

**Pennsylvania Thoroughbred
Horsemen's Association, Inc.**

Combined Financial Statements and
Supplementary Information

Year Ended December 31, 2017 with
Independent Auditor's Report

MaherDuessel
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Pittsburgh | Harrisburg | Butler

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PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

YEAR ENDED DECEMBER 31, 2017

TABLE OF CONTENTS

Independent Auditor's Report

Combined Financial Statements:

Combined Statement of Financial Position	1
Combined Statement of Activities	2
Combined Statement of Cash Flows	3
Notes to Combined Financial Statements	4

Supplementary Information:

Combining Statement of Financial Position	22
Combining Statement of Activities	24
Combining Statement of Cash Flows	25
Statement of Cash Receipts and Cash Disbursements and Changes in Cash Balances – Pennsylvania Racehorse Development Funds	26
Schedule of Administrative Expenses	27
Notes to the Statement of Cash Receipts and Cash Disbursements and Changes in Cash Balances – Pennsylvania Racehorse Development Funds	28

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

YEAR ENDED DECEMBER 31, 2017

TABLE OF CONTENTS

(Continued)

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

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30
Schedule of Findings and Responses	32

Independent Auditor's Report

**Board of Directors and
Secretary Albright,
Pennsylvania Office of the
Budget and
Pennsylvania Thoroughbred
Horsemen's Association, Inc.**

Report on the Financial Statements

We have audited the accompanying combined financial statements of the Pennsylvania Thoroughbred Horsemen's Association, Inc. (Association) (a nonprofit organization), which comprise the combined statement of financial position as of December 31, 2017, and the related combined

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

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 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 did not audit the financial statements of the Pennsylvania Race Horse Development Fund Division of the Pennsylvania Thoroughbred Horsemen's Association, Inc. (PRDF), which statements reflect total assets and total liabilities of \$5,823,813, as of December 31, 2017. We also did not audit the financial statements of Turning for Home, Inc. (TFH), which statements reflect total assets, liabilities, net assets, revenue, and expenses of \$62,903, \$13,138, \$49,765, \$552,160, and \$559,090, respectively. Those statements were audited by an other auditor, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for PRDF and TFH, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the reports of the other auditor, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding Change in Reporting Entity

As discussed in Note 1 to the combined financial statements, the combined financial statements include the activity of the Pennsylvania Thoroughbred Horsemen's Association Political Action Committee. Prior to the calendar year ended December 31, 2017, this entity was not included in the Association's reporting entity. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary information on pages 22-29 is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 2, 2019, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
January 2, 2019

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

Assets	
Current Assets:	
Cash and cash equivalents	\$ 456,435
Accounts receivable	33,190
Other receivables	52,828
Inventory	219,795
Prepaid expenses	18,156
Total current assets	780,404
Investments	428,449
Restricted Pennsylvania Racehorse Development Fund Assets:	
Restricted cash	2,390,770
Restricted investments	1,141,921
Statutory funds receivable	2,236,707
Prepaid expenses	54,415
Total restricted Pennsylvania Racehorse Development Fund assets	5,823,813
Equipment and Furnishings:	
Cemetery lots	2,410
Vehicles	107,964
Storage trailers and related equipment	71,075
Office equipment and furniture	151,116
Less: accumulated depreciation	(280,665)
Net equipment and furnishings	51,900
Total Assets	\$ 7,084,566
Liabilities and Net Assets	
Liabilities:	
Current Liabilities:	
Accounts payable	\$ 176,763
Customer deposits	24,131
Due to Philadelphia Park	306,509
Accrued payroll	8,603
Other accrued expenses	3,758
Total current liabilities	519,764
Pennsylvania Race Horse Development Fund Liabilities:	
Accounts payable	128,680
Accrued purse payouts	5,135,670
Accrued employee and trainers pension funds	413,465
Other accrued expenses	145,998
Total Pennsylvania Race Horse Development Fund liabilities	5,823,813
Total liabilities	6,343,577
Net Assets:	
Unrestricted	740,989
Total Liabilities and Net Assets	\$ 7,084,566

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

Unrestricted Revenues and Support:

Shares of wagering - per Live Racing Agreement	\$	1,614,511
Grants		162,500
Contributions		640,585
Fundraising, net of direct expenses		41,615
Sale of merchandise		2,966,810
Interest on Horsemen's funds - Philadelphia Park		18,674
Broadcasting income		10,925
Miscellaneous income		5,666
Interest income		14,089
Realized and unrealized gain on investments		41,704
Total unrestricted revenues and support		<u>5,517,079</u>

Expenses:

Program services:		
Horsemen's Advocacy Program		1,879,995
Horse Supplies Program		2,905,540
Backstretch Social Programs		41,080
Thoroughbred Horse Retirement Program		528,649
Total program services		<u>5,355,264</u>
Management and general		124,203
Fundraising		8,736
Total expenses		<u>5,488,203</u>

Change in Net Assets

28,876

Net Assets:

Beginning of year, restated		<u>712,113</u>
End of year	\$	<u>740,989</u>

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

**PENNSYLVANIA THOROUGHBRED
HORSEMEN'S ASSOCIATION, INC.**

COMBINED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

Cash Flows From Operating Activities:

Change in net assets	\$ 28,876
Adjustments to reconcile change in assets to net cash provided by operating activities:	
Depreciation and amortization	13,816
Realized and unrealized gain on investments	(41,704)
Effects of changes in operating assets and liabilities:	
Accounts receivable	50,499
Other receivables	119,055
Statutory funds receivable	397,854
Restricted investments	(161,192)
Inventory	(16,684)
Prepaid expenses	(17,543)
Accounts payable	28,111
Due to Philadelphia Park	32,757
Customer deposits	13,024
Accrued payroll	(2,087)
Other accrued expenses	(4,496)
Accrued purse payouts	(112,673)
Accrued employee and trainers pension funds	(7,569)
Net cash provided by operating activities	320,044

