, 2017 and 2016 were as follows:

	Restricted Loan Proceeds	USDA Debt Service Account	Bank Compensating Balance	Total Restricted Investments
Balance at June 30, 2015	\$ -	\$ 20,405	\$ 60,426	\$ 80,831
Deposits	450,000	181,545	71	631,616
Withdrawals	(289,146)	(93,308)	-	(382,454)
Balance at June 30, 2016	<u>160,854</u>	<u>108,642</u>	<u>60,497</u>	<u>329,993</u>
Deposits	17,025	198,961	505,281	721,267
Withdrawals	(118,956)	(145,429)	(53,368)	(317,753)
Balance at June 30, 2017	<u>58,923</u>	<u>162,174</u>	<u>512,410</u>	<u>733,507</u>

Certain loan proceeds have been restricted to use for capital projects and deferred maintenance by the performance agreements described in Note 7.



**Virginia Horse Center Foundation**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**Note 9 - Temporarily Restricted Net Assets:**

Temporarily restricted net assets are available for the following purpose or periods:

	<u>2017</u>	<u>2016</u>
Pultz House	\$ 210,000	\$ 210,000
Program Restricted	\$ 6,027	\$ 242
Time Restricted	\$ 284,474	\$ 185,684
Debt Service	504,690	-
	<u>1,005,191</u>	<u>395,926</u>

**Note 10 - Net Assets Released from Restrictions:**

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>2017</u>	<u>2016</u>
Time restrictions satisfied	\$ 357,191	\$ 120,250
Sandy Gerald Ring	110,815	-
Rental of equipment	2,374	-
Other facility expenses	2,000	-
Arena footing	22,540	5,000
Show expenses	20,000	-
Donor database	1,718	-
Master plan and development	6,192	46,307
Debt and vendor payments	-	127,000
Debt service	14,000	68,323
Annual report	-	6,300
	<u>536,830</u>	<u>373,180</u>

**Note 11 - Income Taxes:**

The Center may have taxable income arising from certain marketing and royalty activities that are not directly related to the provision of services to participants and officials at horse activities. Three years tax returns remain subject to examination and possible adjustment by taxing authorities. At June 30, 2017 a net operating loss carryforward of \$23,597 is available to offset future taxable income. The Center has not recorded a deferred tax benefit that may result from future use of loss carryforwards because ultimate realization is in doubt. The Center is not classified as a private foundation.

**Note 12 - Non Monetary contributions:**

For the years then ended June 30, 2017 and 2016, the Center received \$27,900 and \$62,970 in non-monetary contributions.

**Note 13 – Newly Adopted Accounting Standards**

The Financial Accounting Standards Board adopted Accounting Standards Update 2016-14, Not-for Profit entities (Topic 958), "Presentation of Financial Statements of Not-for-Profit Entities" in August 2016. This Update becomes effective for fiscal years beginning after December 15, 2017. The impact of implementing this Update has not been assessed by management at this time.

Virginia Horse Center Foundation  
Notes to Financial Statements  
June 30, 2017 and 2016

**Note 13 – Newly Adopted Accounting Standards (continued)**

The Financial Accounting Standards Board adopted Accounting Standards Update 2015-03, Interest – Imputation of Interest (Subtopic 835-30), “Simplifying the Presentation of Debt Issuance Costs” in April 2015. This Update is effective for fiscal years beginning after December 15, 2015 and is applied on a retroactive basis. Debt issuance costs are required to be presented on the statement of financial position as a direct deduction from the face amount of the note instead of a separate intangible asset. As a result of the adoption of this standard, long-term debt and other assets have been reduced by \$4,247 and \$9,336 at December 31, 2017 and 2016, respectively.

**Note 14 - Going Concern:**

The accompanying financial statements have been prepared assuming the Virginia Horse Center Foundation will continue as a going concern. The Center has incurred recurring losses from operations and is in violation of selected covenants contained in the original financing agreements with USDA. The Foundation entered a workout agreement with USDA to remedy events of non-compliance through February 15, 2020. At June 30, 2017 the Center has met the prescribed terms of the workout agreement. The Center also has a balloon payment due in January 2018 to liquidate two bank notes. Management has adopted a plan to refinance these loans.

**Note 15 – Subsequent Events:**

On September 25, 2017, the Center received a commitment letter from a local bank for a commercial term loan secured by a first lien deed of trust on land parcels and a money market account to be opened with the bank. This commercial term loan will bear interest at a fixed rate of 5%.

