

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

Consolidated Financial Statements  
with Supplementary Information

Year Ended June 30, 2013

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

YEAR ENDED JUNE 30, 2013

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## Independent Auditor's Report

Board of Trustees and Secretary Zogby, Pennsylvania Office of the Budget  
Pennsylvania Division Horsemen's Benevolent  
and Protective Association, Inc.

We have audited the accompanying consolidated financial statements of Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. (Association) (a nonprofit organization), which comprise the consolidated statement of net assets as of June 30, 2013, and the related consolidated statements of activities and cash flows (financial statements) 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, 2013, and the changes in its net assets and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Administrative Expenses and Schedule of Cash Receipts, Cash Disbursements, and Cash Balances – Pennsylvania Race Horse Development Fund Allocation, and Membership by State, which is the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information, except for the portion marked “unaudited,” 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, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked “unaudited” has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our reported dated December 4, 2013, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

*Maher Duessel*

Harrisburg, Pennsylvania  
December 4, 2013

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

## CONSOLIDATED STATEMENT OF NET ASSETS

JUNE 30, 2013

<b>Assets</b>	
Current assets:	
Cash and cash equivalents - unrestricted	\$ 1,469,798
Cash and cash equivalents - restricted (gaming Act and Pari-Mutuel)	2,962,977
Accounts receivable - Pari-Mutuel Commissions	302,957
<i>PA Race Horse Development Fund assets:</i>	
Accounts receivable - slot revenue	1,723,289
Prepaid purse obligations	3,897,904
Prepaid insurance	104,636
Accounts receivable - other	253,524
Total current assets	10,715,085
Property and equipment - net	221,693
Investments	31,752
<b>Total Assets</b>	<b>\$ 10,968,530</b>
<b>Liabilities and Net Assets</b>	
Liabilities:	
Current liabilities:	
Accounts payable - trade	\$ 61,151
<i>PA Race Horse Development Fund obligations:</i>	
Purse payable	1,952,438
Pension Act 71 payable	500,000
Jockey Act 71 obligation	20,833
Deferred revenues - purse obligations	5,655,730
Deferred revenues - health and pension benefits	338,849
Deferred revenues - purse obligations - Pari-Mutuel	523,913
Accrued salaries	4,947
Total current liabilities	9,057,861
Net Assets:	
Unrestricted	354,339
Unrestricted - Board-designated	1,271,526
Net assets available for plan benefits	284,804
Total Net Assets	1,910,669
<b>Total Liabilities and Net Assets</b>	<b>\$ 10,968,530</b>

See notes to consolidated financial statements.

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

## CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

### **Support and Revenue:**

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Revenue:	
Membership dues	\$ 1,285,079
Stake nomination fee	216,766
Bookkeeper account interest	24,144
Horse adoption fee	141,800
Straw manure income	33,136
Interest income	105
Unrealized investment gain	4,998
Other income	36,118
Horsemen bookkeeper reverts	72,572
Total support and revenue	1,814,718

### **Expenses:**

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Personnel costs:	
Wages	237,073
Employee benefits	24,970
Payroll taxes	19,769
Administrative expenses - other	1,054,095
Medical benefits	155,626
Dental benefits	108,731
Vision benefits	40,935
Chaplain benefits	22,380
Miscellaneous benefits	15,068
Total expenses	1,678,647
Change in net assets before debt service and Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel funds	136,071

### **Debt Service:**

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Revenues:	
Administrative fees - debt service	564,424
Expenses:	
Track amortization/principal	(556,331)
Interest	(8,093)
Debt service - net	-
Change in net assets before Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel funds	136,071

(Continued)

See notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2013

(Continued)

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

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Horsemen's revenues:	
Purse earned	52,537,870
Pari-mutuel purses earned (non-Gaming Act)	2,196,727
Interest - purses earned	2,105
Health and pension funds earned	3,320,923
Interest - health and pension funds earned	56
Horsemen's expenses:	
Purse expense	(52,539,975)
Pari-mutuel purses paid (non-Gaming Act)	(2,196,727)
Health and Pension expense	(2,820,979)
Jockey Act 71 obligation:	
Presque Isle Downs	(250,000)
Penn National Race Course	(250,000)
Total Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel Funds	-
 <b>Change in Net Assets</b>	 136,071
 <b>Net Assets:</b>	
<hr/>	
Beginning , as previously stated	1,556,384
Prior period adjustments	218,214
Beginning, as restated	1,774,598
Ending	\$ 1,910,669
	(Concluded)

See notes to consolidated financial statements.

