

# **Pennsylvania Harness Horsemen's Association**

Financial Statements and Supplementary  
Information

Years Ended December 31, 2019 and 2018 with  
Independent Auditor's Reports

**MaherDuessel**  
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

YEARS ENDED DECEMBER 31, 2019 AND 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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.

### **Emphasis of Matter**

As described in Note 1 to the financial statements, the Association adopted ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*," which provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customers and related disclosures, ASU 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash*," which require that the statement of cash flows explain the change during the period in the total cash and cash equivalents including the changes of those amounts generally described as restricted cash or restricted cash equivalents, and ASU 2018-08, "*Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*," which provides guidance for characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions. 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 August 14, 2020 on our consideration of the Association's internal control over financial reporting and on our

tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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  
August 14, 2020

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

	2019	2018
<b>Assets</b>		
<hr/>		
Current assets:		
Cash and cash equivalents	\$ 4,367	\$ 15,318
Accounts receivable	178,881	289,301
Prepaid expenses	49,006	51,914
Total current assets	232,254	356,533
Fixed assets:		
Property, plant, and equipment, at cost	105,578	126,866
Less: accumulated depreciation	(93,734)	(114,199)
Net fixed assets	11,844	12,667
Other assets:		
Restricted cash and cash equivalents	14,801,511	17,199,193
Restricted investments	28,147,837	25,873,719
Total other assets	42,949,348	43,072,912
Intangible assets:		
Naming rights, net of accumulated amortization of \$700,000 in 2019 and \$600,000 in 2018	-	100,000
<b>Total Assets</b>	\$ 43,193,446	\$ 43,542,112
<b>Liabilities and Net Assets</b>		
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Liabilities:		
Current Liabilities:		
Accounts payable	\$ 71,934	\$ 190,985
Accrued employer retirement plan contribution	144,000	148,000
Accrued vacation and bonuses	3,884	36,947
Accrued severance	18,715	38,709
Unearned revenue	3,520	4,560
Total current liabilities	242,053	419,201
Noncurrent Liabilities:		
Accrued employer retirement plan contribution	-	50,000
Escrow funds and deferred revenue:		
Purses - racing revenue	7,134,907	9,333,148
Purses - slot revenue	4,188,993	5,850,105
Health and pension - slot revenue	31,627,493	27,889,659
Total escrow funds and deferred revenue	42,951,393	43,072,912
Total non-current liabilities	42,951,393	43,122,912
Total liabilities	43,193,446	43,542,113
Net Assets:		
Without donor restrictions	-	(1)
<b>Total Liabilities and Net Assets</b>	\$ 43,193,446	\$ 43,542,112

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
<b>Revenues:</b>		
<hr/>		
Race track revenues:		
Downs Racing	\$ 1,200,000	\$ 1,200,000
Harrah's Chester	754,726	1,821,985
Breeders Crown	-	31,650
Membership dues	29,440	28,960
Race Horse Development Fund	1,483,788	1,391,718
Grants	296,354	588,131
Member benefit reimbursements	515,624	482,878
Special events	25,000	25,000
Interest income	1,555	943
Miscellaneous income	11,560	14,346
	<u>4,318,047</u>	<u>5,585,611</u>
<b>Expenses:</b>		
<hr/>		
Program	4,041,982	5,247,921
Management and general	276,064	333,751
	<u>4,318,046</u>	<u>5,581,672</u>
<b>Change in Net Assets</b>	1	3,939
<b>Net Assets:</b>		
<hr/>		
Beginning of year	(1)	(3,940)
End of year	\$ -	\$ (1)