The Virginia Horse Center Foundation has evaluated subsequent events for disclosure and recognition through October 11, 2017, the date these financial statements were available to be issued.

“Items Required by “Government Auditing Standards”

# *Raetz and Hawkins, P.C.*

A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS  
128 SOUTH RANDOLPH STREET  
LEXINGTON, VIRGINIA 24450  
TELEPHONE 540-463-7121  
FAX 540-463-1514  
E-MAIL: [cpa@raetzandhawkins.com](mailto:cpa@raetzandhawkins.com)

GREG C. RAETZ, CPA  
DAVID B. HAWKINS, CPA  
BO HAYWOOD, CPA

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, 2017, and the related notes to the financial statements, and have issued our report thereon dated October 11, 2017.

#### **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.

October 11, 2017

A large, stylized handwritten signature in black ink. The signature is written in a cursive style and appears to read "R. J. Paetz". The signature is positioned to the right of the date "October 11, 2017".

## Gary Swink

---

**From:** Sandra Thomas <sgt1@me.com>  
**Sent:** Saturday, October 14, 2017 12:44 PM  
**To:** Gary Swink; Steven Bolster; Bobby Hobbs; David E. Worley; Wilson, Robert - RD, Lexington, VA; Tommy Loflin  
**Subject:** VHCF Q1 financials  
**Attachments:** Sept financials.pdf

All,

Attached are the financial statement for July - Sept 2017. Due to the demands of the audit and our busy summer show season, July and August were not completely closed until mid-September. Since the reports were so late, I made a decision to report on the entire quarter at the end of September.

The year is off to a good start start. While operating income is \$7,200 unfavorable to last year the expense increase is due to the timing of the recording of water and telephone bills and the non-recurring expenses for the Master Plan work required for the USDA loan application. Unrestricted GAAP donations have decreased by \$50,000. However, of the \$72,369 recorded in Q1 2016, \$63,000 were pledges where cash was to be received over three years. Unrestricted contributions for 2017 are all cash donations and from many new donors. Restricted contributions are also cash collections and have increased due to gifts to match Jacque Mars' matching gift.

The increase in net income from the period is primarily due to the Commonwealth's shared racing commission revenue.

Please let me know if you have any questions about our operating results.

Best,

Sandra

Sandra G. Thomas  
434.825.4966  
[sgt1@me.com](mailto:sgt1@me.com)

4:12 PM

10/13/17

Accrual Basis

**Virginia Horse Center Foundation**  
**Balance Sheet**  
As of September 30, 2017

	<u>Sep 30, 17</u>	<u>Sep 30, 16</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
<b>Checking/Savings</b>		
Cash - Unrestricted	16,617.93	8,471.51
Restricted Cash	748,588.83	362,601.84
<b>Total Checking/Savings</b>	<u>765,206.76</u>	<u>371,073.35</u>
<b>Accounts Receivable</b>		
1100 · Accounts Receivable	72,142.11	105,677.78
1105 · Pledges Receivable-Current	145,350.68	80,016.67
<b>Total Accounts Receivable</b>	<u>217,492.79</u>	<u>185,694.45</u>
<b>Other Current Assets</b>	<u>664,967.25</u>	<u>502,438.44</u>
<b>Total Current Assets</b>	<u>1,647,666.80</u>	<u>1,059,206.24</u>
<b>Fixed Assets</b>	18,659,931.21	19,212,282.77
<b>Other Assets</b>		
1400 · Other Assets	1,210.28	5,618.22
1401 · Pledges Receivable - LT	131,433.34	158,033.34
<b>Total Other Assets</b>	<u>132,643.62</u>	<u>163,651.56</u>
<b>TOTAL ASSETS</b>	<u><u>20,440,241.63</u></u>	<u><u>20,435,140.57</u></u>
<b>LIABILITIES &amp; EQUITY</b>		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts Payable	490,601.63	322,738.66
<b>Other Current Liabilities</b>		
2002 · Accrued Expenses	8,841.55	8,841.55
2003 · Sales Tax Payable	13,595.73	13,296.06
2004 · County Meals Tax Payable	440.71	565.32
2005 · Occupancy Tax Payable	1,187.23	970.97
2006 · Accrued Payroll	53,746.00	55,949.00
2008 · Accrued Vacation	58,179.00	41,116.00
2009 · Accrued Interest - USDA	265,874.56	276,090.33
2010 · Accrued Interest - NRB	10,644.15	10,758.25
2012 · Deferred Sign Revenue	21,054.22	14,062.50
2013 · Show Deposits	4,000.00	5,000.00
2014 · Current Portion USDA Debt	179,388.72	169,191.30
2015 · Current Portion NRB Debt	741,900.73	20,484.66
2022 · Rent Deposits	600.00	600.00
2023 · Mezzanine rent deposits	375.00	1,075.00
2025 · Current Sedgfield Settlement	5,000.00	5,000.00
2026 · Note payable	150,000.00	0.00
2027 · Borrowings under LOC	0.00	112,000.00
2028 · Accrued contracted services	359.64	359.64



