

**Pennsylvania Harness Horsemen's  
Association**

Financial Statements and Supplementary  
Information

Years Ended December 31, 2017 and 2016 with  
Independent Auditor's Reports

**MaherDuessel**

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# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

YEARS ENDED DECEMBER 31, 2017 AND 2016

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## Independent Auditor's Report

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Pennsylvania Harness Horsemen's Association (Association) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying statement of cash receipts and cash disbursements and changes in escrow balances is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2018 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 solely 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.

*Maher Duessel*

Harrisburg, Pennsylvania  
May 3, 2018

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 84,141	\$ 241,015
Accounts receivable	99,093	29,329
Prepaid expenses	26,198	192,465
Total current assets	209,432	462,809
Fixed assets:		
Property, plant, and equipment, at cost	129,004	130,458
Less: accumulated depreciation	(110,792)	(104,726)
Net fixed assets	18,212	25,732
Other assets:		
Restricted cash and cash equivalents	19,343,817	15,139,367
Restricted investments	25,275,311	25,075,292
Total other assets	44,619,128	40,214,659
Intangible assets:		
Naming rights, net of accumulated amortization of \$500,000 in 2017 and \$400,000 in 2016	200,000	300,000
<b>Total Assets</b>	<b>\$ 45,046,772</b>	<b>\$ 41,003,200</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 230,234	\$ 275,406
Accrued employer retirement plan contribution	48,000	48,000
Accrued severance	53,950	77,442
Total current liabilities	332,184	400,848
Noncurrent Liabilities:		
Long-term liabilities	100,000	200,000
Escrow funds and deferred revenue:		
Purses - racing revenue	9,224,955	8,741,606
Purses - slot revenue	7,490,978	5,541,265
Health and pension - slot revenue	27,902,595	25,931,188
Total escrow funds and deferred revenue	44,618,528	40,214,059
Total non-current liabilities	44,718,528	40,414,059
Total liabilities	45,050,712	40,814,907
Net Assets:		
Unrestricted	(3,940)	188,293
<b>Total Liabilities and Net Assets</b>	<b>\$ 45,046,772</b>	<b>\$ 41,003,200</b>

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
<b>Revenues:</b>		
<hr/>		
Race track revenues:		
Downs Racing	\$ 1,200,000	\$ 1,613,106
Harrah's Chester	1,067,367	1,200,000
Membership dues	28,520	27,200
Race Horse Development Fund	1,037,029	1,173,790
Grants	274,084	-
Member benefit reimbursements	479,819	540,023
Special events	25,000	22,000
Interest income	84	148
Miscellaneous income	8,371	112
	<u>4,120,274</u>	<u>4,576,379</u>
<b>Expenses:</b>		
<hr/>		
Salaries	623,412	478,477
Payroll taxes	39,456	37,969
Employee benefits	142,002	128,618
General insurance	237,400	210,493
Member benefits	1,620,547	1,795,500
Chaplaincy program	12,600	12,600
Advertising, newsletter, and public relations	773,263	1,036,314
Promotion expenses - television	14,842	-
Meeting expense and travel	67,849	48,412
National dues	12,000	12,300
Office expense	26,979	26,449
Telephone	7,300	8,488
Legal and accounting	243,928	224,651
Legislative fees	228,139	175,611
Donation and gifts	109,458	132,164
Special events	28,106	32,147
Fair maintenance and purses	-	179,226
Depreciation	7,977	5,856
Amortization	100,000	100,000
Miscellaneous expense	17,249	47,950
	<u>4,312,507</u>	<u>4,693,225</u>
<b>Change in Net Assets</b>	<b>(192,233)</b>	<b>(116,846)</b>
<b>Net Assets:</b>		
<hr/>		
Beginning of year	188,293	305,139
End of year	<u>\$ (3,940)</u>	<u>\$ 188,293</u>