Cash Flows From Investing Activities:

Purchase of equipment and furnishings	(21,046)
Proceeds from the sale of investments	108,431
Purchase of investments	(16,840)
Net cash provided by investing activities	70,545

Net Increase in Cash, Cash Equivalents and Restricted Cash

390,589

Cash, Cash Equivalents, and Restricted Cash:

Beginning of year	2,456,616
End of year	\$ 2,847,205

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

1. Summary of Significant Accounting Policies

Organization

The combined financial statements include the following entities: Pennsylvania Thoroughbred Horsemen's Association, Inc. (PTHA), Horsemen's Purchasing Association, Inc. (HPA), Turning for Home, Inc. (TFH), the Pennsylvania Race Horse Development Fund (PRDF Division), and the Pennsylvania Thoroughbred Horsemen's Political Action Committee (PAC). For the purposes of these combined financial statements, the reporting entities of PTHA, HPA, TFH, PRDF, and PAC will be referred to as the Association.

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 Parx Racing, and Keystone Turf Clubs, Inc. PTHA works to protect and provide for Parx Racing 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. PTHA, located in Bucks County, provides administrative and management services, strategic and financial planning, asset management, and budgeting services to the related entities – HPA and TFH. Each of the entities is related to PTHA as a result of their common management and common Board of Directors. The PAC shares common control and economic interest with PTHA.

HPA sells horse related goods and supplies to the members of PTHA.

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.

The PRDF Division of the PTHA was formed in December 2006 pursuant to Sections 1405 and 1406 of the Pennsylvania Consolidated Statutes Title 4 Amusements (Statute). Section 1405 of the Statute 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 matter outlined in Section 1406

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

of the Statute. It is the responsibility of the PTHA-PRDF Division to distribute the funds received from Philadelphia Park Racetrack's Horsemen's Association 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 Sections 1405 and 1406 of the Statute.

The Association allows individual members to contribute to the PAC. The PAC is an organization whose primary purpose is to make contributions to candidates and political committees who have demonstrated their interest in thoroughbred horse racing industry.

Combination Policy

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

Basis of Accounting

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

Use of Estimates

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

Combined Financial Statement Presentation

The Association reports 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.

Unrestricted net assets – Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Unrestricted net assets may be designated for specific purposes by action of the Board or otherwise limited by contractual arrangements with outside parties. Unrestricted net assets are composed of the following:

- General – Represents resources available for support of operations.
- Fixed assets – Represents resources designated for fixed asset acquisitions and net assets expended for fixed assets.
- Board-designated – The Board has designated certain amounts, within which the balance of net assets together with accumulated earnings thereon is to be spent only for purposes approved by the Board.

Temporarily restricted net assets – Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Board pursuant to those stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes. As of December 31, 2017, the Association had no temporarily restricted net assets.

Permanently restricted net assets – Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Board's actions. As of December 31, 2017, the Association had no permanently restricted net assets.

Contributions

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

Contributed Services and Facilities

A number of unpaid volunteers, which include the Directors of the Association, have made significant contributions of their time toward developing and achieving the Association's goals and objectives. Contributions of donated services that create or enhance nonfinancial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. During the year ended December 31, 2017, there were no donated services that met the reporting requirements.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Under terms of the Racing Agreement, the entities making up the combined group are permitted to use office space and the tack shop office located in the administrative building of Parx Racing. This includes the use of all common utilities.

Cash and Cash Equivalents

For purposes of the combined statement of cash flows, the Association considers all highly-liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

The Association maintains cash accounts at various financial institutions. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured.

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

Accounts Receivable and Reserve for Uncollectible Receivables

Accounts receivable is stated at the amount management expects to collect from outstanding balances. The Association uses the allowance method for potential uncollectible amounts. A reserve was established totaling \$10,000 for potential uncollectible amounts for the sale of horse supplies and equipment. The amount written off in 2017 as bad debt expense totaled \$0.

Investments

Fair Value Measurements

The Association records its investments based on fair value. The use of observable inputs are maximized and the use of unobservable inputs are minimized by using observable inputs when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available, but traded less frequently, and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3 — Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Association. The Association considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Association's perceived risk of that instrument.

Valuation of Investments

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include money market funds, exchange-traded funds, and mutual funds.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Investments in marketable securities with readily determinable fair values are recorded at the fair values in the combined statement of financial position. Realized and unrealized gains and losses are included in the change in net assets in the accompanying combined statement of activities and changes in net assets for investments held by PTHA. Realized and unrealized gains and losses for PRDF are included in the statement of cash receipts and cash disbursements and changes in cash balances.

Inventory

Horse supplies are valued at the lower of cost or net realizable value. Cost is computed using the average cost method. Inventory is valued at \$219,795 for the year ended December 31, 2017.

Equipment and Furnishings

Equipment and furnishings are stated at cost if purchased and at estimated fair 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 Association's capitalization policies. A summary of the estimated useful lives is as follows:

Vehicles	5 to 7 years
Storage trailers and related equipmen	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.

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

tax-exempt status by the Internal Revenue Service under Section 501(c)(6) and Section 501(c)(3), respectively, of the Internal Revenue Code. HPA is subject to income tax for federal purposes only. PAC is exempt from federal income taxes under Section 527 of the U.S. Internal Revenue Service Code. However, income from investments is subject to taxation. All tax forms are filed on an annual basis.

In accordance with accounting principles generally accepted in the United States of America, the Association accounts 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 combined financial statements.

