

**Pennsylvania Division Horsemen's  
Benevolent and Protective  
Association, Inc.**

Financial Statements and  
Supplementary Information

Year Ended June 30, 2018 with  
Independent Auditor's Report

**MaherDuessel**  
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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# PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

YEAR ENDED JUNE 30, 2018

## TABLE OF CONTENTS

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### **Independent Auditor's Report**

#### **Financial Statements:**

Statement of Financial Position	1
Statement of Activities	2
Statement of Cash Flows	4
Notes to Financial Statements	5

#### **Supplementary Information:**

Schedule of Administrative Expenses	17
Schedule of Cash Receipts, Cash Disbursements, and Cash Balances – Pennsylvania Race Horse Development Fund Allocation	18

#### **Independent Auditor's Report in Accordance with *Government Auditing Standards*:**

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20
Schedule of Findings and Responses	22

## Independent Auditor's Report

**Board of Directors and  
Secretary Albright,  
Pennsylvania Office of the Budget  
Pennsylvania Division Horsemen's  
Benevolent and Protective  
Association, Inc.**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. (Association) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements

of activities and cash flows for the year 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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 Association as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Administrative Expenses and Schedule of Cash Receipts, Cash Disbursements, and Cash Balances – Pennsylvania Race Horse Development Fund Allocation are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2019, on our consideration of the Association'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 solely 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 the effectiveness of the Association's 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 Association's internal control over financial reporting and compliance.

*Maier Duessel*

Harrisburg, Pennsylvania  
February 6, 2019

# PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

## STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

### Assets

Current assets:	
Cash and cash equivalents - unrestricted	\$ 586,708
Cash and cash equivalents - restricted (gaming Act and Pari-Mutuel)	12,154,796
Accounts receivable - Pari-Mutuel Commissions	292,400
<i>PA Race Horse Development Fund assets:</i>	
Accounts receivable - slot revenue	1,424,814
Prepaid Act 71 jockey obligation	20,833
Accounts receivable - other	309,720
Marketing grant receivable	42,470
Marketing grant prepaid expenses	59,394
Due from HBPA Benefit Trust	258,174
Total current assets	15,149,309
Property and equipment - net	86,564
Investments	45,822
<b>Total Assets</b>	<b>\$15,281,695</b>

### Liabilities and Net Assets

#### Liabilities:

Current liabilities:	
Accounts payable - trade	\$ 31,856
Marketing grant unearned revenue	29,394
<i>PA Race Horse Development Fund obligations:</i>	
Purses payable	4,112,228
Pension Act 71 payable	200,000
Deferred revenues - purse obligations	8,228,224
Deferred revenues - health and pension benefits	158,492
Deferred revenues - purse obligations - Pari-Mutuel	963,083
Purse obligations payable - Pari-Mutuel	230,810
Total current liabilities	13,954,087

#### Net Assets:

Unrestricted	1,327,608
Total Net Assets	1,327,608
<b>Total Liabilities and Net Assets</b>	<b>\$15,281,695</b>

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

**PENNSYLVANIA DIVISION HORSEMEN'S  
BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.**

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

**Support and Revenue:**

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Revenue:	
Membership dues	\$ 1,091,606
Stake nomination fee	151,350
Bookkeeper account interest	60,532
New start income	291,915
Department of Agriculture marketing grant	230,662
Act 7 marketing grant	297,920
Straw manure income	66,778
Interest income	3,071
Unrealized investment gain	5,973
Other income	<u>31,716</u>
Total support and revenue	<u>2,231,523</u>

**Expenses:**

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Personnel costs:	
Wages	259,868
Employee benefits	33,525
Payroll taxes	49,053
Administrative expenses - other	1,303,848
New start expenses	176,547
Marketing grant expense	230,662
Rent expense	<u>6,974</u>
Total expenses	<u>2,060,477</u>
Change in net assets before Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel funds	<u>171,046</u>

(Continued)

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

# PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

(Continued)

