

# DEANDORTON

DEAN DORTON ALLEN FORD, PLLC



2015 Kentucky Thoroughbred  
Horse Farm Operations  
Survey



## INTRODUCTION

We are pleased to provide you with the summary results of our May 2015 survey. This survey focuses on operational matters for KY thoroughbred horse farms. We hope that these compiled results will be a helpful tool for you to use in conducting your business throughout the year.

A total of 38 farms participated in this survey (89 survey invites were generated), a response rate of 43%. Please let us know if you did not receive a survey invite but would like to participate in future surveys.

We thank those who responded for participating, as it is these responses that continue to make this survey useful.

As always, we welcome your feedback and suggestions for future survey topics.

Sincerely,

Jen Shah and Melissa Hicks

Dean Dorton Allen Ford, PLLC Equine Team





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## *Dean Dorton Equine Services*

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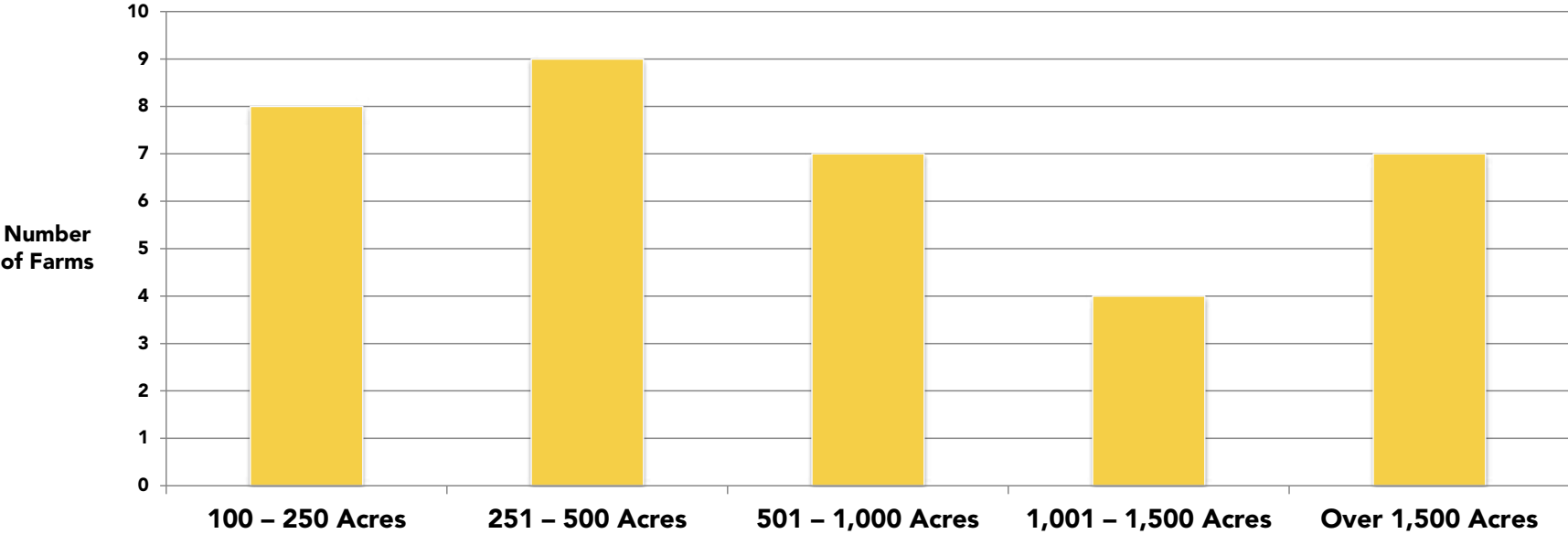
**56**



## General Farm Information

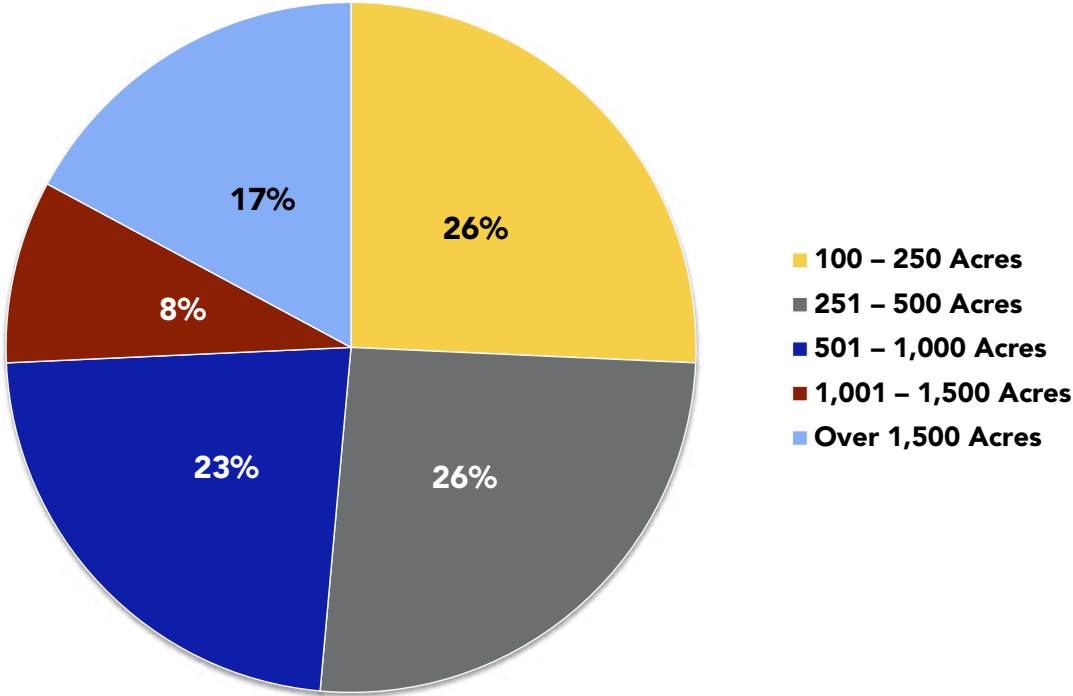


# Total Number of Acres on the Farm



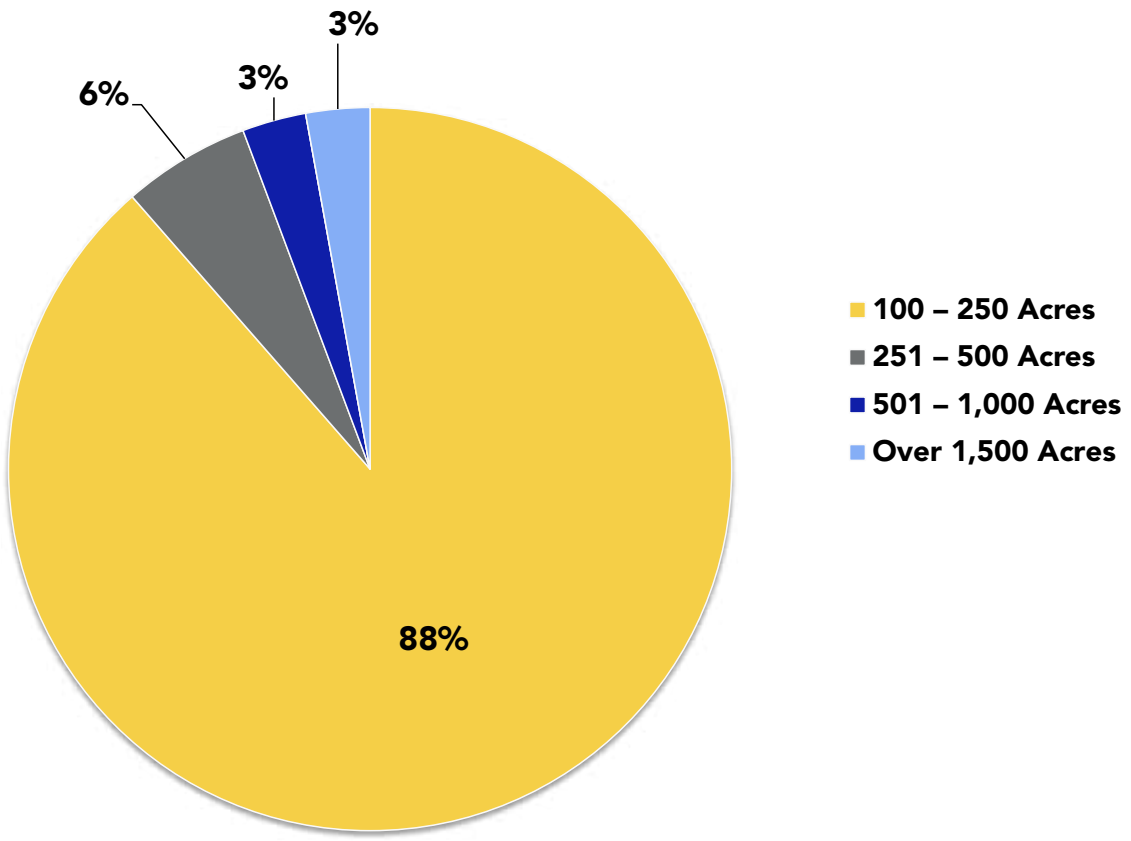


# Farm Acreage - Used





# Farm Acreage - Unused



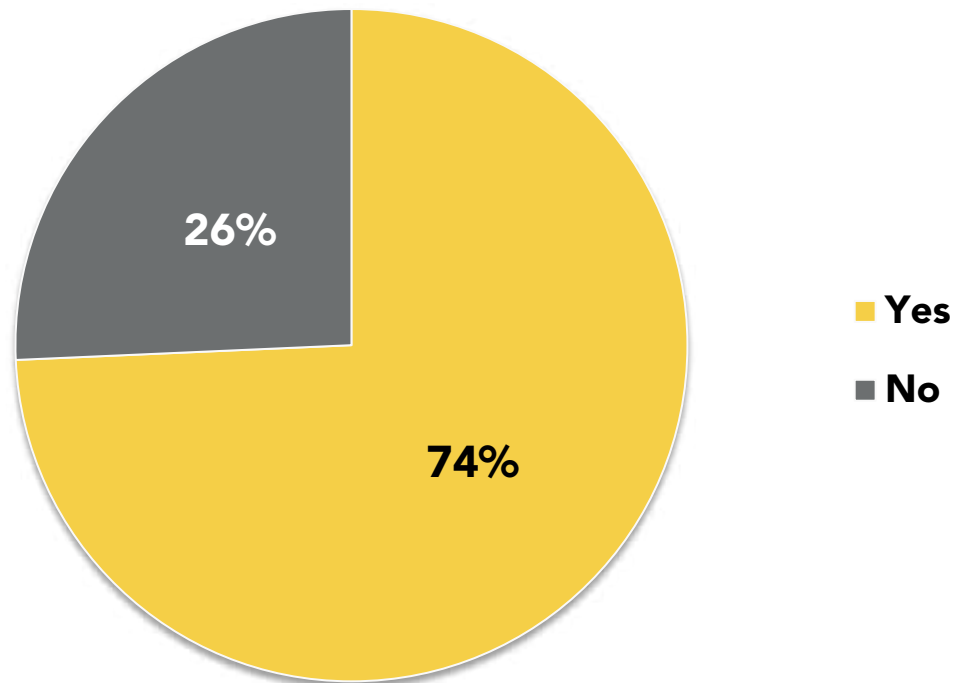




Boarding

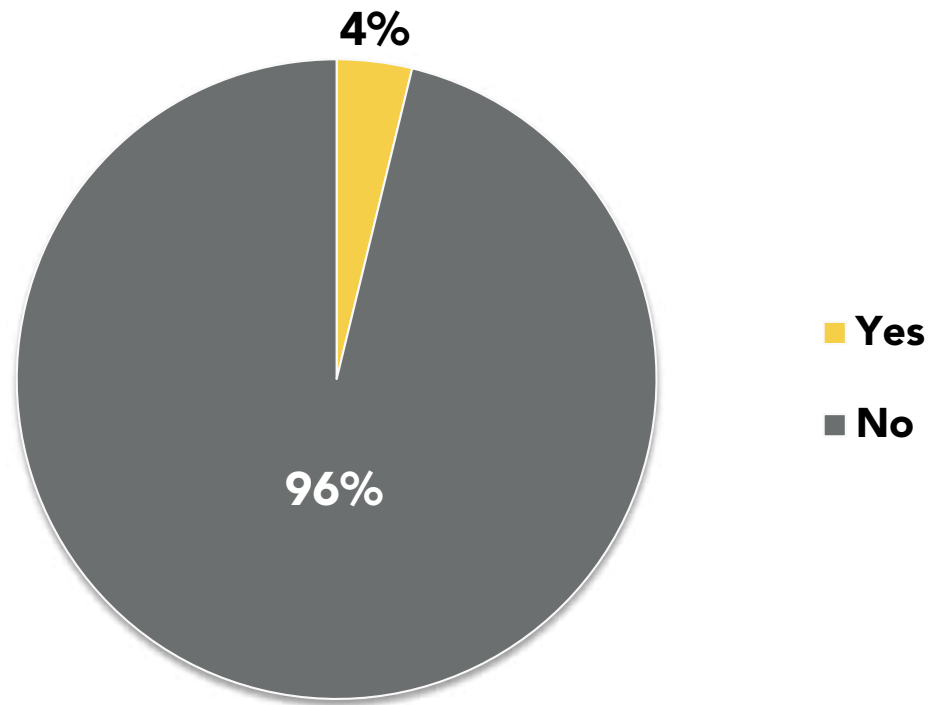


## Farms Boarding Horses



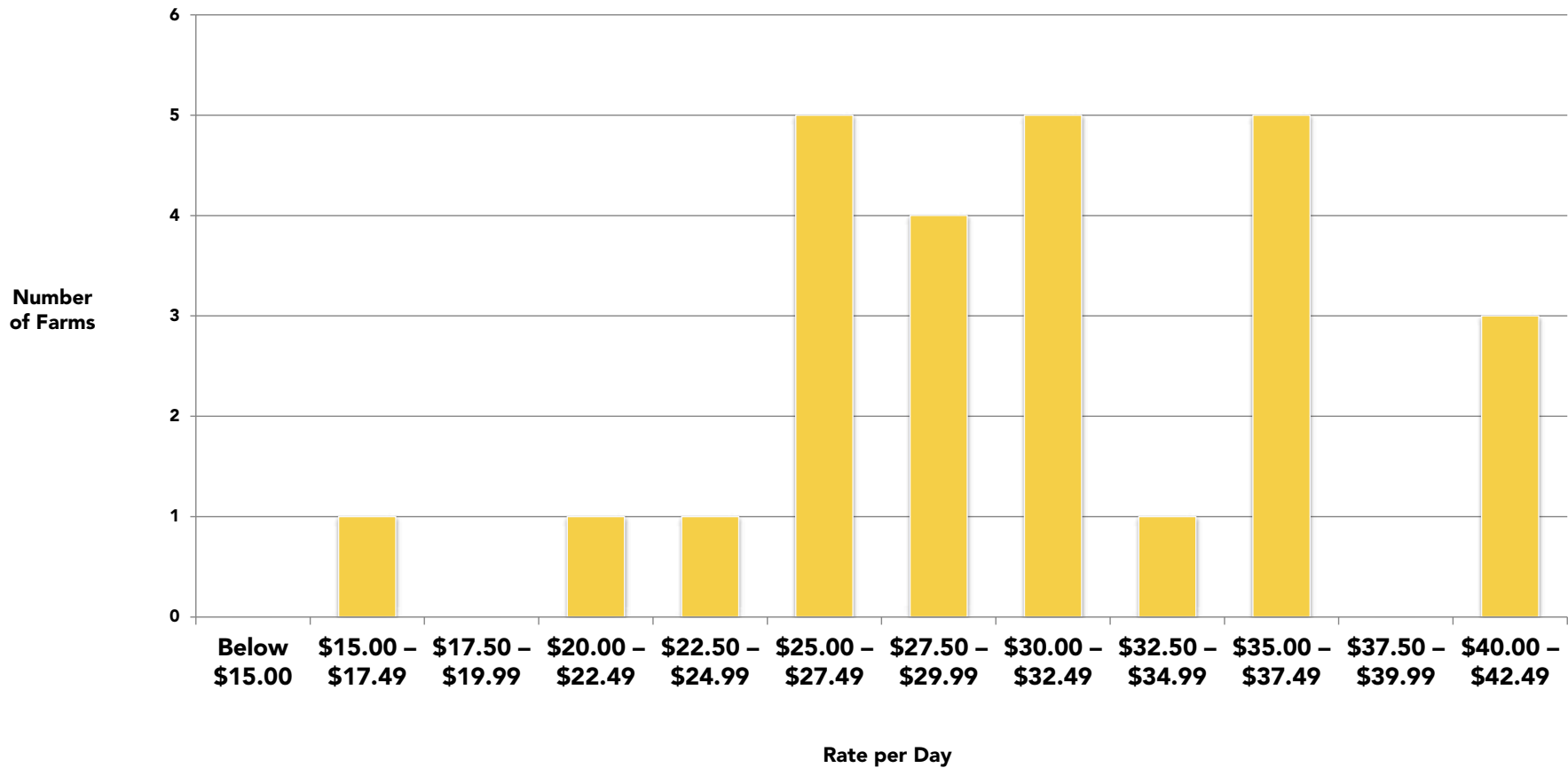


## Farms Requiring Boarding Clients to Maintain a Deposit or Retainer





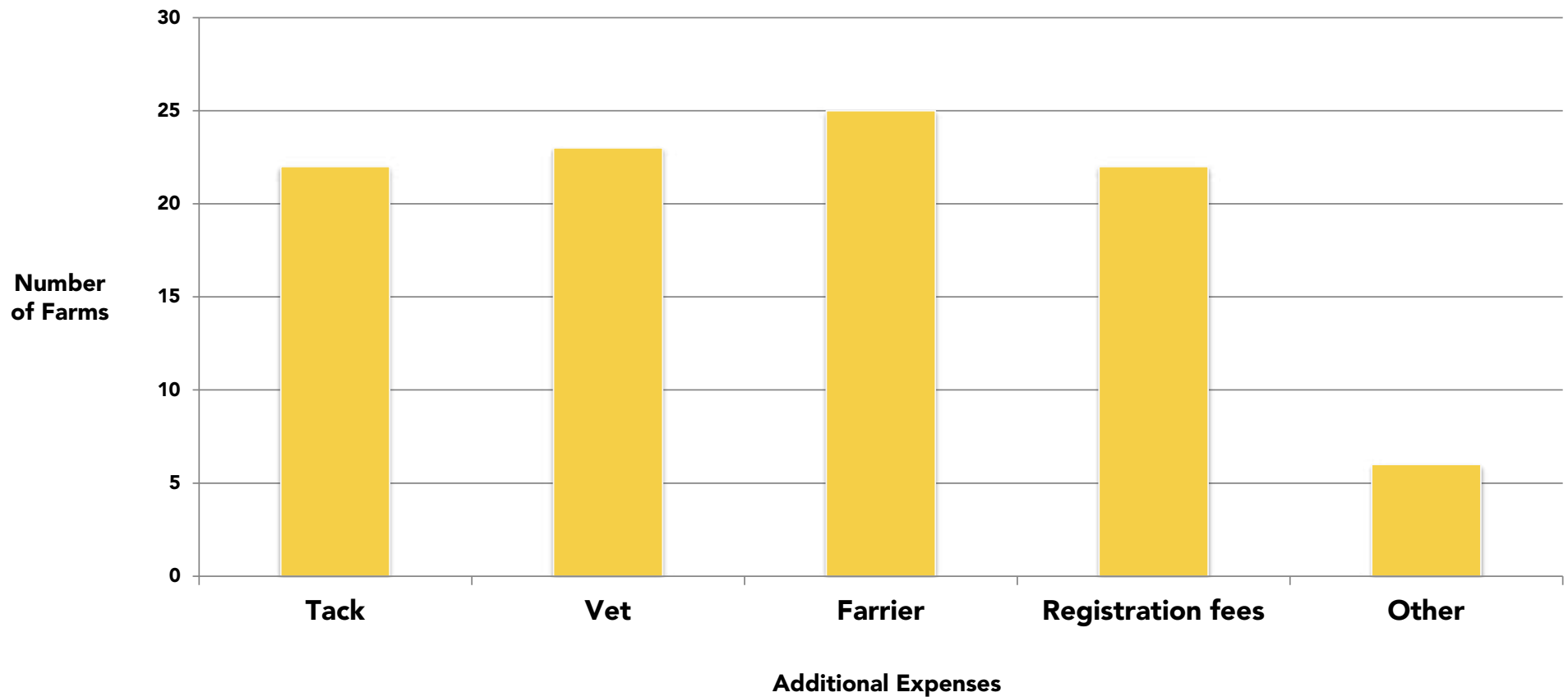
# Average Standard Daily Board Rate





## Expenses Billed in Addition to Standard Board Rate

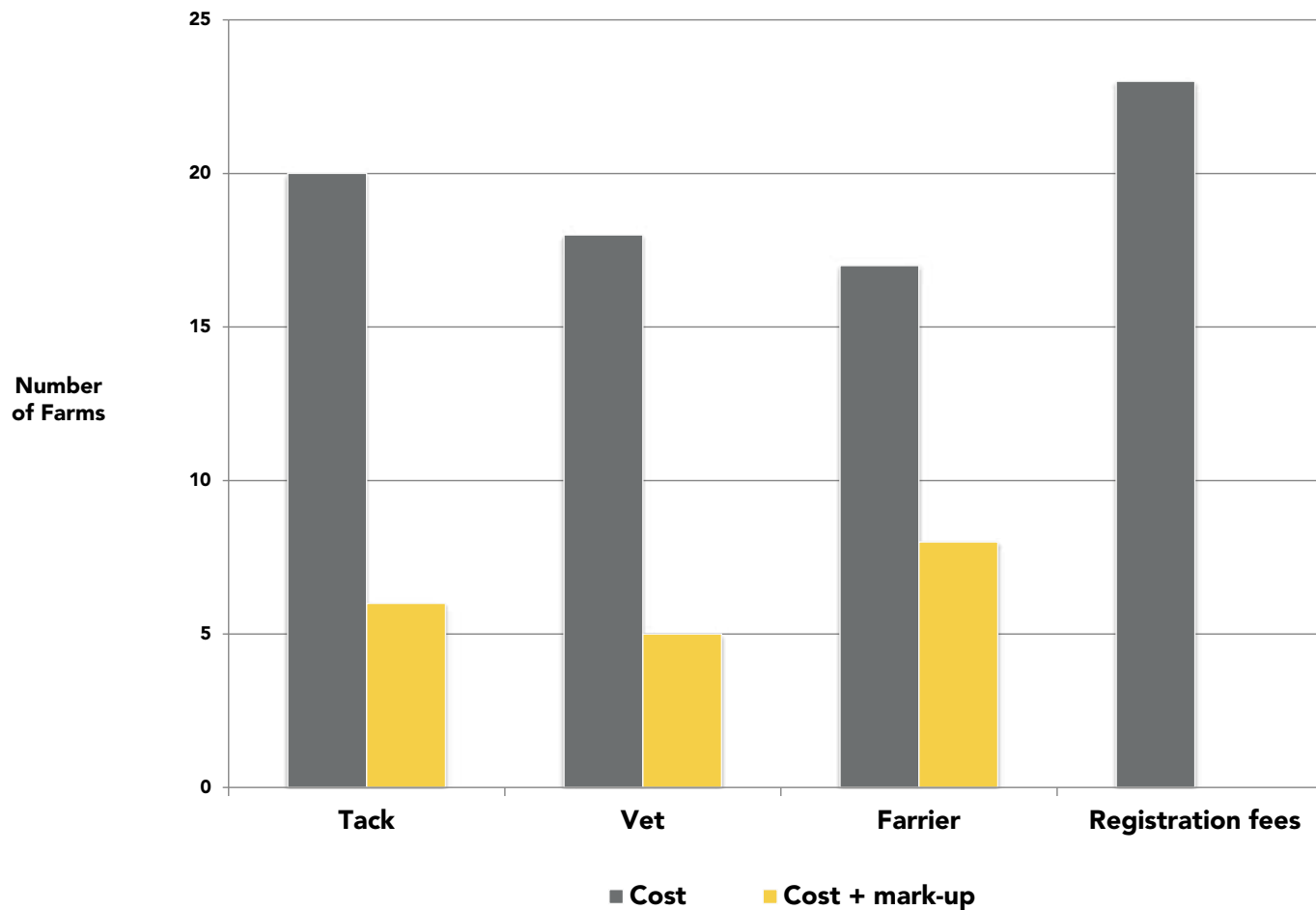
In addition to the items specifically included on the graph, farms also noted mortality insurance premiums, transportation costs, and foaling fees as routinely billed to clients.