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
<b>Reconciliation of Change in Net Assets to Net Cash and Cash Equivalents Provided by (Used in) Operating Activities:</b>		
Change in net assets	\$ (192,233)	\$ (116,846)
Adjustments to reconcile change in in assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	107,977	105,856
Loss on disposal of furniture and equipment	4,316	-
Effects of changes in operating assets and liabilities:		
Accounts receivable	(69,764)	(17,578)
Prepaid expenses	166,267	15,610
Accounts payable	(45,172)	4,851
Accrued employer retirement plan contribution	-	16,963
Accrued severance benefits	(23,492)	77,442
Net cash and cash equivalents provided by (used in) operating activities	(52,101)	86,298
<b>Cash Flows From Investing Activities:</b>		
Payments for purchase of furniture and equipment	(4,773)	(16,023)
Purchase of naming rights	(100,000)	(100,000)
Net cash and cash equivalents used in investing activities	(104,773)	(116,023)
<b>Net Decrease in Cash and Cash Equivalents</b>	(156,874)	(29,725)
<b>Cash and Cash Equivalents:</b>		
Beginning of year	241,015	270,740
End of year	\$ 84,141	\$ 241,015

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### 1. Summary of Significant Accounting Policies

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

#### Basis of Presentation

The financial statements of the Association are prepared on the accrual basis of accounting. Under this method, revenues are recognized when earned rather than received, and expenses are recognized when incurred rather than when the obligation is paid. In accordance with FASB ASC 958, *Not-for-Profit Entities*, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Association does not have any temporarily restricted or permanently restricted net assets at December 31, 2017 and 2016.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent gains and losses. Accordingly, actual results could differ from those estimates.

#### Cash and Cash Equivalents

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

#### Restricted Cash and Cash Equivalents and Investments

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### Accounts Receivable

Accounts receivable consists of member health benefit reimbursements and grant receivables. The Association uses the direct write-off method for bad debts, the results of which are not materially different from those under the allowance method.

### Fair Value of Investments

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

### Furniture and Equipment

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

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

### Long-Lived Assets

Long-lived assets, such as property and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be reduced to fair value. No impairment losses have been recorded through December 31, 2017.

### Intangible Assets

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### Grant revenue

Grant revenue is recorded on a cost-reimbursement basis. Revenue is recognized when allowable expenses are incurred.

### Functional Allocation of Expenses

The costs of providing the Association's various programs and activities are presented on a functional basis in Note 9 to the financial statements. Accordingly, certain costs have been allocated based on management estimates of the time spent and materials used among the programs and supporting services benefited.

### Income Taxes

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

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

### Adopted Changes in Accounting Principles

ASU 2015-07, *"Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or its Equivalent)"*, removes the requirement to categorize, within the fair value hierarchy, all investments for which fair value is measured using the net asset value per share practical expedient. Instead, the amounts measured using the net asset value per share (or its equivalent) must be provided to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position. The guidance requires retrospective application. As a result

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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of adopting this standard, prior period disclosures related to fair value measurement have been revised.

### 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),"* effective for the Association's financial statements for the year ending December 31, 2020. This amendment will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

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 2016-18, *"Statement of Cash Flows (Topic 230): Restricted Cash,"* is effective for the financial statements for the year ending December 31, 2019. This amendment 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.

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

# **PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION**

## **NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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### Subsequent Events

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

### 2. Escrow Funds, Deferred Revenue, and Restricted Cash/Investments

Pennsylvania law requires certain portions of revenue from slot machines at Pennsylvania racetracks to be used for horse racing purses and pension and health benefits for horse men and women. The Association acts as fiduciary in the collection and disbursement of these funds, which are required to be maintained in separate accounts. The detail of transactions in these accounts for 2017 and 2016 is as follows:

