

**PENNSYLVANIA HORSEMEN'S
ASSOCIATION**

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

PERFORMANCE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

PENNSYLVANIA HORSEMEN’S ASSOCIATION

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

Performance Audit Report

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INDEPENDENT AUDITORS' REPORT

Commonwealth of Pennsylvania
Office of the Budget
Comptroller Operations
Bureau of Audits
Harrisburg, Pennsylvania

We have completed a performance audit of Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. (Association) for the year ended June 30, 2012. The objective of the performance audit was to examine and report on the Association's fiduciary responsibility related to Pennsylvania Racehorse Development Funds pursuant to the Pennsylvania State Code as referenced in Appendix 4.

We conducted our performance audit in accordance with the standards applicable to performance 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 sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
December 26, 2012

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EXECUTIVE SUMMARY

Objectives, Scope and Audit Methodology

This performance audit of Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. (the Association) covers two summary objectives. Objective one is the quality control review of the external financial audit and objective two is the reconciliation of the receipt and disbursement of Pennsylvania Race Horse Development Funds and compliance with selected sections of PA Code 436a and 436b. This performance audit covers the year ended June 30, 2012. The audit methodology included understanding the processes and internal controls related to financial reporting and the receipt and disbursement of Pennsylvania Race Horse Development Funds. The auditors performed limited testing, as necessary, to present a conclusion on the detailed and summary objectives.

Audit Results, Findings, Conclusions, and Recommendations

The performance audit resulted in minor findings which did not materially impact the financial statements or compliance with PA Code 436a and 436b. Relative to the portion of Pennsylvania Race Horse Development Funds designed for purse supplements according to PA Code § 436b.5(a)(2)¹; 4 PA.C.S.A. § 1406(a)(1)(i)², and 1406(c)³ the audit noted an inconsistency between the four horsemen's associations in the processes used for distribution of Pennsylvania Race Horse Development Funds purse monies. This inconsistency is the result of live racing agreements. The Live Racing Agreements have allocations to the Association ranging from 2% to 5% of Pennsylvania Racehorse Development Funds purse monies. The allocations are for general uses (known as contractual agreement funds, akin to membership dues). Disbursements from contractual agreement funds are for purposes other than purses. This is a result of the combination of race horse development funds as directed in 4 PA.C.S.A. § 1406(a)(1)(i). This is not consistent with 1406(c) which requires the funds to be kept separate. It is recommended that the inconsistencies be reviewed by the appropriate authority of the Commonwealth of Pennsylvania.

Quality Control Review of the External Financial Audit

The quality control review of the external financial audit resulted in one finding affecting the accuracy of the financial statements as a whole. PA Fiscal Code requires horsemen's organizations to prepare financial statements in accordance with generally accepted accounting principles. The conclusion is that the external audit was performed in accordance with auditing standards generally accepted in the United States of America and the financial statements are prepared in accordance with the modified cash basis of accounting, which is a

¹PA Code § 436b.5(a)(2) Quarterly report of funds distributed for purse supplements from the account established by and for the benefit of the horsemen under 4 PA.C.S.A. § 1406(1)(a)(i).

² 4 PA.C.S.A. § 1406(a)(1)(i) Eighty percent to be deposited weekly into a separate, interest-bearing purse account to be established by and for the benefit of the horsemen. The earned interest on the account shall be credited to the purse account. Licensees shall combine these funds with revenues from existing purse agreements to fund purses for live races consistent with those agreements with the advice and consent of the horsemen.

³ 1406 (c) Eligible recipients.--Funds allocated to the horsemen's organization under this part must be used to benefit all horsemen. Funds acquired from other sources shall be kept separate and apart from funds obtained under this part.

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comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The PA Fiscal Code⁴ requires the association to prepare financial statements in accordance with generally accepted accounting principles. It is recommended that future financial statements comply with the PA Fiscal Code.

Reconciliation of the Receipt and Disbursement of Pennsylvania Race Horse Development Funds and Compliance with PA Code 436a and 436b

The performance audit verified that Pennsylvania Racehorse Development Funds earmarked for purses are being allocated to the Association via Live Racing Agreements. The Association uses the proceeds from the Live Racing Agreements for purposes other than purse distributions.

The performance audit verified compliance with PA Code 436a and 436b with the exception that the Trainers Retirement Plan was not submitted to the Pennsylvania Gaming Control Board at least ninety (90) days prior to its effective date and that one non-member of the Association received health and welfare benefits paid with Pennsylvania Racehorse Development Funds during the year. The conclusion is that, with these exceptions, the Association complied with the requirements of PA Code 436a and 436b. It is recommended that management implement procedures to submit health & welfare contracts to the Pennsylvania Gaming Control Board at least ninety (90) days prior to their effective date and ensure health and welfare contracts are for the benefit of members.

BACKGROUND AND ADDITIONAL INFORMATION

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 is 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 (the 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 Plan, which operates on a calendar year basis, is a separate entity with its own governance and accounting system in place. It is funded at the discretion of the Association board by transferring half of the 2% fee earned at Penn National Race Course from the Live Racing Agreement noted below. The Plan funds medical expense reimbursements and the operation of an onsite medical clinic.

⁴ PA Fiscal Code Article XVII-O, Section 1701-O, Paragraph 3(i) Each horsemen's organization shall, within 90 days after the end of the organization's fiscal year, prepare annual financial statements in accordance with generally accepted accounting principles for the horsemen's organization and all of its affiliates.

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Association management has indicated to McKonly & Asbury, LLP (M&A) that no amount of direct Pennsylvania Racehorse Development Funds received have been disbursed to this entity.

The Association receives Pennsylvania Racehorse Development Funds from Presque Isle Downs, Inc. and Hollywood Casino Penn National Race Course (Casinos).

Flow of Pennsylvania Racehorse Development Funds

Every week the Pennsylvania Department of Revenue transfers Pennsylvania Racehorse Development Funds to the Casinos. The Casinos wire the money to the Association into separate bank accounts, one for purses and one for health and welfare. The Association receives an email from Metro Bank indicating the amount that has been received from the Casinos. The Executive Director verifies these amounts have been deposited into the correct accounts. The Association calculates how much money should be paid based on purse amounts obtained from the Pennsylvania Gaming Control Board website, along with receiving a spreadsheet from the racetrack with the amounts they feel they are owed. If the amounts agree, the Association wires the money directly to the racetrack for the exact amount owed. The Association keeps a spreadsheet detailing the races for each day, the purse amounts, and how much the Association is obligated to pay based on the type of race. Health & welfare disbursements are made directly by the Association based on invoices received.

Live Racing Agreements

The Association entered into a Live Racing Agreement with Pennsylvania National Turf Club, Inc. and Mountainview Thoroughbred Racing Association effective October 1, 2004, expiring on September 30, 2011. This Agreement shall continue for a further term of two years without change unless any party shall, at least ninety (90) days prior to September 30, 2011, or each successive two-year term thereafter, give notice to the other of its intention that this agreement shall not be automatically renewed pursuant to the provisions of the agreement. Under the agreement, 2% of the purse money paid at Penn National Race Course is to be allocated to the Association. It has been customary practice to fund the Pennsylvania Division HBPA Health Benefit Plan by allocating half of the Association's share of the purses, for the benefits of its members; however, this funding is at the discretion of the Association's board. The amounts received during the year ended June 30, 2012, was approximately \$539,000.

The Association entered into a Live Racing Agreement with Presque Isle Downs, Inc. effective February 22, 2007, initially expiring on December 31, 2009. This Agreement shall continue for a further term of two years without change unless either party shall, at least ninety (90) days prior to December 31, 2009, or each successive two-year term thereafter, give notice to the other of its intention that this agreement shall not be automatically renewed pursuant to the provisions of this agreement. Under the agreement, 5% of the purse money paid at Presque Isle Downs is to be allocated to the Association. This rate will remain in effect until the Association's capital contribution, including interest for its share of the installation of a synthetic surface, is amortized over a period not to exceed five (5) years, after which the rate will be 3%. The amount received during the year ended June 30, 2012, was approximately \$554,000.