## Bill Rate for Additional Expenses

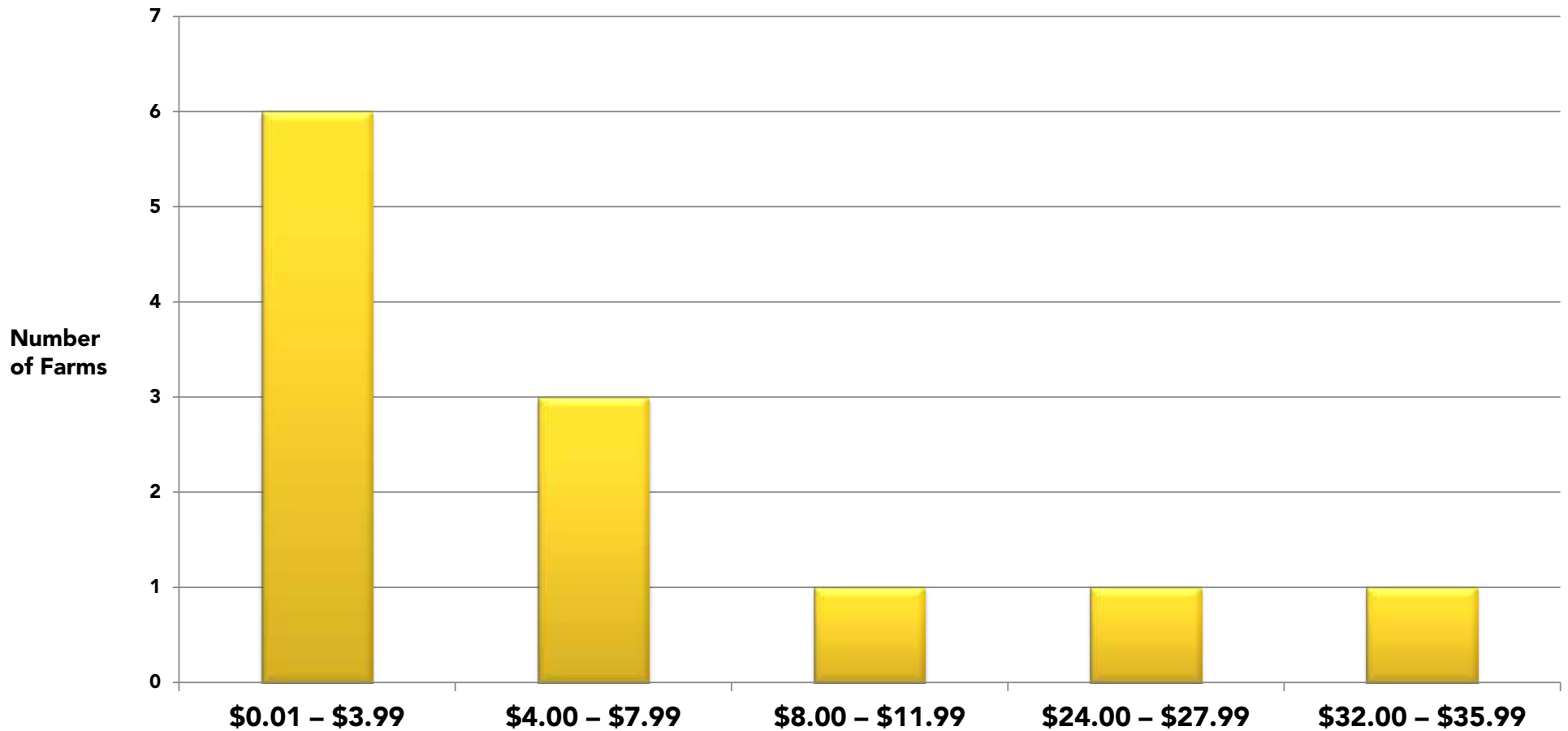
The majority of farms responded that no mark-up is applied to certain costs (tack, vet and farrier) billed to third parties. Of the respondents that do mark-up these costs, the standard percentage applied to the mark-up varied widely. This percentage ranged from 4% to 30%, with the bulk of the mark-up being in the 5 – 10% range.





# Premium Board Rate - Additional Daily Charge

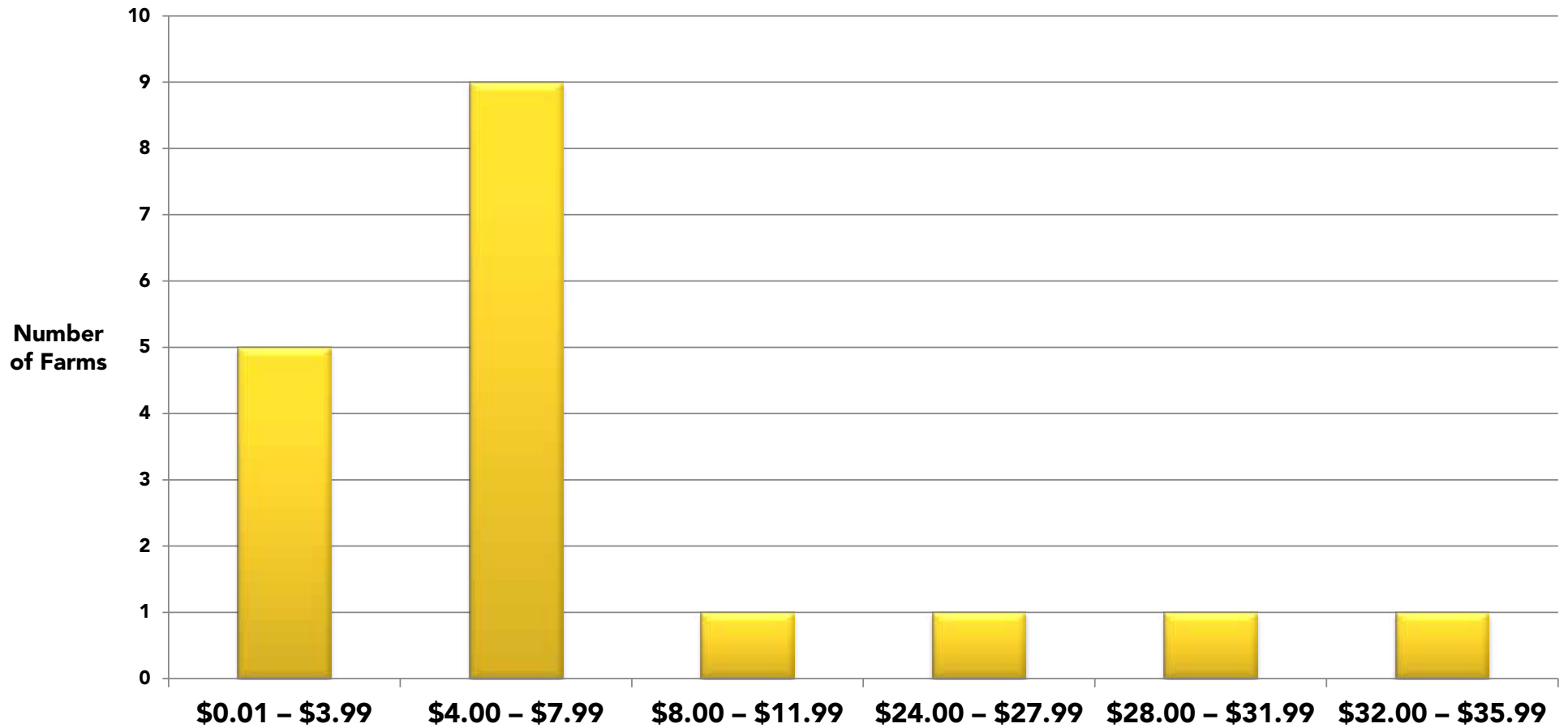
## Seasonal or Temporary Boarding





# Premium Board Rate - Additional Daily Charge

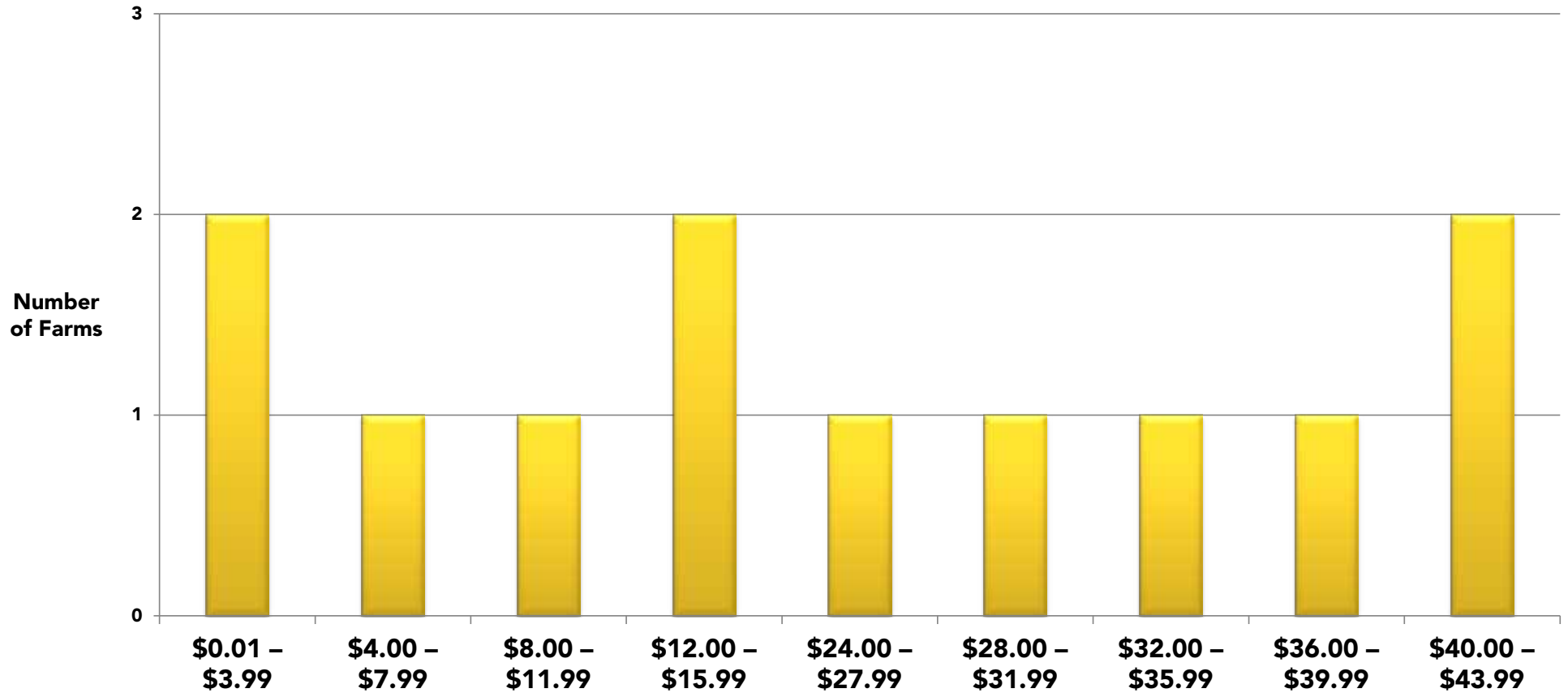
## Mares with Foal at Side







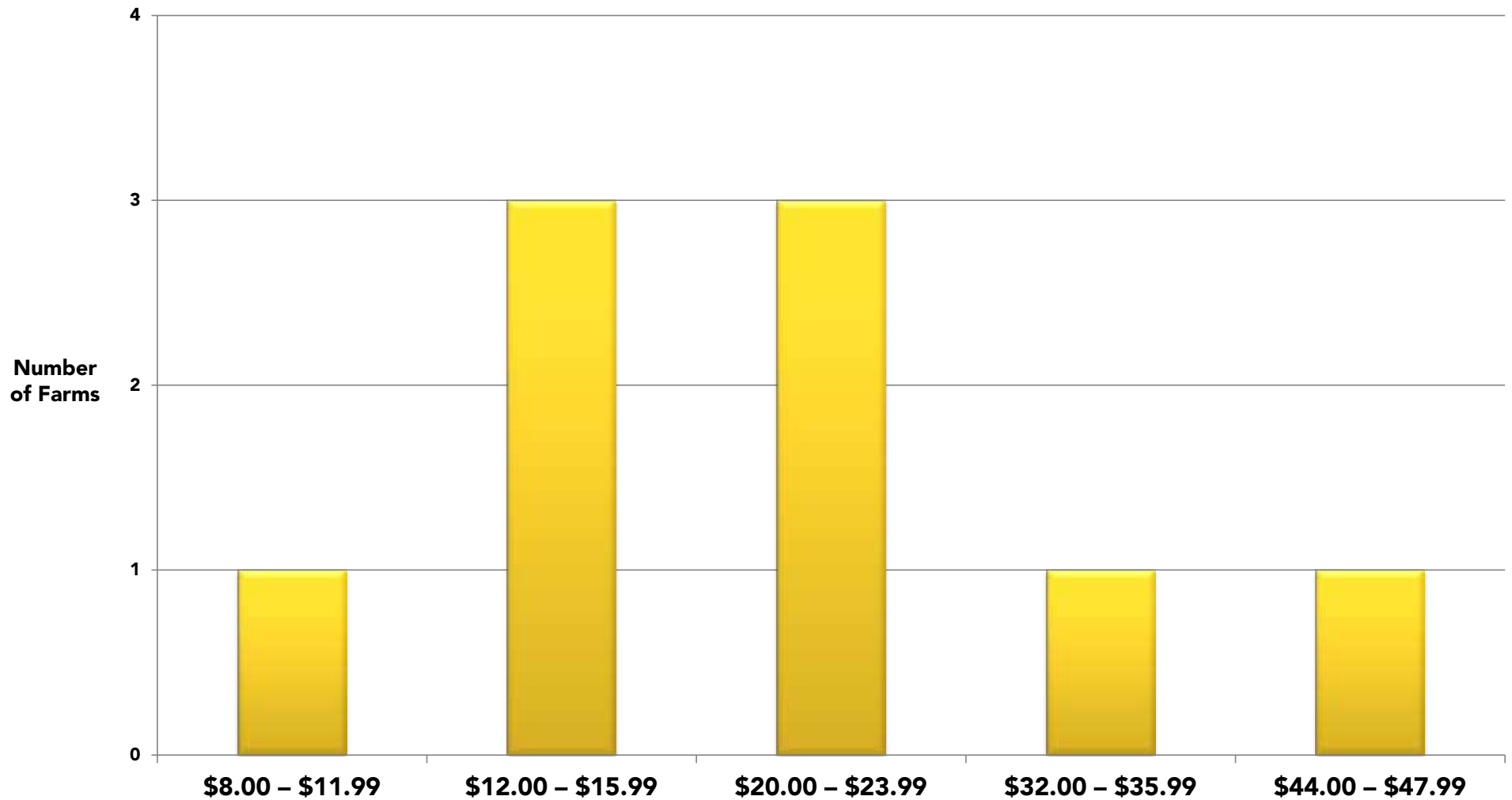
# Premium Board Rate - Additional Daily Charge Stallions





