

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

Combined Financial Statements and
Supplementary Information

Year Ended December 31, 2018 with
Independent Auditor's Report

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PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

YEAR ENDED DECEMBER 31, 2018

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

YEAR ENDED DECEMBER 31, 2018

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Independent Auditor's Report

**Board of Directors and
Secretary Swails,
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, 2018, and the related combined statements of activities, functional expenses, 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 \$6,237,280 as of December 31, 2018. 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 \$138,891, \$32,238, \$106,653, \$611,477, and \$554,589, respectively, as of December 31, 2018. Those statements were audited by other auditors, 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 auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2018, 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, the Association adopted ASU 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*," which requires not-for-profit entities to use the placed-in-service approach for contributions related to long-lived assets, changes how a nonprofit organization classifies net assets, and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity, among other requirements. 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 23-30 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 August 19, 2020, 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 the effectiveness of the Association's 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.

Mahe Duessel

Harrisburg, Pennsylvania
August 19, 2020

**PENNSYLVANIA THOROUGHBRED
HORSEMEN'S ASSOCIATION, INC.**
COMBINED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

Assets	
Current Assets:	
Cash and cash equivalents	\$ 738,895
Accounts receivable	101,699
Other receivables	126,193
Inventory	173,065
Prepaid expenses	24,972
Total current assets	1,164,824
Investments	301,253
Restricted Pennsylvania Racehorse Development Fund Assets:	
Restricted cash	2,753,301
Restricted investments	1,038,812
Statutory funds receivable	2,234,497
Prepaid expenses	185,573
Total restricted Pennsylvania Racehorse Development Fund assets	6,212,183
Equipment and Furnishings:	
Cemetery lots	2,410
Vehicles	107,964
Storage trailers and related equipment	71,075
Office equipment and furniture	155,102
Less: accumulated depreciation	(291,666)
Net equipment and furnishings	44,885
Total Assets	\$ 7,723,145
Liabilities and Net Assets	
Liabilities:	
Current Liabilities:	
Accounts payable	\$ 206,567
Customer deposits	11,926
Due to Philadelphia Park	413,635
Accrued payroll	20,803
Other accrued expenses	3,500
Total current liabilities	656,431
Pennsylvania Race Horse Development Fund Liabilities:	
Accounts payable	21,572
Accrued purse payouts	5,630,110
Accrued employee and trainers pension funds	422,474
Other accrued expenses	163,124
Total Pennsylvania Race Horse Development Fund liabilities	6,237,280
Total liabilities	6,893,711
Net Assets:	
Without donor restrictions	829,434
Total Liabilities and Net Assets	\$ 7,723,145

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, 2018

Revenues and Support without Donor Restrictions:

Shares of wagering - per Live Racing Agreement	\$ 1,549,857
Grants	597,443
Contributions	834,952
Fundraising, net of direct expenses	37,157
Sale of merchandise	3,107,034
Interest on Horsemen's funds - Philadelphia Park	26,245
Broadcasting income	18,550
Miscellaneous income	5,015
Investment return, net	5,898
Realized and unrealized loss on investments	(31,216)
Total revenues and support without donor restrictions	6,150,935

Expenses:

Program services:	
Horsemen's Advocacy Program	2,314,060
Horse Supplies Program	3,062,962
Backstretch Social Programs	37,234
Thoroughbred Horse Retirement Program	532,031
Total program services	5,946,287
Management and general	115,473
Fundraising	730
Total expenses	6,062,490

Change in Net Assets

88,445

Net Assets:

