

**Pennsylvania Harness Horsemen's
Association**

Financial Statements and Supplementary
Information

Years Ended December 31, 2015 and 2014 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

YEARS ENDED DECEMBER 31, 2015 AND 2014

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Independent Auditor's Report

Board of Directors and Secretary Albright, Pennsylvania Office of the Budget
Pennsylvania Harness Horsemen's Association

Report on the Financial Statements

We have audited the accompanying financial statements of the Pennsylvania Harness Horsemen's Association (Association) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the years 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 December 31, 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Information Audited by other Auditors

The financial statements of the Association as of December 31, 2014, were audited by other auditors whose report dated May 12, 2015, expressed an unmodified opinion on those statements.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying statement of cash receipts and cash disbursements and changes in escrow balances 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 June 30, 2016, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
June 30, 2016

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 270,740	\$ 147,366
Accounts receivable	11,751	43,043
Prepaid expenses	208,075	179,746
Total current assets	490,566	370,155
Fixed assets:		
Property, plant, and equipment, at cost	114,436	110,556
Less: accumulated depreciation	(98,870)	(93,905)
Net fixed assets	15,566	16,651
Other assets:		
Restricted cash and cash equivalents	22,352,024	14,666,661
Restricted investments	22,416,406	21,941,910
Total other assets	44,768,430	36,608,571
Intangible assets:		
Naming rights, net of accumulated amortization of \$300,000 in 2015 and \$200,000 in 2014	400,000	500,000
Total Assets	\$ 45,674,562	\$ 37,495,377
Liabilities and Net Assets		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 270,555	\$ 245,313
Payroll taxes and deductions	-	4,878
Accrued employer retirement plan contribution	31,037	36,000
Total current liabilities	301,592	286,191
Noncurrent Liabilities:		
Long-term liabilities	300,000	400,000
Escrow funds and deferred revenue:		
Purses - racing revenue	8,062,352	7,603,336
Purses - slot revenue	13,620,831	7,162,220
Health and pension - slot revenue	23,084,648	21,842,416
Total escrow funds and deferred revenue	44,767,831	36,607,972
Total non-current liabilities	45,067,831	37,007,972
Total liabilities	45,369,423	37,294,163
Net Assets:		
Unrestricted	305,139	201,214
Total Liabilities and Net Assets	\$ 45,674,562	\$ 37,495,377

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Revenues:		
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Race track revenues:		
Downs Racing	\$ 2,100,000	\$ 1,700,000
Harrah's Chester	1,200,000	1,350,000
Membership dues	27,090	25,995
Race Horse Development Fund	1,284,667	1,279,402
Member benefit reimbursements	595,211	502,053
Special events	25,000	25,000
Corporate sponsorships	24,000	38,000
Interest income	139	643
Miscellaneous income	2,293	2,901
	5,258,400	4,923,994
Expenses:		
<hr/>		
Salaries	463,382	402,712
Payroll taxes	36,339	30,591
Employee benefits	69,359	78,231
General insurance	237,215	176,419
Member benefits	1,878,019	1,775,775
Chaplaincy program	12,600	12,600
Advertising, newsletter, and public relations	829,601	772,833
Promotion expenses - television	87,826	148,189
Meeting expense and travel	64,605	84,019
National dues	12,000	12,000
Office expense	21,226	22,157
Rent	-	6,200
Telephone	7,930	9,433
Legal and accounting	117,237	85,272
Legislative fees	141,076	139,037
Donation and gifts	284,109	161,505
Special events	33,970	31,706
Fair maintenance and purses	741,750	710,850
Depreciation	4,965	6,921
Amortization	100,000	100,000
Miscellaneous expense	11,266	17,342
	5,154,475	4,783,792
Change in Net Assets	103,925	140,202
Net Assets:		
<hr/>		
Beginning of year	201,214	61,012
End of year	\$ 305,139	\$ 201,214

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Reconciliation of Change in Net Assets to Net Cash and Cash Equivalents Provided by Operating Activities:		
Change in net assets	\$ 103,925	\$ 140,202
Adjustments to reconcile change in in assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	104,965	106,921
Effects of changes in operating assets and liabilities:		
Accounts receivable	31,292	7,285
Prepaid expenses	(28,329)	(20,568)
Accounts payable	25,242	(13,273)
Payroll taxes and deductions	(4,878)	(1,961)
Deferred revenue	-	(1,332)
Accrued employer retirement plan contribution	(4,963)	(3,000)
Accrued payroll	-	(11,880)
Net cash and cash equivalents provided by operating activities	227,254	202,394
Cash Flows From Investing Activities:		
Payments for purchase of furniture and equipment	(3,880)	(2,672)
Purchase of naming rights	(100,000)	(100,000)
Net cash and cash equivalents used in investing activities	(103,880)	(102,672)
Net Increase in Cash and Cash Equivalents	123,374	99,722
Cash and Cash Equivalents:		
Beginning of year	147,366	47,644
End of year	\$ 270,740	\$ 147,366

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pennsylvania Harness Horsemen's Association (Association) is a membership organization which promotes the welfare and development of harness racing in Pennsylvania. The primary sources are from two harness race tracks in Pennsylvania.