# Premium Board Rate - Additional Daily Charge

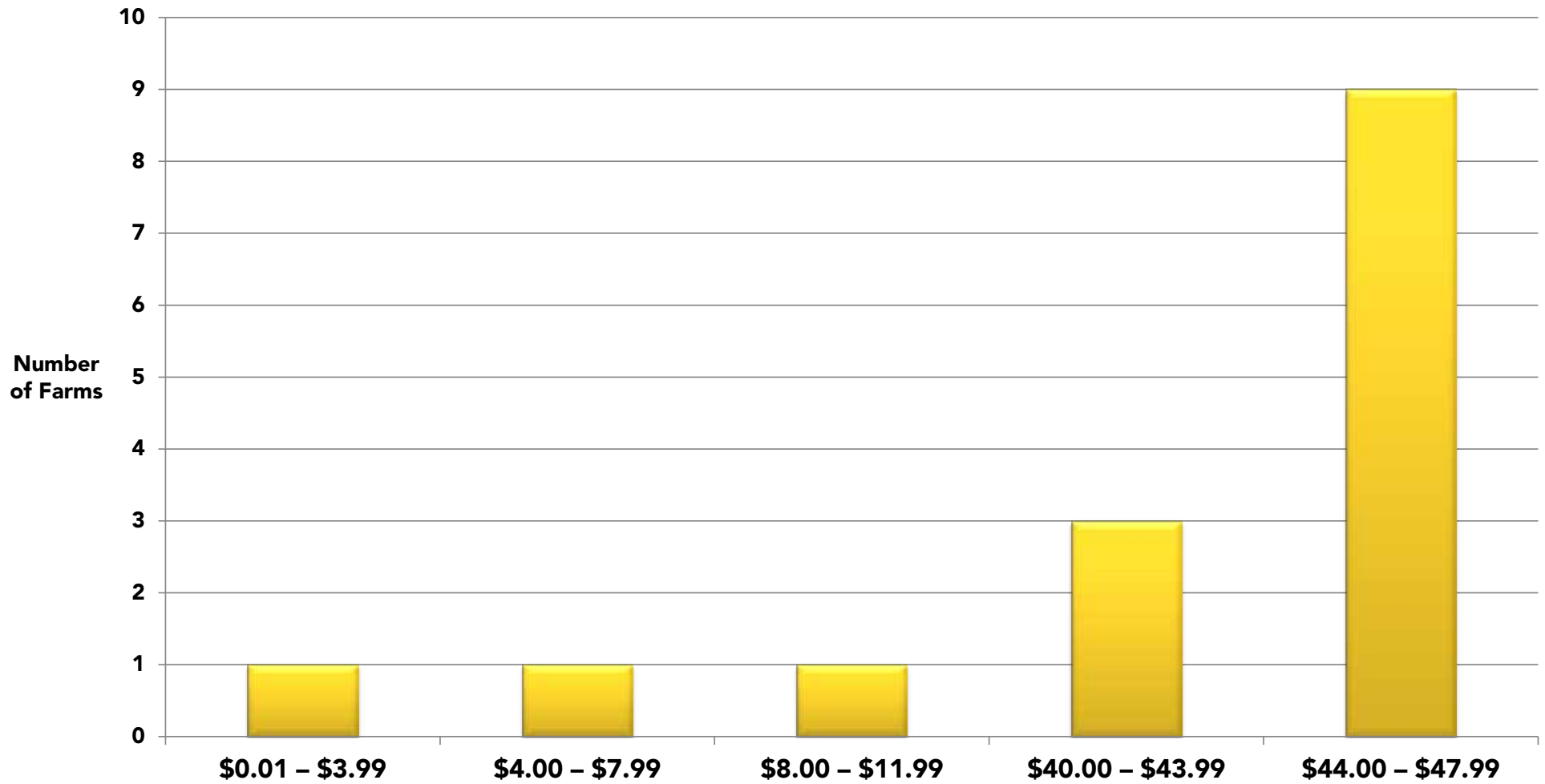
## Breaking and Training





# Premium Board Rate - Additional Daily Charge

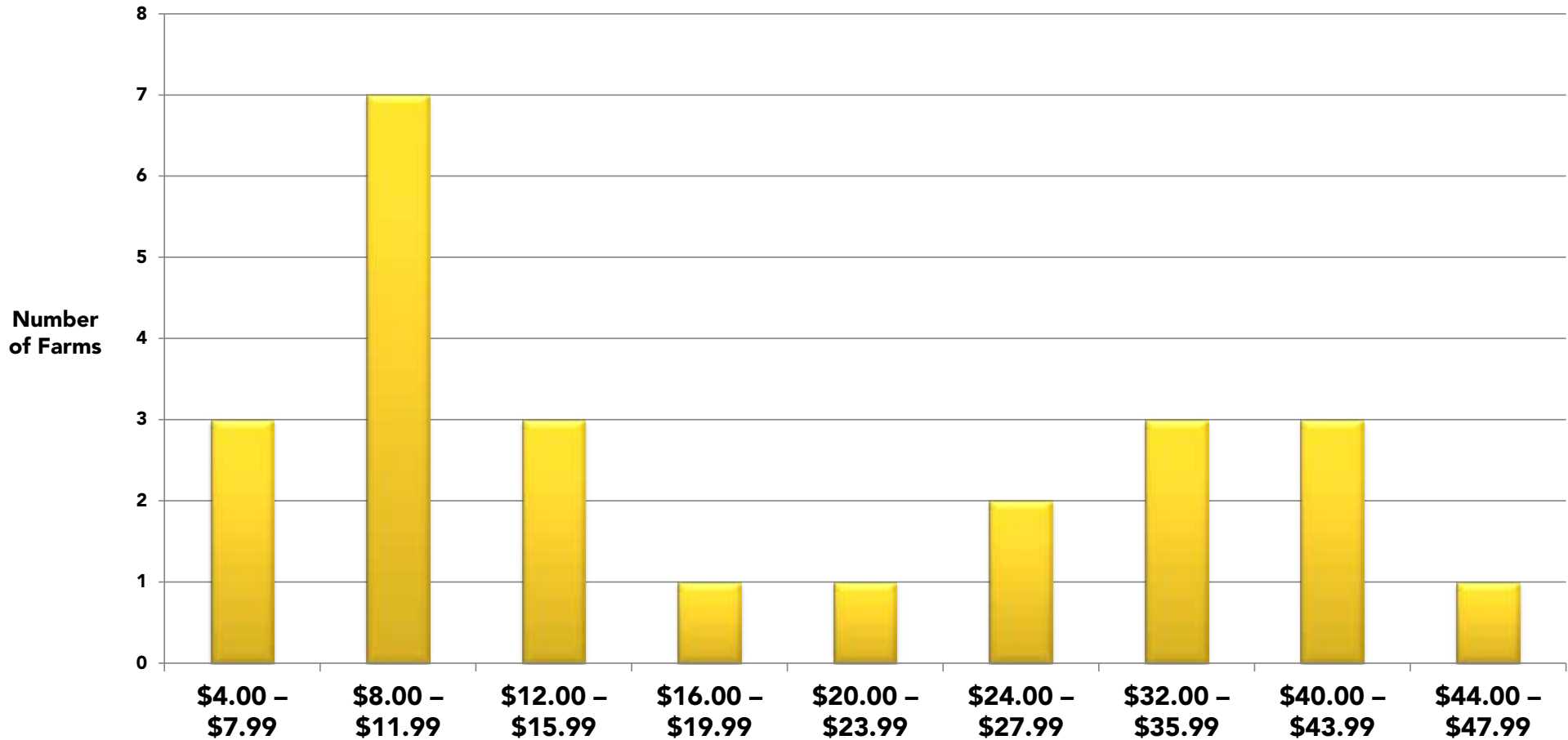
## Caring for Horse While at Sale





# Premium Board Rate - Additional Daily Charge

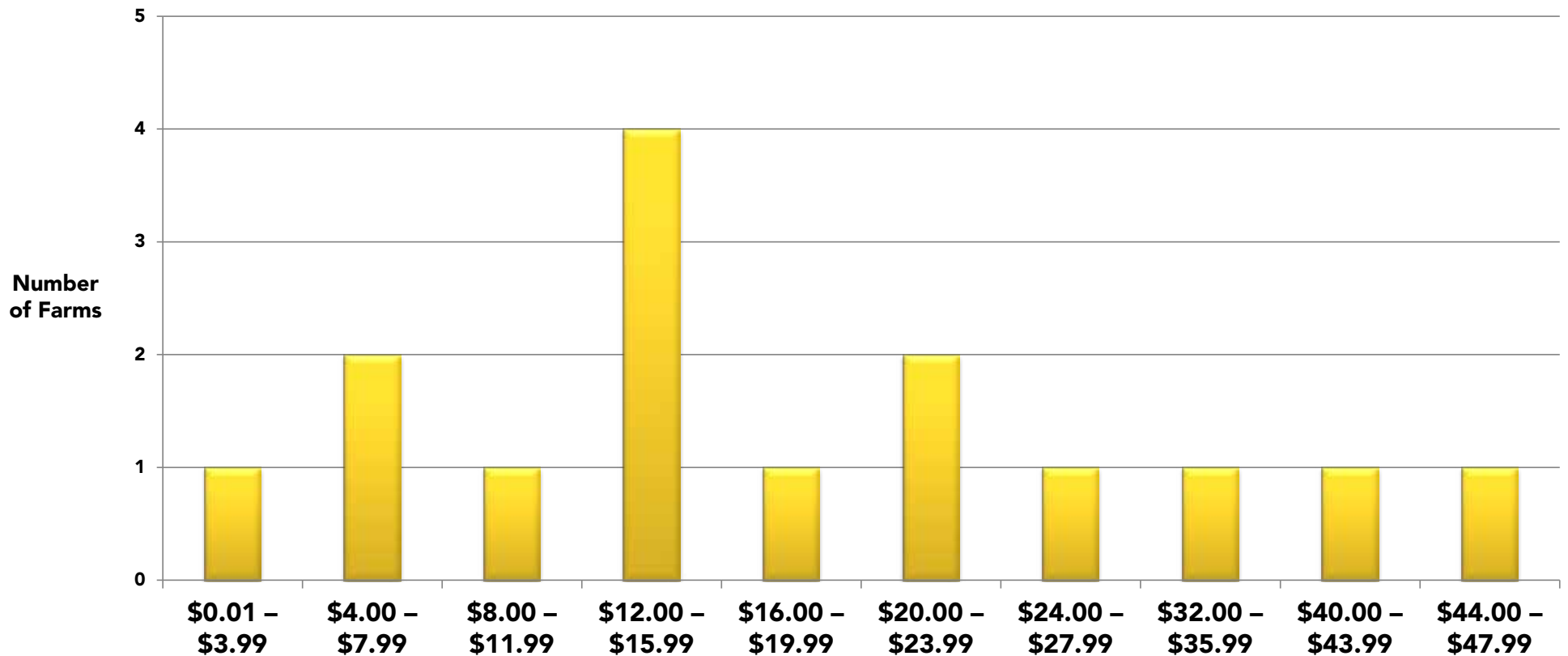
## Sales Preparation



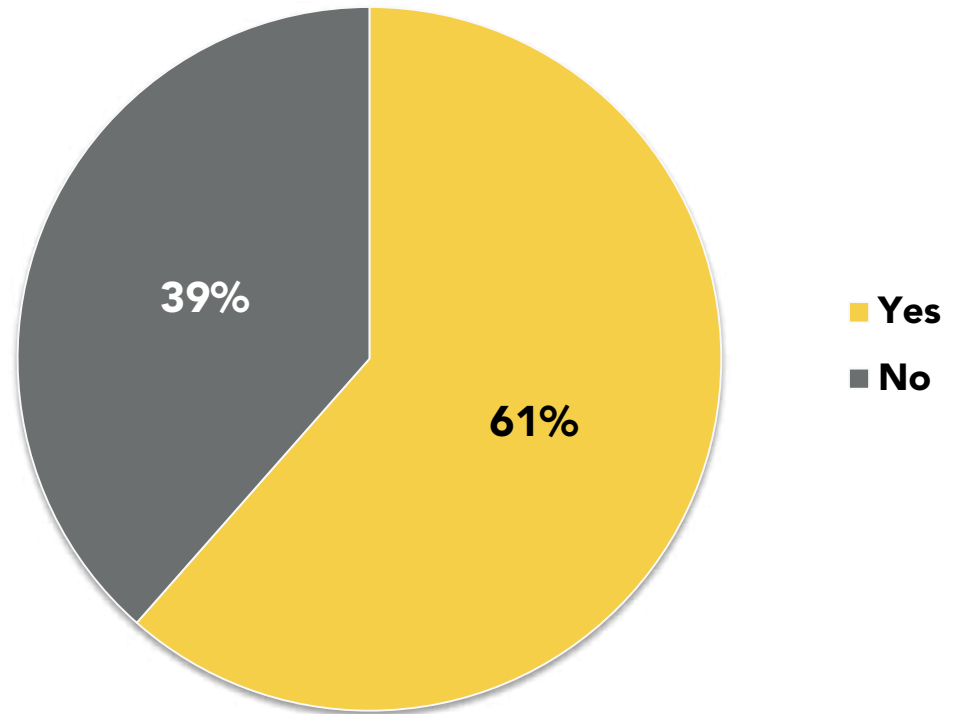


# Premium Board Rate - Additional Daily Charge

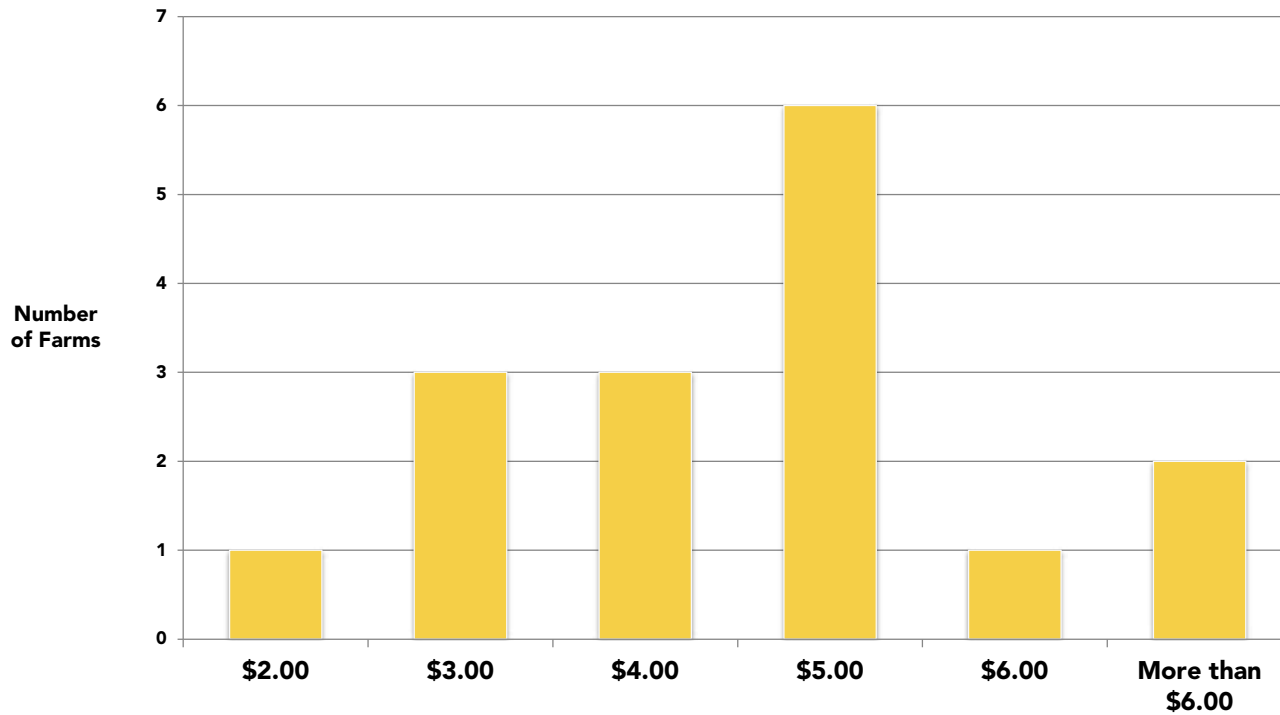
Lay-ups



# Farms Charging for Foals Not Yet Weaned

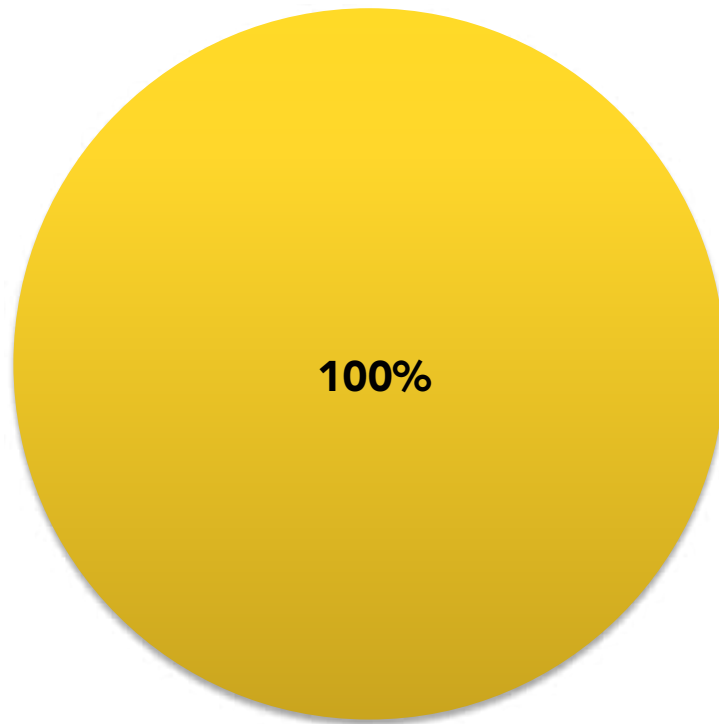


# Rate Charged for Foals Not Yet Weaned





## Timing: Charging for Foals

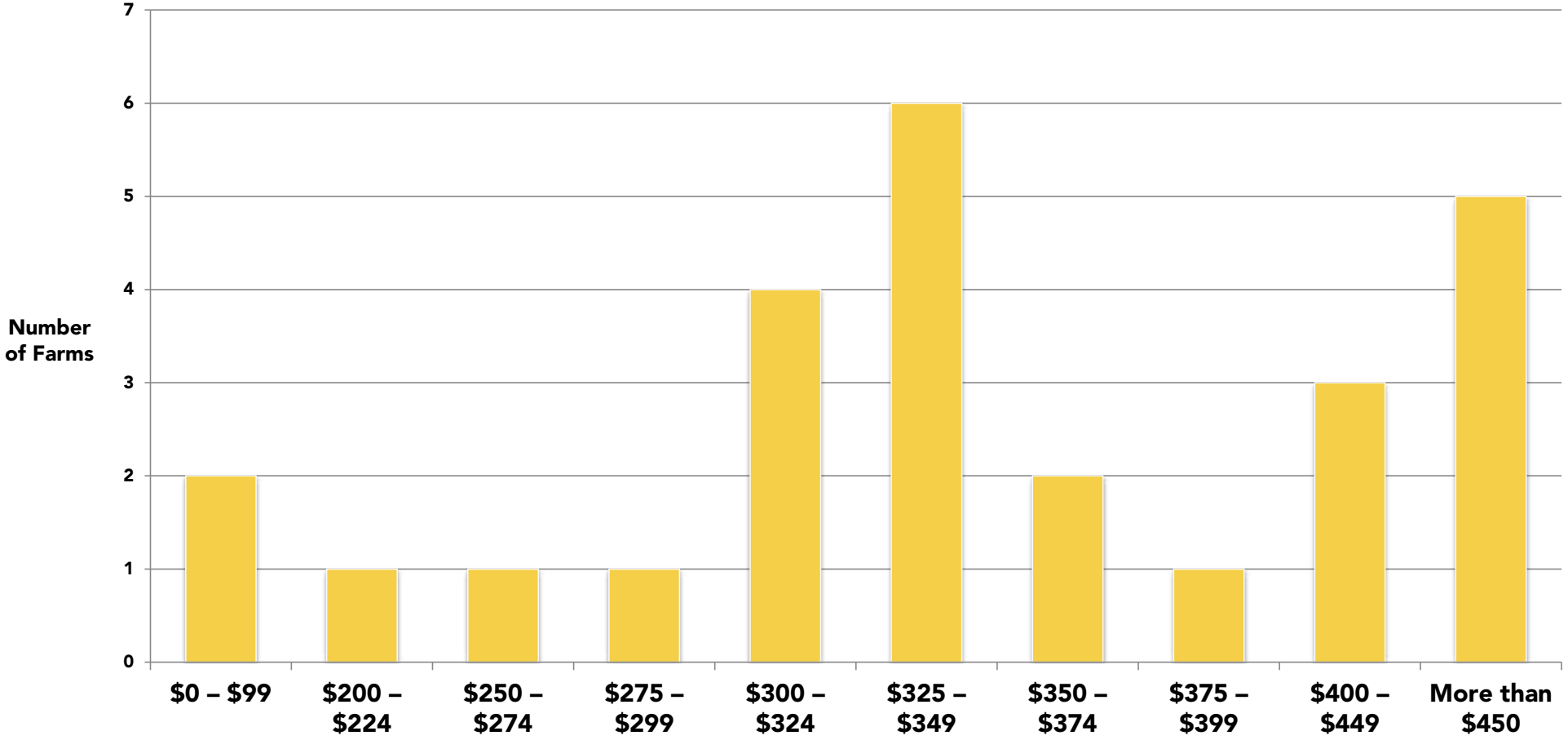


■ When weaned



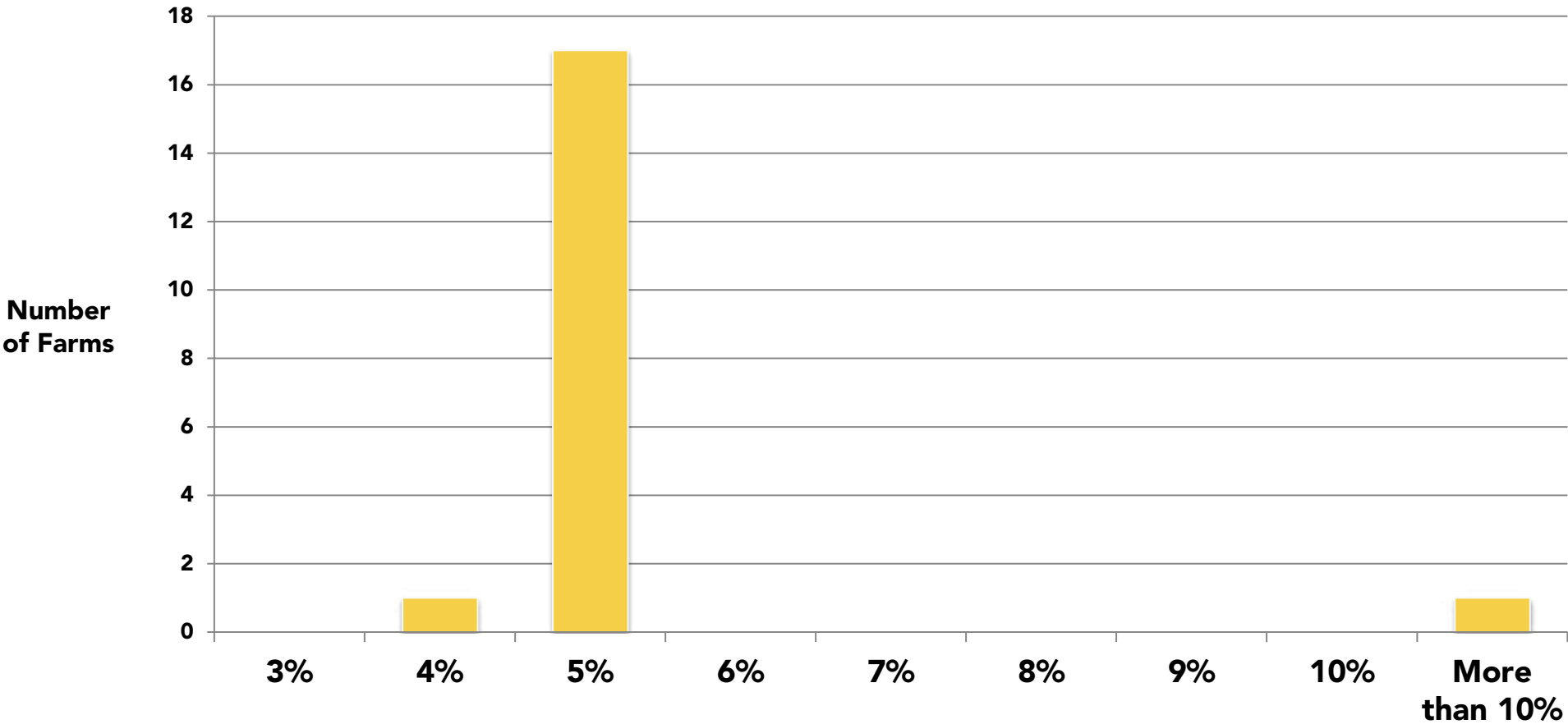


# Standard Foaling Rate



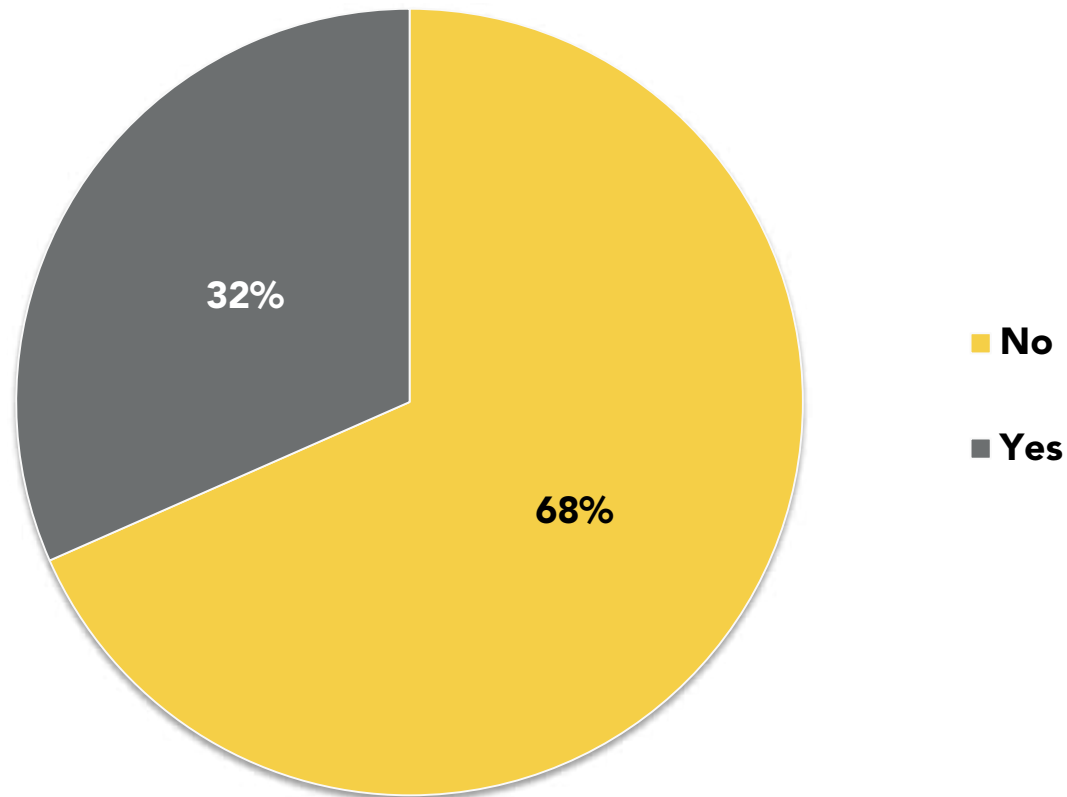


# Sales Commission Rate (based on flat rate)



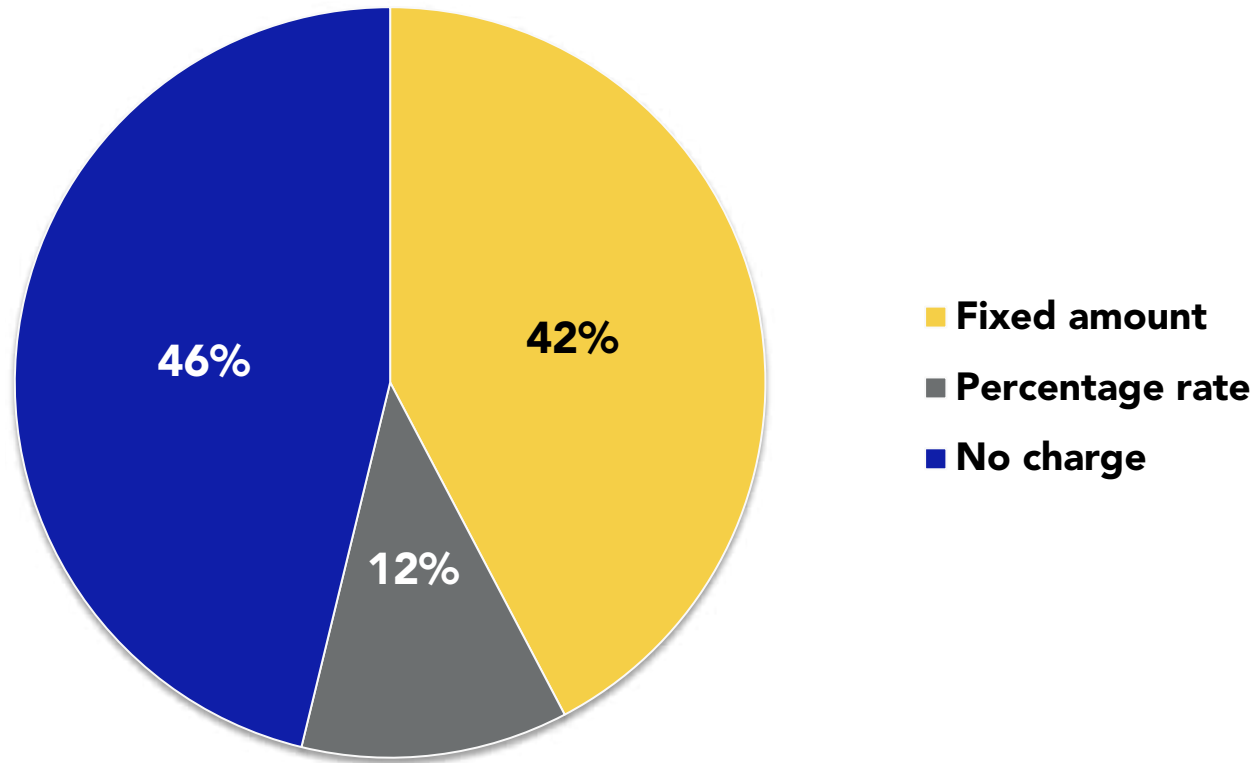
