

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

Financial Statements and  
Supplementary Information

Year Ended June 30, 2019 with  
Independent Auditor's Report

**MaherDuessel**  
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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

YEAR ENDED JUNE 30, 2019

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## Independent Auditor's Report

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Pennsylvania Division Horsemen's Benevolent and Protective Association, Inc. (Association) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements

of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2019, 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.

### **Change in Accounting Principle**

As described in Note 1 to the financial statements, the Association adopted ASU 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*," which requires not-for-profit entities to use the placed-in-service approach for contributions related to long-lived assets, changes how a nonprofit organization classifies net assets, and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity, among other requirements. Our opinion is not modified with respect to this matter.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2020, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

*Mahe Duessel*

Harrisburg, Pennsylvania  
February 6, 2020

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

## STATEMENT OF FINANCIAL POSITION

YEAR ENDED JUNE 30, 2019

### Assets

Current assets:

Cash and cash equivalents - unrestricted	\$ 870,951
Cash and cash equivalents - restricted (Gaming Act and Pari-Mutuel)	16,346,981
Accounts receivable - Pari-Mutuel Commissions	456,984
<i>PA Race Horse Development Fund assets:</i>	
Accounts receivable - slot revenue	1,638,980
Accounts receivable - other	279,534
Marketing grant prepaid expenses	7,416
Due from HBPA Benefit Trust	320,444

Total current assets	19,921,290
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Property and equipment - net	185,601
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Investments	39,505
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<b>Total Assets</b>	<b>\$ 20,146,396</b>
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### Liabilities and Net Assets

Liabilities:

Current liabilities:

Accounts payable - trade	\$ 136,221
Marketing grant unearned revenue	19,405
<i>PA Race Horse Development Fund obligations:</i>	
Purses payable	7,875,249
Pension Act 71 payable	50,000
Jockey Act 71 obligation	20,833
Deferred revenues - purse obligations	8,892,005
Deferred revenues - health and pension benefits	285,235
Deferred revenues - purse obligations - Pari-Mutuel	1,179,274
Purse obligations payable - Pari-Mutuel	140,349

Total current liabilities	18,598,571
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Net Assets:

Without donor restrictions	1,547,825
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Total Net Assets	1,547,825
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<b>Total Liabilities and Net Assets</b>	<b>\$ 20,146,396</b>
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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, 2019

**Revenue:**

Membership dues	\$ 1,007,179
Stake nomination fee	168,100
Bookkeeper account interest	81,423
New start income	308,820
Department of Agriculture marketing grant	406,086
Straw manure income	63,778
Interest/dividend income	23,423
Unrealized investment loss	(6,317)
Other income	43,179
	<hr/>
Total revenue	2,095,671

**Expenses:**

Program	1,575,429
Management and general	250,200
Fundraising	49,825
	<hr/>
Total expenses	1,875,454
	<hr/>
Change in net assets before Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel funds	220,217

(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, 2019

(Continued)

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

<hr/>	
Horsemen's revenues:	
Purses earned	38,307,568
Interest - purses earned	28,070
Pari-Mutuel purses earned (non-Gaming Act)	1,408,427
Interest - Pari-Mutuel purses earned (non-Gaming Act)	3,311
Health and pension funds earned	2,579,357
Interest - health and pension funds earned	666
Total horsemen's revenues	<hr/> 42,327,399
 Horsemen's expenses:	
Purse expense	(38,335,637)
Pari-Mutuel purses paid (non-Gaming Act)	(1,411,735)
Health and Pension expense	(2,080,027)
Jockey Act 71 obligation:	
Presque Isle Downs	(250,000)
Penn National Race Course	(250,000)
Total horsemen's expenses	<hr/> (42,327,399)
Total Pennsylvania Race Horse Development Fund Allocations and Pari-Mutuel Funds	<hr/> -
 <b>Change in Net Assets</b>	 220,217
 <b>Net Assets:</b>	
<hr/>	
Beginning	1,327,608
Ending	<hr/> \$ 1,547,825 <hr/>

(Concluded)

