

**PENNSYLVANIA THOROUGHBRED
HORSEMEN'S ASSOCIATION
Bensalem, Pennsylvania**

**COMBINED FINANCIAL STATEMENTS
December 31, 2012**

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Independent Auditor's Report

Board of Directors
Pennsylvania Thoroughbred Horsemen's Association
Bensalem, Pennsylvania

Secretary
Pennsylvania Office of the Budget

Report on the Combined Financial Statements

We have audited the accompanying combined statement of financial position of the Pennsylvania Thoroughbred Horsemen's Association (the Association), a nonprofit membership corporation, as of December 31, 2012, and the related combined statements of activities and changes in net assets and cash flows for the year then ended. These combined financial statements are the responsibility of the Association's management.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 the combined 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 combined financial statements based on our audit. We conducted our audit 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 combined financial statements are free of 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 auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

In our opinion, the 2012 combined financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2012, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combining financial statements as a whole. The accompanying supplementary information, included in the table of contents, is presented for purposes of additional analysis and is not a required part of the combining 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 combining financial statements. The information has been subjected to the auditing procedures applied in the audit of the combining financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combining financial statements or to the combining 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 combining financial statements as a whole.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".**CliftonLarsonAllen, LLP**

Baltimore, Maryland
October 9, 2013

FINANCIAL STATEMENTS

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.
COMBINED STATEMENT OF FINANCIAL POSITION
December 31, 2012

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	1,430,857
Trade accounts receivable		53,046
Other receivables		68,761
Inventory		150,594
Prepaid expenses		56,871
Total current assets		1,760,129

INVESTMENTS

363,142

RESTRICTED DEVELOPMENT FUND ASSETS

Restricted cash		3,916,547
Statutory funds receivable		1,551,992
Prepaid expenses		7,592
Total Pennsylvania Race Horse Development Fund assets		5,476,131

EQUIPMENT AND FURNISHINGS

Cemetery lots		2,410
Vehicles		114,696
Storage trailers and related equipment		71,075
Office equipment and furniture		121,615
Less: accumulated depreciation		(251,666)
Net equipment and furnishings		58,130

TOTAL ASSETS

\$ 7,657,532

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	212,125
Customer deposits		39,605
Due to Philadelphia Park		129,295
Accrued payroll		22,885
Other accrued expenses		75,332
Total current liabilities		479,242

PENNSYLVANIA RACE HORSE DEVELOPMENT FUND LIABILITIES

Accrued employee and trainers pension funds		425,880
Accrued purse payouts		3,639,731
Other accrued expenses		94,623
Funds held for future purse and health & pension expense		1,315,897
Total Pennsylvania Race Horse Development Fund liabilities		5,476,131

Total liabilities 5,955,373

NET ASSETS

Unrestricted		1,702,159
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TOTAL LIABILITIES AND NET ASSETS

\$ 7,657,532

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.
COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2012

UNRESTRICTED REVENUES AND SUPPORT

Shares of wagering - per Live Racing Agreement	\$ 1,755,013
Contributions	303,288
Fundraising, net of direct expenses	7,853
Sale of merchandise	2,206,568
Interest Horsemen's funds - Philadelphia Park	13,619
Broadcasting income	11,300
Miscellaneous income	6,195
Interest income	31,583
Realized gain (loss) on sale of investments	(11,899)
Unrealized gain (loss) on investments	<u>(9,123)</u>
Total unrestricted revenues and support	<u>4,314,397</u>

EXPENSES

Program services:	
Horsemen's Advocacy Program	1,813,319
Horse Supplies Program	2,122,548
Backstretch Social Programs	92,522
Backstretch Healthcare Programs	139,191
Thoroughbred Horse Retirement Program	<u>303,668</u>
Total program services	4,471,248
Management and general	126,455
Fundraising	<u>3,112</u>
Total expenses	<u>4,600,815</u>

DECREASE IN NET ASSETS (286,418)

NET ASSETS, BEGINNING OF YEAR 1,988,577

NET ASSETS, END OF YEAR \$ 1,702,159

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.
COMBINED STATEMENT OF CASH FLOWS
Year Ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (286,418)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	13,639
Realized (gain) loss on investments	11,899
Unrealized (gain) loss on investments	9,123
Effects of changes in operating assets and liabilities:	
Accounts receivable	(55,559)
Inventory	(4,143)
Prepaid expenses	(38,049)
Accounts payable	(138,150)
Due to Philadelphia Park	23,707
Customer deposits	39,605
Accrued payroll	18,166
Other accrued expenses	<u>75,942</u>
Net cash used in operating activities	<u>(330,238)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of equipment and furnishings	(15,855)
Sale (purchases) of investments, net	<u>(94,410)</u>
Net cash used in operating activities	<u>(110,265)</u>

NET DECREASE IN CASH

(440,503)

CASH, BEGINNING OF YEAR

1,871,360

CASH, END OF YEAR

\$ 1,430,857

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Pennsylvania Thoroughbred Horsemen's Association, Inc. ("PTHA"), represents the common business interests of horse owners, their employees, and independent contractors (collectively referred to as members) with management of Bensalem Racing Association, the owner of Philadelphia Park, and Keystone Turf Clubs, Inc. PTHA works to protect and provide for the Philadelphia Park horsemen through the guarantee of live racing, increased purses, and healthcare for its families. It also promotes thoroughbred racing and improvements in the thoroughbred racing industry in the Commonwealth of Pennsylvania. Horse Purchasing Association, Inc. ("HPA") sells horse related goods and supplies to the members of PTHA. Pennsylvania Thoroughbred Horsemen's Association Benefit Trust ("PTHA BT) provides welfare benefits and social programs for the members of PTHA, their eligible dependents, employees, independent contractors, and beneficiaries. Turning For Home, Inc. ("TFH") is a retirement program for the thoroughbred horses that can no longer race due to injury or lack of ability. TFH provides humane and dignified retirement for horses stabled at Philadelphia Park.

PTHA located in Bucks County, provides administrative and management services, strategic and financial planning, asset management, and budgeting services to the related entities - HPA, PTHA BT, and TFH. Each of the entities is related to PTHA as a result of their common management.

The Pennsylvania Race Horse Development Fund Division ("PRDF Division") of the PTHA was formed in December 2006 pursuant to Section 1405 and 1406 of the Pennsylvania Consolidated Statutes Title 4 Amusements (the "Statute"). Section 1405 of the Statutes provides for the establishment of a Pennsylvania Race Horse Development Fund within the State Treasury and requires that each active and operating licensed gaming entity shall pay a daily assessment to the Pennsylvania Race Horse Development Fund. In accordance with Section 1406 of the Statute, the State Treasury shall make distributions from the Pennsylvania Race Horse Development Fund to each active and operating Category 1 licensee conducting live racing in the manner outlined in Section 1406 of the Statutes. It is the responsibility of the PTHA - PRDF Division to distribute the funds received by Philadelphia Park Racetrack's Horsemen's Association (PTHA) in accordance with the Statute.