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Audited Financial Statements

The financial statements of the Association are audited on an annual basis in conformity with auditing standards generally accepted in the United States of America. The auditor's report on financial statements for the fiscal year ended June 30, 2012, was issued by Boyer & Ritter on August 16, 2012.

The financial statements and auditor's report can be found at Appendix 3.

Eligibility for Membership, Health, and Pension Plans

Association Membership:

- 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.

Eligibility requirements for Health Plan:

- 30 Starts at Penn National Race Course and Presque Isle Downs in FY Oct 1 – Sept 30. Those 30 starts must encompass 50% of more of total starts in North America.

Eligibility requirements for *Trainers* Retirement Plan:

The Plan will cover a Trainer who:

- has 30 Eligible Starts during the calendar year, and
- has at least 50% of total annual starts for the year at Penn National Race Course or Presque Isle Downs.
- For purposes of the Payback Contribution only, the plan will cover any Trainer who had at least one (1) start at Penn National Race Course during 2007.

An eligible Trainer shall become a participant effective as of the first day of the calendar year during which he meets the eligibility requirements.

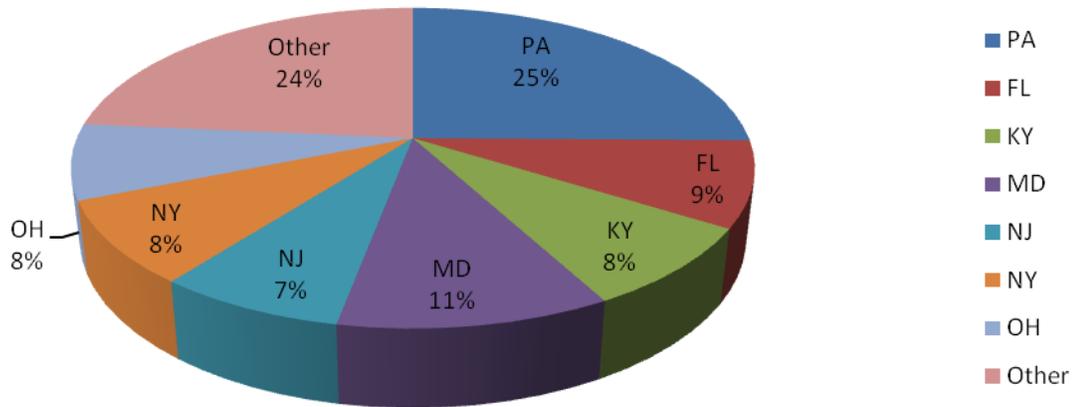
Membership and Eligibility Data:

Based on information provided to us during our fieldwork, the graphical representations of membership and eligibility of the Association have been made below. This information was not audited by M&A and is derived from information included in Appendix 5, which was provided by the Association.

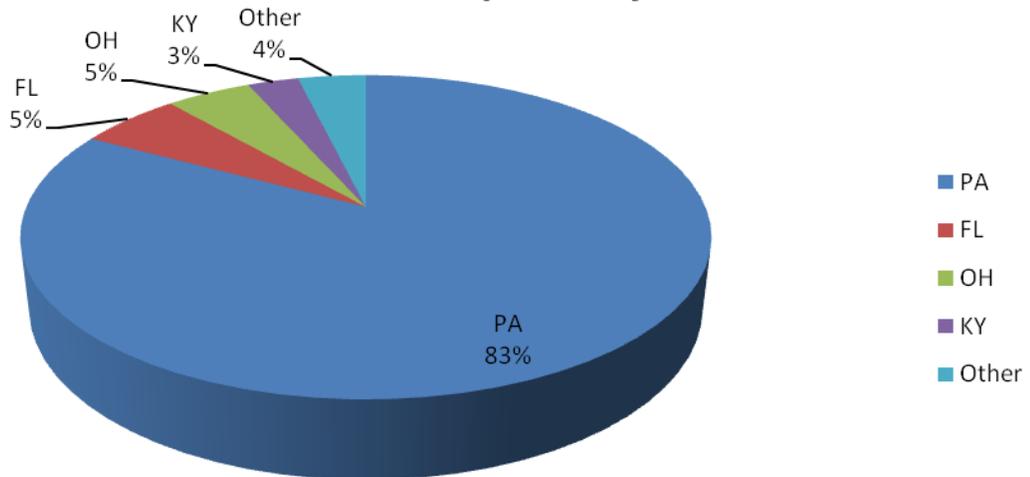
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Membership by State



Health Plan - Participants by State



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OBJECTIVES, SCOPE, AND AUDIT METHODOLOGY

Audit Objectives

Quality Control Review of the External Financial Audit

OBJECTIVE 1: To perform a quality control review of the audit work performed by the external auditor for each horsemen's association.

OBJECTIVE 2: To perform a quality control review of the Association's audited financial statements, including financial statement disclosures.

OBJECTIVE 3: To determine that sufficient audit attention was given to the accounting and reporting of the association's share of Pennsylvania Racehorse Development Funds.

Reconciliation of Race Horse Development Funds

OBJECTIVE 1: To verify the amount of Pennsylvania Racehorse Development Funds disbursed to each relevant category 1 licensee.

OBJECTIVE 2: To verify the amount of Pennsylvania Racehorse Development Funds disbursed to each association.

OBJECTIVE 3: To verify the amount of Pennsylvania Racehorse Development Funds received as reported on the association's general ledger.

OBJECTIVE 4: To verify the completeness and accuracy of the association's activity within the escrow accounts used to account for the Pennsylvania Racehorse Development Funds.

OBJECTIVE 5: To examine and report upon the amount of purse funds distributed from the association's Pennsylvania Racehorse Development Funds in accordance with PA Code 436a and 436b.

OBJECTIVE 6: To examine and report upon the amount of health & welfare funds distributed from the association's Pennsylvania Racehorse Development Funds in accordance with PA Code 436a and 436b.

OBJECTIVE 7: To determine that health & welfare plans have been administered in accordance with PA Code 436a and 436b.

OBJECTIVE 8: To determine that that the recipients of health and welfare benefits are eligible members of each association.

Scope

This performance audit is limited to Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. for the fiscal year ending June 30, 2012, and includes Pennsylvania Racehorse Development Funds as

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included in the Association's audited financial statements and the statement of receipts and disbursements (Appendix 2). Fieldwork was limited to interviews with key personnel of the Association and the external auditing firm; observations and inspection of supporting documentation provided by Association management, the Pennsylvania Gaming Control Board, and the Office of the Budget; and limited testing. Testing was limited to Pennsylvania Racehorse Development Funds and did not extend to other sources of income, or disbursements, of the Association.

A site visit to the Association's office in Grantville, Pennsylvania occurred, where we met with Association management. A separate visit to the external auditor's office in Camp Hill, Pennsylvania was conducted, where we met with the Association's external auditor.

Audit Methodology

This performance audit incorporates a combination of understanding of the process and internal controls of the Association's accounting for Pennsylvania Racehorse Development Funds, as well as limited testing.

Onsite fieldwork occurred October 9, 2012, at the Association's office in Grantville, Pennsylvania. Planning procedures and communication preceded these dates, and additional follow-up and reporting occurred in M&A's office subsequent to the onsite fieldwork dates. Our report was issued December 26, 2012.

Procedures for the Quality Control Review of the Financial Audit included, and were limited to, the following:

- Inquiry of the external audit firm and Association management.
- Review of the audited financial statements prepared by the external auditor. (Appendix 3)
- Review and inspection of selected audit workpapers provided by the external auditor.

Procedures related to Pennsylvania Race Horse Development Funds included, and were limited to, the following:

- Reconciliation of Pennsylvania Race Horse Development Funds received by the Association to the amounts distributed by the Pennsylvania Department of Revenue.
- Limited testing of a selected sample of disbursements for:
 - Purses.
 - Health & welfare expenses.
 - Administrative expenses.
- Review of provided health & welfare and pension contracts and eligibility and enrollment information.
- Review of provided membership data.
- Recalculation of the allocation of Pennsylvania Race Horse Development Funds.

