

The National HBPA



"Horsemen Helping Horsemen"

Full Board Meeting / Closed Session

- Budget and Dues Committee Meeting
- Necessary Discussion for Future
- Agenda
 - Presentation of 2014 Financial Results
 - Request for Motion for Acceptance
 - Presentation of 2015 Budget and Dues Allocation
 - Request for Motion for Acceptance
 - **Critical Discussion: The Budget Process, and 2016 and Beyond**

Discussion Overview

- I anticipate that the first areas of discussion will go quickly; the 2014 results met and exceeded budget; and the 2015 budget and the allocation of shortfalls was addressed by the Executive Committee at its October meeting
- However, the balance of the discussion – regarding the path forward, are critical to our future

2014 Financial Results – Overall Comments

- For the third straight year, we had a successful financial year to budget
- Results reported today are based on “cash basis” of reporting
- Significant variations not expected in revision to “accrual basis”
- Audit has not been completed, results are internal, and preliminary

Our Entities

- The National HBPA is the non-profit entity through which we operate
- The National HBPA Foundation is a standalone entity that holds assets and makes distributions to horsemen affected by significant adverse circumstances
- The National Horsemen's Administrative Corp. (NHAC) is a taxable for-profit entity used for business purposes to house our insurance activities and the Horsemen's Journal

2014 Financial Results – National HBPA

- Budgeted 2014 to BREAK-EVEN
 - This means that affiliate dues, in total, are set to not exceed our planned cost
- Actual 2014 **GAIN** of **\$9,510**
- Bettered Budget by **\$9,510**
 - Conventions netted gain of **\$3,370**
 - Office and Other Expenses **\$8,880**
 - Claiming Crown above plan **\$3,500**
 - Unbudgeted Trademark cost **\$1,300**
 - Uncollected Affiliate Dues **\$4,000**
 - Other Revenue Under Budget **\$940**

2014 Financial Results – National HBPA Foundation, Inc.

- No Budgeted Activity for the Foundation
- Beginning Net Assets of **\$132,566**
- Donations to Foundation - **\$50**
- Interest Income Earnings - **\$514**
- Expenses of Foundation - **\$265**
- Donation to Gerry Carwood - **\$3,500**
- Donation to Francis Perkins - **\$5,000**
- Ending Net Assets of **\$124,365**

2014 Financial Results – National HBPA Administrative Corp.

- Budgeted 2014 to BREAK EVEN
- Actual 2014 **GAIN** of **\$5,525**
 - Horseman's Journal beat budget **\$4,525**
 - Other Savings versus Budget **\$1,000**
- From a balance sheet perspective, the NHAC owes NHBPA about \$149,000 which is slowly being repaid as gains allow

In Summary (2014 Results)

- While 2014 had some financial challenges for us, Staff did a very good job of managing to and beating the approved budget, allowing us to have results “in the black” for both NHBPA and NHAC
- Measurements shown are on a cash basis, which matches the manner in which we budget; financial statements as audited and later published are on accrual basis
- Seeking a motion that the presented financial results (National HBPA, NHAC and HJ, and Foundation be approved by the Board

NHBPA 2014 / 2015 Dues Issues

- We have lost past affiliates (New Mexico)
- We have been challenged by affiliates setting their own dues level (Texas)
- We have been challenged by affiliates re-setting dues unilaterally (Charles Town) or requesting reductions (Mountaineer and Charles Town) or not paying (Montana)
- We see other challenges regarding certain affiliates (New England / Virginia racing issues) and their ability to pay dues
- These factor into both our 2014 results and 2015 planning

2015 Dues Issues

- Budget and Dues Committee went through the now normal process of creating a “zero-based” budget with Staff
- No cost increases were allowed for 2015 over 2014; cooperation earned from key vendors and Staff
- The “quick answer” would be that 2015 dues would be the same as in 2014, BUT affiliate situations (Charles Town and Mountaineer reduction requests, New England losing racing, Texas expected to not be in NHBPA, Montana not paying, etc.) made clear that would not be the case

2015 Dues Solution

- *I was not present, but the October 2014 Executive Committee resulted in certain affiliates "stepping up" to added 2015 dues over 2014 to plug the budgetary hole caused by others' issues.*

Affiliates	2015 Dues	2014 Dues
Florida	\$52,000	\$47,000
Oklahoma	\$30,000	\$25,000
Charles Town	\$26,500	\$31,000
Indiana	\$24,000	\$22,000
Minnesota	\$24,000	\$21,000
Ohio	\$22,000	\$17,000
Arkansas	\$19,000	\$18,000
Tampa Bay	\$13,000	\$11,000
Mountaineer	\$10,000	\$14,500
Montana	\$0	\$1,000
New England	\$0	\$13,000

2015 Dues Issues

- *Thanks to the various affiliates "stepping up" in the manner that they did, plus an allocation of \$7,500 from the 2014 surplus NHBPA had over budgeted amounts being applied to the shortfalls created, we have a "balanced budget" on a zero-based budget approach.*
- Based upon the process that took place in the October 2014 Executive Committee meeting, I believe that the affected affiliates are well-aware of their contributions, and the 2015 budget is now readied for adoption.