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

**PENNSYLVANIA HARNESS  
HORSEMEN'S ASSOCIATION**

**STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2019

	Program						Total Program	Management and General	Total
	Health Program	Pension Program	Member Benefits	Racetrack Relations	Industry Promotions	Regulatory Matters			
Salaries	\$ 42,917	\$ 36,337	\$ 30,208	\$ 74,441	\$ 74,242	\$ 29,381	\$ 287,526	\$ 66,019	\$ 353,545
Payroll taxes	3,795	3,213	2,671	6,582	6,565	2,598	25,424	5,838	31,262
Employee benefits	15,041	12,735	10,587	26,090	26,020	10,297	100,770	23,138	123,908
General insurance	1,394	1,180	191,633	2,418	2,411	955	199,991	5,262	205,253
Member benefits	-	-	1,999,412	-	-	-	1,999,412	-	1,999,412
Advertising, newsletter, and public relations	-	-	-	-	875,933	-	875,933	-	875,933
Promotion expenses - television	-	-	-	-	30,818	-	30,818	-	30,818
Meeting expense and travel	2,740	2,320	1,929	11,003	16,728	15,275	49,995	5,564	55,559
National dues	-	-	-	-	6,075	-	6,075	6,075	12,150
Office expense	2,751	2,330	6,919	4,772	4,759	1,884	23,415	4,232	27,647
Telephone	821	695	578	1,424	1,420	562	5,500	1,263	6,763
Legal and accounting	6,971	5,903	4,907	12,092	12,060	53,288	95,221	59,240	154,461
Legislative fees	-	-	-	-	-	97,607	97,607	97,677	195,284
Donation and gifts	-	-	-	-	104,050	-	104,050	-	104,050
Special events	-	-	-	-	27,066	-	27,066	-	27,066
Depreciation	944	799	665	1,638	1,633	646	6,325	1,452	7,777
Amortization	-	-	-	-	100,000	-	100,000	-	100,000
Miscellaneous expense	181	154	5,232	315	848	124	6,854	304	7,158
<b>Total expenses</b>	<b>\$ 77,555</b>	<b>\$ 65,666</b>	<b>\$ 2,254,741</b>	<b>\$ 140,775</b>	<b>\$ 1,290,628</b>	<b>\$ 212,617</b>	<b>\$ 4,041,982</b>	<b>\$ 276,064</b>	<b>\$ 4,318,046</b>

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
<b>Total expenses</b>	<b>\$ 101,148</b>	<b>\$ 86,024</b>	<b>\$ 2,139,166</b>	<b>\$ 190,317</b>	<b>\$ 2,492,595</b>	<b>\$ 238,671</b>	<b>\$ 5,247,921</b>	<b>\$ 333,751</b>	<b>\$ 5,581,672</b>

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
<b>Reconciliation of Change in Net Assets to Net Cash, Cash Equivalents, and Restricted Cash Provided by (Used in) Operating Activities:</b>		
Change in net assets	\$ 1	\$ 3,939
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	107,777	106,841
Loss on disposal of furniture and equipment	-	1,882
Effects of changes in operating assets and liabilities:		
Purse funds received	46,553,156	45,670,823
Benefits funds received	3,293,161	3,415,853
Interest on restricted funds	159,232	130,732
Racing revenue received	1,919,376	2,169,009
Accounts receivable	110,420	(190,208)
Prepaid expenses	2,908	(25,716)
Purse payments	(48,324,514)	(47,408,276)
Health insurance payments	(1,433,623)	(1,372,544)
Racing revenue distributions	(4,276,870)	(2,050,221)
Accounts payable	(119,051)	(39,249)
Accrued employer retirement plan contribution	(54,000)	150,000
Accrued vacation and bonuses	(33,063)	31,693
Accrued severance benefits	(19,994)	(9,987)
Unearned revenue	(1,040)	4,560
Purses - slot revenue	-	400
Health and pension - slot revenue	2,045	200
Net cash, cash equivalents, and restricted cash provided by (used in) operating activities	(2,114,079)	589,731
<b>Cash Flows From Investing Activities:</b>		
Purchase of investments	(2,529,000)	(7,760,862)
Sale of investments	2,241,400	5,060,862
Payments for purchase of furniture and equipment	(6,954)	(3,178)
Purchase of naming rights	-	(100,000)
Net cash, cash equivalents, and restricted cash used in investing activities	(294,554)	(2,803,178)
<b>Net Decrease in Cash, Cash Equivalents, and Restricted Cash</b>	(2,408,633)	(2,213,447)
<b>Cash and Cash Equivalents:</b>		
Beginning of year	17,214,511	19,427,958
End of year	\$ 14,805,878	\$ 17,214,511

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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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 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, 2019 and 2018.

