Pennsylvania Thoroughbred Horsemen's Association, Inc.

Combined Financial Statements and Supplementary Information

Year Ended December 31, 2015 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

YEAR ENDED DECEMBER 31, 2015

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Independent Auditor's Report

Board of Directors and Secretary Albright, Pennsylvania Office of the Budget
Pennsylvania Thoroughbred Horsemen's Association, Inc.

Report on the Financial Statements

We have audited the accompanying combined financial statements of the Pennsylvania Thoroughbred Horsemen's Association, Inc. (Association) (a nonprofit organization), which comprise the combined statement of financial position as of December 31, 2015, and the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We did not audit the financial statements of the Pennsylvania Race Horse Development Fund Division of the Pennsylvania Thoroughbred Horsemen's Association, Inc. (PRDF), which statements reflect total assets and total liabilities of $5,225,370, as of December 31, 2015. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Race Horse Development Funds, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Association as of December 31, 2015, and the changes in its combined net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary information on pages 20-26 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the combined financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 18, 2016, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 18, 2016

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015

Assets		
Current assets:		
Cash and cash equivalents	$	642,024
Accounts receivable		17,019
Other receivable		88,480
Inventory		175,999
Prepaid expenses		7,037
Total current assets		930,559
Investments		461,322
Restricted Pennsylvania Racehorse Development Fund assets:		
Restricted cash		2,099,463
Restricted investments		925,846
Statutory funds receivable		2,004,419
Prepaid expenses		195,642
Total restricted Pennsylvania Racehorse Development Fund assets		5,225,370
Equipment and Furnishings		
Cemetery lots		2,410
Vehicles		107,964
Storage trailers and related equipment		71,075
Office equipment and furniture		121,885
Less: accumulated depreciation		(252,122)
Net equipment and furnishings		51,212
Total Assets	$	6,668,463
Liabilities and Net Assets		
Liabilities:		
Current Liabilities:		
Accounts payable	$	127,067
Customer deposits		13,723
Due to Philadelphia Park		182,420
Accrued payroll		7,816
Other accrued expenses		(14,204)
Total current liabilities		316,822
Pennsylvania Race Horse Development Fund liabilities:		
Accounts payable		27,056
Promotional paybacks		895,816
Accrued purse payouts		3,774,111
Accrued employee and trainers pension funds		457,206
Other accrued expenses		71,181
Total Pennsylvania Race Horse Development Fund liabilities		5,225,370
Total liabilities		5,542,192
Net Assets:		
Unrestricted		1,126,271
Total Liabilities and Net Assets	$	6,668,463

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

Unrestricted Revenues and Support:	
Shares of wagering - per Live Racing Agreement	$ 1,838,871
Contributions	347,485
Fundraising	17,810
Sale of merchandise	3,112,190
Interest in Horsemen's funds - Philadelphia Park	15,169
Broadcasting income	42,300
Miscellaneous income	5,422
Interest income	25,322
Realized and unrealized loss on investments	(10,994)
Total unrestricted revenues and support	5,393,575
Expenses:	
Program services:	
Horsemen's Advocacy Program	1,467,680
Horse Supplies Program	3,092,985
Backstretch Social Programs	79,182
Backstretch Healthcare Programs, Non-PRDF Funded	8,766
Thoroughbred Horse Retirement Program	476,288
Total program services	5,124,901
Management and general	140,477
Fundraising	233
Total expenses	5,265,611
Change in Net Assets	127,964
Net Assets:	
Beginning of year	998,307
End of year	$ 1,126,271

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2015

Cash Flows From Operating Activities:	
Change in net assets	$ 127,964
Adjustments to reconcile change in assets to net cash provided by operating activities:	
Depreciation and amortization	18,530
Realized and unrealized loss on investments	10,994
Effects of changes in operating assets and liabilities:	
Accounts receivable	51,003
Other receivables	12,681
Interfund receivables	(133,036)
Inventory	5,246
Prepaid expenses	47,170
Accounts payable	(42,305)
Due to Philadelphia Park	19,502
Interfund payables	133,036
Customer deposits	(5,473)
Accrued payroll	(36,819)
Other accrued expenses	(20,202)
Net cash provided by operating activities	188,291
Cash Flows From Investing Activities:	
Purchase of investments	(105,501)
Net cash used in investing activities	(105,501)
Net Increase in Cash and Cash Equivalents	82,790
Cash and Cash Equivalents:	
Beginning of year	559,234
End of year	$ 642,024

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The combined financial statements include the following entities: Pennsylvania Thoroughbred Horsemen's Association, Inc. (PTHA), Horsemen's Purchasing Association, Inc. (HPA), Pennsylvania Thoroughbred Horsemen's Association Benefit Trust (PTHA BT), Turning for Home, Inc. (TFH), and the Pennsylvania Race Horse Development Fund (PRDF Division). For the purposes of these combined financial statements, the combined entities of PTHA, HPA, PTHA BT, TFH, and PRDF will be referred to as the Association.

PTHA represents the common business interests of horse owners, their employees, and independent contractors (collectively referred to as Members) with management of Bensalem Racing Association, the owner of Parx Racing, and Keystone Turf Clubs, Inc. PTHA works to protect and provide for Parx Racing horsemen through the guarantee of live racing, increased purses, and healthcare for its families. It also promotes thoroughbred racing and improvements in the thoroughbred racing industry in the Commonwealth of Pennsylvania. PTHA, located in Bucks County, provides administrative and management services, strategic and financial planning, asset management, and budgeting services to the related entities – HPA, PTHA BT, and TFH. Each of the entities is related to PTHA as a result of their common management and common Board of Directors.

