

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

Financial Statements with  
Supplementary Information

Year Ended June 30, 2016

**MaherDuessel**  
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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

YEAR ENDED JUNE 30, 2016

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## Independent Auditor's Report

Board of Directors 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 financial statements of Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. (Association) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities 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 qualified audit opinion.

### ***Basis for Qualified Opinion***

Due to the inadequacy of accounting records, we were unable to obtain sufficient appropriate audit evidence about expenses of the Association other than those related to the Pennsylvania Race Horse Development Fund Allocations for the year ended June 30, 2016. Consequently, we were unable to determine whether any adjustments to those amounts were necessary.

***Qualified Opinion***

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2016, 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 and Schedule of Cash Receipts, Cash Disbursements, and Cash Balances – Pennsylvania Race Horse Development Fund Allocation 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 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2017, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

***Maher Duessel***

Harrisburg, Pennsylvania  
February 7, 2017

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

## STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

### Assets

Current assets:	
Cash and cash equivalents - unrestricted	\$ 988,666
Cash and cash equivalents - restricted (gaming Act and Pari-Mutuel)	12,887,858
Accounts receivable - Pari-Mutuel Commissions	292,876
<i>PA Race Horse Development Fund assets:</i>	
Accounts receivable - slot revenue	1,136,677
Accounts receivable - other	348,477
Due from HBPA Benefit Trust	42,122
Total current assets	15,696,676
Property and equipment - net	43,990
Investments	33,092
<b>Total Assets</b>	<b>\$ 15,773,758</b>

### Liabilities and Net Assets

#### Liabilities:

Current liabilities:	
Accounts payable - trade	\$ 39,730
<i>PA Race Horse Development Fund obligations:</i>	
Purses payable	5,625,772
Pension Act 71 payable	250,000
Jockey Act 71 obligation	20,833
Deferred revenues - purse obligations	6,805,993
Deferred revenues - health and pension benefits	260,808
Deferred revenues - purse obligations - Pari-Mutuel	1,122,650
Purse obligations payable - Pari-Mutuel	231,354
Total current liabilities	14,357,140

#### Net Assets:

Unrestricted	1,416,618
Total Net Assets	1,416,618
<b>Total Liabilities and Net Assets</b>	<b>\$ 15,773,758</b>

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, 2016

### Support and Revenue:

Revenue:	
Membership dues	\$ 977,289
Stake nomination fee	95,500
Bookkeeper account interest	27,824
New start income	173,226
Straw manure income	55,260
Interest income	2,218
Unrealized investment loss	(4,203)
Other income	17,994
	<hr/>
Total support and revenue	1,345,108

### Expenses:

Personnel costs:	
Wages	237,639
Employee benefits	38,391
Payroll taxes	34,034
Administrative expenses - other	961,775
New start expenses	182,836
Rent expense	6,974
	<hr/>
Total expenses	1,461,649
	<hr/>
Change in net assets before Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel funds	(116,541)

(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, 2016

(Continued)

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

<hr/>	
Horsemen's revenues:	
Purses earned	41,503,927
Pari-mutuel purses earned (non-Gaming Act)	653,310
Interest - purses earned	21,938
Health and pension funds earned	2,753,685
Interest - health and pension funds earned	1,018
Horsemen's expenses:	
Purse expense	(41,525,865)
Pari-mutuel purses paid (non-Gaming Act)	(653,310)
Health and Pension expense	(2,254,703)
Jockey Act 71 obligation:	
Presque Isle Downs	(250,000)
Penn National Race Course	(250,000)
Total Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel Funds	-
<b>Change in Net Assets</b>	<b>(116,541)</b>
 <b>Net Assets:</b>	
<hr/>	
Beginning	1,533,159
Ending	\$ 1,416,618
	(Concluded)

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, 2016

<b>Cash Flows From Operating Activities:</b>	
Change in net assets	\$ (116,541)
Adjustments to reconcile change in net assets provided by operating activities:	
Depreciation	16,358
Unrealized loss on investments	4,203
Change in assets and liabilities	
(Increase) decrease in assets:	
Accounts receivable - Pari-Mutuel commissions	134,002
Accounts receivable - slot revenue	730,921
Accounts receivable - other	(149,800)
Due from HBPA Benefit Trust	6,974
(Decrease) increase in:	
Accounts payable - trade	(15,889)
Purse obligations payable - Pari-Mutuel	79,028
PA Race Horse Development Fund obligations:	
Deferred revenues	(1,023,493)
Purse payable	1,998,029
Act 71 pension payable	(50,000)
Deferred revenue	743,829
Accrued salaries	(7,298)
Net cash provided by operating activities	<u>2,350,323</u>
<b>Cash Flows From Investing Activities:</b>	
Purchase of equipment	<u>(13,350)</u>
Net cash used in investing activities	<u>(13,350)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	2,336,973
<b>Cash and Cash Equivalents:</b>	
Beginning of year	<u>11,539,551</u>
End of year	<u>\$ 13,876,524</u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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**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 (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 Trust was created to provide medical and health benefits to horsemen, including their spouses and children, and stable personnel.