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2013

### **Cash Flows From Operating Activities:**

<u>Change in net assets</u>	\$ 136,071
Adjustments to reconcile change in net assets provided by (used in) operating activities:	
Depreciation	24,506
Amortization of Tapeta surface	556,331
Unrealized gains on investments	(4,998)
Change in assets and liabilities	
(Increase) decrease in assets:	
Accounts receivable - PA Race Horse Development Fund	(443,653)
Accounts receivable - Pari-Mutuel commissions	(302,957)
Prepaid purse obligations - PA Race Horse Development Fund	8,195,852
Prepaid insurance - PA Race Horse Development Fund	(104,636)
Accounts receivable - other	76,139
(Decrease) increase in:	
Accounts payable - trade	(85,441)
PA Race Horse Development Fund obligations:	
Deferred revenues - PA Race Horse Development Fund	(8,993,099)
Purse payable - PA Race Horse Development Fund	1,952,437
Act 71 pension payable - PA Race Horse Development Fund	500,000
Pari-Mutuel purse obligations	(519,570)
Accrued salaries	(362)
Net cash provided by operating activities	986,620

### **Cash Flows From Financing Activities:**

<u>Repayment of debt - Tapeta track at PID</u>	(556,331)
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**Net Increase in Cash and Cash Equivalents** 430,370

### **Cash and Cash Equivalents:**

<u>Beginning of year</u>	4,002,405
End of year	\$ 4,432,775

See notes to consolidated financial statements.

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

**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**

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**Note 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 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 and Hollywood Casino Penn National Race Course, 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 HBPA Health Benefit Plan, a related party. The Plan was created to provide medical and health benefits to horsemen, including their spouses and children, and stable personnel.

The consolidated financial statements (financial statements) include the accounts of the Association and the Health Benefit Plan, since the entities share a common Board. All material intra-entity transactions have been eliminated.

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.

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.

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.

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

**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**

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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.

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 significant portion of the Association's functions are conducted by unpaid volunteer officers and directors. The value of this contributed time is not reflected in the accompanying financial statements because it is not susceptible to objective measurement or valuation.

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. The forms are subject to examination by the IRS, generally for three years after they are filed.

Subsequent Events: The Association's management has evaluated events and transactions for potential recognition or disclosure through November 12, 2013, the date the financial statements were available to be issued.

**Note 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 Presque Isle Downs and Hollywood Casino Penn National Race Course are fully insured under the Certificate of Deposit Account Registry Service (CDARS) program.

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

**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**

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**Note 3. Cash and Cash Equivalents – Unrestricted and Restricted**

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

Bank	Type	2013
Administrative funds:		
Charles Schwab & Co.	Money Market	\$ 1,180,118
M & T Bank	Checking	108,687
Metro Bank	Checking	40,248
N/A	Petty Cash	345
HBPA Health Benefit Plan	Checking	<u>140,400</u>
Cash and cash equivalents - unrestricted		<u>1,469,798</u>
Purse funds (restricted):		
M & T Bank	Checking (Pari-Mutuel)	219,670
Metro Bank	Checking (Gaming)	664,925
Metro Bank	CDARS (Gaming)	<u>1,390,697</u>
		<u>2,275,292</u>
Health and Pension funds restricted:		
Metro Bank	Checking (Gaming)	162,198
Metro Bank	CDARS (Gaming)	<u>525,487</u>
		<u>687,685</u>
Cash and cash equivalents - restricted		<u>2,962,977</u>
Total cash and cash equivalents		<u><u>\$ 4,432,775</u></u>

**Note 4. Investments**

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

	2013
Penn National Gaming, Inc. common stock, 600 shares	<u><u>\$ 31,752</u></u>

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

**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**

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**Note 5. Property and Equipment**

Property and equipment consisted of the following at June 30:

	2013
Building improvements	\$ 44,693
Office equipment	296,302
	<u>340,995</u>
Less accumulated depreciation	<u>(119,302)</u>
	<u>\$ 221,693</u>

**Note 6. 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. The fund is 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 Jockey Act 71 obligation was \$500,000 for the year ended June 30, 2013.

