

**Pennsylvania Thoroughbred
Horsemen's Association, Inc.**

Combined Financial Statements and
Supplementary Information

Year Ended December 31, 2019
with Independent Auditor's Report

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 THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

YEAR ENDED DECEMBER 31, 2019

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**PENNSYLVANIA THOROUGHBRED
HORSEMEN'S ASSOCIATION, INC.**

YEAR ENDED DECEMBER 31, 2019

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Independent Auditor's Report

**Board of Directors and
Secretary Swails,
Pennsylvania Office of the
Budget and
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, 2019, and the related combined statements of activities, functional expenses, 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 Trust Fund Division of the Pennsylvania Thoroughbred Horsemen's Association, Inc. (PRDF) which statements reflect total assets and total liabilities of \$7,347,347 as of December 31, 2019. We also did not audit the financial statements of Turning for Home, Inc. (TFH) which statements reflect total assets, liabilities, net assets, revenue, and expenses of \$101,870, \$28,616, \$73,254, \$578,784, and \$612,183, respectively, as of December 31, 2019. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for PRDF and TFH, is based solely on the reports 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 reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the Association adopted ASU 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash*" and ASU 2018-08, "*Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*." Our opinion is not modified with respect to this matter.

Report on Supplementary Information

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 27-35 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 July 29, 2021, 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 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
July 29, 2021

**PENNSYLVANIA THOROUGHBRED
HORSEMEN'S ASSOCIATION, INC.**
COMBINED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

Assets

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Current Assets:	
Cash and cash equivalents	\$ 773,205
Accounts receivable	107,897
Other receivables	109,099
Inventory	196,766
Prepaid expenses	19,302
Total current assets	1,206,269
Investments	367,712
Restricted Pennsylvania Racehorse Development Trust Fund Assets:	
Restricted cash	3,547,006
Restricted investments	1,252,020
Restricted statutory funds receivable	2,538,588
Restricted prepaid expenses	9,375
Total restricted Pennsylvania Racehorse Development Trust Fund assets	7,346,989
Equipment and Furnishings:	
Cemetery lots	2,410
Vehicles	167,400
Storage trailers and related equipment	72,208
Office equipment and furniture	158,185
Less: accumulated depreciation	(280,638)
Net equipment and furnishings	119,565
Total Assets	\$ 9,040,535

Liabilities and Net Assets

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Liabilities:	
Current Liabilities:	
Accounts payable	\$ 145,880
Customer deposits	9,983
Due to Philadelphia Park	389,512
Accrued payroll	36,189
Other accrued expenses	21,290
Loans payable - current portion	14,316
Total current liabilities	617,170
Non-current Liabilities:	
Loans payable	50,050
Pennsylvania Race Horse Development Trust Fund Liabilities:	
Accounts payable	100,421
Accrued purse payouts	6,633,368
Accrued employee and trainers pension funds	410,591
Other accrued expenses	193,606
Total Pennsylvania Race Horse Development Trust Fund liabilities	7,337,986
Total liabilities	8,005,206
Net Assets:	
Without donor restrictions	830,090
With donor restrictions	205,239
Total net assets	1,035,329
Total Liabilities and Net Assets	\$ 9,040,535

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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Support:			
Shares of wagering - per Live Racing Agreement	\$ 1,634,461	\$ -	\$ 1,634,461
Grants	408,229	205,239	613,468
Contributions	716,578	-	716,578
Fundraising, net of direct expenses of \$40,996	14,158	-	14,158
Sale of merchandise	3,397,041	-	3,397,041
Interest on Horsemen's funds - Philadelphia Park	106,372	-	106,372
Broadcasting income	18,300	-	18,300
Miscellaneous income	17,224	-	17,224
Investment return, net	5,397	-	5,397
Realized and unrealized gain on investments	61,062	-	61,062
Total revenues and support	6,378,822	205,239	6,584,061
Expenses:			
Program services:			
Horsemen's Advocacy Program	2,287,550	-	2,287,550
Horse Supplies Program	3,377,632	-	3,377,632
Backstretch Social Programs	23,332	-	23,332
Thoroughbred Horse Retirement Program	590,615	-	590,615
Total program services	6,279,129	-	6,279,129
Management and general	92,228	-	92,228
Fundraising	6,809	-	6,809
Total expenses	6,378,166	-	6,378,166
Change in Net Assets	656	205,239	205,895
Net Assets:			
Beginning of year	829,434	-	829,434
End of year	\$ 830,090	\$ 205,239	\$ 1,035,329