#### 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.

#### 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. The restricted cash accounts are included in cash balances for the purpose of the statement of cash flows.

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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### 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, 2019.

### 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.

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# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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### Race Track Revenues

Race track revenues are recognized as disclosed in Note 7. Race horse development funds and member benefit reimbursements are utilized to pay a portion of member insurance premiums. This revenue is recognized when health insurance expenses are incurred.

### Marketing Grant

A portion of the Association's revenue is derived from a yearly cost-reimbursable marketing grant from the state of Pennsylvania, which is conditioned upon the incurrence of qualifying marketing expenses. Amounts received are recognized as revenue when the Association has incurred expenditures in compliance with grant provisions. The period of the grant was originally April 1, 2017 through September 30, 2017 but was extended until June 30, 2019. During the years ended December 31, 2019 and 2018 the Association incurred \$296,354 and \$588,131 in costs under this grant, all of which were reimbursed by the state and recorded. The Association had \$0 and \$296,354 remaining award balances at December 31, 2019 and 2018, respectively, all of which was still held by the state. These award balances are not recognized as assets and will be recognized as revenue when the 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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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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 Accounting Standards

The requirements of the following Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) were adopted during the year ended December 31, 2019:

ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*." The amendments provide guidance for revenue recognition related to contracts involving the transfer of promised goods or services to customers and the related disclosures.

ASU 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash*." The amendments require that the statement of cash flows explain the change during the period in the total cash and cash equivalents including the changes of those amounts generally described as restricted cash or restricted cash equivalents.

ASU 2018-08, "*Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*." The amendments provide guidance for characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions.

### Pending Standards Update

ASU 2016-02, "*Leases (Topic 842)*," is effective, as delayed, for the Association's financial statements for the year ending December 31, 2021. These amendments and related amendments 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.

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

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# **PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION**

## **NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2019 AND 2018**

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### Reclassifications

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, 2019 AND 2018

### 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 2019 and 2018 is as follows:

	Purses	Benefits
<b>Escrow balance, January 1, 2018</b>	\$ 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 losses 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)
<b>Escrow balance, December 31, 2018</b>	5,850,105	27,889,659
Gaming Funds - Chester Downs and Marina, LLC	23,204,103	1,639,527
Gaming Funds - Downs Racing, LP	23,349,053	1,653,634
Unrealized/realized gains on investments	-	1,052,310
Interest and investment income (net of fees)	110,246	1,363,264
	46,663,402	5,708,735
Purse payments - Chester Downs and Marina, LLC - purse account	(23,673,562)	-
Purse payments - Downs Racing, LP - purse account	(24,650,952)	-
Health insurance payments	-	(1,433,623)
Retirement distributions	-	(539,323)
	(48,324,514)	(1,972,946)
<b>Escrow balance, December 31, 2019</b>	\$ 4,188,993	\$ 31,625,448

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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	<u>Purses</u>	<u>Benefits</u>
<b>December 31, 2019</b>		
Composition of ending balance:		
Cash and cash equivalents	\$ 4,188,993	\$ 3,477,611
Investments	-	<u>28,147,837</u>
Ending cash and cash equivalents and investments	<u>\$ 4,188,993</u>	<u>\$ 31,625,448</u>
<b>December 31, 2018</b>		
Composition of ending balance:		
Cash and cash equivalents	\$ 5,850,105	\$ 4,098,087
Investments	-	<u>23,791,572</u>
Ending cash and cash equivalents and investments	<u>\$ 5,850,105</u>	<u>\$ 27,889,659</u>

