

**Pennsylvania Harness Horsemen's  
Association**

Financial Statements and Supplementary  
Information

Years Ended December 31, 2021 and 2020  
with Independent Auditor's Reports

**MaherDuessel**

A horizontal bar is positioned below the company name. The left portion of the bar is black, and the right portion is blue, matching the color of the 'D' in the company name.

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

YEARS ENDED DECEMBER 31, 2021 AND 2020

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## Independent Auditor's Report

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

### Report on the Audit of the Financial Statements

#### **Opinion**

We have audited the accompanying financial statements of the Pennsylvania Harness Horsemen's Association (Association), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, 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.

#### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and are 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 supplementary 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 October 6, 2022 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  
October 6, 2022

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2021 AND 2020

|   | 2021          | 2020          |
|---|---------------|---------------|
| <b>Assets</b>   |               |               |
| <hr/>   |               |               |
| Current assets:   |               |               |
| Cash and cash equivalents   | \$ 9,025,144  | \$ 415,490    |
| Accounts receivable   | 68,878        | 130,763       |
| Prepaid expenses  | 25,180        | 21,266        |
| Total current assets  | 9,119,202     | 567,519       |
| Fixed assets:   |               |               |
| Property, plant, and equipment, at cost   | 105,578       | 105,578       |
| Less: accumulated depreciation  | (104,582)     | (99,851)      |
| Net fixed assets  | 996           | 5,727         |
| Other assets:   |               |               |
| Restricted cash and cash equivalents  | 5,487,657     | 16,513,580    |
| Restricted investments  | 32,884,063    | 30,991,096    |
| Total other assets  | 38,371,720    | 47,504,676    |
| Intangible assets:  |               |               |
| Naming rights, net of accumulated amortization of<br>\$143,750 in 2021 and \$68,750 in 2020 | 231,250       | 306,250       |
| <b>Total Assets</b>   | \$ 47,723,168 | \$ 48,384,172 |
| <b>Liabilities and Net Assets</b>   |               |               |
| <hr/>   |               |               |
| Liabilities:  |               |               |
| Current Liabilities:  |               |               |
| Accounts payable  | \$ 515,884    | \$ 707,119    |
| Accrued employer retirement plan contribution   | 40,000        | 30,000        |
| Accrued vacation and bonuses  | -             | 3,418         |
| Accrued severance   | 377           | 12,231        |
| Total current liabilities   | 556,261       | 752,768       |
| Noncurrent Liabilities:   |               |               |
| Escrow funds and deferred revenue:  |               |               |
| Purses - racing revenue   | 4,894,065     | 7,970,658     |
| Purses - slot revenue   | 3,124,862     | 6,399,353     |
| Health and pension - slot revenue   | 35,246,858    | 33,134,665    |
| Total escrow funds and deferred revenue   | 43,265,785    | 47,504,676    |
| Total non-current liabilities   | 43,265,785    | 47,504,676    |
| Total liabilities   | 43,822,046    | 48,257,444    |
| Net Assets:   |               |               |
| Without donor restrictions  | 3,901,122     | 126,728       |
| <b>Total Liabilities and Net Assets</b>   | \$ 47,723,168 | \$ 48,384,172 |

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2021 AND 2020

|                               | 2021         | 2020         |
|-------------------------------|--------------|--------------|
| <b>Revenues:</b>              |              |              |
| Race track revenues:          |              |              |
| Downs Racing                  | \$ 4,704,536 | \$ 1,100,000 |
| Harrah's Chester              | 600,000      | 929,713      |
| Membership dues               | 30,480       | 28,930       |
| Race Horse Development Fund   | 1,413,395    | 1,480,608    |
| Grants                        | 273,648      | 280,447      |
| Member benefit reimbursements | 547,140      | 320,040      |
| Interest income               | 434          | 767          |
| Miscellaneous income          | -            | 17,104       |
| Total revenues                | 7,569,633    | 4,157,609    |
| <b>Expenses:</b>              |              |              |
| Program                       | 3,664,429    | 3,895,677    |
| Management and general        | 130,810      | 135,204      |
| Total expenses                | 3,795,239    | 4,030,881    |
| <b>Change in Net Assets</b>   | 3,774,394    | 126,728      |
| <b>Net Assets:</b>            |              |              |
| Beginning of year             | 126,728      | -            |
| End of year                   | \$ 3,901,122 | \$ 126,728   |