Beginning of year	740,989
End of year	\$ 829,434

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Horsemen's Advocacy Program	Horse Supplies Program	Backstretch Social Programs	Thoroughbred Horse Retirement Program	Total Program	Management and General	Fundraising	Total Expenses
Salaries and employee benefits	\$ 540,711	\$ 270,953	\$ -	\$ 58,332	\$ 869,996	\$ -	\$ -	\$ 869,996
Payroll taxes	24,825	26,978	-	4,758	56,561	-	-	56,561
Professional fees	319,609	-	-	-	319,609	9,025	-	328,634
Information technology support	28,954	3,695	-	-	32,649	-	-	32,649
Television and advertising	202,891	5,000	-	-	207,891	10,939	-	218,830
Public relations	60,738	-	-	-	60,738	-	-	60,738
Newsletter	17,085	-	-	-	17,085	-	-	17,085
Office expenses	5,670	11,751	-	-	17,421	10,914	-	28,335
Telephone	10,923	-	-	-	10,923	-	-	10,923
Travel and meetings	96,495	-	-	-	96,495	-	730	97,225
Depreciation	10,249	889	-	-	11,138	-	-	11,138
Insurance	58,375	-	687	-	59,062	9,556	-	68,618
Cost of goods sold	-	2,427,813	-	-	2,427,813	-	-	2,427,813
Donations	113,951	-	-	2,500	116,451	-	-	116,451
Dues and subscriptions	1,162	-	-	-	1,162	69,490	-	70,652
Handicapper	19,600	-	-	-	19,600	-	-	19,600
Horse care expenses	-	-	-	466,441	466,441	-	-	466,441
Flowers, gifts, and awards	8,876	617	-	-	9,493	-	-	9,493
Parties, picnics, and dinners	-	-	36,547	-	36,547	-	-	36,547
Race event days	747,557	-	-	-	747,557	-	-	747,557
Repairs and maintenance	23	4,945	-	-	4,968	-	-	4,968
Shavings removal	-	279,600	-	-	279,600	-	-	279,600
Vehicle	16,746	-	-	-	16,746	-	-	16,746
Miscellaneous	29,620	30,721	-	-	60,341	5,549	-	65,890
Total expenses	\$ 2,314,060	\$ 3,062,962	\$ 37,234	\$ 532,031	\$ 5,946,287	\$ 115,473	\$ 730	\$ 6,062,490

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, 2018

Cash Flows From Operating Activities:

<u>Change in net assets</u>	\$ 88,445
Adjustments to reconcile change in assets to net cash provided by operating activities:	
Depreciation and amortization	11,138
Realized and unrealized loss on investments	31,216
Gain on disposal of equipment and furnishings	(4,123)
Effects of changes in operating assets and liabilities:	
Accounts receivable	(68,509)
Other receivables	(73,365)
Statutory funds receivable	2,210
Restricted investments	103,109
Inventory	46,730
Prepaid expenses	(175,889)
Accounts payable	(39,389)
Due to Philadelphia Park	107,126
Customer deposits	(12,205)
Accrued payroll	12,200
Other accrued expenses	16,868
Accrued purse payouts	494,440
Accrued employee and trainers pension funds	9,009
Net cash used in operating activities	<u>549,011</u>

Cash Flows From Investing Activities:

<u>Proceeds from the sale of investments</u>	280,316
Purchase of investments	<u>(184,336)</u>
Net cash provided by investing activities	<u>95,980</u>

Net Decrease in Cash, Cash Equivalents and Restricted Cash

644,991

Cash, Cash Equivalents, and Restricted Cash:

<u>Beginning of year</u>	<u>2,847,205</u>
End of year	<u><u>\$ 3,492,196</u></u>

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, 2018

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), 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, 2018

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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions – Net assets without donor restrictions are the net assets that are not subject to donor-imposed stipulations. Net assets without donor

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NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

restrictions may be designated for specific purposes by action of the Board or otherwise limited by contractual arrangements with outside parties. Net assets without donor restrictions 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.

Net assets with donor restrictions – Net assets with donor restrictions result from contributions whose use is limited by donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met by either the passage of time or can be fulfilled and removed by actions of the Association pursuant to those stipulations. Other donor restrictions are perpetual in nature; those restrictions neither expire by the passage of time nor can be fulfilled or otherwise removed by the Board's actions. As of December 31, 2018, the Association had no net assets with donor restrictions.

Contributions

Contributions are recorded as with or without donor restrictions 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, 2018, there were no donated services that met the reporting requirements.

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.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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. The Association participates in an Insured Cash Sweep (ICS) program, which allows a custodian of the Association to deposit cash at multiple receiving banks in a manner designed to remain within the FDIC insurance limits for each receiving bank.

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 2018 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 on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

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NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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.