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Horsemen's Advocacy Program	Horse Supplies Program	Backstretch Social Programs	Thoroughbred Horse Retirement Program	Total Program	Management and General	Fundraising	Total Expenses
Salaries and employee benefits	\$ 642,054	\$ 296,727	\$ -	\$ 53,928	\$ 992,709	\$ 3,172	\$ 6,345	\$ 1,002,226
Payroll taxes	44,796	25,826	-	3,945	74,567	232	464	75,263
Professional fees	383,783	-	-	5,995	389,778	6,945	-	396,723
Information technology support	37,266	3,799	-	-	41,065	-	-	41,065
Television and advertising	57,370	5,000	-	7,195	69,565	-	-	69,565
Public relations	74,779	-	-	-	74,779	-	-	74,779
Newsletter	32,261	-	-	-	32,261	-	-	32,261
Office expenses	43,177	17,502	-	-	60,679	3,657	-	64,336
Telephone	11,202	-	-	-	11,202	-	-	11,202
Travel and meetings	182,545	-	-	-	182,545	2,909	-	185,454
Depreciation	18,224	1,514	-	-	19,738	-	-	19,738
Insurance	43,824	-	-	-	43,824	12,678	-	56,502
Cost of goods sold	-	2,699,262	-	-	2,699,262	-	-	2,699,262
Donations	107,800	-	-	3,722	111,522	-	-	111,522
Dues and subscriptions	52	-	-	-	52	60,373	-	60,425
Handicapper	20,000	-	-	-	20,000	-	-	20,000
Horse care expenses	-	-	-	515,830	515,830	-	-	515,830
Flowers, gifts, and awards	26,225	368	-	-	26,593	-	-	26,593
Parties, picnics, and dinners	-	-	23,332	-	23,332	-	-	23,332
Race event days	513,440	-	-	-	513,440	-	-	513,440
Repairs and maintenance	310	5,104	-	-	5,414	-	-	5,414
Shavings removal	-	287,250	-	-	287,250	-	-	287,250
Vehicle	17,448	-	-	-	17,448	-	-	17,448
Miscellaneous	30,994	35,280	-	-	66,274	2,262	-	68,536
Total expenses	\$ 2,287,550	\$ 3,377,632	\$ 23,332	\$ 590,615	\$ 6,279,129	\$ 92,228	\$ 6,809	\$ 6,378,166

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, 2019

Cash Flows From Operating Activities:	
Change in net assets	\$ 205,895
Adjustments to reconcile change in assets to net cash provided by operating activities:	
Depreciation	19,738
Gain on disposal of equipment and furnishings	(17,047)
Realized and unrealized gain on investments	(61,062)
Effects of changes in operating assets and liabilities:	
Accounts receivable	(6,198)
Other receivables	17,094
Inventory	(23,701)
Prepaid expenses	5,670
Restricted investments	(213,208)
Restricted statutory funds receivable	(304,091)
Restricted prepaid expenses	176,198
Accounts payable	(60,687)
Customer deposits	(1,943)
Due to Philadelphia Park	(24,123)
Accrued payroll	15,386
Other accrued expenses	17,790
PRDF accounts payable	78,849
PRDF accrued purse payouts	1,003,258
PRDF accrued employee and trainers pension funds	(11,883)
PRDF other accrued expenses	30,482
Net cash provided by operating activities	846,417
Cash Flows From Investing Activities:	
Proceeds from the sale of investments	28,893
Purchase of investments	(34,290)
Proceeds from the sale of equipment and furnishings	20,000
Purchase of equipment and furnishings	(28,125)
Net cash used in investing activities	(13,522)
Cash Flows From Financing Activities:	
Principal payments on loans payable	(4,880)
Net cash used in financing activities	(4,880)
Net Increase in Cash, Cash Equivalents and Restricted Cash	828,015
Cash, Cash Equivalents, and Restricted Cash:	
Beginning of year	3,492,196
End of year	\$ 4,320,211
Noncash Capital Financing Activities:	
Financing of equipment and furnishings	\$ 69,246

