

Pennsylvania Harness Horsemen's Association

Financial Statements and Supplementary
Information

Years Ended December 31, 2018 and 2017 with
Independent Auditor's Reports

MaherDuessel
Certified Public Accountants

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PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

YEARS ENDED DECEMBER 31, 2018 AND 2017

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Independent Auditor's Report

**Board of Directors and
Secretary Swails,
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, 2018 and 2017, and the related statements of activities, functional expenses, 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, 2018 and 2017, 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.

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 amends the requirements for financial statements for nonprofit entities. The amendment changes how nonprofit organizations classify net assets and provide 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.

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 22, 2019 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

Mahe Duessel

Harrisburg, Pennsylvania
May 22, 2019

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 15,318	\$ 84,141
Accounts receivable	289,301	99,093
Prepaid expenses	51,914	26,198
Total current assets	356,533	209,432
Fixed assets:		
Property, plant, and equipment, at cost	126,866	129,004
Less: accumulated depreciation	(114,199)	(110,792)
Net fixed assets	12,667	18,212
Other assets:		
Restricted cash and cash equivalents	17,199,193	19,343,817
Restricted investments	25,873,719	25,275,311
Total other assets	43,072,912	44,619,128
Intangible assets:		
Naming rights, net of accumulated amortization of \$600,000 in 2018 and \$500,000 in 2017	100,000	200,000
Total Assets	\$ 43,542,112	\$ 45,046,772
Liabilities and Net Assets		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 190,985	\$ 230,234
Accrued employer retirement plan contribution	148,000	48,000
Accrued vacation and bonuses	36,947	5,254
Accrued severance	38,709	48,696
Unearned revenue	4,560	-
Total current liabilities	419,201	332,184
Noncurrent Liabilities:		
Long-term liabilities	-	100,000
Accrued employer retirement plan contribution	50,000	-
Escrow funds and deferred revenue:		
Purses - racing revenue	9,333,148	9,224,955
Purses - slot revenue	5,850,105	7,490,978
Health and pension - slot revenue	27,889,659	27,902,595
Total escrow funds and deferred revenue	43,072,912	44,618,528
Total non-current liabilities	43,122,912	44,718,528
Total liabilities	43,542,113	45,050,712
Net Assets:		
Without donor restriction	(1)	(3,940)
Total Liabilities and Net Assets	\$ 43,542,112	\$ 45,046,772

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Revenues:		
<hr/>		
Race track revenues:		
Downs Racing	\$ 1,200,000	\$ 1,200,000
Harrah's Chester	1,821,985	1,067,367
Breeders Crown	31,650	-
Membership dues	28,960	28,520
Race Horse Development Fund	1,391,718	1,037,029
Grants	588,131	274,084
Member benefit reimbursements	482,878	479,819
Special events	25,000	25,000
Interest income	943	84
Miscellaneous income	14,346	8,371
	<u>5,585,611</u>	<u>4,120,274</u>
Expenses:		
<hr/>		
Program	5,247,921	3,814,343
Management and general	333,751	498,164
	<u>5,581,672</u>	<u>4,312,507</u>
Change in Net Assets	3,939	(192,233)
Net Assets:		
<hr/>		
Beginning of year	(3,940)	188,293
End of year	<u>\$ (1)</u>	<u>\$ (3,940)</u>