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2021

|  | Program           |                    |                     |                        |                        |                       | Total<br>Program    | Management<br>and General | Total               |
|--|-------------------|--------------------|---------------------|------------------------|------------------------|-----------------------|---------------------|---------------------------|---------------------|
|  | Health<br>Program | Pension<br>Program | Member<br>Benefits  | Racetrack<br>Relations | Industry<br>Promotions | Regulatory<br>Matters |                     |                           |                     |
| Salaries   | \$ 44,193         | \$ 38,256          | \$ 31,733           | \$ 79,197              | \$ 71,518              | \$ 30,816             | \$ 295,713          | \$ 68,552                 | \$ 364,265          |
| Payroll taxes                                    | 3,516             | 3,044              | 2,525               | 6,301                  | 5,691                  | 2,452                 | 23,529              | 5,454                     | 28,983              |
| Employee benefits                                | 15,197            | 13,133             | 10,895              | 27,166                 | 24,728                 | 10,582                | 101,701             | 23,558                    | 125,259             |
| General insurance                                | 135               | 117                | 209,280             | 243                    | 220                    | 94                    | 210,089             | 14,476                    | 224,565             |
| Member benefits                                  | -                 | -                  | 2,095,255           | -                      | -                      | -                     | 2,095,255           | -                         | 2,095,255           |
| Advertising, newsletter,<br>and public relations | -                 | -                  | -                   | -                      | 484,215                | -                     | 484,215             | -                         | 484,215             |
| Meeting expense and travel                       | 2,217             | 1,919              | 1,592               | 5,321                  | 4,936                  | 13,669                | 29,654              | 3,440                     | 33,094              |
| National dues                                    | -                 | -                  | -                   | -                      | 14,450                 | -                     | 14,450              | -                         | 14,450              |
| Office expense                                   | 3,311             | 2,866              | 2,377               | 5,933                  | 5,358                  | 2,309                 | 22,154              | 5,135                     | 27,289              |
| Telephone  | 770               | 667                | 553                 | 1,380                  | 1,246                  | 537                   | 5,153               | 1,194                     | 6,347               |
| Legal and accounting                             | 4,490             | 3,887              | 3,224               | 12,947                 | 12,166                 | 47,200                | 83,914              | 6,964                     | 90,878              |
| Legislative fees                                 | -                 | -                  | -                   | -                      | -                      | 194,072               | 194,072             | 200                       | 194,272             |
| Donation and gifts                               | -                 | -                  | -                   | -                      | 16,250                 | -                     | 16,250              | -                         | 16,250              |
| Depreciation                                     | 574               | 497                | 412                 | 1,029                  | 929                    | 400                   | 3,841               | 890                       | 4,731               |
| Amortization                                     | -                 | -                  | -                   | -                      | 75,000                 | -                     | 75,000              | -                         | 75,000              |
| Miscellaneous expense                            | 613               | 531                | 440                 | 6,435                  | 992                    | 428                   | 9,439               | 947                       | 10,386              |
| <b>Total expenses</b>                            | <b>\$ 75,016</b>  | <b>\$ 64,917</b>   | <b>\$ 2,358,286</b> | <b>\$ 145,952</b>      | <b>\$ 717,699</b>      | <b>\$ 302,559</b>     | <b>\$ 3,664,429</b> | <b>\$ 130,810</b>         | <b>\$ 3,795,239</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, 2020

|  | Program           |                    |                     |                        |                        |                       | Total<br>Program    | Management<br>and General | Total               |
|--|-------------------|--------------------|---------------------|------------------------|------------------------|-----------------------|---------------------|---------------------------|---------------------|
|  | Health<br>Program | Pension<br>Program | Member<br>Benefits  | Racetrack<br>Relations | Industry<br>Promotions | Regulatory<br>Matters |                     |                           |                     |
| Salaries   | \$ 44,781         | \$ 38,716          | \$ 32,220           | \$ 81,562              | \$ 71,936              | \$ 30,658             | \$ 299,873          | \$ 69,651                 | \$ 369,524          |
| Payroll taxes                                    | 3,904             | 3,375              | 2,809               | 7,111                  | 6,271                  | 2,673                 | 26,143              | 6,072                     | 32,215              |
| Employee benefits                                | 14,879            | 12,846             | 10,690              | 27,017                 | 24,014                 | 10,186                | 99,632              | 23,124                    | 122,756             |
| General insurance                                | 130               | 112                | 142,336             | 237                    | 209                    | 89                    | 143,113             | 4,792                     | 147,905             |
| Member benefits                                  | -                 | -                  | 2,093,103           | -                      | -                      | -                     | 2,093,103           | -                         | 2,093,103           |
| Advertising, newsletter,<br>and public relations | -                 | -                  | -                   | -                      | 496,335                | -                     | 496,335             | -                         | 496,335             |
| Meeting expense and travel                       | 2,009             | 1,737              | 1,445               | 9,909                  | 9,477                  | 13,875                | 38,452              | 3,124                     | 41,576              |
| National dues                                    | -                 | -                  | -                   | -                      | 12,450                 | -                     | 12,450              | -                         | 12,450              |
| Office expense                                   | 2,993             | 2,587              | 2,153               | 5,451                  | 4,807                  | 2,049                 | 20,040              | 4,655                     | 24,695              |
| Telephone  | 774               | 669                | 557                 | 1,410                  | 1,244                  | 530                   | 5,184               | 1,204                     | 6,388               |
| Legal and accounting                             | 12,619            | 10,909             | 9,079               | 22,983                 | 20,270                 | 90,634                | 166,494             | 19,626                    | 186,120             |
| Legislative fees                                 | -                 | -                  | -                   | -                      | -                      | 193,742               | 193,742             | 800                       | 194,542             |
| Donation and gifts                               | -                 | -                  | -                   | -                      | 211,000                | -                     | 211,000             | -                         | 211,000             |
| Depreciation                                     | 741               | 641                | 533                 | 1,350                  | 1,191                  | 508                   | 4,964               | 1,153                     | 6,117               |
| Amortization                                     | -                 | -                  | -                   | -                      | 77,083                 | -                     | 77,083              | -                         | 77,083              |
| Miscellaneous expense                            | 645               | 558                | 464                 | 4,925                  | 1,035                  | 442                   | 8,069               | 1,003                     | 9,072               |
| <b>Total expenses</b>                            | <b>\$ 83,475</b>  | <b>\$ 72,150</b>   | <b>\$ 2,295,389</b> | <b>\$ 161,955</b>      | <b>\$ 937,322</b>      | <b>\$ 345,386</b>     | <b>\$ 3,895,677</b> | <b>\$ 135,204</b>         | <b>\$ 4,030,881</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, 2021 AND 2020