HPA sells horse related goods and supplies to the members of PTHA.

PTHA BT provides welfare benefits and social programs for the members of PTHA, their eligible dependents, employees, independent contractors, and beneficiaries.

TFH is a retirement program for the thoroughbred horses that can no longer race due to injury or lack of ability. TFH provides humane and dignified retirement for horses stabled at Philadelphia Park.

The PRDF Division of the PTHA was formed in December 2006 pursuant to Sections 1405 and 1406 of the Pennsylvania Consolidated Statutes Title 4 Amusements (Statute). Section 1405 of the Statute provides for the establishment of a Pennsylvania Race Horse Development Fund within the State Treasury and requires that each active and operating licensed gaming entity shall pay a daily assessment to the Pennsylvania Race Horse Development Fund. In accordance with Section 1406 of the Statute, the State Treasury shall make distributions from the Pennsylvania Race Horse Development Fund to each active and operating Category 1 licensee conducting live racing in the matter outlined in Section 1406 of the Statute. It is the responsibility of the PTHA-PRDF Division to distribute the funds received from Philadelphia Park Racetrack's Horsemen's Association (PTHA) in accordance with the Statute. The PRDF Division serves as the custodian of funds to be used by the beneficiary of the funds received under Sections 1405 and 1406 of the Statute.

Combination Policy

The combined financial statements include the accounts of PTHA, HPA, PTHA BT, PRDF, and TFH. Intercompany transactions and balances have been eliminated in combination.

Basis of Accounting

The accompanying combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Combined Financial Statement Presentation

The Association reports information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets – Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or otherwise limited by contractual arrangements with outside parties. Unrestricted net assets are composed of the following:

- General – Represents resources available for support of operations.

- Fixed assets – Represents resources designated for fixed asset acquisitions and net assets expended for fixed assets.

- Board-designated – The Board of Directors has designated certain amounts, within which the balance of net assets together with accumulated earnings thereon is to be spent only for purposes approved by the Board.

Temporarily restricted net assets – Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Board pursuant to those stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes. As of December 31, 2015, the Association had no temporarily restricted net assets.

Permanently restricted net assets – Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Board's actions. As of December 31, 2015, the Association had no permanently restricted net assets.

Contributions

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence and/or nature of any donor restriction.

Contributed Services and Facilities

A number of unpaid volunteers, which include the Directors of the Association, have made significant contributions of their time toward developing and achieving the Association's goals and objectives. Contributions of donated services that create or enhance nonfinancial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. During the year ended December 31, 2015, there were no donated services that met the reporting requirements.

Under terms of the Racing Agreement, the entities making up the combined group are permitted to use office space and the tack shop office located in the administrative building of Parx Racing. This includes the use of all common utilities.

Cash and Cash Equivalents

For purposes of the combined statement of cash flows, the Association considers all unrestricted highly-liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

The Association maintains cash accounts at various financial institutions. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured, however, as disclosed in Note 5. The Association has arranged for securities to be pledged as collateral for balances in excess of FDIC limits.

Restricted cash represents statutory funds held under the Pennsylvania Race Horse Development Fund and are restricted by statute as to their use.

Accounts Receivable and Reserve for Uncollectible Receivables

Accounts receivable is stated at the amount management expects to collect from outstanding balances. The Association uses the allowance method for potential uncollectible amounts. A reserve was established totaling $5,000 for potential uncollectible amounts for the sale of horse supplies and equipment. No amounts were written off in 2015.

Investments

Fair Value Measurements

The Association records its investments based on fair value. The use of observable inputs are maximized and the use of unobservable inputs are minimized by using observable inputs when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

> Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
>
> Level 2 — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available, but traded less frequently, and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3 — Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Association. The Association considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Association's perceived risk of that instrument.

Valuation of Investments

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1 include money market funds, exchange-traded funds, and mutual funds.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs are classified within Level 2. Level 2 instruments include corporate and municipal bonds. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include tuition credits. When observable prices are not available for Level 3 securities, the Association uses one or more valuation techniques (e.g., the market approach, the income approach, or the cost approach) for which sufficient and reliable data is available. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market, and/or other risk factors.

The inputs used by the Association in estimating the value of Level 3 investments may include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations, and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the Association in the absence of market information. The fair value measurement of Level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis. Assumptions used by the Association due to the lack of observable inputs may significantly impact the resulting fair value and, therefore, the Association's results of operations.

Investments in marketable securities with readily determinable fair values are recorded at the fair values in the combined statement of financial position. Realized and unrealized gains and losses are included in the change in net assets in the accompanying combined statement of activities and changes in net assets for investments held by PTHA. Realized and unrealized gains and losses for PRDF are included in the statement of cash receipts and cash disbursements and changes in cash balances.

Inventory

Horse supplies are valued at the lower of cost or market. Cost is computed using the average cost method. Inventory is valued at $175,999 for the year ended December 31, 2015.

Equipment and Furnishings

Equipment and furnishings are stated at cost if purchased and at estimated fair market value at date of donation, if donated. Depreciation is calculated using the straight-line and declining balance methods over the estimated useful lives of the respective assets. Expenditures for repairs and maintenance are charged against operations as incurred; expenditures for renewals and betterments are capitalized in accordance with the Association's capitalization policies. A summary of the estimated useful lives is as follows:

Vehicles	5 to 7 years
Storage trailers and related equipment	7 years
Office equipment and furniture	3 to 10 years

Functional Expense Allocation Method

Functional expenses are allocated based on: (1) actual direct time spent and cost incurred by program and supporting service; (2) direct costs associated with each program or supporting service; and (3) division of common area costs among program and supporting services according to utilization of a common distribution base.

