

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

Financial Statements and
Supplementary Information

Year Ended June 30, 2017 with
Independent Auditor's Report

MaherDuessel

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

YEAR ENDED JUNE 30, 2017

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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, 2017, 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 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, 2017, 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.

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 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 January 8, 2018, 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
January 8, 2018

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

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

Assets

Current assets:	
Cash and cash equivalents - unrestricted	\$ 279,945
Cash and cash equivalents - restricted (gaming Act and Pari-Mutuel)	9,861,877
Accounts receivable - Pari-Mutuel Commissions	271,357
<i>PA Race Horse Development Fund assets:</i>	
Accounts receivable - slot revenue	1,213,422
Accounts receivable - other	310,964
Loan receivable	400,000
Due from HBPA Benefit Trust	121,538
Total current assets	<u>12,459,103</u>
Property and equipment - net	35,617
Investments	39,849
Total Assets	<u><u>\$12,534,569</u></u>

Liabilities and Net Assets

Liabilities:

Current liabilities:	
Accounts payable - trade	\$ 31,354
<i>PA Race Horse Development Fund obligations:</i>	
Purses payable	5,168,295
Pension Act 71 payable	200,000
Jockey Act 71 obligation	20,833
Deferred revenues - purse obligations	4,989,045
Deferred revenues - health and pension benefits	97,229
Deferred revenues - purse obligations - Pari-Mutuel	639,962
Purse obligations payable - Pari-Mutuel	231,289
Total current liabilities	<u>11,378,007</u>

Net Assets:

Unrestricted	<u>1,156,562</u>
Total Net Assets	<u>1,156,562</u>
Total Liabilities and Net Assets	<u><u>\$12,534,569</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, 2017

Support and Revenue:

Revenue:	
Membership dues	\$ 1,148,328
Stake nomination fee	119,500
Bookkeeper account interest	38,135
New start income	224,760
Straw manure income	54,129
Interest income	2,271
Unrealized investment gain	6,757
Other income	<u>105,829</u>
Total support and revenue	<u>1,699,709</u>

Expenses:

Personnel costs:	
Wages	241,344
Employee benefits	37,331
Payroll taxes	21,831
Administrative expenses - other	1,492,281
New start expenses	159,474
Rent expense	<u>7,504</u>
Total expenses	<u>1,959,765</u>
Change in net assets before Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel funds	<u>(260,056)</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, 2017

(Continued)

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

<hr/>	
Horsemen's revenues:	
Purses earned	40,418,095
Interest - purses earned	14,079
Pari-Mutuel purses earned (non-Gaming Act)	1,971,957
Interest - Pari-Mutuel purses earned (non-Gaming Act)	475
Health and pension funds earned	2,855,587
Interest - health and pension funds earned	418
Total horsemen's revenues	<hr/> 45,260,611
Horsemen's expenses:	
Purse expense	(40,432,174)
Pari-Mutuel purses paid (non-Gaming Act)	(1,972,432)
Health and Pension expense	(2,356,005)
Jockey Act 71 obligation:	
Presque Isle Downs	(250,000)
Penn National Race Course	(250,000)
Total horsemen's expenses	<hr/> (45,260,611)
Total Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel Funds	<hr/> -
Change in Net Assets	(260,056)
Net Assets:	
<hr/>	
Beginning	1,416,618
Ending	<hr/> <u>\$ 1,156,562</u>
	(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, 2017

Cash Flows From Operating Activities:	
Change in net assets	\$ (260,056)
Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities:	
Depreciation	8,373
Unrealized gain on investments	(6,757)
Change in assets and liabilities	
(Increase) decrease in assets:	
Accounts receivable - Pari-Mutuel commissions	21,519
Accounts receivable - slot revenue	(76,745)
Accounts receivable - other	37,513
Due from HBPA Benefit Trust	(79,416)
(Decrease) increase in:	
Accounts payable - trade	(8,376)
Purse obligations payable - Pari-Mutuel	(65)
PA Race Horse Development Fund obligations:	
Deferred revenues	(1,980,527)
Purse payable	(457,477)
Act 71 pension payable	(50,000)
Deferred revenue	(482,688)
Net cash and cash equivalents used in operating activities	<u>(3,334,702)</u>
Cash Flows From Financing Activities:	
Financing of PID construction costs	<u>(400,000)</u>
Net cash and cash equivalents used in financing activities	<u>(400,000)</u>
Net Decrease in Cash and Cash Equivalents	(3,734,702)
Cash and Cash Equivalents:	
Beginning of year	<u>13,876,524</u>
End of year	<u><u>\$10,141,822</u></u>

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, 2017

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, 2017.

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.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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.

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.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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, 2017, 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 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

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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.

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

Reclassifications

Certain amounts from prior year financial statements have been reclassified in order to conform to the presentation in the current year 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.