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

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

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	Program	Management and General	Fundraising	Total
Wages	\$ 165,614	\$ 84,393	\$ 22,601	\$ 272,608
Employee benefits	30,570	15,578	4,172	50,320
Payroll taxes	21,446	10,929	2,927	35,302
Rent expense	8,862	-	-	8,862
Advocacy	84,515	-	-	84,515
Public relations	206,128	-	-	206,128
Assessments - national	47,000	-	-	47,000
Dues and subscriptions	6,285	-	-	6,285
Social activities	38,843	-	-	38,843
Veterinarian - night races	64,900	-	-	64,900
Race horse expense	59,285	-	-	59,285
Odyssey Horse Walker expense	7,487	-	-	7,487
Marketing Grant expense	406,086	-	-	406,086
New start expenses	193,565	-	-	193,565
Pedigree research	21,471	-	-	21,471
Travel and meeting	29,299	14,931	3,999	48,229
Conventions, meetings and meals	6,766	3,447	923	11,136
Insurance	8,405	4,283	1,147	13,835
Repairs and maintenance	1,614	822	220	2,656
Office	36,168	12,430	4,400	52,998
Telephone	4,696	2,393	641	7,730
Professional fees	-	99,616	-	99,616
Miscellaneous	28,766	-	-	28,766
Contributions	65,270	-	-	65,270
Golf tournament	-	-	8,795	8,795
Depreciation	32,388	1,378	-	33,766
Total expenses	<u>\$ 1,575,429</u>	<u>\$ 250,200</u>	<u>\$ 49,825</u>	<u>\$ 1,875,454</u>

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

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

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2019

**Cash Flows From Operating Activities:**

Change in net assets	\$ 220,217
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:	
Depreciation	33,766
Unrealized loss on investments	6,317
Changes in assets and liabilities	
(Increase) decrease in assets:	
Accounts receivable - Pari-Mutuel commissions	(164,584)
<i>PA Race Horse Development Fund assets:</i>	
Accounts receivable - slot revenue	(214,166)
Prepaid Act 71 jockey obligation	20,833
Accounts receivable - other	30,186
Marketing grant receivable	42,470
Marketing grant prepaid expenses	51,978
Due from HBPA Benefit Trust	(62,270)
(Decrease) increase in liabilities:	
Accounts payable - trade	104,365
Marketing grant unearned revenue	(9,989)
Purse obligations payable - Pari-Mutuel	(90,461)
<i>PA Race Horse Development Fund obligations:</i>	
Deferred revenues	790,524
Purses payable	3,763,021
Pension Act 71 payable	(150,000)
Jockey Act 71 obligation	20,833
Deferred revenues - purse obligations - Pari-Mutuel	216,191
Net cash and cash equivalents provided by operating activities	4,609,231

**Cash Flows From Investing Activities:**

Purchase of equipment	(132,803)
Net cash and cash equivalents used in investing activities	(132,803)

**Net Increase in Cash and Cash Equivalents**

4,476,428

**Cash and Cash Equivalents:**

Beginning of year	12,741,504
End of year	\$ 17,217,932

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, 2019

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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perpetuity. The Association does not have any net assets with donor restrictions at June 30, 2019.

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

### Cash and Cash Equivalents

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

### Cash and Cash Equivalents - Restricted

Certain cash and cash equivalents are restricted as to use pursuant to Commonwealth of Pennsylvania law, horse racing industry requirements, and benefit plan restrictions. These funds are held in separate accounts.

### 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.

### Accounts Receivable

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

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

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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### 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. Marketing grant revenue is recognized when corresponding expenses are 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 non-financial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. During the year ended June 30, 2019, there were no donated services that met the reporting requirements.

### Income Taxes

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

At the entity level, management has assessed the Association's exposure to income taxes arising from uncertain tax positions taken in current and previously filed tax returns.

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

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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

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

### Functional Allocation of Expenses

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

### Adoption of Accounting Standard

The requirements of the following FASB Accounting Standards Update (ASU) was adopted during the year ended June 30, 2019:

ASU-2016-14, *"Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,"* 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. As a result of adoption, the unrestricted net assets as of July 1, 2018 were transferred to net assets without donor restrictions.

### Pending Accounting Standards Updates

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

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

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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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, 2022. 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 2018-08, "*Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*," is effective for the Association's financial statements for the year ending June 30, 2020. This amendment provides guidance for characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions.

ASU 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash*," is effective for the financial statements for the year ending June 30, 2020. This amendment requires that the statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

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.

## **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

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

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

Race Horse Development Funds for PID and HCPNRC are fully insured by the Federal Deposit Insurance Corporation (FDIC). The Association participates in a Demand Deposit Marketplace Program, which allows a custodian of the Association to deposit cash at multiple receiving banks in a manner designed to remain within the FDIC insurance limits for each receiving bank.