Income Taxes

PTHA, HPA, and TFH were organized under the Pennsylvania Nonprofit Corporation Law of 1972 and, as such, are exempt from state income taxes. PTHA and TFH have been granted tax-exempt status by the Internal Revenue Service under Section 501(c)(6) and Section 501(c)(3), respectively, of the Internal Revenue Code. HPA is subject to income tax for federal purposes only. PTHA BT is a Pennsylvania trust subject to federal and state income taxes. All tax forms are filed on an annual basis.

In accordance with accounting principles generally accepted in the United States of America, the Association accounts for uncertain tax positions, if any, as required. Using that guidance, management has determined that there are no uncertain tax positions that qualify for either recognition or disclosure in the combined financial statements.

Pending Standards Update

ASU 2014-09, *"Revenue from Contracts with Customers,"* is effective for the Association's combined financial statements for the year ending December 31, 2019 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition related to contracts with transfer of promised goods or services to customers and related disclosures. Management has not yet determined the impact of this amendment on the Association's combined financial statements.

ASU 2016-02, *"Leases (Topic 842),"* effective for the Association's combined financial statements for the year ending December 31, 2020. This amendment will require lessees to recognize assets and liabilities on the combined 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 this amendment on the Association's combined financial statements.

Subsequent Events

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

2. PROGRAM SERVICES

Services are provided through the following programs:

Horsemen's Advocacy Program – represents the common business interests between horsemen (horse owners, trainers, their employees, and independent contractors) who race at Parx Racing and management of Parx Racing (Bensalem Racing Association, Inc. and Keystone Turk Club, Inc.). The program also promotes thoroughbred racing and improvements in the thoroughbred racing industry in the Commonwealth of Pennsylvania.

Horse Supplies Program – purchases and sells feed, bedding, and other equine related commodities and services to members of PTHA.

Backstretch Social Program – provides social programs for members and the employees of PTHA.

Backstretch Healthcare Program – provides welfare benefits for members and the employees of PTHA.

Thoroughbred Horse Retirement Program – provides care for thoroughbred horses that can no longer race, due to injury or lack of ability. The program provides a humane and dignified retirement for thoroughbred horses through rehabilitation, including veterinary care and surgery, and adoption to approved homes.

3. RESTRICTED PENNSYLVANIA RACE HORSE DEVELOPMENT FUND ACTIVITY

The PRDF Division of the PTHA distributes the funds received by Parx Racetrack's Horsemen's Association in accordance with Sections 1405 and 1406 of the Pennsylvania Consolidated Statutes Title 4 Amusements (Statute) and the PA Fiscal Code, an act of 1929, as amended.

The funds received are required to be disbursed for purses, an Act 71 mandated annual contribution to the jockey association at Parx Racing, and pension and health benefits for the members and employees of the PTHA. An allowance for reasonable administrative expenses is permitted.

Statutory funds receivable consist of Pennsylvania Race Horse Development Fund allocations for daily assessments that are due to the PTHA – PRDF Division. Payments of the assessment are statutorily required and are expected to be collected in full. At December 31, 2015, the statutory funds receivable was $2,004,419. This balance represents the gross terminal revenue allocation (GTR) due from the Pennsylvania Race Horse Development Fund for PTHA – PRDF Division's share of GTR generated at Category I, Category II, and Category III casinos throughout Pennsylvania and amounts due from participants for health and pension co-pays. Approximately 34 percent of total revenues and support for the year ended December 31, 2015 is from this allocation.

Below is a summary of the activity for the year ended December 31, 2015:

Pennsylvania Race Horse Development Funds (PRHDF) held, January 1, 2015	$ -
Plus funds and earnings received:	
Purse payments	51,880,493
Contractual arrangement	1,604,162
Health and life insurance benefits	3,069,530
Interest income	21,423
Unrealized loss on investments	(89,734)
Realized gain on investments	7,267
Dividend income	15,218
	56,508,359
Less funds allocated for legislated purposes:	
Purse payments	51,832,599
Contractual payments	1,604,162
Health and life insurance benefits	2,224,046
Pension expenses incurred	447,746
Administrative expenses	149,806
Jockey Association	250,000
	56,508,359
Increase in PRHDF funds held, December 31, 2015	-
Total PRHDF funds held, December 31, 2015	$ -

Related assets:	
Restricted cash	$ 2,099,463
Statutory funds receivable	2,004,419
Investments	925,846
Prepaid expenses	195,642
Less other related liabilities:	
Accounts payable	27,056
Promotional paybacks	895,816
Accrued employee and trainers pension fund	457,206
Accrued purse payments	3,774,111
Other accrued expenses	71,181
	5,225,370
Total PRHDF funds held, December 31, 2015	$ -

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

The following tables summarize the valuation of the Association's assets subject to measurements at fair value as of December 31, 2015:

	Level	Fair Value	Cost
Money market funds	1	$ 117,472	$ 117,472
Mutual funds:			
U.S. equity	1	185,580	216,291
International equity	1	157,716	174,156
Fixed income	1	154,688	173,288
Other	1	144,262	155,990
Exhange-traded funds:			
U.S. equity	1	274,955	281,289
International equity	1	194,323	209,908
Corporate bonds	2	66,071	65,872
Municipal bonds	2	92,101	90,015
Total investments		1,387,168	$ 1,484,281
Restricted PRHDF investments		(925,846)	
Total unrestricted investments		$ 461,322	

Corporate and municipal bonds are valued based on recent transactions or bids, independent quotation services that use computerized valuation formulae to calculate prices based on institutional quantities, or estimates.