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, 2016.

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 and horse racing industry requirements. 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.

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.

**PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT  
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**NOTES TO THE FINANCIAL STATEMENTS**

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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 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 nonfinancial 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, 2016, there were no donated services that met the reporting requirements.

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.

Pending Accounting Standards Updates: Accounting Standards Update (ASU) 2014-09, "*Revenue from Contracts with Customers*," is effective for the Association's financial statements for the year ending June 30, 2020 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition related to contracts with transfer of promised goods or services to customers and related disclosures.

ASU 2016-02, "*Leases (Topic 842)*," is effective for the Association's financial statements for the year ending June 30, 2021. This amendment will require lessees to recognize assets and liabilities on the combined statement of financial position for the rights and obligations created by all leases with terms of more than 12 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 No. 2016-14, "*Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*," is effective for the Association's financial statements for the year ending June 30, 2019. This amendment aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The ASU changes the net asset classifications, requires presentation of expenses both by nature and function, requires investment return reported net of investment expenses, requires placed-in-service approach for gifts of/for long-lived assets, and provides enhanced disclosures for: governing body restrictions; composition of net assets with donor restrictions; qualitative and quantitative information on liquidity; methods to allocate costs among program and support functions; and underwater donor-restricted endowment funds.

**PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT  
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**NOTES TO THE FINANCIAL STATEMENTS**

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

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

**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 held at First National Bank for Presque Isle Downs and Hollywood Casino Penn National Race Course are fully insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. Any excess funds are collateralized by the financial institution under a sweep repurchase agreement. Pari-mutuel funds in excess of FDIC limits held by M & T bank are uninsured.

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

**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:

Bank	Type	2016
Administrative funds:		
Charles Schwab & Co.	Money Market	\$ 837,798
M & T Bank	Checking	95,863
First National Bank	Checking	54,876
N/A	Petty Cash	129
Cash and cash equivalents - unrestricted		<u>988,666</u>
Purse funds (restricted):		
M & T Bank	Checking (Pari-Mutuel)	1,059,843
First National Bank	Checking (Gaming)	125,000
First National Bank	Sweep Repurchase (Gaming)	11,275,476
		<u>12,460,319</u>
Health and Pension funds - restricted:		
First National Bank	Checking (Gaming)	125,000
First National Bank	Sweep Repurchase (Gaming)	302,539
		<u>427,539</u>
Cash and cash equivalents - restricted		<u>12,887,858</u>
Total cash and cash equivalents		<u>\$ 13,876,524</u>

**Note 4. Investments**

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

	2016
Penn National Gaming, Inc. common stock, 600 shares	\$ 8,370
Gaming & Leisure PPTYs, common stock, 717 shares	24,722
	<u>\$ 33,092</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 5. Property and Equipment**

Property and equipment consisted of the following at June 30:

	2016
Building improvements	\$ 56,158
Office equipment	140,288
	<u>196,446</u>
Less accumulated depreciation	<u>(152,456)</u>
	<u>\$ 43,990</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 \$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, 2016.

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, 2016, both Presque Isle Downs and Hollywood Casino Penn National generated gross terminal revenues and, therefore, contributed to their funds, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS**

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.

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

Pennsylvania Race Horse Development Fund Allocation:	2016 - Presque Isle Downs		
	Purse Account	Health and Pension Account	Total
Cash received	\$ 14,593,731	\$ 919,228	\$ 15,512,959
Interest received	11,650	854	12,504
Accounts receivable - current year	398,175	38,890	437,065
Accounts receivable - prior year	(666,636)	(14,698)	(681,334)
	<u>\$ 14,336,920</u>	<u>\$ 944,274</u>	<u>\$ 15,281,194</u>