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

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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 \$173,065 for the year ended December 31, 2018.

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 equipmer	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 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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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.

Adoption of Accounting Standard

The requirements of the following Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) was adopted during the year ended December 31, 2018:

ASU No. 2016-14, *“Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,”* 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. As a result of adoption, the unrestricted net assets as of January 1, 2018 were transferred to net assets without donor restrictions.

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, 2021. This amendment will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

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 December 31, 2019. This amendment provides guidance for

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NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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.

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.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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:

For the Pennsylvania Race Horse Development Fund's fiscal year 2016 – 2017 through 2017 – 2018, 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).

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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, 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 the 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.

For fiscal year July 1, 2018 – June 30, 2019, 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 4, 2018 through November 21, 2018. In addition, on July 4, 2018, a transfer in the amount of \$2,357,566 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 \$10,066,000 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 \$195,000 a week for fifty-one weeks and \$121,000 in the fifty-second week. This money was collected during the period of July 4, 2018 through June 26, 2019.

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, 2018, the statutory funds receivable was \$2,234,497. This balance represents the gross

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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 12 percent of total revenues and support for the year ended December 31, 2018 is from this allocation.

Below is a summary of the activity for the year ended December 31, 2018:

Pennsylvania Race Horse Development Funds (PRDF) held, January 1, 2018	\$ -
Plus funds and earnings received:	
Purse payments	46,612,153
Contractual arrangement	1,441,619
Health and life insurance benefits	3,523,955
Promotional payback reduction	(781,844)
Interest income	7,807
Unrealized loss on investments	(136,057)
Realized gain on investments	32,581
Dividend income	15,728
	<u>50,715,942</u>
Less funds allocated for legislated purposes:	
Purse payments	45,749,207
Contractual payments	1,419,557
Health and life insurance benefits	2,693,573
Pension expenses incurred	422,814
Administrative expenses	180,791
Jockey Association	250,000
	<u>50,715,942</u>
Increase in PRDF funds held, December 31, 2018	<u>-</u>
Total PRDF funds held, December 31, 2018	<u>\$ -</u>

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Related assets:	
Restricted cash	\$ 2,753,301
Statutory funds receivable	2,234,497
Intercompany receivable	25,097
Restricted investments	1,038,812
Prepaid expenses	185,573
Less other related liabilities:	
Accounts payable	21,572
Accrued employee and trainers pension fund	422,474
Accrued purse payments	5,630,110
Other accrued expenses	163,124
Total PRDF funds held, December 31, 2018	<u>\$ -</u>

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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, 2018:

	Level	Fair Value	Cost
Money market funds	1	\$ 18,646	\$ 18,646
Mutual funds:			
U.S. equity	1	338,650	319,742
International equity	1	244,063	235,125
Fixed income	1	78,378	80,060
Other	1	68,917	81,410
Exchange-traded funds:			
U.S. equity	1	345,205	305,630
International equity	1	100,133	103,865
Alternative Investments	1	146,073	145,500
Total investments		1,340,065	<u>\$ 1,289,978</u>
Restricted PRDF investments		<u>(1,038,812)</u>	
Total investments without donor restrictions		<u>\$ 301,253</u>	

Investment income activity is as follows at December 31, 2018:

	PRDF	Without Donor Restrictions	Total Investments
Interest and dividend income	\$ 15,728	\$ 10,493	\$ 26,221
Investment fees	(15,348)	(4,595)	(19,943)
Realized gain	32,581	4,170	36,751
Unrealized loss	<u>(136,057)</u>	<u>(35,386)</u>	<u>(171,443)</u>
Total investment loss	<u>\$ (103,096)</u>	<u>\$ (25,318)</u>	<u>\$ (128,414)</u>

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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.

During 2019, the live racing agreement was amended. As outlined in the agreement, purse monies shall be allocated as follows.

- Eighty-seven percent (87%) of purses shall be allocated to overnights.
- Nine percent (9%) of purses shall be applied to stake races.
- Three percent (3%) of purses shall be paid to PTHA to support member activity.
- One percent (1%) of purses shall be allocated to associations to subsidize workmen's compensation insurance for the trainers who meet certain conditions outlined in the agreement

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, 2018 were \$77,101 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, 2018 were \$60,000. The entire amount is included in professional fees as paid from Association funds.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

During the year, TFH received a \$58,276 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 \$112,300, presented as contribution revenue and expense, were eliminated in the combined financial statements.