Reclassification

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

Adopted Pronouncement

The requirement of the following Financial Accounting Standards Board (FASB) Statements was adopted for the financial statements:

Accounting Standards Update (ASU) 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash*," requires that the statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The provisions of this statement have been early adopted and incorporated into these financial statements.

Pending Standards Update

ASU 2014-09, "*Revenue from Contracts with Customers*," is effective for the Association's financial statements for the year ending December 31, 2019 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition related to contracts with transfer of promised goods or services to customers and related disclosures.

ASU 2016-02, "*Leases (Topic 842)*," is effective for the Association's financial statements for the year ending December 31, 2020. This amendment will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

ASU No. 2016-14, *“Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,”* is effective for the Association's financial statements for the year ending December 31, 2018. This amendment aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The ASU changes the net asset classifications, requires presentation of expenses both by nature and function, requires investment return reported net of investment expenses, requires placed-in-service approach for gifts of/for long-lived assets, and provides enhanced disclosures for: governing body restrictions; composition of net assets with donor restrictions; qualitative and quantitative information on liquidity; methods to allocate costs among program and support functions; and underwater donor-restricted endowment funds.

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

Management has not yet determined the impact of these amendments on the Association's financial statements.

Subsequent Events

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

2. Program Services

Services are provided through the following programs:

Horsemen's Advocacy Program – represents the common business interests between horsemen (horse owners, trainers, their employees, and independent contractors) who race at Parx Racing and management of Parx Racing (Bensalem Racing Association, Inc. and Keystone Turk 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 equine related commodities and services to members of PTHA.

Backstretch Social Program – provides social programs for members and the employees 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.

3. Restricted Pennsylvania Race Horse Development Fund Activity

The PRDF Division of the PTHA distributes the funds received by Parx Racetrack's Horsemen's Association in accordance with Sections 1405 and 1406 of the Pennsylvania Consolidated Statutes Title 4 Amusements (Statute) and the PA Fiscal Code, an act of 1929, as amended.

The funds received are required to be disbursed for purses, an Act 71 mandated annual contribution to the jockey association at Parx Racing, and pension and health benefits for the members. An allowance for reasonable administrative expenses is permitted.

Effective January 1, 2010, Section 1406 of the Statute revised the formula for distributions from the Pennsylvania Race Horse Development Fund as follows:

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

For the Pennsylvania Race Horse Development Fund's fiscal year 2016 – 2017, 17% of the money in the Pennsylvania Race Horse Development Fund shall be transferred to the general fund of the Commonwealth of Pennsylvania. The remaining 83% will be allocated as follows:

- The greater of 4% or \$220,000 shall be distributed weekly to fund health and pension benefits for the members of the horsemen's organizations representing the owners and trainers at the racetrack at which the licensed racing entity operates for the benefit of the organization's members, their families, employees, and others in accordance with the rules and eligibility requirements of the organization, as approved by the State Horse Racing Commission. Of this amount, \$250,000 shall be paid annually to the thoroughbred jockeys' organization at the racetrack at which the licensed racing entity operates. The total distributions to health and pension funds shall not exceed \$11,400,000 for the fiscal year.
- The remaining amount will be allocated as follows:
 - 83 1/3% shall be deposited weekly into a separate, interest-bearing purse account to be established by and for the benefit of the horsemen.
 - 16 2/3% shall be deposited weekly into the Pennsylvania Breeding Fund (not affiliated with the PTHA or PRDF Division).

The Association receives and is responsible to distribute funds relating to the health and pension allocation and the purse percentage allocation. The Pennsylvania Horse Breeders Association is responsible for the Pennsylvania Breeding Fund percentage allocation.

For fiscal year July 1, 2016 – June 30, 2017, the Governor's budget assessed \$19,659,000 to be removed from the Pennsylvania Race Horse Development Fund to support agricultural related programs. This assessment was collected through an allocation of approximately \$894,000 a week for twenty-one weeks and \$885,000 in the twenty-second week. This money was collected during the period of July 14, 2016 through December 14, 2016. In addition, on July 27, 2016, a transfer in the amount of \$2,393,411 was required from the Pennsylvania Race Horse Development Fund to the State Racing Fund for the promotion of horse racing. Lastly, the Governor's budget assessed \$8,555,255 to be removed from the Pennsylvania Race Horse Development Fund for costs associated with the collection and research of the testing of medication. This assessment is to be collected through an allocation of approximately \$165,000 a week. \$495,000 was transferred during the first week and \$165,000 was transferred each week for the remainder of the year for the year

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

ended December 31, 2016. This money was collected during the period of July 21, 2016 through June 29, 2017.

For fiscal year July 1, 2017 – June 30, 2018, the Governor's budget assessed \$19,659,000 to be removed from the Pennsylvania Race Horse Development Fund to support agricultural related programs. The assessment was collected through an allocation of approximately \$894,000 a week for twenty-one weeks and \$885,000 in the twenty-second week. This money was collected during the period of November 1, 2017, through March 31, 2018. In addition, on August 23, 2017, a transfer in the amount of \$2,364,731 was required from the Pennsylvania Race Horse Development Fund to the State Racing Fund for promotion of horse racing. Lastly, the Governor's budget assessed \$8,491,000 to be removed from the Pennsylvania Race Horse Development Fund for costs associated with the collection and research of the testing of medication. This assessment is to be collected through an allocation of approximately \$163,288 a week. \$3,102,472 was transferred during the first week and \$163,288 was transferred each week for the remainder of the year for the year ended December 31, 2017. This money was collected during the period of November 8, 2017 through June 27, 2018.

