

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

Financial Statements and
Supplementary Information

Year Ended June 30, 2022
with Independent Auditor's Report

MaherDuessel

A horizontal bar is positioned below the company name. The left portion of the bar is black, and the right portion is blue, matching the color of the 'D' in the company name.

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

YEAR ENDED JUNE 30, 2022

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. (Association), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is 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. The 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 supplementary 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 January 31, 2023 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.

Maher Duessel

Harrisburg, Pennsylvania
January 31, 2023

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

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2022

Assets

Current assets:	
Cash and cash equivalents - unrestricted	\$ 966,398
Cash and cash equivalents - restricted (Gaming Act and Pari-Mutuel)	15,676,982
<i>PA Race Horse Development Fund assets:</i>	
Accounts receivable - slot revenue	1,385,097
Accounts receivable - health and pension obligations	103,192
Accounts receivable - Pari-Mutuel commissions	447,736
Accounts receivable - other	474,237
Prepaid taxes	7,831
Total current assets	19,061,473
Property and equipment - net	96,395
Total Assets	\$ 19,157,868

Liabilities and Net Assets

Liabilities:

Current liabilities:	
Accounts payable - trade	\$ 171,099
Accrued salaries	8,070
Due to HBPA Benefit Trust	3,487
SPMO market fees unearned revenue	436,060
<i>PA Race Horse Development Fund obligations:</i>	
Purses payable	8,025,939
Jockey Act 71 obligation	20,833
Deferred revenues - purse obligations	6,581,064
Deferred revenues - health and pension benefits	372,738
Purses payable - Pari-Mutuel	246,194
Deferred revenues - purse obligations - Pari-Mutuel	2,366,239
Total current liabilities	18,231,723

Net Assets:

Without donor restrictions	926,145
Total Net Assets	926,145
Total Liabilities and Net Assets	\$ 19,157,868

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, 2022

Revenue:

Administrative fees	\$ 1,036,697
Race fees and assessments	63,220
Bookkeeper account interest	9,764
New Start income	182,271
Secondary Pari-Mutuel Organization fees	91,940
Department of Agriculture marketing grant	155,399
Straw manure income	61,648
Interest/dividend income	395
Paycheck Protection Program loan forgiveness	75,428
Employee retention tax credit	106,741
Other income	77,899
	1,861,402
Total revenue	1,861,402

Expenses:

Program	1,110,411
Management and general	615,261
Fundraising	49,288
	1,774,960
Total expenses	1,774,960
Change in net assets before Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel Funds	86,442

(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, 2022

(Continued)

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

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Horsemen's revenues:	
Purses earned	34,555,518
Interest - purses earned	33,766
Pari-Mutuel purses earned (non-Gaming Act)	791,332
Interest - Pari-Mutuel purses earned (non-Gaming Act)	5,621
Health and pension funds earned	2,402,119
Interest - health and pension funds earned	442
Total horsemen's revenues	<u>37,788,798</u>
Horsemen's expenses:	
Purse expense	(34,589,284)
Pari-Mutuel purses paid (non-Gaming Act)	(796,953)
Health and pension expense	(1,902,561)
Jockey Act 71 obligation:	
Presque Isle Downs	(250,000)
Penn National Race Course	(250,000)
Total horsemen's expenses	<u>(37,788,798)</u>
Total Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel Funds	<u>-</u>
Change in Net Assets	86,442
Net Assets:	
<hr/>	
Beginning	<u>839,703</u>
Ending	<u>\$ 926,145</u>
	(Concluded)

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

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

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022

	Program	Management and General	Fundraising	Total
Wages	\$ 190,750	\$ 93,573	\$ 25,498	\$ 309,821
Employee benefits	43,999	21,583	5,881	71,463
Payroll taxes	19,316	9,476	2,582	31,374
Rent expense	6,974	-	-	6,974
Advocacy	87,667	-	-	87,667
Public relations	38,900	-	-	38,900
Assessments - national	48,000	-	-	48,000
Dues and subscriptions	8,046	-	-	8,046
Social activities	20,341	-	-	20,341
Veterinarian - night races	57,850	-	-	57,850
Race horse expense	110,410	-	-	110,410
Odyssey Horse Walker expense	3,796	-	-	3,796
Marketing Grant expense	95,365	-	-	95,365
New Start expenses	179,896	-	-	179,896
Pedigree research	27,444	-	-	27,444
Travel and meeting	19,877	9,750	2,657	32,284
Conventions, meetings and meals	5,387	2,643	720	8,750
Insurance	7,240	3,552	968	11,760
Repairs and maintenance	1,111	545	148	1,804
Office	25,417	12,469	3,398	41,284
Telephone	4,678	2,294	625	7,597
Professional fees	-	457,998	-	457,998
Miscellaneous	14,379	-	-	14,379
Contributions	61,291	-	-	61,291
Golf tournament	-	-	6,811	6,811
Depreciation	32,277	1,378	-	33,655
Total expenses before Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel Funds	1,110,411	615,261	49,288	1,774,960
Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel Funds	37,788,798	-	-	37,788,798
Total expenses	<u>\$38,899,209</u>	<u>\$ 615,261</u>	<u>\$ 49,288</u>	<u>\$39,563,758</u>

