

**PENNSYLVANIA HORSEMEN'S  
ASSOCIATION**

**PENNSYLVANIA HARNESS  
HORSEMEN'S ASSOCIATION**

PERFORMANCE AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2011

# PENNSYLVANIA HORSEMEN'S ASSOCIATION

## PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

### Performance Audit Report

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## INDEPENDENT AUDITORS' REPORT

Commonwealth of Pennsylvania  
Office of the Budget  
Comptroller Operations  
Bureau of Audits  
Harrisburg, Pennsylvania

We have completed a performance audit of Pennsylvania Harness Horsemen's Association (Association) for the year ended December 31, 2011. The objective of the performance audit was to examine and report on the Association's fiduciary responsibility related to Pennsylvania Racehorse Development Funds pursuant to the Pennsylvania State Code as referenced in Appendix 4.

We conducted our performance audit in accordance with the standards applicable to performance 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 sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

*McKonly & Asbury, LLP*

Camp Hill, Pennsylvania  
December 5, 2012

# PENNSYLVANIA HORSEMEN'S ASSOCIATION

## PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

### EXECUTIVE SUMMARY

#### *Objectives, Scope and Audit Methodology*

This performance audit of Pennsylvania Harness Horsemen's Association (the Association or PHHA) covers two summary objectives. Objective one is the quality control review of the external financial audit and objective two is the reconciliation of the receipt and disbursement of Pennsylvania Race Horse Development Funds and compliance with selected sections of PA Code 436a and 436b. This performance audit covers the fiscal period ended December 31, 2011. The audit methodology included understanding the processes and internal controls related to financial reporting and the receipt and disbursement of Pennsylvania Race Horse Development Funds. The auditors performed limited testing, as necessary, to present a conclusion on the detailed and summary objectives.

#### *Audit Results, Findings, Conclusions and Recommendations*

The audit resulted in minor findings which did not materially impact the financial statements or compliance with PA Code 436a and 436b.

#### *Quality Control Review of the External Financial Audit*

The quality control review of the external financial audit resulted in no findings affecting the accuracy of the financial statements as a whole. The conclusion is that the external audit was performed in accordance with auditing standards generally accepted in the United States of America and the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

#### *Reconciliation of the Receipt and Disbursement of Pennsylvania Race Horse Development Funds and Compliance with PA Code 436a and 436b*

The reconciliation of the receipt and disbursement of Pennsylvania Race Horse Development Funds resulted in minimal findings related to the funds reported on the quarterly reports to the Pennsylvania Gaming Control Board. The conclusion is that the Pennsylvania Race Horse Development Funds, with this one exception, were accurately accounted for within the Association's financial statements. It is recommended that management amend the reports for the quarter ended September 30, 2011.

The performance audit verified compliance with PA Code 436a and 436b with the exception that some health & welfare plans were not submitted to the Pennsylvania Gaming Control Board at least ninety (90) days prior to their effective date. Additionally, there were minimal instances where payments were made to individuals that were not members of the Association. The conclusion is that, with these exceptions, the Association complied with the requirements of PA Code 436a and 436b. It is recommended that management implement procedures to submit health & welfare contracts to the Pennsylvania Gaming Control Board at least ninety (90) days prior to their effective date and review all recipients of health and welfare benefits to ensure they are members of the Association.

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#### BACKGROUND AND ADDITIONAL INFORMATION

##### *Organization*

Pennsylvania Harness Horsemen's Association is a membership organization which promotes the welfare and development of harness racing in Pennsylvania. The mission of the Association is to provide a stable foundation for horsemen by encouraging competitive racing that increases fan participation and enhances the reputation of Pennsylvania harness racing on the national scene. The Association acts as a fiduciary in the collection and dispersal of Pennsylvania Racehorse Development Funds.

The Association did not enter into any transactions with affiliates during the year ended December 31, 2011, and the Association's management indicated to McKonly & Asbury, LLP (M&A) that no such affiliate relationships exist.

The Association receives Pennsylvania Racehorse Development Funds from The Mohegan Sun at Pocono Downs and Harrah's Chester Casino & Racetrack (Casinos).

##### *Flow of Pennsylvania Racehorse Development Funds*

On a weekly basis, the Pennsylvania Department of Revenue will transfer Pennsylvania Racehorse Development Funds to the Casinos, including the portions for purses and health and welfare benefits. The Casinos then transfer these funds to the Association on a weekly basis, which are maintained in separate accounts by Casino and by purpose.

The Casinos send an estimate of purse needs to the Association throughout each racetrack's racing season. Management of the Association then determines the portion of Pennsylvania Racehorse Development Funds to fulfill this estimate, which can include other sources of purse funds. The frequency of purse payments made to the Casinos varies based on the established racing schedules. The Association maintains a spreadsheet by week for all purse fund payments, and after the races are completed, receives detailed information regarding the actual purse payments by race and by date. Health & welfare disbursements are made directly by the Association based on invoices received.

##### *Audited Financial Statements*

The financial statements of the Association are audited on an annual basis in conformity with accounting principles generally accepted in the United States of America by Greenawalt & Company, P.C. The auditor's report on financial statements for the fiscal year ended December 31, 2011, was issued by Greenawalt & Company, P.C. on March 26, 2012.

The financial statements and auditor's report can be found at Appendix 3.

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#### *Eligibility for Membership, Health, and Pension Plans*

Eligibility requirements to become a Member of the Association:

- Active member - Any person, who is a member of the United States Trotting Association, and licensed in good standing by the Commonwealth of Pennsylvania as an owner, trainer, or driver, becomes an active member of PHHA upon payment of the annual dues.
- Associate member - Any interested party not eligible under "active member" above, becomes an associate member of PHHA upon payment of the annual dues
- Exceptions - Prohibited by both active and associate membership in PHHA are officials of pari-mutuel racetracks and owners of more than 5% (five-percent) pari-mutuel racetrack stock.
- Notwithstanding the above, the PHHA Board of Directors shall be the final judge of member eligibility, and may approve or reject any membership applications.

Eligibility requirements for Health Plan:

- 75% of the individual's income must come from harness racing.
- Only trainers, drivers, and grooms are eligible for PHHA Health Insurance.
- Individuals are not eligible for coverage from PHHA, if the individual is a licensed owner.
- There will be a required number of starts for trainers and drivers. The grooms' eligibility for insurance coverage is determined by the required number of starts for the trainer the individual is employed by.
- There will be a three (3) month waiting period following the filing of the individual's application. The individual will then be eligible the next billing period.
- If the individual has been on PHHA Health Insurance previously, and cancelled or resigned, the wait will be six (6) months.
- If the individual is a participant transferred in from another state or filing an application from another association, the individual will be required to meet PHHA Guidelines.
- Payment will be due on the 15th of each month. The individual will receive a reminder each month, this is not a bill. The individual is responsible for making sure the payment is received, in the Lemoyne office, by the 15th of the month.
- The participants will pay a percentage of the full premium for Health Insurance. That percentage will be determined monthly.
- PHHA employees must work at least twenty-five (25) hours per week to be eligible for coverage.

Eligibility requirements for Dental Plan:

- This information was not provided to M&A for review.

Eligibility requirements for Term Life Policy

- Members in good standing under the constitution and by-laws.

# PENNSYLVANIA HORSEMEN'S ASSOCIATION

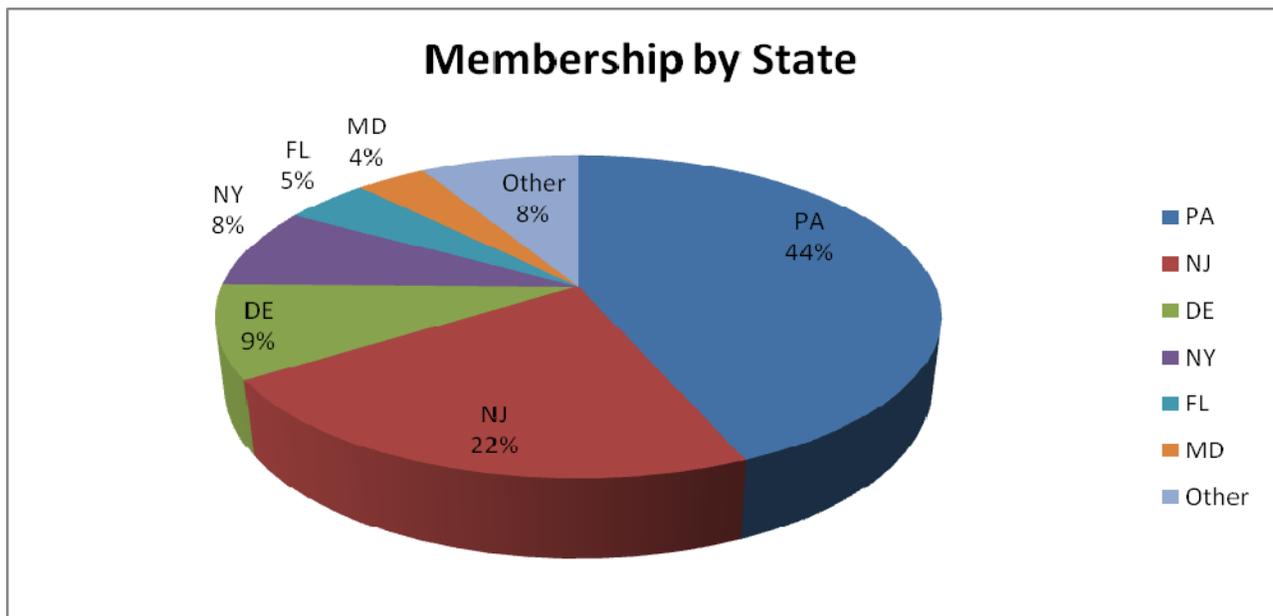
## PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

