

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

Consolidated Financial Statements
with Supplementary Information

Year Ended June 30, 2015

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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

YEAR ENDED JUNE 30, 2015

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. (Association) (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities and cash flows (financial statements) for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2015, 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.

Other Matters

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2015, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Mahe Duessel

Harrisburg, Pennsylvania
December 30, 2015

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

Assets	
Current assets:	
Cash and cash equivalents - unrestricted	\$ 1,428,918
Cash and cash equivalents - restricted (gaming Act and Pari-Mutuel)	10,275,941
Accounts receivable - Pari-Mutuel Commissions	426,878
<i>PA Race Horse Development Fund assets:</i>	
Accounts receivable - slot revenue	1,867,598
Accounts receivable - other	226,064
Total current assets	14,225,399
Property and equipment - net	195,915
Investments	37,295
Total Assets	\$ 14,458,609
Liabilities and Net Assets	
Liabilities:	
Current liabilities:	
Accounts payable - trade	\$ 85,523
<i>PA Race Horse Development Fund obligations:</i>	
Purses payable	3,627,743
Pension Act 71 payable	300,000
Jockey Act 71 obligation	20,833
Deferred revenues - purse obligations	7,737,887
Deferred revenues - health and pension benefits	352,407
Deferred revenues - purse obligations - Pari-Mutuel	378,821
Purse obligations payable - Pari-Mutuel	152,326
Accrued salaries	7,298
Total current liabilities	12,662,838
Net Assets:	
Unrestricted	1,533,159
Net assets available for plan benefits	262,612
Total Net Assets	1,795,771
Total Liabilities and Net Assets	\$ 14,458,609

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

Support and Revenue:

Revenue:	
Membership dues	\$ 964,612
Stake nomination fee	124,250
Bookkeeper account interest	23,123
New start income	155,045
Straw manure income	43,740
Interest income	1,944
Unrealized investment gain	5,655
Other income	18,427
Horsemen bookkeeper reverts	90,647
Trust contributions	228,360
Total support and revenue	1,655,803

Expenses:

Personnel costs:	
Wages	250,814
Employee benefits	31,625
Payroll taxes	35,059
Administrative expenses - other	752,341
New start expenses	134,587
Grants expense	399,510
Medical benefits	120,818
Dental benefits	159,902
Vision benefits	58,588
Chaplain benefits	43,500
Miscellaneous benefits	610
Total expenses	1,987,354
Change in net assets before Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel funds	(331,551)

(Continued)

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

(Continued)

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

<hr/>	
Horsemen's revenues:	
Purses earned	39,731,866
Pari-mutuel purses earned (non-Gaming Act)	1,377,851
Interest - purses earned	12,163
Health and pension funds earned	2,640,648
Interest - health and pension funds earned	736
Horsemen's expenses:	
Purse expense	(39,744,029)
Pari-mutuel purses paid (non-Gaming Act)	(1,377,851)
Health and Pension expense	(2,141,384)
Jockey Act 71 obligation:	
Presque Isle Downs	(250,000)
Penn National Race Course	(250,000)
Total Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel Funds	-
Change in Net Assets	(331,551)
Net Assets:	
<hr/>	
Beginning	2,127,322
Ending	\$ 1,795,771
	(Concluded)

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015

Cash Flows From Operating Activities:

Change in net assets	\$ (331,551)
Adjustments to reconcile change in net assets provided by operating activities:	
Depreciation	16,876
Unrealized gain on investments	(5,655)
Bad debt expense	3,150
Change in assets and liabilities	
(Increase) decrease in assets:	
Accounts receivable - Pari-Mutuel commissions	(118,549)
Accounts receivable - PA Race Horse Development Fund	(235,795)
Prepaid insurance - PA Race Horse Development Fund	122,281
Accounts receivable - other	34,020
(Decrease) increase in:	
Accounts payable - trade	(72,365)
Purse obligations - Pari-Mutuel	4,795
PA Race Horse Development Fund obligations:	
Deferred revenues - PA Race Horse Development Fund	4,172,556
Purse payable - PA Race Horse Development Fund	(908,712)
Act 71 pension payable - PA Race Horse Development Fund	(100,000)
Deferred revenue - Pari-Mutuel	14,710
Accrued salaries	1,218
Net cash provided by operating activities	2,596,979
Net Increase in Cash and Cash Equivalents	2,596,979
Cash and Cash Equivalents:	
Beginning of year	9,107,880
End of year	\$ 11,704,859

See notes to consolidated financial statements.