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

**PENNSYLVANIA HARNESS
HORSEMEN'S ASSOCIATION**

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program						Total Program	Management and General	Total
	Health Program	Pension Program	Member Benefits	Racetrack Relations	Industry Promotions	Regulatory Matters			
Salaries	\$ 46,055	\$ 39,168	\$ 32,526	\$ 81,523	\$ 85,298	\$ 31,987	\$ 316,557	\$ 71,614	\$ 388,171
Payroll taxes	3,402	2,894	2,403	6,022	6,301	2,363	23,385	5,291	28,676
Employee benefits	34,214	29,098	24,163	60,563	63,368	23,763	235,169	53,204	288,373
General insurance	35	30	183,905	62	65	25	184,122	12,505	196,627
Member benefits	-	-	1,874,596	-	-	-	1,874,596	-	1,874,596
Chaplaincy program	-	-	-	-	-	-	-	-	-
Advertising, newsletter, and public relations	-	-	-	-	2,060,320	-	2,060,320	-	2,060,320
Promotion expenses - television	-	-	-	-	5,817	-	5,817	-	5,817
Meeting expense and travel	5,360	4,559	3,786	15,738	21,052	17,872	68,367	10,811	79,178
National dues	-	-	-	-	5,475	-	5,475	5,475	10,950
Office expense	2,803	2,384	1,980	9,983	5,192	1,948	24,290	4,359	28,649
Telephone	703	598	497	1,245	1,302	489	4,834	1,093	5,927
Legal and accounting	6,880	5,851	4,859	12,179	12,743	66,260	108,772	72,179	180,951
Legislative fees	-	-	-	-	-	92,785	92,785	94,415	187,200
Donation and gifts	-	-	-	-	95,100	-	95,100	-	95,100
Special events	-	-	-	-	26,615	-	26,615	-	26,615
Depreciation	812	690	573	1,437	1,503	564	5,579	1,262	6,841
Amortization	-	-	-	-	100,000	-	100,000	-	100,000
Miscellaneous expense	884	752	9,878	1,565	2,444	615	16,138	1,543	17,681
Total expenses	\$ 101,148	\$ 86,024	\$ 2,139,166	\$ 190,317	\$ 2,492,595	\$ 238,671	\$ 5,247,921	\$ 333,751	\$ 5,581,672

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program						Total Program	Management and General	Total
	Health Program	Pension Program	Member Benefits	Racetrack Relations	Industry Promotions	Regulatory Matters			
Salaries	\$ 38,665	\$ 42,507	\$ 30,319	\$ 78,645	\$ 74,604	\$ 36,148	\$ 300,888	\$ 322,524	623,412
Payroll taxes	3,787	4,163	2,969	7,702	7,307	3,541	29,469	9,987	39,456
Employee benefits	11,579	12,729	9,079	23,550	22,340	10,826	90,103	51,899	142,002
General insurance	1,638	1,801	221,616	3,332	3,161	1,532	233,080	4,320	237,400
Member benefits	-	-	1,620,547	-	-	-	1,620,547	-	1,620,547
Chaplaincy program	-	-	12,600	-	-	-	12,600	-	12,600
Advertising, newsletter, and public relations	-	-	-	-	773,263	-	773,263	-	773,263
Promotion expenses - television	-	-	-	-	14,842	-	14,842	-	14,842
Meeting expense and travel	5,695	6,261	4,466	11,583	19,500	5,324	52,829	15,020	67,849
National dues	-	-	12,000	-	-	-	12,000	-	12,000
Office expense	2,107	2,317	1,653	9,303	4,067	1,972	21,419	5,560	26,979
Telephone	701	770	549	1,425	1,352	655	5,452	1,848	7,300
Legal and accounting	5,456	5,998	4,278	63,524	29,252	57,527	166,035	77,893	243,928
Legislative fees	-	-	-	-	-	226,839	226,839	1,300	228,139
Donation and gifts	-	-	-	-	109,458	-	109,458	-	109,458
Special events	-	-	-	-	28,106	-	28,106	-	28,106
Depreciation	764	843	601	1,560	1,480	713	5,961	2,016	7,977
Amortization	-	-	-	-	100,000	-	100,000	-	100,000
Miscellaneous expense	-	-	11,452	-	-	-	11,452	5,797	17,249
Total expenses	\$ 70,392	\$ 77,389	\$ 1,932,129	\$ 200,624	\$ 1,188,732	\$ 345,077	\$ 3,814,343	\$ 498,164	\$ 4,312,507