Eligibility requirements for Retirement Savings Plans:

- The individual must be a member of the Association.
- The individual must be either a Driver or a Trainer who competes at the racetracks and makes the required number of qualified starts.
  - The number of qualified starts may vary each year depending on the number of race days at the tracks.
- Contributions are made to the plan on behalf of plan participants based on a point systems as follows:
  - Trainers:
    - One-quarter point (1/4 Point) - 25 to 40 Qualified Starts each calendar year.
    - One-half point (1/2 Point) - 41 to 60 Qualified Starts each calendar year.
    - Three-quarter (3/4 Point) - 61 to 79 Qualified Starts each calendar year.
    - One point (1 Point) - 80 Qualified Starts and higher each calendar year.
  - Drivers:
    - One-quarter Point (1/4 Point) - 30 to 55 Qualified Starts each calendar year.
    - One Half Point (1/2 Point) - 56 to 85 Qualified Starts each calendar year.
    - Three-Quarter Point (3/4 Point) - 86 to 140 Qualified Starts each calendar year.
    - One Point (1 Point) - 140 Qualified Starts and higher each calendar year.
- Participants in the plan are 100% vested upon accumulation of 5 points. In the event of death or a total disability, as defined in the plan document participants become 100% vested in the participant account.

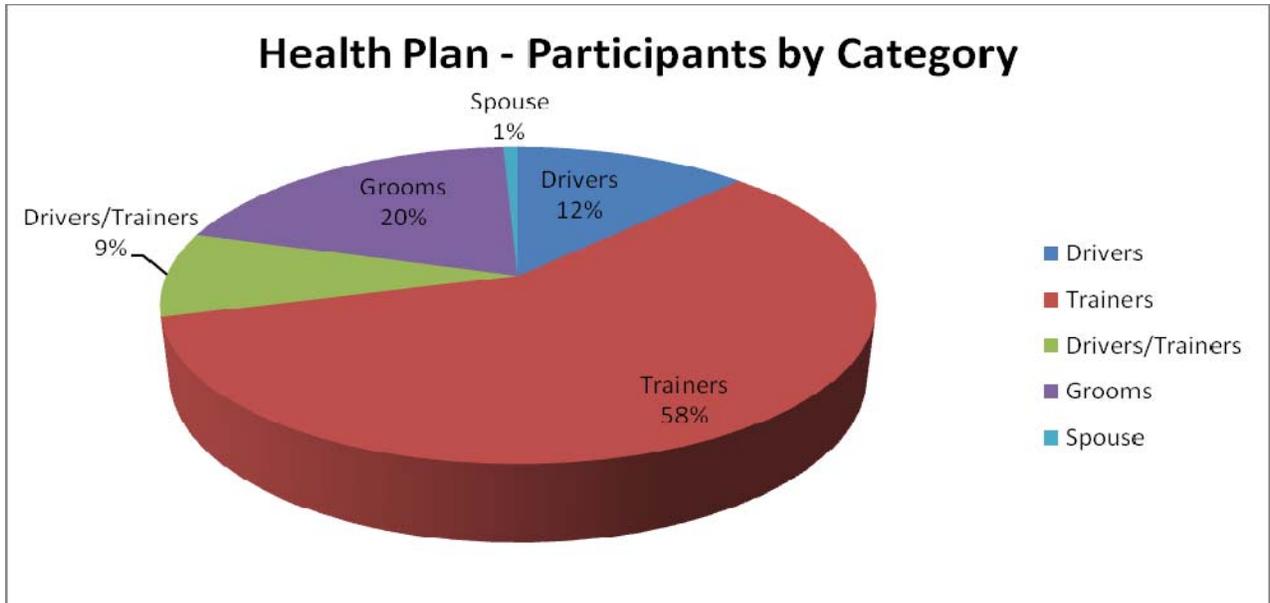
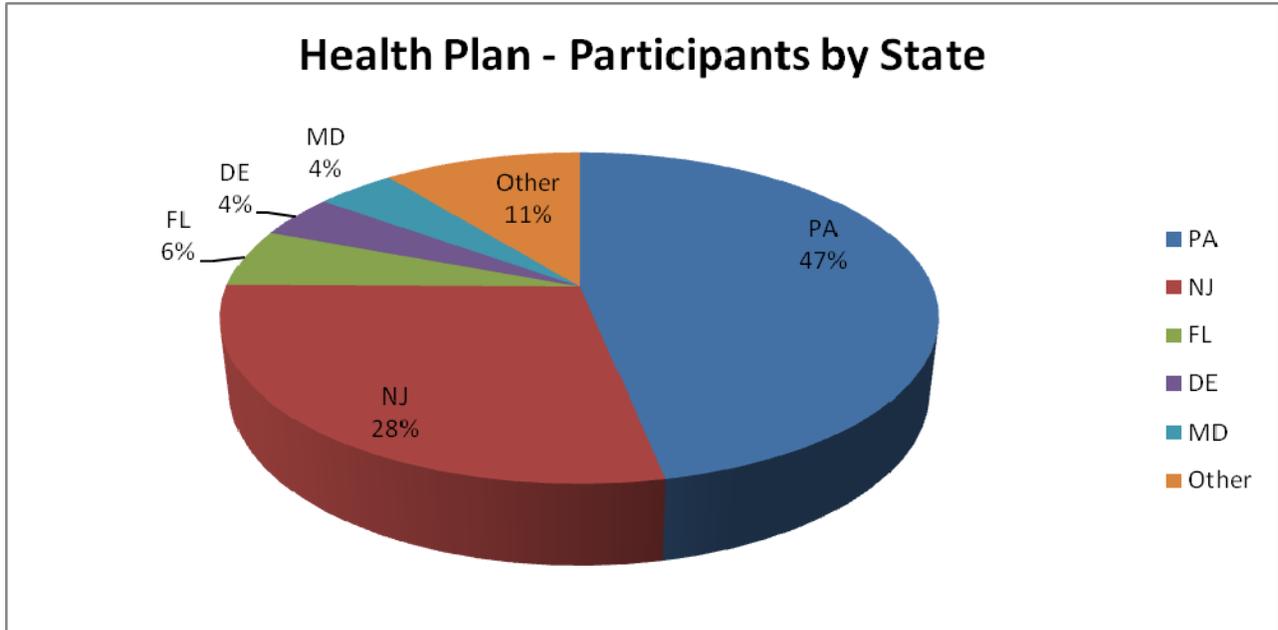
### ***Membership and Eligibility Data:***

Based on information provided to us during our fieldwork, the graphical representations of membership and eligibility of the Association have been made below. This information was not audited by M&A and is derived by information included in Appendix 5.