2015 Dues – In Summary

- **Budget**: *No increases in overall costs to be paid through dues allocations*
- **Allocation**: *No increases to 19 affiliates, and reductions and increases to others as depicted*
- Thus, I would request a **motion** for action by the National HBPA Board that: 1) the 2015 Budget, as adopted by the Budget and Dues Committee; and 2) the allocation, as previously agreed to by the Executive Committee be adopted by the Board of the National HBPA.

Okay, Where Are We?

- We have accepted our 2014 results pending audit
- We have approved a 2015 budget for National and the dues that attach to it
- There are a few extraneous items before we move forward:
 - Where do we stand with respect to charitable or organizational support?
 - Where do we stand with respect to the D&O policy that is about to be put in place?
 - Impacts from the Virginia anti-trust case?
 - What are the implications of these things?

Okay, Where Do We Go From Here?

- We have to now address the large “elephant in the room”
- Based upon the issues from our affiliates, the 2015 budget was imperiled before the October Executive Committee meeting
- The Executive Committee members, through voluntary “stepping up” on the part of various affiliates who were willing to ensure a near-term solution, addressed the immediate issue
- However, and wisely, the Executive Committee indicated that such an approach would not work for 2016 and beyond

Where Do We Go From Here?

- The remaining aspect of this conversation (and I want it to be a conversation) will cover two key things:
 1. What should our policy be – as a National entity – with respect to affiliates who do not pay their assigned dues, or who self-assign their own dues level?
 2. What does 2016 look like and why does it look that way?

What Should Our Policy Be?

- There is power in numbers, but at what cost?
- “Horsemen Helping Horsemen” may have practical limits after the 2015 budget
- If an affiliate does not pay what is deemed to be a fairly allocated amount, should it be allowed to be a member of National HBPA?
- How do we energize our affiliates to better understand the importance of National, and the many and varied benefits of pooling together to effectively spread the costs of so many relevant aspects of addressing horsemen’s interests?

The Pro Forma Budget

- The “budget process” requires a forecast of expenses that will be incurred. National HBPA 2015’s costs are expected to be about **\$615,000**, of which major components are \$96,000 for the conventions; \$278,000 of employee and honorarium cost; \$43,000 for legal and accounting; \$65,000 for lobbyist; \$53,000 in office expenses; \$12,000 for membership dues; \$8,000 for EC meetings; \$8,000 for the H.J.; \$15,000 for UK Gluck; \$19,000 for insurances; plus other miscellaneous items

The Pro Forma Budget Method

- The **\$615,000** budgeted costs must be met by revenue to come to the zero-based balance
- We project that the costs of the conventions will be offset by revenue, taking care of **\$96,000** of the need; we take in **\$20,000** of administrative fees from NHAC, **\$2,500** of reimbursement from affiliates related to website, **\$5,500** of dues charged to non-HBPA horsemen using Lavin for horse insurance, **\$10,000** in Claiming Crown revenue; and **\$1,500** in miscellaneous amounts
- After considering these items, the “plug figure” needed to fill the budget is the affiliate dues
- In this case, the **\$472,000** amount has been held steady for four years

The 2016 Budget

- The **\$472,000** amount for 2015, held for four years, is indicated to increase by **\$21,000** in 2016, bring the total need to **\$493,000**
- The **\$21,000** is comprised of \$14,000 of cost increases plus not being able to count on \$7,000 from budget surplus from 2015
- Regardless, the trend of affiliate issues impacting the whole of National HBPA, plus other affiliates causes a need for 2016 to be looked at carefully
- The Budget and Dues Committee has followed a method developed and applied previously by prior administrations
- That method makes an allocation of dues, with rounding, based upon a formula featuring use of each affiliate's administrative budget, \$ in overnights, and days of meetings in a year in a weighted fashion