Pennsylvania Race Horse Development Fund Allocation:	2016 - Hollywood Casino Penn National		
	Purse Account	Health and Pension Account	Total
Cash received	\$ 26,772,051	\$ 1,680,030	\$ 28,452,081
Interest received	10,288	164	10,452
Accounts receivable - current year	634,399	65,213	699,612
Accounts receivable - prior year	(1,159,687)	(26,577)	(1,186,264)
	<u>\$ 26,257,051</u>	<u>\$ 1,718,830</u>	<u>\$ 27,975,881</u>

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

**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:	2016 - Presque Isle Downs		
	Purse Account	Health and Pension Account	Total
Deferred revenue - 6/30/2015	\$ 6,112,911	\$ 249,931	\$ 6,362,842
Fund allocation	14,336,920	944,274	15,281,194
Subtotal	20,449,831	1,194,205	21,644,036
Amounts expended in accordance with the Gaming Act	(14,788,410)	(1,153,213)	(15,941,623)
Deferred Revenue - 6/30/2016	\$ 5,661,421	\$ 40,992	\$ 5,702,413

Pennsylvania Race Horse Development Fund Liabilities:	2016 - Hollywood Casino Penn National		
	Purse Account	Health and Pension Account	Total
Deferred revenue - 6/30/2015	\$ 1,624,976	\$ 102,476	\$ 1,727,452
Fund allocation	26,257,051	1,718,830	27,975,881
Subtotal	27,882,027	1,821,306	29,703,333
Amounts expended in accordance with the Gaming Act	(26,737,455)	(1,601,490)	(28,338,945)
Deferred Revenue - 6/30/2016	\$ 1,144,572	\$ 219,816	\$ 1,364,388

**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 2016 was \$324,185.

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

**PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT  
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**NOTES TO THE FINANCIAL STATEMENTS**

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has been satisfied. During October 2015, an updated live racing agreement was entered into by Presque Isle Downs and Casino and the Association. Per this agreement membership dues paid to the Association were increased to 5% to help fund the costs of surface maintenance, installation of a video wall, permanent barn, and office space. The membership dues will revert to 3% at the conclusion of the 2018 season. The amount received for 2016 was \$653,104.

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 \$27,824, for the year ended June 30, 2016, represents the amount 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 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 15<sup>th</sup> of the following month. The amount received for the year ended June 30, 2016 was \$55,260.

**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 \$18,986 for the year ended June 30, 2016.

**Note 11. 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 2016. As of June 30, 2016, HBPA Benefit Trust owes the Association \$42,122 for short-term borrowing.

**PENNSYLVANIA DIVISION HORSEMEN'S BENEVOLENT  
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**NOTES TO THE FINANCIAL STATEMENTS**

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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, 2016**

	2016
Administrative Expenses:	
Advocacy	\$ 175,861
Contributions	112,015
Office	63,106
Travel and meeting	53,257
Public relations	38,378
Assessments - national	47,000
Dues and subscriptions	4,928
Social activities	75,480
Professional fees	93,433
Telephone	7,133
Insurance	11,553
Depreciation	16,358
Conventions, meetings, and meals	6,933
Pedigree research	21,423
Repairs and maintenance	6,266
Veterinarian - night races	68,625
Race horse expense	53,847
Tapeta racing surface expense	83,461
Miscellaneous	22,718
<b>Total administrative expenses</b>	<b>\$ 961,775</b>

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

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

	Purses			Health and Pension		
	Presque Isle Downs	HCPNRC	Total	Presque Isle Downs	HCPNRC	Total
Pennsylvania Race Horse Development Fund Allocation:						
Horsemen's Receipts:						
Purses and H&P funds received	\$ 14,593,731	\$ 26,772,051	\$ 41,365,782	\$ 919,228	\$ 1,680,030	\$ 2,599,258
Interest received	11,650	10,288	21,938	854	164	1,018
Total Horsemen's receipts	<u>14,605,381</u>	<u>26,782,339</u>	<u>41,387,720</u>	<u>920,082</u>	<u>1,680,194</u>	<u>2,600,276</u>
Horsemen's disbursements:						
Purse disbursements	14,178,934	25,348,838	39,527,772	-	-	-
Act 71 Jockey obligations	-	-	-	250,000	250,000	500,000
Act 71 Pension contributions	-	-	-	503,120	-	503,120
Act 71 Health insurance	-	-	-	450,000 *	1,351,814 *	1,801,814
Bank fees	18	46	64	92	76	168
Total Horsemen's disbursements	<u>14,178,952</u>	<u>25,348,884</u>	<u>39,527,836</u>	<u>1,203,212</u>	<u>1,601,890</u>	<u>2,805,102</u>
Increase (decrease) in cash	426,429	1,433,455	1,859,884	(283,130)	78,304	(204,826)
Cash Balance - July 1, 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>
Cash Balance - June 30, 2016	<u>\$ 7,401,910</u>	<u>\$ 3,998,566</u>	<u>\$ 11,400,476</u>	<u>\$ 202,104</u>	<u>\$ 225,435</u>	<u>\$ 427,539</u>

(Continued)

\* \$450,000 was transferred from Presque Isle Downs to fund health and pension expenses in HCPNRC.