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

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

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

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

The Association organized to protect the interests of both horsemen and the horse racing industry in general. The Association, as representative for horsemen at Presque Isle Downs 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, Horsemen's Benevolent & Protective Association Benefit Trust, a related party. The Trust was created to provide medical and health benefits to horsemen, including their spouses and children, and stable personnel.

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

Basis of Presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ASC 958, *Not-for-Profit Entities*. Under ASC 958, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Association does not have any temporarily or permanently restricted net assets at June 30, 2015.

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 trust restrictions. These funds are held in separate accounts.

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

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

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

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

Revenue Recognition: Revenue is recognized for Race Horse Development and Pari-Mutuel Funds based on expenditures incurred.

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

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

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

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

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.

Note 2. Concentrations of Credit Risk

Financial instruments that potentially subject the Association to concentrations of credit risk include cash and cash equivalents and accounts receivable. Management believes the financial risks associated with these financial instruments are minimal. All Pennsylvania Race Horse Development Funds for Presque Isle Downs and Hollywood Casino Penn National Race Course are fully insured by the Federal Deposit Insurance Corporation (FDIC) as the Association is enrolled in the Certificate of Deposit Account Registry Service (CDARS) program.

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

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

Note 3. Cash and Cash Equivalents – Unrestricted and Restricted

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

<u>Bank</u>	<u>Type</u>	<u>2015</u>
Administrative funds:		
Charles Schwab & Co.	Money Market	\$ 985,580
M & T Bank	Checking	201,017
Metro Bank	Checking	76,799
N/A	Petty Cash	214
HBPA Health Benefit Trust	Checking	<u>165,308</u>
Cash and cash equivalents - unrestricted		<u>1,428,918</u>
Purse funds (restricted):		
M & T Bank	Checking (Pari-Mutuel)	102,984
Metro Bank	Checking (Gaming)	125,000
Metro Bank	CDARS (Gaming)	<u>9,415,592</u>
		<u>9,643,576</u>
Health and Pension funds restricted:		
Metro Bank	Checking (Gaming)	125,000
Metro Bank	CDARS (Gaming)	<u>507,365</u>
		<u>632,365</u>
Cash and cash equivalents - restricted		<u>10,275,941</u>
Total cash and cash equivalents		<u><u>\$ 11,704,859</u></u>

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

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

Note 4. Investments

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

	2015
Penn National Gaming, Inc. common stock, 600 shares	\$ 11,010
Gaming & Leisure PPTYs, common stock, 717 shares	26,285
	<u>\$ 37,295</u>

Note 5. Property and Equipment

Property and equipment consisted of the following at June 30:

	2015
Building improvements	\$ 44,693
Office equipment	307,976
	<u>352,669</u>
Less accumulated depreciation	<u>(156,754)</u>
	<u>\$ 195,915</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. Typically, the fund is required to be allocated 1) 80% towards an interest bearing purse account to be used to supplement existing purse agreements which fund purses for live races; 2) 16% is required to be deposited monthly into the Pennsylvania Breeding Fund; and 3) 4% is required to be used to fund health and pension benefits for the members of the horsemen's organizations representing the owners and trainers at the racetrack at which the licensed racing entity operates for the benefit of the organization's members. Of this amount, \$250,000 is required to be paid annually by the horsemen's organization to the thoroughbred jockeys or standard-bred drivers' organization, depending on the track type. However, during the year ended June 30, 2014, the PA Fiscal Code was amended. The distribution sections of the Statute were repealed through Act 71 of 2013 (Fiscal Code) and the distribution amounts were established in the Fiscal Code effective July 18, 2013. For the 2013-2014 fiscal year and thereafter, a weekly transfer of \$802,682 would be made out of the fund, with a maximum annual transfer of \$17,659,000. After this transfer, the greater of 4% or

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

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

\$220,000 is required to be allocated to fund health and pension benefits for the members of the horsemen's organizations representing the owners and trainers at the racetrack at which the licensed racing entity operates for the benefit of the organization's members. The remaining monies are distributed to the Category 1 Horsemen groups at the ratio in which it was earned at each respective Category 1 facility. Those funds are required to be allocated 1) 83.33% towards a purse account to be used to supplement existing purse agreements which fund purses for live races; and 2) 16.67% is required to be deposited monthly into the Pennsylvania Breeding Fund. The Jockey Act 71 obligation was \$500,000 for the year ended June 30, 2015.