Basis of Presentation

The financial statements of the Association are prepared on the accrual basis of accounting. Under this method, revenues are recognized when earned rather than received, and expenses are recognized when incurred rather than when the obligation is paid. In accordance with FASB ASC 958, *Not-for-Profit Entities*, 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 restricted or permanently restricted net assets at December 31, 2015 and 2014.

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 affect certain reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent gains and losses. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The restricted cash accounts are not included in cash balances for the purpose of the statement of cash flows as they are not available for normal operations of the Association.

Restricted Cash and Cash Equivalents and Investments

Certain cash, cash equivalents, and investments are restricted as to use by Pennsylvania law. These funds are held in separate accounts.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Accounts Receivable

Accounts receivable consist of uncollateralized sponsorships for Pennsylvania Harness Week and member health benefit reimbursements. The Association uses the direct write-off method for bad debts, the results of which are not materially different from those under the allowance method.

Fair Value of Investments

The carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximates fair value due to the short maturity of these instruments. Investments are stated at fair value. Gains or losses on sales of investments and any unrealized gains or losses are reflected as components of the escrow funds – health and pension and racing revenue liability accounts.

Furniture and Equipment

Furniture and equipment is stated at cost. Depreciation is calculated using the straight-line method over the estimated lives of depreciable assets which range from five to ten years based on management's estimate of the useful lives.

Additions, major replacements, and betterments which are individually in excess of \$1,000, and have a life in excess of one year, are capitalized. Maintenance and repairs are charged to expense as incurred.

Long-Lived Assets

Long-lived assets, such as property and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be reduced to fair value. No impairment losses have been recorded through December 31, 2015.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Intangible Assets

The intangible asset represents the naming rights to an arena located in Wilkes-Barre, Pennsylvania and is amortized over the life of the agreement which is ten years.

Functional Allocation of Expenses

The costs of providing the Association's various programs and activities are presented on a functional basis in Note 8 to the financial statements. Accordingly, certain costs have been allocated based on management estimates of the time spent and materials used among the programs and supporting services benefited.

Income Taxes

The Association is a non-profit organization which is exempt from federal income taxes under Section 501(c)(5) of the Internal Revenue Code. FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, requires an assessment of the Association's exposure to income taxes at the entity level as a result of uncertain tax positions taken in current and previously filed tax returns. Examples of tax positions taken at the entity level include the continuing validity of its 501(c)(5) status, potential unrelated business activities, and other tax positions that could result in income taxes to the Association upon examinations by taxing authorities. The Association's management is not aware of any activities that would jeopardize its tax-exempt status or would be subject to unrelated business or excise tax.

The Association files Form 990 - Return of Organization Exempt from Income Tax, on an annual basis.

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

Pending Standards Update

ASU 2014-09, *Revenue from Contracts with Customers*, is effective for the Association's financial statements for the year ending December 31, 2019 (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. Management has not yet determined the impact of this amendment on the Association's financial statements.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

ASU 2016-02, "*Leases (Topic 842)*," effective for the Association's financial statements for the year ending December 31, 2020. 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 twelve 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. Management has not yet determined the impact of this amendment on the Association's financial statements.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

2. ESCROW FUNDS, DEFERRED REVENUE AND RESTRICTED CASH/INVESTMENTS

Pennsylvania law requires certain portions of revenue from slot machines at Pennsylvania racetracks to be used for horse racing purses and pension and health benefits for horse men and women. The Association acts as fiduciary in the collection and disbursement of these funds, which are required to be maintained in separate accounts. The detail of transactions in these accounts for 2015 and 2014 is as follows:

	Purses	Benefits
Escrow balance, January 1, 2014	\$ 6,857,217	\$ 19,617,873
Gaming Funds - Chester Downs and Marina, LLC	28,146,797	1,765,951
Gaming Funds - Downs Racing, LP	28,117,753	1,760,955
Unrealized/realized gains on investments	-	(488,246)
Investment income (net of fees)	48,507	731,224
	56,313,057	3,769,884
Purse payments - Chester Downs and Marina, LLC - purse account	(29,464,666)	-
Purse payments - Downs Racing, LP - purse account	(26,543,388)	-
Health insurance payments	-	(1,255,081)
Retirement distributions	-	(290,261)
	(56,008,054)	(1,545,342)
Escrow balance, December 31, 2014	7,162,220	21,842,415
Gaming Funds - Chester Downs and Marina, LLC	31,046,769	1,814,881
Gaming Funds - Downs Racing, LP	30,805,239	1,765,385
Unrealized/realized losses on investments	-	(1,776,068)
Investment income (net of fees)	57,417	1,002,826
	61,909,425	2,807,024
Purse payments - Chester Downs and Marina, LLC - purse account	(27,619,565)	-
Purse payments - Downs Racing, LP - purse account	(27,831,250)	-
Health insurance payments	-	(1,299,305)
Retirement distributions	-	(265,486)
	(55,450,815)	(1,564,791)
Escrow balance, December 31, 2015	\$ 13,620,830	\$ 23,084,648

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	Purses	Benefits
December 31, 2015		
Composition of ending balance:		
Cash and cash equivalents	\$ 13,621,230	\$ 2,701,932
Investments	-	20,382,916
	13,621,230	23,084,848
Opening cash due the Association	(400)	(200)
Ending cash and cash equivalents and investments	\$ 13,620,830	\$ 23,084,648
December 31, 2014		
Composition of ending balance:		
Cash and cash equivalents	\$ 7,162,620	\$ 1,913,454
Investments	-	19,929,161
	7,162,620	21,842,615
Opening cash due the Association	(400)	(200)
Ending cash and cash equivalents and investments	\$ 7,162,220	\$ 21,842,415

The restricted cash accounts each include deposits made by the Association to open the accounts.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Pursuant to an agreement with Chester Downs and Marina, LLC dated January 1, 2011, certain racing revenues are to be paid to the Association. The Association is required to maintain these funds in a separate account. These funds are to be used to finance the Association's operating expenses, marketing and promotional costs, or fund purses at the Chester racetrack. Revenue is recognized when cash is moved from restricted to unrestricted in order to cover Association expenses. The detail of the transactions for 2015 and 2014 are as follows:

	<u>Racing Revenues</u>
Deferred revenue balance, January 1, 2015	<u>\$ 7,603,336</u>
Transfers from Chester Downs and Marina, LLC - racing income	1,876,193
Investment income (net of fees)	28,816
	<u>1,905,009</u>
Racetrack purse pay-outs	(245,650)
Racetrack (pari-mutuel) revenues paid to the Association	(1,200,000)
County fair expense	-
Bank charges	(343)
	<u>(1,445,993)</u>
Deferred revenue balance, December 31, 2015	<u>\$ 8,062,352</u>
Compositions of ending balance:	
Cash and cash equivalents	\$ 6,028,862
Investments	2,033,490
Ending cash and cash equivalents and investments	<u>\$ 8,062,352</u>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	Racing Revenues
Deferred revenue balance, January 1, 2014	\$ 7,167,882
Transfers from Chester Downs and Marina, LLC - racing income	2,219,377
Investment income (net of fees)	31,360
	2,250,737
Racetrack purse pay-outs	(425,410)
Racetrack (pari-mutuel) revenues paid to the Association	(1,350,000)
County fair expense	(39,450)
Bank charges	(423)
	(1,815,283)
Deferred revenue balance, December 31, 2014	\$ 7,603,336
Compositions of ending balance:	
Cash and cash equivalents	\$ 5,590,587
Investments	2,012,749
Ending cash and cash equivalents and investments	\$ 7,603,336

Summary of all escrow accounts:

	Purses - Slot Revenue	Benefits - Slot Revenue	Racing Revenue	Total
December 31, 2015				
Cash and cash equivalents	\$ 13,620,830	\$ 2,701,732	\$ 6,028,862	\$ 22,351,424
Investments	-	20,382,916	2,033,490	22,416,406
Escrow and deferred revenue balance, December 31, 2015	\$ 13,620,830	\$ 23,084,648	\$ 8,062,352	\$ 44,767,830

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>Purses - Slot Revenue</u>	<u>Benefits - Slot Revenue</u>	<u>Racing Revenue</u>	<u>Total</u>
December 31, 2014				
Cash and cash equivalents	\$ 7,162,220	\$ 1,913,254	\$ 5,590,587	\$ 14,666,061
Investments	-	19,929,161	2,012,749	21,941,910
Escrow and deferred revenue balance, December 31, 2014	<u>\$ 7,162,220</u>	<u>\$ 21,842,415</u>	<u>\$ 7,603,336</u>	<u>\$ 36,607,971</u>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Investments are stated at fair value. Fair value and unrealized appreciation (depreciation) at December 31, 2015 and 2014 are summarized as follows:

	2015			Fair Value
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Mutual funds:				
Fixed income - Domestic	\$ 5,560,179	\$ -	\$ (550,491)	\$ 5,009,688
Fixed income - International	1,108,281	-	(126,503)	981,778
Fixed income - Other	567,907	-	(49,224)	518,683
Money Market	445,595	-	-	445,595
Total mutual funds	7,681,962	-	(726,218)	6,955,744
Exchange traded funds:				
Fixed income - Domestic	3,636,805	-	(108,700)	3,528,105
Fixed income - U.S. Government	956,784	-	(4,503)	952,281
Equity	2,219,556	33,632	(145,675)	2,107,513
Total exchange traded funds	6,813,145	33,632	(258,878)	6,587,899
Corporate bonds:				
Domestic	3,895,818	3,707	(109,351)	3,790,174
Government	222,550	-	(22,176)	200,374
International	684,729	886	(14,165)	671,450
Total corporate bonds	4,803,097	4,593	(145,692)	4,661,998
Other investments:				
FS Investment Corporation II	1,289,369	-	(198,764)	1,090,605
FS Energy and Power Fund	1,431,946	-	(540,001)	891,945
FS Global Credit Opportunities Fund	1,342,455	-	(338,691)	1,003,764
NorthStar Real Estate Income II	1,322,939	-	(183,989)	1,138,950
Dividend Capital Diversified Property Fund	115,000	-	(29,499)	85,501
Total other investments	5,501,709	-	(1,290,944)	4,210,765
Total investments	\$ 24,799,913	\$ 38,225	\$ (2,421,732)	\$ 22,416,406

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2014			Fair Value
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Mutual funds:				
Blend	\$ 129,493	\$ 1,133	\$ (5,030)	\$ 125,596
Value	443,751	604	(7,466)	436,889
Growth	88,772	1,785	(4,394)	86,163
International	176,585	3,741	(2,332)	177,994
Other	103,046	2,085	(13,729)	91,402
Fixed income - Domestic	5,313,989	31,697	(121,701)	5,223,985
Fixed income - International	2,433,725	-	(191,175)	2,242,550
Fixed income - Other	544,088	-	(14,623)	529,465
Money Market	500,686	-	-	500,686
Total mutual funds	<u>9,734,135</u>	<u>41,045</u>	<u>(360,450)</u>	<u>9,414,730</u>
Exchange traded funds:				
Fixed income - Domestic	2,645,314	39,555	(4,793)	2,680,076
Fixed income - U.S. Government	437,577	3,209	(204)	440,582
Equity	1,696,933	38,279	(67,826)	1,667,386
Total exchange traded funds	<u>4,779,824</u>	<u>81,043</u>	<u>(72,823)</u>	<u>4,788,044</u>
Corporate bonds:				
Domestic	3,405,797	5,333	(73,669)	3,337,461
Government	326,870	-	(17,445)	309,425
International	918,447	6,337	(13,498)	911,286
Total corporate bonds	<u>4,651,114</u>	<u>11,670</u>	<u>(104,612)</u>	<u>4,558,172</u>
Other investments:				
FS Investment Corporation II	1,195,392	-	(78,282)	1,117,110
FS Energy and Power Fund	1,339,294	-	(260,212)	1,079,082
FS Global Credit Opportunities Fund	501,747	-	(34,688)	467,059
NorthStar Real Estate Income II	501,648	-	(66,320)	435,328
Dividend Capital Diversified Property Fund	115,000	-	(32,615)	82,385
Total other investments	<u>3,653,081</u>	<u>-</u>	<u>(472,117)</u>	<u>3,180,964</u>
Total investments	<u>\$ 22,818,154</u>	<u>\$ 133,758</u>	<u>\$ (1,010,002)</u>	<u>\$ 21,941,910</u>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Investment income (restricted) is excluded from the statements of activities and consists of:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$1,137,844	\$ 867,927
Investment fees	<u>(70,303)</u>	<u>(79,894)</u>
	<u>\$1,067,541</u>	<u>\$ 788,033</u>

3. FAIR VALUE MEASUREMENTS

The fair value measurement framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the assets or liabilities;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

ASC 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs be used when available. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities and have the highest priority. Level 1 assets may include securities that are traded in an active exchange market, or actively traded over-the-counter markets. Level 2 valuation is based on directly or indirectly observable inputs other than quoted prices for identical assets. Level 3 assets may include financial instruments whose value is determined using pricing models with internally developed assumptions, discounted cash flows methodologies, or similar techniques.