**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	HCPNRC	Total	Presque Isle	HCPNRC	Total
	Downs			Downs		
Reconciliation of Cash Receipts:						
Purses and H&P funds received (from above)	\$ 14,593,731	\$ 26,772,051	\$ 41,365,782	\$ 919,228	\$ 1,680,030	\$ 2,599,258
Increase (decrease) in purses receivable	(268,461)	(525,288)	(793,749)	24,192	38,636	62,828
Decrease (increase) in deferred revenues	451,490	480,404	931,894	208,939	(117,340)	91,599
Purses earned per audited financial statements	<u>\$ 14,776,760</u>	<u>\$ 26,727,167</u>	<u>\$ 41,503,927</u>	<u>\$ 1,152,359</u>	<u>\$ 1,601,326</u>	<u>\$ 2,753,685</u>
Reconciliation of Cash Disbursements:						
Purses and H&P funds disbursed (from above)	\$ 14,178,952	\$ 25,348,884	\$ 39,527,836	\$ 1,203,212	\$ 1,601,890	\$ 2,805,102
Increase (decrease) in purses payable	609,455	1,388,574	1,998,029	-	-	-
Decrease in pension payable	-	-	-	(50,000)	-	(50,000)
Decrease in health insurance admin payable	-	-	-	-	(399)	(399)
Purse and H&P expense per audited financial statements	<u>\$ 14,788,407</u>	<u>\$ 26,737,458</u>	<u>\$ 41,525,865</u>	<u>\$ 1,153,212</u>	<u>\$ 1,601,491</u>	<u>\$ 2,754,703</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, 2016

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 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 financial statements of Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. (Association) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related 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 February 7, 2017.

**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.

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 were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2016-001 and 2016-002 that we consider to be material weaknesses.

Board of Directors 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

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2016-003 and 2016-004, that we consider to be significant deficiencies.

### **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-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*.

### **Response to Findings**

The Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Association's responses were not subjected to the auditing procedure applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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  
February 7, 2017

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

## SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2016

### *Material Weaknesses:*

#### **Finding 2016-001: Segregation of Duties**

*Condition:* Beginning in February 2016, the Executive Director of the Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. (Association) prepares and makes deposits, and prepares bank reconciliations. Bank reconciliations are only reviewed by the Association's external accountant during their preparation of year-end reconciliations and financial statements.

Journal entries are prepared and posted by the Executive Director with only indirect review by the Association's external accountant during year-end account reconciliation.

*Criteria:* The Internal Control Integrated Framework (COSO report) requires adequate internal controls over segregation of duties to ensure that transactions are properly recorded and reduce the risk that errors will be undetected.

*Cause:* Due to shortages in staffing, the Association was not able to properly segregate duties. This resulted in inadequate review of cash receipts, bank reconciliations, and journal entries.

*Effect:* This could result in material misstatements in financial records, whether due to fraud or error, that may not be prevented, or detected and corrected on a timely basis.

*Recommendation:* We recommend that the administrative assistant prepare a listing of cash receipts while opening the mail. This listing should then be reconciled to the general ledger by an individual who does not record these transactions in the accounting system. We also recommend that all bank reconciliations be reviewed monthly by an individual other than the preparer. Review should be denoted by initialing the bank reconciliation. Finally, we recommend that all journal entries be reviewed.

*Management's Response:* Due to the unexpected death of a key employee at the beginning of February 2016, the Association experienced a lack of segregation duties in the finance area. Management acknowledges this issue and has implemented revised internal controls to rectify these concerns going forward. Management has hired an office manager to properly segregate key accounting procedures within the Association's small office, as well as implement key internal controls with QuickBooks to ensure functions are being properly segregated. Management and the Board of Directors will actively continue to evaluate internal controls on an ongoing basis as all parties seek to ensure best practices are implemented at the Association.