# Farms Using Sliding Scale Once Sale Exceeds Certain Dollar Amounts

Most respondents do not apply a sliding scale to commissions. Of those that do have a sliding scale, most apply a lesser rate if sales proceeds exceed a certain dollar amount (varies from farm to farm). The lesser rate charged ranges from 2% - 4% for these farms.



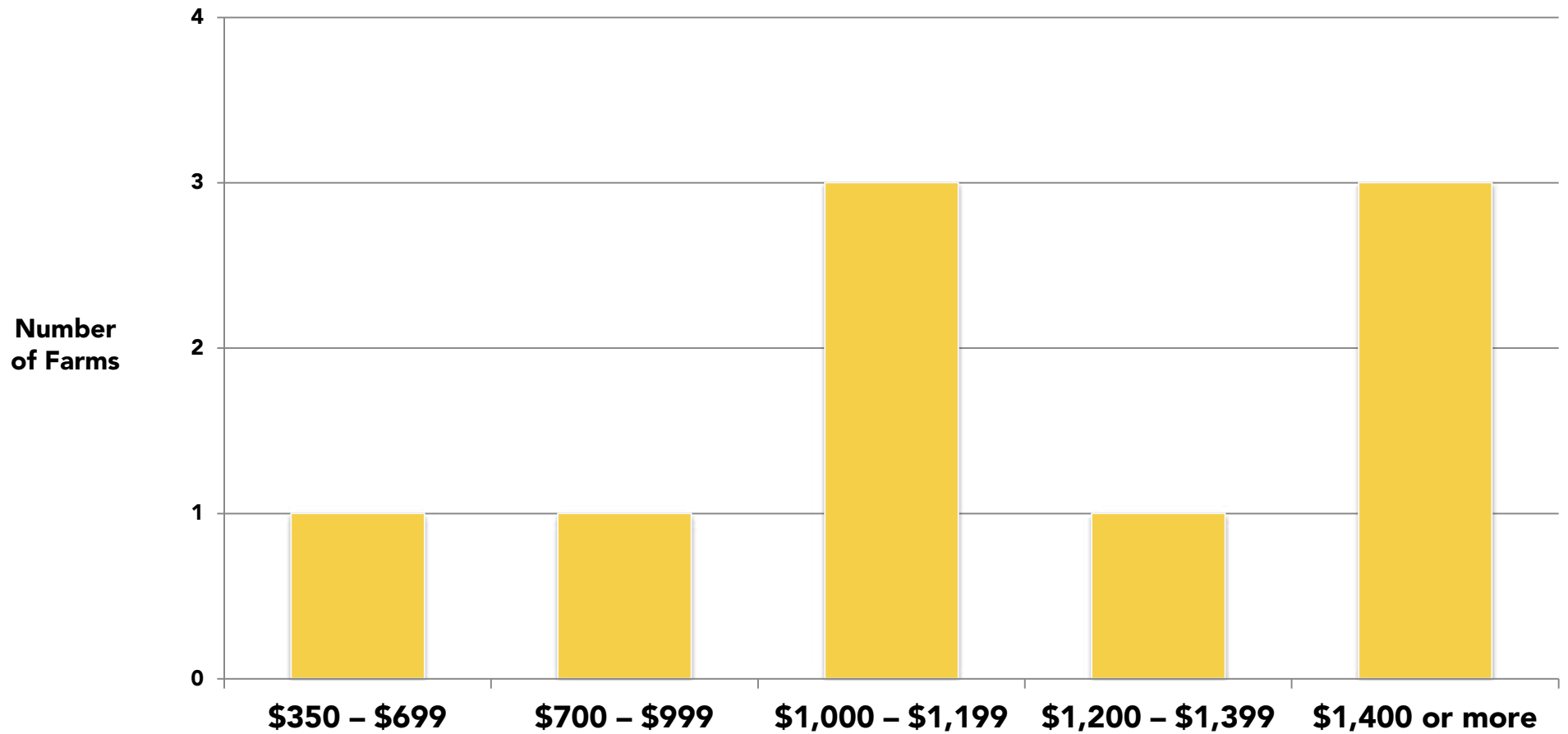


# Farms' Means of Charging for Horses Brought Back from Sales Not Sold



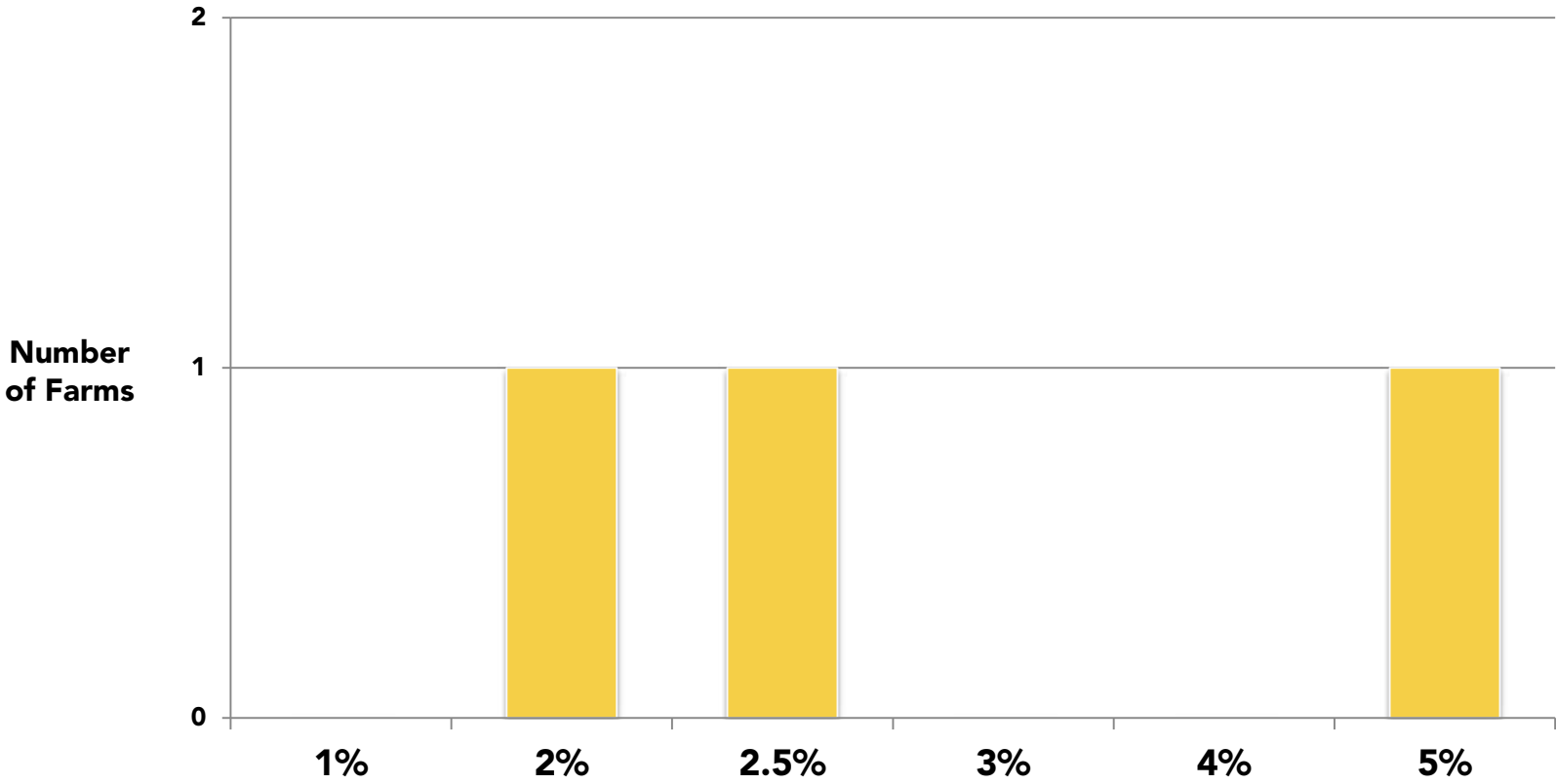


# Fixed Amount Charged for Horses Brought Back from Sales Not Sold



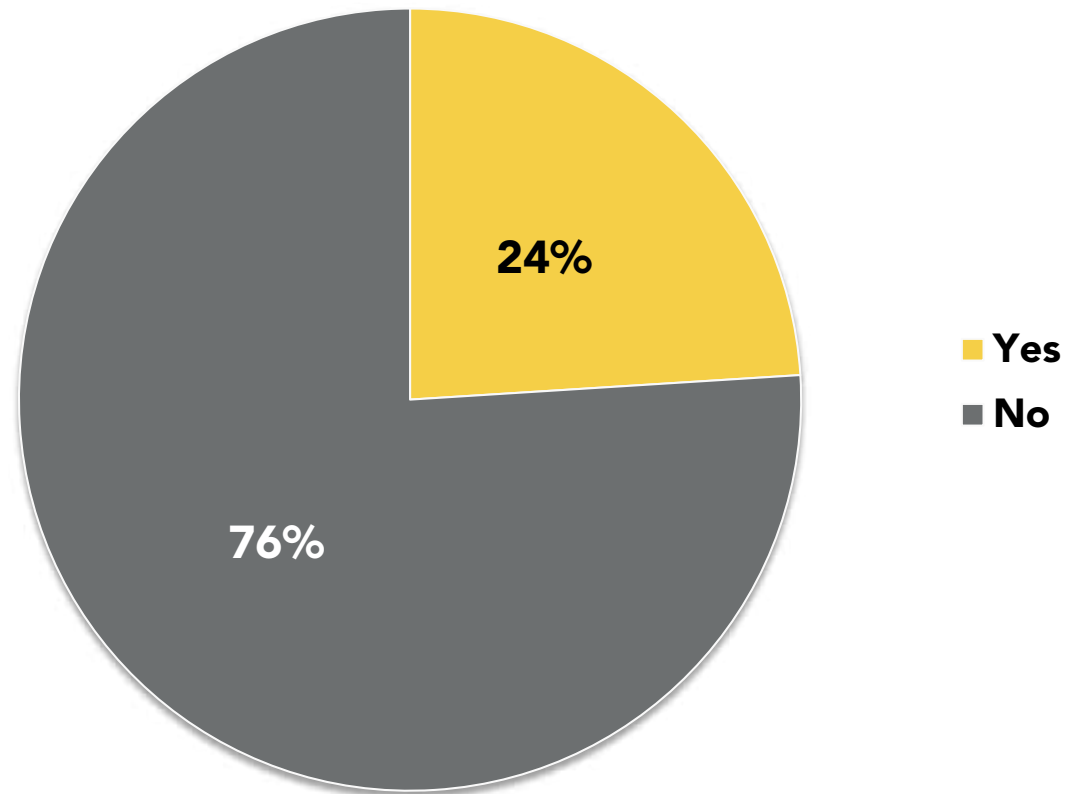


# Percent Rate Charged for Horses Brought Back from Sales Not Sold



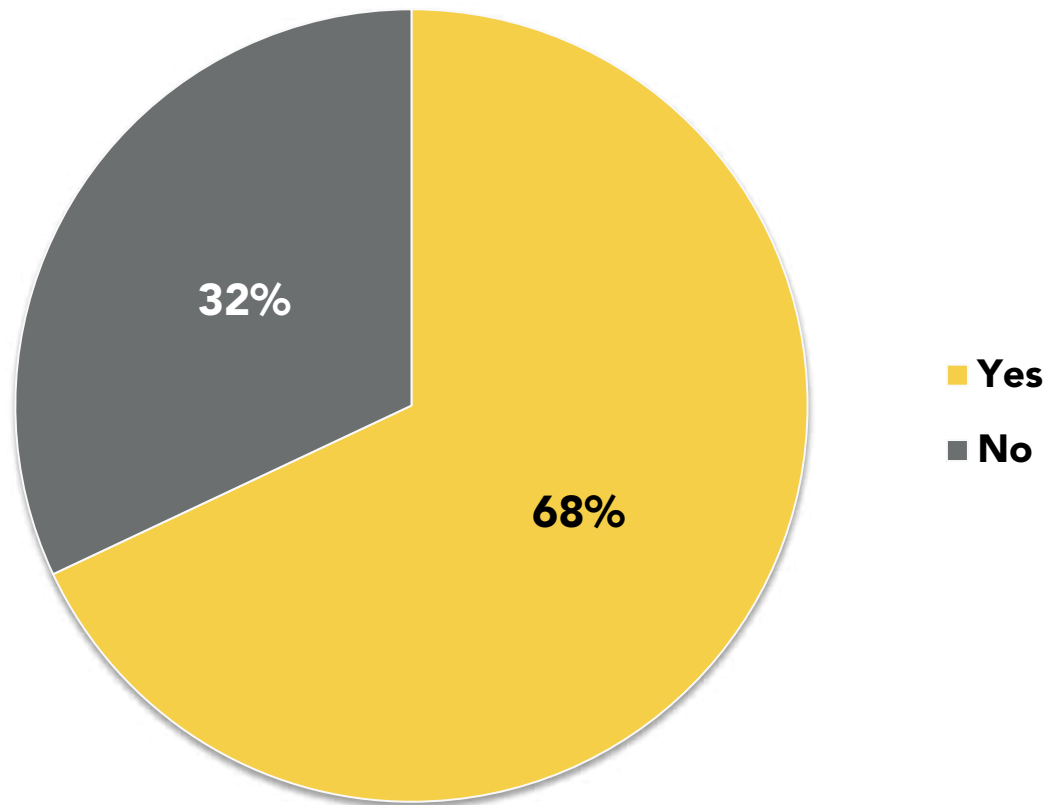


## Farms Charging Commission Rate Different from Basic Commission Rate for Clients who Board Broodmares on Farm





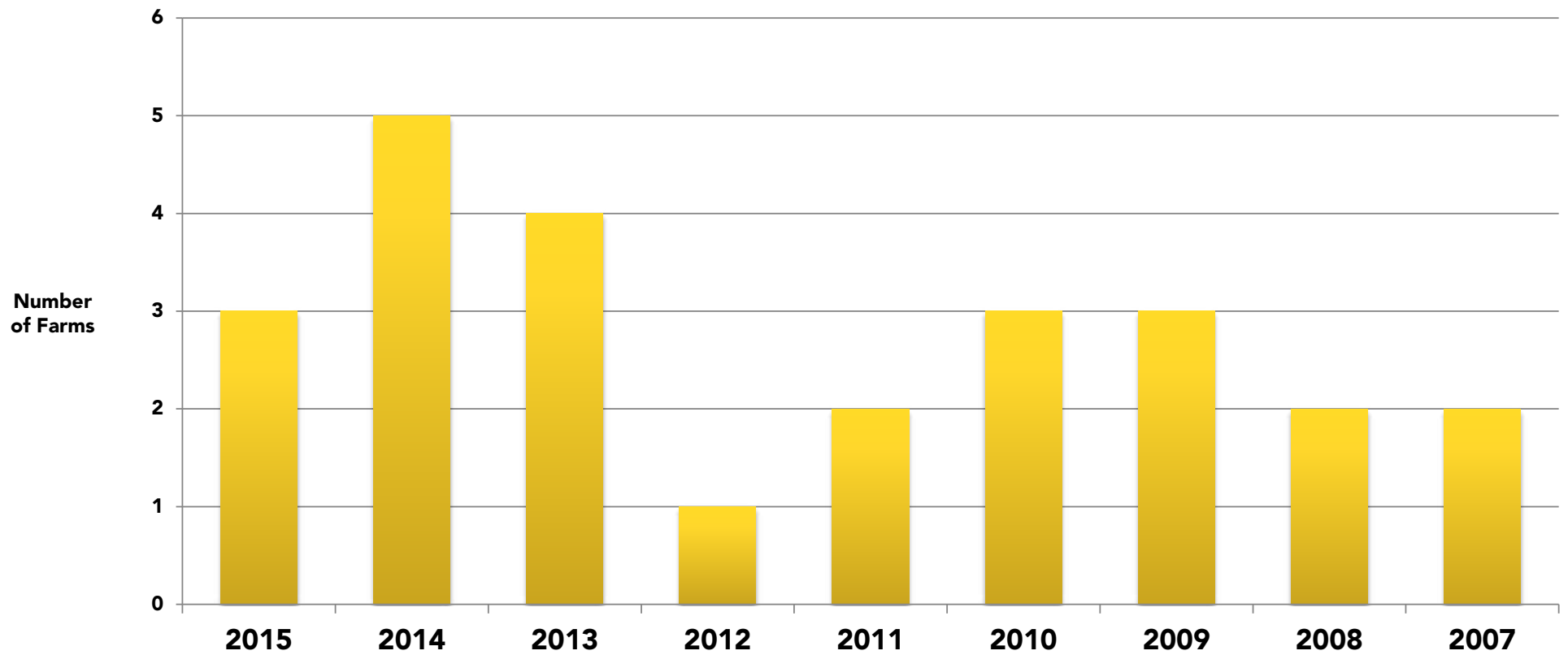
## Farms Charging Separately for Advertising for Horses they are Commissioned to Sell