### 3. Cash and Cash Equivalents – Unrestricted and Restricted

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

Bank	Type	2019
Administrative funds:		
Charles Schwab & Co.	Money Market	\$ 4,690
Centric Bank	Checking	832,450
Bet Fair Exchange	Checking	33,682
N/A	Petty Cash	129
Cash and cash equivalents - unrestricted		870,951
Purse funds (restricted):		
Centric Bank	Checking (Pari-Mutuel)	861,355
Centric Bank	Checking (Gaming)	15,231,413
		16,092,768
Health and Pension funds - restricted:		
Centric Bank	Checking (Gaming)	254,213
Cash and cash equivalents - restricted		16,346,981
Total cash and cash equivalents		\$ 17,217,932

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

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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### 4. Investments

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

	<u>2019</u>
Penn National Gaming, Inc. common stock, 600 shares	\$ 11,556
Gaming & Leisure PPTYS, common stock, 717 shares	<u>27,949</u>
	<u>\$ 39,505</u>

### 5. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2019</u>
Building improvements	\$ 56,158
Office equipment	<u>323,021</u>
	379,179
Less: accumulated depreciation	<u>(193,578)</u>
	<u>\$ 185,601</u>

### 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. 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

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

## **NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2019**

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Pennsylvania Race Horse Development Fund. The funds are required to be allocated 1) 80% towards an interest bearing purse account to be used to supplement existing purse agreements which fund purses for live races, 2) 16% is required to be deposited monthly into the Pennsylvania Breeding Fund, and 3) 4% is required to be used to fund health and pension benefits for the members of the horsemen's organizations representing the owners and trainers at the racetrack at which the licensed racing entity operates for the benefit of the organization's members. Of this amount, \$250,000 is required to be paid annually by the horsemen's organization to the thoroughbred jockeys or standard-bred drivers' organization, depending on the track type. The remaining monies are distributed to the Category 1 Horsemen groups at the ratio in which it was earned at each respective Category 1 facility. The Jockey Act 71 obligation was \$500,000 for the year ended June 30, 2019. All transfers made by the Association were in accordance with applicable state laws.

Funding received by the Association, as representative for horsemen at the Presque Isle Downs and Hollywood Casino Penn National Race Course, equals 84% of the fund for each track. Funds for each track are maintained separately by the Association. During the year ended June 30, 2019, 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, 2019

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

Pennsylvania Race Horse Development Fund Allocation:	2019 - Presque Isle Downs		
	Purse	Health and Pension	Total
	Account	Account	
Cash received	\$ 13,866,420	\$ 970,778	\$ 14,837,198
Interest received	15,971	364	16,335
Accounts receivable - current year	742,945	48,533	791,478
Accounts receivable - prior year	(686,865)	(49,081)	(735,946)
	\$ 13,938,471	\$ 970,594	\$ 14,909,065

Pennsylvania Race Horse Development Fund Allocation:	2019 - Hollywood Casino Penn National		
	Purse	Health and Pension	Total
	Account	Account	
Cash received	\$ 24,894,193	\$ 1,731,890	\$ 26,626,083
Interest received	12,099	302	12,401
Accounts receivable - current year	794,183	53,319	847,502
Accounts receivable - prior year	(639,528)	(49,340)	(688,868)
	\$ 25,060,947	\$ 1,736,171	\$ 26,797,118

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

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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:	2019 - Presque Isle Downs		
	Purse Account	Health and Pension Account	Total
Deferred revenue - 6/30/2018	\$ 6,852,687	\$ 35,287	\$ 6,887,974
Fund allocation	13,938,471	970,594	14,909,065
Subtotal	20,791,158	1,005,881	21,797,039
Amounts expended in accordance with the Gaming Act	(14,188,606)	(848,261)	(15,036,867)
Deferred Revenue - 6/30/2019	\$ 6,602,552	\$ 157,620	\$ 6,760,172

Pennsylvania Race Horse Development Fund Liabilities:	2019 - Hollywood Casino Penn National		
	Purse Account	Health and Pension Account	Total
Deferred revenue - 6/30/2018	\$ 1,375,537	\$ 123,205	\$ 1,498,742
Fund allocation	25,060,947	1,736,171	26,797,118
Subtotal	26,436,484	1,859,376	28,295,860
Amounts expended in accordance with the Gaming Act	(24,147,031)	(1,731,761)	(25,878,792)
Deferred Revenue - 6/30/2019	\$ 2,289,453	\$ 127,615	\$ 2,417,068

## 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 HBPA Benefit Trust for the benefit of its members, and the remaining 1% is retained within the Association. The amount received for the year ended June 30, 2019 was \$285,204.

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

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

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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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 reverted back to 3% at the conclusion of the 2018 season. The amount received for the year ended June 30, 2019 was \$721,975.

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.

### **8. Bookkeeper Account Interest**

Interest income of \$81,423 for the year ended June 30, 2019, 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.

### **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, 2019 was \$63,778.

### **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 \$27,276 for the year ended June 30, 2019.

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

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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### **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 2019. As of June 30, 2019, HBPA Benefit Trust owes the Association \$320,444 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.

### **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.

### **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 resolution of the Association's legal proceedings with certainty, it believes that the ultimate resolution of the Association's legal proceedings, including any amounts it may be required to pay, will not have a material effect on the Association's financial statements.