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, 2015, both Presque Isle Downs and Hollywood Casino Penn National generated gross terminal revenues and, therefore, contributed to their funds, respectively.

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

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

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

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

Pennsylvania Race Horse Development Fund Allocation:	2015 - Presque Isle Downs		
	Purse Account	Health and Pension Account	Total
Cash received	\$ 15,244,973	\$ 990,995	\$ 16,235,968
Interest received	7,909	627	8,536
Accounts receivable - current year	666,636	14,698	681,334
Accounts receivable - prior year	(522,526)	(33,594)	(556,120)
	<u>\$ 15,396,992</u>	<u>\$ 972,726</u>	<u>\$ 16,369,718</u>

Pennsylvania Race Horse Development Fund Allocation:	2015 - Hollywood Casino Penn National		
	Purse Account	Health and Pension Account	Total
Cash received	\$ 28,240,144	\$ 1,833,163	\$ 30,073,307
Interest received	4,254	109	4,363
Accounts receivable - current year	1,159,687	26,577	1,186,264
Accounts receivable - prior year	(1,013,755)	(61,928)	(1,075,683)
	<u>\$ 28,390,330</u>	<u>\$ 1,797,921</u>	<u>\$ 30,188,251</u>

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

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

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

Pennsylvania Race Horse Development Fund Liabilities:	2015 - Presque Isle Downs		
	Purse Account	Health and Pension Account	Total
Deferred revenue - 6/30/2014	\$ 3,694,594	\$ 34,456	\$ 3,729,050
Fund allocation	15,396,992	972,726	16,369,718
Subtotal	19,091,586	1,007,182	20,098,768
Amounts expended in accordance with the Gaming Act	(12,978,675)	(757,251)	(13,735,926)
Deferred Revenue - 6/30/2015	\$ 6,112,911	\$ 249,931	\$ 6,362,842

Pennsylvania Race Horse Development Fund Liabilities:	2015 - Hollywood Casino Penn National		
	Purse Account	Health and Pension Account	Total
Deferred revenue - 6/30/2014	\$ -	\$ 188,688	\$ 188,688
Fund allocation	28,390,330	1,797,921	30,188,251
Subtotal	28,390,330	1,986,609	30,376,939
Amounts expended in accordance with the Gaming Act	(26,765,354)	(1,884,133)	(28,649,487)
Deferred Revenue - 6/30/2015	\$ 1,624,976	\$ 102,476	\$ 1,727,452

Note 7. Horsemen's Membership Dues

By agreement with the Mountainview Thoroughbred Racing Association and the Pennsylvania National Turf Club, Inc., dated October 1, 2004, 2% of the purse money paid to the owner of the winning horse is to be allocated to the Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. A Board Resolution, adopted in 2014, directs 1% of the monthly purse money paid to be transferred directly to the Pennsylvania Division, Horsemen's Benevolent & Protective Association Benefit Trust for the benefit of its members, and the remaining 1% is retained within the Association. The amount received for membership due in 2015 was \$426,997.

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

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

By agreement with Presque Isle Downs Racing Association, dated February 22, 2007, 5% of the purse money paid to the owner of the winning horse is to be allocated to the Association. During 2013, the membership dues percentage paid to the Association was reduced to 3.33%, as the Association's obligation (including interest) for its share of the installation of a synthetic surface has been satisfied. The 3.33% membership dues will stay in effect for the upcoming fiscal year for payment of maintenance (fiber additions) of the synthetic surface; thereafter, the membership dues will be reduced to 3%. The amount received for 2015 was \$537,615.

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

Note 8. Bookkeeper Account Interest

Interest income of \$23,123, for the year ended June 30, 2015, represents amounts received by the Association from Penn National Race Course. The interest earnings are from a fund accumulated on the payment of purses and held by the Mountainview Thoroughbred Racing Association and the Pennsylvania National Turf Club, Inc. By agreement, the account is non-commingled and the payments received are the Horsemen's 50% share of the interest earned on the account.