The PRDF Division serves as the custodian of funds to be used by the beneficiary of the funds received under Section 1405 and 1406 of the Pennsylvania Consolidated Statutes Title 4 Amusements (the "Statute").

Combination Policy

The combined financial statements include the accounts of PTHA; HPA; PTHA BT; and TFH. Intercompany transactions and balances have been eliminated in combination.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

The Organizations report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has no temporarily or permanently restricted net assets at December 31, 2012.

Contributions

Contributions are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restriction.

Contributed Services and Facilities

The board of directors and volunteers donate significant amounts of time to the various operations of the Organizations. Donated personal services of volunteers are not reflected in the accompanying financial statements because they do not meet the criteria for recording.

Under terms of the Racing Agreement, the entities making up the combined group are permitted to use office space and the track shop office located in the administration building of Philadelphia Park at no cost. This includes use of all common utilities.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organizations consider all unrestricted highly-liquid investments with an initial maturity of six months or less to be cash equivalents. The Organizations place their cash in high credit quality institutions.

At various times during the year, PTHA and TFH had cash balances in excess of federally insured limits in deposit accounts. Note 5 discloses irrevocably standby letters of credit provided by financial institutions for funds in excess of federally insured limits.

Restricted cash represents statutory funds held under the Pennsylvania Race Horse Development Fund and are restricted by statute as to their use.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable and Reserve for Uncollectible Receivables

Accounts receivable is stated at the amount management expects to collect from outstanding balances. The Organizations use the allowance method for potential uncollectible amounts. A reserve was established totaling \$5,000 for potential uncollectible amounts for the sale of horse supplies and equipment. No amounts were written off in 2012.

Investments

The Organizations' investments are carried at market value, as estimated by the most recent published sources as of the last business day of the year. Unless explicitly restricted by donor stipulation or by law, realized and unrealized gains and losses are reported in the statement of activities as increases or decreases in unrestricted net assets.

Inventory

Horse supplies are valued at the lower of cost or market. Cost is computed using the average method. Inventory is valued at \$150,594 for the year ended December 31, 2012.

Equipment and Furnishings

Equipment and furnishings are stated at cost, if purchased and at estimated fair market value at date of donation, if donated. Depreciation is calculated using the straight-line and declining balance methods over the estimated useful lives of the respective assets. Expenditures for repairs and maintenance are charged against operations as incurred; expenditures for renewals and betterments are capitalized in accordance with the Organizations' capitalization policies. A summary of the estimated useful lives is as follows:

Vehicles	5 to 7 years
Storage trailers and related equipment	7 years
Office equipment and furniture	3 to 10 years

Functional Expense Allocation Method

Functional expenses are allocated based on: (1) actual direct time spent and cost incurred by program and supporting service; (2) direct costs associated with each program or supporting service; and (3) division of common area costs among program and supporting services according to utilization of a common distribution base.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

PTHA, HPA, and TFH were organized under the Pennsylvania Nonprofit Corporation Law of 1972 and, as such, are exempt from state income taxes. PTHA and TFH have been granted tax exempt status by the Internal Revenue Service under Section 501(c)(6) and 501(c)(3), respectively, of the Internal Revenue Code. HPA is subject to income tax for federal purposes. The PTHA BT is a Pennsylvania trust subject to federal and state income taxes.

In accordance with generally accepted accounting principles, the organizations account for uncertain tax positions, if any, as required. Using that guidance, management has determined that there are no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Tax years 2009 and forward remain open for examination by the applicable taxing authorities.

NOTE 2 – PROGRAM SERVICES

Services are provided through the following programs:

Horsemen's Advocacy Program - represents the common business interests of horse owners, their employees, and independent contractors with management of Bensalem Racing Association, the owner of Philadelphia Park, and Keystone Turf Club, Inc. The program also promotes thoroughbred racing and improvements in the thoroughbred racing industry in the Commonwealth of Pennsylvania.

Horse Supplies Program - purchases and sells feed, bedding, and other commodities and services to members of PTHA.

Backstretch Social Program - provides social programs for the members of PTHA.

Backstretch Healthcare Program - provides welfare benefits for the members of PTHA.

Thoroughbred Horse Retirement Program - provides care for thoroughbred horses that can no longer race, due to injury or lack of ability. The program provides a humane and dignified retirement for thoroughbred horses through rehabilitation, including veterinary care and surgery, and adoption to approved homes.

NOTE 3 – RESTRICTED PENNSYLVANIA RACE HORSE DEVELOPMENT FUND ACTIVITY

The PRDF Division of the PTHA distributes the funds received by Philadelphia Park Racetrack's Horsemen's Association in accordance with Section 1405 and 1406 of the Pennsylvania Consolidated Statutes Title 4 Amusements (the "Statute").

The funds received are required to be disbursed for purses, an annual contribution to the jockey association at Philadelphia Park, and pension and health benefits for the members of the PTHA. An allowance for reasonable administrative expenses is permitted.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

NOTE 3 – RESTRICTED DEVELOPMENT FUND ACTIVITY (CONTINUED)

Statutory funds receivable consist of Pennsylvania Race Horse Development Fund allocations for daily assessments that are due to the PTHA - PRDF Division. Payments of the assessment are statutorily required and are expected to be collected in full. At December 31, 2012, the statutory funds receivable was \$1,551,992. This balance represent the gross terminal revenue allocation ("GTR") due from the Pennsylvania Race Horse Development Fund for PTHA - PRDF Division's share of GTR generated at Category I and Category II casinos throughout Pennsylvania and amounts due from participants for health and pension co-pays. Approximately 41 percent of total revenues and support for the year ending December 31, 2012 is from this allocation.

Below is a summary of the activity for the year ending December 31, 2012.

Pennsylvania Race Horse Development Funds held ("PRHDF"), January 1, 2012	<u>\$ 5,206,028</u>
Plus funds and earnings received:	
Purse payments	43,682,758
Contractual Arrangement	1,351,013
Health and life insurance benefits	2,885,662
Interest income	25,987
Less funds allocated for legislated purposes:	
Purse payments	47,696,824
Contractual payments	1,351,013
Health and life insurance benefits	1,855,921
Pension expenses incurred	428,144
Administrative expenses	253,649
Jockey Association	<u>250,000</u>
Decrease in PRHDF funds held during December 31, 2012	<u>(3,890,131)</u>
Total PRHDF funds held, December 31, 2012	<u><u>\$ 1,315,897</u></u>
Related assets:	
Restricted cash	\$ 3,916,547
Statutory funds receivable	1,551,992
Prepaid expenses	7,592
Less other related liabilities:	
Accrued purses	3,639,731
Accrued pension	425,880
Other accrued expenses	<u>94,623</u>
Total PRHDF funds held, December 31, 2012	<u><u>\$ 1,315,897</u></u>

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments as of December 31, 2012 consist of corporate bonds totaling \$363,142.