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, 2022

Cash Flows From Operating Activities:

Change in net assets	\$ 86,442
Adjustments to reconcile change in net assets to net cash, cash equivalents, and restricted cash provided by operating activities:	
Depreciation	33,655
Forgiveness of Paycheck Protection Program loan	(75,428)
Changes in assets and liabilities	
(Increase) decrease in assets:	
<i>PA Race Horse Development Fund assets:</i>	
Accounts receivable - slot revenue	52,198
Accounts receivable - health and pension obligations	2,716
Accounts receivable - Pari-Mutuel commissions	(447,736)
Accounts receivable - other	(401,119)
Prepaid taxes	(7,831)
(Decrease) increase in liabilities:	
Accounts payable - trade	118,518
Accrued salaries	2,154
Due to HBPA Benefit Trust	316,426
SPMO market fees unearned revenue	97,060
<i>PA Race Horse Development Fund obligations:</i>	
Purses payable	4,594,781
Deferred revenues - purse obligations	(3,319,637)
Deferred revenues - health and pension benefits	173,459
Purses payable - Pari-Mutuel	246,194
Deferred revenues - purse obligations - Pari-Mutuel	1,102,801
Net cash and cash equivalents provided by operating activities	2,574,653
Net Increase in Cash, Cash Equivalents, and Restricted Cash	2,574,653
Cash, Cash Equivalents, and Restricted Cash:	
Beginning of year	14,068,727
End of year	\$ 16,643,380
Reconciliation of Cash, Cash Equivalents, and Restricted Cash:	
Cash and cash equivalents - unrestricted	\$ 966,398
Cash and cash equivalents - restricted	15,676,982
Total cash, cash equivalents, and restricted cash	\$ 16,643,380

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, 2022

1. Nature of Activities and Summary of Significant Accounting Policies

Organization

The 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 was 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 HBPA Benefit Trust was created to provide medical and health benefits to horsemen, including their spouses and children, and stable personnel.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as promulgated for not-for-profit organizations. Those standards require the Association to report information regarding its financial position and activities according to the following classes of net assets:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purposes in performing the primary objectives of the Association. These net assets may be used at the discretion of the Association's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature; whereby the donor has stipulated the funds be maintained in

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

perpetuity. The Association does not have any net assets with donor restrictions at June 30, 2022.

Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restrictions expire in the reporting period in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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.

Cash and Cash Equivalents - Restricted

Certain cash and cash equivalents are restricted as to use pursuant to Commonwealth of Pennsylvania law, horse racing industry requirements, and benefit plan restrictions. These funds are held in separate accounts. The restricted cash accounts are included in cash balances for the purpose of the statement of cash flows.

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 the 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

Administrative fees are earned monthly as services are provided based on a contract with Mountainview Thoroughbred Racing Association and the Pennsylvania National Turf Club,

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

Inc. (Note 11). Fees and assessments, including the fees and assessments portion of New Start income (Note 13), associated with racing are earned at the time of each race.

Straw manure income is recognized when the straw manure is transferred to the customer.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

A portion of the Association's revenue is derived from cost-reimbursable state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Association has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the Statement of Financial Position.

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 non-financial 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, 2022, there were no donated services that met the reporting requirements.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

Income Taxes

The Association is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code. Consequently, the Association will not incur any liability for federal income tax, except for liabilities arising from unrelated business activities, which includes rent and advertising income.