	Purses	Benefits
<b>Escrow balance, January 1, 2016</b>	\$ 13,620,830	\$ 23,084,648
Gaming Funds - Chester Downs and Marina, LLC	21,657,320	1,630,948
Gaming Funds - Downs Racing, LP	22,771,337	1,755,165
Unrealized/realized losses on investments	-	614,875
Interest and investment income (net of fees)	31,404	903,139
	44,460,061	4,904,127
Purse payments - Chester Downs and Marina, LLC - purse account	(26,302,326)	-
Purse payments - Downs Racing, LP - purse account	(26,237,300)	-
Health insurance payments	-	(1,167,397)
Retirement distributions	-	(890,190)
	(52,539,626)	(2,057,587)
<b>Escrow balance, December 31, 2016</b>	5,541,265	25,931,188
Gaming Funds - Chester Downs and Marina, LLC	25,568,063	1,679,198
Gaming Funds - Downs Racing, LP	26,509,137	1,737,589
Unrealized/realized gains on investments	-	188,462
Interest and investment income (net of fees)	49,318	939,749
	52,126,518	4,544,998
Purse payments - Chester Downs and Marina, LLC - purse account	(25,239,321)	-
Purse payments - Downs Racing, LP - purse account	(24,937,484)	-
Health insurance payments	-	(1,037,029)
Retirement distributions	-	(1,536,562)
	(50,176,805)	(2,573,591)
<b>Escrow balance, December 31, 2017</b>	\$ 7,490,978	\$ 27,902,595

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	Purses	Benefits
<b>December 31, 2017</b>		
Composition of ending balance:		
Cash and cash equivalents	\$ 7,491,378	\$ 4,720,226
Investments	-	23,182,569
	7,491,378	27,902,795
Opening cash due the Association	(400)	(200)
Ending cash and cash equivalents and investments	\$ 7,490,978	\$ 27,902,595
<b>December 31, 2016</b>		
Composition of ending balance:		
Cash and cash equivalents	\$ 5,541,665	\$ 2,925,939
Investments	-	23,005,449
	5,541,665	25,931,388
Opening cash due the Association	(400)	(200)
Ending cash and cash equivalents and investments	\$ 5,541,265	\$ 25,931,188

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Pursuant to an agreement with Chester Downs and Marina, LLC dated January 1, 2011, certain racing revenues are to be paid to the Association. The Association is required to maintain these funds in a separate account. These funds are to be used to finance the Association's operating expenses, marketing and promotional costs, or fund purses at the Chester racetrack. Revenue is recognized when cash is moved from restricted to unrestricted in order to cover Association expenses. The detail of the transactions for 2017 and 2016 is as follows:

	Racing Revenues
Deferred revenue balance, January 1, 2017	<u>\$ 8,741,606</u>
Transfers from Chester Downs and Marina, LLC - racing income	1,752,707
Reimbursement from PA Sire Stakes Program for fair expenses	371,367
Investment income (net of fees)	<u>47,329</u>
	<u>2,171,403</u>
Racetrack Payouts	(249,028)
Fair disbursements	(371,367)
Racetrack (pari-mutuel) revenues paid to the Association	(1,067,367)
Bank charges	<u>(292)</u>
	<u>(1,688,054)</u>
Deferred revenue balance, December 31, 2017	<u><u>\$ 9,224,955</u></u>
Compositions of ending balance:	
Cash and cash equivalents	\$ 7,132,213
Investments	<u>2,092,742</u>
Ending cash and cash equivalents and investments	<u><u>\$ 9,224,955</u></u>

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	Racing Revenues
Deferred revenue balance, January 1, 2016	\$ 8,062,352
Transfers from Chester Downs and Marina, LLC - racing income	1,828,857
Investment income (net of fees)	50,653
	1,879,510
Racetrack (pari-mutuel) revenues paid to the Association	(1,200,000)
Bank charges	(256)
	(1,200,256)
Deferred revenue balance, December 31, 2016	\$ 8,741,606
Compositions of ending balance:	
Cash and cash equivalents	\$ 6,671,763
Investments	2,069,843
Ending cash and cash equivalents and investments	\$ 8,741,606

Summary of all escrow accounts:

	Purses - Slot Revenue	Benefits - Slot Revenue	Racing Revenue	Total
December 31, 2017				
Cash and cash equivalents	\$ 7,490,978	\$ 4,720,027	\$ 7,132,213	\$ 19,343,218
Investments	-	23,182,568	2,092,742	25,275,310
Escrow and deferred revenue balance, December 31, 2017	\$ 7,490,978	\$ 27,902,595	\$ 9,224,955	\$ 44,618,528

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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	<u>Purses - Slot Revenue</u>	<u>Benefits - Slot Revenue</u>	<u>Racing Revenue</u>	<u>Total</u>
December 31, 2016				
Cash and cash equivalents	\$ 5,541,265	\$ 2,925,739	\$ 6,671,763	\$ 15,138,767
Investments	<u>-</u>	<u>23,005,449</u>	<u>2,069,843</u>	<u>25,075,292</u>
Escrow and deferred revenue balance, December 31, 2016	<u>\$ 5,541,265</u>	<u>\$ 25,931,188</u>	<u>\$ 8,741,606</u>	<u>\$ 40,214,059</u>

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Investments are stated at fair value. Fair value and unrealized appreciation (depreciation) at December 31, 2017 and 2016 are summarized as follows:

	2017			Fair Value
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Mutual funds:				
Fixed income - domestic	\$ 3,934,089	\$ 64,019	\$ (82,900)	\$ 3,915,208
Fixed income - other	515,413	-	(9,994)	505,419
Fixed income - international	462,891	486	-	463,377
Equity - domestic	613,884	65,096	(23,188)	655,792
Equity - international	530,963	72,162	-	603,125
Money market	424,605	-	-	424,605
Total mutual funds	6,481,845	201,763	(116,082)	6,567,526
Exchange traded funds:				
Fixed income - domestic	3,278,551	28,414	(40,455)	3,266,510
Fixed income - U.S. government	582,164	17,900	(1,638)	598,426
Fixed income - other	323,028	-	(1,449)	321,579
Equity - domestic	861,396	52,662	-	914,058
Equity - international	509,242	68,837	-	578,079
Total exchange traded funds	5,554,381	167,813	(43,542)	5,678,652
Corporate bonds:				
Domestic	4,174,705	1,597	(116,979)	4,059,323
International	452,497	702	(5,054)	448,145
Total corporate bonds	4,627,202	2,299	(122,033)	4,507,468
U.S. government agency bond	349,003	-	(3,223)	345,780
Fixed index annuity	2,500,000	-	(98,464)	2,401,536
Other investments:				
FS Corporation II	1,503,165	-	(153,873)	1,349,292
FS Energy and Power Fund	1,646,340	-	(534,891)	1,111,449
FS Global Credit Opportunities Fund	2,146,256	-	(327,280)	1,818,976
NorthStar Real Estate Income II	1,489,292	-	(80,121)	1,409,171
Black Creek Diversified Property Fund	115,000	-	(29,539)	85,461
Total other investments	6,900,053	-	(1,125,704)	5,774,349
Total investments	\$ 26,412,484	\$ 371,875	\$ (1,509,048)	\$ 25,275,311