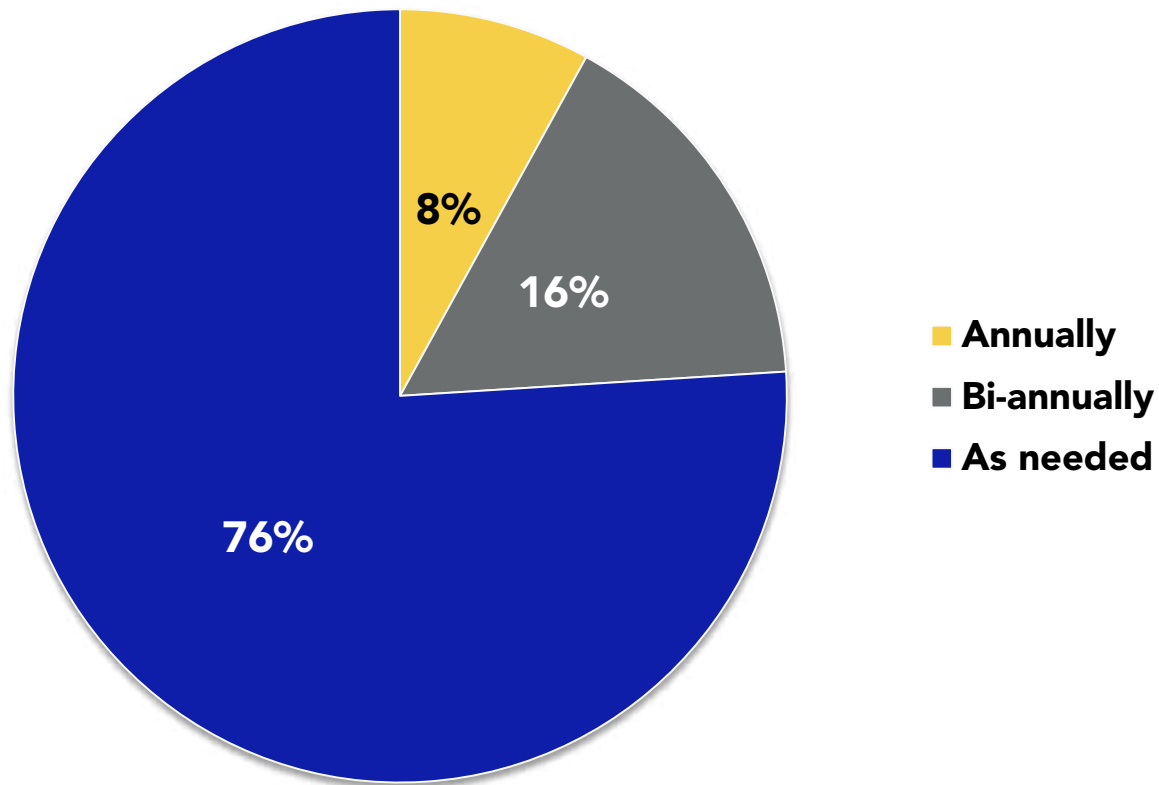
## Year Farm Last Adjusted Standard Daily Board Rate





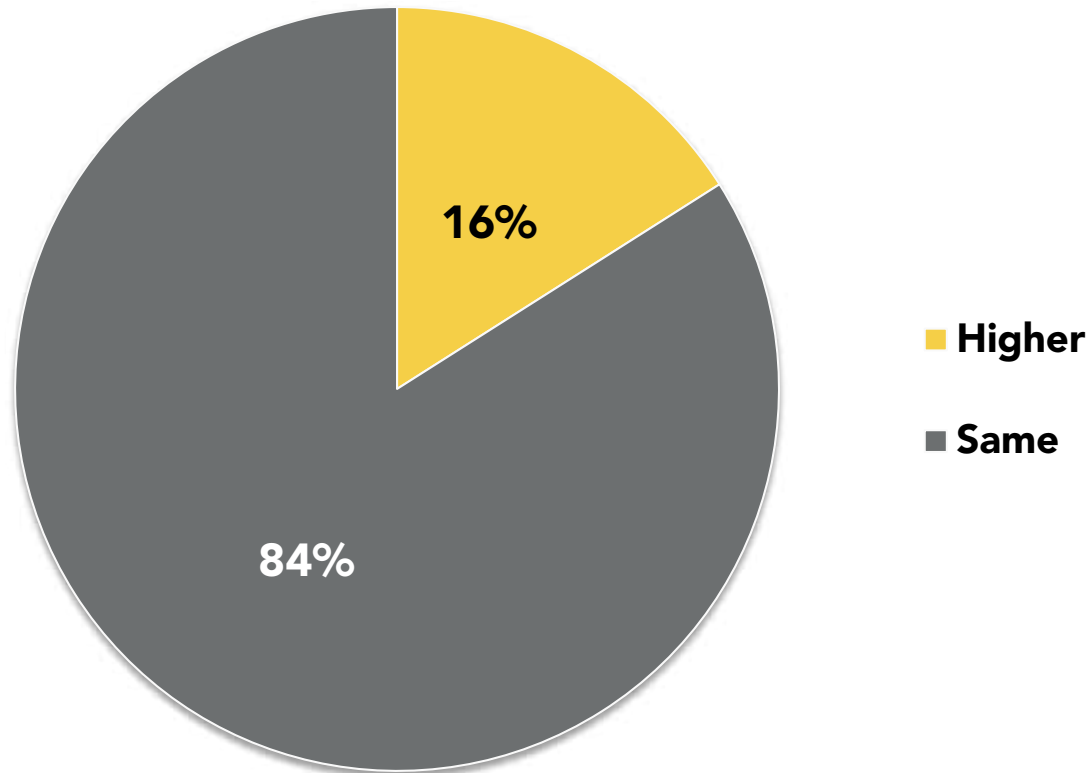
## How Often Farms Adjust Standard Board Rates

In general, there have not been significant increases or decreases in board rates within the past year. Most farms that responded adjust board rates on an as-needed basis versus a standard timeframe. Some adjust based on increased costs or as the market will allow.