At the entity level, management has assessed the Association's exposure to income taxes arising from uncertain tax positions taken in current and previously filed tax returns. Examples of tax positions taken at the entity level included the continuing validity of the Association's exempt status, potential filing requirements for unrelated business income, and other tax positions that could result in assessment of income tax liabilities arising from examinations by taxing authorities. Presently, management believes that it is more likely than not that the Association's tax positions will be sustained under examination, including any appeals and litigation; therefore, management believes that the Association has no exposure to income-tax liabilities arising from uncertain tax positions. The Association is subject to routine audits by taxing jurisdictions; however, no audits are currently in progress.

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

Functional Allocation of Expenses

The costs of providing the Association's various programs and activities have been summarized on a functional basis in the Statements of Activities. Expenses directly related to a specific program are charged to that program. The financial statements report certain categories of expense that are attributed to more than one program or supporting service. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses related to more than one program or supporting service are allocated on the basis of actual or estimated employee time.

Adoption of Accounting Standards

The requirements of the following Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) was adopted during the year ended June 30, 2022:

ASU 2020-07, *"Not-For-Profit Entities (Subtopic 958): Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets."* The amendments in this update

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

expand upon the presentation and disclosure of contributed nonfinancial assets to provide the reader of the financial statements a clearer understanding of the types of nonfinancial assets received and how they are utilized and recognized by the not-for-profit organization. The implementation of this standard was applied retrospectively to all periods presented. Implementation resulted in no financial statement disclosure modifications.

Pending Accounting Standards Updates

ASU 2016-02, "*Leases (Topic 842)*," is effective for the Association's financial statements for the year ending June 30, 2023. These amendments and related amendments 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 twelve 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.

Management has not yet determined the impact of this amendment on the Association's financial statements.

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, 2022

3. Availability and Liquidity

Financial assets available for general expenditure; that is, without donor or other restrictions limiting their uses, within one year of June 30, 2022, comprise the following:

Financial assets at year-end:

Cash and cash equivalents - unrestricted	\$ 966,398
Cash and cash equivalents - restricted (Gaming Act and Pari-Mutuel)	15,676,982
<i>PA Race Horse Development Fund assets:</i>	
Accounts receivable - slot revenue	1,385,097
Accounts receivable - health and pension obligations	103,192
Accounts receivable - Pari-Mutuel commissions	447,736
Accounts receivable - other	<u>467,286</u>
Total financial assets	19,046,691

Less amounts not available to be used within one year:

Assets held for restricted purposes (purses and H&P)	<u>17,613,007</u>
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Financial assets available to meet general expenditures within one year \$ 1,433,684

Assets available to meet general expenditures, specifically those assets restricted for racing revenue, are subject to allowable expenditures as defined in the Live Racing Agreements between the Association, Mountainview Thoroughbred Racing Association, Pennsylvania National Turf Club, Inc., and Presque Isle Downs. As part of its liquidity management, the Association has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due. The Association invests its cash in excess of its daily needs in interest bearing accounts.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

4. Cash and Cash Equivalents – Unrestricted and Restricted

Cash and cash equivalents consist of the following at June 30, 2022:

Bank	Type	Amount
Administrative funds - unrestricted:		
Charles Schwab & Co.	Money Market	\$ 1,866
Centric Bank	Checking	493,142
Bet Fair Exchange	Checking	471,261
N/A	Petty Cash	129
Cash and cash equivalents - unrestricted		<u>966,398</u>
Purse funds - restricted:		
Centric Bank	Checking (Pari-Mutuel)	2,163,413
Centric Bank	Checking (Gaming)	<u>13,223,193</u>
		<u>15,386,606</u>
Health and Pension funds - restricted:		
Centric Bank	Checking (Gaming)	<u>290,376</u>
Cash and cash equivalents - restricted		<u>15,676,982</u>
Total cash and cash equivalents		<u><u>\$ 16,643,380</u></u>

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

5. Accounts Receivable

Accounts receivable consist of the following at June 30, 2022:

	<u>Slot Revenue</u>	<u>Health and Pension Obligation</u>	<u>Pari-Mutuel Commissions</u>
Accounts receivable, June 30, 2021	\$ 1,437,295	\$ 105,908	\$ -
Cash received that was included in accounts receivable at June 30, 2021	(1,437,295)	(105,908)	-
Increase in accounts receivable	<u>1,385,097</u>	<u>103,192</u>	<u>447,736</u>
Accounts receivable, June 30, 2022	<u>\$ 1,385,097</u>	<u>\$ 103,192</u>	<u>\$ 447,736</u>