4:12 PM

10/13/17

Accrual Basis

**Virginia Horse Center Foundation**  
**Balance Sheet**  
As of September 30, 2017

	<u>Sep 30, 17</u>	<u>Sep 30, 16</u>
2032 · Cornerstone N/P - Current	120,687.17	0.00
2033 · Ford Credit Vehicle Loan	25,329.92	31,487.36
<b>Total Other Current Liabilities</b>	<u>1,661,204.33</u>	<u>766,847.94</u>
<b>Total Current Liabilities</b>	2,151,805.96	1,089,586.60
<b>Long Term Liabilities</b>		
2100 · USDA Debt	10,127,672.67	10,304,468.28
2101 · NRB Note A	0.00	662,838.06
2102 · NRB Note B	0.00	86,056.19
2104 · Sedgefield Settlement	5,000.00	10,000.00
2105 · Cornerstone deferred main note	125,000.00	350,000.00
<b>Total Long Term Liabilities</b>	<u>10,257,672.67</u>	<u>11,413,362.53</u>
<b>Total Liabilities</b>	12,409,478.63	12,502,949.13
<b>Equity</b>	<u>8,030,763.00</u>	<u>7,932,191.44</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u><u>20,440,241.63</u></u>	<u><u>20,435,140.57</u></u>

**VHCF****Income Statement****For the Three Month Period Ended September 30, 2017 and 2016**

	<u>YTD 9/30/17</u>	<u>YTD 9/30/16</u>	<u>Change</u>
Income			
Contributions			
Unrestricted	\$22,407	\$72,369	(49,962) A
Restricted	47,974	17,874	30,100 B
Gifts in kind	13,650	8,760	4,890 C
Facility Fee	523,250	470,801	52,449 D
Events & Show Revenue	425,654	429,413	(3,759)
Food sales	74,774	50,146	24,628 E
Merchandise	146,653	138,129	8,524
Commissions and Advertising	11,129	9,388	1,741
Total Income	<u>1,265,491</u>	<u>1,196,880</u>	<u>68,611</u>
Cost of Goods Sold	100,395	100,522	(127)
Gross Profit	<u>1,165,096</u>	<u>1,096,358</u>	<u>68,738</u>
Operating Expenses			
Facility Operations	423,325	350,190	73,135 F
Events & Show Operations	460,277	453,903	6,374
Management & General	204,557	207,516	(2,959)
Fund Raising Expenses	21,225	21,855	(630)
Total Operating Expenses	<u>1,109,384</u>	<u>1,033,464</u>	<u>75,920</u>
Operating Income	<u>55,712</u>	<u>62,894</u>	<u>(7,182)</u>
Other Income/(Expense)			
Grants	304,375	287,252	17,123 G
Depreciation	(156,837)	(156,307)	(530)
Interest Expense	(117,637)	(128,123)	10,486
Investment Income	314	31	283
Other Income	285	932	(647)
Total Other Income/(Expense)	<u>30,500</u>	<u>3,785</u>	<u>26,715</u>
Net Income	<u>\$ 86,212</u>	<u>\$ 66,679</u>	<u>\$ 19,533</u>

**Virginia Horse Center Foundation**  
**Explanations for Variances from Prior Year**  
**For the Three Month Period Ended September 30, 2017**

A – Unrestricted contributions – The decrease in unrestricted contributions is the result of Jennifer's 2016 efforts to get donors to pledge for three years. During Q1 of 2016 Jennifer solicited a number of Board members for three-year pledges that totaled more than \$63,000. These were recorded when the pledge was received even though money did not come in until later in the year. Q1 2017 unrestricted contributions are all actual cash collections.

B – Restricted contributions – 2017 restricted gifts include \$39,700 towards \$50,000 raised to match a gift from Jacquie Mars to pay for the master plan. The match was completed in October and we have requested the funds from Mrs. Mars.

C – Gifts in kind – Increase in gifts in kind is due to having additional gifts in kind. In the past we have had two tractors. Now we also receive gifts in kind for a hotel room for John Nicholson and a reveal.