The testing included selecting judgmental samples, examining documentation, and re-performing calculations, as deemed appropriate.

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AUDIT RESULTS, FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

See table at Appendix 1.

COMPLIANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

SUMMARY OF THE VIEWS OF RESPONSIBLE OFFICIALS

The following lists the stated objectives which received responses. In italics are the views of responsible officials as submitted by Mr. Todd A. Mostoller, Executive Director of the Association.

The Association is disappointed that the detailed information it supplied to the auditors to specifically address certain findings and recommendations – particularly those which suggest that the Association has failed to comply with legal obligations – appear to have been rejected by the auditors without any explanation. This same information appears below, as the Association strongly disagrees that it has violated any applicable requirement in Act 71 or otherwise.

Objective 2

To perform a quality control review of the Association's audited financial statements, including financial statement disclosures, primarily through review of provided audit workpapers, financial statements, and inquiry of the external auditor.

Under the audit requirements set forth in Act 71, it was determined the most accurate accounting method of reflecting the business of the Association was to utilize "modified cash basis." This presentation has been useful to management, as well as the board of directors, as the accountability and transparency of the gaming funds are more clearly displayed on this basis of accounting. Modified cash basis is another comprehensive basis of accounting which is widely used throughout the United States for small businesses, such as the Association. Management maintains its opinion that "modified cash basis" is the best accounting method to utilize, but will adjust to adhere to the recently modified requirement set forth in PA Fiscal Code Article XVII-O Section 1701-0, Paragraph 3(1), added June 30, 2011, going forward.

Objective 5

To examine and report upon the amount of purse funds distributed from the Association's Pennsylvania Racehorse Development Funds in accordance with PA Code 436a and 436b, primarily by performing limited testing of purse distributions and reconciling purse transactions to the statement of cash receipts and

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disbursements, changes in escrow balances, and the Association's general ledger and audited financial statements.

The conclusion drawn is entirely inaccurate. Section 1406(a)(1)(i) explicitly states "Eighty percent to be deposited into a separate interest bearing account to be established by and for the benefit of the Horsemen. The earned interest on the account shall be credited to the purse account. Licensees shall combine these revenues from existing purse agreements to fund purses for live races consistent with those agreements with the advice and consent of the horsemen."

The purses paid at the existing racetracks are made up of two revenue sources, pari-mutuel purses earned from wagers on horse races and gross terminal revenues earned from wagers on slot machines. Total yearly purse distributions consist of these two revenues sources. Contractual obligations between the Racing Association and the Horsemen contain an administration fee, 2% at Penn National and 5% at Presque Isle Downs. Act 71 explicitly states "Licensees shall combine these revenues from existing purse agreements to fund purses for live races consistent with those agreements with the advice and consent of the Horsemen." This is exactly what has been done per Act 71. In addition, Act 71 reflects a legislative endorsement of the Horsemen's collective, voluntary, and private decision to fund their designated statutory representative -- the Association -- through a percentage of the purses they win. This decision has been negotiated with and agreed to by the licensees, as embodied in the current Live Racing Agreement, just as it has been historically, long before Act 71. This is precisely why Act 71 states that "Licensees shall combine these [PRDF] funds with revenues from existing purse agreements to fund purses for live races consistent with those agreements with the advice and consent of the horsemen." 4 Pa.C.S.A. § 1406(a)(1)(i).

As an Association that was involved in the drafting of the legislation with our fellow Horsemen throughout the state, we can emphatically state that the legislative intent of Act 71 was not to alter existing contractual agreements between the Racing Associations and Horsemen. It was to simply add additional revenues from gaming to enhance the existing purses established under current contractual obligations. If that was not the intent, "existing purse agreements" would not have been included in the Act. A "Live Racing Agreement" is a requirement under the Racing Act and they have been in existence in the Commonwealth since the inception of racing within the Commonwealth in 1972.

The purses earned via the gross terminal revenues at both Penn National and Presque Isle Downs are wired weekly into separate accounts. Purse funds are kept separate as required under 1406(c). Settlement with the racing associations for purses paid are wired periodically from separate established accounts. To conclude these revenues are not kept separate when purse obligations are satisfied is unreasonable. If in fact the legislative intent was not to combine these revenues when paid, we would not be able to utilize both revenue sources in the funding of purses.

Moreover, it bears note that there was no reference to this issue whatsoever in PRDF audit for the year ended December 31, 2010, conducted pursuant to the Fiscal Code. This same issue was reviewed and correctly determined to be fully consistent with Act 71.

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Objective 7

To determine that health & welfare plans have been administered in accordance with PA Code 436a and 436b, primarily through correspondence with the Pennsylvania Gaming Control Board, review of executed contracts, limited testing of health & welfare transactions, and limited recalculations of administrative expenses.

The Association worked closely with the PA Gaming Control Board (PGCB) in the implementation of the Plan. The Plan was adopted in November 2010 for submission to the PGCB. The Plan was created via adoption and approval by the Association's Board of Directors in early November 2010. If the Plan had not been adopted by the Association's Board of Directors, a document plan for submission to the PGCB would have been non-existent, the passed motion created the "Plan." The Plan included contributions retroactive to January 1, 2008, to coincide with the generation of slot revenues. Constant communications with the PGCB resulted in an expedited approval of the "Plan" in December 2010. The plan was not funded until April 5, 2011, the "effective date," to adhere to the 90-day requirement set forth by the Act.

The Association followed all statutory requirements with the assistance and advisement of the PGCB. The Association used due diligence and did all within its power to adhere to the Act. Therefore, the Association strongly disagrees with the conclusion of McKonly & Asbury, LLP.

Objective 8

To determine that the recipients of health & welfare benefits are eligible members of each Association, primarily through comparison of participants in the health & welfare plans to membership listings.

There was an oversight regarding one individual who should have been ineligible for benefits starting January 1, 2012. The cause for the oversight is unknown. Upon recognition of the oversight Highmark was contacted and agreed to a retro termination to 4/1/2012 resulting in a credit of \$8,062.78 being applied; see attached email documentation. Through our Highmark consultant, management has adopted a protocol that will prevent oversight in the future.

NATURE OF OMITTED CONFIDENTIAL OR SENSITIVE INFORMATION

Certain details relative to the operations of the Association, the accounting for Pennsylvania Racehorse Development Funds, Association infrastructure, and other information have been omitted from this report. These details are located in the narratives and workpapers that support the information in this report.

We provided a separate letter to the Office of the Budget and management of the Association, which notes our consideration of matters that fall outside of the scope of the stated objectives of this report. The items in that letter do not impact the conclusions reached, or recommendations made.

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APPENDICES

**Pennsylvania Horsemen's Association Audits
 Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. - Year ended June 30, 2012
 Appendix 1 - Audit Results**

OBJECTIVE		FINDINGS		CONCLUSION		RECOMMENDATIONS		MANAGEMENT'S RESPONSE	
<i>QUALITY CONTROL REVIEW OF THE EXTERNAL FINANCIAL STATEMENTS</i>									
1: To perform a quality control review of the audit work performed by the external auditor for each Horsemen Association, primarily through review of provided audit workpapers and inquiry of the external auditor.	None	The audit work performed by the Association's external auditor was performed in accordance with auditing standards generally accepted in the United States of America.	None						
2: To perform a quality control review of the Association's audited financial statements, including financial statement disclosures, primarily through review of provided audit workpapers, financial statements, and inquiry of the external auditor.	The Association's audited financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. PA Fiscal Code* requires horsemen's organizations to prepare financial statements in accordance with generally accepted accounting principles. *PA Fiscal Code Article XVII-O, Section 1701-O, Paragraph 3(1), added June 30, 2011.	The financial statements of the Association are prepared in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America and appear to include all material disclosures.	Management should prepare financial statements in accordance with generally accepted accounting principles.	Reference Summary of the Views of Responsible Officials, page 10, for the response.					
3: To determine that sufficient audit attention was given to the accounting and reporting of the Association's share of Pennsylvania Racehorse Development Funds, primarily through review of external auditor workpapers and inquiry of the external auditor.	None	Sufficient audit attention was given to the accounting and reporting of the Association's share of Pennsylvania Racehorse Development Funds.	None						