	<u>Administrative Fees</u>	<u>Bookkeeper Account Interest</u>	<u>New Start Income</u>	<u>Straw Manure Income</u>	<u>Employee Retention Tax Credit</u>	<u>Total</u>
Accounts receivable, June 30, 2021	\$ 43,401	\$ 1,612	\$ 16,400	\$ 11,705	\$ -	\$ 73,118
Cash received that was included in accounts receivable at June 30, 2021	(43,401)	(1,612)	(16,400)	(11,705)	-	(73,118)
Increase in accounts receivable	<u>313,659</u>	<u>6,951</u>	<u>15,710</u>	<u>39,007</u>	<u>98,910</u>	<u>474,237</u>
Accounts receivable, June 30, 2022	<u>\$ 313,659</u>	<u>\$ 6,951</u>	<u>\$ 15,710</u>	<u>\$ 39,007</u>	<u>\$ 98,910</u>	<u>\$ 474,237</u>

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

6. Property and Equipment

Property and equipment consisted of the following at June 30, 2022:

Building improvements	\$ 56,158
Equipment	<u>343,996</u>
	400,154
Less: accumulated depreciation	<u>(303,759)</u>
	<u>\$ 96,395</u>

7. Secondary Pari-Mutuel Organization (SPMO) Fees

The Association receives funding under the Racing Act. Funding received under this Act represents an amount equal to 6% of the daily gross wagering handle from pari-mutuel wagering by residents of this Commonwealth on races conducted by those other than Pennsylvania licensed racing entities. That amount shall be distributed 60% to the thoroughbred horsemen's organizations to be used for payment of purses at thoroughbred racetracks and 40% to the standardbred horsemen's organizations to be used for the payment of purses at standardbred racetracks.

The following table provides information about significant changes in deferred revenue for the year ended June 30, 2022:

Deferred revenue, beginning of year	\$ 339,000
Revenue recognized that was included in deferred revenue at the beginning of the year	(91,940)
Increases in deferred revenue due to cash received during the year	<u>189,000</u>
Deferred revenue, end of year	<u>\$ 436,060</u>

8. 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

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

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 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. The funds are required to be allocated 1) 80% towards an interest bearing purse account to be used to supplement existing purse agreements which fund purses for live races, 2) 16% is required to be deposited monthly into the Pennsylvania Breeding Fund, and 3) 4% is required to be used 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. The Jockey Act 71 obligation was \$500,000 for the year ended June 30, 2022. All transfers made by the Association were in accordance with applicable state laws.

Funding received by the Association, as representative for horsemen at the Presque Isle Downs and Hollywood Casino Penn National Race Course, equals 84% of the fund for each track. Funds for each track are maintained separately by the Association. During the year ended June 30, 2022, 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, 2022

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

Pennsylvania Race Horse Development Fund Allocation:	2022 - Presque Isle Downs		
	Purse Account	Health and Pension Account	Total
Cash received	\$ 11,698,392	\$ 964,776	\$ 12,663,168
Interest received	13,530	170	13,700
Accounts receivable - current year	528,325	39,365	567,690
Accounts receivable - prior year	(535,334)	(42,414)	(577,748)
	<u>\$ 11,704,913</u>	<u>\$ 961,897</u>	<u>\$ 12,666,810</u>

Pennsylvania Race Horse Development Fund Allocation:	2022 - Hollywood Casino Penn National		
	Purse Account	Health and Pension Account	Total
Cash received	\$ 19,589,687	\$ 1,613,518	\$ 21,203,205
Interest received	20,236	272	20,508
Accounts receivable - current year	856,772	63,827	920,599
Accounts receivable - prior year	(901,961)	(63,494)	(965,455)
	<u>\$ 19,564,734</u>	<u>\$ 1,614,123</u>	<u>\$ 21,178,857</u>

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:	2022- Presque Isle Downs		
	Purse Account	Health and Pension Account	Total
Deferred revenue - 6/30/2021	\$ 6,192,906	\$ 87,605	\$ 6,280,511
Fund allocation	11,704,913	961,897	12,666,810
Subtotal	17,897,819	1,049,502	18,947,321
Amounts expended in accordance with the Gaming Act	(13,735,723)	(827,000)	(14,562,723)
Deferred revenue - 6/30/2022	<u>\$ 4,162,096</u>	<u>\$ 222,502</u>	<u>\$ 4,384,598</u>