Note 9. Straw Manure Income

The Association enters into agreements for the removal of straw manure from Penn National Race Course. The original agreement began during the fiscal year ended June 30, 2000. Hy-Tech has agreed to pay Pennsylvania Division - HBPA Inc., for the removal of straw manure by the trailer/bin load. By agreement, the Association bills Hy-Tech for pickups biweekly and Hy-Tech pays the invoices by the 15th of the following month. The amount received for the year ended June 30, 2015 was \$43,740.

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 \$15,676 for the year ended June 30, 2015.

Note 11. Related Parties

The Association provides administrative services to the Pennsylvania Division, Horsemen's Benevolent & Protective Association Benefit Trust. The 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 2015.

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

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

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

Note 12. Risk Management

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

Note 13. Contingencies

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

Supplementary Information

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

**SCHEDULE OF ADMINISTRATIVE EXPENSES
for Year Ended June 30, 2015**

	2015
Administrative Expenses:	
Advocacy	\$ 109,115
Contributions	5,060
Office	54,330
Travel and meeting	46,140
Public relations	51,274
Assessments - national	47,000
Dues and subscriptions	440
Social activities	78,755
Professional fees	126,918
Horse adoption program	673
Telephone	6,306
Insurance	5,880
Depreciation	12,264
Golf tournament	7,971
Conventions, meetings, and meals	11,668
Pedigree research	24,722
Repairs and maintenance	5,663
Veterinarian - night races	66,550
Race horse expense	37,376
Tapeta racing surface expense	1,050
Miscellaneous	17,611
HBPA Benefit Trust - other	35,575
Total administrative expenses	\$ 752,341

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

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

	Purses			Health and Pension		
	Presque Isle Downs	HCPNRC	Total	Presque Isle Downs	HCPNRC	Total
Pennsylvania Race Horse Development Fund Allocation:						
Horsemen's Receipts:						
Purses and H&P funds received	\$ 15,244,973	\$ 28,240,144	\$ 43,485,117	\$ 990,995	\$ 1,833,163	\$ 2,824,158
Interest received	7,909	4,254	12,163	628	109	737
Total Horsemen's receipts	<u>15,252,882</u>	<u>28,244,398</u>	<u>43,497,280</u>	<u>991,623</u>	<u>1,833,272</u>	<u>2,824,895</u>
Horsemen's disbursements:						
Purse disbursements	13,552,415	27,100,327	40,652,742	-	-	-
Act 71 Jockey obligations	-	-	-	250,000	229,167	479,167
Act 71 Pension contributions	-	-	-	607,251	-	607,251
Act 71 Health insurance	-	-	-	-	1,532,689	1,532,689
Bank fees	-	-	-	-	-	-
Total Horsemen's disbursements	<u>13,552,415</u>	<u>27,100,327</u>	<u>40,652,742</u>	<u>857,251</u>	<u>1,761,856</u>	<u>2,619,107</u>
Increase (decrease) in cash	1,700,467	1,144,071	2,844,538	134,372	71,416	205,788
Cash Balance - July 1, 2014	<u>5,275,014</u>	<u>1,421,040</u>	<u>6,696,054</u>	<u>350,862</u>	<u>75,715</u>	<u>426,577</u>
Cash Balance - June 30, 2015	<u>\$ 6,975,481</u>	<u>\$ 2,565,111</u>	<u>\$ 9,540,592</u>	<u>\$ 485,234</u>	<u>\$ 147,131</u>	<u>\$ 632,365</u>