The market value and cost of bonds by contracted maturity dates at December 31, 2012 is shown below.

	<u>Market Value</u>	<u>Cost</u>
Due in less than 1 year	\$ 80,993	\$ 82,543
Due after 1 through 5 years	<u>282,149</u>	<u>282,431</u>
Total	<u>\$ 363,142</u>	<u>\$ 364,974</u>

Investment activity is as follows at December 31, 2012:

Interest income	\$ 31,583
Realized gain (loss)	(11,899)
Unrealized gain (loss)	<u>(9,123)</u>
Total	<u>\$ 10,561</u>

Generally accepted accounting principles establish a framework for measuring fair value. The primary effect of fair value measurement on the Organizations was to expand the required disclosures pertaining to the methods used to determine fair values.

That 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 measurements), and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under generally accepted accounting principles are described below:

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

Level 2: Inputs to the valuation methodology include:

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

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

The asset's 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 techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Corporate Bonds are held by an independent investment advisor and are valued at the quoted market value in an active market for identical assets.

The method described previously may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organizations believe their reliance on the valuation methods of the banks 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.

PTHA's investments in corporate bonds of \$363,142 are categorized as Level 1 within the fair value hierarchy at December 31, 2012.

NOTE 5 – IRREVOCABLE STANDBY LETTERS OF CREDIT

The Organization has an irrevocable standby letter of credit from a financial institution in the amount of \$5,000,000 to secure funds in excess of federally insured amounts, which expired on January 11, 2013. On January 11, 2013, the Organization entered into an agreement for an irrevocable standby letter of credit from a financial institution in the amount of \$4,000,000 to secure funds in excess of federally insured amounts, which expires on April 11, 2013.

NOTE 6 – LIVE RACING AGREEMENT

PTHA entered into a live racing agreement with Keystone Turf Club, Inc. and Bensalem Racing Association, Inc. (trading as Philadelphia Park) effective September 4, 2004. The agreement is set to expire on January 1, 2016. As outlined in the agreement, purse monies received shall be allocated as follows:

- Ninety percent (90%) of purses shall be allocated to overnights.
- Seven percent (7%) of purses shall be applied to stake races.
- Three percent (3%) of purses shall be paid to PTHA to support member activity.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

NOTE 7 – RELATED PARTY TRANSACTIONS

The President of the Association is a partner in a law firm representing PTHA, however, this individual has limited voting rights and abstains from all discussions regarding legal fees paid to the firm. Legal expenses incurred by the PTHA for the years ending December 31, 2012 were \$355,715. Of this amount, \$18,193 is reflected as a reduction of the PRDF liabilities account and \$337,522 is included in professional fees as paid from Association of funds. As of December 31, 2012, unpaid legal fees to this firm totaled \$18,526.

NOTE 8 –BENEFIT PLANS

Act 71 Pennsylvania Gaming Law mandates that a portion of the slot revenue be utilized for pension benefits. As a result, on December 2, 2009, the board of directors of PTHA approved two pension plans for the benefit of the trainers and the employees of PTHA. The Pennsylvania Thoroughbred Horsemen's Association Trainers' Retirement Plan and the Pennsylvania Thoroughbred Horsemen's Association Employees' Retirement Plan were approved by the Pennsylvania Gaming Control Board and adopted by the Organization on March 1, 2010.

Trainers' Retirement Plan

Effective December 1, 2011, the board of directors of PTHA approved to amend the eligibility requirements of the plan as follows:

Trainers will be eligible to participate in the non-qualified pension plan if they meet one of the following criteria: has twenty starts during the calendar year or the prior calendar year, provided that 65 percent of such trainer's total annual starts for that year are at PARX Racing; has 100 starts during the calendar year or the prior calendar year; or has a full barn at PARX Racing. In the event one of the three criteria is met, the PRDF will contribute an approved dollar amount per start into each participant's account. The Plan has a five-year vesting schedule and distributions would be made upon the participant obtaining the age of 65, becoming disabled, or death.

The Organization accrued the funding of the Plan for 2012 for trainers that met the criteria stated above for the year ended December 31, 2012, and contributions were made as follows: Trainers aged 55 and over received \$40 per eligible start; and trainers under age 55 received \$30 per eligible start. Total contributions made to the Plan from the PRHDF on behalf of the eligible participants was \$385,184 for the year ending December 31, 2012.

Employees' Retirement Plan

Eligible employees of the Organizations may participate in an ERISA, nondiscrimination qualified 401(k) plan. To be eligible to participate, an employee must have one year of service with the Organization and attained the age of 21. Under the Plan, the PRDF may contribute a discretionary nonelective contribution. Total contributions made to the Plan for employees from the PRHDF for the year ended December 31, 2012 were \$42,960.

Total contributions to pension plans from PRHDF for the year ended December 31, 2012 were \$428,144.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

NOTE 9 – SUBSEQUENT EVENTS

Management evaluated subsequent events through October 9, 2013, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2012, but prior to October 9, 2013, that provided additional evidence about conditions that existed at December 31, 2012, have been recognized in the financial statements for the year ended December 31, 2012. Events or transactions that provided evidence about conditions that did not exist at December 31, 2012, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended December 31, 2012.

This information is an integral part of the accompanying financial statements.

PENNSYLVANIA RACE HORSE DEVELOPMENT FUND DIVISION



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Statement of Cash Receipts and Cash Disbursements of the Pennsylvania Racehorse Development Funds Performed in Accordance with *Government Auditing Standards*

Board of Directors
Pennsylvania Thoroughbred Horsemen's Association
Bensalem, Pennsylvania

Secretary
Pennsylvania Office of the Budget

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 combined financial statements of the Pennsylvania Thoroughbred Horsemen's Association (the Association), which comprise the combined statement of financial position as of December 31, 2012, and the related combined statements of activities, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated October 9, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined 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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the

accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as items 2012-01 through 2012-03.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's combined 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. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

The Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Association's responses were not subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we express no opinion on them.