**Pennsylvania Horsemen's Association Audits
 Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. - Year ended June 30, 2012
 Appendix 1 - Audit Results**

OBJECTIVE	FINDINGS	CONCLUSION	RECOMMENDATIONS	MANAGEMENT'S RESPONSE
RECONCILIATION OF RACE HORSE DEVELOPMENT FUNDS				
1: To verify the amount of Pennsylvania Racehorse Development Funds disbursed to each relevant category 1 licensee, primarily through reconciliation and review of the quarterly reports filed with the Pennsylvania Gaming Control Board and information obtained from the Pennsylvania Department of Revenue.	None	The amount of Pennsylvania Racehorse Development Funds disbursed to the relevant category 1 licensee agrees to the amount received by each category 1 licensee per the category 1 licensee's quarterly reports without exception.	None	
2: To verify the amount of Pennsylvania Racehorse Development Funds disbursed to each Association, primarily through reconciliation and review of the quarterly reports filed with the Pennsylvania Gaming Control Board by each category 1 licensee and the Association.	None	The amount of Pennsylvania Racehorse Development Funds disbursed to each Association was verified without exception.	None	
3: To verify the amount of Pennsylvania Racehorse Development Funds received as reported on the Association's general ledger, primarily through reconciliation and review of the quarterly reports filed with the Pennsylvania Gaming Control Board and the Association's internal accounting records and audited financial statements.	None	The amount of Pennsylvania Racehorse Development Funds reported on the Association's general ledger was verified without exception.	None	

**Pennsylvania Horsemen's Association Audits
 Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. - Year ended June 30, 2012
 Appendix 1 - Audit Results**

OBJECTIVE	FINDINGS	CONCLUSION	RECOMMENDATIONS	MANAGEMENT'S RESPONSE
<p>4: To verify the completeness and accuracy of the Association's activity within the escrow accounts used to account for Pennsylvania Racehorse Development Funds, primarily through reconciling the statement of cash receipts and disbursement and changes in escrow balances to the Association's general ledger and audited financial statements.</p>	<p>None</p>	<p>The Association's activity within the escrow accounts used to account for Pennsylvania Racehorse Development Funds was verified as complete and accurate.</p>	<p>None</p>	
<p>5: To examine and report upon the amount of purse funds distributed from the Association's Pennsylvania Racehorse Development Funds in accordance with PA Code 436a and 436b., primarily by performing limited testing of purse distributions and reconciling purse transactions to the statement of cash receipts and disbursements, changes in escrow balances, and the Association's general ledger and audited financial statements.</p>	<p>None.</p>	<p>Purse fund distributions appear accurate, complete, and have been made in accordance with PA Code 436a and 436b. Relative to the portion of Pennsylvania Race Horse Development Funds designed for purse supplements according to PA Code § 436b.5(a)(2) and 4 PA.C.S.A. § 1406(a)(1)(i), the audit noted an inconsistency between the four horsemen's associations in the processes used for distribution of Pennsylvania Race Horse Development Funds purse monies. This inconsistency is the result of live racing agreements. The Live Racing Agreements have allocations to the Association ranging from 2% to 5% of Pennsylvania Racehorse Development Funds purse monies. The allocations are for general uses (known as contractual agreement funds, akin to membership dues). Disbursements from contractual agreement funds are for purposes other than purses. This is a result of the combination of race horse development funds as directed in 4 PA.C.S.A. § 1406(a)(1)(i). This is not consistent with 1406(c) which requires the funds to be kept separate.</p>	<p>It is recommended that the inconsistencies be reviewed by the appropriate authority of the Commonwealth of Pennsylvania.</p>	<p>Reference the Summary of the Views of Responsible Officials, page 10, for the response.</p>

**Pennsylvania Horsemen's Association Audits
 Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. - Year ended June 30, 2012
 Appendix 1 - Audit Results**

OBJECTIVE	FINDINGS	CONCLUSION	RECOMMENDATIONS	MANAGEMENT'S RESPONSE
<p>6: To examine and report upon the amount of health & welfare funds distributed from the Association's Pennsylvania Racehorse Development Funds in accordance with PA Code 436a and 436b, primarily by limited testing of health & welfare distributions and reconciling health & welfare fund transactions to the statement of cash receipts and disbursements, changes in escrow balances and the Association's general ledger and audited financial statements.</p>	<p>None</p>	<p>Health & welfare fund distributions appear accurate, complete, and have been made in accordance with PA Code 436a and 436b.</p>	<p>None</p>	
<p>7: To determine that health & welfare plans have been administered in accordance with PA Code 436a and 436b, primarily through correspondence with the Pennsylvania Gaming Control Board, review of executed contracts, limited testing of health & welfare transactions, and limited recalculations of administrative expenses.</p>	<p>1. The Trainers' Retirement Contract was not submitted to the Pennsylvania Gaming Control Board at least 90 days prior to its proposed effective date. 2. The Trainers' Retirement Contract was adopted in November 2010 (with an effective date of January 1, 2008), while the Pennsylvania Gaming Control Board did not approve the Contract until December 2010.</p>	<p>Based upon the findings noted, health & welfare plans do not appear to be administered in accordance with PA Code 436a and 436b.</p>	<p>1. Management should ensure they have proper procedures in place in regards to submitting all health and pension contracts to the Pennsylvania Gaming Control Board at least 90 days prior to the proposed effective date. 2. Management should ensure they have proper procedures in place in regards to obtaining approval from the Pennsylvania Gaming Control Board prior to the effective date of any health or pension benefit plans.</p>	<p>Reference the Summary of the Views of Responsible Officials, page 11 for the response.</p>

**Pennsylvania Horsemen's Association Audits
 Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. - Year ended June 30, 2012
 Appendix 1 - Audit Results**

OBJECTIVE	FINDINGS	CONCLUSION	RECOMMENDATIONS	MANAGEMENT'S RESPONSE
<p>8: To determine that the recipients of health & welfare benefits are eligible members of each Association, primarily through comparison of participants in the health & welfare plans to membership listings.</p>	<p>Identified one instance where health benefits were paid for an individual who was not an Association member during the year and thus should not have received benefits. Management indicated that this was an oversight and the individual had been flagged for removal in the upcoming policy period.</p>	<p>With the exception of one non-member receiving benefits, individuals receiving health & welfare benefits were members of the Association.</p>	<p>Management should implement procedures to ensure that all individuals who are not eligible for health insurance benefits are removed from the policy in a timely manner and consider implementing additional review procedures during the eligibility determination period.</p>	<p>Reference the Summary of the Views of Responsible Officials, page 12 for the response.</p>

PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.
 STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS AND CHANGES IN ESCROW BALANCES - Appendix 2
 FOR THE PERIOD JULY 1, 2011 THROUGH JUNE 30, 2012

	<u>Purses</u>	<u>Benefits</u>	<u>Total</u>
Cash Receipts			
Gaming funds - Presque Isle Downs	19,380,426	1,208,012	20,588,438
Gaming funds - Hollywood Casino Penn National	29,363,631	1,832,336	31,195,967
Pari-Mutuel Funds	<u>1,329,095</u>	<u>-</u>	<u>1,329,095</u>
Total Cash Receipts	<u>50,073,152</u>	<u>3,040,348</u>	<u>53,113,500</u>
Cash Disbursements			
Purse payments - Presque Isle Downs	21,804,485	-	21,804,485
Purse payments - Hollywood Casino Penn National	32,078,990	-	32,078,990
Payments for health & welfare benefits	-	3,279,029	3,279,029
Administrative expenses	<u>-</u>	<u>4,633</u>	<u>4,633</u>
Total Cash Disbursements	<u>53,883,475</u>	<u>3,283,662</u>	<u>57,167,137</u>
Changes in Escrow Balances	(3,810,323)	(243,314)	(4,053,638)
Escrow balance at July 1, 2011	<u>19,154,622</u>	<u>971,053</u>	<u>20,125,675</u>
Escrow balance at June 30, 2012	<u>15,344,299</u>	<u>727,739</u>	<u>16,072,037</u>
Reconciliation to Audited Financial Statements:			
	<u>Purses</u>	<u>Benefits</u>	<u>Total</u>
Gaming funds - Presque Isle Downs, as reported above	19,380,426	1,208,012	20,588,439
Gaming funds - Hollywood Casino Penn National, as reported above	29,363,631	1,832,336	31,195,967
Accounts receivable - Presque Isle Downs	(648,866)	(38,720)	(687,586)
Accounts receivable - Hollywood Casino Penn National	<u>(562,802)</u>	<u>(29,248)</u>	<u>(592,050)</u>
Gaming funds, as reported on the Audited Financial Statements	<u>47,532,389</u>	<u>2,972,380</u>	<u>50,504,770</u>
Purse payments - Presque Isle Downs, as reported above	21,804,485	-	21,804,485
Purse payments - Hollywood Casino Penn National, as reported above	32,078,990	-	32,078,990
Health & welfare benefits	<u>-</u>	<u>3,283,662</u>	<u>3,283,662</u>
Purse payments, as reported on the Audited Financial Statements	<u>53,883,475</u>	<u>3,283,662</u>	<u>57,167,137</u>

PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.
 ADMINISTRATIVE EXPENSES
 FOR THE PERIOD JULY 1, 2011 THROUGH JUNE 30, 2012

<u>Vendor/Service Provider</u>	<u>Date</u>	<u>Amount</u>	<u>Description</u>
Highmark	7/18/2011	399.60	HRA Admin Expense
Highmark	8/2/2011	388.80	HRA Admin Expense
Highmark	8/30/2011	388.80	HRA Admin Expense
Highmark	9/29/2011	388.80	HRA Admin Expense
Highmark	11/2/2011	388.80	HRA Admin Expense
Highmark	12/7/2011	385.20	HRA Admin Expense
Highmark	1/10/2012	385.20	HRA Admin Expense
Highmark	2/6/2012	378.00	HRA Admin Expense
Highmark	3/12/2012	381.60	HRA Admin Expense
Highmark	3/28/2012	381.60	HRA Admin Expense
Highmark	5/11/2012	381.60	HRA Admin Expense
Highmark	5/29/2012	385.20	HRA Admin Expense
Administrative Expenses at June 30, 2012		<u>4,633.20</u>	

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

FINANCIAL REPORT

JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pennsylvania Division Horsemen's Benevolent
and Protective Association, Inc.
Grantville, Pennsylvania

We have audited the accompanying statements of assets, liabilities and net assets - modified cash basis of the Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. (a non-profit organization) as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets - modified cash basis and cash flows - modified cash basis for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, these financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of the Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc., as of June 30, 2012 and 2011 and its revenues, expenses, changes in net assets and its cash flows for the years then ended, on the basis of accounting described in Note 1.



Camp Hill, Pennsylvania
August 16, 2012

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

**STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS -
MODIFIED CASH BASIS
June 30, 2012 and 2011**

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,748,526	\$ 18,836,949
Accounts receivable - PA Race Horse Development Fund	1,216,904	2,031,682
Accounts receivable - other	1,100	1,617
Prepaid purse obligations	12,093,756	-
Total current assets	17,060,286	20,870,248
Property and Equipment - Net	85,254	35,964
Investments	26,754	24,203
Other Assets - Presque Isle Downs	556,331	1,217,571
Total assets	\$ 17,728,625	\$ 22,147,986
LIABILITIES AND NET ASSETS		
Current Liabilities		
PA Race Horse Development Fund obligations		
Jockey Act 71 obligation	\$ 20,833	\$ 20,833
Deferred revenues - Purse obligations	15,344,299	19,154,622
Deferred revenues - Health & pension benefits	727,739	971,053
Current portion of long-term debt	556,331	662,029
Total current liabilities	16,649,202	20,808,537
Long-Term Debt - net of current maturities	-	555,542
Total liabilities	16,649,202	21,364,079
Net Assets		
Unrestricted	27,532	9,000
Unrestricted - Board designated	1,051,891	774,907
Total liabilities and net assets	\$ 17,728,625	\$ 22,147,986

See Notes to Financial Statements.

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

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - MODIFIED CASH BASIS**

Years Ended June 30, 2012 and 2011

	2012	2011
REVENUES		
Administrative fees - operational	\$ 1,093,194	\$ 806,070
Stake nomination fee	27,350	-
Bookkeeper account interest	20,964	17,911
Straw manure income	40,847	53,239
Interest income	34	550
New Vocations Adoption	139,820	66,140
Unrealized investment gain	2,305	10,344
Other income	14,630	6,536
Total revenues	1,339,144	960,790
EXPENSES		
Personnel costs		
Wages	227,852	219,787
Employee benefits	26,496	28,280
Payroll taxes	19,021	18,281
Administrative expenses - other	770,259	535,345
Realized and unrealized investment loss - net	-	-
Total expenses	1,043,628	801,693
Change in net assets before debt service and Pennsylvania Race Horse Development Fund Allocations	295,516	159,097

(Continued)

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

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - MODIFIED CASH BASIS (Continued)
Years Ended June 30, 2012 and 2011**

	2012	2011
Debt Service		
Revenues		
Administrative Fees - Debt service	705,574	725,730
Expenses		
Principal	(661,240)	(613,480)
Interest	(44,334)	(112,250)
Debt Service - net	-	-
Change in net assets before Pennsylvania Race Horse Development Fund Allocations	295,516	159,097
Pennsylvania Race Horse Development Fund Allocations		
Horsemen's revenues		
Purses earned	53,883,475	42,295,007
Interest - purses earned	-	3,256
Health & pension funds earned	3,283,662	5,145,255
Interest - Health & pension funds earned	-	11,595
Horsemen's expenses		
Purse expense	(53,883,475)	(42,298,263)
Health & pension expense	(2,783,662)	(4,656,850)
Jockey Act 71 obligation		
Presque Isle Downs	(250,000)	(250,000)
Penn National Race Course	(250,000)	(250,000)
Pennsylvania Race Horse Development Fund Allocations - net	-	-
Changes in net assets	295,516	159,097
Net Assets:		
Beginning	783,907	624,810
Ending	\$ 1,079,423	\$ 783,907

See Notes to Financial Statements.

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

**STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS
Years Ended June 30, 2012 and 2011**

	2012	2011
Cash Flows From Operating Activities		
Changes in net assets	\$ 295,516	\$ 159,097
Adjustments to reconcile changes in net assets provided by (used in) operating activities		
Depreciation	14,369	7,224
Amortization of Tapeta surface	661,240	613,480
Unrealized gains on investments	(2,551)	(10,344)
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	815,295	(648,910)
Prepaid purse obligations	(12,093,756)	-
(Decrease) increase in:		
PA Race Horse Development Fund liabilities	(4,053,637)	5,588,926
Deferred revenues - debt service	-	(184,277)
Net cash provided by (used in) operating activities	(14,363,524)	5,525,196
Cash Flows From Investing Activities		
Purchase of equipment	(63,659)	-
Change in investment, held to maturity	-	1,700,000
Net cash provided by (used in) investing activities	(63,659)	1,700,000
Cash Flows From Financing Activities		
Repayment of long-term debt	(661,240)	(613,480)
Net increase (decrease) in cash and cash equivalents	(15,088,423)	6,611,716
Cash and Cash Equivalents:		
Beginning	18,836,949	12,225,233
Ending	\$ 3,748,526	\$ 18,836,949

See Notes to Financial Statements.

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

NOTES TO THE FINANCIAL STATEMENTS

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 Organization received the approval of tax-exempt status 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.