Statutory funds receivable consists 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, 2017, the statutory funds receivable was \$2,236,707. This balance represents 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, Category II, and Category III casinos throughout Pennsylvania. Approximately 29 percent of total revenues and support for the year ended December 31, 2017 is from this allocation.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Below is a summary of the activity for the year ended December 31, 2017:

Pennsylvania Race Horse Development Funds (PRDF) held, January 1, 2017	\$ -
Plus funds and earnings received:	
Purse payments	49,109,240
Contractual arrangement	1,518,836
Health and life insurance benefits	3,362,022
Promotional payback reduction	(892,143)
Interest income	7,256
Unrealized gain on investments	151,744
Realized gain on investments	762
Dividend income	19,818
	<u>53,277,535</u>
Less funds allocated for legislated purposes:	
Purse payments	48,330,854
Contractual payments	1,493,544
Health and life insurance benefits	2,645,649
Pension expenses incurred	413,804
Administrative expenses	143,684
Jockey Association	250,000
	<u>53,277,535</u>
Increase in PRDF funds held, December 31, 2017	<u>-</u>
Total PRDF funds held, December 31, 2017	<u>\$ -</u>

**PENNSYLVANIA THOROUGHBRED
HORSEMEN'S ASSOCIATION, INC.**

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Related assets:	
Restricted cash	\$ 2,390,770
Statutory funds receivable	2,236,707
Restricted investments	1,141,921
Prepaid expenses	54,415
Less other related liabilities:	
Accounts payable	128,680
Accrued employee and trainers pension fund	413,465
Accrued purse payments	5,135,670
Other accrued expenses	145,998
Total PRDF funds held, December 31, 2017	<u><u>\$ -</u></u>

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

4. Investments and Fair Value Measurements

Fair Value of Financial Instruments

The following tables summarize the valuation of the Association's assets subject to measurements at fair value as of December 31, 2017:

	<u>Level</u>	<u>Fair Value</u>	<u>Cost</u>
Money market funds	1	\$ 36,947	\$ 36,947
Mutual funds:			
U.S. equity	1	399,598	335,898
International equity	1	381,366	327,160
Fixed income	1	160,783	160,685
Other	1	101,710	95,908
Exchange-traded funds:			
U.S. equity	1	368,889	288,291
International equity	1	121,077	103,865
Total investments		1,570,370	<u>\$ 1,348,754</u>
Restricted PRDF investments		<u>(1,141,921)</u>	
Total unrestricted investments		<u>\$ 428,449</u>	

Investment income activity is as follows at December 31, 2017:

	<u>PRDF Investments</u>	<u>Unrestricted Investments</u>	<u>Total Investments</u>
Interest and dividend income	\$ 19,818	\$ 13,569	\$ 33,387
Realized gain (loss)	762	(1,569)	(807)
Unrealized gain (loss)	151,744	43,273	195,017
Total investment income (loss)	<u>\$ 172,324</u>	<u>\$ 55,273</u>	<u>\$ 227,597</u>

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

5. Live Racing Agreement

PTHA entered into a live racing agreement with Keystone Turf Club, Inc. and Bensalem Racing Association, Inc. (operating as Parx Racing) effective September 4, 2004. The agreement is set to expire on December 31, 2018. As outlined in the agreement, purse monies 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.

6. Related Party Transactions

The President of the Association is a partner in a law firm representing PTHA; however, this individual has no voting rights and abstains from all discussions regarding legal fees paid to the firm. Legal expenses incurred by PTHA for the year ended December 31, 2017 were \$139,678 and were entirely related to the law firm in which the President is a partner. The entire amount is included in professional fees as paid from Association funds.

The President of the Association is the sole owner of a firm providing consulting services for PTHA. Consulting expenses relating to the consulting firm in which the President is the sole owner incurred by PTHA for the year ended December 31, 2017 were \$60,000. The entire amount is included in professional fees as paid from Association funds.

During the year, TFH received a \$100,000 contribution from PTHA. Also during the year, HPA paid \$17,000 to PTHA for advertising. These transactions were eliminated in the combined financial statements.

Transfers of contributions collected by PTHA on behalf of the PAC in the amount of \$52,560, presented as contribution revenue and expense, were eliminated in the combined financial statements.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

7. 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 Association on March 1, 2010.

Trainer's 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 defined contribution 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 that one of the three criteria are 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.

Effective February 13, 2016, the eligibility requirement of twenty starts was reduced to fifteen starts during the calendar year or the prior calendar year. All other eligibility requirements remained the same.

The Association accrued the funding of the Plan for 2017 for trainers that met the criteria stated above for the year ended December 31, 2017, 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 PRDF on behalf of eligible participants were \$324,506 for the year ended December 31, 2017.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Employees' Retirement Plan

Eligible employees of the Association 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 Association and attained the age of 21. Under the Plan, the PRDF may contribute a discretionary non-elective contribution. Total contributions made to the Plan for employees from the PRDF for the year ended December 31, 2017 were \$89,298.

Total contributions to pension plans from PRDF for the year ended December 31, 2017 were \$413,804.

8. Commitments and Contingencies

The Association has contracted with a vendor through December 2024 to remove manure and wood shavings waste from the Philadelphia Park facility. The contract expense was \$263,200 for the year ended December 31, 2017. Future minimum non-cancelable contract payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 265,200
2019	265,200
2020	265,200
2021	265,200
2022	265,200
2023-2024	<u>530,400</u>
Total	<u>\$ 1,856,400</u>

The Association leases a vehicle for an employee. Total lease payments for the year ended December 31, 2017 totaled \$5,101. Future lease payments for the years ended December 31, 2018 and 2019 total \$5,101 and \$4,676, respectively.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

9. Promotional Items - PRDF

On March 27, 2015, the Department of Revenue issued Gaming Tax Bulletin 2015-01. This bulletin clarified the policy concerning the deductibility of promotional items for purposes of calculating GTR as a result of the Pennsylvania's Supreme Court's April 28, 2014 decision to allow all casinos to receive tax credits for promotional giveaways. These items include vehicles, concert tickets, sporting event tickets, and gift cards.