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2016			Fair Value
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Mutual funds:				
Fixed income - domestic	\$ 6,227,887	\$ -	\$ (373,461)	\$ 5,854,426
Fixed income - other	595,200	-	(10,290)	584,910
Equity - domestic	582,766	11,853	(30,270)	564,349
Equity - international	510,101	-	(48,849)	461,252
Money market	631,568	-	-	631,568
Total mutual funds	<u>8,547,522</u>	<u>11,853</u>	<u>(462,870)</u>	<u>8,096,505</u>
Exchange traded funds:				
Fixed income - domestic	2,905,535	477	(60,093)	2,845,919
Fixed income - U.S. government	731,019	2,657	(9,291)	724,385
Fixed income - other	224,228	1,500	-	225,728
Equity - domestic	779,574	25,394	-	804,968
Equity - international	660,166	1,007	(26,358)	634,815
Commodity	54,325	-	(3,357)	50,968
Total exchange traded funds	<u>5,354,847</u>	<u>31,035</u>	<u>(99,099)</u>	<u>5,286,783</u>
Corporate bonds:				
Domestic	3,931,814	3,820	(122,916)	3,812,718
International	627,608	527	(16,691)	611,444
Total corporate bonds	<u>4,559,422</u>	<u>4,347</u>	<u>(139,607)</u>	<u>4,424,162</u>
U.S. government agency bond	196,544	-	(846)	195,698
Fixed index annuity	2,000,000	-	-	2,000,000
Other investments:				
FS Corporation II	1,391,737	-	(140,143)	1,251,594
FS Energy and Power Fund	1,534,018	-	(418,130)	1,115,888
FS Global Credit Opportunities Fund	1,472,955	-	(195,329)	1,277,626
NorthStar Real Estate Income II	1,420,350	-	(80,121)	1,340,229
Black Creek Diversified Property Fund	115,000	-	(28,193)	86,807
Total other investments	<u>5,934,060</u>	<u>-</u>	<u>(861,916)</u>	<u>5,072,144</u>
Total investments	<u>\$ 26,592,395</u>	<u>\$ 47,235</u>	<u>\$ (1,564,338)</u>	<u>\$ 25,075,292</u>

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 997,353	\$1,038,148
Investment fees	<u>(72,133)</u>	<u>(73,872)</u>
	<u>\$ 925,220</u>	<u>\$ 964,276</u>

### 3. Fair Value Measurements

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

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

Level 2 – Inputs to the valuation methodology include:

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

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

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

The Association uses the following valuation techniques to measure fair value of assets on a recurring basis. There have been no changes in the methodologies used at December 31, 2017 and 2016.

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

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

*Government Agency Bonds:* Certain government agency bonds are valued at the closing price reported in the active market in which the bond is traded. These investments are classified within Level 1 of the valuation hierarchy.

*Corporate Bonds:* Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issues with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued using

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks. These investments are classified within Level 2 of the valuation hierarchy.

*Fixed Index Annuity:* The annuity is valued at the initial premium plus or minus any transfers, surrenders, or interest credited. Interest earned is based on changes in an underlying market index, calculated using an annual point-to-point margin method. Interest credited will not be less than zero. Inputs used by the Association include surrender charge and interest rate based on an index as calculated by the insurance company. This annuity is recorded at its cash surrender value at year-end and is classified within Level 3 of the valuation hierarchy.

### Investments Measured Using the Net Asset Value (NAV) per Share Practical Expedient

In accordance with ASC 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value presented in the following notes is intended to permit the reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

*FS Investment Corporation II:* The underlying investments consist principally of debt securities, including senior secured loans, second lien secured loans, and, to a lesser extent, subordinated loans. The net asset value of the investment portfolio is determined quarterly using a combination of quoted market prices and estimations based on relevant inputs such as indicative dealer quotes, values of like securities, and valuations prepared by third-party valuation services.

*FS Energy and Power Fund:* The underlying investments consist primarily of income-oriented securities of privately-held and power related energy companies. The fund is an externally managed, non-diversified, closed-end management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended. The fund's investment policy is to invest at least 80% of total assets in securities of Energy companies defined as those companies that engage in the exploration, development, production, gathering, transportation, processing, storage, refining, distribution, mining, generation, or marketing of natural gas, crude oil, refined products, or coal. The investment objectives are to generate current income and long-term capital appreciation. The company determines the net asset value of its investment

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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portfolio each quarter. Securities that are publicly-traded are valued at the reported closing price on the valuation date. Securities that are not publicly-traded are valued at fair value as determined in good faith by the company's board of trustees with portfolio company valuations which are based on relevant inputs, including, but not limited to, indicative dealer quotes, values of like securities, recent portfolio company financial statements and forecasts, and valuations prepared by third-party valuation services.