Basis of Accounting: It is the Association's policy to maintain its books of record on the modified cash basis of accounting. Consequently, certain revenues and related assets are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred. The material modifications to the cash basis of accounting include:

- The recording of capital assets and the corresponding depreciation expense.
- The recording of receivables for gaming receipts when the revenues have been collected by the licensee; and the corresponding purses payable. When the Association submits payment for the purses, the corresponding revenues and expenses are recognized. These transactions are recorded in accordance with the Gaming Act.
- The recording of receivables for health and pension fund gaming receipts when the revenues have been collected; and the corresponding benefits payable. When the Association incurs expenses related to health and pension benefits, the corresponding revenues and expenses are recognized. These transactions are recorded in accordance with the Gaming Act.
- The recording of prepaid purse obligations that are advanced to HCPNRC and PID for mid to late summer races.
- The recording of deferred revenues for future purse obligations; funds collected and held by Association until purses are earned.
- The recording of deferred revenues for debt service payments related to the PID artificial track. The Association defers any administrative fees collected in excess of the current year's principal and interest payments.
- The recording of a liability for the financing of an artificial track at PID and recording of the corresponding intangible assets.

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

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.

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 changes in risks in the near term would materially affect investment assets reported in the financial statements.

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.

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.

Subsequent Events: The Association's management has evaluated events and transactions for potential recognition or disclosure through August 16, 2012, 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 funds for Presque Isle Downs and Hollywood Casino Penn National Race Course are fully-insured under the FDIC Transaction Account Guarantee Program.

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

NOTES TO THE FINANCIAL STATEMENTS

Note 3. Cash and Cash Equivalents

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

<u>Bank</u>	<u>Type</u>	<u>2012</u>	<u>2011</u>
Administrative funds:			
Sovereign Bank	Money Market	\$ -	\$ 31,967
Charles Schwab & Co.	Money Market	130,022	130,008
M&T Bank	Checking	352,409	118,496
N/A	Petty cash	200	200
		<u>482,631</u>	<u>280,671</u>
Purse funds:			
M&T Bank	Checking	1,042,429	652,419
Metro Bank	Checking	2,223,466	17,903,859
		<u>3,265,895</u>	<u>18,556,278</u>
		<u>\$ 3,748,526</u>	<u>\$ 18,836,949</u>

Note 4. Investments

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

	<u>2012</u>	<u>2011</u>
<u>Penn National Gaming, Inc., common stock, 600 shares</u>	<u>\$ 26,754</u>	<u>\$ 24,203</u>

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

NOTES TO THE FINANCIAL STATEMENTS

Note 5. Property and Equipment

Property and equipment consisted of the following at June 30:

	2012	2011
Building improvements	\$ 44,693	\$ 44,693
Office equipment	130,814	68,886
	<u>175,507</u>	<u>113,579</u>
Less accumulated depreciation	(90,253)	(77,615)
	<u>\$ 85,254</u>	<u>\$ 35,964</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 to 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 years ended June 30, 2012 and 2011, respectively.

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 years ended June 30, 2012 and 2011, 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 for the HCPNRC Health & Pension cash account. This account will be replenished from the Presque Isle Downs cash account as needed.

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

NOTES TO THE FINANCIAL STATEMENTS

Note 6. PA Race Horse Development Fund Liabilities (Continued)

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

	2012 - Presque Isle Downs		
	Purse Account	Health and Pension Account	Total
Pennsylvania Race Horse Development			
Fund Allocation			
Cash received	\$ 18,731,560	\$ 1,169,292	\$ 19,900,852
Accounts receivable	648,866	38,720	687,586
	<u>\$ 19,380,426</u>	<u>\$ 1,208,012</u>	<u>\$ 20,588,438</u>

	2012 - Hollywood Casino Penn National		
	Purse Account	Health and Pension Account	Total
Pennsylvania Race Horse Development			
Fund Allocation			
Cash received	\$ 28,800,829	\$ 1,803,088	\$ 30,603,917
Accounts receivable	562,802	29,248	592,050
	<u>\$ 29,363,631</u>	<u>\$ 1,832,336</u>	<u>\$ 31,195,967</u>

	2011 - Presque Isle Downs		
	Purse Account	Health and Pension Account	Total
Pennsylvania Race Horse Development			
Fund Allocation			
Cash received	\$ 18,925,748	\$ 1,198,223	\$ 20,123,971
Accounts receivable	781,659	41,043	822,702
	<u>\$ 19,707,407</u>	<u>\$ 1,239,266</u>	<u>\$ 20,946,673</u>

	2011 - Hollywood Casino Penn National		
	Purse Account	Health and Pension Account	Total
Pennsylvania Race Horse Development			
Fund Allocation			
Cash received	\$ 27,780,948	\$ 1,764,474	\$ 29,545,422
Accounts receivable	1,148,204	60,570	1,208,774
	<u>\$ 28,929,152</u>	<u>\$ 1,825,044</u>	<u>\$ 30,754,196</u>

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

NOTES TO THE FINANCIAL STATEMENTS

Note 6. PA Race Horse Development Fund Liabilities (Continued)

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	Presque Isle Downs		
	Purse Account	Health and Pension Account	Total
Balance - 07/01/2010	\$ 7,185,189	\$ 2,440,342	\$ 9,625,531
Fund Allocation	19,707,407	1,239,266	20,946,673
Pari-mutuel income	1,307,708	-	1,307,708
Interest income	3,256	11,595	14,851
	28,203,560	3,691,203	31,894,763
Amounts expended in accordance with the Gaming Act	(18,044,475)	(3,400,000)	(21,444,475)
Deferred Revenue - 6/30/2011	10,159,085	291,203	10,450,288
Fund allocation	19,380,426	1,208,012	20,588,438
Pari-mutuel income	1,329,095	-	1,329,095
	30,868,606	1,499,215	32,367,821
Amounts expended in accordance with the Gaming Act	(21,804,485)	(990,625)	(22,795,110)
Deferred Revenue - 6/30/2012	\$ 9,064,121	\$ 508,590	\$ 9,572,711

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

NOTES TO THE FINANCIAL STATEMENTS

Note 6. PA Race Horse Development Fund Liabilities (Continued)

Pennsylvania Race Horse Development Fund Liabilities	Purse Account	Health and Pension Account	Total
Balance - 07/01/2010	\$ 4,320,173	\$ 611,656	\$ 4,931,829
Fund allocation	28,929,152	1,825,044	30,754,196
	33,249,325	2,436,700	30,754,196
Amounts expended in accordance with the Gaming Act	(24,253,788)	(1,756,850)	(26,010,638)
Deferred Revenue - 6/30/2011	8,995,537	679,850	9,675,387
Fund allocation	29,363,631	1,832,336	31,195,967
	38,359,168	2,512,186	40,871,354
Amounts expended in accordance with the Gaming Act	(32,078,990)	(2,293,037)	(34,372,027)
Deferred Revenue - 6/30/2012	\$ 6,280,178	\$ 219,149	\$ 6,499,327

Note 7. Horsemen's Purse Money

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 Horsemen is to be allocated to the Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. 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 amounts received for 2012 and 2011, were approximately \$539,000 and \$368,000, respectively.

By agreement with Presque Isle Downs Racing Association, dated February 22, 2007, 5% of the purse money paid to Horsemen is to be allocated to the Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. This rate will remain in effect until the Association's capital contribution, including interest for its share of the installation of a synthetic surface, is amortized over a period not to exceed 5 years, after which the rate will be 3%. The amounts received for 2012 and 2011, were approximately \$554,000 and \$438,000, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS

Note 8. Horsemen's Interest Income

Interest income of approximately \$21,000 and \$17,900, for the years ended June 30, 2012 and 2011, respectively, represent 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 15th of the following month. The amounts received for the years ended June 30, 2012 and 2011, were approximately \$40,800 and \$53,200, respectively.

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 and \$11,000 for the years ended June 30, 2012 and 2011, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS

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 2012 and 2011.

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

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Directors
Pennsylvania Division Horsemen's Benevolent
and Protective Association, Inc.
Grantville, Pennsylvania

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information 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 audits 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.