Consequently, the issuance of this bulletin affected the results of the PRDF division as of January 1, 2014. The monies associated with this bulletin were reimbursed starting in 2015.

10. Concentration

For the year ended December 31, 2017, revenue includes \$1,614,511 arising from race track revenue received from the Live Racing Agreement. The loss of this revenue source could have a material effect on the Association.

11. Restatement of Net Assets

Net assets at January 1, 2017 have been restated from \$604,445 to \$712,113 to include the PAC in the reporting entity. Had this entity been properly included in the prior year, it would have resulted in an increase in the change in unrestricted net assets of \$27,458.

SUPPLEMENTARY INFORMATION

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

<u>Assets</u>	<u>PTHA</u>	<u>HPA</u>	<u>TFH</u>	<u>PRDF</u>	<u>PAC</u>	<u>Eliminations</u>	<u>Combined Total</u>
Current Assets:							
Cash and cash equivalents	\$ 238,552	\$ 92,224	\$ 58,803	\$ -	\$ 66,856	\$ -	\$ 456,435
Accounts receivable	11,647	21,543	-	-	-	-	33,190
Other receivables	52,828	-	-	-	-	-	52,828
Intercompany receivables	240,256	-	4,100	37,915	-	(282,271)	-
Inventory	-	219,795	-	-	-	-	219,795
Prepaid expenses	17,137	1,019	-	-	-	-	18,156
Total current assets	<u>560,420</u>	<u>334,581</u>	<u>62,903</u>	<u>37,915</u>	<u>66,856</u>	<u>(282,271)</u>	<u>780,404</u>
Investments	<u>428,449</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>428,449</u>
Restricted Pennsylvania Racehorse Development Fund Assets:							
Restricted cash	-	-	-	2,390,770	-	-	2,390,770
Restricted investments	-	-	-	1,141,921	-	-	1,141,921
Statutory funds receivable	-	-	-	2,236,707	-	-	2,236,707
Prepaid expenses	-	-	-	54,415	-	-	54,415
Total restricted Pennsylvania Racehorse Development Fund assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,823,813</u>	<u>-</u>	<u>-</u>	<u>5,823,813</u>
Equipment and Furnishings:							
Cemetery lots	2,410	-	-	-	-	-	2,410
Vehicles	107,964	-	-	-	-	-	107,964
Storage trailers and related equipment	-	71,075	-	-	-	-	71,075
Office equipment and furniture	127,517	23,599	-	-	-	-	151,116
Less: accumulated depreciation	<u>(203,157)</u>	<u>(77,508)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(280,665)</u>
Net equipment and furnishings	<u>34,734</u>	<u>17,166</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,900</u>
Total Assets	<u><u>\$ 1,023,603</u></u>	<u><u>\$ 351,747</u></u>	<u><u>\$ 62,903</u></u>	<u><u>\$ 5,861,728</u></u>	<u><u>\$ 66,856</u></u>	<u><u>\$ (282,271)</u></u>	<u><u>\$ 7,084,566</u></u>

(Continued)

**PENNSYLVANIA THOROUGHBRED
HORSEMEN'S ASSOCIATION, INC.**

COMBINING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

(Continued)

Liabilities and Net Assets	PTHA	HPA	TFH	PRDF	PAC	Eliminations	Combined Total
Liabilities:							
Current liabilities:							
Accounts payable	\$ 72,680	\$ 80,084	\$ 13,138	\$ 10,861	\$ -	\$ -	\$ 176,763
Customer deposits	-	24,131	-	-	-	-	24,131
Due to Philadelphia Park	306,509	-	-	-	-	-	306,509
Intercompany payables	37,840	217,377	-	27,054	-	(282,271)	-
Accrued payroll	8,603	-	-	-	-	-	8,603
Other accrued expenses	-	3,758	-	-	-	-	3,758
Total current liabilities	<u>425,632</u>	<u>325,350</u>	<u>13,138</u>	<u>37,915</u>	<u>-</u>	<u>(282,271)</u>	<u>519,764</u>
Pennsylvania Race Horse Development Fund liabilities:							
Accounts payable	-	-	-	128,680	-	-	128,680
Accrued purse payouts	-	-	-	5,135,670	-	-	5,135,670
Accrued employee and trainers pension funds	-	-	-	413,465	-	-	413,465
Other accrued expenses	-	-	-	145,998	-	-	145,998
Total Pennsylvania Race Horse Development Fund liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,823,813</u>	<u>-</u>	<u>-</u>	<u>5,823,813</u>
Total liabilities	425,632	325,350	13,138	5,861,728	-	(282,271)	6,343,577
Net Assets:							
Unrestricted	597,971	26,397	49,765	-	66,856	-	740,989
Total Liabilities and Net Assets	<u>\$ 1,023,603</u>	<u>\$ 351,747</u>	<u>\$ 62,903</u>	<u>\$ 5,861,728</u>	<u>\$ 66,856</u>	<u>\$ (282,271)</u>	<u>\$ 7,084,566</u>

(Concluded)