### **Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel Funds:**

<b>Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel Funds:</b>	
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Horsemen's revenues:	
Purses earned	36,042,477
Interest - purses earned	23,174
Pari-Mutuel purses earned (non-Gaming Act)	1,308,505
Interest - Pari-Mutuel purses earned (non-Gaming Act)	3,532
Health and pension funds earned	2,689,921
Interest - health and pension funds earned	826
	<hr/>
Total horsemen's revenues	40,068,435
Horsemen's expenses:	
Purse expense	(36,065,651)
Pari-Mutuel purses paid (non-Gaming Act)	(1,312,037)
Health and Pension expense	(2,190,747)
Jockey Act 71 obligation:	
Presque Isle Downs	(250,000)
Penn National Race Course	(250,000)
	<hr/>
Total horsemen's expenses	(40,068,435)
Total Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel Funds	 - <hr/>
<b>Change in Net Assets</b>	<b>171,046</b>
<b>Net Assets:</b>	
<hr/>	
Beginning	1,156,562
Ending	<u>\$ 1,327,608</u>
	<hr/> <hr/>
	(Concluded)

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



# PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

## STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2018

<b>Cash Flows From Operating Activities:</b>	
Change in net assets	\$ 171,046
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:	
Depreciation	9,264
Unrealized gain on investments	(5,973)
Change in assets and liabilities	
(Increase) decrease in assets:	
Accounts receivable - Pari-Mutuel commissions	(21,043)
<i>PA Race Horse Development Fund assets:</i>	
Accounts receivable - slot revenue	(211,392)
Prepaid Act 71 jockey obligation	(20,833)
Accounts receivable - other	1,244
Marketing grant receivable	(42,470)
Marketing grant prepaid expenses	(59,394)
Due from HBPA Benefit Trust	(136,636)
(Decrease) increase in liabilities:	
Accounts payable - trade	502
Marketing grant unearned revenue	29,394
Purse obligations payable - Pari-Mutuel	(479)
<i>PA Race Horse Development Fund obligations:</i>	
Deferred revenues	3,300,442
Purses payable	(1,056,067)
Jockey Act 71 obligation	(20,833)
Deferred revenues - purse obligations - Pari-Mutuel	323,121
Net cash and cash equivalents provided by operating activities	2,259,893
<b>Cash Flows From Investing Activities:</b>	
Purchase of equipment	(60,211)
Net cash and cash equivalents used in investing activities	(60,211)
<b>Cash Flows From Financing Activities:</b>	
Repayment of PID loan	400,000
Net cash and cash equivalents provided by financing activities	400,000
<b>Net Increase in Cash and Cash Equivalents</b>	2,599,682
<b>Cash and Cash Equivalents:</b>	
Beginning of year	10,141,822
End of year	\$12,741,504

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

# PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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### 1. Nature of Activities and Summary of Significant Accounting Policies

#### Organization

Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. (Association) was incorporated in October 1988 and is exempt from taxation under Code Section 501(c)(6) of the Internal Revenue Code. The Association received its tax-exempt status approval from the Internal Revenue Service on August 2, 1991.

The Association organized to protect the interests of both horsemen and the horse racing industry in general. The Association, as representative for horsemen at Presque Isle Downs (PID) and Hollywood Casino Penn National Race Course (HCPNRC), is registered as a horsemen's organization under the Pennsylvania Race Horse Development and Gaming Act (Gaming Act) and receives funding to benefit the horsemen.

The Association provides administrative services for the Pennsylvania Division, Horsemen's Benevolent & Protective Association Benefit Trust (HBPA Benefit Trust), a related party. The Trust was created to provide medical and health benefits to horsemen, including their spouses and children, and stable personnel.

#### Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ASC 958, "*Not-for-Profit Entities*." Under ASC 958, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Association does not have any temporarily or permanently restricted net assets at June 30, 2018.

#### Cash and Cash Equivalents

For cash flow purposes, the Association considers all highly-liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

# PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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### Cash and Cash Equivalents - Restricted

Certain cash and cash equivalents are restricted as to use pursuant to Commonwealth of Pennsylvania law and horse racing industry requirements. These funds are held in separate accounts.

### Investments

Investments are valued at fair market values. Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets the organization has the ability to access. Investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near-term would materially affect investment assets reported in the financial statements.

### Accounts Receivable

The Association considers its receivables to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

### Property and Equipment

Capital assets are recorded and carried at cost. Depreciation is calculated using the straight-line and accelerated methods over the estimated useful lives of the assets.