|  | 2021          | 2020          |
|--|---------------|---------------|
| <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   | \$ 3,774,394  | \$ 126,728    |
| Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:                   |               |               |
| Depreciation and amortization  | 79,731        | 83,200        |
| Effects of changes in operating assets and liabilities:  |               |               |
| Purse funds received   | 34,149,943    | 28,240,367    |
| Benefits funds received  | 2,940,631     | 2,405,671     |
| Interest on restricted funds   | 23,283        | 88,780        |
| Racing revenue received  | 2,542,931     | 2,166,394     |
| Accounts receivable  | 61,885        | 48,118        |
| Prepaid expenses   | (3,914)       | 27,740        |
| Purse payments   | (37,441,801)  | (26,100,930)  |
| Health insurance payments  | (1,407,321)   | (1,411,820)   |
| Racing revenue distributions   | (5,619,524)   | (1,330,643)   |
| Accounts payable   | (191,235)     | 328,935       |
| Accrued employer retirement plan contribution  | 10,000        | (114,000)     |
| Accrued vacation and bonuses   | (3,418)       | (466)         |
| Accrued severance  | (11,854)      | (6,484)       |
| Unearned revenue   | -             | (3,520)       |
| Health and pension - slot revenue  | -             | 2,045         |
| Net cash, cash equivalents, and restricted cash provided by (used in) operating activities   | (1,096,269)   | 4,550,115     |
| <b>Cash Flows From Investing Activities:</b>   |               |               |
| Purchase of investments  | (1,320,000)   | (2,358,173)   |
| Purchase of naming rights  | -             | (68,750)      |
| Net cash, cash equivalents, and restricted cash used in investing activities   | (1,320,000)   | (2,426,923)   |
| <b>Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash</b>  | (2,416,269)   | 2,123,192     |
| <b>Cash, Cash Equivalents, and Restricted Cash:</b>  |               |               |
| Beginning of year  | 16,929,070    | 14,805,878    |
| End of year  | \$ 14,512,801 | \$ 16,929,070 |

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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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, 2021 and 2020.

#### 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, Cash Equivalents, Restricted Cash, and Investments

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.

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, 2021 AND 2020

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The following provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows for the years ended December 31:

|  | <u>2021</u>          | <u>2020</u>          |
|--|----------------------|----------------------|
| Cash and cash equivalents  | \$ 9,025,144         | \$ 415,490           |
| Restricted cash and cash equivalents   | <u>5,487,657</u>     | <u>16,513,580</u>    |
| Total cash, cash equivalents, and restricted cash shown in the statement of cash flows | <u>\$ 14,512,801</u> | <u>\$ 16,929,070</u> |

### Accounts Receivable

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

### Fair Value of Investments

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

### Furniture and Equipment

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

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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### 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, 2021.

### 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.

### Revenue Recognition

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

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.

Race track revenues are recognized as disclosed in Note 7.

### 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, 2022. During the years ended December 31, 2021 and 2020, the Association incurred expenses of \$273,648 and \$280,447, respectively, of which \$12,430 and \$109,303 was reimbursed by the state after year end and included as a receivable as of December 31, 2021 and 2020, respectively. The Association had \$187,659 and \$233,258 remaining award balances at

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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December 31, 2021 and 2020, 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 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.

### 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, 2022. 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.

# **PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION**

## **NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2021 AND 2020**

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Management has not yet determined the impact of this amendment on the Association's financial statements.