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

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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### 14. Availability and Liquidity

Financial assets available for general expenditure; that is, without donor or other restrictions limiting their uses, within one year of June 30, 2019, comprise the following:

Financial assets at year-end:	
Cash and cash equivalents - unrestricted	\$ 870,951
Cash and cash equivalents - restricted (Gaming Act & Pari-Mutuel)	16,346,981
Accounts receivable - Pari-Mutuel Commissions	456,984
<i>PA Race Horse Development Fund assets:</i>	
Accounts receivable - slot revenue	1,638,980
Accounts receivable - other	279,534
Investments	<u>39,505</u>
Total financial assets	19,632,935
Less amounts not available to be used within one year:	
Assets restricted for health and pension	<u>18,442,945</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 1,189,990</u></u>

As part of its liquidity management, the Association has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due. The Association invests its cash in excess of its daily needs in interest bearing accounts.

## **SUPPLEMENTARY INFORMATION**

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

SCHEDULE OF CASH RECEIPTS, CASH DISBURSMENTS, AND CASH BALANCES  
PENNSYLVANIA RACE HORSE DEVELOPMENT FUND ALLOCATION  
YEAR ENDED JUNE 30, 2019

	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	\$ 13,866,420	\$ 24,894,193	\$ 38,760,613	\$ 970,778	\$ 1,731,890	\$ 2,702,668
Interest received	15,971	12,099	28,070	364	302	666
Total horsemen's receipts	<u>13,882,391</u>	<u>24,906,292</u>	<u>38,788,683</u>	<u>971,142</u>	<u>1,732,192</u>	<u>2,703,334</u>
Horsemen's disbursements:						
Purse disbursements	14,310,279	20,262,337	34,572,616	-	-	-
Act 71 Jockey obligations	-	-	-	229,167	229,167	458,334
Act 71 Pension contributions	-	-	-	98,261	-	98,261
Act 71 Admin expense	-	-	-	-	7,506 *	7,506
Act 71 Health insurance	-	-	-	650,000	1,474,260	2,124,260
Total horsemen's disbursements	<u>14,310,279</u>	<u>20,262,337</u>	<u>34,572,616</u>	<u>977,428</u>	<u>1,710,933</u>	<u>2,688,361</u>
Increase (decrease) in cash	(427,888)	4,643,955	4,216,067	(6,286)	21,259	14,973
Cash Balance - July 1, 2018	7,597,246	3,418,100	11,015,346	115,375	123,865	239,240
Cash Balance - June 30, 2019	<u>\$ 7,169,358</u>	<u>\$ 8,062,055</u>	<u>\$ 15,231,413</u>	<u>\$ 109,089</u>	<u>\$ 145,124</u>	<u>\$ 254,213</u>

(Continued)

\* Actuary expenses paid to Conrad Siegel

**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, 2019

	Purses			Health and Pension		
	Presque Isle Downs	HCPNRC	Total	Presque Isle Downs	HCPNRC	Total
<b>Reconciliation of Cash Receipts:</b>						
Purses and H&P funds received	\$ 13,866,420	\$ 24,894,193	\$ 38,760,613	\$ 970,778	\$ 1,731,890	\$ 2,702,668
Increase (decrease) in purses receivable	56,081	154,655	210,736	(548)	3,979	3,431
Decrease (increase) in deferred revenues	250,134	(913,915)	(663,781)	(122,333)	(4,409)	(126,742)
	<u>\$ 14,172,635</u>	<u>\$ 24,134,933</u>	<u>\$ 38,307,568</u>	<u>\$ 847,897</u>	<u>\$ 1,731,460</u>	<u>\$ 2,579,357</u>
<b>Reconciliation of Cash Disbursements:</b>						
Purses and H&P funds disbursed	\$ 14,310,279	\$ 20,262,337	\$ 34,572,616	\$ 977,428	\$ 1,710,933	\$ 2,688,361
Increase (decrease) in purses payable	(121,673)	3,884,694	3,763,021	-	-	-
Decrease in pension Act 71 payable	-	-	-	(150,000)	-	(150,000)
Increase in jockey Act 71 obligation	-	-	-	-	20,833	20,833
Decrease in prepaid Act 71 jockey obligation	-	-	-	20,833	-	20,833
Total Horsemen's disbursements	<u>\$ 14,188,606</u>	<u>\$ 24,147,031</u>	<u>\$ 38,335,637</u>	<u>\$ 848,261</u>	<u>\$ 1,731,766</u>	<u>\$ 2,580,027</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, 2019

**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 Swails,  
Pennsylvania Office of the Budget  
Pennsylvania Division Horsemen’s  
Benevolent and Protective  
Association, Inc.**

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

(Association) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 6, 2020.

## **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 Directors and Secretary Swails, 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-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*.

### 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.

*Mahe Duessel*

Harrisburg, Pennsylvania  
February 6, 2020