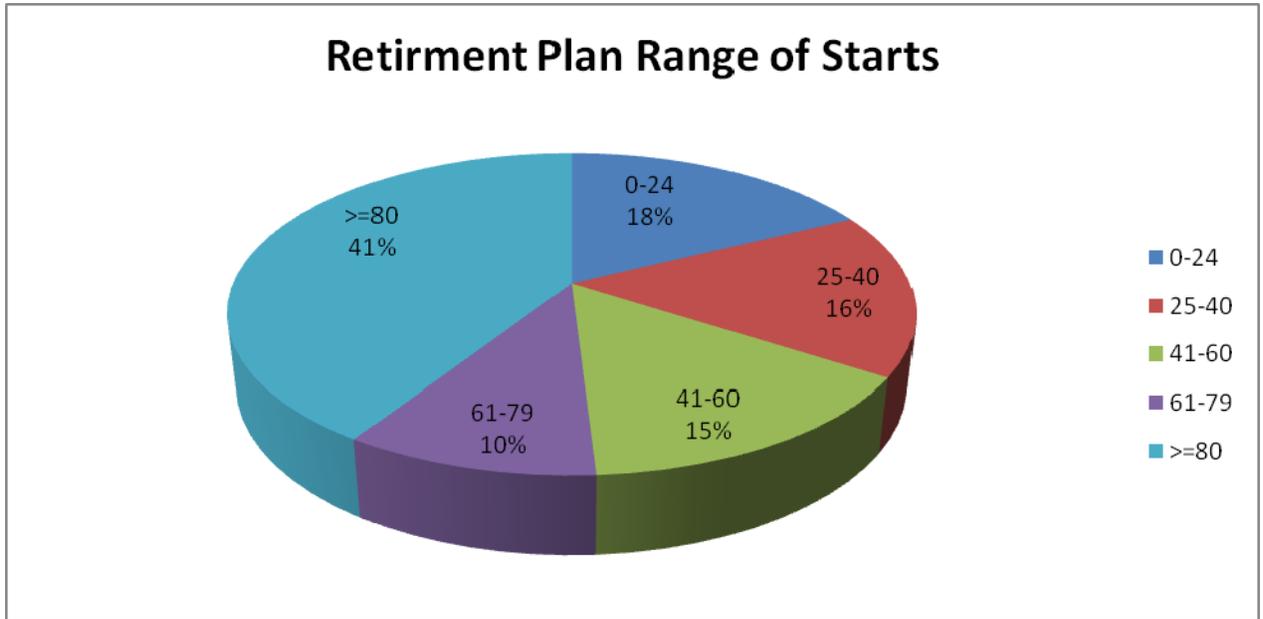
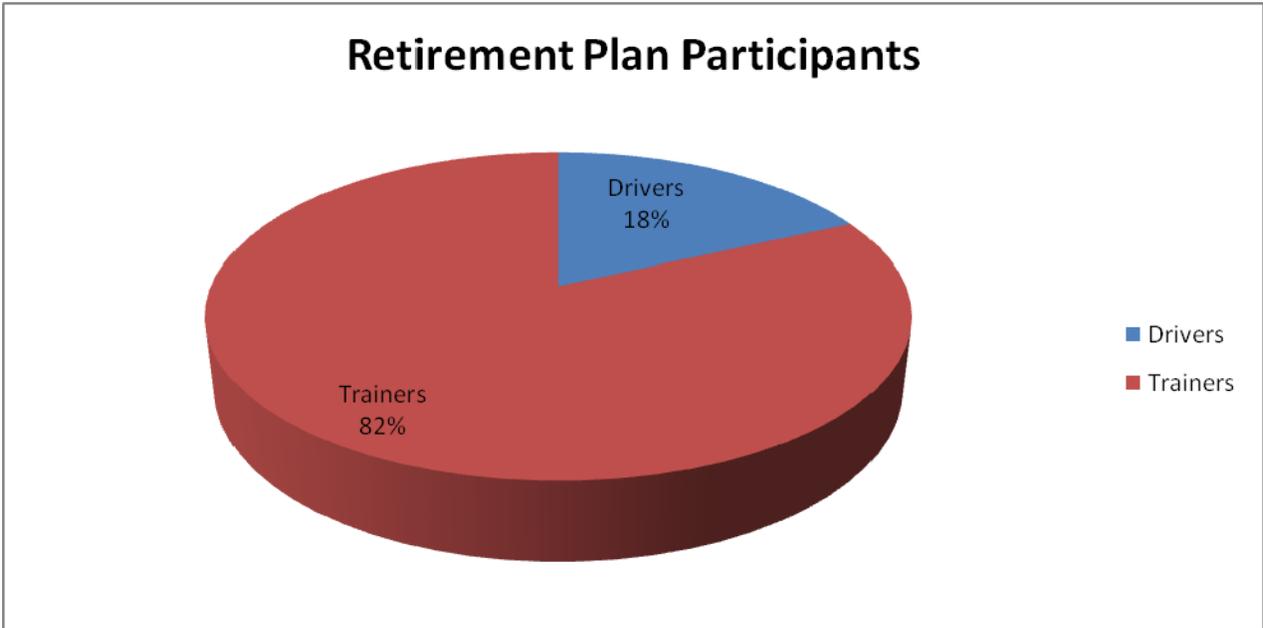
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# PENNSYLVANIA HORSEMEN'S ASSOCIATION

## PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

### OBJECTIVES, SCOPE, AND AUDIT METHODOLOGY

#### *Audit Objectives*

##### Quality Control Review of the External Financial Audit

OBJECTIVE 1: To perform a quality control review of the audit work performed by the external auditor for each horsemen's association.

OBJECTIVE 2: To perform a quality control review of the association's audited financial statements, including financial statement disclosures.

OBJECTIVE 3: To determine that sufficient audit attention was given to the accounting and reporting of the association's share of Pennsylvania Racehorse Development Funds

##### Reconciliation of Race Horse Development Funds

OBJECTIVE 1: To verify the amount of Pennsylvania Racehorse Development Funds disbursed to each relevant category 1 licensee.

OBJECTIVE 2: To verify the amount of Pennsylvania Racehorse Development Funds disbursed to each association.

OBJECTIVE 3: To verify the amount of Pennsylvania Racehorse Development Funds received as reported on the association's general ledger.

OBJECTIVE 4: To verify the completeness and accuracy of the association's activity within the escrow accounts used to account for the Pennsylvania Racehorse Development Funds.

OBJECTIVE 5: To examine and report upon the amount of purse funds distributed from the association's Pennsylvania Racehorse Development Funds in accordance with PA Code 436a and 436b.

OBJECTIVE 6: To examine and report upon the amount of health & welfare funds distributed from the association's Pennsylvania Racehorse Development Funds in accordance with PA Code 436a and 436b.

OBJECTIVE 7: To determine that health & welfare plans have been administered in accordance with PA Code 436a and 436b.

OBJECTIVE 8: To determine that the recipients of health and welfare benefits are eligible members of each association.

#### *Scope*

This audit is limited to Pennsylvania Harness Horsemen's Association for the fiscal year ending December 31, 2011, and includes Pennsylvania Racehorse Development Funds as included in the Association's audited

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financial statements and the statement of receipts and disbursements (Appendix 2). Fieldwork was limited to interviews with key personnel of the Association and the external auditing firm; observations and inspection of supporting documentation provided by Association management, the Pennsylvania Gaming Control Board, and the Office of the Budget; and limited testing. Testing was limited to Pennsylvania Racehorse Development Funds and did not extend to other sources of income, or disbursements, of the Association.

A site visit to the Association's office in Chester, Pennsylvania occurred.

#### *Audit Methodology*

This audit incorporates a combination of understanding of the process and internal controls of the Association's accounting for Pennsylvania Racehorse Development Funds, as well as limited testing.

Onsite fieldwork occurred September 26, 2012 through September 27, 2012, at the Association's office in Chester, Pennsylvania. Planning procedures and communication preceded these dates, and additional follow-up and reporting occurred in M&A's office subsequent to the onsite fieldwork dates. Our report was issued December 5, 2012.

Procedures for the Quality Control Review of the Financial Audit included, and were limited to, the following:

- Inquiry of the external audit firm and Association management.
- Review of the audited financial statements prepared by the external auditor. (Appendix 3).
- Review and inspection of selected audit workpapers provided by the external auditor.

Procedures related to Pennsylvania Race Horse Development Funds included, and were limited to, the following:

- Reconciliation of Pennsylvania Race Horse Development Funds received by the Association to the amounts distributed by Pennsylvania Department of Revenue.
- Limited testing of a selected sample of disbursements for:
  - Purses.
  - Health & welfare expenses.
  - Administrative expenses.
- Review of provided health & welfare and pension contracts and eligibility and enrollment information.
- Review of provided membership data.
- Recalculation of the allocation of Pennsylvania Race Horse Development Funds.

The testing included selecting judgmental samples, examining documentation, and re-performing calculations, as deemed appropriate.

### **AUDIT RESULTS, FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

See table at Appendix 1

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#### **COMPLIANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

#### **SUMMARY OF THE VIEWS OF RESPONSIBLE OFFICIALS**

Ron Bottoni, Executive Director, Pennsylvania Harness Horsemen's Association provided management responses and agreed with the recommendations. Reference Appendix 1 for the detailed management response.

#### **NATURE OF OMITTED CONFIDENTIAL OR SENSITIVE INFORMATION**

Certain details relative to the operations of the Association, the accounting for Pennsylvania Racehorse Development Funds, Association infrastructure, and other information have been omitted from this report. These details are located in the narratives and workpapers that support the information in this report.

We provided a separate letter to the Office of the Budget and management of the Association, which notes our consideration of matters that fall outside of the scope of the stated objectives of this report. The items in that letter do not impact the conclusions reached, or recommendations made.

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**APPENDICES**

**Pennsylvania Horsemen's Association Audits  
 Pennsylvania Harness Horsemen's Association - Year ended December 31, 2011  
 Appendix 1 - Audit Results**

OBJECTIVE	FINDINGS	CONCLUSION	RECOMMENDATIONS	MANAGEMENT'S RESPONSES
<b>QUALITY CONTROL REVIEW OF THE EXTERNAL FINANCIAL STATEMENTS</b>				
1: To perform a quality control review of the audit work performed by the external auditor for each Horsemen Association, primarily through review of provided audit workpapers and inquiry of the external auditor.	None	The audit work performed by the Association's external auditor was performed in accordance with auditing standards generally accepted in the United States of America.	None	
2: To perform a quality control review of the Association's audited financial statements, including financial statement disclosures, primarily through review of provided audit workpapers, financial statements, and inquiry of the external auditor.	None	The financial statements of the Association are prepared in accordance with accounting principles generally accepted in the United States of America and appear to include all material disclosures.	None	
3: To determine that sufficient audit attention was given to the accounting and reporting of the Association's share of Pennsylvania Racehorse Development Funds, primarily through review of external auditor workpapers and inquiry of the external auditor.	None	Sufficient audit attention was given to the accounting and reporting of the Association's share of Pennsylvania Racehorse Development Funds.	None	

**Pennsylvania Horsemen's Association Audits  
 Pennsylvania Harness Horsemen's Association - Year ended December 31, 2011  
 Appendix 1 - Audit Results**

