

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

Financial Statements and
Supplementary Information

Year Ended June 30, 2021
with Independent Auditor's Report

MaherDuessel

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

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

YEAR ENDED JUNE 30, 2021

TABLE OF CONTENTS

Independent Auditor's Report

Financial Statements:

Statement of Financial Position	1
Statement of Activities	2
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6

Supplementary Information:

Schedule of Cash Receipts, Cash Disbursements, and Cash Balances – Pennsylvania Race Horse Development Fund Allocation	20
---	----

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

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22
Schedule of Findings and Responses	24

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. (Association) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the Association adopted Accounting Standards Update (ASU) 2014-09, "*Revenue from Contracts with Customers (Topic 606)*." Our opinion is not modified with respect to this matter.

Report on Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2022, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the

Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
March 21, 2022

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

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2021

Assets

<hr/>	
Current assets:	
Cash and cash equivalents - unrestricted	\$ 796,521
Cash and cash equivalents - restricted (Gaming Act and Pari-Mutuel)	13,272,206
<i>PA Race Horse Development Fund assets:</i>	
Accounts receivable - slot revenue	1,437,295
Accounts receivable - health and pension obligations	105,908
Accounts receivable - other	73,118
Total current assets	<u>15,685,048</u>
Property and equipment - net	130,050
Due from HBPA Benefit Trust	312,939
Total Assets	<u><u>\$ 16,128,037</u></u>

Liabilities and Net Assets

Liabilities:

<hr/>	
Current liabilities:	
Accounts payable - trade	\$ 52,581
Accrued salaries	5,916
SPMO market fees unearned revenue	339,000
Paycheck Protection Program Loan	75,428
<i>PA Race Horse Development Fund obligations:</i>	
Purses payable	3,431,158
Jockey Act 71 obligation	20,833
Deferred revenues - purse obligations	9,900,701
Deferred revenues - health and pension benefits	199,279
Deferred revenues - purse obligations - Pari-Mutuel	1,263,438
Total current liabilities	<u>15,288,334</u>

Net Assets:

<hr/>	
Without donor restrictions	<u>839,703</u>
Total Net Assets	<u>839,703</u>
Total Liabilities and Net Assets	<u><u>\$ 16,128,037</u></u>

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

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

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2021

Revenue:

Administrative fees	\$ 489,303
Race fees and assessments	75,340
Bookkeeper account interest	5,756
New Start income	205,733
Department of Agriculture marketing grant	192,500
Straw manure income	55,868
Gain on disposal of property and equipment	7,450
Interest/dividend income	4,048
Realized and unrealized investment gain	17,141
Other income	61,221
Total revenue	<u>1,114,360</u>

Expenses:

Program	1,132,198
Management and general	321,073
Fundraising	44,713
Total expenses	<u>1,497,984</u>
Change in net assets before Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel Funds	<u>(383,624)</u>

(Continued)

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

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

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2021

(Continued)

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

<hr/>	
Horsemen's revenues:	
Purses earned	25,045,195
Interest - purses earned	21,152
Pari-Mutuel purses earned (non-Gaming Act)	1,037,510
Interest - Pari-Mutuel purses earned (non-Gaming Act)	4,157
Health and pension funds earned	2,487,929
Interest - health and pension funds earned	385
Total horsemen's revenues	<u>28,596,328</u>
 Horsemen's expenses:	
Purse expense	(25,066,347)
Pari-Mutuel purses paid (non-Gaming Act)	(1,041,667)
Health and pension expense	(1,988,314)
Jockey Act 71 obligation:	
Presque Isle Downs	(250,000)
Penn National Race Course	(250,000)
Total horsemen's expenses	<u>(28,596,328)</u>
Total Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel Funds	<u>-</u>
Change in Net Assets	(383,624)
 Net Assets:	
<hr/>	
Beginning	<u>1,223,327</u>
Ending	<u>\$ 839,703</u>

(Concluded)