### Subsequent Events

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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

### 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 2021 and 2020 is as follows:

|  | Purses              | Benefits             |
|--|---------------------|----------------------|
| <b>Escrow balance, January 1, 2020</b>                         | \$ 4,188,993        | \$ 31,625,448        |
| Gaming Funds - Chester Downs and Marina, LLC                   | 14,575,046          | 1,223,407            |
| Gaming Funds - Downs Racing, LP                                | 13,665,321          | 1,182,264            |
| Unrealized/realized gains on investments                       | -                   | 417,312              |
| Interest and investment income (net of fees)                   | 70,923              | 992,051              |
|  | <b>28,311,290</b>   | <b>3,815,034</b>     |
| Purse payments - Chester Downs and Marina, LLC - purse account | (13,856,240)        | -                    |
| Purse payments - Downs Racing, LP - purse account              | (12,244,690)        | -                    |
| Health insurance payments                                      | -                   | (1,411,820)          |
| Retirement distributions                                       | -                   | (893,997)            |
|  | <b>(26,100,930)</b> | <b>(2,305,817)</b>   |
| <b>Escrow balance, December 31, 2020</b>                       | <b>6,399,353</b>    | <b>33,134,665</b>    |
| Gaming Funds - Chester Downs and Marina, LLC                   | 15,160,778          | 1,305,913            |
| Gaming Funds - Downs Racing, LP                                | 18,989,165          | 1,634,718            |
| Unrealized/realized gains on investments                       | -                   | 533,900              |
| Interest and investment income (net of fees)                   | 17,367              | 687,116              |
|  | <b>34,167,310</b>   | <b>4,161,647</b>     |
| Purse payments - Chester Downs and Marina, LLC - purse account | (16,169,025)        | -                    |
| Purse payments - Downs Racing, LP - purse account              | (21,272,776)        | -                    |
| Health insurance payments                                      | -                   | (1,407,321)          |
| Retirement distributions                                       | -                   | (642,133)            |
|  | <b>(37,441,801)</b> | <b>(2,049,454)</b>   |
| <b>Escrow balance, December 31, 2021</b>                       | <b>\$ 3,124,862</b> | <b>\$ 35,246,858</b> |



# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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|  | <u>Purses</u>       | <u>Benefits</u>      |
|--|---------------------|----------------------|
| <b>December 31, 2021</b>                         |                     |                      |
| Composition of ending balance:                   |                     |                      |
| Cash and cash equivalents                        | \$ 3,124,862        | \$ 2,362,795         |
| Investments                                      | -                   | <u>32,884,063</u>    |
| Ending cash and cash equivalents and investments | <u>\$ 3,124,862</u> | <u>\$ 35,246,858</u> |
| <b>December 31, 2020</b>                         |                     |                      |
| Composition of ending balance:                   |                     |                      |
| Cash and cash equivalents                        | \$ 6,399,353        | \$ 2,143,569         |
| Investments                                      | -                   | <u>30,991,096</u>    |
| Ending cash and cash equivalents and investments | <u>\$ 6,399,353</u> | <u>\$ 33,134,665</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, 2021 AND 2020

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 2020 and 2019 is as follows:

|  | Racing<br>Revenues  |
|--|---------------------|
| Deferred revenue balance, January 1, 2021                    | \$ 7,970,658        |
| Transfers from Chester Downs and Marina, LLC - racing income | 2,515,949           |
| Investment income (net of fees)                              | 26,982              |
|  | <u>2,542,931</u>    |
| Racetrack payouts  | (5,019,524)         |
| Purse payments   | -                   |
| Racetrack (pari-mutuel) revenues paid to the Association     | (600,000)           |
|  | <u>(5,619,524)</u>  |
| Deferred revenue balance, December 31, 2020                  | \$ 4,894,065        |
| Compositions of ending balance:                              |                     |
| Cash and cash equivalents                                    | \$ 4,894,065        |
| Investments  | -                   |
| Ending cash and cash equivalents and investments             | <u>\$ 4,894,065</u> |

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

|  | Racing<br>Revenues |
|--|--------------------|
| Deferred revenue balance, January 1, 2020                    | \$ 7,134,907       |
| Transfers from Chester Downs and Marina, LLC - racing income | 2,093,118          |
| Investment income (net of fees)                              | 73,276             |
|  | 2,166,394          |
| Racetrack payouts  | (238,743)          |
| Purse payments   | -                  |
| Racetrack (pari-mutuel) revenues paid to the Association     | (1,091,900)        |
|  | (1,330,643)        |
| Deferred revenue balance, December 31, 2020                  | \$ 7,970,658       |
| Compositions of ending balance:                              |                    |
| Cash and cash equivalents                                    | \$ 7,970,658       |
| Investments  | -                  |
| Ending cash and cash equivalents and investments             | \$ 7,970,658       |

Summary of all escrow accounts:

|  | Purses -<br>Slot Revenue | Benefits -<br>Slot Revenue | Racing<br>Revenue | Total         |
|--|--------------------------|----------------------------|-------------------|---------------|
| December 31, 2021  |                          |                            |                   |               |
| Cash and cash equivalents                                    | \$ 3,124,862             | \$ 2,362,795               | \$ 4,894,065      | \$ 10,381,722 |
| Investments  | -                        | 32,884,063                 | -                 | 32,884,063    |
| Escrow and deferred<br>revenue balance,<br>December 31, 2021 | \$ 3,124,862             | \$ 35,246,858              | \$ 4,894,065      | \$ 43,265,785 |