### Revenue Recognition

Revenue is recognized for Race Horse Development and Pari-Mutuel Funds based on expenditures incurred. Marketing grant revenue is recognized when corresponding expenses are incurred.

The Association is required to report contributions or grants received as unrestricted, temporarily restricted, or permanently restricted support. This requirement is dependent on the existence and/or nature of any donor or grantor restrictions. Revenue that is restricted by the donor or grantor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other

# PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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donor- or grantor-restricted revenue is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Donated Services

A number of unpaid volunteer officers and committees have made significant contributions of their time toward developing and achieving the Association's goals and objectives.

Contributions of donated services that create or enhance nonfinancial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. During the year ended June 30, 2018, there were no donated services that met the reporting requirements.

### Income Taxes

The Association is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(6), except on net income derived from unrelated business activities, which includes rent and advertising income.

Further, the Association annually files a Form 990 and a Form 990T.

### Pending Accounting Standards Updates

Accounting Standards Update (ASU) 2014-09, "*Revenue from Contracts with Customers*," is effective for the Association's financial statements for the year ending June 30, 2020 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition

# PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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related to contracts with transfer of promised goods or services to customers and related disclosures.

ASU 2016-02, "*Leases (Topic 842)*," is effective for the Association's financial statements for the year ending June 30, 2021. This amendment will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than 12 months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

ASU No. 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*," is effective for the Association's financial statements for the year ending June 30, 2019. This amendment aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The ASU changes the net asset classifications, requires presentation of expenses both by nature and function, requires investment return reported net of investment expenses, requires placed-in-service approach for gifts of/for long-lived assets, and provides enhanced disclosures for: governing body restrictions; composition of net assets with donor restrictions; qualitative and quantitative information on liquidity; methods to allocate costs among program and support functions; and underwater donor-restricted endowment funds.

ASU 2018-08, "*Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*," is effective for the Association's financial statements for the year ending June 30, 2020. This amendment provides guidance for characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions.

ASU 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash*," is effective for the financial statements for the year ending June 30, 2020. This amendment requires that the statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

Management has not yet determined the impact of these amendments on the Association's financial statements.

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# PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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### Subsequent Events

The Association's management has evaluated events and transactions for potential recognition or disclosure through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

## **2. Concentrations of Credit Risk**

Financial instruments that potentially subject the Association to concentrations of credit risk include cash and cash equivalents and accounts receivable. Management believes the financial risks associated with these financial instruments are minimal. All Pennsylvania Race Horse Development Funds for PID and HCPNRC are fully insured by the Federal Deposit Insurance Corporation (FDIC). The Association participates in a Demand Deposit Marketplace Program, which allows a custodian of the Association to deposit cash at multiple receiving banks in a manner designed to remain within the FDIC insurance limits for each receiving bank.

# PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

### 3. Cash and Cash Equivalents – Unrestricted and Restricted

Cash and cash equivalents consist of the following at June 30:

Bank	Type	2018
Administrative funds:		
Charles Schwab & Co.	Money Market	\$ 2,764
Centric Bank	Checking	523,644
Bet Fair Exchange	Checking	60,171
N/A	Petty Cash	129
Cash and cash equivalents - unrestricted		586,708
Purse funds (restricted):		
Centric Bank	Checking (Pari-Mutuel)	900,210
Centric Bank	Checking (Gaming)	11,015,346
		11,915,556
Health and Pension funds - restricted:		
Centric Bank	Checking (Gaming)	239,240
Cash and cash equivalents - restricted		12,154,796
Total cash and cash equivalents		\$ 12,741,504

### 4. Loan Receivable

Through an agreement with PID dated October 27, 2015, the Association and PID have agreed to finance certain upgrade projects at PID. During the year ended June 30, 2017, the Association agreed to temporarily finance half the cost of a permanent barn construction project at PID. The total cost of the construction was estimated at \$800,000. Work began during the year ended June 30, 2017, and a \$400,000 loan receivable was established by the Association. This was a zero percent interest loan. This loan was repaid in full on May 15, 2018.

# PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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### 5. Investments

The fair value of investments consists of the following at June 30:

	<u>2018</u>
Penn National Gaming, Inc. common stock, 600 shares	\$ 20,154
Gaming & Leisure PPTYS, common stock, 717 shares	<u>25,668</u>
	<u>\$ 45,822</u>

### 6. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2018</u>
Building improvements	\$ 56,158
Office equipment	146,955
Construction in progress	<u>53,544</u>
	256,657
Less: accumulated depreciation	<u>(170,093)</u>
	<u>\$ 86,564</u>

### 7. PA Race Horse Development Fund Liabilities

The Association receives funding under the Gaming Act. Funding received under this Act represents a legislatively determined percentage of the gross terminal revenues collected by licensed gaming entities and passed through the Pennsylvania Race Horse Development Fund (the "fund") to the respective horsemen organizations. Effective July 1, 2016, the PA Fiscal Code was amended under Act 7. Beginning July 1, 2016, and each year thereafter, the General Assembly authorizes the transfer of funds from the Pennsylvania Race Horse Development Fund to the State Racing Fund to provide for costs associated with the collection and research of and testing for medication, the promotion of horse racing, and to support agricultural related programs. In addition, transfers are made to fund the General

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# **PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2018**

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Fund of the Commonwealth of Pennsylvania. These transfers will be made in weekly and one-time installments during the fiscal year before any other distributions from the Pennsylvania Race Horse Development Fund. After these transfer, the greater of 4% or \$220,000 is required to be allocated to fund health and pension benefits for the members of the horsemen's organizations representing the owners and trainers at the racetrack at which the licensed racing entity operates for the benefit of the organization's members. Of this amount, \$250,000 is required to be paid annually by the horsemen's organization to the thoroughbred jockeys or standard-bred drivers' organization, depending on the track type. The remaining monies are distributed to the Category 1 Horsemen groups at the ratio in which it was earned at each respective Category 1 facility. Those funds are required to be allocated 1) 83.33% towards a purse account to be used to supplement existing purse agreements which fund purses for live races; and 2) 16.67% is required to be deposited monthly into the Pennsylvania Breeding Fund. The Jockey Act 71 obligation was \$500,000 for the year ended June 30, 2018. All transfers made by the Association were in accordance with applicable state laws.

Funding received by the Association for each track is maintained separately by the Association. During the year ended June 30, 2018, both Presque Isle Downs and Hollywood Casino Penn National generated gross terminal revenues and, therefore, contributed to their funds, respectively.

The Association, as representative for the horsemen at the Presque Isle Downs and Hollywood Casino Penn National Race Courses, offers health insurance for owners and trainers. For ease of operations, the Association has elected to pay all premiums incurred from the HCPNRC Health and Pension cash account. This account will be replenished from the Presque Isle Downs cash account as deemed necessary.

# PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

The Association's Pennsylvania Race Horse Development Fund allocations are as follows:

Pennsylvania Race Horse Development Fund Allocation:	2018 - Presque Isle Downs		
	Purse Account	Health and Pension Account	Total
Cash received	\$ 13,969,569	\$ 967,709	\$ 14,937,278
Interest received	15,830	475	16,305
Accounts receivable - current year	686,865	49,081	735,946
Accounts receivable - prior year	(398,222)	(25,147)	(423,369)
	\$ 14,274,042	\$ 992,118	\$ 15,266,160

Pennsylvania Race Horse Development Fund Allocation:	2018 - Hollywood Casino Penn National		
	Purse Account	Health and Pension Account	Total
Cash received	\$ 25,129,469	\$ 1,754,701	\$ 26,884,170
Interest received	7,344	351	7,695
Accounts receivable - current year	639,528	49,340	688,868
Accounts receivable - prior year	(745,553)	(44,500)	(790,053)
	\$ 25,030,788	\$ 1,759,892	\$ 26,790,680

# PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

A summary of the activities for Presque Isle Downs and Hollywood Casino Penn National PA Race Horse Development Funds are as follows:

Pennsylvania Race Horse Development Fund Liabilities:	2018 - Presque Isle Downs		
	Purse Account	Health and Pension Account	Total
Deferred revenue - 6/30/2017	\$ 5,756,251	\$ 3,816	\$ 5,760,067
Fund allocation	14,274,042	992,118	15,266,160
Subtotal	20,030,293	995,934	21,026,227
Amounts expended in accordance with the Gaming Act	(13,177,606)	(960,647)	(14,138,253)
Deferred Revenue - 6/30/2018	\$ 6,852,687	\$ 35,287	\$ 6,887,974