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

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

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021

	Program	Management and General	Fundraising	Total
Wages	\$ 191,288	\$ 94,484	\$ 25,451	\$ 311,223
Employee benefits	35,357	17,464	4,704	57,525
Payroll taxes	21,529	10,634	2,864	35,027
Rent expense	7,916	-	-	7,916
Advocacy	84,996	-	-	84,996
Public relations	133,323	-	-	133,323
Assessments - national	47,000	-	-	47,000
Dues and subscriptions	6,102	-	-	6,102
Veterinarian - night races	51,700	-	-	51,700
Race horse expense	23,058	-	-	23,058
Odyssey Horse Walker expense	757	-	-	757
Marketing Grant expense	192,500	-	-	192,500
New start expenses	148,856	-	-	148,856
Pedigree research	24,451	-	-	24,451
Travel and meeting	2,899	1,432	386	4,717
Conventions, meetings and meals	4,133	2,042	550	6,725
Insurance	9,758	4,819	1,298	15,875
Repairs and maintenance	1,335	660	178	2,173
Office	26,872	13,125	3,535	43,532
Telephone	6,604	3,531	903	11,038
Professional fees	-	171,504	-	171,504
Miscellaneous	8,966	-	-	8,966
Contributions	59,218	-	-	59,218
Golf tournament	-	-	4,844	4,844
Depreciation	43,580	1,378	-	44,958
Total expenses	<u>\$ 1,132,198</u>	<u>\$ 321,073</u>	<u>\$ 44,713</u>	<u>\$ 1,497,984</u>

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

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

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2021

Cash Flows From Operating Activities:

Change in net assets	\$ (383,624)
Adjustments to reconcile change in net assets to net cash, cash equivalents, and restricted cash provided by operating activities:	
Depreciation	44,958
Unrealized loss on investments	43,409
Changes in assets and liabilities	
(Increase) decrease in assets:	
Accounts receivable - Pari-Mutuel commissions	163,767
<i>PA Race Horse Development Fund assets:</i>	
Accounts receivable - slot revenue	(790,737)
Accounts receivable - other	22,371
Marketing grant receivable	39,100
Due from HBPA Benefit Trust	4,951
(Decrease) increase in liabilities:	
Accounts payable - trade	(27,618)
Accrued salaries	1,271
SPMO market fees unearned revenue	339,000
<i>PA Race Horse Development Fund obligations:</i>	
Purses payable	3,269,728
Deferred revenues - purse obligations	2,112,001
Act 71 Pensions Payable	(50,000)
Deferred revenues - purse obligations - Pari-Mutuel	(41,856)
Net cash and cash equivalents provided by operating activities	4,746,721

Cash Flows From Investing Activities:

Proceeds from disposal of property and equipment	7,450
Purchase of equipment	(18,385)
Net cash and cash equivalents used in investing activities	(10,935)

Cash Flows From Financing Activities:

Proceeds from Paycheck Protection Program Loan	75,428
Net cash and cash equivalents provided by financing activities	75,428

Net Increase in Cash, Cash Equivalents, and Restricted Cash

4,811,214

Cash, Cash Equivalents, and Restricted Cash:

Beginning of year	9,257,513
End of year	\$ 14,068,727

Reconciliation of Cash, Cash Equivalents, and Restricted Cash:

Cash and cash equivalents - unrestricted	\$ 796,521
Cash and cash equivalents - restricted	13,272,206
Total cash, cash equivalents, and restricted cash	\$ 14,068,727

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

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

1. Nature of Activities and Summary of Significant Accounting Policies

Organization

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

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

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

Basis of Presentation

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

perpetuity. The Association does not have any net assets with donor restrictions at June 30, 2021.

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

Cash and Cash Equivalents

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

Cash and Cash Equivalents - Restricted

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

Accounts Receivable

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

Property and Equipment

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

Revenue Recognition

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

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

Inc. (Note 9). Fees and assessments, including the fees and assessments portion of New Start income (Note 11), associated with racing are earned at the time of each race.

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

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

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

Use of Estimates

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

Donated Services

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

Contributions of donated services that create or enhance non-financial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. During the year ended June 30, 2021, there were no donated services that met the reporting requirements.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

Income Taxes

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

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

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

Functional Allocation of Expenses

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

Adoption of Accounting Standards

The requirements of the following Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) was adopted during the year ended June 30, 2021:

ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*." The amendments provide guidance for revenue recognition related to contracts involving the transfer of

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

promised goods or services to customers and related disclosures. The implementation of this standard was applied under a modified prospective basis. Accordingly, no prior period adjustments were necessary as a result.