Investment income activity is as follows at December 31, 2015:

	PRHDF Investments	Unrestricted Investments	Total Investments
Interest and dividend income	$ 15,218	$ 21,889	$ 37,107
Realized gain (loss)	7,267	(1,106)	6,161
Unrealized loss	(89,734)	(9,888)	(99,622)
Total investment income (loss)	$ (67,249)	$ 10,895	$ (56,354)

5. Irrevocable Standby Letters of Credit

Throughout 2014, the Association had irrevocable standby letters of credit from a financial institution ranging in amounts from $4,000,000 to $5,000,000 to secure funds in excess of federally insured amounts. On December 19, 2014, the most recent irrevocable standby letter of credit expired and was not renewed. However, for the year ended December 31, 2015, the financial institution has pledged investment securities to the Association as security of funds in excess of federally insured limits.

6. Live Racing Agreement

PTHA entered into a live racing agreement with Keystone Turf Club, Inc. and Bensalem Racing Association, Inc. (operating as Parx Racing) effective September 4, 2004. The agreement is set to expire on December 31, 2018. As outlined in the agreement, purse monies shall be allocated as follows:

- Ninety percent (90%) of purses shall be allocated to overnights.
- Seven percent (7%) of purses shall be applied to stake races.
- Three percent (3%) of purses shall be paid to PTHA to support member activity.

7. Related Party Transactions

The President of the Association is a partner in a law firm representing PTHA; however, this individual has no voting rights and abstains from all discussions regarding legal fees paid to the firm. Legal expenses incurred by PTHA for the year ended December 31, 2015 were

$54,820 and were entirely related to the law firm in which the President is a partner. The entire amount is included in professional fees as paid from Association funds.

During the year ended December 31, 2015, PTHA forgave an intercompany borrowing by PTHA-BT in the amount of $430,667. Also during the year, PTHA contributed $50,000 to TFH in order to support its mission. These transactions were eliminated in the combined financial statements.

8. Benefit Plans

Act 71 Pennsylvania Gaming Law mandates that a portion of the slot revenue be utilized for pension benefits. As a result, on December 2, 2009, the Board of Directors of PTHA approved two pension plans for the benefit of the trainers and the employees of PTHA. The Pennsylvania Thoroughbred Horsemen's Association Trainers' Retirement Plan and the Pennsylvania Thoroughbred Horsemen's Association Employees' Retirement Plan were approved by the Pennsylvania Gaming Control Board and adopted by the Association on March 1, 2010.

Trainer's Retirement Plan

Effective December 1, 2011, the Board of Directors of PTHA approved to amend the eligibility requirements of the Plan as follows:

Trainers will be eligible to participate in the defined contribution non-qualified pension plan if they meet one of the following criteria: has twenty starts during the calendar year or the prior calendar year, provided that 65 percent of such trainer's total annual starts for that year are at Parx Racing; has 100 starts during the calendar year or the prior calendar year; or has a full barn at Parx Racing. In the event that one of the three criteria is met, the PRDF will contribute an approved dollar amount per start into each participant's account. The Plan has a five-year vesting schedule and distributions would be made upon the participant obtaining the age of 65, becoming disabled, or death.

The Association accrued the funding of the Plan for 2015 for trainers that met the criteria stated above for the year ended December 31, 2015, and contributions were made as follows: trainers aged 55 and over received $40 per eligible start; and trainers under age 55 received $30 per eligible start. Total contributions made to the Plan from the PRHDF on behalf of eligible participants were $419,230 for the year ending December 31, 2015.

Employees' Retirement Plan

Eligible employees of the Association may participate in an ERISA, nondiscrimination qualified 401(k) plan. To be eligible to participate, an employee must have one year of service with the Association and attained the age of 21. Under the Plan, the PRDF may contribute a discretionary non-elective contribution. Total contributions made to the Plan for employees from the PRHDF for the year ended December 31, 2015 were $47,606.

Total contributions to pension plans from PRDF for the year ended December 31, 2015 were $466,836.

9. Commitments and Contingencies

The Association has contracted with a vendor through June 2017 to remove manure and wood shavings waste from the Philadelphia Park facility. The contract expense was approximately $247,000 for the year ended December 31, 2015. Future minimum non-cancelable contract payments are as follows:

Year	Amount
2016	$ 247,000
Thru June, 2017	123,500
Total	$ 370,500

10. Prior Period Restatement – Pennsylvania Race Horse Development Funds

On March 27, 2015, the Department of Revenue issued Gaming Tax Bulletin 2015-01. This bulletin clarified the policy concerning the deductibility of promotional items for purposes of calculating GTR as a result of the Pennsylvania's Supreme Court's April 28, 2014 decision to allow all casinos to receive tax credits for promotional giveaways. These items include vehicles, concert tickets, sporting event tickets, and gift cards. Consequently, the issuance of this bulletin has affected the results of the PRDF division as of January 1, 2014, and resulted in a prior period restatement. Slot machine gaming revenue allocation has decreased in total by $895,816 and is represented in the following categories on the statement of cash receipts and cash disbursements and changes in cash balances, as follows:

Overnight purses	$ 767,842
Stake purses	59,721
Contractual purses	25,595
Health and pension	42,658
Total	$ 895,816

The amounts are also included on the combined statement of financial position as promotional paybacks and are expected to be paid back as part of a reduction in distributions during 2016.