Pennsylvania Race Horse Development Fund Liabilities:	2018 - Hollywood Casino Penn National		
	Purse Account	Health and Pension Account	Total
Deferred revenue - 6/30/2017	\$ (767,206)	\$ 93,413	\$ (673,793)
Fund allocation	25,030,788	1,759,892	26,790,680
Subtotal	24,263,582	1,853,305	26,116,887
Amounts expended in accordance with the Gaming Act	(22,888,045)	(1,730,100)	(24,618,145)
Deferred Revenue - 6/30/2018	\$ 1,375,537	\$ 123,205	\$ 1,498,742

### 8. Horsemen's Membership Dues

By agreement with the Mountainview Thoroughbred Racing Association and the Pennsylvania National Turf Club, Inc., dated October 1, 2004, 2% of the purse money paid to the owner of the winning horse is to be allocated to the Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. A Board Resolution, adopted in 2014, directs 1% of the monthly purse money paid to be transferred directly to the Pennsylvania Division, Horsemen's Benevolent & Protective Association Benefit Trust for the benefit of its members, and the remaining 1% is retained within the Association. The amount received for membership due in 2018 was \$279,569.

By agreement with Presque Isle Downs Racing Association, dated February 22, 2007, 5% of the purse money paid to the owner of the winning horse is to be allocated to the Association. During 2013, the membership dues percentage paid to the Association was reduced to 3.33%, as the Association's obligation (including interest) for its share of the

# PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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installation of a synthetic surface has been satisfied. During October 2015, an updated live racing agreement was entered into by Presque Isle Downs and Casino and the Association. Per this agreement membership dues paid to the Association were increased to 5% to help fund the costs of surface maintenance, installation of a video wall, permanent barn, and office space. The membership dues will revert to 3% at the conclusion of the 2018 season. The amount received for 2018 was \$812,037.

As a service to the member, the membership dues are withheld from the owner of the winning horse's purse and are paid directly to the Association from Pari-Mutuel funds.

### **9. Bookkeeper Account Interest**

Interest income of \$60,532 for the year ended June 30, 2018, represents the amount received by the Association from Penn National Race Course. The interest earnings are from a fund accumulated on the payment of purses and held by the Mountainview Thoroughbred Racing Association and the Pennsylvania National Turf Club, Inc. By agreement, the account is non-commingled, and the payments received are the Horsemen's 50% share of the interest earned on the account.

### **10. Straw Manure Income**

The Association enters into agreements for the removal of straw manure from Penn National Race Course. The original agreement began during the fiscal year ended June 30, 2000. Hy-Tech has agreed to pay the Association for the removal of straw manure by the trailer/bin load. By agreement, the Association bills Hy-Tech for pickups biweekly and Hy-Tech pays the invoices by the 15<sup>th</sup> of the following month. The amount received for the year ended June 30, 2018 was \$66,778.

### **11. 401(k) Plan**

The Association established a 401(k) plan for all full-time employees. Employees are eligible to participate for purposes of salary deferrals when they have completed one (1) year of service and attained the age of 21. A matching contribution feature is available annually

# PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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upon the discretion of the Association. Matching contributions paid to the Plan were \$26,049 for the year ended June 30, 2018.

### **12. Related Parties**

The Association provides administrative services to the HBPA Benefit Trust. The HBPA Benefit Trust, which operates on a calendar year basis, is a separate entity with its own governance and accounting system in place. There were no administrative fees received by the Association for 2018. As of June 30, 2018, HBPA Benefit Trust owes the Association \$258,174 for short-term borrowing.

The Association is an affiliate of The National HBPA, Inc. per the agreement dated August 16, 1993. However, the Association maintains its own records, by preparing Association financial statements and tax returns on a separate organizational basis. The affiliation is only in terms of supporting the common goal of promoting the interests of the horsemen. The agreement states the local division cannot make any modifications to its own Constitution and Bylaws that are not consistent with the common principles and values of The National HBPA, Inc., without advance written notice.