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, 2013, 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.**

**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**

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

Pennsylvania Race Horse Development Fund Allocation:	2013 - Preque Isle Downs		
	Purse Account	Health and Pension Account	Total
Cash received	\$ 16,001,629	\$ 1,074,503	\$ 17,076,132
Interest received	1,735	39	1,774
Accounts receivable - current year	797,145	37,477	834,622
Accounts receivable - prior year	(648,867)	(38,721)	(687,588)
	<u>\$ 16,151,642</u>	<u>\$ 1,073,298</u>	<u>\$ 17,224,940</u>

Pennsylvania Race Horse Development Fund Allocation:	2013 - Hollywood Casino Penn National		
	Purse Account	Health and Pension Account	Total
Cash received	\$ 27,496,029	\$ 1,849,880	\$ 29,345,909
Interest received	370	17	387
Accounts receivable - current year	858,783	29,884	888,667
Accounts receivable - prior year	(562,800)	(29,248)	(592,048)
	<u>\$ 27,792,382</u>	<u>\$ 1,850,533</u>	<u>\$ 29,642,915</u>

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

**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**

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:	2013 - Preque Isle Downs		
	Purse Account	Health and Pension Account	Total
Deferred revenue - 6/30/2012, as restated	\$ 8,010,431	\$ 509,727	\$ 8,520,158
Fund allocation	16,151,642	1,073,298	17,224,940
Subtotal	24,162,073	1,583,025	25,745,098
Amounts expended in accordance with the Gaming Act	(18,976,058)	(1,448,770)	(20,424,828)
Deferred Revenue - 6/30/13	\$ 5,186,015	\$ 134,255	\$ 5,320,270

Pennsylvania Race Horse Development Fund Liabilities:	2013 - Hollywood Casino Penn National		
	Purse Account	Health and Pension Account	Total
Deferred revenue - 6/30/2012, as restated	\$ 6,241,250	\$ 226,270	\$ 6,467,520
Fund allocation	27,792,382	1,850,533	29,642,915
Subtotal	34,033,632	2,076,803	36,110,435
Amounts expended in accordance with the Gaming Act	(33,563,917)	(1,872,209)	(35,436,126)
Deferred Revenue - 6/30/13	\$ 469,715	\$ 204,594	\$ 674,309

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

**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**

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**Note 7. 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 Association as their membership dues to the Association. It has been customary practice to fund the PA Division HBPA Health Benefit Plan by allocating 1% of the monthly purses to the Horsemen, for the benefits of its members; however, this funding is at the discretion of the Board. The amount received for 2013 was approximately \$831,800.

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 has been reduced to 3.33%, as the Association's obligation (including interest) for its share of the installation of a synthetic surface has been satisfied. The 3.33% membership dues will stay in effect for the upcoming fiscal year for payment of maintenance (fiber additions) of the synthetic surface; thereafter the membership dues will be reduced to 3%. The amount received for 2013 was approximately \$1,010,000, of which approximately \$560,000 was allocated to fulfill its obligation on the synthetic surface.

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.

**Note 8. Horsemen's Interest Income**

Interest income of approximately \$24,000, for the year ended June 30, 2013, 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.

**Note 9. 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 Pennsylvania Division - HBPA Inc., 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, 2013 was approximately \$33,000.

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

**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**

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**Note 10. 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 approximately \$12,000 for the year ended June 30, 2013.

**Note 11. Related Parties**

The Association provides administrative services to the Pennsylvania Division HBPA Health Benefit Plan. The Plan, 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 2013.

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.

**Note 12. 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.

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

**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**

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**Note 13. Prior Period Adjustment**

As of June 30, 2013, the Association changed its basis of accounting from modified cash to accrual, in accordance with accounting principles generally accepted in the United States of American (GAAP). A change in the Commonwealth of Pennsylvania's Fiscal Code mandated that the Association prepare GAAP financial statements. The prior period adjustment is as follows:

	Amount
<b>Beginning Net Assets, July 1, 2012</b>	\$ 1,556,384
Prior Period Adjustment:	
Accounts payable - trade	(142,430)
Accounts receivable	328,563
Deferred revenues	40,877
Accrued salaries	(5,309)
Accrued rent expense	(3,487)
	<u>218,214</u>
<b>Beginning Net Assets, July 1, 2012, as restated</b>	<u>\$ 1,774,598</u>