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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), Turning for Home, Inc. (TFH), the Pennsylvania Race Horse Development Trust Fund (PRDF), and the Pennsylvania Thoroughbred Horsemen's Political Action Committee (PAC). For the purposes of these combined financial statements, the reporting entities of PTHA, HPA, TFH, PRDF, and PAC 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 and TFH. Each of the entities is related to PTHA as a result of their common management and common Board of Directors. The PAC shares common control and economic interest with PTHA.

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

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 Trust 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 Trust Fund. In accordance with Section 1406 of the Statute, the State Treasury shall make distributions from the Pennsylvania Race Horse Development Trust Fund to each active and operating Category 1 licensee conducting live racing in the matter

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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 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.

The Association allows individual members to contribute to the PAC. The PAC is an organization whose primary purpose is to make contributions to candidates and political committees who have demonstrated their interest in thoroughbred horse racing industry.

Combination Policy

The combined financial statements include the accounts of PTHA, HPA, TFH, PRDF, and PAC. 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, particularly given the significant social and economic disruptions and uncertainties associated with the ongoing COVID-19 pandemic and the COVID-19 control responses, and such differences may be material.

Combined Financial Statement Presentation

The Association reports information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Net assets without donor restrictions – Net assets without donor restrictions are the net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board or otherwise limited by contractual arrangements with outside parties. Net assets without donor restrictions 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 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.

Net assets with donor restrictions – Net assets with donor restrictions result from contributions whose use is limited by donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met by either the passage of time or can be fulfilled and removed by actions of the Association pursuant to those stipulations. Other donor restrictions are perpetual in nature; those restrictions neither expire by the passage of time nor can be fulfilled or otherwise removed by the Board's actions.

Cash and Cash Equivalents

For purposes of the combined statement of cash flows, the Association considers all 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. The Association participates in an Insured Cash Sweep (ICS) program, which allows a custodian of the Association to deposit cash at multiple receiving banks in a manner designed to remain within the FDIC insurance limits for each receiving bank.

Restricted cash represents statutory funds held under the Pennsylvania Race Horse Development Trust Fund and are restricted by statute as to their use. The restricted cash accounts are included in cash balances for the purpose of the statement of cash flows.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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 \$5,179 for potential uncollectible amounts for the sale of horse supplies and equipment. The amount written off in 2019 as bad debt expense totaled \$53.

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.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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 classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include alternative investments. 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.

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.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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.

Alternative Investment: Valued at net asset value (NAV) of units held. The NAV is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liability. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV.

Inventory

Horse supplies are valued at the lower of cost or net realizable value. Cost is computed using the average cost method. Inventory is valued at \$196,766 for the year ended December 31, 2019.

Equipment and Furnishings

Equipment and furnishings are stated at cost if purchased and at estimated fair 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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Revenue Recognition

Shares of Wagering: Under the terms of the Live Racing Agreement as further described in Note 6, the Association is considered to be the exclusive representative of all horsemen who own, train, and/or racehorses at Philadelphia Park. As such, the Association is entitled to receive 3% of purse monies to operate. This is considered an unconditional contribution and is recorded when received.