<b>OBJECTIVE</b>		<b>FINDINGS</b>		<b>CONCLUSION</b>		<b>RECOMMENDATIONS</b>		<b>MANAGEMENT'S RESPONSES</b>	
<b>RECONCILIATION OF RACE HORSE DEVELOPMENT FUNDS</b>									
<p>1: To verify the amount of Pennsylvania Racehorse Development Funds disbursed to each relevant category 1 licensee, primarily through reconciliation and review of the quarterly reports filed with the Pennsylvania Gaming Control Board and information obtained from the Pennsylvania Department of Revenue.</p>	<p>None</p>	<p>The amount of Pennsylvania Racehorse Development Funds disbursed to the relevant category 1 licensee agrees to the amount received by each category 1 licensee per the category 1 licensee's quarterly reports without exception.</p>	<p>None</p>		<p>2: To verify the amount of Pennsylvania Racehorse Development Funds disbursed to each Association, primarily through reconciliation and review of the quarterly reports filed with the Pennsylvania Gaming Control Board by each category 1 licensee and the Association.</p>	<p>The Association's report filed with the Pennsylvania Gaming Control Board for the period July 1, 2011 - September 30, 2011, incorrectly includes revenue in their quarterly report that was not Pennsylvania Racehorse Development Fund money.</p>	<p>The amount of Pennsylvania Racehorse Development Funds disbursed to each Association was verified with minimal exception.</p>	<p>Management should amend their report for the quarter ended September 30, 2011, and ensure they have proper procedures in place to include the correct amounts on the reports that are filed with the Pennsylvania Gaming Control Board.</p>	<p>The Association will amend the report to the Pennsylvania Gaming Control Board.</p>
<p>3: To verify the amount of Pennsylvania Racehorse Development Funds received as reported on the Association's general ledger, primarily through reconciliation and review of the quarterly reports filed with the Pennsylvania Gaming Control Board and the Association's internal accounting records and audited financial statements.</p>	<p>None</p>	<p>The amount of Pennsylvania Racehorse Development Funds reported on the Association's general ledger was verified without exception.</p>	<p>None</p>						

**Pennsylvania Horsemen's Association Audits  
 Pennsylvania Harness Horsemen's Association - Year ended December 31, 2011  
 Appendix 1 - Audit Results**

OBJECTIVE	FINDINGS	CONCLUSION	RECOMMENDATIONS	MANAGEMENT'S RESPONSES
4: To verify the completeness and accuracy of the Association's activity within the escrow accounts used to account for Pennsylvania Racehorse Development Funds, primarily through reconciling the statement of cash receipts and disbursement and changes in escrow balances to the Association's general ledger and audited financial statements.	None	The Association's activity within the escrow accounts used to account for Pennsylvania Racehorse Development Funds was verified as complete and accurate.	None	
5: To examine and report upon the amount of purse funds distributed from the Association's Pennsylvania Racehorse Development Funds in accordance with PA Code 436a and 436b., primarily by performing limited testing of purse distributions and reconciling purse transactions to the statement of cash receipts and disbursements, changes in escrow balances, and the Association's general ledger and audited financial statements.	None	Purse fund distributions appear accurate, complete, and have been made in accordance with PA Code 436a and 436b.	None	
6: To examine and report upon the amount of health & welfare funds distributed from the Association's Pennsylvania Racehorse Development Funds in accordance with PA Code 436a and 436b, primarily by limited testing of health & welfare distributions and reconciling health & welfare fund transactions to the statement of cash receipts and disbursements, changes in escrow balances and the Association's general ledger and audited financial statements.	The dental premiums for 3 employees (1 of which is not a member of the Association) were incorrectly calculated for a period of 3 months during 2011, resulting in \$9 per month (aggregate of \$27) of premiums paid with Pennsylvania Racehorse Development Funds. Premium increases were not adjusted timely by management.	Health & welfare fund distributions appear accurate, complete, and have been made in accordance with PA Code 436a and 436b, with minimal noted exception.	Management should implement procedures to ensure that increases in premiums are calculated correctly and that amounts paid by the Association for non-member employees are adjusted out of Pennsylvania Racehorse Development Funds.	The Association with adjust the amount for the \$27.

**Pennsylvania Horsemen's Association Audits  
 Pennsylvania Harness Horsemen's Association - Year ended December 31, 2011  
 Appendix 1 - Audit Results**

OBJECTIVE	FINDINGS	CONCLUSION	RECOMMENDATIONS	MANAGEMENT'S RESPONSES
<p>7: To determine that health &amp; welfare plans have been administered in accordance with PA Code 436a and 436b., primarily through correspondence with the Pennsylvania Gaming Control Board, review of executed contracts, limited testing of health &amp; welfare transactions, and limited recalculations of administrative expenses.</p>	<p>It was noted that the Health, Dental, and Life Insurance Contracts were not submitted to the Pennsylvania Gaming Control Board at least 90 days prior to their effective dates.</p> <p>The Pennsylvania Gaming Control Board is unable to verify if these contracts were submitted to the Board prior to their effective date. Board staff received the contracts as indicated and determined that the contracts had already been implemented. As a result, the Board has reemphasized the obligations of the Associations to submit the contracts in advance for Board review and approval.</p>	<p>Health &amp; welfare plans have been administered in accordance with PA Code 436a and 436b, with the exception that certain contracts were not submitted to the Pennsylvania Gaming Control Board at least 90 days prior to their effective dates.</p>	<p>Management should ensure they have proper procedures in place in regards to submitting all health and pension contracts to the Pennsylvania Gaming Control Board at least 90 days prior to their effective date.</p>	<p>The Association will try to comply, but is subject to insurance companies' willingness to quote 90 days from renewal.</p>
<p>8: To determine that the recipients of health &amp; welfare benefits are eligible members of each Association, primarily through comparison of participants in the health &amp; welfare plans to membership listings.</p>	<p>1. The Association paid premiums for health, dental, and term life policies for one individual who should have been cancelled from the policies.</p> <p>2. The Association paid premiums for health and dental policies for one individual whose spouse was previously a member and passed away. This individual was allowed to stay on the insurance until she became eligible for Medicare. Continued coverage for spouses of deceased members is not specifically stated in the approved health insurance guidelines.</p> <p>3. Grooms are covered under the health, dental, and term life policies for the Association, however grooms are not members of the Association. In one instance, the grooms' trainer was also not a member of the Association.</p>	<p>Some individuals receiving health &amp; welfare benefits were not members of the Association.</p>	<p>1. Association management should remove this individual from the policy and implement procedures to periodically review individuals on the policies, ensuring that they are current members.</p> <p>2. Association management should either remove individuals from the policy who are not current members or update their health insurance guidelines to specifically address this situation.</p> <p>3. Since grooms are not specifically considered members of the Association, Association management should consider adding a defined membership category for grooms.</p>	<p>The Association will comply and address the recommendations.</p>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION  
STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS AND CHANGES IN ESCROW BALANCES - Appendix 2  
FOR THE PERIOD JANUARY 1, 2011 THROUGH DECEMBER 31, 2011

	<u>Purses</u>	<u>Benefits</u>	<u>Total</u>
Cash Receipts			
Gaming Funds - Harrah's Chester Casino	31,487,083	1,978,350	33,465,433
Gaming Funds - Downs Racing, LLP	27,282,918	1,717,392	29,000,310
Interest Income	206,193	249,428	455,621
Total Cash Receipts	<u>58,976,195</u>	<u>3,945,169</u>	<u>62,921,364</u>
Cash Disbursements			
Purse Payments - Harrah's Chester Casino and Racetrack	36,692,672	-	36,692,672
Purse Payments - Downs Racing, LP	28,109,586	-	28,109,586
Health Insurance Payments	-	721,402	721,402
Retirement Distributions	-	69,846	69,846
Administrative Expenses	-	164	164
Total Cash Disbursements	<u>64,802,258</u>	<u>791,412</u>	<u>65,593,670</u>
Other			
Net unrealized and realized loss on restricted investments	-	(286,824)	(286,824)
Changes in Escrow Balances	(5,826,063)	2,866,933	(2,959,130)
Escrow balance at January 1, 2011	<u>19,559,219</u>	<u>11,469,445</u>	<u>31,028,664</u>
Escrow balance at December 31, 2011	<u>13,733,156</u>	<u>14,336,378</u>	<u>28,069,534</u>
Reconciliation to Audited Financial Statements:			
	<u>Purses</u>	<u>Benefits</u>	<u>Total</u>
Health Insurance Payments, as reported above	-	721,402	721,402
Administrative expenses, as reported above	-	164	164
Health insurance payments, as reported on the Audited Financial Statements	<u>-</u>	<u>721,566</u>	<u>721,566</u>
Composition of ending balance:			
Restricted cash and cash equivalents	13,733,156	3,602,656	17,335,812
Restricted investments	-	10,733,721	10,733,721
Total:	<u>13,733,156</u>	<u>14,336,377</u>	<u>28,069,533</u>

Note: Restricted cash on the audited financial statements at December 31, 2011 includes \$5,233,469 of non Racehorse Development Funds

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION  
 ADMINISTRATIVE EXPENSES  
 FOR THE PERIOD JANUARY 1, 2011 THROUGH DECEMBER 31, 2011

<u>Vendor/Service Provider</u>	<u>Date</u>	<u>Amount</u>	<u>Description</u>
Intuit	10/21/2011	<u>164.28</u>	Office Expense
Administrative Expenses at December 31, 2011		<u><u>164.28</u></u>	

**PENNSYLVANIA HARNESS  
HORSEMEN'S ASSOCIATION**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2011 AND 2010**

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# Greenawalt & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Since 1955

James E. Lyons

Deborah J. Kelly

Scott J. Christ

Ronald S. Morgan

Howard R. Greenawalt

Creedon R. Hoffman

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Pennsylvania Harness Horsemen's Association  
Lemoyne, Pennsylvania

We have audited the accompanying statements of financial position of Pennsylvania Harness Horsemen's Association (a nonprofit organization) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pennsylvania Harness Horsemen's Association as of December 31, 2011 and 2010, 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.