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, 2019 AND 2018

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 2019 and 2018 is as follows:

	Racing Revenues
Deferred revenue balance, January 1, 2019	<u>\$ 9,333,148</u>
Transfers from Chester Downs and Marina, LLC - racing income	1,821,025
Investment income (net of fees)	<u>257,604</u>
	<u>2,078,629</u>
Racetrack payouts	(224,836)
Purse payments	(3,188,600)
Racetrack (pari-mutuel) revenues paid to the Association	<u>(863,434)</u>
	<u>(4,276,870)</u>
Deferred revenue balance, December 31, 2019	<u><u>\$ 7,134,907</u></u>
Compositions of ending balance:	
Cash and cash equivalents	\$ 7,134,907
Investments	-
Ending cash and cash equivalents and investments	<u><u>\$ 7,134,907</u></u>

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	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
	2,158,414
Racetrack Payouts	(226,506)
Fair disbursements	(272,605)
Racetrack (pari-mutuel) revenues paid to the Association	(1,551,090)
Bank charges	(20)
	(2,050,221)
Deferred revenue balance, December 31, 2018	\$ 9,333,148
Compositions of ending balance:	
Cash and cash equivalents	\$ 7,251,001
Investments	2,082,147
Ending cash and cash equivalents and investments	\$ 9,333,148

Summary of all escrow accounts:

	Purses - Slot Revenue	Benefits - Slot Revenue	Racing Revenue	Total
December 31, 2019				
Cash and cash equivalents	\$ 4,188,993	\$ 3,479,656	\$ 7,134,907	\$ 14,803,556
Investments	-	28,147,837	-	28,147,837
Escrow and deferred revenue balance, December 31, 2019	\$ 4,188,993	\$ 31,627,493	\$ 7,134,907	\$ 42,951,393

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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	<u>Purses - Slot Revenue</u>	<u>Benefits - Slot Revenue</u>	<u>Racing Revenue</u>	<u>Total</u>
December 31, 2018				
Cash and cash equivalents	\$ 5,850,105	\$ 4,098,087	\$ 7,251,001	\$ 17,199,193
Investments	<u>-</u>	<u>23,791,572</u>	<u>2,082,147</u>	<u>25,873,719</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, 2019 AND 2018

Investments are stated at fair value. Fair value and unrealized appreciation (depreciation) at December 31, 2019 and 2018 are summarized as follows:

	2019			Fair Value
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Mutual funds:				
Fixed income - domestic	\$ 4,828,979	\$ 21,486	\$ (88,037)	\$ 4,762,428
Fixed income - international	814,399	14,333	-	828,732
Fixed income - other	1,481,553	-	(121,375)	1,360,178
Equity - domestic	3,676,116	145,123	(723,539)	3,097,700
Equity - international	574,233	-	(2,229)	572,004
Money market	334,175	-	-	334,175
Total mutual funds	<u>11,709,455</u>	<u>180,942</u>	<u>(935,180)</u>	<u>10,955,217</u>
Exchange traded funds:				
Fixed income - domestic	3,355,678	114,222	(3,349)	3,466,551
Fixed income - international	246,437	4,106	-	250,543
Fixed income - U.S. government	868,477	20,543	(11,572)	877,448
Equity - domestic	1,623,898	212,904	-	1,836,802
Equity - international	364,106	26,757	(354)	390,509
Total exchange traded funds	<u>6,458,596</u>	<u>378,532</u>	<u>(15,275)</u>	<u>6,821,853</u>
Corporate domestic bonds	<u>1,441,370</u>	<u>78,011</u>	<u>(1,234)</u>	<u>1,518,147</u>
U.S. government bonds	<u>353,609</u>	<u>16,171</u>	<u>-</u>	<u>369,780</u>
U.S. government agency bonds	<u>1,142,631</u>	<u>36,264</u>	<u>-</u>	<u>1,178,895</u>
Municipal bonds	<u>244,931</u>	<u>14,484</u>	<u>-</u>	<u>259,415</u>
Fixed index annuity	<u>2,500,000</u>	<u>224,300</u>	<u>-</u>	<u>2,724,300</u>
Other investments:				
FS KKR Capital Corp. II	1,756,564	-	(401,193)	1,355,371
FS Energy and Power Fund	1,611,572	-	(731,568)	880,004
FS Global Credit Opportunities Fund	2,373,025	-	(288,170)	2,084,855
Total other investments	<u>5,741,161</u>	<u>-</u>	<u>(1,420,931)</u>	<u>4,320,230</u>
Total investments	<u>\$ 29,591,753</u>	<u>\$ 928,704</u>	<u>\$ (2,372,620)</u>	<u>\$ 28,147,837</u>