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

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

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value on a recurring basis as of December 31, 2017:

	Total	Level 1	Level 2	Level 3
<b>Investments measured at fair value</b>				
Mutual funds:				
Fixed income - domestic	\$ 3,915,208	\$ 3,915,208	\$ -	\$ -
Fixed income - international	463,377	463,377	-	-
Fixed income - other	505,419	505,419	-	-
Equity - domestic	655,792	655,792	-	-
Equity - international	603,125	603,125	-	-
Money market	424,605	424,605	-	-
Total mutual funds	<u>6,567,526</u>	<u>6,567,526</u>	-	-
Exchange traded funds:				
Fixed income - domestic	3,266,511	3,266,511	-	-
Fixed income - other	321,579	321,579	-	-
Fixed income - U.S. government	598,425	598,425	-	-
Equity - domestic	914,058	914,058	-	-
Equity - international	578,079	578,079	-	-
Total exchange traded funds	<u>5,678,652</u>	<u>5,678,652</u>	-	-
Corporate bonds:				
Domestic	4,059,323	-	4,059,323	-
International	448,145	-	448,145	-
Total corporate bonds	<u>4,507,468</u>	-	<u>4,507,468</u>	-
U.S. government agency bond	345,780	345,780	-	-
Fixed index annuity	2,401,536	-	-	2,401,536
Total investments measured at fair value	<u>19,500,962</u>	<u>\$ 12,591,958</u>	<u>\$ 4,507,468</u>	<u>\$ 2,401,536</u>
<b>Investments measured at NAV</b>				
FS Coporation II	1,349,292			
FS Energy and Power Fund	1,111,449			
FS Global Credit Opportunities Fund	1,818,976			
Northstar Real Estate Income II	1,409,171			
Black Creek Diversified Property Fund	85,461			
Total investments measured at NAV	<u>5,774,349</u>			
Total	<u>\$ 25,275,311</u>			

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value on a recurring basis as of December 31, 2016:

	Total	Level 1	Level 2	Level 3
<b>Investments measured at fair value</b>				
Mutual funds:				
Fixed income - domestic	\$ 5,854,426	\$ 5,854,426	\$ -	\$ -
Fixed income - other	584,910	584,910	-	-
Equity - domestic	564,349	564,349	-	-
Equity - international	461,252	461,252	-	-
Money market	631,568	631,568	-	-
Total mutual funds	<u>8,096,505</u>	<u>8,096,505</u>	<u>-</u>	<u>-</u>
Exchange traded funds:				
Fixed income - domestic	2,845,919	2,845,919	-	-
Fixed income - U.S. government	724,385	724,385	-	-
Fixed income - other	225,728	225,728	-	-
Equity - domestic	804,968	804,968	-	-
Equity - international	634,815	634,815	-	-
Commodity	50,968	50,968	-	-
Total exchange traded funds	<u>5,286,783</u>	<u>5,286,783</u>	<u>-</u>	<u>-</u>
Corporate bonds:				
Domestic	3,812,718	-	3,812,718	-
International	611,444	-	611,444	-
Total corporate bonds	<u>4,424,162</u>	<u>-</u>	<u>4,424,162</u>	<u>-</u>
U.S. government agency bond	195,698	195,698	-	-
Fixed index annuity	2,000,000	-	-	2,000,000
Total investments measured at fair value	<u>20,003,148</u>	<u>\$ 13,578,986</u>	<u>\$ 4,424,162</u>	<u>\$ 2,000,000</u>
<b>Investments measured at NAV</b>				
FS Coporation II	1,251,594			
FS Energy and Power Fund	1,115,888			
FS Global Credit Opportunities Fund	1,277,626			
Northstar Real Estate Income II	1,340,229			
Black Creek Diversified Property Fund	86,807			
Total investments measured at NAV	<u>5,072,144</u>			
Total	<u>\$ 25,075,292</u>			

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

### Additional Information for Investments Measured Using the NAV per Share Practical Expedient

The following table sets forth additional disclosures for the measurements of investments in certain entities that calculate net asset value per share (or its equivalent) at December 31, 2017:

Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Other investments:				
FS Investment Corporation II	\$ 1,349,292	\$ -	3 months	30 days
FS Energy and Power Fund	1,111,449	-	3 months	30 days
FS Global Credit Opportunities Fund	1,818,976	-	3 months	30 days
Northstar Real Estate Income II	1,409,171	-	3 months	15 days

Northstar Real Estate Income II does not allow redemptions if 5% of its investment portfolio has already been redeemed during the calendar year.