11. Dissolution of the Pennsylvania Thoroughbred Horsemen's Association Benefit Trust

On December 10, 2014, the Board approved the dissolution of PTHA-BT. The Board planned to fund future backstretch benefits by utilizing PRHDF monies. Backstretch benefits had previously been funded using a portion of pari-mutuel money and were paid and administered by PTHA-BT. On April 29, 2015, the Pennsylvania Gaming Control Board voted to approve the Board's plan to fund backstretch benefits using a portion of the PRHDF allocation. Articles of dissolution have not yet been filed with the state of Pennsylvania.

Supplementary Information

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015

Assets	PTHA	HPA	PTHA BT	TFH	PRDF	Eliminations	Combined Total
Current assets:							
Cash and cash equivalents	$ 264,436	$ 193,375	$ -	$ 184,213	$ -	$ -	$ 642,024
Accounts receivable	6,553	10,466	-	-	-	-	17,019
Other receivable	77,610	-	-	10,870	-	-	88,480
Intercompany receivables	381,479	-	-	-	4,543	(386,022)	-
Inventory	-	175,999	-	-	-	-	175,999
Prepaid expenses	11,580	-	-	-	(4,543)	-	7,037
Total current assets	741,658	379,840	-	195,083	-	(386,022)	930,559
Investments	461,322	-	-	-	-	-	461,322
Restricted Pennsylvania Racehorse Development Fund assets:							
Restricted cash	-	-	-	-	2,099,463	-	2,099,463
Restricted investments	-	-	-	-	925,846	-	925,846
Statutory funds receivable	-	-	-	-	2,004,419	-	2,004,419
Prepaid expenses	-	-	-	-	195,642	-	195,642
Total restricted Pennsylvania Racehorse Development Fund assets	-	-	-	-	5,225,370	-	5,225,370
Equipment and Furnishings							
Cemetery lots	2,410	-	-	-	-	-	2,410
Vehicles	107,964	-	-	-	-	-	107,964
Storage trailers and related equipment	-	71,075	-	-	-	-	71,075
Office equipment and furniture	98,968	22,917	-	-	-	-	121,885
Less: accumulated depreciation	(176,530)	(75,592)	-	-	-	-	(252,122)
Net equipment and furnishings	32,812	18,400	-	-	-	-	51,212
Total Assets	$ 1,235,792	$ 398,240	$ -	$ 195,083	$ 5,225,370	$ (386,022)	$ 6,668,463

(Continued)

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015
(Continued)

Liabilities and Net Assets	PTHA	HPA	PTHA BT	TFH	PRDF	Eliminations	Combined Total
Liabilities:							
Current liabilities:							
Accounts payable	$ 69,563	$ 41,659	$ -	$ 15,845	$ -	$ -	$ 127,067
Customer deposits	-	13,723	-	-	-	-	13,723
Due to Philadelphia Park	182,420	-	-	-	-	-	182,420
Intercompany payables	3,843	311,816	-	52,659	17,704	(386,022)	-
Accrued payroll	5,582	2,234	-	-	-	-	7,816
Other accrued expenses	-	3,500	-	-	(17,704)	-	(14,204)
Total current liabilities	261,408	372,932	-	68,504	-	(386,022)	316,822
Pennsylvania Race Horse Development Fund liabilities:							
Accounts payable	-	-	-	-	27,056	-	27,056
Promotional paybacks	-	-	-	-	895,816	-	895,816
Accrued purse payouts	-	-	-	-	3,774,111	-	3,774,111
Accrued employee and trainers pension funds	-	-	-	-	457,206	-	457,206
Other accrued expenses	-	-	-	-	71,181	-	71,181
Total Pennsylvania Race Horse Development Fund liabilities	-	-	-	-	5,225,370	-	5,225,370
Total liabilities	261,408	372,932	-	68,504	5,225,370	(386,022)	5,542,192
Net Assets							
Unrestricted	974,384	25,308	-	126,579	-	-	1,126,271
Total Liabilities and Net Assets	$ 1,235,792	$ 398,240	$ -	$ 195,083	$ 5,225,370	$ (386,022)	$ 6,668,463

(Concluded)

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

	PTHA	HPA	PTHA BT	TFH	Eliminations	Combined Total
Unrestricted Revenues and Support:						
Shares of wagering - per Live Racing Agreement	$ 1,810,621	$ -	$ 28,250	$ -	$ -	$ 1,838,871
Contributions	-	-	430,667	397,485	(480,667)	347,485
Fundraising	-	-	-	17,810	-	17,810
Sale of merchandise	-	3,112,190	-	-	-	3,112,190
Interest in Horsemen's funds - Philadelphia Park	15,169	-	-	-	-	15,169
Broadcasting income	42,300	-	-	-	-	42,300
Miscellaneous income	5,302	120	-	-	-	5,422
Interest income	25,126	74	2	120	-	25,322
Realized and unrealized loss on investments	(10,994)	-	-	-	-	(10,994)
Total unrestricted revenues and support	1,887,524	3,112,384	458,919	415,415	(480,667)	5,393,575
Expenses:						
Program services:						
Horsemen's Advocacy Program	1,948,347	-	-	-	(480,667)	1,467,680
Horse Supplies Program	(17,000)	3,109,985	-	-	-	3,092,985
Backstretch Social Programs	62,729	-	16,453	-	-	79,182
Backstretch Healthcare Programs	589	-	8,177	-	-	8,766
Thoroughbred Horse Retirement Program	-	-	-	476,288	-	476,288
Total program services	1,994,665	3,109,985	24,630	476,288	(480,667)	5,124,901
Management and general	94,236	32,209	-	14,032	-	140,477
Fundraising	-	-	-	233	-	233
Total expenses	2,088,901	3,142,194	24,630	490,553	(480,667)	5,265,611
Change in Net Assets	(201,377)	(29,810)	434,289	(75,138)	-	127,964
Net Assets:						
Beginning of year	1,175,761	55,118	(434,289)	201,717	-	998,307
End of year	$ 974,384	$ 25,308	$ -	$ 126,579	$ -	$ 1,126,271