### **13. Risk Management**

The Association is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets and errors or omissions. Significant losses are covered by commercial insurance for all major programs. For insured programs, there have been no significant reductions in settlement coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

### **14. Contingencies**

The Association is involved in legal proceedings in the ordinary course of its business. Although management of the Association cannot predict the ultimate outcome of these legal proceedings with certainty, it believes that the ultimate resolution of the Association's legal proceedings, including any amounts it may be required to pay, will not have a material effect on the Association's financial statements.

## **SUPPLEMENTARY INFORMATION**

**PENNSYLVANIA DIVISION HORSEMEN'S  
BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.**

SCHEDULE OF ADMINISTRATIVE EXPENSES

YEAR ENDED JUNE 30, 2018

**Administrative Expenses:**

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Advocacy	\$ 179,160
Contributions	13,460
Office	44,914
Travel and meeting	48,825
Public relations	317,961
Assessments - national	48,000
Dues and subscriptions	5,482
Social activities	60,957
Professional fees	176,407
Telephone	7,673
Insurance	8,436
Depreciation	9,264
Fundraising	5,598
Conventions, meetings, and meals	6,495
Pedigree research	32,270
Repairs and maintenance	10,746
Veterinarian - night races	64,043
Race horse expense	23,174
Tapeta racing surface expense	208,056
Miscellaneous	32,927
Total administrative expenses	<u><u>\$ 1,303,848</u></u>

**PENNSYLVANIA DIVISION HORSEMEN'S  
BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.**

SCHEDULE OF CASH RECEIPTS, CASH DISBURSMENTS, AND CASH BALANCES  
PENNSYLVANIA RACE HORSE DEVELOPMENT FUND ALLOCATION  
YEAR ENDED JUNE 30, 2018

	Purses			Health and Pension		
	Presque Isle Downs	HCPNRC	Total	Presque Isle Downs	HCPNRC	Total
Pennsylvania Race Horse Development Fund Allocation:						
Horsemen's Receipts:						
Purses and H&P funds received	\$ 13,969,569	\$ 25,129,469	\$ 39,099,038	\$ 967,709	\$ 1,754,701	\$ 2,722,410
Interest received	15,831	7,344	23,175	475	352	827
Total horsemen's receipts	<u>13,985,400</u>	<u>25,136,813</u>	<u>39,122,213</u>	<u>968,184</u>	<u>1,755,053</u>	<u>2,723,237</u>
Horsemen's disbursements:						
Purse disbursements	13,246,270	23,875,448	37,121,718	-	-	-
Act 71 Jockey obligations	-	-	-	270,833	270,833	541,666
Act 71 Pension contributions	-	-	-	170,647	7,246	177,893
Act 71 Health insurance	-	-	-	540,000	1,472,854	2,012,854
Total horsemen's disbursements	<u>13,246,270</u>	<u>23,875,448</u>	<u>37,121,718</u>	<u>981,480</u>	<u>1,750,933</u>	<u>2,732,413</u>
Increase (decrease) in cash	739,130	1,261,365	2,000,495	(13,296)	4,120	(9,176)
Cash Balance - July 1, 2017	6,858,116	2,156,735	9,014,851	128,671	119,745	248,416
Cash Balance - June 30, 2018	<u>\$ 7,597,246</u>	<u>\$ 3,418,100</u>	<u>\$ 11,015,346</u>	<u>\$ 115,375</u>	<u>\$ 123,865</u>	<u>\$ 239,240</u>

(Continued)



**PENNSYLVANIA DIVISION HORSEMEN'S  
BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.**

**SCHEDULE OF CASH RECEIPTS, CASH DISBURSMENTS, AND CASH BALANCES  
PENNSYLVANIA RACE HORSE DEVELOPMENT FUND ALLOCATION  
YEAR ENDED JUNE 30, 2018**