### Level 3 Gains and Losses

The following table sets forth a summary of changes in the fair value of the Association's Level 3 assets for the years ended December 31, 2017 and 2016:

<b>Balance, January 1, 2016</b>	\$ -
Purchases	<u>2,000,000</u>
<b>Balance, December 31, 2016</b>	<u>2,000,000</u>
Net depreciation	(98,464)
Purchases	<u>500,000</u>
<b>Balance, December 31, 2017</b>	<u><u>\$ 2,401,536</u></u>

Gains and losses (realized and unrealized) included in changes in value for the period above are reflected as a component of the escrow funds – health and pension liability account. There were no transfers in or out of Level 3 in 2017 and 2016.

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### 4. Accounts Receivable

Accounts receivable consist of the following:

	<u>2017</u>	<u>2016</u>
Member benefit reimbursements	\$ 36,896	\$ 29,329
Grants receivable	62,197	-
	<u>\$ 99,093</u>	<u>\$ 29,329</u>

### 5. Accrued Severance

During the year ended December 31, 2016, an employee of the Association was no longer able to continue their employment due to unforeseen circumstances. The Board of Directors authorized a severance package, which allowed this individual to continue to receive their bi-weekly salary through April 2017 and health insurance benefits through January 2022. The total estimated liability for these benefits totaled \$53,950 and \$77,442 at December 31, 2017 and 2016, respectively.

### 6. Naming Rights

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

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# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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during 2017 and 2016. The Association will recognize \$100,000 of amortization expense annually through 2019.

### 7. Race Track Revenues

The Association holds a contract with a harness race track in Pennsylvania, Downs Racing, which expires December 31, 2018. Under the terms of this contract, the Association will receive \$1,200,000 annually. In addition, the Association can request additional payments exceeding \$100,000 if deemed necessary. These amounts may be used toward Association operating expenses, dues to any national organization, group health insurance for drivers, trainers, and grooms, accident and disability insurance for trainers and drivers, and marketing and promotional items.

In addition, the Association holds a contract with Chester Downs and Marina, LLC that expires January 31, 2019. Under this contract, a percentage of wagering handle shall be paid to the Association to be used toward Association operating expenses, dues to any national horsemen's organizations, group health insurance, marketing and promotional costs to fund purses as determined by the Association in consultation with Chester Downs, or administrative costs.

### 8. Special Events

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

	<u>2017</u>	<u>2016</u>
Golf outing:		
Revenue	\$ 25,000	\$ 22,000
Direct expenses	<u>28,106</u>	<u>32,147</u>
Net loss	<u>\$ (3,106)</u>	<u>\$ (10,147)</u>

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# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### 9. Functional Classifications of Expenses

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

	<u>2017</u>	<u>2016</u>
Program services:		
Health program	\$ 70,392	\$ 70,282
Pension program	77,389	31,961
Member benefits	1,932,129	2,445,983
Racetrack relations	200,624	78,220
Industry promotion	1,188,732	1,523,436
Regulatory matters	345,077	336,468
Supporting services:		
Management and general	<u>498,164</u>	<u>206,875</u>
Total	<u>\$4,312,507</u>	<u>\$4,693,225</u>

### 10. 401(k) Plan

The Association established a deferred salary arrangement under I.R.C. Section 401(k). The Plan covers substantially all its eligible employees. The Association's matching contribution is discretionary and is equal to a uniform percentage as determined by the Employer of each participant's elective deferral. The Association may also make a discretionary nonelective contribution. The Association's discretionary contribution for 2017 and 2016 totaled \$48,000.