D – Facility Rent – Increase in facility rent is primarily due to an increase of \$27,000 in stall revenue and \$24,000 increase in facility rent. The 2017 Lexington National show was record breaking. Stall fees for 2017 were \$156,000 while they were \$134,000 in 2016. The increase in facility rent is due to shows being larger and using more of the property.

E – Food sales – Increase is due to increased sales in the Winner's Ring and increased number and size of catered events. Winner's Ring sales have increased 52% from last year due to increased number of exhibitors and more familiarity that it has reopened. Shows that have not used our in-house catering in the past have begun using our services.

F – Facility Operations – Increase in expenses is primarily due to the timing of recording a two month water bill of \$25,000; \$4,400 due to the timing of the recording of a telephone bill; and, \$26,813 for the Master Plan work required for the USDA loan application.

G – Grants – The increase is the result of an increase for the quarter of \$15,700 from the Commonwealth shared racing commission revenue.

4:19 PM

10/11/17

Accrual Basis

Virginia Horse Center Foundation  
Profit & Loss  
July through September 2017

	Jul - Sep 17	Jul - Sep 16
Ordinary Income/Expense		
Income		
6000 · Contributions		
6001 · Contributions	20,432.02	70,478.88
6002 · Restricted - Operational	47,974.00	3,874.00
6004 · Contributions - debt service	0.00	14,000.00
6005 · Annual Fund Contributions	1,975.00	1,890.00
6006 · Gifts in Kind	13,650.01	8,760.00
<b>Total 6000 · Contributions</b>	<b>84,031.03</b>	<b>99,002.88</b>
6102 · Shared Racing Commission Rev	27,762.57	12,039.17
6103 · Lodging Tax Revenue	276,612.70	275,212.64
6104 · Facility Rent	128,725.00	101,623.41
6105 · Stalls	334,946.25	310,850.75
6106 · Vendors	7,905.00	8,810.00
6107 · Security	16,800.00	33,272.00
6108 · EMT	9,489.00	9,608.00
6109 · Jumps	2,100.00	2,700.00
6111 · Parking Fees	0.00	2,906.00
6113 · Mezzanine Rent	950.00	375.00
6114 · Pultz House Rental	1,800.00	1,800.00
6115 · Exhibitor Entry Fees	277,345.65	252,727.56
6116 · Sponsorship	85,411.95	90,855.00
6117 · Merchandise Sales	0.00	0.36
6118 · Golf Carts	-2,000.37	2,155.13
6119 · Camping-Elect & Water	54,254.08	52,976.96
6120 · Camping - Dry	2,575.00	3,175.00
6121 · Early Arrivals	5,490.00	7,440.00
6122 · Layovers	1,040.00	1,340.00
6123 · Straw	35.00	100.10
6125 · Shavings	115,663.39	114,162.22
6126 · Feed	947.17	1,081.50
6127 · Hay-Timothy	12,599.00	9,899.95
6128 · Ice	4,336.05	4,302.08
6130 · Signs & Adverstising	11,129.18	9,387.56
6131 · Stable Management	2,450.00	3,650.00
6132 · Custodial fees	1,700.00	3,550.00
6133 · Copies & copier rental	350.00	350.00
6134 · Dumpster fees	2,600.00	2,708.00
6135 · Other show income	18,056.47	11,502.21
6136 · Rules credit	-3,000.00	-2,900.00
6137 · NSF clearing	-83.57	-1,261.59
6150 · Stable Revenue to be allocated	13,072.11	8,582.98
6200 · Food Sales	74,774.10	50,146.49