Pending Accounting Standards Updates

ASU 2016-02, "*Leases (Topic 842)*," is effective for the Association's financial statements for the year ending June 30, 2022. These amendments and related amendments will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

ASU 2020-07, "*Not-For-Profit Entities (Subtopic 958): Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*," is effective for the Association's financial statements for the year ending June 30, 2022. The amendments in this update address presentation and disclosure of contributed nonfinancial assets.

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

Risks and Uncertainties

Developments arising from the coronavirus pandemic and efforts to mitigate the disease's effects continue to disrupt the global economy. Until the pandemic is brought under control in the view of the public, and in the view of the governmental entities restricting the operations of the businesses, the impact on the financial well-being of the Association remains unknown. Therefore, the ultimate effects of this crisis on the financial position, results of operations and cash flows of the Association are indeterminable because the duration of the crisis is also indeterminable; however, management continues to monitor developments.

Subsequent Events

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

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

2. Concentrations of Credit Risk

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

3. Availability and Liquidity

Financial assets available for general expenditure; that is, without donor or other restrictions limiting their uses, within one year of June 30, 2021, comprise the following:

Financial assets at year-end:

Cash and cash equivalents - unrestricted	\$ 796,521
Cash and cash equivalents - restricted (Gaming Act & Pari-Mutuel)	13,272,206
<i>PA Race Horse Development Fund assets:</i>	
Accounts receivable - slot revenue	1,437,295
Accounts receivable - health and pension obligations	105,908
Accounts receivable - other	<u>73,118</u>
Total financial assets	15,685,048
Less amounts not available to be used within one year:	
Assets held for restricted purposes (purses and H&P)	<u>14,815,409</u>
Financial assets available to meet general expenditures within one year	<u>\$ 869,639</u>

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

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

4. Cash and Cash Equivalents – Unrestricted and Restricted

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

Bank	Type	2021
Administrative funds - unrestricted:		
Charles Schwab & Co.	Money Market	\$ 66,865
Centric Bank	Checking	356,306
Bet Fair Exchange	Checking	373,221
N/A	Petty Cash	129
Cash and cash equivalents - unrestricted		796,521
Purse funds - restricted:		
Centric Bank	Checking (Pari-Mutuel)	1,262,154
Centric Bank	Checking (Gaming)	11,895,851
		13,158,005
Health and Pension funds - restricted:		
Centric Bank	Checking (Gaming)	114,201
Cash and cash equivalents - restricted		13,272,206
Total cash and cash equivalents		\$ 14,068,727

5. Property and Equipment

Property and equipment consisted of the following at June 30, 2021:

Building improvements	\$ 56,158
Equipment	343,996
	400,154
Less: accumulated depreciation	(270,104)
	\$ 130,050

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

6. Secondary Pari-Mutuel Organization (SPMO) Fees

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

The following table provides information about significant changes in deferred revenue for the year ended June 30, 2021:

Deferred revenue, beginning of year	\$	-
Revenue recognized that was included in deferred revenue at the beginning of the year		-
Increases in deferred revenue due to cash received during the year		<u>339,000</u>
Deferred revenue, end of year	\$	<u><u>339,000</u></u>

7. PA Race Horse Development Fund Liabilities

The Association receives funding under the Gaming Act. Funding received under this Act represents a legislatively determined percentage of the gross terminal revenues collected by licensed gaming entities and passed through the Pennsylvania Race Horse Development Fund (the "fund") to the respective horsemen organizations. Effective July 1, 2016, the PA Fiscal Code was amended under Act 7. Beginning July 1, 2016, and each year thereafter, the General Assembly authorizes the transfer of funds from the Pennsylvania Race Horse Development Fund to the State Racing Fund to provide for costs associated with the collection and research of and testing for medication, the promotion of horse racing, and to support agricultural related programs. In addition, transfers are made to fund the General Fund of the Commonwealth of Pennsylvania. These transfers will be made in weekly and one-time installments during the fiscal year before any other distributions from the Pennsylvania Race Horse Development Fund. The funds are required to be allocated 1) 80% towards an interest bearing purse account to be used to supplement existing purse agreements which fund purses for live races, 2) 16% is required to be deposited monthly into the Pennsylvania Breeding Fund, and 3) 4% is required to be used to fund health and

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

pension benefits for the members of the horsemen's organizations representing the owners and trainers at the racetrack at which the licensed racing entity operates for the benefit of the organization's members. Of this amount, \$250,000 is required to be paid annually by the horsemen's organization to the thoroughbred jockeys or standard-bred drivers' organization, depending on the track type. The remaining monies are distributed to the Category 1 Horsemen groups at the ratio in which it was earned at each respective Category 1 facility. The Jockey Act 71 obligation was \$500,000 for the year ended June 30, 2021. All transfers made by the Association were in accordance with applicable state laws.