Grants: A portion of the Association's revenue is derived from a yearly unconditional cost-reimbursable marketing grant from the state of Pennsylvania. This grant is considered an unconditional contribution and is recognized when received. The period of the grant is July 1, 2017 through June 30, 2022. During the year ended December 31, 2019, the Association received funding in the amount of \$613,468 which was recognized as revenue. Allowable expenses incurred totaled \$408,229, all of which were reimbursed by the state and recorded. \$205,239 was received in advance of incurring expenses. As such, this amount is reflected as an increase in donor restricted net assets for the year ended December 31, 2019. These expenses will be incurred by the Association during the year ended December 31, 2020.

Contributions: Contributions are recognized when the donor makes a promise to give to the Association that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Sales of Merchandise: Revenue is recognized when ownership and the risk of loss transfers to the customer. The majority of sales are conducted on-site at Association established locations.

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019, 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.

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. PAC is exempt from federal income taxes under Section 527 of the U.S. Internal Revenue Service Code. However, income from investments is subject to taxation. 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.

Adoption of Accounting Standards

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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

ASU 2018-08, "*Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.*" The amendments provide guidance for characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions. This standard was implemented under a modified prospective basis. Accordingly, there is no effect on the net assets related to the implementation of this standard.

Pending Standards Update

ASU 2014-09, "*Revenue from Contracts with Customers,*" is effective for the Association's financial statements for the year ending December 31, 2020 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition related to contracts with transfer of promised goods or services to customers and related disclosures.

ASU 2016-02, "*Leases (Topic 842),*" is effective for the Association's financial statements for the year ending December 31, 2021. This amendment will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

ASU 2018-13, "*Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820),*" is effective for the year ending December 31, 2020. The amendments remove and modify certain fair value hierarchy leveling disclosures.

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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.

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 Trust 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.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

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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. An allowance for reasonable administrative expenses is permitted.

Effective January 1, 2010, Section 1406 of the Statute revised the formula for distributions from the Pennsylvania Race Horse Development Trust Fund as follows:

For the Pennsylvania Race Horse Development Trust Fund's fiscal year 2018 – 2019 through 2019 – 2020, 17% of the money in the Pennsylvania Race Horse Development Trust Fund shall be transferred to the general fund of the Commonwealth of Pennsylvania. The remaining 83% will be allocated as follows:

- The greater of 4% or \$220,000 shall be distributed weekly to fund health and pension benefits for the members of the horsemen's organizations representing the owners and trainers at the racetrack at which the licensed racing entity operates for the benefit of the organization's members, their families, employees, and others in accordance with the rules and eligibility requirements of the organization, as approved by the State Horse Racing Commission. Of this amount, \$250,000 shall be paid annually to the thoroughbred jockeys' organization at the racetrack at which the licensed racing entity operates. The total distributions to health and pension funds shall not exceed \$11,400,000 for the fiscal year.
- The remaining amount will be allocated as follows:
 - 83 1/3% shall be deposited weekly into a separate, interest-bearing purse account to be established by and for the benefit of the horsemen.
 - 16 2/3% shall be deposited weekly into the Pennsylvania Breeding Fund (not affiliated with the PTHA or PRDF Division).

The Association receives and is responsible to distribute funds relating to the health and pension allocation and the purse percentage allocation. The Pennsylvania Horse Breeders Association is responsible for the Pennsylvania Breeding Fund percentage allocation.

For fiscal year July 1, 2018 – June 30, 2019, the Governor's budget assessed \$19,659,000 to be removed from the Pennsylvania Race Horse Development Trust Fund to support agricultural related programs. This assessment was collected through an allocation of approximately \$894,000 a week for twenty-one weeks and \$885,000 in the twenty-second

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

week. This money was collected during the period of July 4, 2018 through November 21, 2018. In addition, on July 4, 2018, a transfer in the amount of \$2,357,566 was required from the Pennsylvania Race Horse Development Trust Fund to the State Racing Fund for the promotion of horse racing. Lastly, the Governor's budget assessed \$10,066,000 to be removed from the Pennsylvania Race Horse Development Trust Fund for costs associated with the collection and research of the testing of medication. This assessment is to be collected through an allocation of approximately \$195,000 a week for fifty-one weeks and \$121,000 in the fifty-second week. This money was collected during the period of July 4, 2018 through June 26, 2019.