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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|  | <u>Purses -<br/>Slot Revenue</u> | <u>Benefits -<br/>Slot Revenue</u> | <u>Racing<br/>Revenue</u> | <u>Total</u>         |
|--|----------------------------------|------------------------------------|---------------------------|----------------------|
| December 31, 2020  |                                  |                                    |                           |                      |
| Cash and cash equivalents                                    | \$ 6,399,353                     | \$ 2,143,569                       | \$ 7,970,658              | \$ 16,513,580        |
| Investments  | <u>-</u>                         | <u>30,991,096</u>                  | <u>-</u>                  | <u>30,991,096</u>    |
| Escrow and deferred<br>revenue balance,<br>December 31, 2020 | <u>\$ 6,399,353</u>              | <u>\$ 33,134,665</u>               | <u>\$ 7,970,658</u>       | <u>\$ 47,504,676</u> |

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

Investments are stated at fair value. Fair value and unrealized appreciation (depreciation) at December 31, 2021 and 2020 are summarized as follows:

|  | 2021          |                              |                               | Fair Value    |
|--|---------------|------------------------------|-------------------------------|---------------|
|  | Cost          | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |               |
| Mutual funds:                          |               |                              |                               |               |
| Fixed income - domestic                | \$ 3,263,506  | \$ 40,848                    | \$ (60,647)                   | \$ 3,243,707  |
| Fixed income - international           | 1,654,597     | 13,883                       | (9,716)                       | 1,658,764     |
| Equity - domestic                      | 2,643,766     | 581,135                      | -                             | 3,224,901     |
| Equity - international                 | 743,591       | 138,757                      | -                             | 882,348       |
| Money market                           | 914,156       | -                            | -                             | 914,156       |
| Total mutual funds                     | 9,219,616     | 774,623                      | (70,363)                      | 9,923,876     |
| Exchange traded funds:                 |               |                              |                               |               |
| Fixed income - domestic                | 4,633,633     | 45,827                       | (17,667)                      | 4,661,793     |
| Fixed income - U.S. government         | 773,120       | -                            | (11,423)                      | 761,697       |
| Fixed income - other                   | 1,478,390     | 11,762                       | (4,116)                       | 1,486,036     |
| Equity - domestic                      | 2,189,076     | 521,805                      | (1,648)                       | 2,709,233     |
| Equity - international                 | 817,855       | 107,662                      | (7,973)                       | 917,544       |
| Total exchange traded funds            | 9,892,074     | 687,056                      | (42,827)                      | 10,536,303    |
| Corporate domestic bonds               | 3,060,427     | 59,915                       | (17,991)                      | 3,102,351     |
| U.S. government bonds                  | 1,442,655     | 20,767                       | (8,421)                       | 1,455,001     |
| U.S. government agency bonds           | 2,295,806     | 24,872                       | (20,226)                      | 2,300,452     |
| Municipal bonds                        | 499,950       | 28,450                       | -                             | 528,400       |
| Fixed index annuity                    | 2,500,000     | 346,346                      | -                             | 2,846,346     |
| Other investments:                     |               |                              |                               |               |
| FS Energy and Power Fund               | 461,874       | 34,780                       | -                             | 496,654       |
| FS Global Credit Opportunities<br>Fund | 1,581,037     | 113,643                      | -                             | 1,694,680     |
| Total other investments                | 2,042,911     | 148,423                      | -                             | 2,191,334     |
| Total investments                      | \$ 30,953,439 | \$ 2,090,452                 | \$ (159,828)                  | \$ 32,884,063 |

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

|  | 2020                 |                              |                               | Fair Value           |
|--|----------------------|------------------------------|-------------------------------|----------------------|
|  | Cost                 | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |                      |
| Mutual funds:                          |                      |                              |                               |                      |
| Fixed income - domestic                | \$ 3,265,779         | \$ 73,006                    | \$ (23,201)                   | \$ 3,315,584         |
| Fixed income - international           | 1,431,993            | 18,846                       | -                             | 1,450,839            |
| Equity - domestic                      | 2,498,683            | 535,044                      | -                             | 3,033,727            |
| Equity - international                 | 450,734              | 165,865                      | -                             | 616,599              |
| Money market                           | 621,200              | -                            | -                             | 621,200              |
| Total mutual funds                     | <u>8,268,389</u>     | <u>792,761</u>               | <u>(23,201)</u>               | <u>9,037,949</u>     |
| Exchange traded funds:                 |                      |                              |                               |                      |
| Fixed income - domestic                | 3,895,492            | 226,085                      | -                             | 4,121,577            |
| Fixed income - international           | 329,396              | 24,477                       | -                             | 353,873              |
| Fixed income - U.S. government         | 522,135              | 2,883                        | (5,262)                       | 519,756              |
| Fixed income - other                   | 1,401,158            | 42,351                       | -                             | 1,443,509            |
| Equity - domestic                      | 1,581,052            | 389,540                      | -                             | 1,970,592            |
| Equity - international                 | 999,900              | 166,082                      | (17,094)                      | 1,148,888            |
| Total exchange traded funds            | <u>8,729,133</u>     | <u>851,418</u>               | <u>(22,356)</u>               | <u>9,558,195</u>     |
| Corporate domestic bonds               | <u>3,380,723</u>     | <u>226,881</u>               | <u>-</u>                      | <u>3,607,604</u>     |
| U.S. government bonds                  | <u>538,007</u>       | <u>31,271</u>                | <u>-</u>                      | <u>569,278</u>       |
| U.S. government agency bonds           | <u>2,332,350</u>     | <u>70,393</u>                | <u>(251)</u>                  | <u>2,402,492</u>     |
| Municipal bonds                        | <u>530,662</u>       | <u>48,778</u>                | <u>-</u>                      | <u>579,440</u>       |
| Fixed index annuity                    | <u>2,500,000</u>     | <u>305,676</u>               | <u>-</u>                      | <u>2,805,676</u>     |
| Other investments:                     |                      |                              |                               |                      |
| FS Energy and Power Fund               | 461,872              | -                            | (5,563)                       | 456,309              |
| FS Global Credit Opportunities<br>Fund | <u>1,484,138</u>     | <u>490,015</u>               | <u>-</u>                      | <u>1,974,153</u>     |
| Total other investments                | <u>1,946,010</u>     | <u>490,015</u>               | <u>(5,563)</u>                | <u>2,430,462</u>     |
| Total investments                      | <u>\$ 28,225,274</u> | <u>\$ 2,817,193</u>          | <u>\$ (51,371)</u>            | <u>\$ 30,991,096</u> |