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 result of that testing, and not to provide an opinion on the effectiveness of the Association'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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

Baltimore, Maryland
October 9, 2013



**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Pennsylvania Racehorse Development
Funds and on Internal Control Over Compliance with the
Pennsylvania Horse Development and Gaming Act**

Board of Directors
Pennsylvania Thoroughbred Horsemen's Association
Bensalem, Pennsylvania

Secretary
Pennsylvania Office of the Budget

Report on Compliance

We have audited the Pennsylvania Thoroughbred Horsemen's Association's (the Association) compliance with the types of compliance requirements described in Chapter 436a of the Pennsylvania Horse Development and Gaming Act that could have a direct and material effect on each of the Association's Race Horse Development Funds for the year ended December 31, 2012. The Association's Race Horse Development Funds are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to Race Horse Development Funds.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Association based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 and Chapter 436a of Pennsylvania Horse Development and Gaming Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on Race Horse Development Funds occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for Race Horse Development Funds. However, our audit does not provide a legal determination of the Association's compliance.

Opinion on Chapter 436a Program

In our opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Race Horse Development Funds for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with Chapter 436a and which are described in the accompanying schedule of findings and questioned costs as items 2012-02 and 2012-03. Our opinion is not modified with respect to these matters.

The Association's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Association's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types of requirements that could have a direct and material effect on the Race Horse Development Funds to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Race Horse Development Funds and to test and report on internal control over compliance in accordance with the Pennsylvania Horse Development and Gaming Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the Race Horse Development Funds on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of Race Horse Development Funds that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2012-02 and 2012-03, that we consider to be significant deficiencies.

The Association's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Association's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Pennsylvania Horse Development and Gaming Act. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 9, 2013

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION
STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
AND CHANGES IN ESCROW BALANCES – PENNSYLVANIA RACE HORSE DEVELOPMENT DIVISION
Period January 1, 2012 through December 31, 2012

	Contractual			Total
	Purses	Arrangement	Benefits	
CASH RECEIPTS				
Gaming funds - cash receipts	\$ 43,682,758	\$ 1,351,013	\$ 2,885,662	\$ 47,919,433
Interest earned	11,076	-	14,911	25,987
Total cash receipts	<u>43,693,834</u>	<u>1,351,013</u>	<u>2,900,573</u>	<u>47,945,420</u>
CASH DISBURSEMENTS				
Purse disbursements - Parx	(47,696,824)	-	-	(47,696,824)
Contractual disbursements	-	(1,351,013)	-	(1,351,013)
Health & welfare benefit disbursements	-	-	(2,534,065)	(2,534,065)
Administrative disbursements	-	-	(253,649)	(253,649)
Total cash disbursements	<u>(47,696,824)</u>	<u>(1,351,013)</u>	<u>(2,787,714)</u>	<u>(51,835,551)</u>
CHANGES IN ESCROW BALANCES	(4,002,990)	-	112,859	(3,890,131)
ESCROW BALANCE AT JANUARY 1, 2012	<u>2,909,492</u>	<u>-</u>	<u>2,296,536</u>	<u>5,206,028</u>
ESCROW BALANCE AT DECEMBER 31, 2012	<u>\$ (1,093,498)</u>	<u>\$ -</u>	<u>\$ 2,409,395</u>	<u>\$ 1,315,897</u>
RECONCILIATION TO AUDITED FINANCIAL STATEMENTS				
Gaming funds, as reported above	<u>\$ 43,682,758</u>	<u>\$ 1,351,013</u>	<u>\$ 2,885,662</u>	<u>\$ 47,919,433</u>
Gaming funds, as reported in Note 3 to the audited financial statements	<u>\$ 43,682,758</u>	<u>\$ 1,351,013</u>	<u>\$ 2,885,662</u>	<u>\$ 47,919,433</u>
Purse payments, as reported above	<u>\$ (47,696,824)</u>	<u>\$ (1,351,013)</u>	<u>\$ -</u>	<u>\$ (49,047,837)</u>
Purse payments, as reported in Note 3 to the audited financial statements	<u>\$ (47,696,824)</u>	<u>\$ (1,351,013)</u>	<u>\$ -</u>	<u>\$ (49,047,837)</u>
Health and welfare benefit payments, as reported above	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,787,714)</u>	<u>\$ (2,787,714)</u>
Health and welfare benefit payments, as reported in Note 3 to the audited financial statements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,787,714)</u>	<u>\$ (2,787,714)</u>

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION
NOTES TO THE STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
AND CHANGES IN ESCROW BALANCES
Period January 1, 2012 through December 31, 2012

NOTE 1 – BASIS OF PRESENTATION

The accompanying Statement of Racing Fund Cash Receipts and Disbursements includes the Pennsylvania Race Horse Development Fund activity of the Pennsylvania Thoroughbred Horsemen's Association (the Association) and is presented on the cash basis of accounting. The information in this schedule 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 schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2 – FLOW OF THE PENNSYLVANIA RACE HORSE DEVELOPMENT FUNDS

The Pennsylvania Department of Revenue transfers Pennsylvania Racehorse Development Funds to the casinos on a weekly basis. Approximately two weeks after the Casino has received the Pennsylvania Racehorse Development Funds, amounts are wired to the Association into their Pennsylvania Racehorse Development Fund Division.

The Funds are wired into a clearing account at the Association. From this account, management of the Association transmits the Pennsylvania Racehorse Development Funds into four (4) separate accounts:

- Purses- Overnight
- Purses- Stakes
- Contractual Agreement
- Health and Benefit

A statistician contracted by the Association sends an email to the Association staff indicating the amounts of funds to transfer to PARX Racing each week for the various purses paid. The Association also receives an email from the racetrack officials stating how much money is needed each week for purses. The Association compares the two before the monies are sent. Health and welfare disbursements are made directly by the Association based on the invoices received.

Management of the Association determines the portion of the Race Horse Development Funds to transfer to PARX Racing for purse purposes based on an estimate provided by PARX Racing. The frequency of purse payments is dependent 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 PARX Racing by both PARX Racing and the Association's consultants. Health disbursements are made directly to the carriers based on invoiced amounts.

NOTE 3 – FINDINGS AND QUESTIONED COSTS

The findings and questioned costs identified in connection with the 2012 audit report are disclosed in Schedule II and the status of the prior year findings and questioned costs are included in a separate report.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2012

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____	Yes	_____	X	No
Significant deficiency(ies) identified that are not considered to be material weakness?	_____	X	Yes	_____	None reported
Noncompliance material to financial statements noted?	_____	Yes	_____	X	No

Racehorse Development Funds

Internal control over state programs:

Material weakness(es) identified?	_____	Yes	_____	X	No
Significant deficiency(ies) identified that are not considered to be material weakness?	_____	X	Yes	_____	None reported

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2012

II. Financial Statement Findings

Finding No. 12-01: Segregation of Duties

Condition

The Association does not have controls to prevent or detect misstatements on a timely basis as a result of a lack of segregation of duties. This condition increases the possibility that errors or irregularities may occur and not be detected on a timely basis. Due to the small number of people employed in administrative functions, the Association may not be able to fully achieve ideal segregation of duties. Currently, management's and the board's close oversight and review of accounting information are the best means available to prevent or detect errors or irregularities.