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	PTHA	HPA	TFH	PAC	Eliminations	Combined Total
Unrestricted Revenues and Support:						
Shares of wagering - per Live Racing Agreement	\$ 1,614,511	\$ -	\$ -	\$ -	\$ -	\$ 1,614,511
Grants	162,500	-	-	-	-	162,500
Contributions	230,040	-	510,545	52,560	(152,560)	640,585
Fundraising, net of direct expenses of \$16,724	-	-	41,615	-	-	41,615
Sale of merchandise	-	2,966,810	-	-	-	2,966,810
Interest on Horsemen's funds - Philadelphia Park	18,674	-	-	-	-	18,674
Broadcasting income	27,925	-	-	-	(17,000)	10,925
Miscellaneous income	5,437	229	-	-	-	5,666
Interest income	14,074	15	-	-	-	14,089
Realized and unrealized gain on investments	41,704	-	-	-	-	41,704
Total unrestricted revenues and support	<u>2,114,865</u>	<u>2,967,054</u>	<u>552,160</u>	<u>52,560</u>	<u>(169,560)</u>	<u>5,517,079</u>
Expenses:						
Program services:						
Horsemen's Advocacy Program	1,939,205	-	-	93,350	(152,560)	1,879,995
Horse Supplies Program	-	2,922,540	-	-	(17,000)	2,905,540
Backstretch Social Programs	41,080	-	-	-	-	41,080
Thoroughbred Horse Retirement Program	-	-	528,649	-	-	528,649
Total program services	<u>1,980,285</u>	<u>2,922,540</u>	<u>528,649</u>	<u>93,350</u>	<u>(169,560)</u>	<u>5,355,264</u>
Management and general	77,163	25,313	21,705	22	-	124,203
Fundraising	-	-	8,736	-	-	8,736
Total expenses	<u>2,057,448</u>	<u>2,947,853</u>	<u>559,090</u>	<u>93,372</u>	<u>(169,560)</u>	<u>5,488,203</u>
Change in Net Assets	57,417	19,201	(6,930)	(40,812)	-	28,876
Net Assets:						
Beginning of year, restated	540,554	7,196	56,695	107,668	-	712,113
End of year	<u>\$ 597,971</u>	<u>\$ 26,397</u>	<u>\$ 49,765</u>	<u>\$ 66,856</u>	<u>\$ -</u>	<u>\$ 740,989</u>

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

	PTHA	HPA	TFH	PRDF	PAC	Eliminations	Combined Total
Cash Flows From Operating Activities:							
Change in net assets	\$ 57,417	\$ 19,201	\$ (6,930)	\$ -	\$ (40,812)	\$ -	\$ 28,876
Adjustments to reconcile change in assets to net cash provided by operating activities:							
Depreciation and amortization	12,790	1,026	-	-	-	-	13,816
Realized and unrealized gain on investments	(41,704)	-	-	-	-	-	(41,704)
Effects of changes in operating assets and liabilities:							
Accounts receivable	3,873	(5,864)	-	-	52,490	-	50,499
Other receivables	45,015	-	74,040	-	-	-	119,055
Statutory funds receivable	-	-	-	397,854	-	-	397,854
Restricted investments	-	-	-	(161,192)	-	-	(161,192)
Intercompany receivables	2,747	-	(4,100)	(25,882)	-	27,235	-
Inventory	-	(16,684)	-	-	-	-	(16,684)
Prepaid expenses	5,421	555	-	(23,519)	-	-	(17,543)
Accounts payable	(117,785)	37,433	1,859	106,604	-	-	28,111
Due to Philadelphia Park	28,980	3,777	-	-	-	-	32,757
Intercompany payables	34,635	(8,211)	(6,683)	7,494	-	(27,235)	-
Customer deposits	-	13,024	-	-	-	-	13,024
Accrued payroll	1,581	(3,668)	-	-	-	-	(2,087)
Other accrued expenses	-	258	-	(4,754)	-	-	(4,496)
Accrued purse payouts	-	-	-	(112,673)	-	-	(112,673)
Accrued employee and trainers pension funds	-	-	-	(7,569)	-	-	(7,569)
Net cash provided by operating activities	<u>32,970</u>	<u>40,847</u>	<u>58,186</u>	<u>176,363</u>	<u>11,678</u>	<u>-</u>	<u>320,044</u>
Cash Flows From Investing Activities:							
Purchase of equipment and furnishings	(20,364)	(682)	-	-	-	-	(21,046)
Proceeds from the sale of investments	108,431	-	-	-	-	-	108,431
Purchase of investments	(16,840)	-	-	-	-	-	(16,840)
Net cash provided by (used in) investing activities	<u>71,227</u>	<u>(682)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,545</u>
Net Increase in Cash and Cash Equivalents and Restricted Cash	<u>104,197</u>	<u>40,165</u>	<u>58,186</u>	<u>176,363</u>	<u>11,678</u>	<u>-</u>	<u>390,589</u>
Cash, Cash Equivalents, and Restricted Cash:							
Beginning of year	134,355	52,059	617	2,214,407	55,178	-	2,456,616
End of year	<u>\$ 238,552</u>	<u>\$ 92,224</u>	<u>\$ 58,803</u>	<u>\$ 2,390,770</u>	<u>\$ 66,856</u>	<u>\$ -</u>	<u>\$ 2,847,205</u>

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS AND CHANGES IN CASH BALANCES - PENNSYLVANIA RACEHORSE DEVELOPMENT FUNDS