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.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

The Association accrued the funding of the Plan for 2018 for trainers that met the criteria stated above for the year ended December 31, 2018, 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 \$321,401 for the year ended December 31, 2018.

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, 2018 were \$101,413.

Total contributions to pension plans from PRDF for the year ended December 31, 2018 were \$422,814.

8. Commitments and Contingencies

The Association has contracted with a vendor through December 2031 to remove manure and wood shavings waste from the Philadelphia Park facility. The contract expense was \$279,600 for the year ended December 31, 2018. Future minimum non-cancelable contract payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 286,000
2020	286,000
2021	286,000
2022	286,000
2023	286,000
2024-2028	1,430,000
2029-2031	858,000
Total	<u>\$ 3,718,000</u>

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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

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. Risks and Uncertainties

For the year ended December 31, 2018, revenue includes \$1,549,857 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.

Investments are exposed to various risks such as interest rate and market risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in values of investment securities will occur in the near-term and that such changes could materially affect the amount reported on the statement of financial position.

11. Availability and Liquidity

The following represents the Association's financial assets available to meet general expenditures as of December 31, 2018. Funds restricted for PRDF are excluded as they are not available to meet general expenditures.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Financial assets at year-end:	
Cash and cash equivalents	\$ 738,895
Accounts receivable	101,699
Other receivables	126,193
Investments	<u>301,253</u>
Total financial assets	<u>1,268,040</u>
Less amounts not available to be used within one year:	
Assets restricted for PAC activities	<u>189,892</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,078,148</u>

Assets available to meet general expenditures include all cash accounts and receivables for PTHA, HPA, and TFH. These financial assets have no internal or external restrictions and are available to meet current year obligations at December 31, 2018. The Association manages its liquid resources primarily by monitoring the timing of purse monies received pursuant to the Live Racing Agreement and matching the timing of expenses to ensure the Association has adequate funds to cover program and administrative expenses. In addition, if timing issues with receiving the purse monies arise, the Association is able to utilize investments to cover any remaining program and administrative expenses.

12. Subsequent Event

In early 2020, an outbreak of a novel strain of coronavirus was identified and infections have been found in a number of countries around the world, including the United States. The coronavirus and its associated impacts on supply chains, travel, employee productivity and other economic activities has had, and may continue to have, a material effect on financial markets and economic activity. The extent of the negative impact of the coronavirus on the Association's operational and financial performance is currently uncertain and cannot be predicted and will depend on certain developments, including, among others, the duration and spread of the outbreak, its impact on the Association's funders, employees and vendors, and governmental, regulatory and other responses to the coronavirus."

SUPPLEMENTARY INFORMATION

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

COMBINING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

Assets	PTHA	HPA	TFH	PRDF	PAC	Eliminations	Combined Total
Current Assets:							
Cash and cash equivalents	\$ 364,216	\$ 81,958	\$ 102,829	\$ -	\$ 189,892	\$ -	\$ 738,895
Accounts receivable	57,177	43,620	902	-	-	-	101,699
Other receivables	91,033	-	35,160	-	-	-	126,193
Intercompany receivables	213,720	-	-	25,097	-	(238,817)	-
Inventory	-	173,065	-	-	-	-	173,065
Prepaid expenses	21,433	3,539	-	-	-	-	24,972
Total current assets	747,579	302,182	138,891	25,097	189,892	(238,817)	1,164,824
Investments	301,253	-	-	-	-	-	301,253
Restricted Pennsylvania Racehorse Development Fund Assets:							
Restricted cash	-	-	-	2,753,301	-	-	2,753,301
Restricted investments	-	-	-	1,038,812	-	-	1,038,812
Statutory funds receivable	-	-	-	2,234,497	-	-	2,234,497
Prepaid expenses	-	-	-	185,573	-	-	185,573
Total restricted Pennsylvania Racehorse Development Fund assets	-	-	-	6,212,183	-	-	6,212,183
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	132,185	22,917	-	-	-	-	155,102
Less: accumulated depreciation	(213,406)	(78,260)	-	-	-	-	(291,666)
Net equipment and furnishings	29,153	15,732	-	-	-	-	44,885
Total Assets	\$ 1,077,985	\$ 317,914	\$ 138,891	\$ 6,237,280	\$ 189,892	\$ (238,817)	\$ 7,723,145