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

This is a result of the level of staffing maintained by the Association.

Effect

An increased risk that error or inconsistencies may occur and not be detected.

Recommendation

We recommend management and the board provide close oversight and review of financial information.

Management's Response

PTHA objects to any suggestion that it lacks adequate internal controls due to staffing levels. The "effect" noted by CLA – "[a]n increased risk of error or inconsistencies" – historically has not actually occurred, and no errors or inconsistencies have been reported by CLA or its predecessors. PTHA and its Board does provide "close oversight and review of financial information," and CLA's recommendation unfairly implies that it does not. This "Finding" is purely subjective and unreasonably prejudicial, and is not appropriate. It has no place in this statutory audit in the absence of any specific negative findings.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2012

III. Racehorse Development Fund Findings

Finding No. 12-02: Related Party Transactions

Condition

The president of the Association is a partner in the law firm representing PTHA to which fees were paid. Total fees paid to this firm were \$355,715 in 2012.

Criteria

Per PA Code 436.a.4., "Funds allocated to horsemen's organizations for benevolent programs must be kept separate and apart from funds acquired from other sources and may not be used for the personal benefit of any representative or fiduciary of a horsemen's organization except to the extent that the representative or fiduciary is a participant in the benevolent programs on the same basis as other eligible program participants." Per PA Code 436.a.5, the Association is required to carry out their duties in a prudent manner and refrain from conflict-of-interest transactions.

Cause

This is a result of payment of legal fees from the Pennsylvania Race Horse Development Funds to a law firm that employs a Board member of the Association. This presents the appearance of a conflict of interest.

Although we believe there is ambiguity in the above code, the related party, as a partner in the law firm, does derive "personal benefit" from revenues earned by the firm. In addition, legal fees were not paid to a participant in the benevolent programs on the same basis as other program participants.

Effect

Noncompliance with Pennsylvania Race Horse Development Fund regulations §.436a.5.

Recommendation

We recommend that the Association implement procedures to refrain from conflict-of-interest transactions.

Management's Response

CLA notes that "the president of [PTHA] is a partner in the law firm representing PTHA to which fees were paid." We understand that this is a reference to Salvatore M. DeBunda, Esquire, currently the President of PTHA, who is a partner at Archer & Greiner, P.C. ("A&G"). Mr. DeBunda, who is not a member of PTHA's Board, has no voting rights and abstained from any participation in matters with respect to the payment of A&G's invoices. Moreover, A&G and its predecessor, Pelino & Lentz, P.C. (which merged with A&G on January 1, 2009), have represented PTHA for many years, long preceding Act 71 (often also referred to as the Gaming Act), and, accordingly, A&G has a breadth of experience dealing with equine law matters. A&G, which employs approximately 200 attorneys, does not bill PTHA for any professional services rendered by Mr. DeBunda.

While PTHA does not object to a notation of the facts regarding Mr. DeBunda's status at both PTHA and A&G, which are not disputed and are fully disclosed by PTHA, there is no basis for the express accusation in this Finding that this constitutes some legal or ethical violation. First, this is purely a legal judgment which is not within the scope of CLA's review or expertise. Further, CLA's suggestion of only an "appearance of a conflict of interest" (which is itself incorrect) and "ambiguity" in the Regulations is undercut by (a) the unqualified statement of a legal conclusion that PTHA is not in compliance with Section 436a.5 of the

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2012

Regulations and (b) the implication that PTHA is legally prohibited from retaining A&G, the counsel of its choice.

Moreover, while CLA recommends that PTHA "implement procedures to refrain from conflict of interest transactions," PTHA previously adopted a "Conflict of Interest Policy" as a result of similar comments raised in prior Fiscal Code PRDF audits. This Policy was provided to CLA, which nonetheless included this Recommendation over PTHA's objection.

PTHA also objected to any reference to the specific amount of legal fees paid by PTHA to A&G. As presented, this information is meaningless and highly prejudicial. At a minimum, to place the total amount in context, PTHA requested that the report include (a) an acknowledgment of all payments were made pursuant to A&G invoices which detailed the time spent on all professional services rendered and (b) a thorough review of the significant matters for which A&G was retained, which included substantial litigation against the Racing Commission. Again, this information has not been provided in the report.

In sum, this Finding, which is inflammatory and prejudicial, is inappropriate and should not be included in the report. To the extent CLA included this Finding over PTHA's objection, PTHA requested from CLA a thorough explanation for the conclusion that PTHA is not in compliance with the law. This is particularly important in light of the facts that (a) this is not the first time PTHA has addressed this charge and (b) CLA's predecessor, McKonly & Asbury ("M&A"), acknowledged the lack of basis for any suggestion of noncompliance based on the same facts. We refer you to our letter to John Kaschak dated March 28, 2013. To the extent that purely legal judgments have any proper place in the audits required by the Fiscal Code – which PTHA vigorously denies – the judgments expressed should be clearly articulated and consistent. This issue has not been clarified or addressed.

Finding No. 12-03: Comingling of Pennsylvania Race Horse Development Funds

Condition

The Association allocates 3% of purse monies of the Pennsylvania Race Horse Development Fund under the terms of a live racing agreement to the Association for general uses (known as contractual agreement funds). Those disbursements are for purposes other than purses which is inconsistent with current code which requires this type of activity to be kept separate.

Criteria

Per PA Code 436.a.5, fiduciaries shall ensure that the funds received for the benefit of the horsemen are distributed pursuant to the act. Per 4 PA.C.S.A . §1406(a)(2.1)(iii), Eighty-three and one-third percent of the money to be distributed under this clause shall be deposited on a weekly basis into a separate, interest-bearing purse account to be established by and for the benefit of the horsemen. The earned interest on the account shall be credited to the purse account. Licensees shall combine these funds with revenues from existing purse agreements to fund purses for live races consistent with those agreements with the advice and consent of the horsemen.

Cause

The Association has entered into a Live Racing Agreement that is not in compliance with Pennsylvania Race Horse Development Fund disbursement and distribution requirements.

Effect

Noncompliance with Pennsylvania Race Horse Development Fund distribution regulations

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2012

Recommendation

We recommend management amend the Live Racing Agreement to ensure compliance with State requirements.

Management's Response

CLA states that PTHA is not in compliance with PRDF "disbursement and distribution requirements" because 3% of purse monies are allocated to fund PTHA pursuant to the Live Racing Agreement with the operator. PTHA strongly disagrees with this legal conclusion.