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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

|                        | <u>2021</u>       | <u>2020</u>        |
|------------------------|-------------------|--------------------|
| Interest and dividends | \$1,153,112       | \$1,505,273        |
| Investment fees        | <u>(179,044)</u>  | <u>(140,322)</u>   |
|                        | <u>\$ 974,068</u> | <u>\$1,364,951</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, 2021 AND 2020

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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, 2021 and 2020.

*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 and Municipal 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



# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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is valued using 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 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 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.

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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*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, 2021 AND 2020

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, 2021:

|   | Total                | Level 1           | Level 2          | Level 3          |
|---|----------------------|-------------------|------------------|------------------|
| <b>Investments measured at fair value</b> |                      |                   |                  |                  |
| Mutual funds:                             |                      |                   |                  |                  |
| Fixed income - domestic                   | \$ 3,243,707         | \$ 3,243,707      | \$ -             | \$ -             |
| Fixed income - international              | 1,658,764            | 1,658,764         | -                | -                |
| Equity - domestic                         | 3,224,901            | 3,224,901         | -                | -                |
| Equity - international                    | 882,348              | 882,348           | -                | -                |
| Money market                              | 914,156              | 914,156           | -                | -                |
| Total mutual funds                        | <u>9,923,876</u>     | <u>9,923,876</u>  | <u>-</u>         | <u>-</u>         |
| Exchange traded funds:                    |                      |                   |                  |                  |
| Fixed income - domestic                   | 4,661,793            | 4,661,793         | -                | -                |
| Fixed income - U.S. government            | 761,697              | 761,697           | -                | -                |
| Fixed income - other                      | 1,486,036            | 1,486,036         | -                | -                |
| Equity - domestic                         | 2,709,233            | 2,709,233         | -                | -                |
| Equity - international                    | 917,544              | 917,544           | -                | -                |
| Total exchange traded funds               | <u>10,536,303</u>    | <u>10,536,303</u> | <u>-</u>         | <u>-</u>         |
| Corporate domestic bonds                  | 3,102,351            | -                 | 3,102,351        | -                |
| U.S. government bonds                     | 1,455,001            | 1,455,001         | -                | -                |
| U.S. government agency bonds              | 2,300,452            | 2,300,452         | -                | -                |
| Municipal bonds                           | 528,400              | -                 | 528,400          | -                |
| Fixed index annuity                       | 2,846,346            | -                 | -                | 2,846,346        |
| Total investments measured at fair value  | <u>30,692,729</u>    | <u>24,215,632</u> | <u>3,630,751</u> | <u>2,846,346</u> |
| <b>Investments measured at NAV</b>        |                      |                   |                  |                  |
| FS Energy and Power Fund                  | 496,654              |                   |                  |                  |
| FS Global Credit Opportunities Fund       | 1,694,680            |                   |                  |                  |
| Total investments measured at NAV         | <u>2,191,334</u>     |                   |                  |                  |
| Total                                     | <u>\$ 32,884,063</u> |                   |                  |                  |