*Greenawalt & Company, P.C.*  
GREENAWALT & COMPANY, P.C.

March 26, 2012

Mechanicsburg, Pennsylvania

- 1 -

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**PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION**

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<b><u>ASSETS</u></b>		
Current assets		
Cash and cash equivalents	\$ 389,327	\$ 95,017
Accounts receivable	42,407	145,226
Prepaid expenses	<u>126,220</u>	<u>117,331</u>
Total current assets	<u>557,954</u>	<u>357,574</u>
Furniture and equipment, at cost	106,241	91,099
Less accumulated depreciation	<u>57,379</u>	<u>42,093</u>
	<u>48,862</u>	<u>49,006</u>
Other assets		
Restricted cash and cash equivalents	22,569,880	21,595,944
Restricted investments	<u>10,733,721</u>	<u>9,433,320</u>
	<u>33,303,601</u>	<u>31,029,264</u>
Total assets	<u>\$ 33,910,417</u>	<u>\$ 31,435,844</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Current liabilities		
Accounts payable	\$ 96,831	\$ 169,481
Payroll taxes and deductions	1,965	6,674
Accrued employer retirement plan contribution	48,000	48,000
Accrued payroll	<u>79,380</u>	<u>61,640</u>
Total current liabilities	<u>226,176</u>	<u>285,795</u>
Noncurrent liabilities		
Escrow funds		
Purses-racing revenue	5,233,469	-
Purses-slot revenue	13,733,155	19,559,219
Health and pension-slot revenue	<u>14,336,377</u>	<u>11,469,445</u>
Total escrow funds	<u>33,303,001</u>	<u>31,028,664</u>
Total liabilities	<u>33,529,177</u>	<u>31,314,459</u>
Net assets		
Unrestricted	<u>381,240</u>	<u>121,385</u>
Total liabilities and net assets	<u>\$ 33,910,417</u>	<u>\$ 31,435,844</u>

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

**PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION**  
**STATEMENTS OF ACTIVITIES AND NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
<b>Revenue</b>		
Race track contributions		
Downs Racing	\$ 2,900,000	\$ 2,200,000
Harrah's Chester	825,000	800,000
Membership dues	24,810	23,377
Race Horse Development Fund	721,566	555,226
Member benefit reimbursements	374,485	321,624
Special events	20,000	18,000
Corporate sponsorships	39,000	38,537
Miscellaneous income	359	-
Interest income	3,065	5,198
	<u>4,908,285</u>	<u>3,961,962</u>
<b>Expenses</b>		
Salaries	377,067	346,567
Payroll taxes	29,468	26,290
Employee benefits	73,738	78,362
General insurance	140,362	103,724
Employee benefits, members	1,355,052	1,020,788
Chaplaincy program	12,600	12,600
Advertising, newsletter and public relations	1,095,134	1,004,620
Promotion expenses-television	204,357	162,577
Meeting expense and travel	70,767	63,691
National dues	12,000	12,000
Office expense	25,232	22,120
Rent	9,162	9,119
Telephone	12,176	11,763
Legal and accounting	65,670	67,232
Legislative fees	89,499	62,098
Donations and gifts	278,417	104,018
Special events	28,961	22,416
Fair maintenance and purses	743,450	740,850
Depreciation	15,285	14,314
Bad debt expense	2,272	-
Miscellaneous expense	7,761	44
	<u>4,648,430</u>	<u>3,885,193</u>
Change in net assets	259,855	76,769
Net assets, beginning	<u>121,385</u>	<u>44,616</u>
Net assets, ending	<u>\$ 381,240</u>	<u>\$ 121,385</u>

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

**PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Operating activities		
Change in net assets	\$ 259,855	\$ 76,769
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	15,285	14,314
Amortization of contributions payable discount	-	2,247
Bad debt expense	2,272	-
Decrease (increase) in		
Accounts receivable	100,547	(72,932)
Prepaid expenses	(8,889)	(25,224)
Increase (decrease) in		
Accounts payable	(72,650)	(4,174)
Payroll taxes and deductions	(4,709)	5,521
Contributions payable	-	(75,000)
Deferred revenue	-	(74,521)
Accrued employer retirement plan contribution	-	12,000
Accrued payroll	17,740	(1,000)
Net cash provided by (used in) operating activities	<u>309,451</u>	<u>(142,000)</u>
Investing activities		
Payments for purchase of furniture and equipment	<u>(15,141)</u>	<u>(5,329)</u>
Net cash used in investing activities	<u>(15,141)</u>	<u>(5,329)</u>
Net increase (decrease) in cash and cash equivalents	294,310	(147,329)
Cash and cash equivalents, beginning	<u>95,017</u>	<u>242,346</u>
Cash and cash equivalents, ending	<u>\$ 389,327</u>	<u>\$ 95,017</u>

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

### SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

#### **Business activity**

The Association is a membership organization which promotes the welfare and development of harness racing in Pennsylvania. The primary sources of revenue are from two harness race tracks in Pennsylvania.

#### **Basis of presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board. Organizations are 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 restricted net assets. The Association reports income and expenses on the accrual method. Under this method, revenues are recognized when earned rather than when received, and certain expenses are recognized when incurred rather than when the obligation is paid. Certain amounts in the 2010 financial statements have been reclassified to conform with the current year presentation.

#### **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. The standards require 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. If the Association presented financial statements in accordance with generally accepted accounting principles, any tax benefits associated with uncertain tax positions that are in excess of a realization threshold would be recorded as a liability for unrecognized tax benefits in the financial statements, along with any associated interest and penalties. Presently, management believes that it is more likely than not that its tax positions will be sustained upon examination, including any appeals and litigation, and therefore believes that the Association has no exposure to the income taxes from uncertain tax positions.

The Association's federal Exempt Organization Business Income Tax Returns (Form 990) for 2009, 2010 and 2011 are subject to examination by the IRS, generally for three years after they were filed.

#### **Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of financial position dates and the reported amounts of revenues and expenses for the years then ended. Actual results could differ from those estimates.

# **PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION**

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2011 AND 2010

## **SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Cont'd.)**

### **Cash and cash equivalents**

For purposes of the statement 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 investments**

Investments are stated at fair value. Gains or losses on sales of investments and any unrealized gains on losses are reflected as a component of the escrow funds - health and pension liability account.

### **Furniture and equipment**

Furniture and equipment is stated at cost and is being depreciated on the straight-line method, based on an estimated useful life of five to ten years. Additions, major renewals, replacements and betterments are capitalized; maintenance and repairs are charged to income as incurred. Items sold or retired are eliminated from the asset and accumulated depreciation accounts and any resulting gains or losses are included in current income.

### **Functional allocation of expenses**

The costs of providing the Association's various programs and activities are presented on a functional basis in the notes 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.

### **Fair value of financial instruments**

The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximates fair value due to the short maturity of these instruments. The carrying value of investments is further described in a separate disclosure "Fair Value Measurements".

### **Subsequent events**

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 26, 2012, the date the financial statements were available to be issued and there are no items requiring disclosure.

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2011 AND 2010

## RACE TRACK CONTRIBUTIONS

Currently, the Association holds a contract with a harness race track in Pennsylvania, Downs Racing, L.P., for the period January 1, 2011 to December 31, 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 for marketing and promotional items.

In addition, the Association holds a contract with Chester Downs and Marina, LLC for the period January 1, 2011 to December 31, 2013. Under this contract a percentage of wagering handle shall be paid to the Association for use as described above.

## LEASE

The Association is currently leasing its office space in Lemoyne, Pennsylvania under a one-year lease which expires April 30, 2012. The current rental is \$ 736 per month. Total rental payments for 2011 and 2010 were \$ 9,162 and \$ 9,119, respectively.

The Association leases several pieces of equipment with a maturity date of March 2015. Monthly payments total \$ 418 per month. The rental payments for 2011 and 2010 were \$ 5,010 for each year.

Minimum lease payments under these leases are:

2012	\$	5,010
2013		5,010
2014		5,010
2015		418

## ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	<u>2011</u>	<u>2010</u>
Pennsylvania Harness week sponsorships	\$ 39,000	\$ 36,000
Track contribution income	-	100,000
Member benefit reimbursements	<u>3,407</u>	<u>9,226</u>
	<u>\$ 42,407</u>	<u>\$ 145,226</u>

The Association uses the direct write-off method for bad debts, the results of which are not materially different from those allowed under the allowance method.

**PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION**

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2011 AND 2010

**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 match contribution for 2011 and 2010 totaled \$ 48,000 each year.