(Continued)

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

COMBINING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

(Continued)

Liabilities and Net Assets	PTHA	HPA	TFH	PRDF	PAC	Eliminations	Combined Total
Liabilities:							
Current liabilities:							
Accounts payable	\$ 123,764	\$ 55,955	\$ 26,848	\$ -	\$ -	\$ -	\$ 206,567
Customer deposits	-	11,926	-	-	-	-	11,926
Due to Philadelphia Park	413,635	-	-	-	-	-	413,635
Intercompany payables	24,911	208,516	5,390	-	-	(238,817)	-
Accrued payroll	15,432	5,371	-	-	-	-	20,803
Other accrued expenses	-	3,500	-	-	-	-	3,500
Total current liabilities	<u>577,742</u>	<u>285,268</u>	<u>32,238</u>	<u>-</u>	<u>-</u>	<u>(238,817)</u>	<u>656,431</u>
Pennsylvania Race Horse Development Fund liabilities:							
Accounts payable	-	-	-	21,572	-	-	21,572
Accrued purse payouts	-	-	-	5,630,110	-	-	5,630,110
Accrued employee and trainers pension funds	-	-	-	422,474	-	-	422,474
Other accrued expenses	-	-	-	163,124	-	-	163,124
Total Pennsylvania Race Horse Development Fund liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,237,280</u>	<u>-</u>	<u>-</u>	<u>6,237,280</u>
Total liabilities	<u>577,742</u>	<u>285,268</u>	<u>32,238</u>	<u>6,237,280</u>	<u>-</u>	<u>(238,817)</u>	<u>6,893,711</u>
Net Assets:							
Without donor restriction	<u>500,243</u>	<u>32,646</u>	<u>106,653</u>	<u>-</u>	<u>189,892</u>	<u>-</u>	<u>829,434</u>
Total Liabilities and Net Assets	<u><u>\$ 1,077,985</u></u>	<u><u>\$ 317,914</u></u>	<u><u>\$ 138,891</u></u>	<u><u>\$ 6,237,280</u></u>	<u><u>\$ 189,892</u></u>	<u><u>\$ (238,817)</u></u>	<u><u>\$ 7,723,145</u></u>

(Concluded)

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

	PTHA	HPA	TFH	PAC	Eliminations	Combined Total
Revenues and Support without Donor Restrictions:						
Shares of wagering - per Live Racing Agreement	\$ 1,549,857	\$ -	\$ -	\$ -	\$ -	\$ 1,549,857
Grants	597,443	-	-	-	-	597,443
Contributions	211,980	-	574,320	214,560	(165,908)	834,952
Fundraising, net of direct expenses of \$36,276	-	-	37,157	-	-	37,157
Sale of merchandise	-	3,107,034	-	-	-	3,107,034
Interest on Horsemen's funds - Philadelphia Park	26,245	-	-	-	-	26,245
Broadcasting income	35,550	-	-	-	(17,000)	18,550
Miscellaneous income	2,836	2,179	-	-	-	5,015
Investment return, net	5,898	-	-	-	-	5,898
Realized and unrealized loss on investments	(31,216)	-	-	-	-	(31,216)
Total revenues and support without donor restrictions	<u>2,398,593</u>	<u>3,109,213</u>	<u>611,477</u>	<u>214,560</u>	<u>(182,908)</u>	<u>6,150,935</u>
Expenses:						
Program services:						
Horsemen's Advocacy Program	2,388,468	-	-	91,500	(165,908)	2,314,060
Horse Supplies Program	-	3,079,962	-	-	(17,000)	3,062,962
Backstretch Social Programs	37,234	-	-	-	-	37,234
Thoroughbred Horse Retirement Program	-	-	532,031	-	-	532,031
Total program services	<u>2,425,702</u>	<u>3,079,962</u>	<u>532,031</u>	<u>91,500</u>	<u>(182,908)</u>	<u>5,946,287</u>
Management and general	70,619	23,002	21,828	24	-	115,473
Fundraising	-	-	730	-	-	730
Total expenses	<u>2,496,321</u>	<u>3,102,964</u>	<u>554,589</u>	<u>91,524</u>	<u>(182,908)</u>	<u>6,062,490</u>
Change in Net Assets	<u>(97,728)</u>	<u>6,249</u>	<u>56,888</u>	<u>123,036</u>	<u>-</u>	<u>88,445</u>
Net Assets:						
Beginning of year	597,971	26,397	49,765	66,856	-	740,989
End of year	<u>\$ 500,243</u>	<u>\$ 32,646</u>	<u>\$ 106,653</u>	<u>\$ 189,892</u>	<u>\$ -</u>	<u>\$ 829,434</u>