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### 11. Long-Term Payable

The Association entered into a naming rights agreement February 1, 2010 with Downs Racing, to become a party to naming the arena located in Wilkes-Barre, Pennsylvania. The Association contributes \$100,000 per year for the life of the agreement. In 2017 and 2016, the Association paid \$100,000. Future payments will be:

2018	\$	100,000
2019		<u>100,000</u>
Total	\$	<u><u>200,000</u></u>

### 12. Concentrations of Credit Risk

The Association maintains several cash balances (restricted and unrestricted) at financial institutions located in Pennsylvania. Accounts in these financial institutions are secured by Federal Deposit Insurance Corporation (FDIC) up to specified limits. In the normal course of business, the Association may have deposits that exceed the insured limit, which management considers to be a normal business risk. At December 31, 2017 and 2016, the Association had bank deposits of \$19,440,375 and \$15,598,040, respectively.

For the years ended December 31, 2017 and 2016, revenue includes \$2,267,367 and \$2,813,106, respectively, arising from race track revenues received from two race tracks. The loss of these revenue sources could have a material effect on the Association.

## **SUPPLEMENTARY INFORMATION**

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

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

PERIOD JANUARY 1, 2017 THROUGH DECEMBER 31, 2017

	Purses	Benefits	Total
Cash Receipts:			
Gaming funds - Chester Downs and Marina, LLC	\$ 25,568,063	\$ 1,679,198	\$ 27,247,261
Gaming funds - Downs Racing LP	26,509,137	1,737,589	28,246,726
Interest and investment income, net of fees	49,318	939,749	989,067
Total cash receipts	52,126,518	4,356,536	56,483,054
Cash Disbursements:			
Purse payments - Chester Downs and Marina, LLC	25,239,321	-	25,239,321
Purse payments - Downs Racing, LP	24,937,484	-	24,937,484
Health insurance payments	-	1,037,029	1,037,029
Retirement distributions	-	1,536,562	1,536,562
Total cash disbursements	50,176,805	2,573,591	52,750,396
Other:			
Net unrealized and realized gains on restricted investments	-	188,462	188,462
Total other	-	188,462	188,462
Changes in Escrow Balances	1,949,713	1,971,407	3,921,120
Escrow balance at January 1, 2017	5,541,265	25,931,188	31,472,453
Escrow balance at December 31, 2017	\$ 7,490,978	\$ 27,902,595	\$ 35,393,573

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

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

PERIOD JANUARY 1, 2017 THROUGH DECEMBER 31, 2017

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### **1. Basis of Presentation**

The accompanying statement of cash receipts and cash disbursements and changes in escrow balances includes the Pennsylvania Race Horse Development Fund activity of the Pennsylvania Harness Horsemen's Association (Association) and is presented on the cash basis of accounting. The information in this statement is presented in accordance with Chapter 436a of the Pennsylvania Horse Development and Gaming Act, and fiscal code (72 P.S. § 1701-O). Therefore, some amounts presented in this statement may differ from 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 designating amounts for purses and health and retirement benefits. The casinos then transfer these funds to the Association to separate accounts established by the casinos, by purpose.

Management of the Association determines the portion of the Race Horse Development Funds to transfer to the casinos for purse purposes based on an estimate provided by the casinos. The frequency of purse payments to the casinos is dependent on the established racing schedules. The Association maintains schedules detailing all purse fund payments. The purse payments are reconciled to the actual purses paid by the casinos. Health disbursements are made directly to the carriers based on invoiced amounts. There were no administrative expenses charged for those funds in 2017.

**Pennsylvania Harness Horsemen's  
Association**

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 Pennsylvania Harness Horsemen’s Association**

as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon May 3, 2018.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pennsylvania Harness Horsemen’s Association (Association) (a nonprofit organization), which comprise the statement of financial position

## **Internal Control Over Financial Reporting**

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

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

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

### 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. § 1701-0). 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*.

### 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.

*Mahe Duessel*

Harrisburg, Pennsylvania  
May 3, 2018