**FUNCTIONAL CLASSIFICATION OF EXPENSES**

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

	<u>2011</u>	<u>2010</u>
Program services		
Health program	\$ 81,131	\$ 62,794
Pension program	64,732	49,916
Member benefits	1,479,088	1,719,208
Racetrack relations	107,357	143,051
Industry promotion	1,527,566	1,332,829
Regulatory matters	1,037,869	304,997
Supporting services		
Management and general	<u>350,687</u>	<u>272,398</u>
 Total	 <u>\$ 4,648,430</u>	 <u>\$ 3,885,193</u>

**ESCROW FUNDS AND RESTRICTED CASH/INVESTMENTS**

Current 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 horsemen and horsewomen. The Association acts as a fiduciary in the collection and dispersal of these funds. The funds are required to be maintained in separate accounts. On the accompanying financial statements they have been accounted for as restricted cash and investments with a corresponding liability as funds held in escrow. The detail of transactions in these accounts for 2011 and 2010 is as follows:

	<u>Purses</u>	<u>Benefits</u>
Escrow balance, January 1, 2010	\$ <u>14,173,557</u>	\$ <u>7,614,181</u>
Transfers from Chester Downs and Marina, LLC	30,049,511	2,308,009
Transfers from Downs Racing, LP	22,854,116	1,726,237
Unrealized/realized gains on investments	-	173,440
Investment income (net of fees)	<u>214,857</u>	<u>179,745</u>
	<u>53,118,484</u>	<u>4,387,431</u>

**PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION**

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2011 AND 2010

**ESCROW FUNDS AND RESTRICTED CASH/INVESTMENTS (Cont'd.)**

	<u>Purses</u>	<u>Benefits</u>
Transfers to Chester Downs and Marina, LLC - purse account	\$ 26,407,750	\$ -
Transfers to Downs Racing, LP - purse account	21,325,072	-
Health insurance payments	-	480,705
Retirement distributions	-	<u>51,462</u>
	<u>47,732,822</u>	<u>532,167</u>
 Escrow balance, December 31, 2010	 <u>19,559,219</u>	 <u>11,469,445</u>
 Transfers from Chester Downs and Marina, LLC	 31,487,083	 1,978,349
Transfers from Downs Racing, LP	27,282,918	1,717,391
Unrealized/realized gains on investments	-	(286,824)
Investment income (net of fees)	<u>206,193</u>	<u>249,428</u>
	<u>58,976,194</u>	<u>3,658,344</u>
 Transfers to Chester Downs and Marina, LLC - purse account	 36,692,672	 -
Transfers to Downs Racing, LP - purse account	28,109,586	-
Health insurance payments	-	721,566
Retirement distributions	-	<u>69,846</u>
	<u>64,802,258</u>	<u>791,412</u>
 Escrow balance, December 31, 2011	 <u>\$ 13,733,155</u>	 <u>\$ 14,336,377</u>
 Composition of ending balance:		
Cash and cash equivalents	\$ 13,733,155	\$ 3,602,656
Investments	<u>-</u>	<u>10,733,721</u>
	13,733,155	14,336,377
Opening cash due the Association	<u>400</u>	<u>200</u>
 Ending cash and cash equivalents and investments	 <u>\$ 13,733,555</u>	 <u>\$ 14,336,577</u>

The restricted cash accounts each include a \$ 200 deposit (total \$ 600) made by the Association to open the accounts.

**PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION**

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2011 AND 2010

**ESCROW FUNDS AND RESTRICTED CASH/INVESTMENTS (Cont'd.)**

Pursuant to an agreement with Chester Downs and Marina, LLC, dated January 1, 2011, the Association acts as a fiduciary for certain racing revenue to be used to pay purses at the Chester racetrack. The detail of the transactions for 2011 is as follows:

Escrow balance, January 1, 2011	\$ _____	-
Transfers from Chester Downs and Marina, LLC - racing income	9,124,895	
Investment income	<u>7,883</u>	
	<u>9,132,778</u>	
Race track contributions to the Association	700,000	
Transfers to Chester Downs and Marina, LLC - purses paid	3,198,967	
Bank charges	<u>342</u>	
	<u>3,899,309</u>	
Escrow balance, December 31, 2011 - racing revenue	\$ <u>5,233,469</u>	
Composition of ending balance:		
Cash and cash equivalents	\$ <u>5,233,469</u>	
Summary of all escrow accounts:		

	<u>Purses -</u> <u>Slot Revenue</u>	<u>Benefits -</u> <u>Slot Revenue</u>	<u>Racing</u> <u>Revenue</u>	<u>Total</u>
Cash and cash equivalents	\$ 13,733,555	\$ 3,602,856	\$ 5,233,469	\$ 22,569,880
Investments	<u>-</u>	<u>10,733,721</u>	<u>-</u>	<u>10,733,721</u>
	13,733,555	14,336,577	5,233,469	33,303,601
Opening cash due the Association	<u>400</u>	<u>200</u>	<u>-</u>	<u>600</u>
Escrow balance, December 31, 2011	\$ <u>13,733,155</u>	\$ <u>14,336,377</u>	\$ <u>5,233,469</u>	\$ <u>33,303,001</u>

**PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION**

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2011 AND 2010

**ESCROW FUNDS AND RESTRICTED CASH/INVESTMENTS (Cont'd.)**

Investments are stated at fair value and are summarized below:

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Real estate investment REIT	\$ 115,000	\$ 97,175	\$ 115,000	\$ 115,000
AXA Equitable Life Insurance Annuity	575,000	509,054	575,000	535,476
Equities				
Trading - inverse	51,063	43,001	-	-
Large blend	29,800	29,367	-	-
Large value	59,466	60,281	-	-
Long/short	19,832	14,638	-	-
Miscellaneous equity	35,227	35,524	-	-
Mutual funds				
International fixed income	112,104	111,886	125,336	129,434
U.S. equity	-	-	101,464	102,062
Market neutral	132,017	132,309	99,110	99,160
U.S. fixed income	1,289,759	1,268,194	1,381,845	1,356,386
Managed futures	186,261	179,883	-	-
Hard assets	-	-	51,032	52,278
U.S. equity hedge	-	-	18,788	3,279
International equities	78,397	74,282	61,528	63,104
Emerging markets fixed income	-	-	86,120	91,105
High yield U.S. fixed income	54,568	55,757	138,198	144,736
Fixed income domestic corporate and other bonds	4,033,994	4,048,054	3,421,445	3,464,230
Fixed income international corporate and other bonds	1,512,433	1,491,234	1,249,889	1,282,791
U.S. Treasury bills	1,178,633	1,190,535	1,167,899	1,168,000
Exchange traded funds	<u>1,386,360</u>	<u>1,392,547</u>	<u>819,909</u>	<u>826,279</u>
Total investments	<u>\$ 10,849,914</u>	<u>\$ 10,733,721</u>	<u>\$ 9,412,563</u>	<u>\$ 9,433,320</u>

Investment income included in the note to the financial statement titled escrow funds and restricted cash and investments comprised of the following:

	2011	2010
Interest and dividends	\$ 531,045	\$ 438,857
Investment fees	<u>(67,541)</u>	<u>(44,255)</u>
	<u>\$ 463,504</u>	<u>\$ 394,602</u>

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2011 AND 2010

## FAIR VALUE MEASUREMENTS

Fair value accounting standards provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. 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 2 inputs consist of observable inputs other than quoted prices for identical assets; and Level 3 inputs have the lowest priority to unobservable inputs.

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, 2011 and 2010.

### **Real estate investment REIT**

Valued at an estimated amount based on overall economic and real estate market conditions of the properties held.

### **AXA Equitable Life Insurance Annuity**

Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

### **Mutual funds, exchange traded funds and U.S. Treasury bills**

Fair value of mutual funds, exchange traded funds and U.S. Treasury bills are based on quoted market prices for identical securities.

### **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 yield currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows 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.

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 (Cont'd.)

DECEMBER 31, 2011 AND 2010

**FAIR VALUE MEASUREMENTS (Cont'd.)**

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, 2011 and 2010.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b><u>December 31, 2011</u></b>				
Real estate investment REIT	\$ 97,175	\$ -	\$ -	\$ 97,175
AXA Equitable Life Insurance Annuity	509,054	-	509,054	-
Equities				
Trading - inverse	43,001	43,001	-	-
Large blend	29,367	29,367	-	-
Large value	60,281	60,281	-	-
Long/short	14,638	14,638	-	-
Miscellaneous equity	35,524	35,524	-	-
Mutual funds				
International fixed income	111,886	111,886	-	-
U.S. equity	-	-	-	-
Market neutral	132,309	132,309	-	-
U.S. fixed income	1,268,194	1,268,194	-	-
Managed futures	179,883	179,883	-	-
Hard assets	-	-	-	-
U.S. equity hedge	-	-	-	-
International equities	74,282	74,282	-	-
Emerging markets fixed income	-	-	-	-
High yield U.S. fixed income	55,757	55,757	-	-
Fixed income domestic corporate and other bonds	4,048,054	-	4,048,054	-
Fixed income international corporate and other bonds	1,491,234	-	1,491,234	-
U.S. Treasury bills	1,190,535	1,190,535	-	-
Exchange traded funds	<u>1,392,547</u>	<u>1,392,547</u>	<u>-</u>	<u>-</u>
	<u>\$ 10,733,721</u>	<u>\$ 4,588,204</u>	<u>\$ 6,048,342</u>	<u>\$ 97,175</u>

**PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION**

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2011 AND 2010

**FAIR VALUE MEASUREMENTS (Cont'd.)**

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b><u>December 31, 2010</u></b>				
Real estate investment REIT	\$ 115,000	\$ -	\$ -	\$ 115,000
AXA Equitable Life Insurance Annuity	535,476	-	535,476	-
Equities				
Trading - inverse	-	-	-	-
Large blend	-	-	-	-
Large value	-	-	-	-
Long/short	-	-	-	-
Miscellaneous equity	-	-	-	-
Mutual funds				
International fixed income	129,434	129,434	-	-
U.S. equity	102,062	102,062	-	-
Market neutral	99,160	99,160	-	-
U.S. fixed income	1,356,386	1,356,386	-	-
Managed futures	-	-	-	-
Hard assets	52,278	52,278	-	-
U.S. equity hedge	3,279	3,279	-	-
International equities	63,104	63,104	-	-
Emerging markets fixed income	91,105	91,105	-	-
High yield U.S. fixed income	144,736	144,736	-	-
Fixed income domestic corporate and other bonds	4,523,169	-	4,523,169	-
Fixed income international corporate and other bonds	223,852	-	223,852	-
U.S. Treasury bills	1,168,000	1,168,000	-	-
Exchange traded funds	<u>826,279</u>	<u>826,279</u>	-	-
	<u>\$ 9,433,320</u>	<u>\$ 4,035,823</u>	<u>\$ 5,282,497</u>	<u>\$ 115,000</u>

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2011 AND 2010

## FAIR VALUE MEASUREMENTS (Cont'd.)

### 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 year ended December 31, 2011 and 2010.

Balance, January 1, 2010	\$	115,000
Realized gains/(losses)		-
Unrealized gains/(losses)		-
Purchases, sales, issuances and settlements (net)		<u>-</u>
Balance, December 31, 2010		115,000
Realized gains/(losses)		-
Unrealized gains/(losses)		(17,825)
Purchases, sales, issuances and settlements (net)		<u>-</u>
Balance, December 31, 2011	\$	<u>97,175</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 the level 3 in 2011 or 2010.