Funding received by the Association, as representative for horsemen at the Presque Isle Downs and Hollywood Casino Penn National Race Course, equals 84% of the fund for each track. Funds for each track are maintained separately by the Association. During the year ended June 30, 2021, both Presque Isle Downs and Hollywood Casino Penn National generated gross terminal revenues and, therefore, contributed to their funds, respectively.

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

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

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

Pennsylvania Race Horse Development Fund Allocation:	2021 - Presque Isle Downs		
	Purse Account	Health and Pension Account	Total
Cash received	\$ 8,610,286	\$ 760,876	\$ 9,371,162
Interest received	9,580	121	9,701
Accounts receivable - current year	535,334	42,414	577,748
Accounts receivable - prior year	(206,983)	(15,267)	(222,250)
	<u>\$ 8,948,217</u>	<u>\$ 788,144</u>	<u>\$ 9,736,361</u>

Pennsylvania Race Horse Development Fund Allocation:	2021 - Hollywood Casino Penn National		
	Purse Account	Health and Pension Account	Total
Cash received	\$ 17,807,165	\$ 1,676,061	\$ 19,483,226
Interest received	11,572	264	11,836
Accounts receivable - current year	901,961	63,494	965,455
Accounts receivable - prior year	(439,575)	(70,240)	(509,815)
	<u>\$ 18,281,123</u>	<u>\$ 1,669,579</u>	<u>\$ 19,950,702</u>

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

Pennsylvania Race Horse Development Fund Liabilities:	2021- Presque Isle Downs		
	Purse Account	Health and Pension Account	Total
Deferred revenue - 6/30/2020	\$ 5,316,209	\$ 18,128	\$ 5,334,337
Fund allocation	8,948,217	788,144	9,736,361
Subtotal	14,264,426	806,272	15,070,698
Amounts expended in accordance with the Gaming Act	(8,071,520)	(718,667)	(8,790,187)
Deferred revenue - 6/30/2021	<u>\$ 6,192,906</u>	<u>\$ 87,605</u>	<u>\$ 6,280,511</u>

Pennsylvania Race Horse Development Fund Liabilities:	2021 - Hollywood Casino Penn National		
	Purse Account	Health and Pension Account	Total
Deferred revenue - 6/30/2020	\$ 2,633,241	\$ -	\$ 2,633,241
Fund allocation	18,281,123	1,669,579	19,950,702
Subtotal	20,914,364	1,669,579	22,583,943
Amounts expended in accordance with the Gaming Act	(17,206,569)	(1,557,905)	(18,764,474)
Deferred revenue - 6/30/2021	<u>\$ 3,707,795</u>	<u>\$ 111,674</u>	<u>\$ 3,819,469</u>

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

8. Paycheck Protection Program Loan

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

The unforgiven portion of the PPP loan is payable over five years at an interest rate of 1%, with a deferral of payments until the forgiveness amount is remitted to the lender by the Small Business Administration. The Note may be prepaid by the Borrower at any time prior to maturity with no prepayment penalties. The Association intends to use the proceeds for purposes consistent with the PPP. While the Association currently believes that their use of the loan proceeds will meet the conditions for forgiveness of the loan, they cannot assure that they will not take actions that could cause the Association to be ineligible for forgiveness of the loan, in whole or in part. Subsequent to year-end, the Association received confirmation from the SBA stating, based on the application for loan forgiveness as filed (and subject to audit), 100% of the PPP loan and accrued interest was forgiven, as provided in the CARES Act.