## **Supplementary Information**

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

**SCHEDULES OF ADMINISTRATIVE EXPENSES  
for Year Ended June 30, 2013**

	2013
Administrative Expenses:	
Advocacy	\$ 63,705
Contributions	99,832
Office	40,967
Travel and meeting	36,410
Public relations	33,104
Assessments - national	43,600
Dues and subscriptions	7,268
Social activities	95,379
Professional fees	134,136
Horse adoption program	169,509
Telephone	7,284
Insurance	5,563
Depreciation	19,507
Golf tournament	11,115
Conventions, meetings, and meals	19,864
Pedigree research	20,804
Repairs and maintenance	1,598
Veterinarian - night races	41,183
Race horse expense	30,445
Tapeta racing surface expense	81,275
Miscellaneous	46,342
HBPA Benefit Trust - other	45,205
<b>Total administrative expenses</b>	<b>\$ 1,054,095</b>

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

**SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CASH BALANCES -  
PENNSYLVANIA RACE HORSE DEVELOPMENT FUND ALLOCATION**

	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	\$ 16,001,629	\$ 27,496,029	\$ 43,497,658	\$ 1,074,503	\$ 1,849,880	\$ 2,924,383
Interest received	1,735	370	2,105	39	17	56
Total Horsemen's receipts	16,003,364	27,496,399	43,499,763	1,074,542	1,849,897	2,924,439
Horsemen's disbursements:						
Purse disbursements	15,798,032	26,593,654	42,391,686	-	-	-
Act 71 Jockey obligations	-	-	-	250,000	250,000	500,000
Act 71 Pension contributions	-	-	-	798,770	305,124	1,103,894
Act 71 Health insurance	-	-	-	-	1,315,880	1,315,880
Total Horsemen's disbursements	15,798,032	26,593,654	42,391,686	1,048,770	1,871,004	2,919,774
Increase (decrease) in cash	205,332	902,745	1,108,077	25,772	(21,107)	4,665
Cash Balance - July 1, 2012	286,920	660,624	947,545	471,006	212,014	683,020
Cash Balance - June 30, 2013	\$ 492,252	\$ 1,563,369	\$ 2,055,622	\$ 496,778	\$ 190,907	\$ 687,685

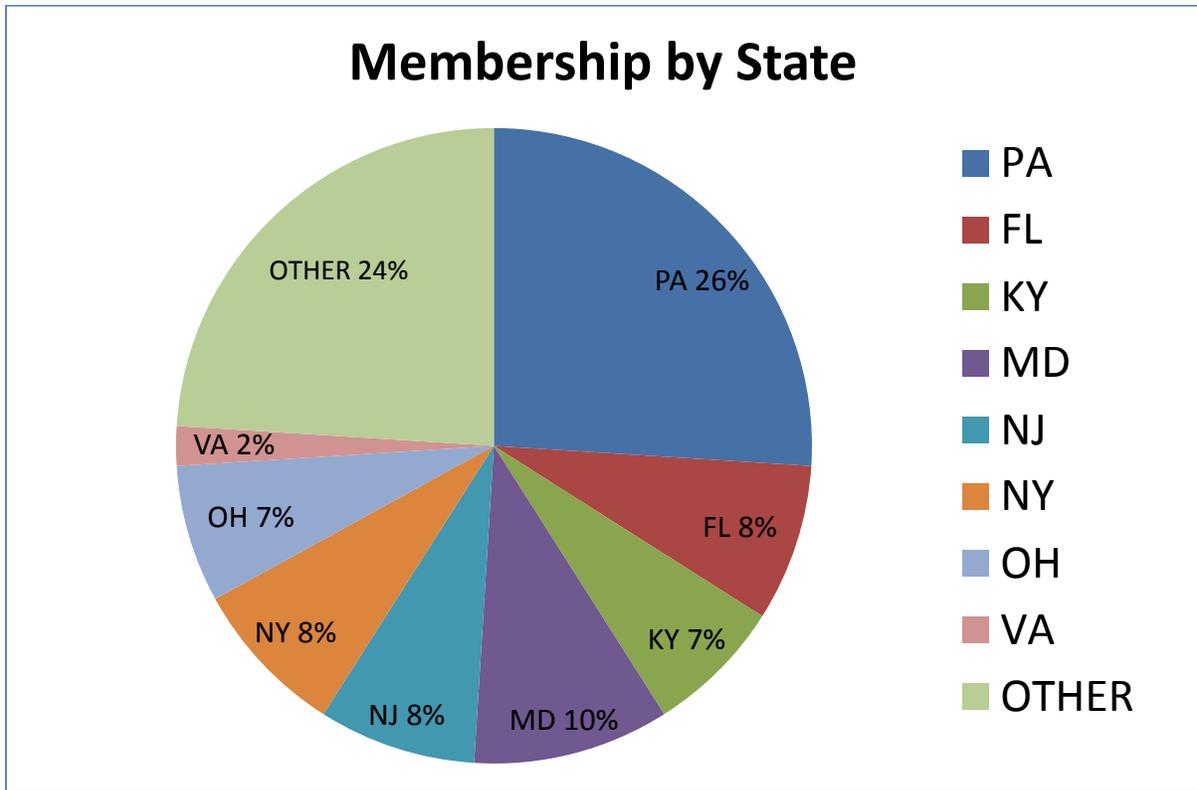
(Continued)