### Changes in fair value levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

We evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets. For the year ended December 31, 2011, there were no significant transfers in or out of levels 1, 2 or 3.

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2011 AND 2010

## 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>2011</u>	<u>2010</u>
Golf outing		
Revenue	\$ 20,000	\$ 18,000
Direct expenses	<u>28,961</u>	<u>22,416</u>
Net golf outing income (expense)	<u>\$ (8,961)</u>	<u>\$ (4,416)</u>

## COMMITMENTS

In November 2007, the Board of Directors for the Association approved the live racing agreement with Valley Downs, LP. At this point in time the track has not been built.

The Association entered into a naming rights agreement January 1, 2011 with Downs Racing, L.P. 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 2011, the Association paid \$ 100,000. Future payments will be:

2012	\$ 100,000
2013	100,000
2014	100,000
2015	100,000
2016	100,000
Thereafter	400,000

## CONCENTRATIONS OF CREDIT RISK

The Association maintained their cash accounts (restricted and unrestricted) in two financial institutions and two brokerage money market accounts. The accounts are secured by Federal Deposit Insurance Corporation (FDIC) up to \$ 250,000 as of December 31, 2011 and 2010. The brokerage money market account is covered by the Securities Investor Protection Corporation up to \$ 500,000. Cash deposits at times during the year exceed the limits of coverage. As of December 31, 2011 and 2010 the Association had \$ 22,501,659 and \$ 21,475,060, respectively, in excess of the applicable limits.

For the year ended December 31, 2011 and 2010, revenue includes \$ 3,725,000 and \$ 3,000,000, respectively, arising from contributions received from two race tracks. Account receivables include \$ -0- and \$ 100,000 from one of the race tracks at year end 2011 and 2010, respectively. The loss of either of these contributions could have a material effect on the Association.

# CHAPTER 436a. HORSEMEN'S ORGANIZATIONS

Sec.

436a.1. Definitions.

436a.2. Horsemen's organization registration.

436a.3. Permitting of officers, directors, representatives and fiduciaries.

436a.4. Responsibilities of horsemen's organizations, officers, directors representatives and fiduciaries.

436a.5. Fiduciaries.

436a.6. Health and pension benefit plans.

## Authority

The provisions of this Chapter 436a issued under the Pennsylvania Race Horse Development and Gaming Act, 4 Pa.C.S. § § 1202(b)(9), (13)—(20), (23) and (30), 1202.1(b) and (e), 1205, 1311.1, 1311.2, 1317, 1317.1, 1319, 1321(a)(1) and (2), 1325, 1326, 1331 and 1406, unless otherwise noted.

## Source

The provisions of this Chapter 436a adopted October 26, 2007, effective October 27, 2007, 37 Pa.B. 5752, unless otherwise noted.

### § 436a.1. Definitions.

The following words and terms, when used in this chapter, have the following meanings, unless the context clearly indicates otherwise:

*Fiduciary*—A person who is entrusted by a horsemen's organization or its members to hold or manage funds received for horsemen under section 1406 of the act (relating to distributions from Pennsylvania Race Horse Development Fund) or who exercises control or discretionary authority over selection or management of a health or pension benefit plan, disposition of its assets or distribution of its funds.

*Health benefits*—A plan, fund or program which is maintained by a horsemen's organization and that provides healthcare benefits to horsemen at licensed racetracks, their families and employees, and others designated by the rules and eligibility requirements of the organization consistent with the act.

*Horsemen*—A thoroughbred or standardbred horse owner or trainer who enters and runs a horse at a licensed racing entity in the current or prior calendar year and meets the membership requirements of a horsemen's organization to participate in the receipt of benefits there from.

*Horsemen's organization*—A trade association which represents the majority of horsemen at a licensed racetrack and which exists for the purpose, in whole or in part, of negotiating a horsemen's contract and resolving grievances, disputes or other matters with management of a licensed racing entity, as defined by section 1103 of the act (relating to definitions).

*Horsemen's organization officer*—An officer or person authorized to perform the functions of president, vice president, secretary/treasurer or other executive function of a horsemen's organization, and any member of its board of directors or similar governing body.

*Horsemen's organization representative*—A person, compensated or not, who is authorized to represent a horsemen's organization or members thereof in matters relating to horsemen's agreements with a licensed racing entity, or who undertakes on behalf of a horsemen's organization or members thereof to promote, facilitate or otherwise influence the relations between a horsemen's organization and a licensed racing entity.

*Pension benefits*—Any plan, fund or program which is maintained by a horsemen's organization and that funds a program which provides retirement income to horsemen at licensed racetracks, their families and employees, and any others so designated by the rules and eligibility requirements of the organization consistent with the act.

#### **§ 436a.2. Horsemen's organization registration.**

- (a) Each horsemen's organization or affiliate representing horsemen shall register with the Board in accordance with this section.
- (b) Each horsemen's organization shall file a completed Horsemen's Organization Registration Statement with the registration fee posted on the Board's website ([pgcb.state.pa.us](http://pgcb.state.pa.us)).
- (c) Horsemen's organization applicants and registrants shall be subject to the general application requirements of Chapters 421a and 423a (relating to general provisions; and applications).
- (d) Horsemen's organization registrations will be valid for 4 years from the date on which the registration is approved by the Board.
- (e) Renewals will be valid for 4 years and shall be filed no later than 120 days prior to the expiration of the current registration period.
- (f) A registration for which a completed renewal application and fee has been received by the Board will continue in effect until the Board sends written notification to the horsemen's organization that the Board has approved or denied the renewal of the registration.

#### **Cross References**

This section cited in 58 Pa. Code § 436b.2 (relating to definitions); and 58 Pa. Code § 436b.3 (relating to responsibilities of horsemen's organizations).

**§ 436a.3. Permitting of officers, directors, representatives and fiduciaries.**

(a) Every officer, director or representative of a horsemen's organization who is currently elected or appointed and authorized to act on behalf of the horsemen's organization, or any individual authorized to act in a fiduciary capacity on behalf of horsemen shall be permitted in accordance with this section.

(b) Every officer, director or representative of a horsemen's organization who is currently elected or appointed and authorized to act on behalf of the horsemen's organization, or any individual authorized to act in a fiduciary capacity on behalf of horsemen shall file a completed Horsemen's Permit Application Form with the permit fee posted on the Board's website (pgcb.state.pa.us).

(c) Applicants and permittees under this section shall be subject to the general application requirements of Chapters 421a and 423a (relating to general provisions; and applications).

(d) Permits issued under this section will be valid for 1 year from the date on which the permit is approved by the Board.

(e) Renewals will be valid for 1 year and shall be filed at least 60 days prior to the expiration of the current permit.

(f) A permit for which a completed renewal application and fee has been received by the Board will continue in effect until the Board sends written notification to the permittee that the Board has approved or denied the renewal of the permit.

(g) If a current officer, director or representative of a horsemen's organization is denied a permit required by this section, that officer, director or representative shall be precluded from engaging in any activity of the horsemen's organization involving gaming funds allocated to, received by, or distributed from the horsemen's organization.

(h) A person who is a third-party provider of a health or pension benefit plan to a horsemen's organization shall be exempt from the requirements of this section. A licensed attorney or accountant representing a horsemen's organization who does not meet the conditions in subsection (a) shall also be exempt under this section.

**Cross References**

This section cited in 58 Pa. Code § 436b.3 (relating to responsibilities of horsemen's organizations).

**§ 436a.4. Responsibilities of horsemen's organizations, officers, directors, representatives and fiduciaries.**

(a) Horsemen's organizations, officers, directors, representatives and fiduciaries shall ensure that the funds allocated to the horsemen and horsemen's organizations are used for the benefit of all horsemen of this Commonwealth.

(b) Funds allocated to horsemen's organizations for benevolent programs are not to be used for the personal benefit of any officer, director, representative or fiduciary of a horsemen's organization except to the extent that the officer, director, representative or fiduciary of the horsemen's organization is a participant in the benevolent programs on the same basis as other eligible program participants.

(c) Horsemen's organizations shall maintain adequate records of receipts and distributions of the funds allocated to them under the act.