In fact, Act 71 reflects a legislative endorsement of the horsemen's collective, voluntary and private decision to fund their designated statutory representative through a percentage of the purses they win -- a decision which has been negotiated with and agreed to by the licensees, as embodied in the Live Racing Agreements. This is precisely why Act 71 states that "Licensees shall combine these [PRDF] funds with revenues from existing purse agreements to fund purses for live races consistent with those agreements with the advice and consent of the horsemen." 4 Pa.C.S.A. § 1406(a)(1)(i). There is no contrary authority in Act 71 or the applicable regulations, and CLA does not provide any.

Again, this is not the first time this issue has been addressed in the context of a Fiscal Code audit. This same issue was vetted and resolved in the context of the PRDF audit conducted pursuant to the Fiscal Code for the year ending December 31, 2010, under the auspices of the Department of Agriculture. We refer to our letter dated February 1, 2012 to Deputy Secretary of Agriculture Matthew Meals. Specifically responding after the Fiscal Code auditors raised this same issue (and addressing the details of PTHA's Live Racing Agreement), we noted: "[T]he 3% of PRDF-originated purse revenues, which PTHA's members voluntarily agree to use to fund the operations of the organization, are akin to membership dues, and not distributions to PTHA from PRDF." The Department of Agriculture and the auditors agreed that there is no violation of Act 71 -- there was no reference to this whatsoever in the Fiscal Code audit report for the year ended December 31, 2010.

Last year, M&A nonetheless raised the same issue during the Fiscal Code audit for the year ended December 31, 2011, and refused to delete their finding of a violation in response to PTHA's objection. When pressed during the exit interview, M&A agreed that this was a legal judgment, that there is conflicting authority on which PTHA relies and, worse, that M&A only included this "finding" based on an instruction by counsel for the Office of the Budget.

This Finding is inappropriate and does not belong in this report. To the extent CLA included this Finding over PTHA's objection, PTHA requested that CLA provide legal authority for the statement that PTHA is in violation of the law and, if this Finding has been included at the instruction of the Office of the Budget, that CLA so state. The Fiscal Code requires that the Office of the Budget engage independent accountants to perform these audits. If any aspect of CLA's report reflects a determination or instruction by the Office of the Budget, it is critical that this is plainly disclosed. This issue has not been clarified or addressed.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2012

Supplemental Information – State Residence of Health & Welfare Plan Beneficiaries

CLA presents information regarding the state residences of PTHA's members who participate in its health and welfare plans. This information has no proper place in the audit report. The inclusion of the "Members By State" has no possible relevance and is misleading. Entry in one race qualifies a horseman as a "member" of the PTHA but does not render the horseman eligible for health and welfare benefits. The eligibility requirements exist to ensure that only horsemen with an active and substantial business presence in Pennsylvania receive benefits. As such, the "Membership by State" information should not be included.

This is also true with respect to the inclusion of information depicting the state residences of those PTHA members who receive health and welfare benefits. We do not understand the purpose or meaning of including this information, which is not otherwise explained or related in any apparent way to the PRDF audit required by the Fiscal Code. The fact that certain PTHA members who receive health and welfare benefits funded by PRDF distributions may happen to reside outside of Pennsylvania is irrelevant to not only the requirements of Act 71, but also to the significant economic activity in Pennsylvania generated by these business people. Again, PTHA's eligibility criteria require significant activities in Pennsylvania. These trainers' businesses have employees and consume goods and services like other Pennsylvania businesses. To the extent that the trainers (or their employees) who receive health and welfare benefits are analogized to persons who receive such benefits in other industries, they are no different than the thousands of persons who are employed by private businesses or public agencies located in Pennsylvania but who happen to live in a neighboring state such as New Jersey, New York, Delaware, Maryland, West Virginia or Ohio. Where the horse resides, rather than the owner or trainer, is important. The horse truly is the "jobs creator" for the Commonwealth, and horsemen who receive benefits are eligible to do so because their horses are creating those jobs in Pennsylvania.

Again, this is not the first time this issue has been raised in the context of a Fiscal Code audit. Last year, after M&A refused to delete similar information from its draft report, M&A acknowledged during the exit interview that this information is completely unrelated to the scope of the audit of PRDF funds as required by the Fiscal Code, and that M&A included the information based solely on the express instruction of the Office of the Budget.

Accordingly, this information should not be included in the report. (We have no objection to the pages which depict the eligibility criteria or the benefits recipients by category.) To the extent it has been included over PTHA's objection, PTHA requested that CLA state the reasons for its inclusion, including whether the Office of the Budget has instructed so. This has not been clarified or addressed.

SUPPLEMENTAL INFORMATION

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION
COMBINING STATEMENT OF FINANCIAL POSITION BY FUND
December 31, 2012

	<u>PTHA</u>	<u>HPA</u>	<u>PTHA BT</u>	<u>TFH</u>	<u>PRDF</u>	<u>Total</u>
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 1,058,865	\$ 38,665	\$ 23,332	\$ 309,995	\$ -	\$ 1,430,857
Trade accounts receivable	33,404	19,642	-	-	-	53,046
Other receivables	47,553	15,690	-	5,518	-	68,761
Inventory	-	150,594	-	-	-	150,594
Prepaid expenses	43,120	1,751	12,000	-	-	56,871
Interfund activities	652,903	(292,608)	(355,120)	(5,175)	-	-
Total current assets	<u>1,835,845</u>	<u>(66,266)</u>	<u>(319,788)</u>	<u>310,338</u>	<u>-</u>	<u>1,760,129</u>
INVESTMENTS	<u>363,142</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>363,142</u>
RESTRICTED DEVELOPMENT FUND ASSETS						
Restricted cash	-	-	-	-	3,916,547	3,916,547
Statutory funds receivable	-	-	-	-	1,551,992	1,551,992
Prepaid expenses	-	-	-	-	7,592	7,592
Total Pennsylvania Race Horse Development Fund assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,476,131</u>	<u>5,476,131</u>
EQUIPMENT AND FURNISHINGS						
Cemetery lots	2,410	-	-	-	-	2,410
Vehicles	114,696	-	-	-	-	114,696
Storage trailers and related equipment	-	71,075	-	-	-	71,075
Office equipment and furniture	98,698	22,917	-	-	-	121,615
Less: accumulated depreciation	(182,328)	(69,338)	-	-	-	(251,666)
Net equipment and furnishings	<u>33,476</u>	<u>24,654</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,130</u>
TOTAL ASSETS	<u>\$ 2,232,463</u>	<u>\$ (41,612)</u>	<u>\$ (319,788)</u>	<u>\$ 310,338</u>	<u>\$ 5,476,131</u>	<u>\$ 7,657,532</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts payable	\$ 196,692	\$ 12,567	\$ 766	\$ 2,100	\$ -	\$ 212,125
Customer deposits	-	39,605	-	-	-	39,605
Due to Philadelphia Park	129,295	-	-	-	-	129,295
Accrued payroll	14,354	8,531	-	-	-	22,885
Other accrued expenses	54,190	676	20,466	-	-	75,332
Total current liabilities	<u>394,531</u>	<u>61,379</u>	<u>21,232</u>	<u>2,100</u>	<u>-</u>	<u>479,242</u>
PENNSYLVANIA RACE HORSE DEVELOPMENT FUND LIABILITIES						
Accrued employee and trainers pension funds	-	-	-	-	425,880	425,880
Accrued purse payouts	-	-	-	-	3,639,731	3,639,731
Other accrued expenses	-	-	-	-	94,623	94,623
Funds held for future purse and pension expense	-	-	-	-	1,315,897	1,315,897
Total Pennsylvania Race Horse Development	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,476,131</u>	<u>5,476,131</u>
Total liabilities	<u>394,531</u>	<u>61,379</u>	<u>21,232</u>	<u>2,100</u>	<u>5,476,131</u>	<u>5,955,373</u>
NET ASSETS						
Unrestricted	<u>1,837,932</u>	<u>(102,991)</u>	<u>(341,020)</u>	<u>308,238</u>	<u>-</u>	<u>1,702,159</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,232,463</u>	<u>\$ (41,612)</u>	<u>\$ (319,788)</u>	<u>\$ 310,338</u>	<u>\$ 5,476,131</u>	<u>\$ 7,657,532</u>