The Association uses the following valuation techniques to measure fair value of assets on a recurring basis. There have been no changes in the methodologies used at December 31, 2015 and 2014.

Mutual Funds and Exchange Traded Funds: Fair value of mutual funds and exchange traded funds are based on quoted market prices for identical securities. These investments are classified within Level 1 of the valuation hierarchy.

Money Market Mutual Funds: Money market mutual funds are valued at a stable \$1.00 net assets value which is the value at which the fund is traded and approximates fair value based on the fair value of the underlying investment. Such securities are classified within Level 1 of the valuation hierarchy.

Corporate Bonds: Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issues with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued using a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks. These investments are classified within Level 2 of the valuation hierarchy.

FS Investment Corporation II: The underlying investments consist principally of debt securities, including senior secured loans, second lien secured loans and, to a lesser extent, subordinated loans. The net asset value of the investment portfolio is determined quarterly using a combination of quoted market prices and estimations based on relevant inputs such as

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

indicative dealer quotes, values of like securities, and valuations prepared by third-party valuation services. This investment is classified within Level 3 of the valuation hierarchy.

FS Energy and Power Fund: The underlying investments consist primarily of income-oriented securities of privately-held and power related energy companies. The fund is an externally managed, non-diversified, closed-end management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended. The fund's investment policy is to invest at least 80% of total assets in securities of Energy companies defined as those companies that engage in the exploration, development, production, gathering, transportation, processing, storage, refining, distribution, mining, generation or marketing of natural gas, crude oil, refined products, or coal. The investment objectives are to generate current income and long-term capital appreciation. The company determines the net asset value of its investment portfolio each quarter. Securities that are publicly-traded are valued at the reported closing price on the valuation date. Securities that are not publicly-traded are valued at fair value as determined in good faith by the company's board of trustees with portfolio company valuations which are based on relevant inputs, including, but not limited to, indicative dealer quotes, values of like securities, recent portfolio company financial statements and forecasts, and valuations prepared by third-party valuation services. This investment is classified within Level 3 of the valuation hierarchy.

FS Global Credit Opportunities Fund: The underlying investments consist principally of secured and unsecured floating and fixed rate loans, and to a lesser extent, senior secured bonds and other credit instruments. The net asset value of the investment portfolio is determined quarterly using a combination of quoted market prices and estimations based on relevant inputs such as indicative dealer quotes, values of like securities, and valuations prepared by third-party valuation services. This investment is classified within Level 3 of the valuation hierarchy.

Real Estate Investment Trusts (Dividend Capital Diversified Property Fund and NorthStar Real Estate Income II, Inc.): These non-traded real estate investment trusts are valued at an estimated amount based on overall economic and real estate market conditions of the underlying commercial properties. These investments are classified within Level 3 of the valuation hierarchy.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value on a recurring basis as of December 31, 2015:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed Income - Domestic	\$ 5,009,688	\$ -	\$ -	\$ 5,009,688
Fixed Income - International	981,778	-	-	981,778
Fixed Income - Other	518,683	-	-	518,683
Money Market	445,595	-	-	445,595
Total mutual funds	<u>6,955,744</u>	<u>-</u>	<u>-</u>	<u>6,955,744</u>
Exchange traded funds:				
Fixed Income - Domestic	3,528,105	-	-	3,528,105
Fixed Income - U.S. Government	952,281	-	-	952,281
Equity	2,107,513	-	-	2,107,513
Total exchange traded funds	<u>6,587,899</u>	<u>-</u>	<u>-</u>	<u>6,587,899</u>
Corporate bonds:				
Domestic	-	3,790,174	-	3,790,174
Government	-	200,374	-	200,374
International	-	671,450	-	671,450
Total corporate bonds	<u>-</u>	<u>4,661,998</u>	<u>-</u>	<u>4,661,998</u>
Other investments:				
FS Investment Coporation II	-	-	1,090,605	1,090,605
FS Energy and Power Fund	-	-	891,945	891,945
FS Global Credit Opportunities Fund	-	-	1,003,764	1,003,764
Northstar Real Estate Income II	-	-	1,138,950	1,138,950
Dividend Capital Diversified Property Fund	-	-	85,501	85,501
Total other investments	<u>-</u>	<u>-</u>	<u>4,210,765</u>	<u>4,210,765</u>
Total	<u>\$ 13,543,643</u>	<u>\$ 4,661,998</u>	<u>\$ 4,210,765</u>	<u>\$ 22,416,406</u>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value on a recurring basis as of December 31, 2014:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Blend	\$ 125,596	\$ -	\$ -	\$ 125,596
Value	436,889	-	-	436,889
Growth	86,163	-	-	86,163
International	177,994	-	-	177,994
Other	91,402	-	-	91,402
Fixed Income - Domestic	5,223,985	-	-	5,223,985
Fixed Income - International	2,242,550	-	-	2,242,550
Fixed Income - Other	529,465	-	-	529,465
Money Market	500,686	-	-	500,686
Total mutual funds	<u>9,414,730</u>	<u>-</u>	<u>-</u>	<u>9,414,730</u>
Exchange traded funds:				
Fixed Income - Domestic	2,680,076	-	-	2,680,076
Fixed Income - U.S. Government	440,582	-	-	440,582
Equity	1,667,386	-	-	1,667,386
Total exchange traded funds	<u>4,788,044</u>	<u>-</u>	<u>-</u>	<u>4,788,044</u>
Corporate bonds:				
Domestic	-	3,337,461	-	3,337,461
Government	-	309,425	-	309,425
International	-	911,286	-	911,286
Total corporate bonds	<u>-</u>	<u>4,558,172</u>	<u>-</u>	<u>4,558,172</u>
Other investments:				
FS Investment Coporation II	-	-	1,117,110	1,117,110
FS Energy and Power Fund	-	-	1,079,082	1,079,082
FS Global Credit Opportunities Fund	-	-	467,059	467,059
Northstar Real Estate Income II	-	-	435,328	435,328
Dividend Capital Diversified Property Fund	-	-	82,385	82,385
Total other investments	<u>-</u>	<u>-</u>	<u>3,180,964</u>	<u>3,180,964</u>
Total	<u><u>\$ 14,202,774</u></u>	<u><u>\$ 4,558,172</u></u>	<u><u>\$ 3,180,964</u></u>	<u><u>\$ 21,941,910</u></u>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Level 3 Information