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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, 2020:

|   | Total                | Level 1           | Level 2          | Level 3          |
|---|----------------------|-------------------|------------------|------------------|
| <b>Investments measured at fair value</b> |                      |                   |                  |                  |
| Mutual funds:                             |                      |                   |                  |                  |
| Fixed income - domestic                   | \$ 3,315,584         | \$ 3,315,584      | \$ -             | \$ -             |
| Fixed income - international              | 1,450,839            | 1,450,839         | -                | -                |
| Equity - domestic                         | 3,033,727            | 3,033,727         | -                | -                |
| Equity - international                    | 616,599              | 616,599           | -                | -                |
| Money market                              | 621,200              | 621,200           | -                | -                |
| Total mutual funds                        | <u>9,037,949</u>     | <u>9,037,949</u>  | <u>-</u>         | <u>-</u>         |
| Exchange traded funds:                    |                      |                   |                  |                  |
| Fixed income - domestic                   | 4,121,577            | 4,121,577         | -                | -                |
| Fixed income - international              | 353,873              | 353,873           | -                | -                |
| Fixed income - U.S. government            | 519,756              | 519,756           | -                | -                |
| Fixed income - other                      | 1,443,509            | 1,443,509         | -                | -                |
| Equity - domestic                         | 1,970,592            | 1,970,592         | -                | -                |
| Equity - international                    | 1,148,888            | 1,148,888         | -                | -                |
| Total exchange traded funds               | <u>9,558,195</u>     | <u>9,558,195</u>  | <u>-</u>         | <u>-</u>         |
| Corporate domestic bonds                  | 3,607,604            | -                 | 3,607,604        | -                |
| U.S. government bonds                     | 569,278              | 569,278           | -                | -                |
| U.S. government agency bonds              | 2,402,492            | 2,402,492         | -                | -                |
| Municipal bonds                           | 579,440              | -                 | 579,440          | -                |
| Fixed index annuity                       | 2,805,676            | -                 | -                | 2,805,676        |
| Total investments measured at fair value  | <u>28,560,634</u>    | <u>21,567,914</u> | <u>4,187,044</u> | <u>2,805,676</u> |
| <b>Investments measured at NAV</b>        |                      |                   |                  |                  |
| FS Energy and Power Fund                  | 456,309              |                   |                  |                  |
| FS Global Credit Opportunities Fund       | 1,974,153            |                   |                  |                  |
| Total investments measured at NAV         | <u>2,430,462</u>     |                   |                  |                  |
| Total                                     | <u>\$ 30,991,096</u> |                   |                  |                  |

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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### 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, 2021:

| <u>Investment Type</u>              | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
|-------------------------------------|-------------------|-----------------------------|-----------------------------|---------------------------------|
| Other investments:                  |                   |                             |                             |                                 |
| FS Energy and Power Fund            | \$ 1,237,622      | -                           | 3 months                    | 30 days                         |
| FS Global Credit Opportunities Fund | 953,712           | -                           | 3 months                    | 30 days                         |

### Level 3 Activity

For the years ended December 31, 2021 and 2020, there were no purchases, issues, or transfers into or out of Level 3 of the fair value hierarchy.

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.

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

### 4. Accounts Receivable

Accounts receivable consist of the following:

|  | Member Benefit<br>Reimbursements | Marketing Grant<br>Receivable | Total            |
|--|----------------------------------|-------------------------------|------------------|
| Accounts receivable, December 31, 2019   | \$ 16,694                        | \$ -                          | \$ 16,694        |
| Cash received that was included in accounts<br>receivable at the beginning of the year | (16,694)                         | -                             | (16,694)         |
| Increase in accounts receivable  | <u>21,460</u>                    | <u>109,303</u>                | <u>130,763</u>   |
| Accounts receivable, December 31, 2020   | 21,460                           | 109,303                       | 130,763          |
| Cash received that was included in accounts<br>receivable at the beginning of the year | (21,460)                         | (109,303)                     | (130,763)        |
| Increase in accounts receivable  | <u>56,448</u>                    | <u>12,430</u>                 | <u>68,878</u>    |
| Accounts receivable, December 31, 2021   | <u>\$ 56,448</u>                 | <u>\$ 12,430</u>              | <u>\$ 68,878</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 \$377 and \$12,231 at December 31, 2021 and 2020, 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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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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.

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. During the year end December 31, 2020 the Association recognized an intangible asset in the amount of \$375,000 for the benefits derived from this agreement.

The Association will amortize the intangible asset, naming rights, ratably over the term of the agreement with Downs Racing. The Association recognized \$75,000 and \$77,083 of amortization expense related to naming rights during 2021 and 2020, respectively.

### **7. Race Track Revenues**

The Association holds a contract with a harness race track in Pennsylvania, Downs Racing, which expires December 31, 2022. Under the terms of this contract, the Association will receive \$6,000,000 annually. Beginning January 1, 2022, this amount decreases to \$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

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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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.

### **8. 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 2021 and 2020 totaled \$40,000 and \$30,000, respectively.

### **9. Insurance**

The Association provides health care insurance for its employees, members, and their dependents through a self-insured plan, which is supplemented by an excess loss indemnity contract issued by a commercial insurer. The basic terms of the plan are that the Association pays covered claims and is reimbursed by the insurance company for claims in excess of specified annual amounts per covered person or an annual aggregate amount for the Association.

### **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, 2021 and 2020, the Association had bank deposits of \$14,521,286 and \$16,935,773, respectively.



# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

For the years ended December 31, 2021 and 2020, revenue includes \$5,304,536 and \$2,029,713, 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.