For fiscal year July 1, 2019 – June 30, 2020, the Governor's budget assessed \$19,659,000 to be removed from the Pennsylvania Race Horse Development Trust Fund to support agricultural related programs. The assessment was collected through an allocation of approximately \$894,000 a week for twenty-one weeks and \$885,000 in the twenty-second week. This money was collected during the period of July 3, 2019, through November 27, 2019. In addition, on July 10, 2019, a transfer in the amount of \$2,376,180 was required from the Pennsylvania Race Horse Development Trust Fund to the State Racing Fund for the promotion of horse racing. Lastly, the Governor's budget assessed \$10,066,000 to be removed from the Pennsylvania Race Horse Development Trust Fund for costs associated with the collection and research of the testing of medication. This assessment is to be collected through an allocation of approximately \$195,000 a week for fifty-one weeks and \$121,000 in the fifty-second week. This money was collected during the period of June 27, 2019 through June 24, 2020.

Statutory funds receivable consists of Pennsylvania Race Horse Development Trust 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, 2019, the statutory funds receivable was \$2,538,588. This balance represents the gross terminal revenue allocation (GTR) due from the Pennsylvania Race Horse Development Trust Fund for PTHA – PRDF Division's share of GTR generated at Category I, Category II, and Category III casinos throughout Pennsylvania. Approximately 12 percent of total revenues and support for the year ended December 31, 2019 is from this allocation.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Below is a summary of the activity for the year ended December 31, 2019:

Pennsylvania Race Horse Development Trust Funds (PRDF) held, January 1, 2019	<u>\$ -</u>
Plus funds and earnings received:	
Purse payments	49,727,849
Contractual arrangement	1,551,942
Health and life insurance benefits	3,665,559
Promotional payback reduction	(655,802)
Interest income	16,816
Unrealized gain on investments	174,178
Realized gain on investments	26,340
Dividend income	<u>23,126</u>
	<u>54,530,008</u>
Less funds allocated for legislated purposes:	
Purse payments	49,286,289
Contractual payments	1,533,261
Health and life insurance benefits	2,878,288
Pension expenses incurred	406,122
Administrative expenses	176,048
Jockey Association	<u>250,000</u>
	<u>54,530,008</u>
Increase in PRDF funds held, December 31, 2019	<u>-</u>
Total PRDF funds held, December 31, 2019	<u><u>\$ -</u></u>

**PENNSYLVANIA THOROUGHBRED
HORSEMEN'S ASSOCIATION, INC.**

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Related assets:	
Restricted cash	\$ 3,547,006
Intercompany receivable	358
Statutory funds receivable	2,538,588
Restricted investments	1,252,020
Prepaid expenses	9,375
Less other related liabilities:	
Accounts payable	100,421
Intercompany payable	9,361
Accrued employee and trainers pension fund	410,591
Accrued purse payments	6,633,368
Other accrued expenses	<u>193,606</u>
Total PRDF funds held, December 31, 2019	<u><u>\$ -</u></u>

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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, 2019:

	<u>Level</u>	<u>Fair Value</u>	<u>Cost</u>
Money market funds	1	\$ 37,858	\$ 37,858
Mutual funds:			
U.S. equity	1	301,326	236,174
International equity	1	288,726	238,264
Fixed income	1	84,714	82,870
Other	1	106,566	105,240
Exchange-traded funds:			
U.S. equity	1	442,833	309,453
International equity	1	203,784	183,387
Alternative Investments	3	153,926	148,593
Total investments		1,619,733	<u>\$ 1,341,839</u>
Restricted PRDF investments		<u>(1,252,021)</u>	
Total investments without donor restrictions		<u>\$ 367,712</u>	