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018

	PTHA	HPA	TFH	PRDF	PAC	Eliminations	Combined Total
Cash Flows From Operating Activities:							
Change in net assets	\$ (97,728)	\$ 6,249	\$ 56,888	\$ -	\$ 123,036	\$ -	\$ 88,445
Adjustments to reconcile change in assets to net cash provided by operating activities:							
Depreciation and amortization	10,249	889	-	-	-	-	11,138
Realized and unrealized loss on investments	31,216	-	-	-	-	-	31,216
Gain on disposal of equipment and furnishings	(4,668)	545	-	-	-	-	(4,123)
Effects of changes in operating assets and liabilities:							
Accounts receivable	(45,530)	(22,077)	(902)	-	-	-	(68,509)
Other receivables	(38,205)	-	(35,160)	-	-	-	(73,365)
Statutory funds receivable	-	-	-	2,210	-	-	2,210
Restricted investments	-	-	-	103,109	-	-	103,109
Intercompany receivables	22,436	-	4,100	12,818	-	(39,354)	-
Inventory	-	46,730	-	-	-	-	46,730
Prepaid expenses	(4,296)	(2,520)	-	(169,073)	-	-	(175,889)
Accounts payable	51,084	(24,129)	13,710	(80,054)	-	-	(39,389)
Due to Philadelphia Park	107,126	-	-	-	-	-	107,126
Intercompany payables	(8,829)	(8,861)	5,390	(27,054)	-	39,354	-
Customer deposits	-	(12,205)	-	-	-	-	(12,205)
Accrued payroll	6,829	5,371	-	-	-	-	12,200
Other accrued expenses	-	(258)	-	17,126	-	-	16,868
Accrued purse payouts	-	-	-	494,440	-	-	494,440
Accrued employee and trainers pension funds	-	-	-	9,009	-	-	9,009
Net cash provided by (used in) operating activities	29,684	(10,266)	44,026	362,531	123,036	-	549,011
Cash Flows From Investing Activities:							
Proceeds from the sale of investments	280,316	-	-	-	-	-	280,316
Purchase of investments	(184,336)	-	-	-	-	-	(184,336)
Net cash provided by investing activities	95,980	-	-	-	-	-	95,980
Net Increase (Decrease) in Cash and Cash Equivalents and Restricted Cash	125,664	(10,266)	44,026	362,531	123,036	-	644,991
Cash, Cash Equivalents, and Restricted Cash:							
Beginning of year	238,552	92,224	58,803	2,390,770	66,856	-	2,847,205
End of year	\$ 364,216	\$ 81,958	\$ 102,829	\$ 2,753,301	\$ 189,892	\$ -	\$ 3,492,196

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, 2018 THROUGH DECEMBER 31, 2018