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2015

	PTHA	HPA	PTHA BT	TFH	PRDF	Combined Total
Cash Flows From Operating Activities:						
Change in net assets	$ (201,377)	$ (29,810)	$ 434,289	$ (75,138)	$ -	$ 127,964
Adjustments to reconcile change in assets to net cash provided by (used in) operating activities:						
Depreciation and amortization	17,640	890	-	-	-	18,530
Realized and unrealized loss on investments	10,994	-	-	-	-	10,994
Forgiveness of intercompany borrowing	430,667	-	(430,667)	-	-	-
Effects of changes in operating assets and liabilities:						
Accounts receivable	22,907	28,096	-	-	-	51,003
Other receivables	8,791	-	-	3,890	-	12,681
Intercompany receivables	(129,743)	-	-	-	(3,293)	(133,036)
Inventory	-	5,246	-	-	-	5,246
Prepaid expenses	28,516	1,861	13,500	-	3,293	47,170
Accounts payable	(48,691)	18,677	(20,625)	8,334	-	(42,305)
Due to Philadelphia Park	19,502	-	-	-	-	19,502
Intercompany payables	3,843	73,895	(14,946)	52,542	17,702	133,036
Customer deposits	-	(5,473)	-	-	-	(5,473)
Accrued payroll	(28,452)	(8,367)	-	-	-	(36,819)
Other accrued expenses	-	(2,500)	-	-	(17,702)	(20,202)
Net cash provided by (used in) operating activities	134,597	82,515	(18,449)	(10,372)	-	188,291
Cash Flows From Investing Activities:						
Purchase of investments	(105,501)	-	-	-	-	(105,501)
Net cash used in investing activities	(105,501)	-	-	-	-	(105,501)
Net Increase (Decrease) in Cash and Cash Equivalents	29,096	82,515	(18,449)	(10,372)	-	82,790
Cash and Cash Equivalents:						
Beginning of year	235,340	110,860	18,449	194,585	-	559,234
End of year	$ 264,436	$ 193,375	$ -	$ 184,213	$ -	$ 642,024

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS AND CHANGES IN CASH BALANCES - PENNSYLVANIA RACEHORSE DEVELOPMENT FUNDS

PERIOD JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

	Purses	Contractual Agreement	Benefits	Total
Cash receipts:				
Gaming funds - cash receipts	$ 51,880,493	$ 1,604,162	$ 3,069,530	$ 56,554,185
Interest earned	13,261	-	8,162	21,423
Total cash receipts	51,893,754	1,604,162	3,077,692	56,575,608
Other revenue (loss):				
Unrealized loss on investments	-	-	(89,734)	(89,734)
Realized gain on investments	-	-	7,267	7,267
Dividends	-	-	15,218	15,218
Total other revenue (loss)	-	-	(67,249)	(67,249)
Cash disbursements:				
Purse payments - Parx	(51,832,599)	-	-	(51,832,599)
Contractual disbursements	-	(1,604,162)	-	(1,604,162)
Health and welfare benefit disbursements	-	-	(2,921,792)	(2,921,792)
Administrative disbursements	-	-	(149,806)	(149,806)
Total cash disbursements	(51,832,599)	(1,604,162)	(3,071,598)	(56,508,359)
Changes in escrow balances	61,155	-	(61,155)	-
Escrow balance at January 1, 2015, restated	(2,126,094)	-	2,126,094	-
Escrow balance at December 31, 2015	$ (2,064,939)	$ -	$ 2,064,939	$ -
Reconciliation to Audited Financial Statements				
Gaming funds - as reported above	$ 51,880,493	$ 1,604,162	$ 3,069,530	$ 56,554,185
Gaming funds, as reported in Note 3 to the audited financial statements	$ 51,880,493	$ 1,604,162	$ 3,069,530	$ 56,554,185
Purse payments - as reported above	$ (51,832,599)	$ (1,604,162)	$ -	$ (53,436,761)
Purse payments, as reported in Note 3 to the audited financial statements	$ (51,832,599)	$ (1,604,162)	$ -	$ (53,436,761)
Health and welfare benefit payments - as reported above	$ -	$ -	$ (3,071,598)	$ (3,071,598)
Health and welfare benefit payments - as reported in Note 3 to the audited financial statements	$ -	$ -	$ (3,071,598)	$ (3,071,598)

See accompanying notes to the statement of cash receipts and cash disbursments and changes in cash balances.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