9. Administrative Fee Income

By agreement with the Mountainview Thoroughbred Racing Association and the Pennsylvania National Turf Club, Inc., dated October 1, 2004, 2% of the purse money paid to the owner of the winning horse is to be allocated to the Association. A Board Resolution, adopted in 2014, directs 1% of the monthly purse money paid to be transferred directly to the HBPA Benefit Trust for the benefit of its members, and the remaining 1% is retained within the Association. By agreement with the Mountainview Thoroughbred Racing Association and the Pennsylvania National Turf Club, Inc., dated July 1, 2019, 3% of the purse money paid to the owner of the winning horse is to be allocated to the Association. A

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

Board Resolution, adopted in 2019, directs 2% of the monthly purse money paid to be transferred directly to the HBPA Benefit Trust for the benefit of its members, and the remaining 1% is retained within the Association. The amount received for the year ended June 30, 2021 was \$204,606.

By agreement with Presque Isle Downs Racing Association, dated February 22, 2007, 5% of the purse money paid to the owner of the winning horse is to be allocated to the Association. During October 2015, an updated live racing agreement was entered into by Presque Isle Downs and Casino and the Association. Per this agreement, administrative fees paid to the Association were 5% for the 2016-2018 seasons to help fund the costs of surface maintenance, installation of a video wall, permanent barn, and office space. The administrative fees decreased to 3% at the conclusion of the 2018 season. The amount received for the year ended June 30, 2021 was \$284,697.

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

10. Bookkeeper Account Interest Income

Interest income of \$5,756 for the year ended June 30, 2021, 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.

11. New Start Income

The Association receives fees and assessments, as well as contributions to maintain a horse adoption program. For the year ended June 30, 2021, the Association received \$169,735 in fees and assessments and \$35,998 in contributions to fund this program.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

12. Department of Agriculture Marketing Grant

The Association was awarded a grant from the PA Department of Agriculture for marketing purposes for the period of July 1, 2017 through June 30, 2022. Amounts received are recognized as revenue when the Association has incurred marketing expenses in compliance with grant provisions. During the year ended June 30, 2021, the Association incurred \$192,500 in costs under this grant, all of which was recorded as revenues and expenses and reimbursed by the state before year end.

13. Straw Manure Income

The Association enters into agreements for the removal of straw manure from Penn National Race Course. The original agreement began during the fiscal year ended June 30, 2000. Hy-Tech has agreed to pay the Association for the removal of straw manure by the trailer/bin load. By agreement, the Association bills Hy-Tech for pickups biweekly and Hy-Tech pays the invoices by the 15th of the following month. The amount recorded for the year ended June 30, 2021 was \$55,868, of which \$11,705 is included in accounts receivable.

14. 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 \$31,606 for the year ended June 30, 2021.

15. Related Parties

The Association provides administrative services to the HBPA Benefit Trust. The HBPA Benefit Trust, which operates on a calendar year basis, is a separate entity with its own governance and accounting system in place. There were no administrative fees received by the Association for 2021. As of June 30, 2021, HBPA Benefit Trust owes the Association \$312,939.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

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.

16. 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.

17. Contingencies

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

SUPPLEMENTARY INFORMATION

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

SCHEDULE OF CASH RECEIPTS, CASH DISBURSMENTS, AND CASH BALANCES
PENNSYLVANIA RACE HORSE DEVELOPMENT FUND ALLOCATION

YEAR ENDED JUNE 30, 2021

	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	\$ 8,610,286	\$ 17,807,165	\$ 26,417,451	\$ 760,876	\$ 1,676,061	\$ 2,436,937
Interest received	9,580	11,572	21,152	121	264	385
Total horsemen's receipts	<u>8,619,866</u>	<u>17,818,737</u>	<u>26,438,603</u>	<u>760,997</u>	<u>1,676,325</u>	<u>2,437,322</u>
Horsemen's disbursements:						
Purse disbursements	8,071,520	13,725,099	21,796,619	-	-	-
Act 71 Jockey obligations	-	-	-	250,000	250,000	500,000
Act 71 Admin expense	-	-	-	-	7,911 *	7,911
Act 71 Health insurance	-	-	-	489,500	1,540,903	2,030,403
Total horsemen's disbursements	<u>8,071,520</u>	<u>13,725,099</u>	<u>21,796,619</u>	<u>739,500</u>	<u>1,798,814</u>	<u>2,538,314</u>
Transfers	-	(211,742) **	(211,742)	20,833 **	190,909 **	211,742
Increase in cash	548,346	3,881,896	4,430,242	42,330	68,420	110,750
Cash Balance - July 1, 2020	<u>5,110,512</u>	<u>2,355,097</u>	<u>7,465,609</u>	<u>2,862</u>	<u>589</u>	<u>3,451</u>
Cash Balance - June 30, 2021	<u>\$ 5,658,858</u>	<u>\$ 6,236,993</u>	<u>\$ 11,895,851</u>	<u>\$ 45,192</u>	<u>\$ 69,009</u>	<u>\$ 114,201</u>