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Reconciliation of Change in Net Assets to Net Cash and Cash Equivalents Provided by (Used in) Operating Activities:		
Change in net assets	\$ 3,939	\$ (192,233)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	106,841	107,977
Loss on disposal of furniture and equipment	1,882	4,316
Effects of changes in operating assets and liabilities:		
Accounts receivable	(190,208)	(69,764)
Prepaid expenses	(25,716)	166,267
Accounts payable	(39,249)	(45,172)
Accrued employer retirement plan contribution	150,000	-
Accrued vacation and bonuses	31,693	-
Accrued severance benefits	(9,987)	(23,492)
Unearned revenue	4,560	-
Purses - slot revenue	400	-
Health and pension - slot revenue	200	-
Net cash and cash equivalents provided by (used in) operating activities	34,355	(52,101)
Cash Flows From Investing Activities:		
Payments for purchase of furniture and equipment	(3,178)	(4,773)
Purchase of naming rights	(100,000)	(100,000)
Net cash and cash equivalents used in investing activities	(103,178)	(104,773)
Net Decrease in Cash and Cash Equivalents	(68,823)	(156,874)
Cash and Cash Equivalents:		
Beginning of year	84,141	241,015
End of year	\$ 15,318	\$ 84,141

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. The Association had no net assets with donor restrictions at December 31, 2018 and 2017.

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, 2018 AND 2017

Accounts Receivable

Accounts receivable consists of member health benefit reimbursements, grant receivables, and race track revenue receivable from casinos. 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, 2018.

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, 2018 AND 2017

Race Track Revenues

Race track revenues are recognized as disclosed in Note 7. Race horse development funds are utilized to pay a portion of member insurance premiums. This revenue is recognized when health insurance expenses are incurred. Grant revenue is recorded on a cost-reimbursement basis and is recognized when allowable expenses are incurred.

Functional Allocation of Expenses

Expenses directly related to a specific program are charged to that program. The financial statements report certain categories of expenses that are attributed to more than one program or supporting service. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses related to more than one program or supporting service are allocated on the basis of actual or estimated employee time.

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.

Adoption of Accounting Standard

The requirements of the following Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) were 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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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, 2017 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, 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 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.

ASU No. 2018-08, "*Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*," is effective for the Association's financial statements for the year ending December 31, 2019. This amendment clarifies and improves current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendment clarifies how an entity determines whether a resource provider is participating in an exchange transaction.

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, 2018 AND 2017

Reclassification

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

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, 2018 AND 2017

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 2018 and 2017 is as follows:

	Purses	Benefits
Escrow balance, January 1, 2017	\$ 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 losses 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)
Escrow balance, December 31, 2017	7,490,978	27,902,595
Gaming Funds - Chester Downs and Marina, LLC	22,905,981	1,714,182
Gaming Funds - Downs Racing, LP	22,764,842	1,701,671
Unrealized/realized gains on investments	-	(1,863,120)
Interest and investment income (net of fees)	96,580	1,104,747
	45,767,403	2,657,480
Purse payments - Chester Downs and Marina, LLC - purse account	(22,798,010)	-
Purse payments - Downs Racing, LP - purse account	(24,610,266)	-
Health insurance payments	-	(1,372,344)
Retirement distributions	-	(1,298,072)
	(47,408,276)	(2,670,416)
Escrow balance, December 31, 2018	\$ 5,850,105	\$ 27,889,659

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	Purses	Benefits
December 31, 2018		
Composition of ending balance:		
Cash and cash equivalents	\$ 5,850,105	\$ 4,098,087
Investments	-	23,791,572
	\$ 5,850,105	\$ 27,889,659
Ending cash and cash equivalents and investments	\$ 5,850,105	\$ 27,889,659
December 31, 2017		
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

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, 2018 AND 2017

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 2018 and 2017 is as follows:

	Racing Revenues
Deferred revenue balance, January 1, 2018	\$ 9,224,955
Transfers from Chester Downs and Marina, LLC - racing income	1,813,992
Reimbursement from PA Sire Stakes Program for fair expenses	272,605
Investment income (net of fees)	71,817
	<u>2,158,414</u>
Racetrack Payouts	(226,506)
Fair disbursements	(272,605)
Racetrack (pari-mutuel) revenues paid to the Association	(1,551,090)
Bank charges	(20)
	<u>(2,050,221)</u>
Deferred revenue balance, December 31, 2018	<u>\$ 9,333,148</u>
Compositions of ending balance:	
Cash and cash equivalents	\$ 7,251,001
Investments	2,082,147
Ending cash and cash equivalents and investments	<u>\$ 9,333,148</u>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>Racing Revenues</u>
Deferred revenue balance, January 1, 2017	\$ 8,741,606
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)	47,329
	<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	(292)
	<u>(1,688,054)</u>
Deferred revenue balance, December 31, 2017	<u>\$ 9,224,955</u>
Compositions of ending balance:	
Cash and cash equivalents	\$ 7,132,213
Investments	2,092,742
Ending cash and cash equivalents and investments	<u>\$ 9,224,955</u>

Summary of all escrow accounts:

	Purses - Slot Revenue	Benefits - Slot Revenue	Racing Revenue	Total
December 31, 2018				
Cash and cash equivalents	\$ 5,850,105	\$ 4,098,087	\$ 7,251,001	\$ 17,199,193
Investments	-	23,791,572	2,082,147	25,873,719
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Escrow and deferred revenue balance, December 31, 2018	<u>\$ 5,850,105</u>	<u>\$ 27,889,659</u>	<u>\$ 9,333,148</u>	<u>\$ 43,072,912</u>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

Investments are stated at fair value. Fair value and unrealized appreciation (depreciation) at December 31, 2018 and 2017 are summarized as follows:

	2018			Fair Value
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Mutual funds:				
Fixed income - domestic	\$ 4,013,596	\$ -	\$ (258,583)	\$ 3,755,013
Fixed income - international	483,365	-	(37,192)	446,173
Fixed income - other	1,411,132	-	(82,933)	1,328,199
Equity - domestic	3,046,098	-	(702,992)	2,343,106
Equity - international	627,447	-	(103,643)	523,804
Money market	221,509	-	-	221,509
Total mutual funds	<u>9,803,147</u>	<u>-</u>	<u>(1,185,343)</u>	<u>8,617,804</u>
Exchange traded funds:				
Fixed income - domestic	2,482,018	-	(62,609)	2,419,409
Fixed income - international	137,657	-	(6,834)	130,823
Fixed income - U.S. government	1,496,167	20,317	-	1,516,484
Equity - domestic	1,141,226	1,749	(79,029)	1,063,946
Equity - international	434,727	-	(50,226)	384,501
Total exchange traded funds	<u>5,691,795</u>	<u>22,066</u>	<u>(198,698)</u>	<u>5,515,163</u>
Corporate domestic bonds	<u>3,233,395</u>	<u>1,228</u>	<u>(64,622)</u>	<u>3,170,001</u>
U.S. government bonds	<u>497,449</u>	<u>3,130</u>	<u>-</u>	<u>500,579</u>
U.S. government agency bonds	<u>957,986</u>	<u>1,717</u>	<u>(7,616)</u>	<u>952,087</u>
Municipal bonds	<u>188,525</u>	<u>116</u>	<u>(5,816)</u>	<u>182,825</u>
Fixed index annuity	<u>2,500,000</u>	<u>64,098</u>	<u>-</u>	<u>2,564,098</u>
Other investments:				
FS Corporation II	1,623,606	-	(296,461)	1,327,145
FS Energy and Power Fund	1,735,188	-	(651,397)	1,083,791
FS Global Credit Opportunities Fund	2,245,286	-	(285,060)	1,960,226
Total other investments	<u>5,604,080</u>	<u>-</u>	<u>(1,232,918)</u>	<u>4,371,162</u>
Total investments	<u>\$ 28,476,377</u>	<u>\$ 92,355</u>	<u>\$ (2,695,013)</u>	<u>\$ 25,873,719</u>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	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, 2018 AND 2017

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

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$1,222,242	\$ 997,353
Investment fees	<u>(152,047)</u>	<u>(72,133)</u>
	<u>\$1,070,195</u>	<u>\$ 925,220</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, 2018 AND 2017

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, 2018 and 2017.