Camp Hill, Pennsylvania
August 16, 2012

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

**SCHEDULES OF ADMINISTRATIVE EXPENSES -
MODIFIED CASH BASIS
Years Ended June 30, 2012 and 2011**

	2012	2011
Administrative Expenses		
Advocacy	\$ 61,592	\$ 78,144
Contributions	27,560	64,110
Office	21,878	39,329
Travel and meeting	66,570	53,554
Public relations	12,000	-
Assessments - national	30,000	50,000
Dues and subscriptions	19,632	11,986
Social activities	63,866	66,608
Professional fees	183,890	49,735
Horse adoption program	152,781	59,178
Telephone	8,502	8,032
Insurance	8,471	3,402
Depreciation	14,369	7,224
Golf tournament	4,392	5,458
Conventions, meetings and meals	11,189	10,585
Pedigree research	2,677	1,172
Repairs and maintenance	1,286	3,078
Economic study	-	9,119
Veterinarian - night races	48,067	8,360
Race horse expense	18,291	-
Miscellaneous	13,246	6,271
Total administrative expenses	\$ 770,259	\$ 535,345

CHAPTER 436a. HORSEMEN'S ORGANIZATIONS

Sec.

436a.1. Definitions.

436a.2. Horsemen's organization registration.

436a.3. Permitting of officers, directors, representatives and fiduciaries.

436a.4. Responsibilities of horsemen's organizations, officers, directors representatives and fiduciaries.

436a.5. Fiduciaries.

436a.6. Health and pension benefit plans.

Authority

The provisions of this Chapter 436a issued under the Pennsylvania Race Horse Development and Gaming Act, 4 Pa.C.S. § § 1202(b)(9), (13)—(20), (23) and (30), 1202.1(b) and (e), 1205, 1311.1, 1311.2, 1317, 1317.1, 1319, 1321(a)(1) and (2), 1325, 1326, 1331 and 1406, unless otherwise noted.

Source

The provisions of this Chapter 436a adopted October 26, 2007, effective October 27, 2007, 37 Pa.B. 5752, unless otherwise noted.

§ 436a.1. Definitions.

The following words and terms, when used in this chapter, have the following meanings, unless the context clearly indicates otherwise:

Fiduciary—A person who is entrusted by a horsemen's organization or its members to hold or manage funds received for horsemen under section 1406 of the act (relating to distributions from Pennsylvania Race Horse Development Fund) or who exercises control or discretionary authority over selection or management of a health or pension benefit plan, disposition of its assets or distribution of its funds.

Health benefits—A plan, fund or program which is maintained by a horsemen's organization and that provides healthcare benefits to horsemen at licensed racetracks, their families and employees, and others designated by the rules and eligibility requirements of the organization consistent with the act.

Horsemen—A thoroughbred or standardbred horse owner or trainer who enters and runs a horse at a licensed racing entity in the current or prior calendar year and meets the membership requirements of a horsemen's organization to participate in the receipt of benefits there from.

Horsemen's organization—A trade association which represents the majority of horsemen at a licensed racetrack and which exists for the purpose, in whole or in part, of negotiating a horsemen's contract and resolving grievances, disputes or other matters with management of a licensed racing entity, as defined by section 1103 of the act (relating to definitions).

Horsemen's organization officer—An officer or person authorized to perform the functions of president, vice president, secretary/treasurer or other executive function of a horsemen's organization, and any member of its board of directors or similar governing body.

Horsemen's organization representative—A person, compensated or not, who is authorized to represent a horsemen's organization or members thereof in matters relating to horsemen's agreements with a licensed racing entity, or who undertakes on behalf of a horsemen's organization or members thereof to promote, facilitate or otherwise influence the relations between a horsemen's organization and a licensed racing entity.

Pension benefits—Any plan, fund or program which is maintained by a horsemen's organization and that funds a program which provides retirement income to horsemen at licensed racetracks, their families and employees, and any others so designated by the rules and eligibility requirements of the organization consistent with the act.

§ 436a.2. Horsemen's organization registration.

- (a) Each horsemen's organization or affiliate representing horsemen shall register with the Board in accordance with this section.
- (b) Each horsemen's organization shall file a completed Horsemen's Organization Registration Statement with the registration fee posted on the Board's website (pgcb.state.pa.us).
- (c) Horsemen's organization applicants and registrants shall be subject to the general application requirements of Chapters 421a and 423a (relating to general provisions; and applications).
- (d) Horsemen's organization registrations will be valid for 4 years from the date on which the registration is approved by the Board.
- (e) Renewals will be valid for 4 years and shall be filed no later than 120 days prior to the expiration of the current registration period.
- (f) A registration for which a completed renewal application and fee has been received by the Board will continue in effect until the Board sends written notification to the horsemen's organization that the Board has approved or denied the renewal of the registration.

Cross References

This section cited in 58 Pa. Code § 436b.2 (relating to definitions); and 58 Pa. Code § 436b.3 (relating to responsibilities of horsemen's organizations).

§ 436a.3. Permitting of officers, directors, representatives and fiduciaries.

(a) Every officer, director or representative of a horsemen's organization who is currently elected or appointed and authorized to act on behalf of the horsemen's organization, or any individual authorized to act in a fiduciary capacity on behalf of horsemen shall be permitted in accordance with this section.

(b) Every officer, director or representative of a horsemen's organization who is currently elected or appointed and authorized to act on behalf of the horsemen's organization, or any individual authorized to act in a fiduciary capacity on behalf of horsemen shall file a completed Horsemen's Permit Application Form with the permit fee posted on the Board's website (pgcb.state.pa.us).

(c) Applicants and permittees under this section shall be subject to the general application requirements of Chapters 421a and 423a (relating to general provisions; and applications).

(d) Permits issued under this section will be valid for 1 year from the date on which the permit is approved by the Board.

(e) Renewals will be valid for 1 year and shall be filed at least 60 days prior to the expiration of the current permit.

(f) A permit for which a completed renewal application and fee has been received by the Board will continue in effect until the Board sends written notification to the permittee that the Board has approved or denied the renewal of the permit.

(g) If a current officer, director or representative of a horsemen's organization is denied a permit required by this section, that officer, director or representative shall be precluded from engaging in any activity of the horsemen's organization involving gaming funds allocated to, received by, or distributed from the horsemen's organization.

(h) A person who is a third-party provider of a health or pension benefit plan to a horsemen's organization shall be exempt from the requirements of this section. A licensed attorney or accountant representing a horsemen's organization who does not meet the conditions in subsection (a) shall also be exempt under this section.

Cross References

This section cited in 58 Pa. Code § 436b.3 (relating to responsibilities of horsemen's organizations).

§ 436a.4. Responsibilities of horsemen's organizations, officers, directors, representatives and fiduciaries.

(a) Horsemen's organizations, officers, directors, representatives and fiduciaries shall ensure that the funds allocated to the horsemen and horsemen's organizations are used for the benefit of all horsemen of this Commonwealth.

(b) Funds allocated to horsemen's organizations for benevolent programs are not to be used for the personal benefit of any officer, director, representative or fiduciary of a horsemen's organization except to the extent that the officer, director, representative or fiduciary of the horsemen's organization is a participant in the benevolent programs on the same basis as other eligible program participants.

(c) Horsemen's organizations shall maintain adequate records of receipts and distributions of the funds allocated to them under the act.

(d) By March 30 of each calendar year, each horsemen's organization shall file with the Board two copies of its audited financial statements together with any management letters or reports written thereon as prepared by its independent auditor. These filings will be available for public inspection during the normal operating hours of the Board at its Harrisburg office.

Cross References

This section cited in 58 Pa. Code § 436b.3 (relating to responsibilities of horsemen's organizations).

§ 436a.5. Fiduciaries.

Fiduciaries shall:

(1) Ensure that the funds received for the benefit of the horsemen are distributed pursuant to the act.

(2) Manage all health and pension benefit plans for the exclusive benefit of participants and beneficiaries.

(3) Carry out their duties in a prudent manner and refrain from conflict-of-interest transactions.

(4) Comply with limitations on certain plans' investments in particular securities and properties.

(5) Fund benefits in accordance with applicable law and plan rules.

(6) File quarterly reports with the Board within 20 days of the end of each calendar quarter. The reports must detail the expenditure of funds designated by the act for the benefit of horsemen and be in a format and manner designated by the Board.

(7) Provide documents to the Board as may be requested in the conduct of investigations or to ensure compliance with the act and this chapter.

Cross References

This section cited in 58 Pa. Code § 436b.3 (relating to responsibilities of horsemen's organizations).