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION
COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
December 31, 2012

	<u>PTHA</u>	<u>HPA</u>	<u>PTHA BT</u>	<u>TFH</u>	<u>Total</u>
UNRESTRICTED REVENUES AND SUPPORT					
Shares of wagering - per Live Racing Agreement	\$ 1,553,013	\$ -	\$ 202,000	\$ -	\$ 1,755,013
Contributions	(50,000)	-	-	353,288	303,288
Fundraising, net of direct expenses	-	-	-	7,853	7,853
Sale of merchandise	-	2,206,568	-	-	2,206,568
Interest Horsemen's funds - Philadelphia Park	13,619	-	-	-	13,619
Broadcasting income	11,300	-	-	-	11,300
Miscellaneous income	4,544	1,609	42	-	6,195
Interest income	31,133	-	20	430	31,583
Realized gain (loss) on sale of investments	(11,899)	-	-	-	(11,899)
Unrealized gain (loss) on investments	(9,123)	-	-	-	(9,123)
Total unrestricted revenues and support	<u>1,542,587</u>	<u>2,208,177</u>	<u>202,062</u>	<u>361,571</u>	<u>4,314,397</u>
EXPENSES					
Program services:					
Horsemen's Advocacy Program	1,813,319	-	-	-	1,813,319
Horse Supplies Program	-	2,122,548	-	-	2,122,548
Backstretch Social Programs	-	-	92,522	-	92,522
Backstretch Healthcare Programs	-	-	139,191	-	139,191
Thoroughbred Horse Retirement Program	-	-	-	303,668	303,668
Total program services	<u>1,813,319</u>	<u>2,122,548</u>	<u>231,713</u>	<u>303,668</u>	<u>4,471,248</u>
Management and general	104,364	15,108	30	6,953	126,455
Fundraising	1,000	-	2,100	12	3,112
Total expenses	<u>1,918,683</u>	<u>2,137,656</u>	<u>233,843</u>	<u>310,633</u>	<u>4,600,815</u>
DECREASE IN NET ASSETS	(376,096)	70,521	(31,781)	50,938	(286,418)
NET ASSETS, BEGINNING OF YEAR	<u>2,214,028</u>	<u>(173,512)</u>	<u>(309,239)</u>	<u>257,300</u>	<u>1,988,577</u>
NET ASSETS, END OF YEAR	<u>\$ 1,837,932</u>	<u>\$ (102,991)</u>	<u>\$ (341,020)</u>	<u>\$ 308,238</u>	<u>\$ 1,702,159</u>

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION
COMBINING STATEMENT OF CASH FLOWS
December 31, 2012

	<u>PTHA</u>	<u>HPA</u>	<u>PTHA BT</u>	<u>TFH</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Change in net assets	\$ (376,096)	\$ 70,521	\$ (31,781)	\$ 50,938	\$ (286,418)
Adjustments to reconcile change in net assets to net cash used in operating activities:					
Depreciation and amortization	9,504	4,135	-	-	13,639
Realized (gain) loss on investments	11,899	-	-	-	11,899
Unrealized (gain) loss on investments	9,123	-	-	-	9,123
Effects of changes in operating assets and liabilities:					
Accounts receivable	(23,551)	(41,905)	-	9,897	(55,559)
Inventory	-	(4,143)	-	-	(4,143)
Prepaid expenses	(36,298)	(1,751)	-	-	(38,049)
Accounts payable	10,635	(156,477)	6,798	894	(138,150)
Due to Philadelphia Park	25,207	-	(1,500)	-	23,707
Customer deposits	-	39,605	-	-	39,605
Accrued payroll	9,635	8,531	-	-	18,166
Other accrued expenses	59,716	2,675	5,787	7,764	75,942
Net cash used in operating activities	<u>(300,226)</u>	<u>(78,809)</u>	<u>(20,696)</u>	<u>69,493</u>	<u>(330,238)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of equipment and furnishings	(15,855)	-	-	-	(15,855)
Sale (purchases) of investments, net	<u>(94,410)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(94,410)</u>
Net cash used in operating activities	<u>(110,265)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(110,265)</u>
NET DECREASE IN CASH	(410,491)	(78,809)	(20,696)	69,493	(440,503)
CASH, BEGINNING OF YEAR	<u>1,469,356</u>	<u>117,474</u>	<u>44,028</u>	<u>240,502</u>	<u>1,871,360</u>
CASH, END OF YEAR	<u>\$ 1,058,865</u>	<u>\$ 38,665</u>	<u>\$ 23,332</u>	<u>\$ 309,995</u>	<u>\$ 1,430,857</u>

**PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION
ELIGIBILITY FOR MEMBERSHIP, HEALTH, AND PENSION PLANS
December 31, 2012**

Eligibility for Membership, Health, and Pension Plans

Eligibility requirements to become a Member of the Association:

- Any owner, owner-trainer, or trainer of a race horse who is currently licensed and in good standing as such with the Pennsylvania State Racing Commission, shall be eligible for membership in the Association.
- Any partnership, corporation or other association which is so licensed shall likewise be eligible for membership, provided, however, that any individual or entity who, directly or indirectly, owns the aggregate of less than one total race horse, shall not be eligible for membership regardless of licensing.