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.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

3. Cash and Cash Equivalents – Unrestricted and Restricted

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

Bank	Type	2017
Administrative funds:		
Charles Schwab & Co.	Money Market	\$ 955
Centric Bank	Checking	218,840
Bet Fair Exchange	Checking	60,021
N/A	Petty Cash	129
Cash and cash equivalents - unrestricted		279,945
Purse funds (restricted):		
M & T Bank	Checking (Pari-Mutuel)	598,610
Centric Bank	Checking (Gaming)	9,014,851
		9,613,461
Health and Pension funds - restricted:		
Centric Bank	Checking (Gaming)	248,416
Cash and cash equivalents - restricted		9,861,877
Total cash and cash equivalents		\$ 10,141,822

4. Loan Receivable

Through an agreement with PID dated October 27, 2015, the Association and PID have agreed to finance certain upgrade projects at PID. In the current year, the Association agreed to temporarily finance half the cost of a permanent barn construction project at PID. The total cost of the construction is estimated at \$800,000. Work began during the year ended June 30, 2017, and a \$400,000 loan receivable was established by the Association. This is a zero percent interest loan, which is to be repaid in 2018.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

5. Investments

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

	<u>2017</u>
Penn National Gaming, Inc. common stock, 600 shares	\$ 12,840
Gaming & Leisure PPTYS, common stock, 717 shares	<u>27,009</u>
	<u>\$ 39,849</u>

6. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2017</u>
Building improvements	\$ 56,158
Office equipment	<u>140,288</u>
	196,446
Less: accumulated depreciation	<u>(160,829)</u>
	<u>\$ 35,617</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. After these transfer, the greater of 4% or

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

\$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. 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. 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, 2017. All transfers made by the Association were in accordance with applicable state laws.

Funding received by the Association for each track is maintained separately by the Association. During the year ended June 30, 2017, 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, 2017

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

Pennsylvania Race Horse Development Fund Allocation:	2017 - Presque Isle Downs		
	Purse Account	Health and Pension Account	Total
Cash received	\$ 13,097,701	\$ 934,035	\$ 14,031,736
Interest received	8,502	251	8,753
Accounts receivable - current year	398,222	25,147	423,369
Accounts receivable - prior year	(398,175)	(38,890)	(437,065)
	\$ 13,106,250	\$ 920,543	\$ 14,026,793

Pennsylvania Race Horse Development Fund Allocation:	2017 - Hollywood Casino Penn National		
	Purse Account	Health and Pension Account	Total
Cash received	\$ 25,392,245	\$ 1,792,429	\$ 27,184,674
Interest received	5,577	167	5,744
Accounts receivable - current year	745,553	44,500	790,053
Accounts receivable - prior year	(634,399)	(65,213)	(699,612)
	\$ 25,508,976	\$ 1,771,883	\$ 27,280,859

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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:	2017 - Presque Isle Downs		
	Purse Account	Health and Pension Account	Total
Deferred revenue - 6/30/2016	\$ 5,661,421	\$ 40,992	\$ 5,702,413
Fund allocation	13,106,250	920,543	14,026,793
Subtotal	18,767,671	961,535	19,729,206
Amounts expended in accordance with the Gaming Act	(13,011,420)	(957,719)	(13,969,139)
Deferred Revenue - 6/30/2017	\$ 5,756,251	\$ 3,816	\$ 5,760,067

Pennsylvania Race Horse Development Fund Liabilities:	2017 - Hollywood Casino Penn National		
	Purse Account	Health and Pension Account	Total
Deferred revenue - 6/30/2016	\$ 1,144,572	\$ 219,816	\$ 1,364,388
Fund allocation	25,508,976	1,771,883	27,280,859
Subtotal	26,653,548	1,991,699	28,645,247
Amounts expended in accordance with the Gaming Act	(27,420,754)	(1,898,286)	(29,319,040)
Deferred Revenue - 6/30/2017	\$ (767,206)	\$ 93,413	\$ (673,793)

8. 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

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

members, and the remaining 1% is retained within the Association. The amount received for membership due in 2017 was \$328,328.

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. 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 2017 was \$820,000.

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.

9. Bookkeeper Account Interest

Interest income of \$38,135 for the year ended June 30, 2017, 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.

10. 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 received for the year ended June 30, 2017 was \$54,129.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

11. 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 \$25,158 for the year ended June 30, 2017.

12. 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 2017. As of June 30, 2017, HBPA Benefit Trust owes the Association \$121,538 for short-term borrowing.

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.