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, 2018 AND 2017

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

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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, 2018 AND 2017

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, 2018:

	Total	Level 1	Level 2	Level 3
Investments measured at fair value				
Mutual funds:				
Fixed income - domestic	\$ 3,755,013	\$ 3,755,013	\$ -	\$ -
Fixed income - international	446,173	446,173	-	-
Fixed income - other	1,328,199	1,328,199	-	-
Equity - domestic	2,343,106	2,343,106	-	-
Equity - international	523,804	523,804	-	-
Money market	221,509	221,509	-	-
Total mutual funds	<u>8,617,804</u>	<u>8,617,804</u>	<u>-</u>	<u>-</u>
Exchange traded funds:				
Fixed income - domestic	2,419,409	2,419,409	-	-
Fixed income - international	130,823	130,823	-	-
Fixed income - U.S. government	1,516,484	1,516,484	-	-
Equity - domestic	1,063,946	1,063,946	-	-
Equity - international	384,501	384,501	-	-
Total exchange traded funds	<u>5,515,163</u>	<u>5,515,163</u>	<u>-</u>	<u>-</u>
Corporate domestic bonds	3,170,001	-	3,170,001	-
U.S. government bonds	500,579	500,579	-	-
U.S. government agency bonds	952,087	952,087	-	-
Municipal bonds	182,825	-	182,825	-
Fixed index annuity	2,564,098	-	-	2,564,098
Total investments measured at fair value	<u>21,502,557</u>	<u>15,585,633</u>	<u>3,352,826</u>	<u>2,564,098</u>
Investments measured at NAV				
FS Coporation II	1,327,145			
FS Energy and Power Fund	1,083,791			
FS Global Credit Opportunities Fund	1,960,226			
Total investments measured at NAV	<u>4,371,162</u>			
Total	<u>\$ 25,873,719</u>			

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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
Investments measured at fair value				
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>	<u>-</u>	<u>-</u>
Exchange traded funds:				
Fixed income - domestic	3,266,511	3,266,511	-	-
Fixed income - U.S. government	321,579	321,579	-	-
Fixed income - other	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>	<u>-</u>	<u>-</u>
Corporate bonds:				
Domestic	4,059,323	-	4,059,323	-
International	448,145	-	448,145	-
Total corporate bonds	<u>4,507,468</u>	<u>-</u>	<u>4,507,468</u>	<u>-</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>
Investments measured at NAV				
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, 2018 AND 2017

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, 2018:

Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Other investments:				
FS Investment Corporation II	\$ 1,327,145	\$ -	3 months	30 days
FS Energy and Power Fund	1,083,791	-	3 months	30 days
FS Global Credit Opportunities Fund	1,960,226	-	3 months	30 days

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, 2018 and 2017:

Balance, January 1, 2017	\$ 2,000,000
Net depreciation	(98,464)
Purchases	500,000
Balance, December 31, 2017	<u>2,401,536</u>
Net appreciation	<u>162,562</u>
Balance, December 31, 2018	<u><u>\$ 2,564,098</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 2018 and 2017.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

4. Accounts Receivable

Accounts receivable consist of the following:

	<u>2018</u>	<u>2017</u>
Member benefit reimbursements	\$ 18,406	\$ 36,896
Racetrack revenue receivable	270,895	-
Grants receivable	-	62,197
	<u>\$ 289,301</u>	<u>\$ 99,093</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 \$38,709 and \$48,696 at December 31, 2018 and 2017, 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.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

The Association recognized \$100,000 of amortization expense related to naming rights during 2018 and 2017. The Association will recognize \$100,000 of amortization expense annually through 2019.