PERIOD JANUARY 1, 2017 THROUGH DECEMBER 31, 2017

	Purses	Contractual Agreement	Benefits	Total
Cash receipts:				
Gaming funds - cash receipts	\$ 49,109,240	\$ 1,518,836	\$ 3,362,022	\$ 53,990,098
Promotional payback reduction	(817,787)	(25,292)	(49,064)	(892,143)
Interest earned	1,931	-	5,325	7,256
Total cash receipts	48,293,384	1,493,544	3,318,283	53,105,211
Other revenue:				
Unrealized gain on investments	-	-	151,744	151,744
Realized gain on investments	-	-	762	762
Dividends	-	-	19,818	19,818
Total other revenue	-	-	172,324	172,324
Cash disbursements:				
Purse payments - Parx	(48,330,854)	-	-	(48,330,854)
Contractual disbursements	-	(1,493,544)	-	(1,493,544)
Health and welfare benefit disbursements	-	-	(3,309,453)	(3,309,453)
Administrative disbursements	-	-	(143,684)	(143,684)
Total cash disbursements	(48,330,854)	(1,493,544)	(3,453,137)	(53,277,535)
Changes in escrow balances	(37,470)	-	37,470	-
Escrow balance at January 1, 2017	(2,063,841)	-	2,063,841	-
Escrow balance at December 31, 2017	\$ (2,101,311)	\$ -	\$ 2,101,311	\$ -
Reconciliation to Audited Financial Statements				
Gaming funds - as reported above	\$ 49,109,240	\$ 1,518,836	\$ 3,362,022	\$ 53,990,098
Gaming funds, as reported in Note 3 to the audited financial statements	<u>\$ 49,109,240</u>	<u>\$ 1,518,836</u>	<u>\$ 3,362,022</u>	<u>\$ 53,990,098</u>
Purse payments - as reported above	\$ (48,330,854)	\$ (1,493,544)	\$ -	\$ (49,824,398)
Purse payments, as reported in Note 3 to the audited financial statements	<u>\$ (48,330,854)</u>	<u>\$ (1,493,544)</u>	<u>\$ -</u>	<u>\$ (49,824,398)</u>
Health and welfare benefit payments - as reported above	\$ -	\$ -	\$ (3,453,137)	\$ (3,453,137)
Health and welfare benefit payments - as reported in Note 3 to the audited financial statements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,453,137)</u>	<u>\$ (3,453,137)</u>

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

SCHEDULE OF ADMINISTRATIVE EXPENSES

DECEMBER 31, 2017

	<u>Date</u>	<u>Amount</u>	<u>Description</u>
Accounting fees	12/31/2017	\$ 24,839	Accounting Fees
Monthly accrual	1/4/2017	1,667	Audit fee accrual
Monthly accrual	2/4/2017	1,667	Audit fee accrual
Monthly accrual	3/4/2017	1,667	Audit fee accrual
Monthly accrual	4/4/2017	1,666	Audit fee accrual
Monthly accrual	5/4/2017	1,667	Audit fee accrual
Monthly accrual	6/4/2017	1,666	Audit fee accrual
Monthly accrual	7/4/2017	2,290	Audit fee accrual
Monthly accrual	8/4/2017	1,667	Audit fee accrual
Monthly accrual	9/4/2017	1,666	Audit fee accrual
Herbein + Company, Inc.	9/26/2017	653	Audit fee accrual
Monthly accrual	10/4/2017	1,666	Audit fee accrual
Monthly accrual	11/4/2017	1,667	Audit fee accrual
Monthly accrual	12/4/2017	1,667	Audit fee accrual
Bank service charges	Total for 2017	690	Bank service charges
Investment service charges	12/31/2017	11,134	Advisory fees - Morgan Stanley
Simon, Edward G.	2/4/2017	4,500	Consultant
Simon, Edward G.	2/28/2017	4,750	Consultant
Simon, Edward G.	3/31/2017	4,000	Consultant
Simon, Edward G.	5/23/2017	3,875	Consultant
Simon, Edward G.	6/10/2017	3,125	Consultant
Simon, Edward G.	6/30/2017	4,000	Consultant
Simon, Edward G.	7/31/2017	3,750	Consultant
Simon, Edward G.	9/16/2017	3,375	Consultant
Simon, Edward G.	9/30/2017	4,500	Consultant
Simon, Edward G.	11/4/2017	3,125	Consultant
Simon, Edward G.	12/22/2017	4,750	Consultant
Simon, Edward G.	12/31/2017	4,000	Consultant
Correct misposting of S Smith	2/24/2017	(5)	Misc expenses
State Audit	3/31/2017	9,000	State audit fee accrual
State Audit	6/30/2017	9,000	State audit fee accrual
State Audit	9/30/2017	10,000	State audit fee accrual
State Audit	12/31/2017	10,000	State audit fee accrual
Administrative expenses at December 31, 2017		<u>\$ 143,684</u>	

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO THE STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS AND CHANGES IN CASH BALANCES – PENNSYLVANIA RACEHORSE DEVELOPMENT FUNDS

DECEMBER 31, 2017

1. Basis of Presentation

The accompanying statement of cash receipts and cash disbursements and changes in cash balances includes the Pennsylvania Race Horse Development Fund activity of the Pennsylvania Thoroughbred Horsemen's Association (Association) and is presented on the accrual 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.

2. Flow of the Pennsylvania Horse 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.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO THE STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS AND CHANGES IN CASH BALANCES – PENNSYLVANIA RACEHORSE DEVELOPMENT FUNDS

DECEMBER 31, 2017

Management of the Association determines the portion of the Race Horse Development Funds to transfer to Parx Racing for purse purposes based on the estimate provided by Parx Racing.

The frequency of purse payments is dependent upon 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.

**Pennsylvania Thoroughbred
Horsemen's Association, Inc.**

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

Year Ended December 31, 2017

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

**Board of Directors and
Secretary Albright,
Pennsylvania Office of the
Budget and
Pennsylvania Thoroughbred
Horsemen’s Association, Inc.**

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

which comprise the combined statement of financial position as of December 31, 2017, 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 January 2, 2019. Our report includes reference to another report on the Association’s financial statements. The financial statements of the Pennsylvania Race Horse Development Fund Division of the Pennsylvania Thoroughbred Horsemen’s Association, Inc. (PRDF) and Turning for Home, Inc. (TFH) funds were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Association’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness and a significant deficiency.