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

**SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CASH BALANCES -  
PENNSYLVANIA RACE HORSE DEVELOPMENT FUND ALLOCATION (Continued)**

	Purses			Health and Pension		
	Presque Isle Downs	HCPNRC	Total	Presque Isle Downs	HCPNRC	Total
Reconciliation of Cash Receipts:						
Purses and H&P funds received (from above)	\$ 16,001,629	\$ 27,496,029	\$ 43,497,658	\$ 1,074,503	\$ 1,849,880	\$ 2,924,383
Increase (decrease) in purses receivable	148,278	295,983	444,261	(1,244)	636	(608)
Decrease in deferred revenues	2,824,416	5,771,535	8,595,951	375,472	21,676	397,148
Purses earned per audited financial statements	<u>18,974,323</u>	<u>33,563,547</u>	<u>\$ 52,537,870</u>	<u>1,448,731</u>	<u>1,872,192</u>	<u>\$ 3,320,923</u>
Reconciliation of Cash Disbursements:						
Purses and H&P funds disbursed (from above)	\$ 15,798,032	\$ 26,593,654	\$ 42,391,686	\$ 1,048,770	\$ 1,871,004	\$ 2,919,774
Increase in purses payable	-	1,952,437	1,952,437	-	-	-
Health insurance administrative expense	-	-	-	-	5,841	5,841
Increase in pension payable	-	-	-	400,000	100,000	500,000
Decrease in prepaid purses	3,178,027	5,017,825	8,195,852	-	-	-
Increase in prepaid insurance	-	-	-	-	(104,636)	(104,636)
Purse and H&P expense per audited financial statements	<u>\$ 18,976,059</u>	<u>\$ 33,563,916</u>	<u>\$ 52,539,975</u>	<u>\$ 1,448,770</u>	<u>\$ 1,872,209</u>	<u>\$ 3,320,979</u>

(Concluded)



UNAUDITED

NOTES TO MEMBERSHIP DATA

Any owner or trainer of a thoroughbred racehorse who is currently licensed as such by the Pennsylvania State Horse Racing Commission who starts a thoroughbred racehorse in a qualifying race within the jurisdiction of this Association, shall be eligible for membership in the Association. Persons who are a part of any partnership, corporation, or other entity that is licensed as such by the Pennsylvania State Horse Racing Commission and which starts a thoroughbred racehorse in a qualifying race within the jurisdiction of this Association shall likewise be eligible for membership.

Statistics regarding health plan participants by state are not required to be maintained and are not available. Trainers who have 30 starts combined at Penn National or Presque Isle with 50% or more of their total starts taking place at either track from October 1 through September 30 are eligible to be enrolled into the program for the next calendar year. Also trainers with 150 combined starts at Penn National or Presque Isle are eligible regardless of the percentage of starts elsewhere.

Any trainer that has 30 combined starts at either Penn National or Presque Isle with 50% or more of their total starts taking place at Penn National or Presque Isle are eligible for enrollment in the retirement plan.

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

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

Year Ended June 30, 2013

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 Trustees and Secretary Zogby, 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), which comprise the consolidated statement of net assets as of June 30, 2013, and the related consolidated 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 December 4, 2013.

**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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees and Secretary Zogby, 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

### **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 Horse Development and Gaming Act and Fiscal Code (72 P.S. § 1701-0). 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 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  
December 4, 2013