Investment income activity is as follows at December 31, 2019:

	<u>PRDF</u>	<u>Without Donor Restrictions</u>	<u>Total Investments</u>
Interest and dividend income	\$ 6,804	\$ 7,707	\$ 14,511
Investment fees	(2,341)	(2,310)	(4,651)
Realized gain	31,801	-	31,801
Unrealized gain	176,944	61,062	238,006
Total investment gain	<u>\$ 213,208</u>	<u>\$ 66,459</u>	<u>\$ 279,667</u>

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

The following tables sets forth a summary of changes in the fair value of the Association's Level 3 assets for the year ended December 31, 2019:

Balance, beginning of year	\$ 146,073
Investment gain	<u>7,853</u>
Balance, end of year	<u>\$ 153,926</u>

There were no transfers into or out of Level 3 investments for the year ended December 31, 2019.

5. Loans Payable

Chase Financial

During the year ended December 31, 2019, the Association obtained a vehicle loan in the amount of \$29,990. Interest is fixed at 5.99% through May 2024, when the loan is scheduled to be paid in full. The loan is collateralized by the vehicle, proceeds from the vehicle, and any other contracts or proceeds from contracts that the Association has with Chase Financial.

Ally Bank

During the year ended December 31, 2019, the Association obtained a vehicle loan in the amount of \$39,256. Interest is fixed at 5.94% through November 2023, when the loan is scheduled to be paid in full. The loan is collateralized by the vehicle, proceeds from the vehicle, and any other contracts or proceeds from contracts that the Association has with Ally Bank.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Future maturities for the two vehicle loans are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 14,316	\$ 3,449	\$ 17,765
2021	15,192	2,573	17,765
2022	16,122	1,643	17,765
2023	16,065	656	16,721
2024	2,671	39	2,710
Total	<u>\$ 64,366</u>	<u>\$ 8,360</u>	<u>\$ 72,726</u>

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 most recent amendment is set to expire on June 30, 2021. As outlined in the agreement, purse monies shall be allocated as follows:

- Eighty-seven percent (87%) of purses shall be allocated to overnights.
- Nine percent (9%) of purses shall be applied to stake races.
- Three percent (3%) of purses shall be paid to PTHA to support member activity.
- One percent (1%) of purses shall be allocated to associations to subsidize workmen's compensation insurance for the trainers who meet certain conditions outlined in the agreement.

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, 2019 were \$80,298 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.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

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YEAR ENDED DECEMBER 31, 2019

The President of the Association is the sole owner of a firm providing consulting services for PTHA. Consulting expenses relating to the consulting firm in which the President is the sole owner incurred by PTHA for the year ended December 31, 2019 were \$60,000. The entire amount is included in professional fees as paid from Association funds.

During the year, TFH received a \$65,308 contribution from PTHA. Also during the year, HPA paid \$17,000 for advertising and \$6,325 for interest to PTHA. These transactions were eliminated in the combined financial statements.

Transfers of contributions collected by PTHA on behalf of the PAC in the amount of \$138,780, presented as contribution revenue and expense, 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 are 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.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Effective February 13, 2016, the eligibility requirement of twenty starts was reduced to fifteen starts during the calendar year or the prior calendar year. All other eligibility requirements remained the same.

Effective January 1, 2018, trainers in all age groups received \$30 per eligible start.

Total contributions made to the Plan from the PRDF on behalf of eligible participants were \$306,672 for the year ended December 31, 2019.

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 PRDF for the year ended December 31, 2019 were \$99,450.