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. We did identify a certain deficiency in internal control,

Board of Directors and Secretary Albright, Pennsylvania Office of the Budget
Pennsylvania Thoroughbred Horsemen’s Association, Inc.
Independent Auditor’s Report on Internal Control over
Financial Reporting and on Compliance and Other Matters

described in the accompanying schedule of findings and responses as item 2017-001, that we consider to be a material weakness.

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. We did identify certain a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2017-002, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts including Chapter 436a of the Pennsylvania Race Horse Development and Gaming Act and Fiscal Code (*72 P.S. § 1701-O*). However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Association’s Response to Findings

The Association’s responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Association’s responses were not subjected to the auditing procedures applied in the audit of the 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 results of that testing, and not to provide an opinion on the effectiveness of the organization’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maher Duessel

Harrisburg, Pennsylvania
January 2, 2019

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2017

Material Weakness

Finding 2017-001: Improving Internal Controls Surrounding Pennsylvania Thoroughbred Horsemen's Association Political Action Committee (PAC)

Condition: During the registration process for each race day, PARX Racing collects certain fees at rates as determined by the Pennsylvania Thoroughbred Horsemen's Association (Association). A portion of these fees are to be used to support the PAC. Beginning in late 2016, the fee assessed changed from \$10 to \$20 per individual or company per race day. No documentation could be provided to show that the change in rate was advertised to the Association's members, or that PAC contributions were voluntary in nature.

In addition, monies collected by the Association from individuals, to be used to support political candidates, are transferred to a separate cash account held by the PAC. These transfers were not made timely during the year, occurring in only June and October of 2017. At year-end, approximately \$93,000 is due from the Association to the PAC. This amount is not recorded as an intercompany receivable and payable.

Criteria: The PAC must comply with Pennsylvania's Campaign Finance Reporting Law, including Sections 1626 and 1627 requiring complete and accurate reporting.

Cause: The Association did not have policies and procedures in place to ensure that transfers are made accurately and timely, and to ensure compliance with Pennsylvania Political Action Committee laws and regulations.

Effect: This could result in noncompliance with various laws and regulations.

Recommendation: We recommend that the Association advertise the current PAC contribution rate, and that all fees due at registration be broken out by intended use. We also recommend that the Association establish internal controls to help ensure that all applicable laws and regulations governing political action committees are being followed.

Management's Response: The monthly PARX Racing Conditions Book is used by both Owners and trainers to ascertain what type of race is being run for the month along with conditions of entry and purses associated with each race. On page 54, under "Agreement," the wording has been modified in 2018 to allow the entrant to notify the Association, in writing, that the entrant does not acquiesce to the deductions for Turning for Home or the Association Purse Protection and Promotion Fund.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2017

The Association has taken steps to ensure that the transfers from PARX Racing to the PAC are recorded timely and accurately. The Association continues to review the transfers and that they are in compliance with the Pennsylvania Political Action Committee law and regulations.

Significant Deficiency

Finding 2017-002: Comingling of Pennsylvania Race Horse Development Funds

Condition: The Association allocates 3% of purse monies of the Pennsylvania Race Horse Development Funds (PRDF) under the terms of the Live Racing Agreement to the Association for general uses (known as contractual agreement funds). Those disbursements are for purposes other than purses and are maintained in the Association's general checking account. This 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 PRDF disbursement and distribution requirements.

Effect: Noncompliance with PRDF distribution regulations.

Recommendation: We recommend that management amend the Live Racing Agreement to ensure compliance with state requirements.

Management's Response: The Association strongly objects to Finding 2017-002. This is the same objection we expressed in connection with your audit report for the year ending December 31, 2015 and 2016, as well as with respect to audit reports issued by prior auditors as directed by the Department of Agriculture or Office of the Budget pursuant to the Fiscal Code.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2017

Maher Duessel (MD) states that the Association is not in compliance with PRDF "disbursement and distribution regulations" because 3% of purse monies are allocated to fund the Association pursuant to the Association's Live Racing Agreement with the operator. Specifically, MD concludes that the Association "entered into a Live Racing Agreement that is not in compliance" with those regulations and recommends that the Live Racing Agreement be amended to ensure compliance.

The Association strongly disagrees with this entirely legal conclusion, which MD continues to assert, just as its predecessors did year-after-year, without any justification.

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 MD does not provide any. MD's recommendation that the Association amend the Live Racing Agreement reflects a fundamental lack of understanding of both Act 71 and the nature of the Live Racing Agreement itself, which is an agreement between the Association and the operator.

Again, this is not the first time this issue has been addressed in the context of a Fiscal Code audit. This same issue was first 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. Specifically responding after the Fiscal Code auditors raised this same issue (and addressing the details of the Association's Live Racing Agreement), we noted: "[T]he 3% of PRDF-originated purse revenues, which the Association's members voluntarily agree to use to fund the operations of the organization, are akin to membership dues, and not distributions to the Association 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.

Subsequent auditors (McKonly & Asbury) 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 THE ASSOCIATION's objection. When pressed during the exit interview, McKonly & Asbury agreed that this was a legal judgment, that there is conflicting authority on which the Association relies and, worse, that they only included this "Finding" based on an instruction by counsel for the Office of the Budget.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2017

CLA raised this same issue for three years without addressing the substance of the Association's objection, and now MD has done the same thing.

It is telling that there has been no claim or other action taken against the Association based on this purported violation of Act 71, even though it has been alleged in multiple statutory audit reports that are prepared and distributed pursuant to the Fiscal Code. This Finding should be removed from the report. If MD refuses to remove this Finding, we request that MD provide legal authority for the statement that the Association is in violation of the law and, if this Finding has been included at the instruction of the Office of the Budget, that MD should so state. The Fiscal Code requires that the Office of the Budget engage independent accountants to perform these audits. If any aspect of MD's report reflects a determination or instruction by the Office of the Budget, it is critical that this is plainly disclosed.