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:

|   | <u>2021</u>         | <u>2020</u>         |
|---|---------------------|---------------------|
| Financial assets at year-end:   |                     |                     |
| Cash and cash equivalents   | \$ 9,025,144        | \$ 415,490          |
| Restricted cash and cash equivalents  | 5,487,657           | 16,513,580          |
| Restricted investments  | 32,884,063          | 30,991,096          |
| Accounts receivable   | 68,878              | 130,763             |
| Total financial assets  | <u>47,465,742</u>   | <u>48,050,929</u>   |
| Less amounts not available to be used within one year:                              |                     |                     |
| Assets restricted for purses  | 3,124,862           | 6,399,353           |
| Assets restricted for health and pension  | 35,246,858          | 33,134,665          |
|   | <u>38,371,720</u>   | <u>39,534,018</u>   |
| Financial assets available to meet general expenditures over the next twelve months | <u>\$ 9,094,022</u> | <u>\$ 8,516,911</u> |

The Association is able to time the draws from the Live Racing Agreements between the Association, Chester Downs and Marina, LLC., and Downs Racing in order to meet obligations for general expenditures.

# **PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION**

## **NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2021 AND 2020**

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### **12. Subsequent Event**

Subsequent to year-end, the Association's investments experienced a significant decline in fair value due to changing market conditions. The Association is aware of this decline and will continue to closely monitor these changes in fair value.

## **SUPPLEMENTARY INFORMATION**

# PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

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

PERIOD JANUARY 1, 2021 THROUGH DECEMBER 31, 2021

|   | Purses        | Benefits      | Total         |
|---|---------------|---------------|---------------|
| Cash Receipts:  |               |               |               |
| Gaming funds - Chester Downs and Marina, LLC                | \$ 15,160,778 | \$ 1,305,913  | \$ 16,466,691 |
| Gaming funds - Downs Racing LP                              | 18,989,165    | 1,634,718     | 20,623,883    |
| Interest and investment income, net of fees                 | 17,367        | 687,116       | 704,483       |
| Total cash receipts   | 34,167,310    | 3,627,747     | 37,795,057    |
| Cash Disbursements:   |               |               |               |
| Purse payments - Chester Downs and Marina, LLC              | 16,169,025    | -             | 16,169,025    |
| Purse payments - Downs Racing, LP                           | 21,272,776    | -             | 21,272,776    |
| Health insurance payments                                   | -             | 1,407,321     | 1,407,321     |
| Retirement distributions                                    | -             | 642,133       | 642,133       |
| Total cash disbursements                                    | 37,441,801    | 2,049,454     | 39,491,255    |
| Other:  |               |               |               |
| Net unrealized and realized gains on restricted investments | -             | 533,900       | 533,900       |
| Total other   | -             | 533,900       | 533,900       |
| Changes in Escrow Balances                                  | (3,274,491)   | 2,112,193     | (1,162,298)   |
| Escrow balance at January 1, 2021                           | 6,399,353     | 33,134,665    | 39,534,018    |
| Escrow balance at December 31, 2021                         | \$ 3,124,862  | \$ 35,246,858 | \$ 38,371,720 |

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, 2021 THROUGH DECEMBER 31, 2021

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

The accompanying statement of cash receipts and cash disbursements and changes in escrow balances includes the Pennsylvania Race Horse Development Fund activity of the Pennsylvania Harness Horsemen's Association (Association) and is presented on the cash basis of accounting. The information in this statement is presented in accordance with Chapter 436a of the Pennsylvania Horse Development and Gaming Act, and fiscal code (72 P.S. § 1701-O). Therefore, some amounts presented in this statement may differ from amounts presented in, or used in, the preparation of the basic financial statements.

### **2. Flow of the Pennsylvania Horse Funds**

The Pennsylvania Department of Revenue transfers Pennsylvania Racehorse Development Funds to the casinos on a weekly basis designating amounts for purses and health and retirement benefits. The casinos then transfer these funds to the Association to separate accounts established by the casinos, by purpose.

Management of the Association determines the portion of the Race Horse Development Funds to transfer to the casinos for purse purposes based on an estimate provided by the casinos. The frequency of purse payments to the casinos is dependent on the established racing schedules. The Association maintains schedules detailing all purse fund payments. The purse payments are reconciled to the actual purses paid by the casinos. Health disbursements are made directly to the carriers based on invoiced amounts. There were no administrative expenses charged for those funds in 2021.

**Pennsylvania Harness Horsemen's  
Association**

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

Year Ended December 31, 2021

**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 Thall, 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), which comprise the statement of financial position as of December 31, 2021, 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 October 6, 2022.

### **Report on 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) as a basis for designing 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 Association’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 or significant deficiencies may exist that were not identified.

### Report on 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 financial statements including Chapter 436a of the Pennsylvania Race Horse Development and Gaming Act and Fiscal Code (72 P.S. § 1701-O). However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### 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 Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mahe Duessel*

Harrisburg, Pennsylvania  
October 6, 2022