13. Risk Management

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

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

14. 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

YEAR ENDED JUNE 30, 2017

Administrative Expenses:

Advocacy	\$ 148,615
Contributions	650,799
Office	63,528
Travel and meeting	40,663
Public relations	120,940
Assessments - national	50,420
Dues and subscriptions	1,785
Social activities	70,998
Professional fees	129,709
Telephone	7,247
Insurance	4,983
Depreciation	8,373
Fundraising	5,382
Conventions, meetings, and meals	7,962
Pedigree research	25,509
Repairs and maintenance	2,852
Veterinarian - night races	68,000
Race horse expense	47,193
Horse adoption	2,250
Grooms quarters	750
Miscellaneous	34,323
Total administrative expenses	<u><u>\$ 1,492,281</u></u>

**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, 2017

	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	\$ 13,097,701	\$ 25,392,245	\$ 38,489,946	\$ 934,035	\$ 1,792,429	\$ 2,726,464
Interest received	8,502	5,578	14,080	251	167	418
Total horsemen's receipts	<u>13,106,203</u>	<u>25,397,823</u>	<u>38,504,026</u>	<u>934,286</u>	<u>1,792,596</u>	<u>2,726,882</u>
Horsemen's disbursements:						
Purse disbursements	13,649,970	27,239,656	40,889,626	-	-	-
Act 71 Jockey obligations	-	-	-	250,000	250,000	500,000
Act 71 Pension contributions	-	-	-	397,719	-	397,719
Act 71 Health insurance	-	-	-	360,000	1,648,101	2,008,101
Bank fees	25	-	25	-	185	185
Total horsemen's disbursements	<u>13,649,995</u>	<u>27,239,656</u>	<u>40,889,651</u>	<u>1,007,719</u>	<u>1,898,286</u>	<u>2,906,005</u>
Increase (decrease) in cash	(543,792)	(1,841,833)	(2,385,625)	(73,433)	(105,690)	(179,123)
Cash Balance - July 1, 2016	7,401,908	3,998,568	11,400,476	202,104	225,435	427,539
Cash Balance - June 30, 2017	<u>\$ 6,858,116</u>	<u>\$ 2,156,735</u>	<u>\$ 9,014,851</u>	<u>\$ 128,671</u>	<u>\$ 119,745</u>	<u>\$ 248,416</u>

(Continued)

**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, 2017

	Purses			Health and Pension		
	Presque Isle Downs	HCPNRC	Total	Presque Isle Downs	HCPNRC	Total
Reconciliation of Cash Receipts:						
Purses and H&P funds received	\$ 13,097,701	\$ 25,392,245	\$ 38,489,946	\$ 934,035	\$ 1,792,429	\$ 2,726,464
Increase (decrease) in purses receivable	47	111,154	111,201	(13,743)	(20,713)	(34,456)
Decrease (increase) in deferred revenues	(94,829)	1,911,777	1,816,948	37,175	126,404	163,579
	<u>\$ 13,002,919</u>	<u>\$ 27,415,176</u>	<u>\$ 40,418,095</u>	<u>\$ 957,467</u>	<u>\$ 1,898,120</u>	<u>\$ 2,855,587</u>
Reconciliation of Cash Disbursements:						
Purses and H&P funds disbursed	\$ 13,649,995	\$ 27,239,656	\$ 40,889,651	\$ 1,007,719	\$ 1,898,286	\$ 2,906,005
Increase (decrease) in purses payable	(638,575)	181,098	(457,477)	-	-	-
Increase (decrease) in pension payable	-	-	-	(50,000)	-	(50,000)
Increase (decrease) in H&P admin payable	-	-	-	-	-	-
Total Horsemen's disbursements	<u>\$ 13,011,420</u>	<u>\$ 27,420,754</u>	<u>\$ 40,432,174</u>	<u>\$ 957,719</u>	<u>\$ 1,898,286</u>	<u>\$ 2,856,005</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, 2017

**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, 2017, 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 January 8, 2018.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We

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

did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2017-001 that we consider to be a significant deficiency.

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 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 procedure 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
January 8, 2018

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

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2017

Significant Deficiency:

Finding 2017-001: Permitting of Officers

Condition: One of the Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc.'s (Association) members of the Board of Directors (Board) did not have the appropriate registration with the Pennsylvania Gaming Control Board (PGCB) at the time of the audit.

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.

Effect: The Association is not in compliance with Chapter 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 election, Board Members are informed of their responsibility to complete permitting requirements. Regulatory oversight by the PGCB results in correspondence from Laura Pettigre when individuals have not been permitted by PGCB. Members are sent a reminder of the requirements and are emailed with a link to complete such on the "SlotsLink" system. Management continually monitors the process and assists if applicable. Management does everything within its power to ensure compliance. Management cannot force a member to complete the requirements if a member is unable to complete for any reason. The PGCB is the regulatory body with a process in place for dealing with non-compliance.

During the audit period, the Association has a Board Member who was physically unable to complete the application due to a muscle disease. This individual was turned over to the investigative unit of the PGCB for non-compliance. The individual is of the opinion that he is being discriminated against due to his physical condition. As of the writing, no decision has been rendered by the PGCB.