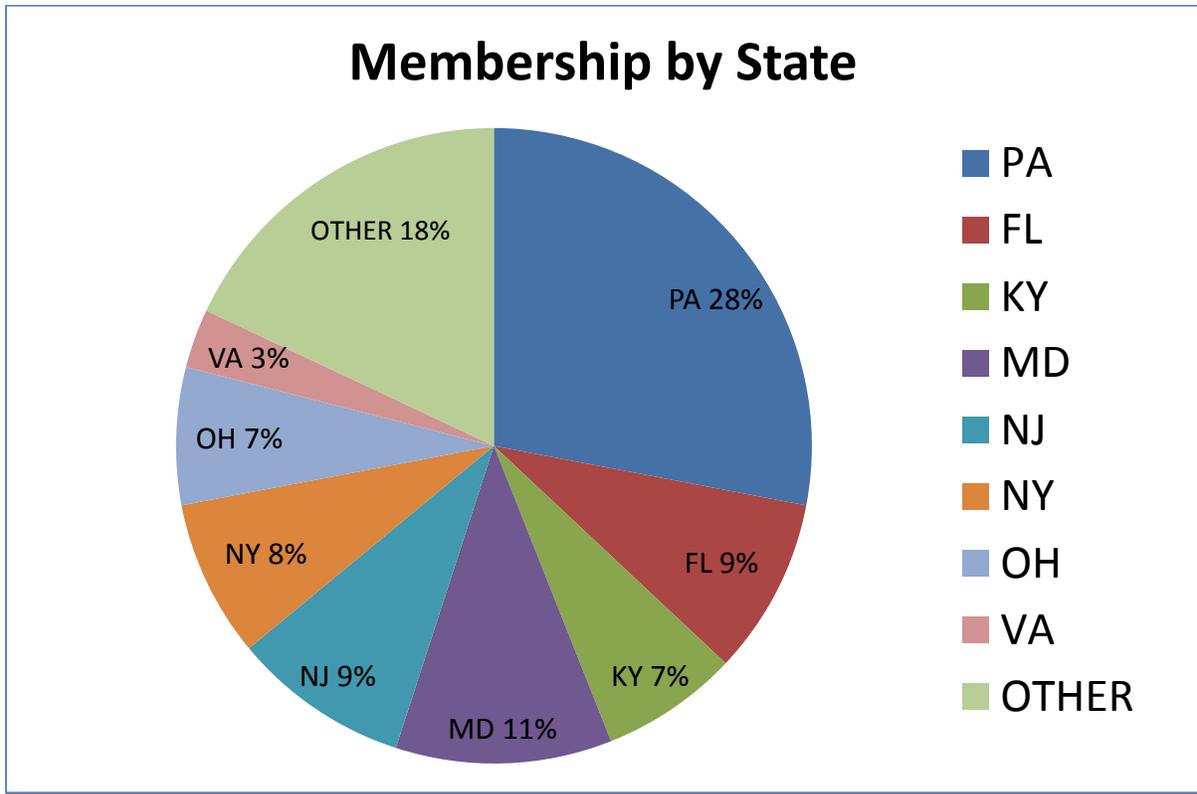
(Continued)

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

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

	Purses			Health and Pension		
	Presque Isle Downs	HCPNRC	Total	Presque Isle Downs	HCPNRC	Total
Reconciliation of Cash Receipts:						
Purses and H&P funds received (from above)	\$ 15,244,973	\$ 28,240,144	\$ 43,485,117	\$ 990,995	\$ 1,833,163	\$ 2,824,158
Increase (decrease) in purses receivable	144,110	145,932	290,042	(18,896)	(35,351)	(54,247)
Decrease (increase) in deferred revenues	(2,418,317)	(1,624,976)	(4,043,293)	(215,475)	86,212	(129,263)
Purses earned per audited financial statements	<u>\$ 12,970,766</u>	<u>\$ 26,761,100</u>	<u>\$ 39,731,866</u>	<u>\$ 756,624</u>	<u>\$ 1,884,024</u>	<u>\$ 2,640,648</u>
Reconciliation of Cash Disbursements:						
Purses and H&P funds disbursed (from above)	\$ 13,552,415	\$ 27,100,327	\$ 40,652,742	\$ 857,251	\$ 1,761,856	\$ 2,619,107
Increase (decrease) in purses payable	(573,740)	(334,973)	(908,713)	-	-	-
Health insurance administrative expense	-	-	-	-	-	-
Decrease in pension payable	-	-	-	(100,000)	-	(100,000)
Decrease in prepaid purses	-	-	-	-	-	-
Decrease in prepaid insurance	-	-	-	-	122,277	122,277
Purse and H&P expense per audited financial statements	<u>\$ 12,978,675</u>	<u>\$ 26,765,354</u>	<u>\$ 39,744,029</u>	<u>\$ 757,251</u>	<u>\$ 1,884,133</u>	<u>\$ 2,641,384</u>

(Concluded)



UNAUDITED

NOTES TO MEMBERSHIP DATA

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

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

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

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

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

Year Ended June 30, 2015

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements (financial statements) of Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. (Association) (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 30, 2015.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts including Chapter 436a of the Pennsylvania Race Horse Development and Gaming Act and Fiscal Code (72 P.S. § 1701-0). However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Maher Duessel

Harrisburg, Pennsylvania
December 30, 2015