	Purses	Contractual Agreement	Benefits	Total
Cash receipts:				
Gaming funds - cash receipts	\$ 46,612,153	\$ 1,441,619	\$ 3,523,955	\$ 51,577,727
Promotional payback reduction	(713,341)	(22,062)	(46,441)	(781,844)
Interest earned	3,912	-	3,895	7,807
Total cash receipts	45,902,724	1,419,557	3,481,409	50,803,690
Other revenue:				
Unrealized loss on investments	-	-	(136,057)	(136,057)
Realized gain on investments	-	-	32,581	32,581
Dividends	-	-	15,728	15,728
Total other revenue	-	-	(87,748)	(87,748)
Cash disbursements:				
Purse payments - Parx	(45,749,207)	-	-	(45,749,207)
Contractual disbursements	-	(1,419,557)	-	(1,419,557)
Health and welfare benefit disbursements	-	-	(3,366,387)	(3,366,387)
Administrative disbursements	-	-	(180,791)	(180,791)
Total cash disbursements	(45,749,207)	(1,419,557)	(3,547,178)	(50,715,942)
Changes in escrow balances	153,517	-	(153,517)	-
Escrow balance at January 1, 2018	(2,101,311)	-	2,101,311	-
Escrow balance at December 31, 2018	<u>\$ (1,947,794)</u>	<u>\$ -</u>	<u>\$ 1,947,794</u>	<u>\$ -</u>
Reconciliation to Audited Financial Statements				
Gaming funds - as reported above	<u>\$ 46,612,153</u>	<u>\$ 1,441,619</u>	<u>\$ 3,523,955</u>	<u>\$ 51,577,727</u>
Gaming funds, as reported in Note 3 to the audited financial statements	<u>\$ 46,612,153</u>	<u>\$ 1,441,619</u>	<u>\$ 3,523,955</u>	<u>\$ 51,577,727</u>
Purse payments - as reported above	<u>\$ (45,749,207)</u>	<u>\$ (1,419,557)</u>	<u>\$ -</u>	<u>\$ (47,168,764)</u>
Purse payments, as reported in Note 3 to the audited financial statements	<u>\$ (45,749,207)</u>	<u>\$ (1,419,557)</u>	<u>\$ -</u>	<u>\$ (47,168,764)</u>
Health and welfare benefit payments - as reported above	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,547,178)</u>	<u>\$ (3,547,178)</u>
Health and welfare benefit payments - as reported in Note 3 to the audited financial statements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,547,178)</u>	<u>\$ (3,547,178)</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, 2018

	Date	Amount	Description
Accounting fees	Total for 2018	\$ 20,799	Accounting Fees
Monthly accrual	1/4/2018	1,667	Audit fee accrual
Monthly accrual	2/4/2018	1,667	Audit fee accrual
Monthly accrual	3/4/2018	1,666	Audit fee accrual
Monthly accrual	4/1/2018	1,667	Audit fee accrual
Monthly accrual	4/4/2018	1,667	Audit fee accrual
Monthly accrual	6/4/2018	1,666	Audit fee accrual
Monthly accrual	7/4/2018	1,667	Audit fee accrual
Monthly accrual	8/4/2018	1,667	Audit fee accrual
Monthly accrual	9/4/2018	1,666	Audit fee accrual
Monthly accrual	10/4/2018	1,667	Audit fee accrual
Monthly accrual	11/4/2018	1,667	Audit fee accrual
Monthly accrual	12/4/2018	1,666	Audit fee accrual
Bank service charges	Total for 2018	660	Bank service charges
Investment service charges	Total for 2018	15,348	Advisory fees - Morgan Stanley
Simon, Edward G.	1/31/2018	3,250	Consultant
Simon, Edward G.	3/1/2018	3,000	Consultant
Simon, Edward G.	3/31/2018	4,500	Consultant
Simon, Edward G.	4/30/2018	3,500	Consultant
Simon, Edward G.	5/31/2018	3,750	Consultant
Simon, Edward G.	7/9/2018	4,250	Consultant
Simon, Edward G.	7/31/2018	4,500	Consultant
Simon, Edward G.	9/8/2018	4,000	Consultant
Simon, Edward G.	9/30/2018	3,500	Consultant
Simon, Edward G.	11/1/2018	3,250	Consultant
Simon, Edward G.	12/8/2018	4,250	Consultant
Simon, Edward G.	12/31/2018	3,750	Consultant
Horsemen's Purchasing Association	Total for 2018	30,080	Health Care Expense
Miscellaneous expenses	Total for 2018	2,404	Miscellaneous expenses
State Audit	1/1/2018	3,000	State audit fee accrual
State Audit	2/1/2018	3,000	State audit fee accrual
State Audit	3/1/2018	3,000	State audit fee accrual
State Audit	4/1/2018	3,000	State audit fee accrual
State Audit	6/4/2018	3,000	State audit fee accrual
State Audit	7/4/2018	3,000	State audit fee accrual
State Audit	8/4/2018	3,000	State audit fee accrual
State Audit	9/4/2018	3,000	State audit fee accrual
State Audit	10/4/2018	3,000	State audit fee accrual
State Audit	11/4/2018	3,000	State audit fee accrual
State Audit	12/4/2018	3,000	State audit fee accrual
State Audit	12/31/2018	13,000	State audit fee accrual
Administrative expenses at December 31, 2018		<u>\$ 180,791</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, 2018