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	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, 2019 AND 2018

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

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$1,373,712	\$1,222,242
Investment fees	<u>(98,499)</u>	<u>(152,047)</u>
	<u>\$1,275,213</u>	<u>\$1,070,195</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, 2019 AND 2018

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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, 2019 and 2018.

*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, 2019 AND 2018

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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 KKR Capital Corp. II (formerly 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, 2019 AND 2018

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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.

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, 2019 AND 2018

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, 2019:

	Total	Level 1	Level 2	Level 3
<b>Investments measured at fair value</b>				
Mutual funds:				
Fixed income - domestic	\$ 4,762,428	\$ 4,762,428	\$ -	\$ -
Fixed income - international	828,732	828,732	-	-
Fixed income - other	1,360,178	1,360,178	-	-
Equity - domestic	3,097,700	3,097,700	-	-
Equity - international	572,004	572,004	-	-
Money market	334,175	334,175	-	-
Total mutual funds	<u>10,955,217</u>	<u>10,955,217</u>	<u>-</u>	<u>-</u>
Exchange traded funds:				
Fixed income - domestic	3,466,551	3,466,551	-	-
Fixed income - international	250,543	250,543	-	-
Fixed income - U.S. government	877,448	877,448	-	-
Equity - domestic	1,836,802	1,836,802	-	-
Equity - international	390,509	390,509	-	-
Total exchange traded funds	<u>6,821,853</u>	<u>6,821,853</u>	<u>-</u>	<u>-</u>
Corporate domestic bonds	1,518,147	-	1,518,147	-
U.S. government bonds	369,780	369,780	-	-
U.S. government agency bonds	1,178,895	1,178,895	-	-
Municipal bonds	259,415	-	259,415	-
Fixed index annuity	2,724,300	-	-	2,724,300
Total investments measured at fair value	<u>23,827,607</u>	<u>19,325,745</u>	<u>1,777,562</u>	<u>2,724,300</u>
<b>Investments measured at NAV</b>				
FS KKR Capital Corp. II	1,355,371			
FS Energy and Power Fund	880,004			
FS Global Credit Opportunities Fund	2,084,855			
Total investments measured at NAV	<u>4,320,230</u>			
Total	<u>\$ 28,147,837</u>			

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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
<b>Investments measured at fair value</b>				
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	<u>3,170,001</u>	<u>-</u>	<u>3,170,001</u>	<u>-</u>
U.S. government bonds	<u>500,579</u>	<u>500,579</u>	<u>-</u>	<u>-</u>
U.S. government agency bonds	<u>952,087</u>	<u>952,087</u>	<u>-</u>	<u>-</u>
Municipal bonds	<u>182,825</u>	<u>-</u>	<u>182,825</u>	<u>-</u>
Fixed index annuity	<u>2,564,098</u>	<u>-</u>	<u>-</u>	<u>2,564,098</u>
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>
<b>Investments measured at NAV</b>				
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, 2019 AND 2018

### 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, 2019:

Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Other investments:				
FS KKR Capital Corp. II	\$ 1,355,371	\$ -	3 months	30 days
FS Energy and Power Fund	880,004	-	3 months	30 days
FS Global Credit Opportunities Fund	2,084,855	-	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, 2019 and 2018:

<b>Balance, January 1, 2018</b>	\$ 2,401,536
Net appreciation	<u>162,562</u>
<b>Balance, December 31, 2018</b>	<u>2,564,098</u>
Net appreciation	<u>160,202</u>
<b>Balance, December 31, 2019</b>	<u><u>\$ 2,724,300</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 2019 and 2018.