SCHEDULE OF ADMINISTRATIVE EXPENSES

DECEMBER 31, 2015

	Date	Amount	Description
PTHA, Inc.	12/31/2015	$ 17,704	Accounting fees
Slattery, Frank, H. LLC	9/2/2015	600	Accounting fees
Monthly accrual	1/12/2015	1,667	Audit fee accrual
Monthly accrual	2/12/2015	1,667	Audit fee accrual
Monthly accrual	3/12/2015	1,667	Audit fee accrual
Monthly accrual	4/12/2015	1,667	Audit fee accrual
Monthly accrual	5/4/2015	1,667	Audit fee accrual
Monthly accrual	6/4/2015	1,667	Audit fee accrual
Monthly accrual	7/4/2015	1,667	Audit fee accrual
Monthly accrual	8/4/2015	1,667	Audit fee accrual
Monthly accrual	9/4/2015	1,667	Audit fee accrual
Monthly accrual	10/4/2015	1,667	Audit fee accrual
Monthly accrual	11/4/2015	2,179	Audit fee accrual
Monthly accrual	12/4/2015	1,667	Audit fee accrual
Monthly accrual	12/31/2015	6,984	Audit fee accrual
Other accrual	12/31/2015	(3,380)	To move pension expenses
Bank service charges	Total for 2015	589	Bank service charges
Investment service charges	12/31/2015	6,913	Investment service charges
Simon, Edward G.	1/31/2015	4,800	Consultant
Simon, Edward G.	2/28/2015	4,100	Consultant
Simon, Edward G.	4/11/2015	3,700	Consultant
Simon, Edward G.	5/1/2015	3,200	Consultant
Simon, Edward G.	6/6/2015	4,500	Consultant
Simon, Edward G.	6/30/2015	6,125	Consultant
Simon, Edward G.	8/2/2015	5,625	Consultant
Simon, Edward G.	8/31/2015	5,500	Consultant
Simon, Edward G.	9/30/2015	3,875	Consultant
Simon, Edward G.	11/1/2015	5,875	Consultant
Simon, Edward G.	11/30/2015	5,875	Consultant
Simon, Edward G.	12/31/2015	5,875	Consultant
Monthly accrual	1/31/2015	3,333	State audit fee accrual
Monthly accrual	2/28/2015	3,333	State audit fee accrual
Monthly accrual	3/31/2015	3,333	State audit fee accrual
Monthly accrual	4/30/2015	3,333	State audit fee accrual
Monthly accrual	5/4/2015	3,333	State audit fee accrual
Monthly accrual	6/4/2015	3,333	State audit fee accrual
Monthly accrual	7/4/2015	3,333	State audit fee accrual
Monthly accrual	8/4/2015	3,333	State audit fee accrual
Monthly accrual	9/4/2015	3,333	State audit fee accrual
Monthly accrual	10/4/2015	3,333	State audit fee accrual
Monthly accrual	11/1/2015	3,337	State audit fee accrual
Wasch & Ritson LLC	12/15/2015	4,163	Legal
Administrative expenses at December 31, 2015		$ 149,806	

1. BASIS OF PRESENTATION

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

2. FLOW OF THE PENNSYLVANIA HORSE FUNDS

The Pennsylvania Department of Revenue transfers Pennsylvania Racehorse Development Funds to the casinos on a weekly basis. Approximately two weeks after the Casino has received the Pennsylvania Racehorse Development Funds, amounts are wired to the Association into their Pennsylvania Racehorse Development Fund Division.

The Funds are wired into a clearing account at the Association. From this account, management of the Association transmits the Pennsylvania Racehorse Development Funds into four (4) separate accounts:

- Purses – Overnight
- Purses – Stakes
- Contractual Agreement
- Health and Benefit

A statistician contracted by the Association sends an email to the Association staff indicating the amounts of funds to transfer to Parx Racing each week for the various purses paid. The Association also receives an email from the racetrack officials stating how much money is needed each week for purses. The Association compares the two before the monies are sent. Health and welfare disbursements are made directly by the Association based on the invoices received.

Management of the Association determines the portion of the Race Horse Development Funds to transfer to Parx Racing for purse purposes based on the estimate provided by Parx Racing. The frequency of purse payments is dependent upon the established racing schedules. The Association maintains schedules detailing all purse fund payments. The purse payments are reconciled to the actual purses paid by Parx Racing by both Parx Racing and the Association's consultants. Health disbursements are made directly to the carriers based on invoiced amounts.

Pennsylvania Thoroughbred Horsemen's Association, Inc.

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

Year Ended December 31, 2015

MaherDuessel
Certified Public Accountants

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors and Secretary Albright, Pennsylvania Office of the Budget
Pennsylvania Thoroughbred Horsemen's Association, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements (financial statements) of the Pennsylvania Thoroughbred Horsemen's Association, Inc. (Association), which comprise the combined statement of financial position as of December 31, 2015, and the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated October 18, 2016. Our report includes reference to another report on the Association's financial statements. The financial statements of the Pennsylvania Race Horse Development Fund Division of the Pennsylvania Thoroughbred Horsemen's Association, Inc. (PRDF) funds were not audited in accordance with *Government Auditing Standards.*

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2015-001 and 2015-002 that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2015-003 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts including Chapter 436a of the Pennsylvania Race Horse Development and Gaming Act and Fiscal Code (*72 P.S. § 1701-O*). However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Association's Response to Findings

The Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Association's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maher Duessel

Harrisburg, Pennsylvania
October 18, 2016

Material Weaknesses

Finding 2015-001: Lack of Support for Cash Disbursements

Condition: During the audit process, we noted that the Pennsylvania Thoroughbred Horsemen's Association, Inc. (Association) could not provide support documentation for 3 of 3 monthly American Express credit card statement transactions, and 8 of 40 cash disbursements tested. The total amount of unsupported expenses tested was $34,452.

Criteria: Organizations should maintain support for all transactions recorded in the accounting records.

Cause: The Association does not have policies and procedures in place that require the submission of support documentation prior to payment of credit cards. Additionally, expenses were paid that were only supported by verbal agreements. These verbal agreements relate to horse placement, rehabilitation, and transportation cost.

Effect: Certain unsupported amounts paid by the Association are unsubstantiated and may not be business related.

Recommendation: We recommend that the Association obtain support documentation for all credit card transactions prior to payment, and that auditable documentation be maintained for all cash disbursements.

Management's Response: Management agrees with the finding.

Finding 2015-002: Segregation of Duties

Condition: The Office Manager is responsible for approving time sheets, monitoring leave, communicating payroll information to a third-party payroll service provider, and recording payroll transactions in QuickBooks based on payroll registers provided by the payroll service provided. No review of payroll registers or payroll journal entries is conducted.