The following table sets forth additional disclosures for the measurements of investments in certain entities that calculate net asset value per share (or its equivalent) at December 31, 2015:

Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Other investments:				
FS Investment Corporation II	\$ 1,090,605	\$ -	3 months	30 days
FS Energy and Power Fund	891,945	-	3 months	30 days
FS Global Credit Opportunities Fund	1,003,764	-	3 months	30 days

Level 3 Gains and Losses

The following table sets forth a summary of changes in the fair value of the Association's Level 3 assets for the years ended December 31, 2015 and 2014:

Balance, January 1, 2014	\$ 1,585,181
Net depreciation	(154,218)
Purchases	<u>1,750,001</u>
Balance, December 31, 2014	<u>3,180,964</u>
Net depreciation	(470,199)
Purchases	<u>1,500,000</u>
Balance, December 31, 2015	<u><u>\$ 4,210,765</u></u>

Gains and losses (realized and unrealized) included in changes in value for the period above are reflected as a component of the escrow funds – health and pension liability account. There were no transfers in or out of Level 3 in 2015 and 2014.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	<u>2015</u>	<u>2014</u>
Pennsylvania Harness Week sponsorships	\$ -	\$ 38,000
Member benefit reimbursements	<u>11,751</u>	<u>5,043</u>
	<u>\$ 11,751</u>	<u>\$ 43,043</u>

5. NAMING RIGHTS

The Association recognized an intangible asset in the amount of \$700,000 for the benefits derived from an agreement related to naming rights entered into with Downs Racing, LP (Downs Racing). Downs Racing owns and operates a gaming and entertainment facility and harness racing track with pari-mutuel wagering in Wilkes-Barre, Pennsylvania known as Mohegan Sun Pocono Downs. Downs Racing entered into an agreement with the Luzerne County Convention Center Authority for the naming rights to the arena located in Wilkes-Barre. The arena is known as the Mohegan Sun Arena at Casey Plaza through January 2020. In consideration of the mutual benefits that the Association and its members and employees will receive relating to the naming rights granted to Downs Racing, the Association has contracted to contribute to Downs Racing \$100,000 annually during the term of Downs Racing's naming rights agreement. The Association will amortize the intangible asset, naming rights, ratably over the term of the agreement with Downs Racing. The Association recognized \$100,000 of amortization expense related to naming rights during 2015 and 2014. The Association will recognize \$100,000 of amortization expense annually through 2019.