On December 19, 2018, the Association entered into an agreement with Downs Racing to extend the naming rights effective from February 1, 2020 through January 31, 2025. 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 \$75,000 annually during the term of Downs Racing's naming rights agreement.

7. Race Track Revenues

The Association holds a contract with a harness race track in Pennsylvania, Downs Racing, which expires December 31, 2019. 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, 2020. 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. This revenue is recognized when allowable expenses, as defined by the terms of the Live Racing Agreement, are incurred.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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>2018</u>	<u>2017</u>
Golf outing:		
Revenue	\$ 25,000	\$ 25,000
Direct expenses	<u>26,615</u>	<u>28,106</u>
Net loss	<u>\$ (1,615)</u>	<u>\$ (3,106)</u>

9. 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 2018 and 2017 totaled \$198,000 and \$48,000, respectively.

10. 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 through January 31, 2020. The Association contributes \$100,000 per year for the life of the agreement. In 2018 and 2017, the Association paid \$100,000. The future payment will be \$100,000 in 2019.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

11. Concentrations

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. During the year ended December 31, 2017, and in the normal course of business, the Association may have had deposits that exceeded the insured limit. Beginning in 2018, the Association enrolled in the Certificate of Deposit Account Registry Service (CDARS) and Insured Cash Sweep (ICS) programs, which extended FDIC coverage to all cash held by the Association. At December 31, 2018 and 2017, the Association had bank deposits of \$17,190,490 and \$19,440,375, respectively.

For the years ended December 31, 2018 and 2017, revenue includes \$3,053,635 and \$2,267,367, 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.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

12. Availability and Liquidity

The following represents the Association's financial assets available to meet general expenditures as of December 31, 2018:

Financial assets at year-end:	
Cash and cash equivalents	\$ 15,318
Restricted cash and cash equivalents	17,199,193
Restricted investments	25,873,719
Accounts receivable	<u>289,301</u>
Total financial assets	<u>43,377,531</u>
Less amounts not available to be used within one year:	
Assets restricted for purses	5,850,105
Assets restricted for health and pension	<u>27,889,659</u>
	<u>33,739,764</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 9,637,767</u>

Assets available to meet general expenditures, specifically those assets restricted for racing revenue, are subject to allowable expenditures as defined in the Live Racing Agreements between the Association, Chester Downs and Marina, LLC., and Downs Racing. The Association is able to time these draws in order to meet obligations for general expenditures.

SUPPLEMENTARY INFORMATION

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

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

PERIOD JANUARY 1, 2018 THROUGH DECEMBER 31, 2018

	Purses	Benefits	Total
Cash Receipts:			
Gaming funds - Chester Downs and Marina, LLC	\$ 22,905,981	\$ 1,714,182	\$ 24,620,163
Gaming funds - Downs Racing LP	22,764,842	1,701,671	24,466,513
Interest and investment income, net of fees	96,580	1,104,947	1,201,527
Total cash receipts	45,767,403	4,520,800	50,288,203
Cash Disbursements:			
Purse payments - Chester Downs and Marina, LLC	22,798,010	-	22,798,010
Purse payments - Downs Racing, LP	24,610,266	-	24,610,266
Health insurance payments	-	1,372,544	1,372,544
Retirement distributions	-	1,298,072	1,298,072
Total cash disbursements	47,408,276	2,670,616	50,078,892
Other:			
Net unrealized and realized gains on restricted investments	-	(1,863,120)	(1,863,120)
Total other	-	(1,863,120)	(1,863,120)
Changes in Escrow Balances	(1,640,873)	(12,936)	(1,653,809)
Escrow balance at January 1, 2018	7,490,978	27,902,595	35,393,573
Escrow balance at December 31, 2018	\$ 5,850,105	\$ 27,889,659	\$ 33,739,764

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, 2018 THROUGH DECEMBER 31, 2018

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 2018.

**Pennsylvania Harness Horsemen's
Association**

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
Pennsylvania Harness
Horsemen’s Association**

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 as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 22, 2019.

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 22, 2019