(d) By March 30 of each calendar year, each horsemen's organization shall file with the Board two copies of its audited financial statements together with any management letters or reports written thereon as prepared by its independent auditor. These filings will be available for public inspection during the normal operating hours of the Board at its Harrisburg office.

### **Cross References**

This section cited in 58 Pa. Code § 436b.3 (relating to responsibilities of horsemen's organizations).

### **§ 436a.5. Fiduciaries.**

Fiduciaries shall:

(1) Ensure that the funds received for the benefit of the horsemen are distributed pursuant to the act.

(2) Manage all health and pension benefit plans for the exclusive benefit of participants and beneficiaries.

(3) Carry out their duties in a prudent manner and refrain from conflict-of-interest transactions.

(4) Comply with limitations on certain plans' investments in particular securities and properties.

(5) Fund benefits in accordance with applicable law and plan rules.

(6) File quarterly reports with the Board within 20 days of the end of each calendar quarter. The reports must detail the expenditure of funds designated by the act for the benefit of horsemen and be in a format and manner designated by the Board.

(7) Provide documents to the Board as may be requested in the conduct of investigations or to ensure compliance with the act and this chapter.

### **Cross References**

This section cited in 58 Pa. Code § 436b.3 (relating to responsibilities of horsemen's organizations).

**§ 436a.6. Health and pension benefit plans.**

(a) Contracts for health and pension benefit plans established for the benefit of members of a horsemen's organization must:

(1) Be submitted to the Board for review at least 90 days prior to the proposed effective date of the contract.

(2) Not be effective until approved by the Board.

(b) Administrative and overhead costs incurred by the horsemen's organization for the administration of health and pension benefit plans must be reasonable. Administrative costs that do not exceed 15% of the statutory allocation are considered reasonable.

# CHAPTER 436b. USE OF FUNDS ALLOCATED TO HORSEMEN'S ORGANIZATIONS—STATEMENT OF POLICY

Sec.

436b.1. Scope.

436b.2. Definitions.

436b.3. Responsibilities of horsemen's organizations.

436b.4. Audits of horsemen's organizations.

436b.5. Reports.

436b.6. Responsibilities of Category 1 licensees.

## Authority

The provisions of this Chapter 436b issued under the Pennsylvania Race Horse Development and Gaming Act, 4 Pa.C.S. § § 1202(b)(9), (13)—(20), (23) and (30), 1202.1(b) and (e), 1205, 1311.1, 1311.2, 1317, 1317.1, 1319, 1321(a)(1) and (2), 1325, 1326, 1331 and 1406, unless otherwise noted.

## Source

The provisions of this Chapter 436b adopted October 26, 2007, effective October 27, 2007, 37 Pa.B. 5752, unless otherwise noted.

### § 436b.1. Scope.

The act requires the Board to:

(1) Establish guidelines that ensure that funds distributed from the Fund and which are allocated to horsemen's organizations, as defined by the act, are used to finance programs that benefit the horsemen of this Commonwealth. (See 4 Pa.C.S. § 1406(b) (relating to distributions from Pennsylvania Race Horse Development Fund).)

(2) Ensure that funds allocated to the horsemen's organizations are used to finance programs which benefit the horsemen of this Commonwealth. (See 4 Pa.C.S. § 1406(c).)

(3) Ensure that no more than 15% of funds available annually for benevolent programs, including pension, health and insurance plans, are used to administer the programs.

(4) Ensure that the horsemen's organizations that receive funds from the Fund file an annual audit prepared by a certified public accountant. (See 4 Pa.C.S. § 1406(e).)

(5) Approve the health and pension benefit contracts entered into by the horsemen's organizations. (See 4 Pa.C.S. § 1406(f).)

### **§ 436b.2. Definitions.**

The following words and terms, when used in this chapter, have the following meanings, unless the context clearly indicates otherwise:

*Fund*—The Pennsylvania Race Horse Development Fund.

*Registered horsemen's organization*—A horsemen's organization that receives funds from the Fund and which shall register with the Board under § 436a.2 (relating to horsemen's organization registration).

### **§ 436b.3. Responsibilities of horsemen's organizations.**

(a) A horsemen's organization shall register with the Board under § 436a.2 (relating to horsemen's organization registration).

(b) Registered horsemen's organizations shall ensure that funds received from the Fund are used to benefit all horsemen and are kept apart from funds acquired from other sources. Funds that are allocated to horsemen's organizations for benevolent programs are not to be used for the personal benefit of any officer, director, representative or fiduciary of the horsemen's organization.

(c) Registered horsemen's organizations shall ensure that administrative costs are reasonable as required by 4 Pa.C.S. § 1406(d) (relating to distributions from Pennsylvania Race Horse Development Fund). Costs that do not exceed 15% of the annual total statutory allocation are deemed reasonable.

(d) Registered horsemen's organizations shall ensure that health and pension benefits contracts entered into by the horsemen's organizations are approved by the Board.

(e) The officers, directors, fiduciaries and representatives of a registered horsemen's organization shall file an application for a permit with the Board under § 436a.3 (relating to permitting of officers, directors, representatives and fiduciaries).

(f) The officers, directors, fiduciaries and representatives of a registered horsemen's organization shall comply with §§ 436a.4 and 436a.5 (relating to responsibilities of horsemen's organizations, officers, directors, representatives and fiduciaries; and fiduciaries) relative to the responsibilities of the horsemen's organizations and their officers, directors, representatives and fiduciaries.

**§ 436b.4. Audits of horsemen's organizations.**

(a) Registered horsemen's organizations that receive funds from the Fund shall file annually, with the appropriate racing commission and the Board, an audit prepared by a certified public accountant of the funds received under 4 Pa.C.S. § 1406(e) (relating to distributions from Pennsylvania Race Horse Development Fund). Audits shall be available for public review.

(b) Audits submitted to the Board must reflect all funds received from the Fund which are used or intended to be used for purse supplements under 4 Pa.C.S. § 1406(a)(1)(i) and health and pension benefits under 4 Pa.C.S. § 1406(a)(1)(iii).

(c) Audits shall be mailed to the Pennsylvania Gaming Control Board, Attn: Director, Racetrack Gaming, P. O. Box 69060, Harrisburg, Pennsylvania 17106-9060 in sufficient time to be received no later than March 30th of each calendar year.

**§ 436b.5. Reports.**

(a) Registered horsemen's organizations shall file with the Board no later than the 20th day of the month following the end of each calendar quarter the following reports:

(1) Quarterly report of funds received from the Fund through the Category 1 licensee conducting live racing into the account established by and for the benefit of the horsemen under 4 Pa.C.S. § 1406(1)(a)(i) (relating to distributions from Pennsylvania Race Horse Development Fund).

(2) Quarterly report of funds distributed for purse supplements from the account established by and for the benefit of the horsemen under 4 Pa.C.S. § 1406(1)(a)(i).

(3) Quarterly report of funds received for health and pension benefits health and pension benefits under 4 Pa.C.S. § 1406(1)(a)(iii).

(b) Horsemen's organizations shall ensure that funds allocated for thoroughbred jockeys and standardbred drivers are paid as required by 4 Pa.C.S. § 1406(a)(1)(iii) and that the distribution of these proceeds is reflected in the annual audit required by 4 Pa.C.S. § 1406(e).

**§ 436b.6. Responsibilities of Category 1 licensees.**

Category 1 licensees conducting live racing and who receive distributions from the Fund for distribution to purses shall file the following report with the Board no later than the 20th day of the month following the end of each calendar quarter:

(1) Quarterly report of funds received from the Fund.

(2) Quarterly report of funds deposited into a separate, interest-bearing purse account established by and for the benefit of the horsemen under 4 Pa.C.S. § 1406(a)(1)(i) (relating to distributions from Pennsylvania Race Horse Development Fund) and § 441a.22(b)(3)(i) (relating to Category 1 slot machine licensees).

(3) Quarterly report of funds distributed to the horsemen's organization representing the owners and trainers at the racetrack at which the licensed racing entity operates for health and pension benefits under 4 Pa.C.S. § 1406(a)(1)(iii) and § 441a.22(b)(3)(ii).

(4) Quarterly report of expenditures for backside improvements in conformity with 4 Pa.C.S. § 1404 (relating to distributions from licensee's revenue receipts).

**Source**

The provisions of this § 436b.6 amended May 16, 2007, effective April 24, 2008. Immediately preceding text appears at serial page (331201).

**PHHA  
Appendix 5**

**Members**

<b>State</b>	<b>Number of Members</b>
CA	1
CAN	1
CANADA	1
CE	1
CT	8
DE	60
FL	29
IL	10
KY	3
MA	1
MD	24
MI	8
NC	2
ND	1
NJ	142
NY	51
OH	11
ONT	1
PA	279
SC	1
VA	4
Total	<hr/> 639

**Health Plan**

<b>State</b>	<b>Number of Participants</b>
DE	6
FL	8
GA	1
IL	2
MD	6
MS	1
NC	3
NJ	40
NY	5
OH	1
PA	66
VA	2
Total	<hr/> 141

**Health Plan**

<b>Category</b>	<b>Number of Participants</b>
Drivers	16
Trainers	74
Drivers/Trainers	11
Grooms	25
Spouse	1
	<hr/> 127

Retirement Plan	
Category	Number of Participants
Drivers	67
Trainers	303
Grooms	N/A
	<hr/>
	370

Retirement Plan	
Range of Starts	Number of Starts
0-24	65
25-40	61
41-60	55
61-79	37
>=80	151
	<hr/>
	369

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