6. RACE TRACK REVENUES

The Association holds a contract with a harness race track in Pennsylvania, Downs Racing, which expired December 31, 2015. Under the terms of this contract, the Association will receive \$1,200,000 annually. In addition, the Association can request additional payments exceeding \$100,000 if deemed necessary. These amounts may be used toward Association operating expenses, dues to any national organization, group health insurance for drivers, trainers, and grooms, accident and disability insurance for trainers and drivers, and marketing and promotional items. On December 30, 2015, the Association entered into a contract with a harness race track in Pennsylvania, Downs Racing, which expired December 31, 2016.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Under the terms of this contract, the Association will receive \$1,200,000 annually. In addition, the Association can request additional payments exceeding \$100,000 if deemed necessary. These amounts may be used toward Association operating expenses, dues to any national organization, group health insurance for drivers, trainers, and grooms, accident and disability insurance for trainers and drivers, and marketing and promotional items.

In addition, the Association holds a contract with Chester Downs and Marina, LLC that expires February 28, 2017. Under this contract a percentage of wagering handle shall be paid to the Association to be used toward Association operating expenses, dues to any national horsemen's organizations, group health insurance, marketing and promotional costs to fund purses as determined by the Association in consultation with Chester Downs, or administrative costs.

7. SPECIAL EVENTS

The following is a schedule of income and direct expenses from the Association's special events for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Golf outing:		
Revenue	\$ 25,000	\$ 25,000
Direct expenses	<u>33,970</u>	<u>31,706</u>
Net loss	<u>\$ (8,970)</u>	<u>\$ (6,706)</u>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

8. FUNCTIONAL CLASSIFICATIONS OF EXPENSES

Expenses by function for the years ended December 31 are as follows:

	<u>2015</u>	<u>2014</u>
Program services:		
Health program	\$ 126,217	\$ 52,194
Pension program	70,202	79,205
Member benefits	2,579,391	2,436,396
Racetrack relations	45,665	37,593
Industry promotion	1,661,476	1,543,207
Regulatory matters	222,940	279,986
Supporting services:		
Management and general	<u>448,584</u>	<u>355,211</u>
Total	<u><u>\$5,154,475</u></u>	<u><u>\$4,783,792</u></u>

9. 401(K) PLAN

The Association established a deferred salary arrangement under I.R.C. Section 401(k). The Plan covers substantially all its eligible employees. The Association's matching contribution is discretionary and is equal to a uniform percentage as determined by the Employer of each participant's elective deferral. The Association may also make a discretionary nonelective contribution. The Association's discretionary contribution for 2015 and 2014 totaled \$31,037 and \$36,000, respectively.

10. LEASE

The Association leased its office space in Lemoyne, Pennsylvania under a one-year lease which expired April 30, 2014. The rental amount was \$736 per month. This lease was not renewed. Total rent expense for 2015 and 2014 was \$0 and \$6,200, respectively.

The Association leases several pieces of equipment under operating leases, with a maturity dates in 2017. Monthly payments total \$626 per month. Total rental payments for 2015 and 2014 were \$7,512 and \$7,503, respectively.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Minimum lease payments under these leases are:

2016	\$	7,512
2017		<u>834</u>
Total	\$	<u><u>8,346</u></u>

11. LONG-TERM PAYABLE

The Association entered into a naming rights agreement January 1, 2011 with Downs Racing, to become a party to naming the arena located in Wilkes-Barre, Pennsylvania. The Association contributes \$100,000 per year for a ten year period. In 2015 and 2014, the Association paid \$100,000. Future payments will be:

2016	\$	100,000
2017		100,000
2018		100,000
2019		<u>100,000</u>
Total	\$	<u><u>400,000</u></u>

12. CONCENTRATIONS OF CREDIT RISK

The Association maintains several cash balances (restricted and unrestricted) at financial institutions located in Pennsylvania. Accounts in these financial institutions are secured by Federal Deposit Insurance Corporation (FDIC) up to specified limits. In the normal course of business, the Association may have deposits that exceed the insured limit which management considers to be a normal business risk. At December 31, 2015 and 2014, the Association had bank deposits of \$22,635,774 and \$14,993,269, respectively.

For the years ended December 31, 2015 and 2014, revenue includes \$3,300,000 and \$3,050,000, respectively, arising from race track revenues received from two race tracks. The loss of these revenue sources could have a material effect on the Association.