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, 2018

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, 2018

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 Swails, 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, 2018, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated August 19, 2020. 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 did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 consider the deficiencies described in the

Board of Directors and Secretary Swails, 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

accompanying schedule of findings and responses as items 2018-001, 2018-002, and 2018-003 to be material weaknesses.

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 consider the deficiency described in the accompanying schedule of findings and responses as item 2018-004 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 Responses 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
August 19, 2020

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2018

Material Weakness

Finding 2018-001: 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.

Criteria: The PAC must comply with Pennsylvania's Campaign Finance Reporting Law.

Cause: The Association did not have policies and procedures in place 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 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.

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.

Finding 2018-002: Improving Controls over Bank Statements and Reconciliations

Condition: The current policy of the Association is for the Bookkeeper to prepare the bank reconciliations and the Controller to review the bank reconciliations. The Association opened a new bank account during the year. The statements for this account were not being opened,

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2018

reconciled, or reviewed during the year. In addition, one of the December bank reconciliations was not initialed as being reviewed. Finally, the bank reconciliation for one account did not tie to the amount recorded in QuickBooks due to an incorrect adjustment in QuickBooks.

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

Cause: The Association did not consistently follow their policy relating to cash as bank statements were not consistently being reviewed and reconciled.

Effect: This could result in cash being misstated at year end.

Recommendation: We recommend that the Association adhere to their policy for all bank accounts and ensure that all reconciliation match the trial balance. In addition, the Controller should continue to initial reconciliation to signify their review.

Management's Response: We agree with the recommendation and will comply.

Finding 2018-003: Improving Financial Reporting

Condition: The Association had transactions that were either not recorded or not recorded properly during the year, which were detected as a result of audit procedures.

- Accrued contractual income from PARX totaled \$87,716. However, the receivable and revenue were not recorded.
- \$20,000 was recorded as prepaid dues and accounts payable at year end, but the dues related to 2019 and were not paid until 2019. This transaction should not be recorded in 2018.
- \$15,000 was recorded as lobbyist expense and accounts payable. However, since the expense related to 2019 and was not paid until 2019, this transaction should not be recorded in 2018.
- Depreciation expense of \$10,249 for PTHA was not recorded at year end.
- Accrued payroll of \$15,432 for PTHA was not recorded at year end.
- There was \$13,500 recorded as a grant funds expense in 2018. However, since the expense related to 2017, this transaction should have been recorded as an expense and A/P as of December 31, 2017.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2018

- The Association had intercompany transactions that were recorded in one entity but not the other. Adjustments totaling \$160,125 were necessary in order to properly reflect all intercompany transactions.

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

Cause: The internal controls surrounding reconciliation of accounts are not properly designed to detect and correct financial reporting errors.

Effect: This resulted in various accounts being misstated at year end.

Recommendation: We recommend that the Association strengthen internal control procedures to ensure that all transactions are properly recorded and reviewed.

Management's Response: We agree with the recommendation and will use our best efforts to comply.

Significant Deficiency

Finding 2018-004: 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. This item was resolved by the Association effective July 1, 2019.

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2018

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: This item was corrected by the Association on July 1, 2019.

Management's Response: The Association strongly objects to Finding 2018-004. This is the same objection we expressed in connection with your audit reports for the years ending December 31, 2015, 2016, and 2017 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.

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.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2018

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.

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.