§ 436a.6. Health and pension benefit plans.

(a) Contracts for health and pension benefit plans established for the benefit of members of a horsemen's organization must:

(1) Be submitted to the Board for review at least 90 days prior to the proposed effective date of the contract.

(2) Not be effective until approved by the Board.

(b) Administrative and overhead costs incurred by the horsemen's organization for the administration of health and pension benefit plans must be reasonable. Administrative costs that do not exceed 15% of the statutory allocation are considered reasonable.

CHAPTER 436b. USE OF FUNDS ALLOCATED TO HORSEMEN'S ORGANIZATIONS—STATEMENT OF POLICY

Sec.

436b.1. Scope.

436b.2. Definitions.

436b.3. Responsibilities of horsemen's organizations.

436b.4. Audits of horsemen's organizations.

436b.5. Reports.

436b.6. Responsibilities of Category 1 licensees.

Authority

The provisions of this Chapter 436b issued under the Pennsylvania Race Horse Development and Gaming Act, 4 Pa.C.S. § § 1202(b)(9), (13)—(20), (23) and (30), 1202.1(b) and (e), 1205, 1311.1, 1311.2, 1317, 1317.1, 1319, 1321(a)(1) and (2), 1325, 1326, 1331 and 1406, unless otherwise noted.

Source

The provisions of this Chapter 436b adopted October 26, 2007, effective October 27, 2007, 37 Pa.B. 5752, unless otherwise noted.

§ 436b.1. Scope.

The act requires the Board to:

(1) Establish guidelines that ensure that funds distributed from the Fund and which are allocated to horsemen's organizations, as defined by the act, are used to finance programs that benefit the horsemen of this Commonwealth. (See 4 Pa.C.S. § 1406(b) (relating to distributions from Pennsylvania Race Horse Development Fund).)

(2) Ensure that funds allocated to the horsemen's organizations are used to finance programs which benefit the horsemen of this Commonwealth. (See 4 Pa.C.S. § 1406(c).)

(3) Ensure that no more than 15% of funds available annually for benevolent programs, including pension, health and insurance plans, are used to administer the programs. (4) Ensure that the horsemen's organizations that receive funds from the Fund file an annual audit prepared by a certified public accountant. (See 4 Pa.C.S. § 1406(e).)

(5) Approve the health and pension benefit contracts entered into by the horsemen's organizations. (See 4 Pa.C.S. § 1406(f).)

§ 436b.2. Definitions.

The following words and terms, when used in this chapter, have the following meanings, unless the context clearly indicates otherwise:

Fund—The Pennsylvania Race Horse Development Fund.

Registered horsemen's organization—A horsemen's organization that receives funds from the Fund and which shall register with the Board under § 436a.2 (relating to horsemen's organization registration).

§ 436b.3. Responsibilities of horsemen's organizations.

(a) A horsemen's organization shall register with the Board under § 436a.2 (relating to horsemen's organization registration).

(b) Registered horsemen's organizations shall ensure that funds received from the Fund are used to benefit all horsemen and are kept apart from funds acquired from other sources. Funds that are allocated to horsemen's organizations for benevolent programs are not to be used for the personal benefit of any officer, director, representative or fiduciary of the horsemen's organization.

(c) Registered horsemen's organizations shall ensure that administrative costs are reasonable as required by 4 Pa.C.S. § 1406(d) (relating to distributions from Pennsylvania Race Horse Development Fund). Costs that do not exceed 15% of the annual total statutory allocation are deemed reasonable.

(d) Registered horsemen's organizations shall ensure that health and pension benefits contracts entered into by the horsemen's organizations are approved by the Board.

(e) The officers, directors, fiduciaries and representatives of a registered horsemen's organization shall file an application for a permit with the Board under § 436a.3 (relating to permitting of officers, directors, representatives and fiduciaries).

(f) The officers, directors, fiduciaries and representatives of a registered horsemen's organization shall comply with §§ 436a.4 and 436a.5 (relating to responsibilities of horsemen's organizations, officers, directors, representatives and fiduciaries; and fiduciaries) relative to the responsibilities of the horsemen's organizations and their officers, directors, representatives and fiduciaries.

§ 436b.4. Audits of horsemen's organizations.

(a) Registered horsemen's organizations that receive funds from the Fund shall file annually, with the appropriate racing commission and the Board, an audit prepared by a certified public

accountant of the funds received under 4 Pa.C.S. § 1406(e) (relating to distributions from Pennsylvania Race Horse Development Fund). Audits shall be available for public review.

(b) Audits submitted to the Board must reflect all funds received from the Fund which are used or intended to be used for purse supplements under 4 Pa.C.S. § 1406(a)(1)(i) and health and pension benefits under 4 Pa.C.S. § 1406(a)(1)(iii).

(c) Audits shall be mailed to the Pennsylvania Gaming Control Board, Attn: Director, Racetrack Gaming, P. O. Box 69060, Harrisburg, Pennsylvania 17106-9060 in sufficient time to be received no later than March 30th of each calendar year.

§ 436b.5. Reports.

(a) Registered horsemen's organizations shall file with the Board no later than the 20th day of the month following the end of each calendar quarter the following reports:

(1) Quarterly report of funds received from the Fund through the Category 1 licensee conducting live racing into the account established by and for the benefit of the horsemen under 4 Pa.C.S. § 1406(1)(a)(i) (relating to distributions from Pennsylvania Race Horse Development Fund).

(2) Quarterly report of funds distributed for purse supplements from the account established by and for the benefit of the horsemen under 4 Pa.C.S. § 1406(1)(a)(i).

(3) Quarterly report of funds received for health and pension benefits health and pension benefits under 4 Pa.C.S. § 1406(1)(a)(iii).

(b) Horsemen's organizations shall ensure that funds allocated for thoroughbred jockeys and standardbred drivers are paid as required by 4 Pa.C.S. § 1406(a)(1)(iii) and that the distribution of these proceeds is reflected in the annual audit required by 4 Pa.C.S. § 1406(e).

§ 436b.6. Responsibilities of Category 1 licensees.

Category 1 licensees conducting live racing and who receive distributions from the Fund for distribution to purses shall file the following report with the Board no later than the 20th day of the month following the end of each calendar quarter:

(1) Quarterly report of funds received from the Fund.

(2) Quarterly report of funds deposited into a separate, interest-bearing purse account established by and for the benefit of the horsemen under 4 Pa.C.S. § 1406(a)(1)(i) (relating to distributions from Pennsylvania Race Horse Development Fund) and § 441a.22(b)(3)(i) (relating to Category 1 slot machine licensees).

(3) Quarterly report of funds distributed to the horsemen's organization representing the owners and trainers at the racetrack at which the licensed racing entity operates for health and pension benefits under 4 Pa.C.S. § 1406(a)(1)(iii) and § 441a.22(b)(3)(ii).

(4) Quarterly report of expenditures for backside improvements in conformity with 4 Pa.C.S. § 1404 (relating to distributions from licensee's revenue receipts).

Source

The provisions of this § 436b.6 amended May 16, 2007, effective April 24, 2008. Immediately preceding text appears at serial page (331201).

PA HBPA
Appendix 5

Members

State	Number of Members
AB	4
AK	1
AL	2
AR	22
AZ	11
BC	4
CA	54
CO	5
CT	27
DC	5
DE	96
FL	376
GA	24
IA	9
ID	8
IL	42
IN	19
KS	3
KY	357
LA	5
MA	56
MB	3
MD	473
ME	3
MI	96
MN	15
MO	12
MS	1
MT	5
NC	20
NE	5
NH	11
NJ	327
NM	2
NSW	1
NV	11
NY	363
OH	330
OK	8
ON	71
OR	2
PA	1096
PUERTO RICO	2
RI	7
SC	41
SD	1
TN	10
TX	63
VA	125
VT	2
WA	8
WEST SUSSEX	1
WI	2
WV	97
WY	2
Total	<hr/> 4346

Health Plan Participants

State	Number of Participants
PA	87
FL	6
OH	5
KY	3
AR	1
NJ	1
WV	1
LA	1
Total	<hr/> 105

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