Supplementary Information

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS AND CHANGES IN ESCROW BALANCES

PERIOD JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

	Purses	Benefits	Total
Cash Receipts:			
Gaming funds - Chester Downs and Marina, LLC	\$ 31,046,769	\$ 1,814,881	\$ 32,861,650
Gaming funds - Downs Racing LP	30,805,239	1,765,385	32,570,624
Interest and investment income, net of fees	57,417	1,002,826	1,060,243
Total cash receipts	61,909,425	4,583,092	66,492,517
Cash Disbursements:			
Purse payments - Chester Downs and Marina, LLC	27,619,565	-	27,619,565
Purse payments - Downs Racing, LP	27,831,250	-	27,831,250
Health insurance payments	-	1,299,305	1,299,305
Retirement distributions	-	265,486	265,486
Total cash disbursements	55,450,815	1,564,791	57,015,606
Other:			
Net unrealized and realized losses on restrited investments	-	(1,776,068)	(1,776,068)
Changes in Escrow Balances	6,458,610	1,242,233	7,700,843
Escrow balance at January 1, 2015	7,162,220	21,842,415	29,004,635
Escrow balance at December 31, 2015	\$ 13,620,830	\$ 23,084,648	\$ 36,705,478

See accompanying notes to statement of cash receipts and cash disbursements and changes in escrow balances.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS AND CHANGES IN ESCROW BALANCES

PERIOD JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

1. BASIS OF PRESENTATION

The accompanying statement of cash receipts and cash disbursements and changes in escrow balances includes the Pennsylvania Race Horse Development Fund activity of the Pennsylvania Harness Horsemen's Association (Association) and is presented on the cash basis of accounting. The information in this statement is presented in accordance with Chapter 436a of the Pennsylvania Horse Development and Gaming Act, and fiscal code (72 P.S. § 1701-O). Therefore, some amounts presented in this statement may differ from amount presented in, or used in the preparation of the basic financial statements.

2. FLOW OF THE PENNSYLVANIA HORSE FUNDS

The Pennsylvania Department of Revenue transfers Pennsylvania Racehorse Development Funds to the casinos on a weekly basis designating amounts for purses and health and retirement benefits. The casinos then transfer these funds to the Association to separate accounts established by the casinos, by purpose.

Management of the Association determines the portion of the Race Horse Development Funds to transfer to the casinos for purse purposes based on an estimate provided by the casinos. The frequency of purse payments to the casinos is depended on the established racing schedules. The Association maintains schedules detailing all purse fund payments. The purse payments are reconciled to the actual purses paid by the casinos. Health disbursements are made directly to the carriers based on invoiced amounts. There were no administrative expenses charged for those funds in 2015.

**Pennsylvania Harness Horsemen's
Association**

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

Year Ended December 31, 2015

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

Board of Directors and Secretary Albright, Pennsylvania Office of the Budget
Pennsylvania Harness Horsemen's Association

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 Harness Horsemen's Association (Association), which comprise the statement of financial position as of December 31, 2015, 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 June 30, 2016.

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 the 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 these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2015-001 and 2015-002 that we consider to be significant deficiencies.

Board of Directors and Secretary Albright, Pennsylvania Office of the Budget
Pennsylvania Harness Horsemen's Association
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 reporting 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 procedures applied in the audit of the financial statements and, accordingly, we express no opinion on 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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maher Duessel

Harrisburg, Pennsylvania
June 30, 2016

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2015

Significant Deficiencies

Finding 2015-001: Timeliness of Quarterly Reporting

Condition: One quarterly report filed with the Pennsylvania Gaming Control Board was submitted 36 days outside of the required submission deadline.

Criteria: Chapter 436a, Section 436a.4(e), requires that Horsemen's organizations shall file with the Gaming Control Board (1) a quarterly report, due by the 20th day of the month following the end of each calendar quarter, which shall account for (i) funds received and disbursed for purse supplements and (ii) health and retirement benefits.

Cause: The Pennsylvania Harness Horsemen's Association did not sufficiently monitor to ensure compliance with Chapter 436a, reporting requirements of the Pennsylvania Gaming Control Board.

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

Recommendation: We recommend that management review current procedures and controls to ensure future reports are timely filed.

Management's Response: Management agrees with the finding. Management will review current procedures and controls to insure future reports are filed in a timely manner.

Finding 2015-002: Segregation of Duties

Condition: The Chief Financial Officer (CFO) directly receives investment statements, has the ability to request wire transfers, and records all investment transactions in the general ledger. Investment statements are not reviewed by any other employee or Board member of the Association.

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

Cause: The Association did not have policies and procedures in place throughout the entire fiscal year to ensure that all investment transactions were properly authorized, recorded, and reviewed.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2015

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

Recommendation: We recommend that the Executive Director or a member of the Board of Directors directly receive and review investment statements and transactions prior to providing these statements to the CFO for reconciliation. We recommend that the individual who receives the investment statement, initial the investment statement to denote their review.

Management's Response: Management agrees with the finding. The CFO or Board designee will receive and reconcile investment statements and transactions prior to providing these statements to the Executive Director for review. Each individual will initial the investment statement as confirmation of reconciliation and review, respectively.