Weighted factors	70%	20%	10%	0%	Total
	<u>Admin</u>	<u>Overnights</u>	<u>Days</u>	<u>Handle</u>	<u>Impact</u>
Florida	10.06%	1.20%	0.65%	0.00%	11.91%
Kentucky	5.45%	1.33%	0.57%	0.00%	7.35%
Louisiana	7.25%	1.04%	1.01%	0.00%	9.30%
Pennsylvania	6.17%	0.96%	0.89%	0.00%	8.03%
Charles Town	4.71%	0.93%	0.39%	0.00%	6.03%
Mountaineer	1.52%	0.47%	0.58%	0.00%	2.57%
Ohio	2.29%	0.29%	0.88%	0.00%	3.47%
Arizona	2.25%	0.40%	0.43%	0.00%	3.08%
Arkansas	0.76%	1.89%	0.15%	0.00%	2.81%
Minnesota	2.15%	0.84%	0.19%	0.00%	3.17%
New Mexico	0.00%	0.00%	0.00%	0.00%	0.00%
Oklahoma	3.90%	0.66%	0.39%	0.00%	4.95%
Washington	1.39%	0.45%	0.22%	0.00%	2.05%
Nebraska	2.15%	0.22%	0.15%	0.00%	2.52%
Texas	5.00%	0.68%	0.51%	0.00%	6.19%
New England	0.00%	0.00%	0.00%	0.00%	0.00%
Alabama	0.07%	0.00%	0.00%	0.00%	0.07%
Canada	1.04%	0.37%	0.86%	0.00%	2.27%
Finger Lakes	1.34%	0.62%	0.29%	0.00%	2.24%
Illinois	1.39%	0.30%	0.15%	0.00%	1.85%
Iowa	1.57%	0.89%	0.20%	0.00%	2.65%
Ontario	0.00%	1.89%	0.52%	0.00%	2.40%
Oregon	3.12%	0.30%	0.11%	0.00%	3.53%
Virginia	0.83%	1.30%	0.07%	0.00%	2.20%
Indiana	2.15%	1.23%	0.21%	0.00%	3.58%
Tampa Bay	1.87%	0.80%	0.27%	0.00%	2.94%
Michigan	0.71%	0.35%	0.10%	0.00%	1.15%
Colorado	0.69%	0.46%	0.12%	0.00%	1.27%
Idaho	0.17%	0.15%	0.09%	0.00%	0.41%
Montana	0.00%	0.00%	0.00%	0.00%	0.00%
	70.00%	20.00%	10.00%	0.00%	100.00%

Weighted factors	2016 Revenues \$ 493,000	2015 Dues Per October EC Meeting	2015 Dues Adjustment per October EC Meet	2016 As Discussed in Committee	2016 As Discussed TX and MT
Florida	\$58,734	\$52,000	\$5,000	\$55,000	\$55,000
Kentucky	\$36,245	\$35,000		\$36,000	\$36,000
Louisiana	\$45,853	\$47,000		\$47,000	\$47,000
Pennsylvania	\$39,592	\$47,000		\$47,000	\$47,000
Charles Town	\$29,714	\$26,500	-\$4,500	\$28,500	\$28,500
Mountaineer	\$12,652	\$10,000	-\$4,500	\$11,000	\$11,000
Ohio	\$17,114	\$22,000	\$5,000	\$22,000	\$22,000
Arizona	\$15,165	\$14,000		\$15,000	\$15,000
Arkansas	\$13,857	\$19,000	\$1,000	\$18,000	\$18,000
Minnesota	\$15,636	\$24,000	\$3,000	\$21,000	\$21,000
New Mexico	\$0	\$0		\$0	\$0
Oklahoma	\$24,400	\$30,000	\$5,000	\$28,000	\$28,000
Washington	\$10,130	\$11,000		\$11,000	\$11,000
Nebraska	\$12,417	\$12,000		\$13,000	\$13,000
Texas	\$30,521	\$5,000		\$20,000	\$0
New England	\$0	\$0	-\$13,000	\$2,000	\$2,000
Alabama	\$336	\$1,000		\$2,000	\$2,000
Canada	\$11,189	\$11,000		\$11,000	\$11,000
Finger Lakes	\$11,056	\$11,500		\$11,500	\$11,500
Illinois	\$9,099	\$8,000		\$9,000	\$9,000
Iowa	\$13,088	\$14,000		\$14,000	\$14,000
Ontario	\$11,850	\$11,000		\$12,000	\$12,000
Oregon	\$17,388	\$10,000		\$15,000	\$15,000
Virginia	\$10,867	\$10,000		\$10,000	\$10,000
Indiana	\$17,669	\$24,000	\$2,000	\$22,000	\$22,000
Tampa Bay	\$14,479	\$13,000	\$2,000	\$14,000	\$14,000
Michigan	\$5,686	\$2,000		\$4,000	\$4,000
Colorado	\$6,257	\$1,000		\$5,000	\$5,000
Idaho	\$2,004	\$1,000		\$2,000	\$2,000
Montana	\$0	\$0	-\$1,000	\$2,000	\$0
	\$493,000	\$472,000	\$0	\$508,000	\$486,000

So Let's Talk

- *I have now tried to take you through our budgeting process so that everyone can understand, at least generally, what we go through to set proper budgets*
- *I have also shown you what has happened in closing the 2015 budget, with certain affiliates "stepping up" to cover for those who have chosen to not pay their allocated dues*
- *We have a significant issue, and it is time to talk about it, as leaders, to allow the whole of us to see where we are going and how we are getting there*