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

## SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2016

### **Finding 2016-002: Lack of Support for Cash Disbursements**

*Condition:* During the testing of a sample of 60 non-Pennsylvania Race Horse Development Fund (PRDF) cash disbursements, we noted that 17 cancelled checks and 28 invoices could not be provided. During our testing of credit card disbursements, we noted that not all of the supporting receipts were maintained.

*Criteria:* Organizations should maintain support for all transactions recorded in the accounting records.

*Cause:* The Association maintains all source documentation in electronic format. During the year, the Association lost access to the storage device housing all electronic documentation. These files were not backed up to a secondary source, which caused a complete loss of source documents for July 2015 through February 2016.

*Effect:* Certain unsupported amounts paid by the Association may not be business related and may not be properly recorded.

*Recommendation:* We recommend that the Association back up accounting records to multiple devices or locations to ensure that in the event of any unforeseen circumstances, the risk of complete loss of data would be mitigated. We also recommend that the Association enhance their procedures to ensure that receipts for all credit card purchases are maintained.

*Management's Response:* Due to the unexpected death of a key employee at the beginning of February 2016, the Association's management was unable to recover supporting documentation for the first half of the fiscal year under audit. The deceased key employee used a paperless environment; however, passwords were not available to other members of the management team. The Association attempted numerous times to access these electronic files, but to no avail. The Executive Director of the Association worked diligently to obtain the majority of invoices and supporting documentation. However, employee reimbursements and certain Bank of America receipts were unable to be reproduced. The 17 cancelled checks, referred to above, were issued to Bank of America.

As mentioned previously, the deceased key employee was responsible for scanning and saving files to an external hard drive on the network, as well as backing up files to an external cloud base system offered by Intuit; this work was performed on a daily basis. Unfortunately, the external hard drives, as well as the daily back up, were password protected by this employee, and were unable to be recovered.

The Association has purchased Neat Receipts for electronic maintenance of receipts, invoices, bank statements and important Association records. Neat Receipts automatically backs up the

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

## SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2016

cloud upon exiting the program thereby securing the integrity of the documents. Used ID and passwords have been stored in a secure place to prevent reoccurrence of inaccessibility.

### *Significant Deficiencies:*

#### **Finding 2016-003: Completion of Quarterly Reports**

*Condition:* Three quarterly reports filed with the Pennsylvania Gaming Control Board (PGCB) were submitted outside of the required submission deadline and two quarterly reports did not report quarterly activity for Presque Isle Downs (PID).

*Criteria:* Chapter 436a, Section 436a.4(e), requires that Horsemen's organizations shall file with the Gaming Control Board (1) 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 Chapter 436a, reporting requirements of the PGCB.

*Effect:* The Association is not in compliance with Section 436a.4(e)(1).

*Recommendation:* We recommend that management develop procedures and controls to ensure future reports are timely filed with complete information.

*Management's Response:* In ten years of filing reports, the Association has not been contacted or received correspondence from the regulatory body regarding the report filing delinquencies or issues. Management will ensure the timely filing of reports, thus remaining in compliance with Section 436a.4(e)(1).

#### **Finding 2016-004: Permitting of Officers**

*Condition:* Two of the Association's members of the Board of Directors (Board) do not currently have the appropriate registration with the Pennsylvania Gaming Control Board (PGCB).

*Criteria:* Chapter 436a, Section 436a.3, requires that all representatives be permitted with the PGCB.

*Cause:* The Association does not have an established control to ensure compliance with Chapter 436a.3, permitting requirements of the PGCB.

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

**SCHEDULE OF FINDINGS AND RESPONSES**

**YEAR ENDED DECEMBER 31, 2016**

*Effect:* The Association is not in compliance with 436a.3.

*Recommendation:* We recommend that management develop procedures and controls to ensure all members of the Board have appropriate permits with the PGCB.

*Management's Response:* Upon being elected, the Association notifies the Board of Director members of their obligation to register with the Pennsylvania Gaming Control Board (PGCB). Registration information is distributed at the first Board meeting of the newly elected Board. The Association monitors the registration and assists in the process, in conjunction with the PGCB. The Association makes every effort to ensure compliance.

There have been numerous times where online registrations and fingerprinting have been completed by Board Members without recognition by the PGCB. Those situations have been corrected upon notification by the PGCB and remedied in an expeditious manner.

The one board member, who was not recognized as registered by the PGCB, was contacted and completed his registration process. The other non-registered individual is currently in Phoenix, AZ with serious health issues. Out of respect for his current health condition, he has not been contacted by the Association. When this Board Member's health issues are resolved and he returns to Pennsylvania, management of the Association will work with him to bring his registration into compliance.