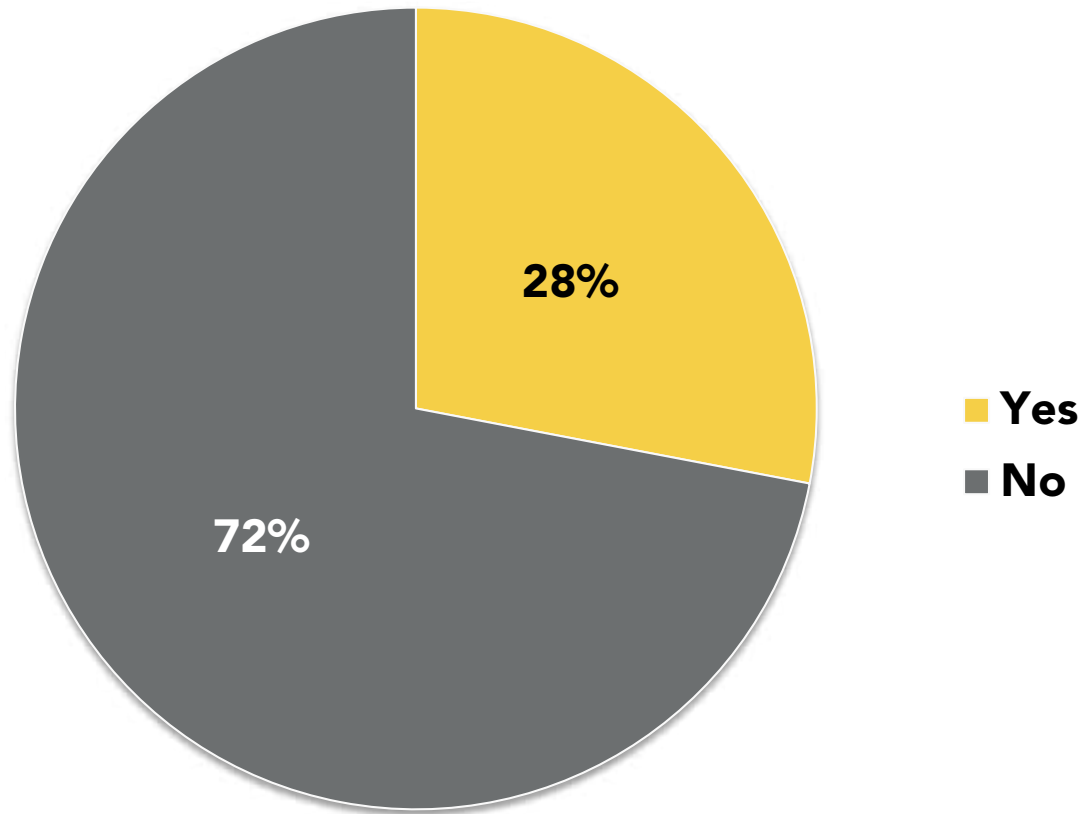


## 2015 Board Rates Compared to 2014 Board Rates for Farm



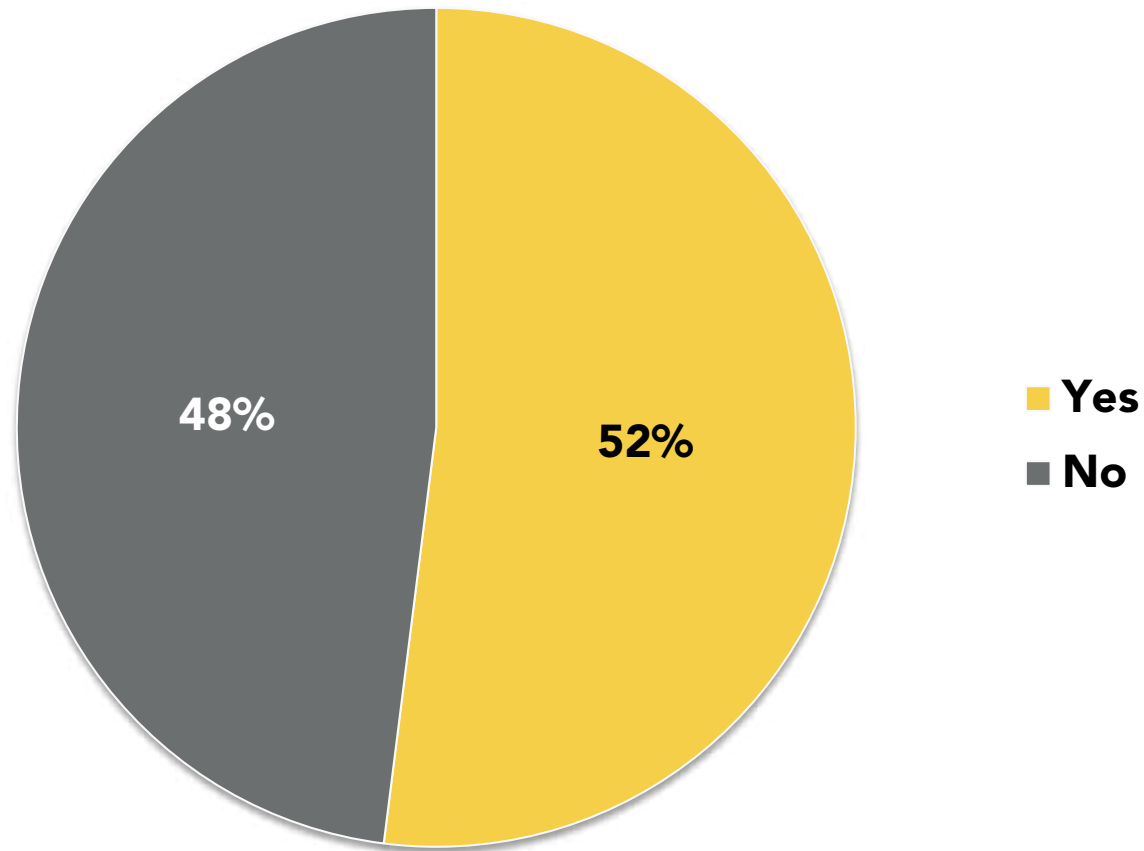


## Farms Recognizing Boarding as a Profitable Stand-Alone Business



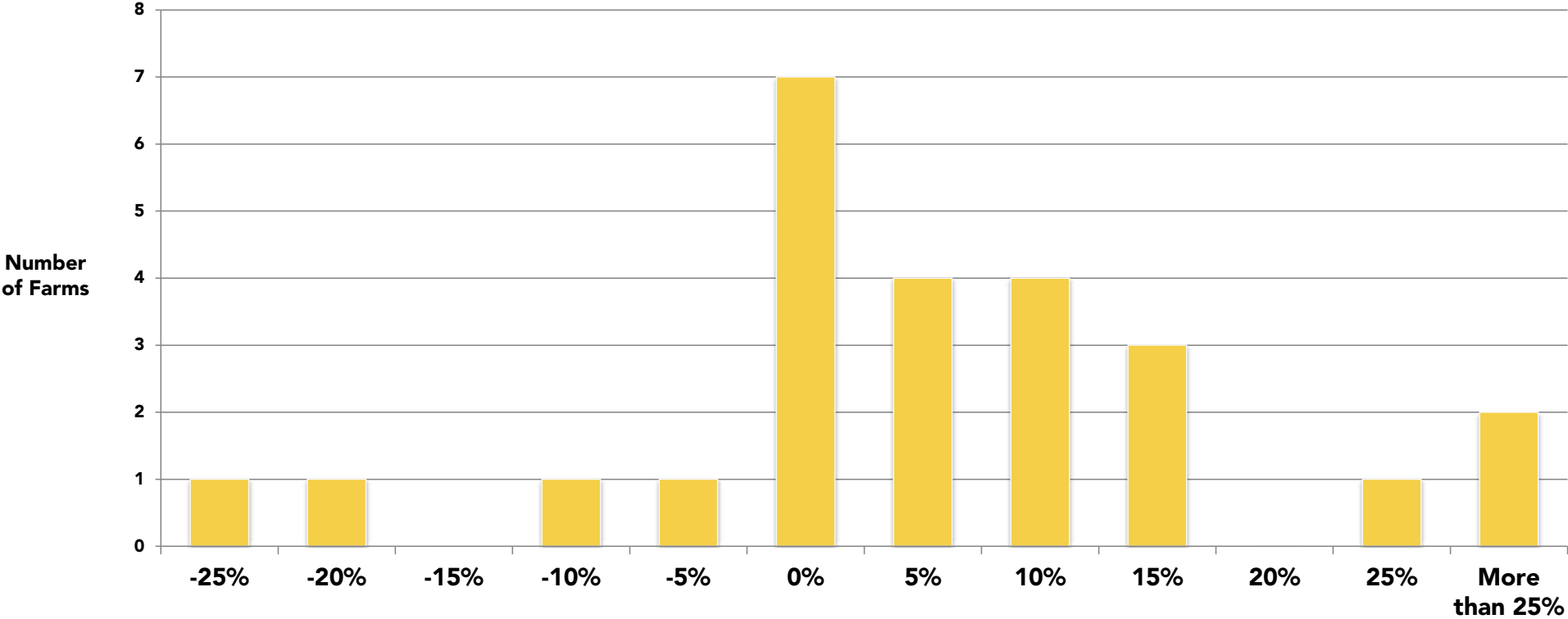


## Farms Having Excess Boarding Capacity



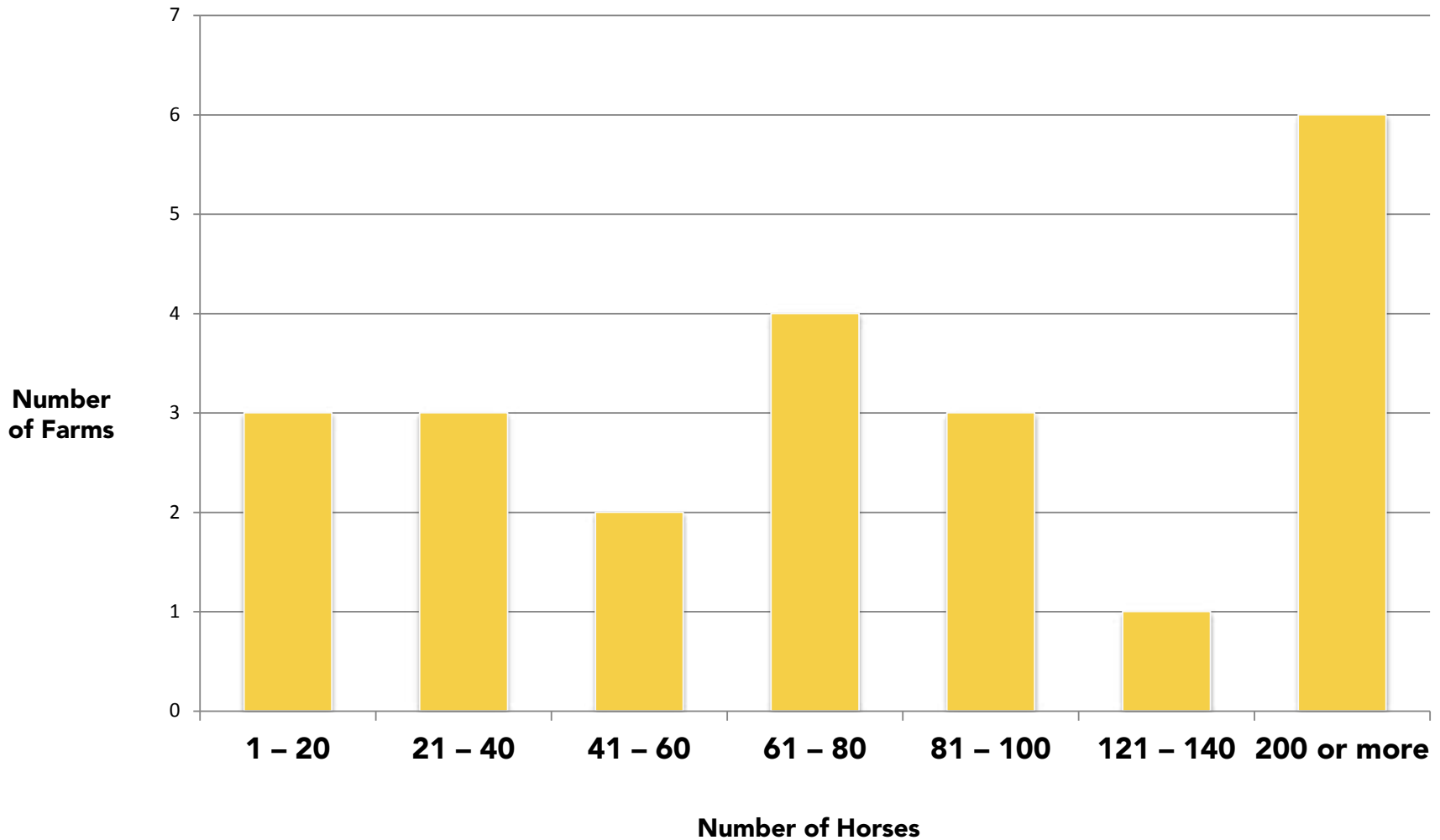


# Change in Number of Horses Boarded Since Last Year



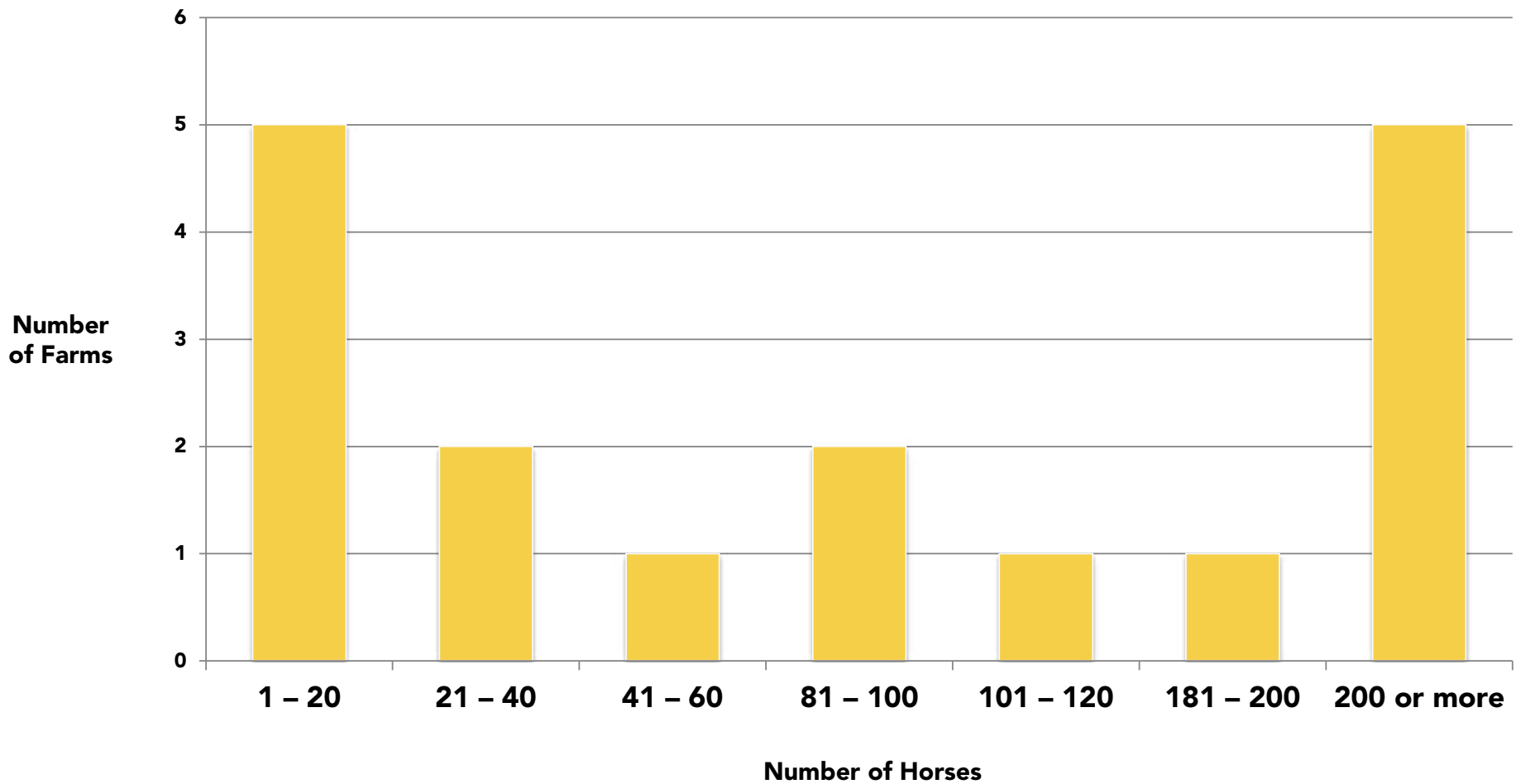


# Average Number of Horses Boarded Per Day (including self-owned horses) Year-Round





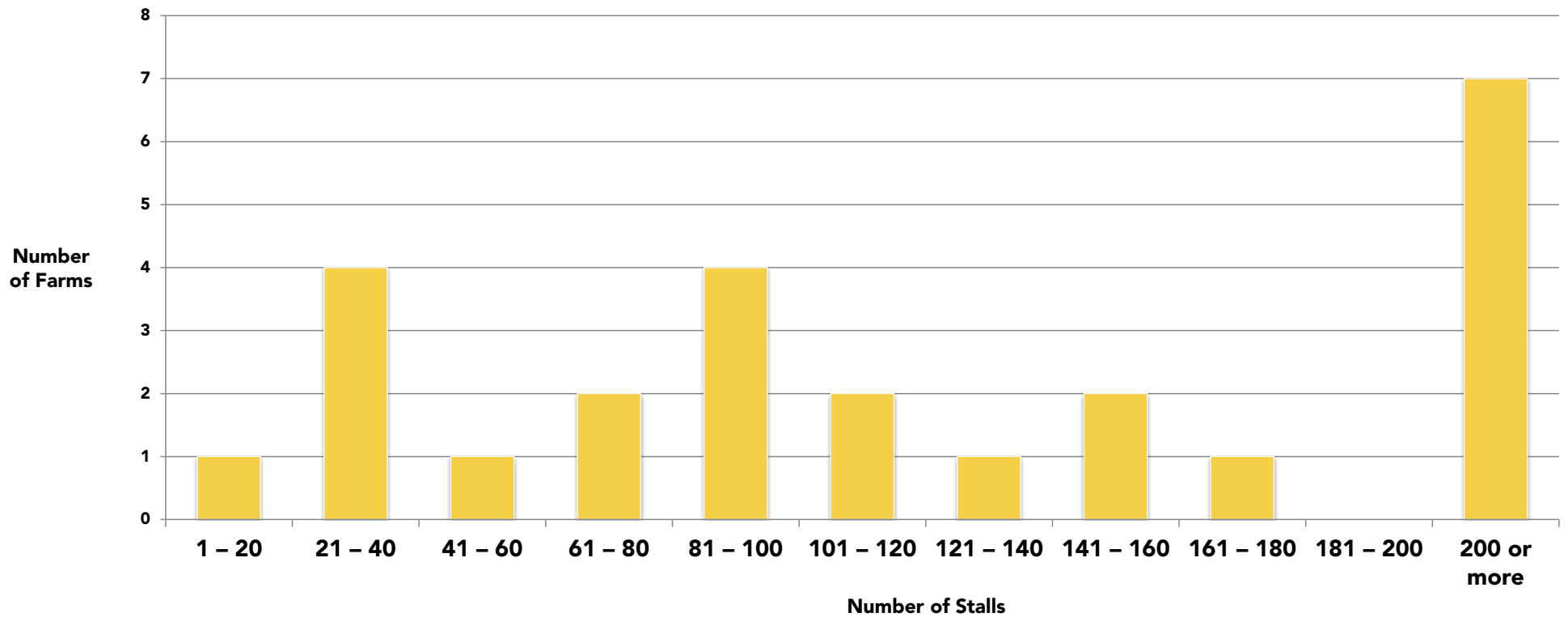
# Average Number of Horses Boarded Per Day (including self-owned horses) Seasonal







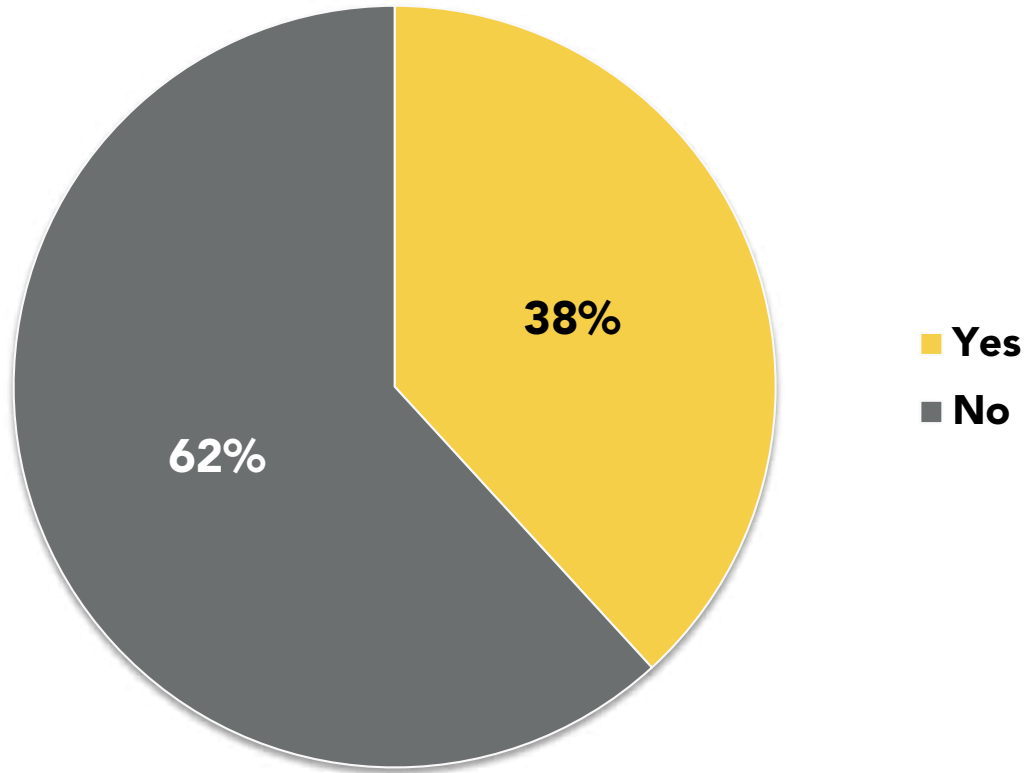
# Number of Stalls for Boarding Purposes





**Stallions**

# Farms Standing Stallions





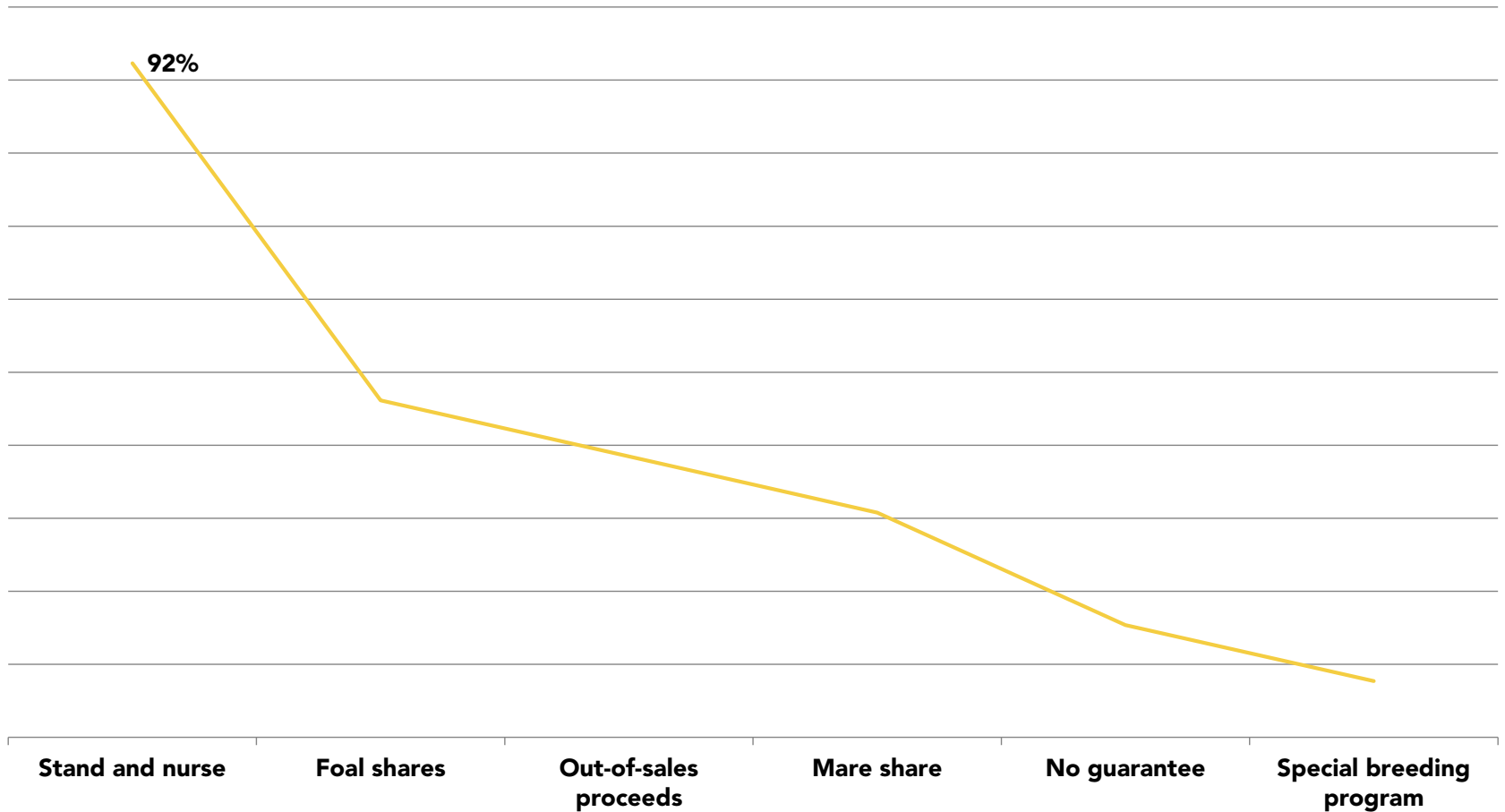
# Number of Contracts Issued in the Last Breeding Season

Despite the surge in special breeding programs over the past few years, the overwhelming majority of contracts issued by respondents who stand stallions continues to be stand and nurse contracts. 92% of respondent farms listed stand and nurse contracts as the most popular, with the remainder listed below from most popular to least popular.

**Largest Number  
of Contracts**

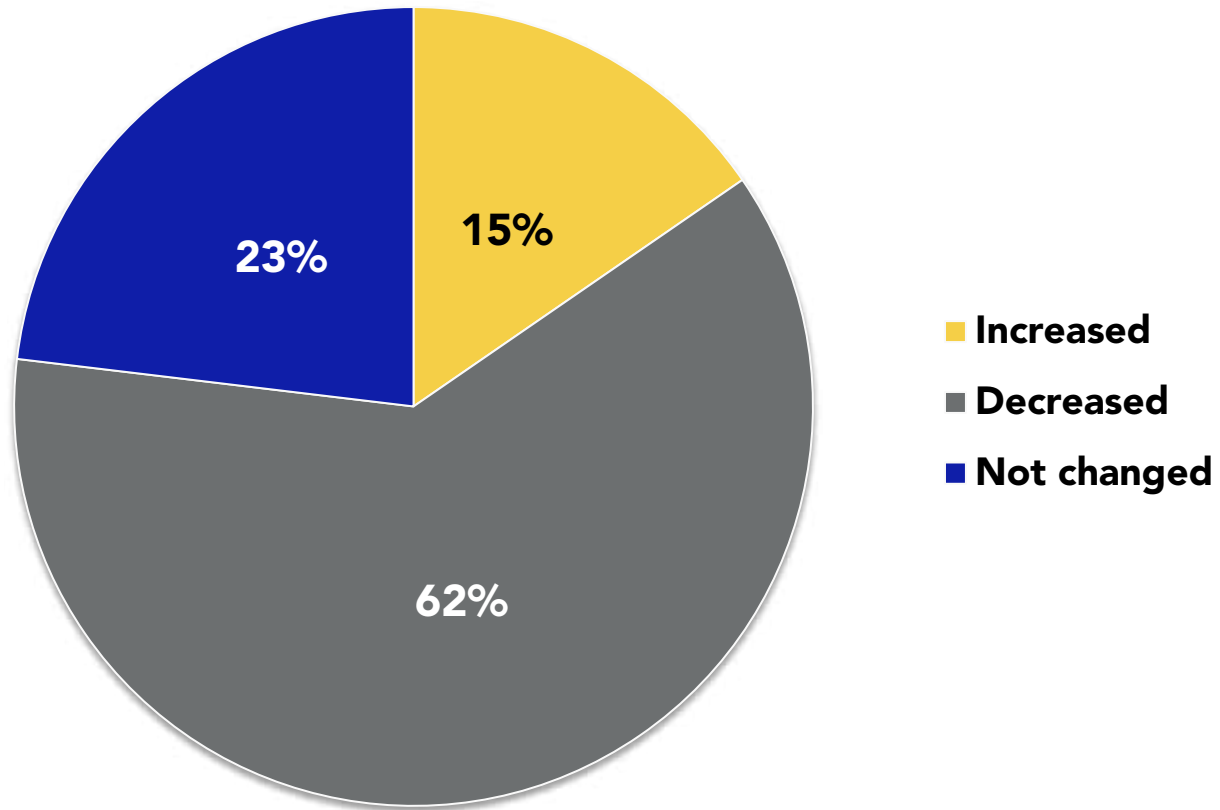
92%

**Smallest Number  
of Contracts**



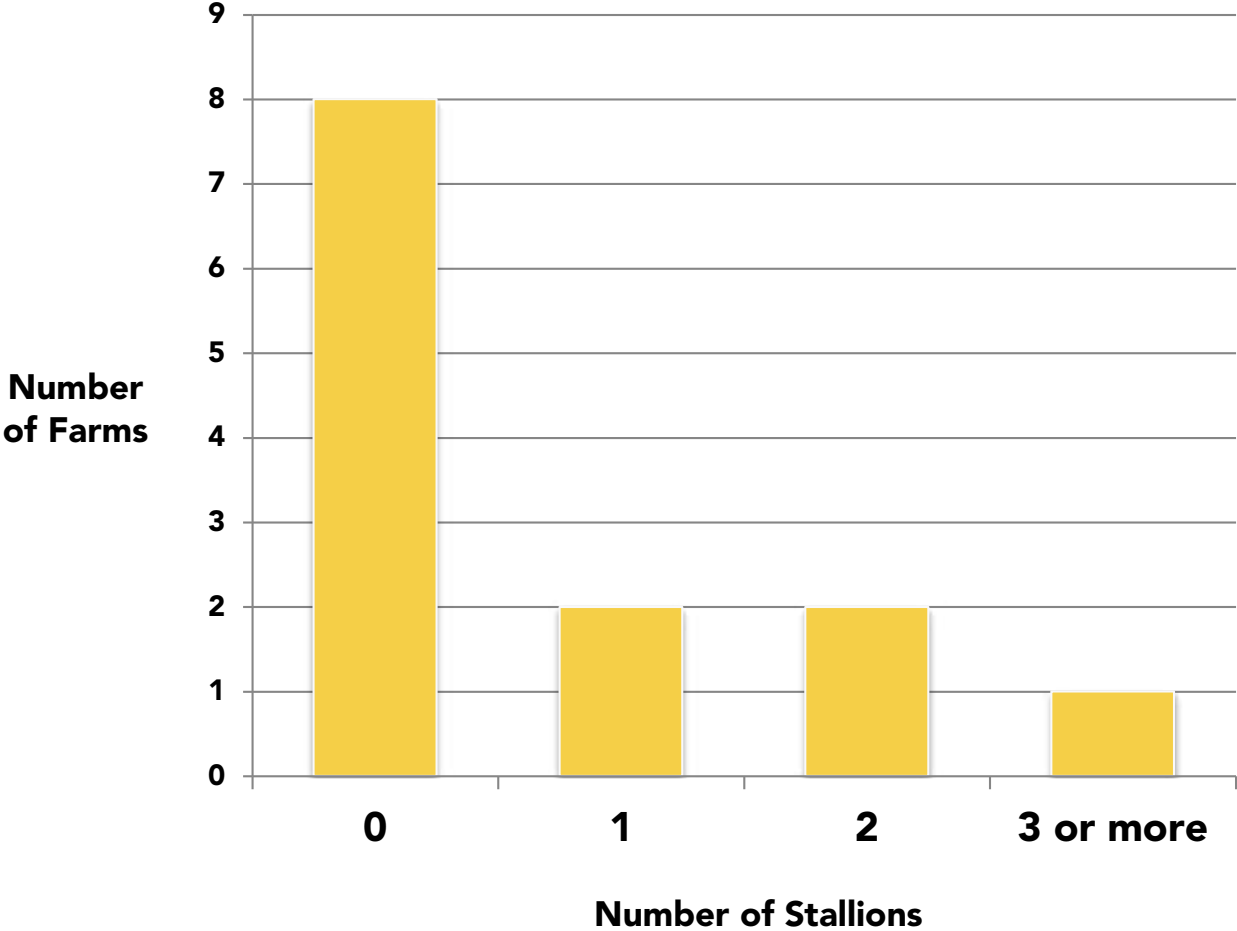


## Number of Stallions Standing in 2015 versus 2014





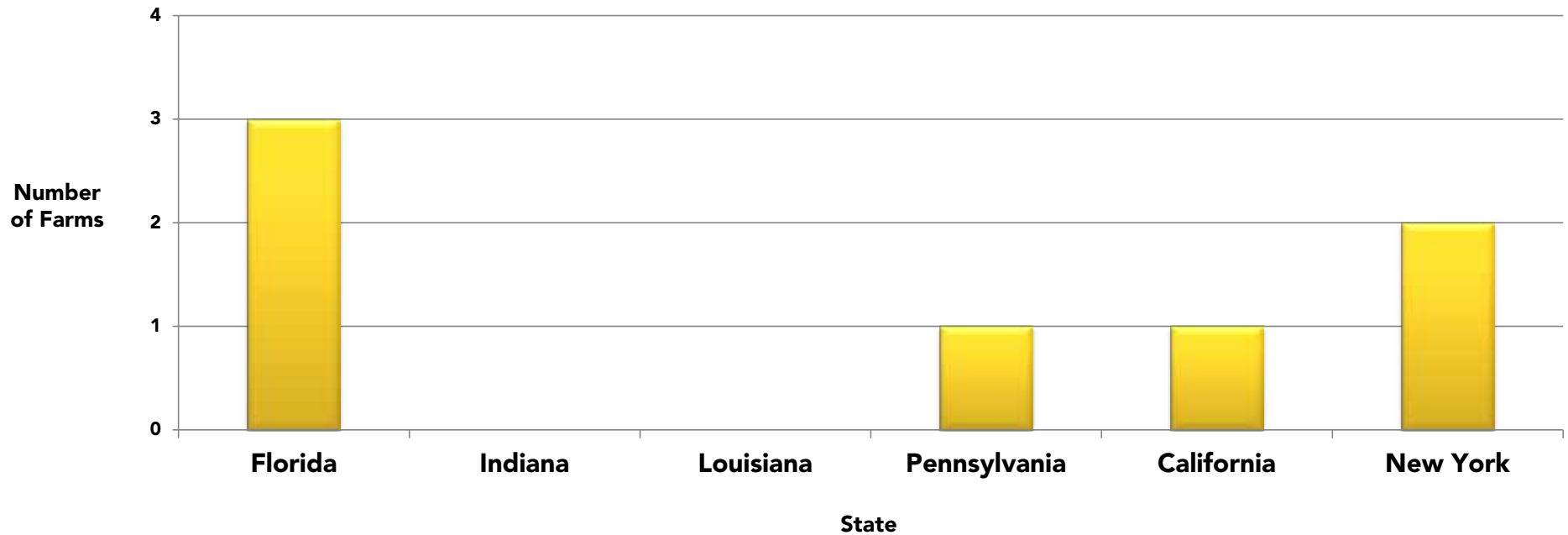
# Number of Stallions Moved to Other States in the Past Year





## States to which Stallions Were Moved

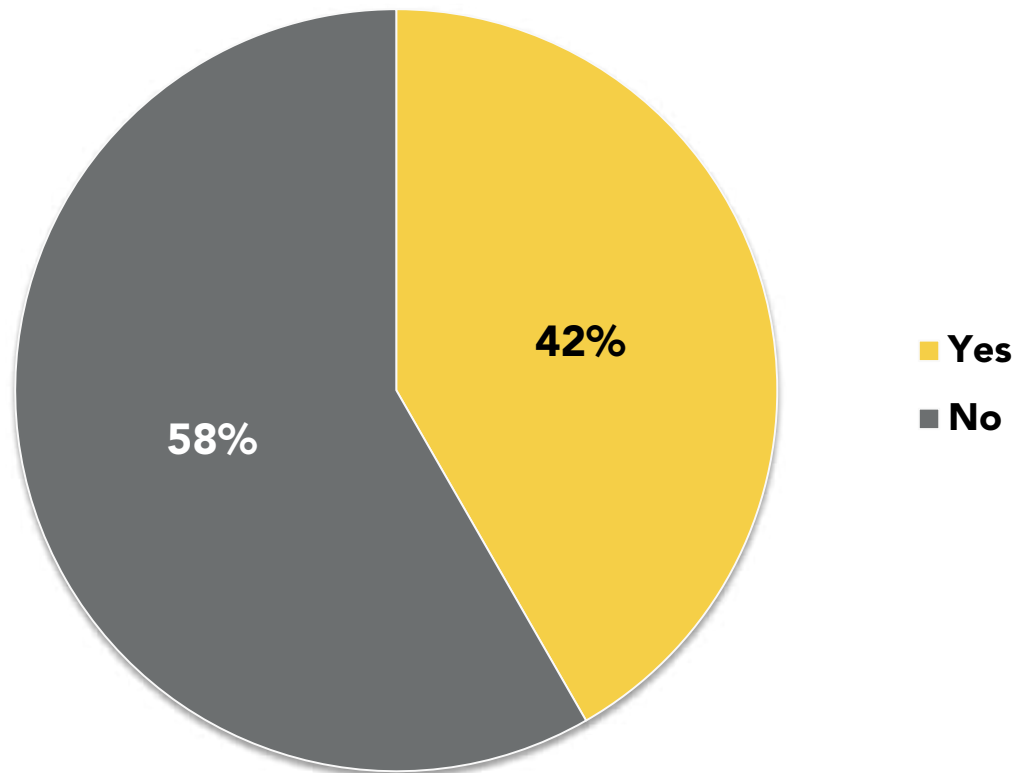
Farms which moved stallions out of KY during the year mentioned a variety of reasons for doing so. Profit potential or a potential for an increased number of mares utilizing other states' breeding programs factored into some decisions to move a stallion out of KY. For other stallions, markets outside of KY may provide the best opportunity for a successful breeding career.