	Purses			Health and Pension		
	Presque Isle Downs	HCPNRC	Total	Presque Isle Downs	HCPNRC	Total
<b>Reconciliation of Cash Receipts:</b>						
Purses and H&P funds received	\$ 13,969,569	\$ 25,129,469	\$ 39,099,038	\$ 967,709	\$ 1,754,701	\$ 2,722,410
Increase (decrease) in purses receivable	288,643	(106,025)	182,618	23,934	4,840	28,774
Increase in deferred revenues	(1,096,437)	(2,142,742)	(3,239,179)	(31,470)	(29,793)	(61,263)
	<u>\$ 13,161,775</u>	<u>\$ 22,880,702</u>	<u>\$ 36,042,477</u>	<u>\$ 960,173</u>	<u>\$ 1,729,748</u>	<u>\$ 2,689,921</u>
<b>Reconciliation of Cash Disbursements:</b>						
Purses and H&P funds disbursed	\$ 13,246,270	\$ 23,875,448	\$ 37,121,718	\$ 981,480	\$ 1,750,933	\$ 2,732,413
Decrease in purses payable	(68,664)	(987,403)	(1,056,067)	-	-	-
Decrease in Act 71 jockey obligation	-	-	-	-	(20,833)	(20,833)
Increase in prepaid Act 71 jockey obligation	-	-	-	(20,833)	-	(20,833)
Total Horsemen's disbursements	<u>\$ 13,177,606</u>	<u>\$ 22,888,045</u>	<u>\$ 36,065,651</u>	<u>\$ 960,647</u>	<u>\$ 1,730,100</u>	<u>\$ 2,690,747</u>

(Concluded)

**Pennsylvania Division Horsemen's  
Benevolent and Protective  
Association, Inc.**

Independent Auditor's Report  
in Accordance with  
*Government Auditing Standards*

Year Ended June 30, 2018

**Independent Auditor’s 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***

**Board of Directors and  
Secretary Albright,  
Pennsylvania Office of the Budget  
Pennsylvania Division Horsemen’s  
Benevolent and Protective  
Association, Inc.**

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 Pennsylvania Division Horsemen’s Benevolent and Protective Association, Inc. (Association)

(a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 6, 2019.

## **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Association’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 Association’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Association’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 a 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal

Board of Directors and Secretary Albright, Pennsylvania Office of the Budget  
Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc.  
Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters

control, described in the accompanying schedule of findings and responses as Finding 2018-001 that we consider to be a significant deficiency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association'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 including Chapter 436a of the Pennsylvania Race Horse Development and Gaming Act and Fiscal Code (72 P.S. § 1701-O). 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as Finding 2018-001.

### Response to Findings

The Association's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Association's response was not subjected to the auditing procedure applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### 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 results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Maher Duessel*

Harrisburg, Pennsylvania  
February 6, 2019

# PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

## SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2018

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### ***Significant Deficiency:***

#### **Finding 2018-001: Permitting of Officers**

*Condition:* Four of the Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc.'s (Association) members of the Board of Directors (Board) did not have the appropriate registration with the Pennsylvania Gaming Control Board (PGCB) at the time of the audit.

*Criteria:* Chapter 436a, Section 436a.3, requires that all representatives be permitted with the PGCB.

*Cause:* The Association does not have an established control to ensure compliance with Chapter 436a.3, permitting requirements of the PGCB.

*Effect:* The Association is not in compliance with Chapter 436a.3.

*Recommendation:* We recommend that management develop procedures and controls to ensure all members of the Board have appropriate permits with the PGCB.

*Management's Response:* Upon election, Board members are informed of their responsibility to complete the Pennsylvania Gaming Control Board (PGCB) permitting requirements. The PGCB Director of Licensing has regulatory oversight of permitting requirements; and corresponds directly with the licensee, when necessary. When a board member is elected to the Association's board, the PGCB emails the member the permitting requirements, along with a link to the "SlotsLink" system; additional emails follow as reminders, when necessary.

Management monitors the process and assists, if requested by the Board Member. However, management cannot force a member to complete the requirements. All non-compliance with the permitting requirements is the PGCB's responsibility.

During the audit period:

- two board members submitted their applications through "SlotsLink"; however, they overlooked the finger printing process;
- one board member was a temporary replacement for a deceased board member; this board member was subsequently elected to the board during the November

**PENNSYLVANIA DIVISION HORSEMEN'S  
BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.**

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2018

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2018 election. This board member is currently in the process of obtaining his PGCB permit; and

- one board member is physically disabled due to a muscular disease and is unable to enter the personal data into the "SlotsLink" system; he is in communications with the PGCB on this matter.