4:19 PM

10/11/17

Accrual Basis

Virginia Horse Center Foundation  
Profit & Loss  
July through September 2017

	Jul - Sep 17	Jul - Sep 16
6300 · Fair		
6301 · Events	0.00	0.00
Total 6300 · Fair	0.00	0.00
Total Income	1,569,866.76	1,484,131.36
Cost of Goods Sold	100,395.36	100,522.12
Gross Profit	1,469,471.40	1,383,609.24
Expense		
7018 · Hospitality - VHC - Internal	151.93	0.00
7019 · Hospitality - VHC Shows (food)	923.04	0.00
7020 · Repair & Maintenance	92,540.33	49,141.06
7050 · Rental	16,194.17	19,180.71
7060 · Fuel	7,177.69	6,574.68
7070 · Supplies	35,025.27	28,406.14
7080 · Uniforms	701.94	0.00
7090 · Landfill Fees	3,751.16	3,589.84
7100 · Exterminator	225.00	225.00
7110 · Manure-Trash-Potty	13,255.00	12,596.00
7115 · Other show costs	0.00	0.00
7120 · Contracted Services	246,144.58	178,321.98
7130 · Professional Fees	23,075.00	33,000.00
7200 · Salaries & Wages	355,622.14	336,928.47
7201 · FICA	27,171.41	25,265.12
7203 · SUTA	4,667.63	3,831.25
7204 · Health Insurance	3,896.41	5,019.70
7206 · Dental Insurance	608.62	807.78
7207 · Payroll Processing Fees	1,760.14	1,927.55
7300 · Utilities	66,583.60	60,132.10
7350 · Insurance	13,542.03	14,787.48
7400 · Employee Travel	4,528.16	5,032.85
7420 · Meals & Entertainment	66.05	294.87
7450 · Advertising	181.16	1,668.17
7460 · Signage-Advertising	520.83	513.46
7480 · Association Fees	24,192.00	19,682.00
7490 · Prizes	112,650.95	134,227.57
7495 · Ribbons-Awards	10,742.48	0.00
7500 · Show Equipment and Vehicles	0.00	7,500.00
7510 · Show and Judge Travel	36,007.19	37,068.10
7520 · Hospitality - (non food)	839.98	62.01
7521 · F&B internal bill	8,083.07	5,214.22
7530 · Printing	3,614.00	6,552.68
7535 · Subscriptions and dues	337.64	559.23
7540 · Miscellaneous	2,376.14	-0.01
7570 · Postage	2,860.13	3,033.07
7580 · Taxes	209.94	92.06

4:19 PM

10/11/17

Accrual Basis

**Virginia Horse Center Foundation**  
**Profit & Loss**  
July through September 2017

	<u>Jul - Sep 17</u>	<u>Jul - Sep 16</u>
7590 · Fund Raising Expenses	106.00	21,000.00
7596 · Commissions on advertisings	2,969.40	2,124.08
7597 · Amy Reistrup Memorial	2,000.00	0.00
7600 · NSF	-35.00	0.00
7610 · Bad Debt Expenses	0.00	484.50
7620 · Bank Service Charges	78.85	29.00
7630 · Finance Charges	2,117.16	1,087.65
7631 · Credit Card Processing Fees	8,288.55	5,177.39
7635 · Cash Over & Short	-26.86	-27.55
7636 · Late fees	16.80	308.85
7640 · Charitable Contributions	523.50	1,233.50
7650 · Licenses and Dues	270.25	810.30
<b>Total Expense</b>	<u>1,136,535.46</u>	<u>1,033,462.86</u>
<b>Net Ordinary Income</b>	332,935.94	350,146.38
<b>Other Income/Expense</b>		
Other Income	598.93	962.40
Other Expense		
7700 · Interest	117,636.82	128,122.67
7710 · Depreciation	156,837.48	156,306.99
7715 · Loss on Stock Sale	0.43	0.00
<b>Total Other Expense</b>	<u>274,474.73</u>	<u>284,429.66</u>
<b>Net Other Income</b>	<u>-273,875.80</u>	<u>-283,467.26</u>
<b>Net Income</b>	<u><u>59,060.14</u></u>	<u><u>66,679.12</u></u>

**Virginia Horse Center Foundation**  
**Statements of Cash Flows**  
**For the Three Month Period Ended September 2017 and 2016**

	<u>YTD 9/30/17</u>	<u>YTD 9/30/16</u>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 86,212	\$ 66,679
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	156,837	156,307
Decrease (increase) in current assets	(295,208)	(143,508)
Decrease (increase) in long term pledges	144,433	(35,533)
(Decrease) increase in current liabilities	43,999	87,813
Net cash provided by Operating Activities	<u>136,273</u>	<u>131,758</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of fixed assets	<u>(27,152)</u>	<u>-</u>
Net cash used by Investing Activities	<u>(27,152)</u>	<u>-</u>
<b>FINANCING ACTIVITIES</b>		
Payment on deferred maintenance loan	(125,000)	(100,000)
Proceeds from LOC	-	97,000
Repayment of LOC	-	(80,000)
Payments on Ford Credit Note	(2,411)	(1,818)
Payment on NRB notes	(7,037)	(6,666)
Net cash used by Financing Activities	<u>(134,448)</u>	<u>(91,484)</u>
Net cash decrease for period	(25,327)	40,274
Cash beginning of period	790,534	330,799
Cash end of period	<u>\$ 765,207</u>	<u>\$ 371,073</u>