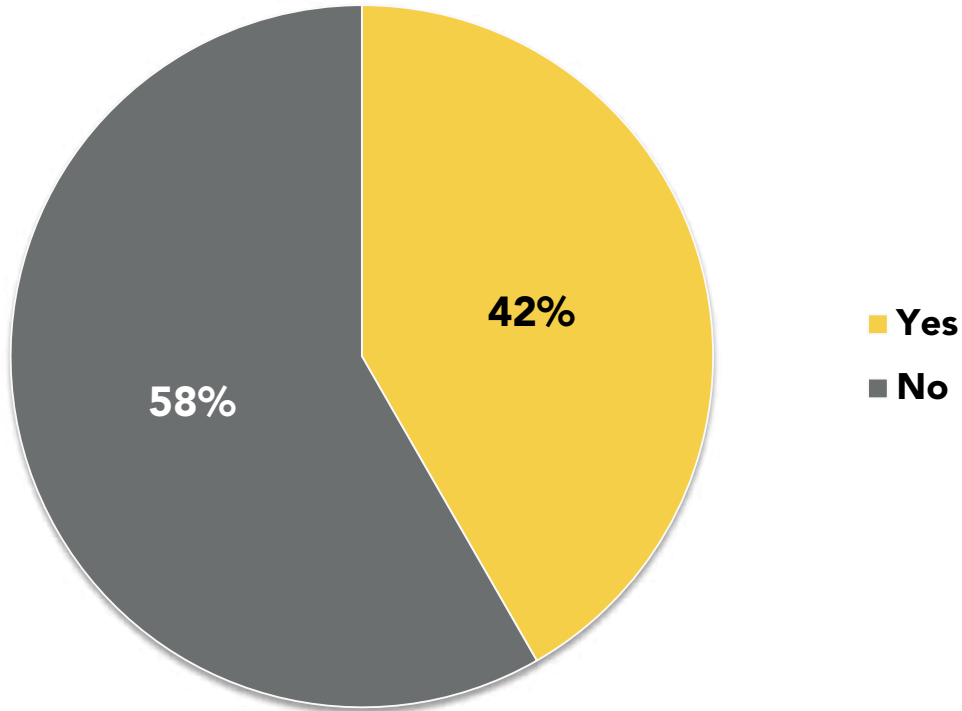
## Farms Shipping Stallions to Stand in Southern Hemisphere

Respondent farms who ship stallions to the Southern Hemisphere listed Argentina, Australia, Brazil, and Venezuela as destination countries for the stallions.