Pennsylvania Race Horse Development Fund Liabilities:	2022 - Hollywood Casino Penn National		
	Purse Account	Health and Pension Account	Total
Deferred revenue - 6/30/2021	\$ 3,707,795	\$ 111,674	\$ 3,819,469
Fund allocation	19,564,734	1,614,123	21,178,857
Subtotal	23,272,529	1,725,797	24,998,326
Amounts expended in accordance with the Gaming Act	(20,853,561)	(1,575,561)	(22,429,122)
Deferred revenue - 6/30/2022	<u>\$ 2,418,968</u>	<u>\$ 150,236</u>	<u>\$ 2,569,204</u>

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

9. Deferred Revenue for Pari-Mutuel Purse Obligations

The following table provides information about changes in the deferred revenue for the year ended June 30, 2022:

Deferred revenue, June 30, 2021	\$ 1,263,438
Revenue recognized that was included in deferred revenue at the beginning of the year	(1,263,438)
Increase in deferred revenue due to cash received	<u>2,366,239</u>
Deferred revenue, June 30, 2021	<u>\$ 2,366,239</u>

10. COVID-19 Funding

Paycheck Protection Program Loan

On February 1, 2021, the Association received loan proceeds in the amount of approximately \$75,428 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after the applicable covered period as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, mortgage payments, rent, utilities and interest on other debt obligations incurred before February 15, 2020, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the applicable covered period. The amount of forgiveness will also be reduced by the amount of the advance received.

The unforgiven portion of the PPP loan is payable over five years at an interest rate of 1%, with a deferral of payments until the forgiveness amount is remitted to the lender by the Small Business Administration. The Note may be prepaid by the Borrower at any time prior to maturity with no prepayment penalties. The Association intends to use the proceeds for purposes consistent with the PPP. While the Association currently believes that their use of the loan proceeds will meet the conditions for forgiveness of the loan, they cannot assure that they will not take actions that could cause the Association to be ineligible for

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

forgiveness of the loan, in whole or in part. On December 13, 2021, the Association received confirmation from the SBA stating, based on the application for loan forgiveness as filed (and subject to audit), 100% of the PPP loan and accrued interest was forgiven, as provided in the CARES Act. The Association has recognized \$75,428 as revenue for the year ended June 30, 2022.

Employee Retention Tax Credit

The Association qualified for the Employee Retention Credit under the Coronavirus Aid, Relief, and Economic Security Act. This credit encourages businesses to keep employees on their payroll. The refundable tax credit is 70% of up to \$10,000 in wages per employee per quarter paid by an eligible employer whose business has been financially impacted by COVID-19. During the year ended June 30, 2022, the Association submitted \$106,741 to be reimbursed under this program which was received before year end and is included in revenue in the accompanying statement of activities.

11. Administrative Fee Income

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 Association. A Board Resolution, adopted in 2014, directs 1% of the monthly purse money paid to be transferred directly to the HBPA Benefit Trust for the benefit of its members, and the remaining 1% is retained within the Association. By agreement with the Mountainview Thoroughbred Racing Association and the Pennsylvania National Turf Club, Inc., dated July 1, 2019, 3% of the purse money paid to the owner of the winning horse is to be allocated to the Association. A Board Resolution, adopted in 2019, directs 2% of the monthly purse money paid to be transferred directly to the HBPA Benefit Trust for the benefit of its members, and the remaining 1% is retained within the Association. The amount received for the year ended June 30, 2022 was \$239,744.

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 October 2015, an updated live racing agreement was entered into by Presque Isle Downs and Casino and the Association. Per this agreement, administrative fees paid to the Association were 5% for the 2016-2018 seasons to help fund the costs of surface maintenance, installation of a video wall, permanent barn, and office space. The

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

administrative fees decreased to 3% at the conclusion of the 2018 season. During May 2022, an updated live racing agreement was entered into by Presque Isle Downs and Casino and the Association. Per this agreement, administrative fees paid to the Association were increased to 5% for the 2022 live race meet. The fee will be reduced to 4% for the for the 2023 race meet and then the fee will revert to 3% for the future years. The amount received for the year ended June 30, 2022 was \$796,953.

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

12. Bookkeeper Account Interest Income

Interest income of \$9,764 for the year ended June 30, 2022, represents amounts 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.

13. New Start Income

The Association receives fees and assessments, as well as contributions to maintain a horse adoption program. For the year ended June 30, 2022, the Association received \$143,445 in fees and assessments and \$38,826 in contributions to fund this program.