The Program Administrator of Turning for Home, Inc. (TFH) receives, deposits, and records in the general ledger all cash receipts received on behalf of TFH.

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

Cause: The Association did not have policies and procedures in place throughout the entire fiscal year to ensure that all payroll transactions were properly authorized, recorded, and reviewed and that TFH cash receipts were properly recorded.

Effect: This could result in material misstatements in financial records, whether due to fraud or error, that may not be prevented, or detected and corrected on a timely basis.

Recommendation: We recommend that the Executive Director or the Controller compare each payroll register to the payroll journal entry in QuickBooks. The individual who reviews the payroll transactions should initial the payroll register to denote their review.

Additionally, we recommend that an employee other than the Program Director of TFH maintain a listing of all cash receipts received on behalf of TFH prior to their deposit in the bank and posting in the general ledger. This listing should then be reconciled to general ledger on a monthly basis by the individual preparing the listing.

Management's Response: Management agrees with the finding.

Significant Deficiency

Finding 2015-003: Comingling of Pennsylvania Race Horse Development Funds

Condition: The Association allocates 3% of purse monies of the Pennsylvania Race Horse Development Fund under the terms of the live racing agreement to the Association for general uses (known as contractual agreement funds). Those disbursements are for purposes other than purses and are maintained in the Association's general checking account. This is inconsistent with current code, which requires this type of activity to be kept separate.

Criteria: Per PA Code 436.a.5, fiduciaries shall ensure that the funds received for the benefit of the horsemen are distributed pursuant to the act. Per 4 PA.C.S.A. §1406(a)(2.1)(iii), eighty-three and one-third percent of the money to be distributed under this clause shall be deposited on a weekly basis into a separate, interest-bearing purse account to be established by and for the benefit of the horsemen. The earned interest on the account shall be credited to the purse account. Licensees shall combine these funds with revenues from existing purse agreements to fund purses for live races consistent with those agreements with the advice and consent of the horsemen.

Cause: The Association has entered into a Live Racing Agreement that is not in compliance with Pennsylvania Race Horse Development Fund disbursement and distribution requirements.

Effect: Noncompliance with Pennsylvania Race Horse Development Fund distribution regulations.

Recommendation: We recommend that management amend the Live Racing Agreement to ensure compliance with state requirements.

Management's Response: Maher Duessel (MD) states that the Pennsylvania Horsemen's Association (PTHA) is not in compliance with PRDF "disbursement and distribution regulations" because 3% of purse monies are allocated to fund PTHA pursuant to PTHA's Live Racing Agreement with the operator. Specifically, MD concludes that PTHA "entered into a Live Racing Agreement that is not in compliance" with those regulations and recommends that the Live Racing Agreement be amended to ensure compliance.

PTHA strongly disagrees with this entirely legal conclusion, which MD continues to assert, just as its predecessors did year-after-year, without any justification.

In fact, Act 71 reflects a legislative endorsement of the horsemen's collective, voluntary and private decision to fund their designated statutory representative through a percentage of the purses they win – a decision which has been negotiated with and agreed to by the licensees, as embodied in the Live Racing Agreements. This is precisely why Act 71 states that "Licensees shall combine these [PRDF] funds with revenues from existing purse agreements to fund purses for live races consistent with those agreements with the advice and consent of the horsemen." 4 Pa.C.S.A. § 1406(a)(1)(i). There is no contrary authority in Act 71 or the applicable regulations, and MD does not provide any. MD's recommendation that PTHA amend the Live Racing Agreement reflects a fundamental lack of understanding of both Act 71 and the nature of the Live Racing Agreement itself, which is an agreement between PTHA and the operator.

Again, this is not the first time this issue has been addressed in the context of a Fiscal Code audit. This same issue was first vetted and resolved in the context of the PRDF audit conducted pursuant to the Fiscal Code for the year ending December 31, 2010, under the auspices of the Department of Agriculture. Specifically responding after the Fiscal Code auditors raised this same issue (and addressing the details of PTHA's Live Racing Agreement), we noted: "[T]he 3% of PRDF-originated purse revenues, which PTHA's members voluntarily agree to use to fund the operations of the organization, are akin to membership dues, and not distributions to PTHA from PRDF." The Department of Agriculture and the auditors agreed that there is no violation of Act 71 – there was no reference to this whatsoever in the Fiscal Code audit report for the year ended December 31, 2010.

Subsequent auditors (McKonly &Asbury) nonetheless raised the same issue during the Fiscal Code audit for the year ended December 31, 2011, and refused to delete their finding of a violation in response to PTHA's objection. When pressed during the exit interview, McKonly & Asbury agreed that this was a legal judgment, that there is conflicting authority on which PTHA relies and, worse, that they only included this "Finding" based on an instruction by counsel for the Office of the Budget.

CLA raised this same issue for three years without addressing the substance of PTHA's objection, and now MD has done the same thing.

It is telling that there has been no claim or other action taken against PTHA based on this purported violation of Act 71, even though it has been alleged in multiple statutory audit reports that are prepared and distributed pursuant to the Fiscal Code. This Finding should be removed from the report. If MD refuses to remove this Finding, we request that MD provide legal authority for the statement that PTHA is in violation of the law and, if this Finding has been included at the instruction of the Office of the Budget, that MD should so state. The Fiscal Code requires that the Office of the Budget engage independent accountants to perform these audits. If any aspect of MD's report reflects a determination or instruction by the Office of the Budget, it is critical that this is plainly disclosed.