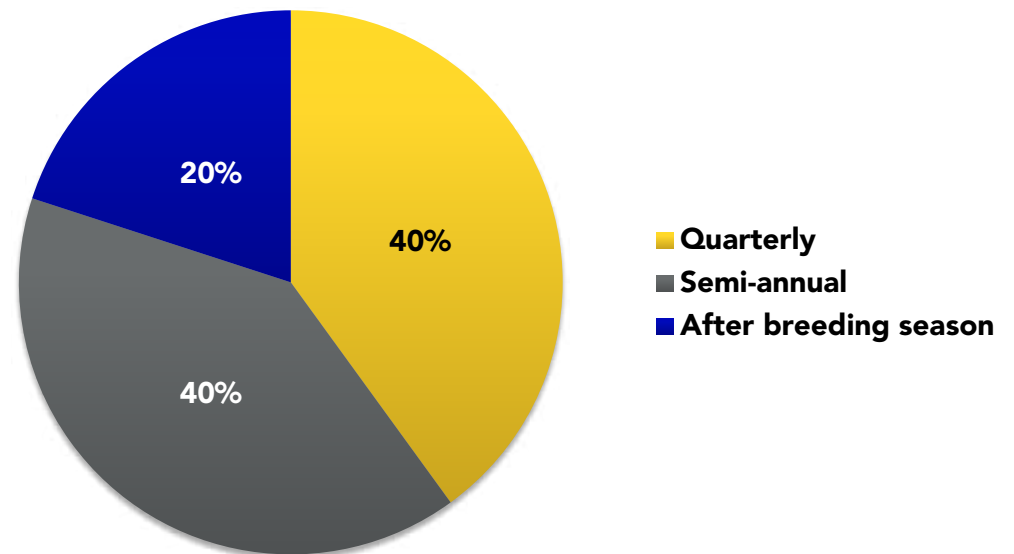




## Farms with Syndicated Stallions

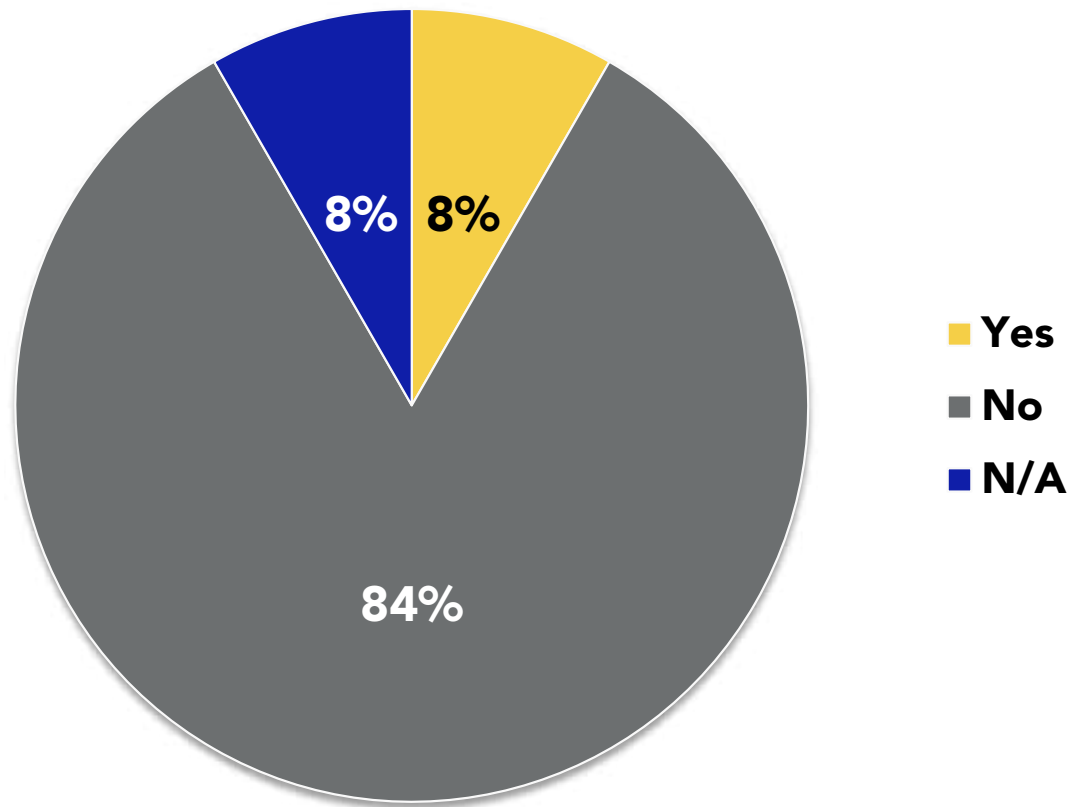


## Distributions Made to Owners



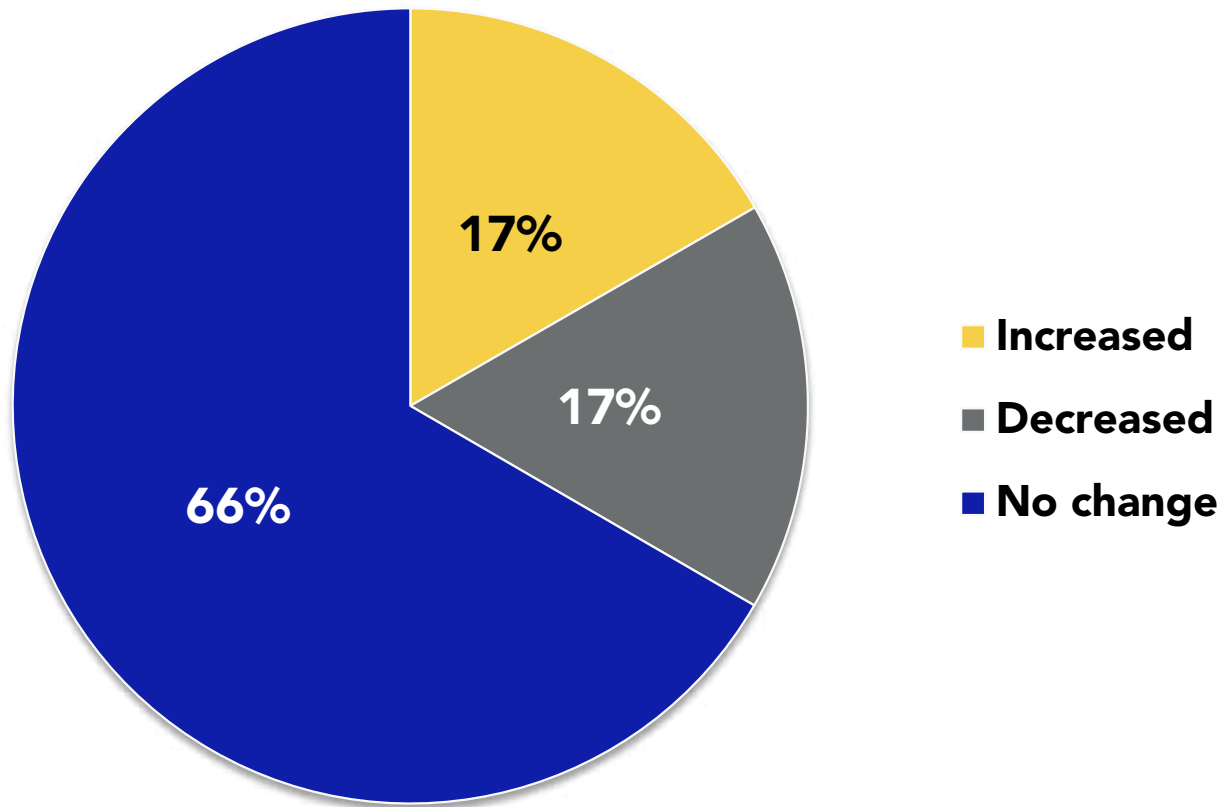


## Farms Giving Discounts for Prepayments of Stud Fees





## Change in Delayed Payment or Financing Arrangements for Stallion Services Contracts since Last Year

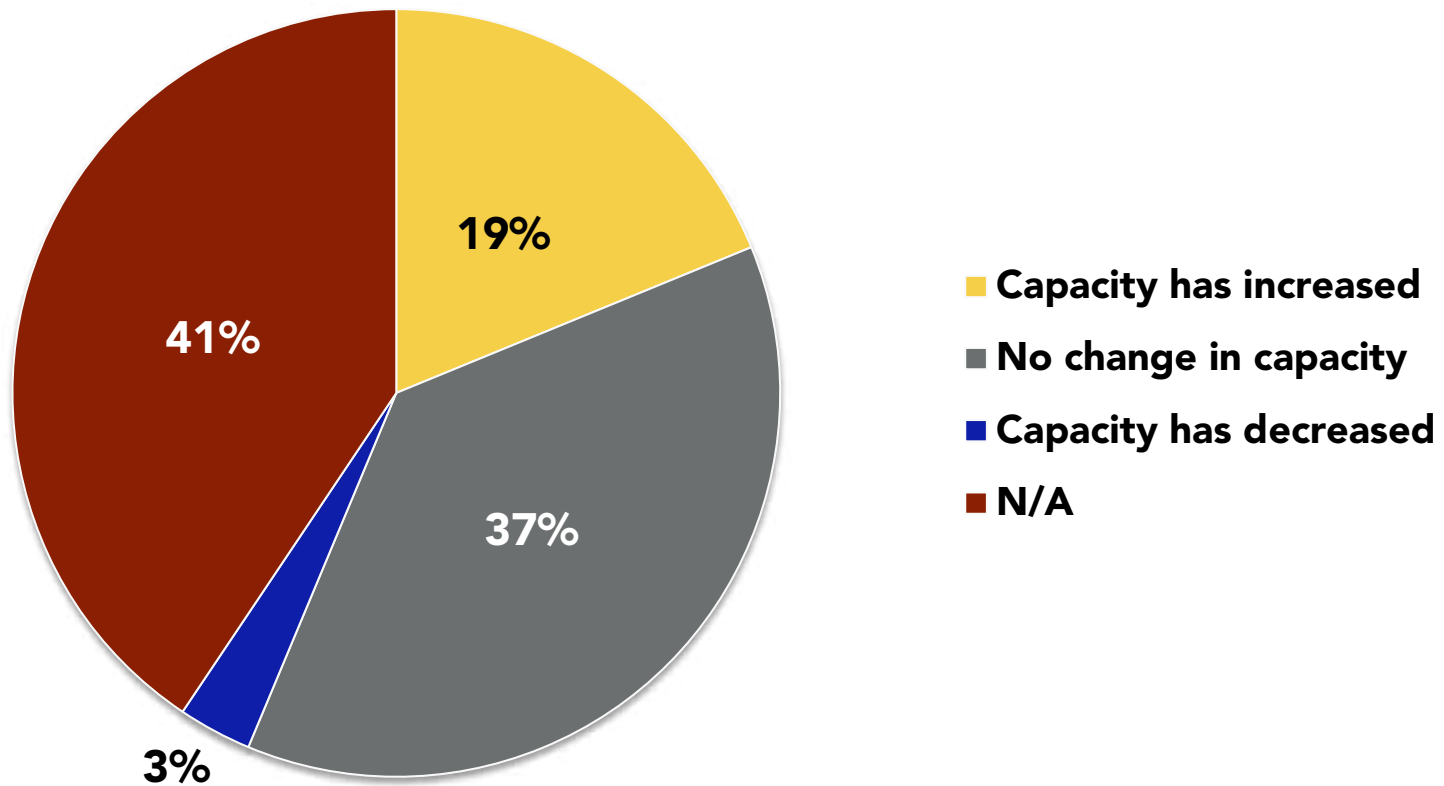




Operations - General

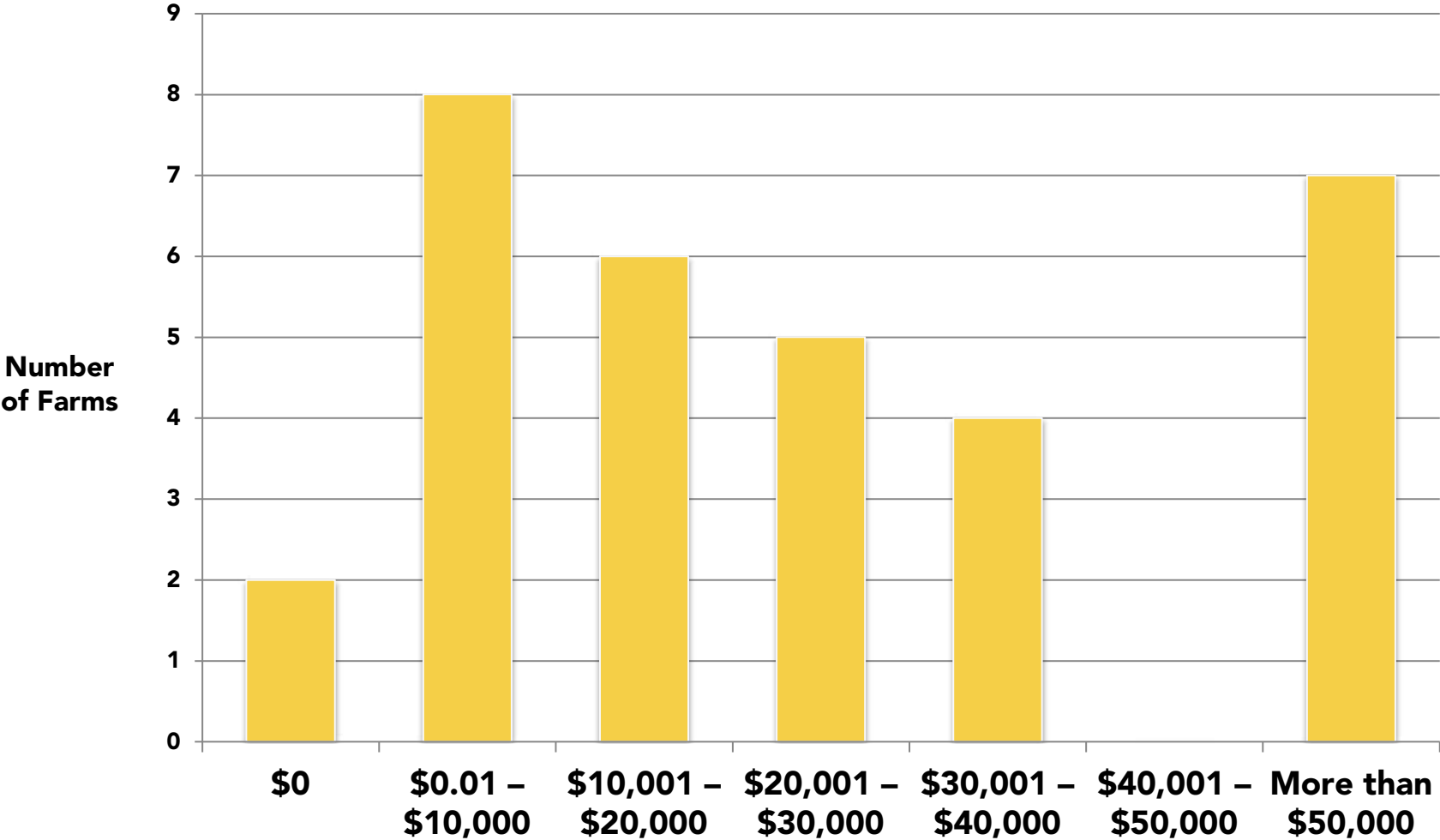


## Farms' Borrowing Capacity Since Last Year with Current Financial Lender



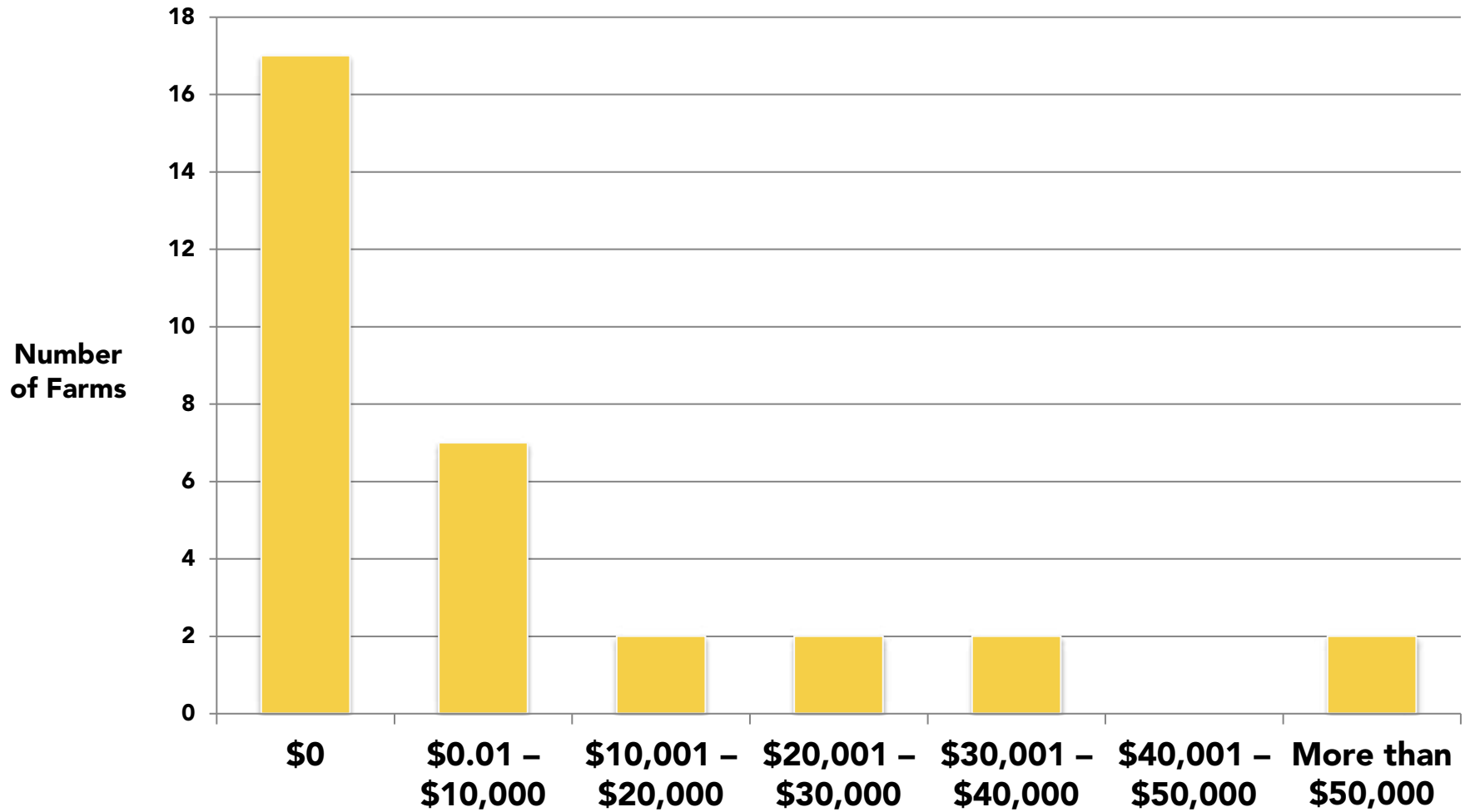


# Amount of Money Farms Received from the Kentucky Breeders' Incentive Fund in the Past Year



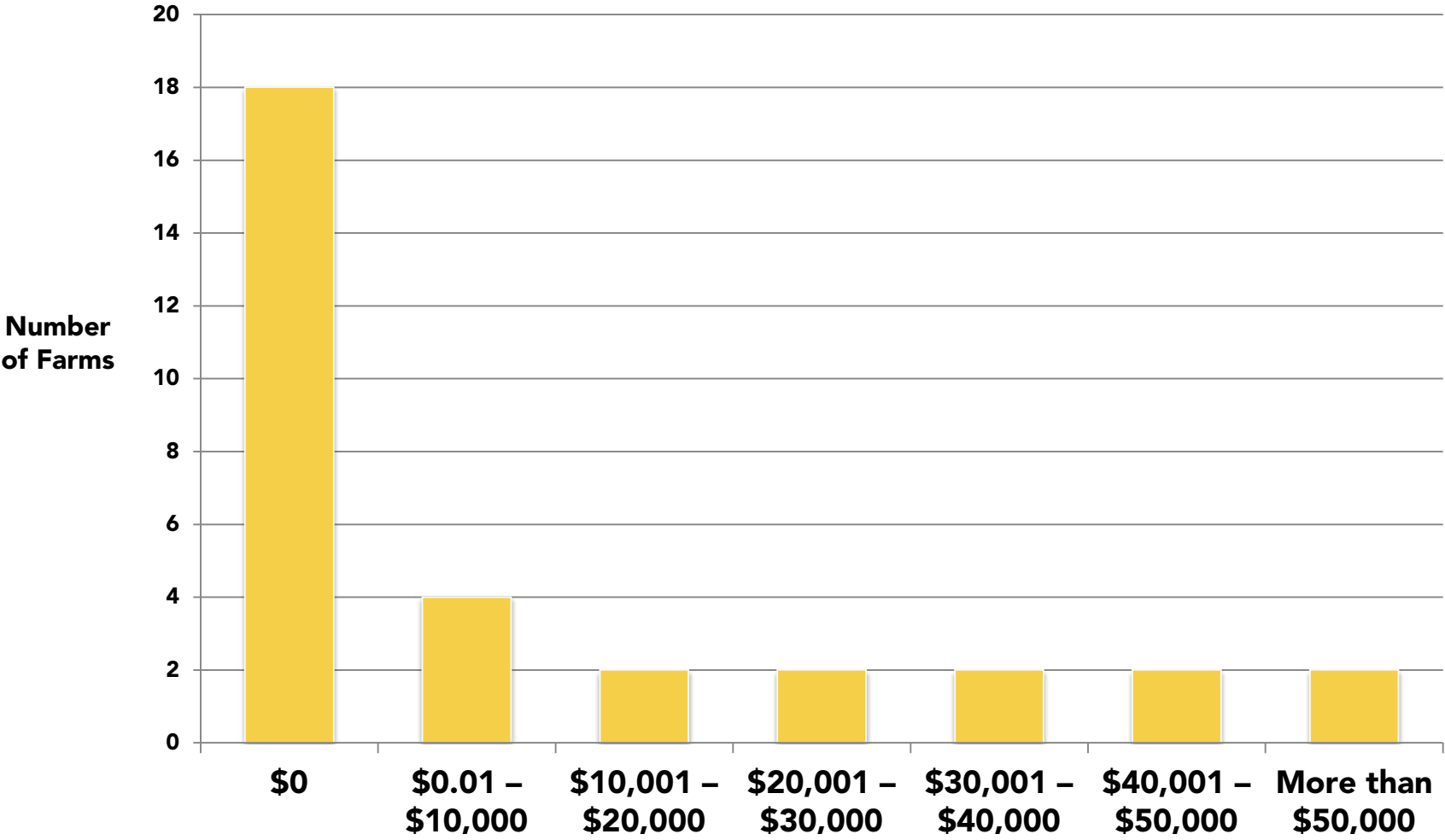


# Amount of Money Farms Received from Other States' Breeders' Incentive Funds in the Past Year





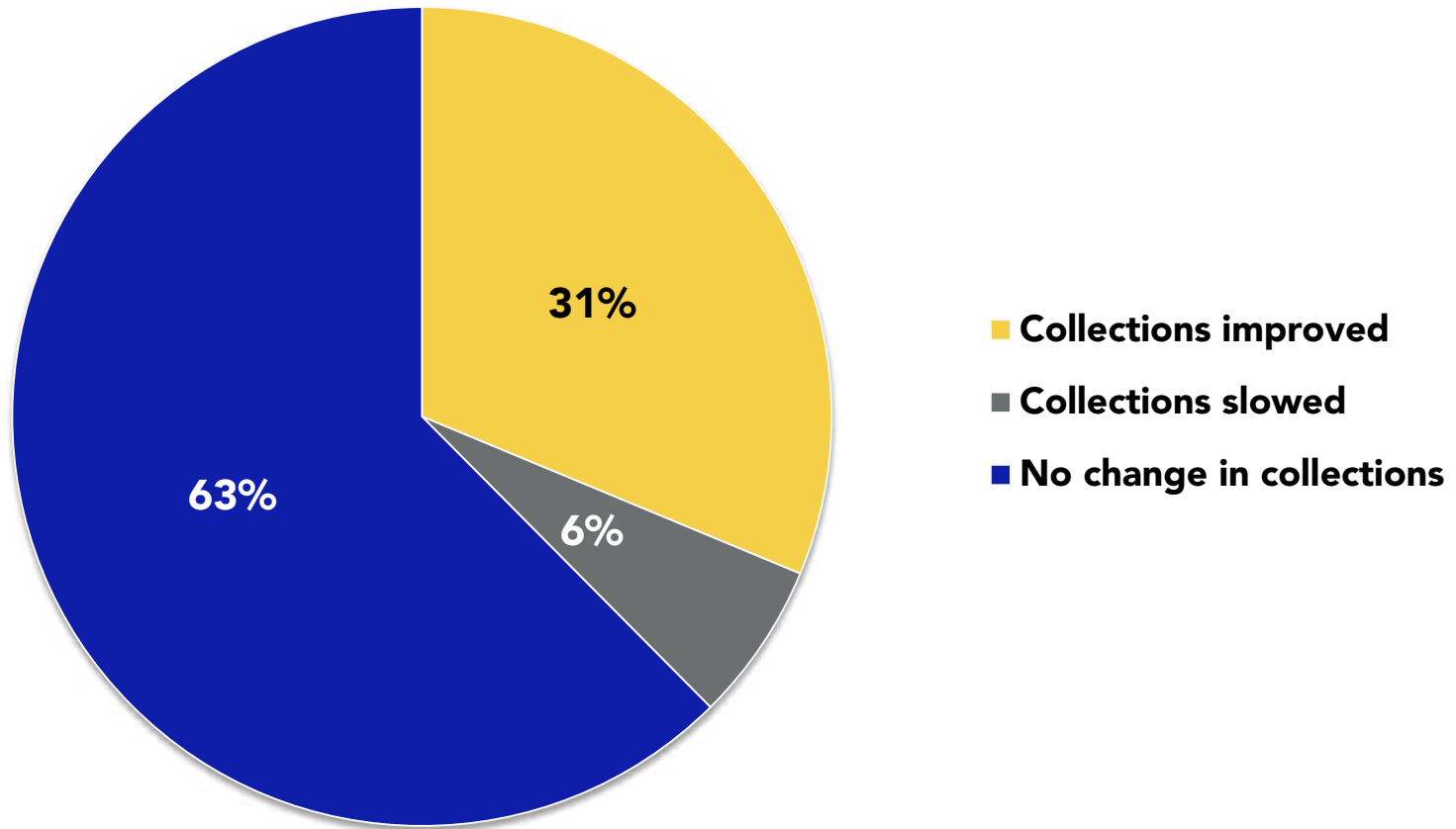
# Amount of Money Farms Received from the Breeders' Cup Breeders' Fund in the Past Year





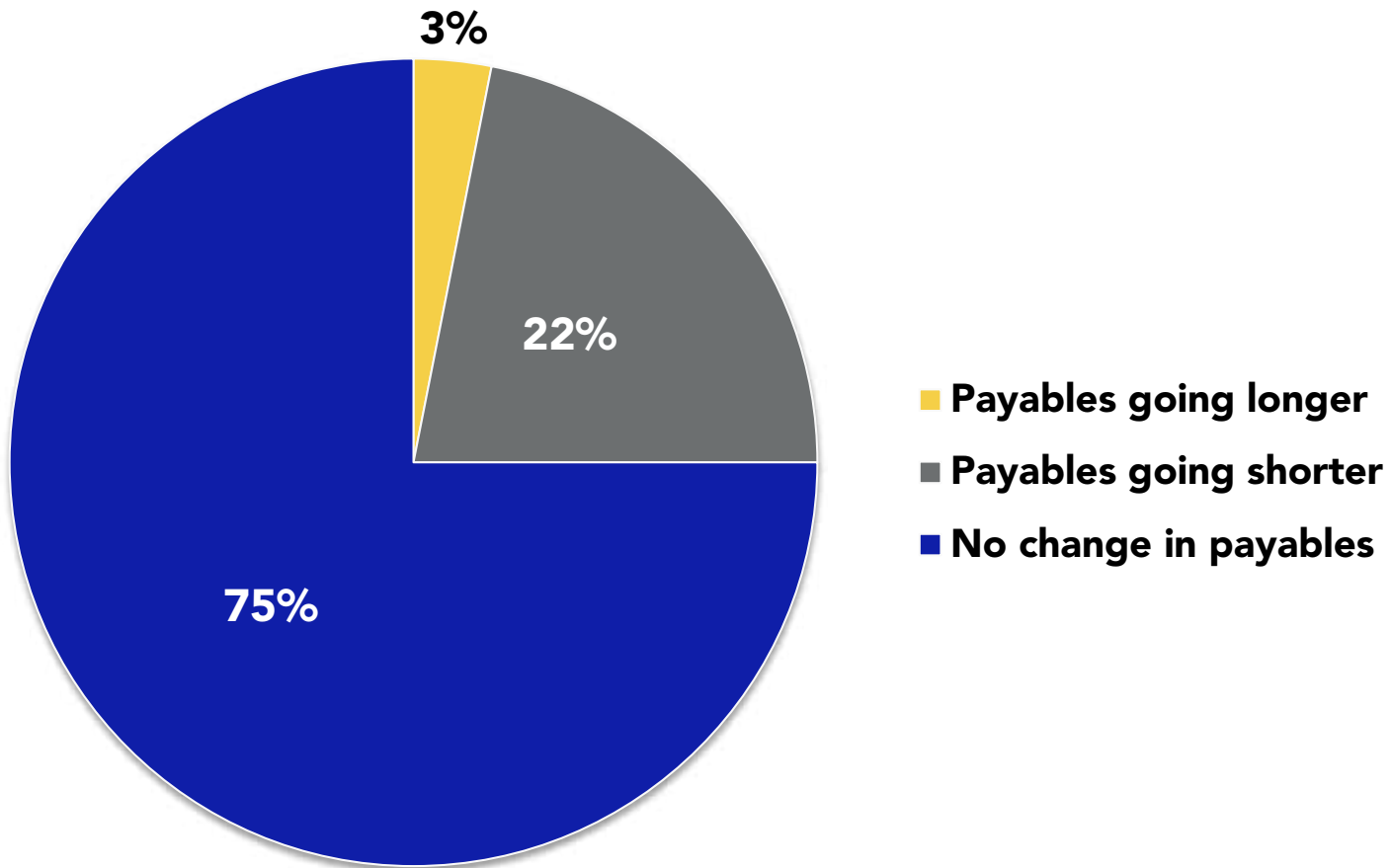


## Change in Collections Since Last Year





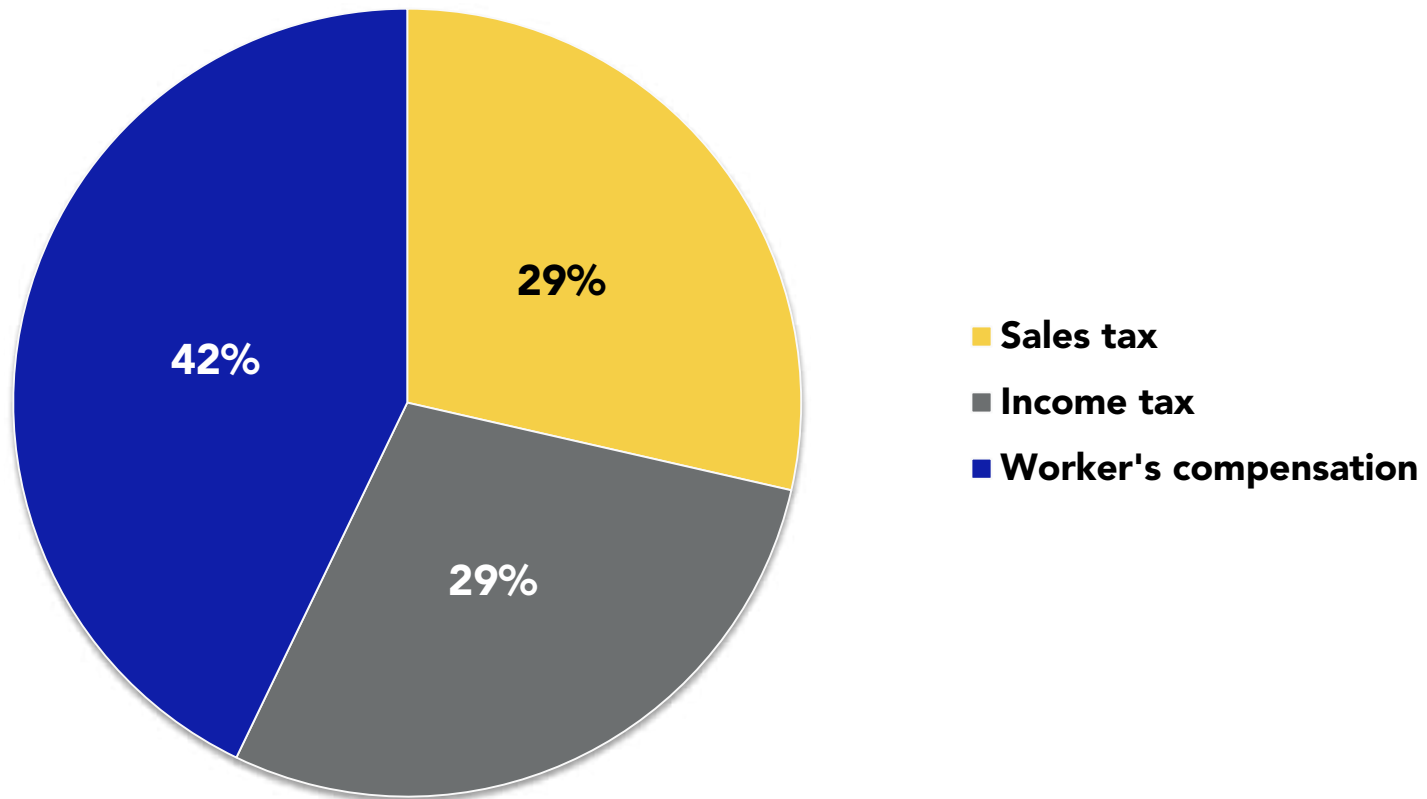
## Change in Payables Since Last Year





## Farms Audited Within the Past Three Years

Roughly 46% of the farms that responded have been audited for a variety of issues within the past three years. The below chart shows the breakdown of areas in which the audits have focused.





At Dean Dorton, we share your passion for the equine, and we understand the business of the horse – not just its accounting and tax rules. We help you take better care of your horse business, so you have more time to take care of your horses.

We have provided extensive accounting, tax, and business consulting services to the equine industry since 1979. Though we are located in Central Kentucky, known for its world-class horse farms, racing, and sales, clients from other parts of the country and even outside of the United States value our special knowledge of the equine industry. Each year, we publish the Thoroughbred Business Year in Review, an analysis of the industry that our clients see as a valuable resource.

Our clients are involved in a variety of equine industry operations, including:

- Breeding and boarding farms
- Racing stables
- Performance horse operations
- Equine veterinary firms
- Equine auction firms
- Industry publications
- Racetracks
- Bloodstock agents
- Equine insurance agencies
- Industry associations

## ACCOUNTING SERVICES FOR THE EQUINE INDUSTRY

The unique attributes of the equine industry demand accounting services with the particular depth of experience and expertise that Dean Dorton delivers.

For some clients, we effectively serve as their farm office directly performing many accounting, payroll, and clerical functions. Additionally, we provide financial statement assurance services – compilation, review, and audit – for the benefit of owners and when required by lenders.

## TAX SERVICES FOR THE EQUINE INDUSTRY

When equine industry participants enlist Dean Dorton to provide tax services, they can be confident they are engaging a firm with in-depth industry experience and know-how. We are able to identify and implement tax planning strategies and to provide comfort that tax compliance responsibilities are being met.

We are interested in your business, know the industry, and can provide a wide range of valuable services designed to both optimize your tax savings opportunities and avoid unanticipated problems. Among our services are:

- Developing strategies to make maximum use of potential tax losses
- Minimizing exposure to the hobby loss rules
- Structuring transactions to avoid or minimize sales and use taxes
- Avoiding or managing the potential impact of the passive activity loss rules
- Using current and deferred trades of horses and farms to avoid or postpone income taxes
- Using the involuntary conversion tax rules to defer income taxes on insurance recoveries related to horse and farm casualties
- Estate planning designed to use special use valuation and conservation incentives, family limited partnership strategies, and deferred tax payments
- Multistate tax allocations and filing compliance
- Helping foreign owners and breeders to minimize exposure to U.S. taxes and comply with filing requirements
- Developing tax accounting systems to comply, where required, with rules requiring capitalization of preproductive period costs
- Taking advantage of unique tax depreciation rules
- Representing clients with federal and state tax audits



## YOU'LL FIND THE BEST EQUINE ACCOUNTANTS GRAZING IN BLUEGRASS COUNTRY

Dean Dorton's Equine Industry Group is comprised of professionals who know the horse business, and care deeply about it. Our team meets regularly to enhance our knowledge about different aspects of the industry, often with outside industry experts as guests. We're active in many aspects of the industry, including producing our annual Equine Industry Survey of industry practices. We participate as members in such industry organizations as The American Horse Council and Thoroughbred Owners and Breeders Association, author articles published in the industry press, and make presentations to industry organizations. We welcome your inquiries about how we can put our experience and know-how to work to help you manage your farm and equine business.

For more information on our equine practice or about this report, please do not hesitate to contact us.



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