14. Department of Agriculture Marketing Grant

The Association was awarded a grant from the PA Department of Agriculture for marketing purposes for the period of July 1, 2017 through June 30, 2022. Amounts received are recognized as revenue when the Association has incurred marketing expenses in compliance with grant provisions. During the year ended June 30, 2022, the Association incurred \$155,399 in costs under this grant, all of which was recorded as revenues and expenses and reimbursed by the state before year end.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

15. 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 15th of the following month. The amount recorded for the year ended June 30, 2022 was \$61,648.

16. 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 upon the discretion of the Association. Matching contributions paid to the Plan were \$38,825 for the year ended June 30, 2022.

17. 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 2022. As of June 30, 2022, the Association owes the HBPA Benefit Trust \$3,487.

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.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

18. 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.

19. Contingencies

The Association is involved in legal proceedings in the ordinary course of its business. Although management of the Association cannot predict the ultimate resolution of the Association's 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 CASH RECEIPTS, CASH DISBURSMENTS, AND CASH BALANCES
PENNSYLVANIA RACE HORSE DEVELOPMENT FUND ALLOCATION**

YEAR ENDED JUNE 30, 2022

	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	\$ 11,698,392	\$ 19,589,687	\$ 31,288,079	\$ 964,776	\$ 1,613,518	\$ 2,578,294
Interest received	13,530	20,236	33,766	170	272	442
Total horsemen's receipts	<u>11,711,922</u>	<u>19,609,923</u>	<u>31,321,845</u>	<u>964,946</u>	<u>1,613,790</u>	<u>2,578,736</u>
Horsemen's disbursements:						
Purse disbursements	11,665,195	18,329,308	29,994,503	-	-	-
Act 71 Jockey obligations	-	-	-	250,000	250,000	500,000
Act 71 Admin expense	-	-	-	-	8,301 *	8,301
Act 71 Health insurance	-	-	-	577,000	1,317,260	1,894,260
Total horsemen's disbursements	<u>11,665,195</u>	<u>18,329,308</u>	<u>29,994,503</u>	<u>827,000</u>	<u>1,575,561</u>	<u>2,402,561</u>
Transfers	-	-	-	-	-	-
Increase in cash	46,727	1,280,615	1,327,342	137,946	38,229	176,175
Cash Balance - July 1, 2021	<u>5,658,858</u>	<u>6,236,993</u>	<u>11,895,851</u>	<u>45,192</u>	<u>69,009</u>	<u>114,201</u>
Cash Balance - June 30, 2022	<u>\$ 5,705,585</u>	<u>\$ 7,517,608</u>	<u>\$ 13,223,193</u>	<u>\$ 183,138</u>	<u>\$ 107,238</u>	<u>\$ 290,376</u>

(Continued)

* Actuary expenses paid to Conrad Siegel

**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, 2022

	Purses			Health and Pension		
	Presque Isle Downs	HCPNRC	Total	Presque Isle Downs	HCPNRC	Total
Reconciliation of Cash Receipts:						
Purses and H&P funds received	\$ 11,698,392	\$ 19,589,687	\$ 31,288,079	\$ 964,776	\$ 1,613,518	\$ 2,578,294
Increase (decrease) in receivable	(7,009)	(45,189)	(52,198)	(3,049)	333	(2,716)
Increase (decrease) in deferred revenues	2,030,810	1,288,827	3,319,637	(134,897)	(38,562)	(173,459)
	<u>\$ 13,722,193</u>	<u>\$ 20,833,325</u>	<u>\$ 34,555,518</u>	<u>\$ 826,830</u>	<u>\$ 1,575,289</u>	<u>\$ 2,402,119</u>
Reconciliation of Cash Disbursements:						
Purses and H&P funds disbursed	\$ 11,665,195	\$ 18,329,308	\$ 29,994,503	\$ 827,000	\$ 1,575,561	\$ 2,402,561
Increase in purses payable	2,070,528	2,524,253	4,594,781	-	-	-
Total Horsemen's disbursements	<u>\$ 13,735,723</u>	<u>\$ 20,853,561</u>	<u>\$ 34,589,284</u>	<u>\$ 827,000</u>	<u>\$ 1,575,561</u>	<u>\$ 2,402,561</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, 2022

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 Thall, 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 the Pennsylvania Division Horsemen’s Benevolent and Protective Association, Inc. (Association), which comprise the statement of financial position as of June 30, 2022 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 31, 2023.

Report on 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) as a basis for designing 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 Association’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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements 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 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 results of that testing, and not to provide an opinion on the effectiveness of the Association’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 Association’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maheer Duessel

Harrisburg, Pennsylvania
January 31, 2023