Eligibility requirements for Health Plan:

- Trainers with 20 starts during the year AND 65% of total starts are at PARX Racing.
- Trainers with 100 starts at PARX Racing.
- Any trainer with a full barn at PARX.
- Employees of the Association.

Eligibility requirements for Trainers Retirement Plan:

- Has Eligible Starts during the calendar year and 65% of total annual starts are at PARX Racing;
- Has 100 Eligible Starts during the calendar year at PARX Racing; and
- Has a Full Barn at PARX.

Eligibility requirements for Employee Retirement Plan

- Eligible employees who have completed one (1) year of services
- Attained the age of 21

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION
MEMBERS BY STATE
December 31, 2012

Members by State

<u>State</u>	<u>Number of Members</u>
PA	1,040
NJ	683
NY	502
DE	104
MA	97
CA	56
CT	37
All others	<u>121</u>
TOTAL MEMBERS AS OF DECEMBER 31, 2012	<u><u>2,640</u></u>

**PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION
HEALTH PLAN – PARTICIPANTS BY STATE
December 31, 2012**

Health Plan Participants by State

<u>State</u>	<u>Number of Participants</u>
PA	111
NJ	26
FL	1
DE	2
NH	<u>1</u>
TOTAL PARTICIPANTS AS OF DECEMBER 31, 2012	<u><u>141</u></u>

**PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION
HEALTH PLAN – PARTICIPANTS BY CATEGORY
December 31, 2012**

Health Plan Participants by Category

<u>State</u>	<u>Number of Participants</u>
Employee	13
Trainer	119
Assistant trainer	8
Employee-Trainer	<u>1</u>
TOTAL PARTICIPANTS AS OF DECEMBER 31, 2012	<u><u>141</u></u>

**PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION
RETIREMENT PLAN – PARTICIPANTS BY CATEGORY
December 31, 2012**

Retirement Plan Participants by Category

<u>Category</u>	<u>Number of Participants</u>
Trainer	119
Employee	<u>14</u>
TOTAL PARTICIPANTS AS OF DECEMBER 31, 2012	<u><u>133</u></u>

**PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION
RETIREMENT PLAN – PARTICIPANTS BY STATE
December 31, 2012**

Retirement Plan Participants by State

<u>State</u>	<u>Number of Participants</u>
PA	104
NJ	25
FL	1
DE	2
NH	<u>1</u>
TOTAL PARTICIPANTS AS OF DECEMBER 31, 2012	<u><u>133</u></u>

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION
SCHEDULE OF ADMINISTRATIVE EXPENSES
December 31, 2012

	<u>Date</u>	<u>Amount</u>	<u>Description</u>
Archer & Greiner	04/30/2012	\$ 8,836	Department of Agr-Audit
PTHA, INC	07/31/2012	12,875	Accounting fees
PTHA, INC	12/31/2012	14,185	Accounting fees
Herbein + Company, Inc.	01/01/2012	2,033	Audit fee accrual
Herbein + Company, Inc.	02/01/2012	2,033	Audit fee accrual
Herbein + Company, Inc.	09/30/2012	4,667	Audit fee accrual
Monthly accrual	01/12/2012	1,667	Audit fee accrual
Monthly accrual	02/12/2012	1,667	Audit fee accrual
Monthly accrual	03/12/2012	1,667	Audit fee accrual
Monthly accrual	04/12/2012	1,667	Audit fee accrual
Monthly accrual	05/12/2012	1,667	Audit fee accrual
Monthly accrual	06/12/2012	1,667	Audit fee accrual
Monthly accrual	07/12/2012	1,667	Audit fee accrual
Monthly accrual	08/12/2012	1,667	Audit fee accrual
Monthly accrual	09/12/2012	1,667	Audit fee accrual
Monthly accrual	10/12/2012	1,667	Audit fee accrual
Monthly accrual	11/12/2012	1,667	Audit fee accrual
Monthly accrual	12/03/2012	1,667	Audit fee accrual
Slattery, Frank H. LLC	02/27/2012	3,510	Audit fee accrual
Slattery, Frank H. LLC	04/30/2012	2,000	Audit fee accrual
Bank Services Charges	Total for 2012	608	Bank Service Charges
Simon, Edward G.	01/31/2012	4,850	Consultant
Simon, Edward G.	03/04/2012	6,800	Consultant
Simon, Edward G.	04/02/2012	4,750	Consultant
Simon, Edward G.	04/30/2012	4,250	Consultant
Simon, Edward G.	06/15/2012	3,850	Consultant
Simon, Edward G.	07/21/2012	3,800	Consultant
Simon, Edward G.	08/03/2012	4,450	Consultant
Simon, Edward G.	09/07/2012	4,150	Consultant
Simon, Edward G.	10/08/2012	3,900	Consultant
Simon, Edward G.	10/31/2012	4,900	Consultant
Simon, Edward G.	12/01/2012	4,900	Consultant
ATR, Inc.	01/06/2012	3,000	c-Pension Administration exp
ATR, Inc.	01/06/2012	4,000	c-Pension Administration exp
ATR, Inc.	03/01/2012	200	c-Pension Administration exp
ATR, Inc.	05/21/2012	375	c-Pension Administration exp
ATR, Inc.	08/29/2012	200	c-Pension Administration exp
ATR, Inc.	11/05/2012	200	c-Pension Administration exp
Brisnet	02/26/2012	100	c-Pension Administration exp
Comptroller Operations and Herbein accrual	12/31/2012	50,000	Department of Agr-Audit
Herbein + Company, Inc.	01/30/2012	12,680	Department of Agr-Audit
Herbein + Company, Inc.	02/26/2012	4,394	Department of Agr-Audit
Herbein + Company, Inc.	06/26/2012	9,223	Department of Agr-Audit
Penn Department of Agriculture	05/12/2012	38,155	Department of Agr-Audit
Archer & Greiner	01/31/2012	315	Legal
Archer & Greiner	02/29/2012	405	Legal
Archer & Greiner	03/31/2012	1,260	Legal
Archer & Greiner	04/30/2012	810	Legal
Archer & Greiner	06/30/2012	1,755	Legal
Archer & Greiner	07/31/2012	2,475	Legal
Archer & Greiner	09/14/2012	140	Legal
Archer & Greiner	11/30/2012	2,197	Legal
Digital Color Graphics	10/31/2012	416	Printing & Reproduction
Administrative Expenses at December 31, 2012		<u>\$ 253,649</u>	