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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### 4. Accounts Receivable

Accounts receivable consist of the following:

	<u>2019</u>	<u>2018</u>
Member benefit reimbursements	\$ 16,694	\$ 18,406
Racetrack revenue receivable	<u>162,187</u>	<u>270,895</u>
	<u>\$ 178,881</u>	<u>\$ 289,301</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 \$18,715 and \$38,709 at December 31, 2019 and 2018, 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, 2019 AND 2018

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during 2019 and 2018. The Association recognized \$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, 2020. 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, 2024. 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, 2019 AND 2018

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### 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>2019</u>	<u>2018</u>
Golf outing:		
Revenue	\$ 25,000	\$ 25,000
Direct expenses	<u>27,066</u>	<u>26,615</u>
Net loss	<u>\$ (2,066)</u>	<u>\$ (1,615)</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 2019 and 2018 totaled \$44,000 and \$198,000, respectively.

### 10. Risks and Uncertainties

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. 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, 2019 and 2018, the Association had bank deposits of \$14,828,239 and \$17,190,490, respectively.

For the years ended December 31, 2019 and 2018, revenue includes \$1,954,726 and \$3,053,635, 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, 2019 AND 2018

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

### 11. Availability and Liquidity

The following represents the Association's financial assets available to meet general expenditures as of December 31, 2019:

Financial assets at year-end:	
Cash and cash equivalents	\$ 4,367
Restricted cash and cash equivalents	14,801,511
Restricted investments	28,147,837
Accounts receivable	<u>178,881</u>
Total financial assets	<u>43,132,596</u>
Less amounts not available to be used within one year:	
Assets restricted for purses	4,188,993
Assets restricted for health and pension	<u>31,627,493</u>
	<u>35,816,486</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 7,316,110</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.

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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### **12. Subsequent Event Footnote**

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

## **SUPPLEMENTARY INFORMATION**

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

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

PERIOD JANUARY 1, 2019 THROUGH DECEMBER 31, 2019

	Purses	Benefits	Total
Cash Receipts:			
Gaming funds - Chester Downs and Marina, LLC	\$ 23,204,103	\$ 1,639,527	\$ 24,843,630
Gaming funds - Downs Racing LP	23,349,053	1,653,634	25,002,687
Interest and investment income, net of fees	110,246	1,363,264	1,473,510
Total cash receipts	46,663,402	4,656,425	51,319,827
Cash Disbursements:			
Purse payments - Chester Downs and Marina, LLC	23,673,562	-	23,673,562
Purse payments - Downs Racing, LP	24,650,952	-	24,650,952
Health insurance payments	-	1,433,623	1,433,623
Retirement distributions	-	539,323	539,323
Total cash disbursements	48,324,514	1,972,946	50,297,460
Other:			
Net unrealized and realized gains on restricted investments	-	1,052,310	1,052,310
Total other	-	1,052,310	1,052,310
Changes in Escrow Balances	(1,661,112)	3,735,789	2,074,677
Escrow balance at January 1, 2019	5,850,105	27,889,659	33,739,764
Escrow balance at December 31, 2019	\$ 4,188,993	\$ 31,625,448	\$ 35,814,441

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, 2019 THROUGH DECEMBER 31, 2019

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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. § 1701-0). 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 2019.

**Pennsylvania Harness Horsemen's  
Association**

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

Year Ended December 31, 2019

**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, 2019, 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 August 14, 2020.

## **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.

*Maier Duessel*

Harrisburg, Pennsylvania  
August 14, 2020