(Continued)

* Actuary expenses paid to Conrad Siegel

** Transfer approved by the Pennsylvania Gaming Control Board and the Pennsylvania Horse Racing Commission on March 30, 2020.

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

**SCHEDULE OF CASH RECEIPTS, CASH DISBURSMENTS, AND CASH BALANCES
PENNSYLVANIA RACE HORSE DEVELOPMENT FUND ALLOCATION
YEAR ENDED JUNE 30, 2021**

	Purses			Health and Pension		
	Presque Isle Downs	HCPNRC	Total	Presque Isle Downs	HCPNRC	Total
Reconciliation of Cash Receipts:						
Purses and H&P funds received	\$ 8,610,286	\$ 17,807,165	\$ 26,417,451	\$ 760,876	\$ 1,676,061	\$ 2,436,937
Increase (decrease) in receivable	328,351	462,386	790,737	27,147	(6,746)	20,401
Increase in deferred revenues	(876,697)	(1,074,554)	(1,951,251)	(69,477)	(111,674)	(181,151)
Interfund transfers	-	(211,742)	(211,742)	20,833	190,909	211,742
	<u>\$ 8,061,940</u>	<u>\$ 16,983,255</u>	<u>\$ 25,045,195</u>	<u>\$ 739,379</u>	<u>\$ 1,748,550</u>	<u>\$ 2,487,929</u>
Reconciliation of Cash Disbursements:						
Purses and H&P funds disbursed	\$ 8,071,520	\$ 13,725,099	\$ 21,796,619	\$ 739,500	\$ 1,798,814	\$ 2,538,314
Increase in purses payable	-	3,269,728	3,269,728	-	-	-
Decrease in pension Act 71 payable	-	-	-	-	(50,000)	(50,000)
Total Horsemen's disbursements	<u>\$ 8,071,520</u>	<u>\$ 16,994,827</u>	<u>\$ 25,066,347</u>	<u>\$ 739,500</u>	<u>\$ 1,748,814</u>	<u>\$ 2,488,314</u>

(Concluded)

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

Independent Auditor's Report
in Accordance with
Government Auditing Standards

Year Ended June 30, 2021

**Independent Auditor’s Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pennsylvania Division Horsemen’s Benevolent and Protective Association, Inc.

(Association) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 21, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association’s internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Association’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a

Board of Directors and Secretary Thall, 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

certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement including Chapter 436a of the Pennsylvania Race Horse Development and Gaming Act and Fiscal Code (72 P.S. § 1701-O). However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Association's Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maher Duessel

Harrisburg, Pennsylvania
March 21, 2022

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

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2021

Material Weakness

Finding 2021-001: Filing of Quarterly Reports

Condition: All four of the quarterly reports were not filed with the Pennsylvania Gaming Control Board (PGCB) during the year ended June 30, 2021.

Criteria: Chapter 436a, Section 436a.4(e), requires that Horsemen's organizations shall file with the PGCB a quarterly report, due by the 20th day of the month following the end of each calendar quarter, which shall account for (i) funds received and disbursed for purse supplements and (ii) health and retirement benefits.

Cause: The Association does not have an established control to ensure compliance with Section 436a.4(e), filing requirements of the PGCB.

Effect: The Association is not in compliance with 436a.4(e).

Recommendation: We recommend that management develop procedures and controls to ensure that all four of the quarterly reports are filed with the PGCB.

Management's Response: Management filed all unfiled reports upon discovery the reports were not filed. Management has developed a quarterly process to ensure the reports are filed timely with the PGCB. Management has not received any correspondence from the PGCB regarding the quarterly reports not being filed timely.