Total contributions to pension plans from PRDF for the year ended December 31, 2019 were \$406,122.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

9. Commitments

The Association has contracted with a vendor through December 2031 to remove manure and wood shavings waste from the Philadelphia Park facility. The contract expense was \$287,250 for the year ended December 31, 2019. Future minimum non-cancelable contract payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 286,000
2021	286,000
2022	286,000
2023	286,000
2024	286,000
2025-2029	1,430,000
2030-2031	572,000
Total	<u>\$ 3,432,000</u>

The Association leased a vehicle for an employee through November 2019. Lease payments for the year ended December 31, 2019 totaled \$3,829.

10. Promotional Items - PRDF

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 affected the results of the PRDF division as of January 1, 2014. The monies associated with this bulletin were reimbursed starting in 2015.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

11. Risks and Uncertainties

For the year ended December 31, 2019, revenue includes \$1,627,361 arising from race track revenue received from the Live Racing Agreement. The loss of this revenue source could have a material effect on the Association.

Investments are 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 statement of financial position.

12. Availability and Liquidity

The following represents the Association's financial assets available to meet general expenditures as of December 31, 2019. Funds restricted for PRDF are excluded as they are not available to meet general expenditures.

Financial assets at year-end:	
Cash and cash equivalents	\$ 773,205
Accounts receivable	108,515
Other receivables	109,099
Investments	<u>367,712</u>
Total financial assets	<u>1,358,531</u>
Less amounts not available to be used within one year:	
Assets restricted for PAC activities	<u>248,825</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,109,706</u>

Assets available to meet general expenditures include all cash accounts and receivables for PTHA, HPA, and TFH. These financial assets have no internal or external restrictions and are available to meet current year obligations at December 31, 2019. The Association manages its liquid resources primarily by monitoring the timing of purse monies received pursuant to

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

the Live Racing Agreement and matching the timing of expenses to ensure the Association has adequate funds to cover program and administrative expenses. In addition, if timing issues with receiving the purse monies arise, the Association is able to utilize investments to cover any remaining program and administrative expenses.

13. Subsequent Event

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. The actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economy, financial markets, and the geographical area in which the Association operates. It is unknown how long these conditions will last and what the complete financial effect will be to the Association and how it will affect the Association. The Association has seen reductions in the Pennsylvania Race Horse Development Trust Fund revenue and membership dues as a result of the pandemic. The Association's revenue is directly tied to the operations of its affiliated casinos. Shutdowns impacting either affiliated casinos or their respective horse racing operations would significantly impact the Association's ability to generate revenue. As disclosed in Note 12, the Association has funds available to cover the next year of operating expenses, and the ability to control operating expenses to offset any cash flow issues.

SUPPLEMENTARY INFORMATION

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

Assets	PTHA	HPA	TFH	PRDF	PAC	Eliminations	Combined Total
Current Assets:							
Cash and cash equivalents	\$ 414,178	\$ 40,732	\$ 69,470	\$ -	\$ 248,825	\$ -	\$ 773,205
Accounts receivable	49,977	57,920	-	-	-	-	107,897
Other receivables	76,699	-	32,400	-	-	-	109,099
Intercompany receivables	291,663	-	-	358	-	(292,021)	-
Inventory	-	196,766	-	-	-	-	196,766
Prepaid expenses	16,433	2,869	-	-	-	-	19,302
Total current assets	848,950	298,287	101,870	358	248,825	(292,021)	1,206,269
Investments	367,712	-	-	-	-	-	367,712
Restricted Pennsylvania Racehorse Development Trust							
Fund Assets:							
Restricted cash	-	-	-	3,547,006	-	-	3,547,006
Restricted investments	-	-	-	1,252,020	-	-	1,252,020
Restricted statutory funds receivable	-	-	-	2,538,588	-	-	2,538,588
Restricted prepaid expenses	-	-	-	9,375	-	-	9,375
Total restricted Pennsylvania Racehorse Development Trust Fund assets	-	-	-	7,346,989	-	-	7,346,989
Equipment and Furnishings:							
Cemetery lots	2,410	-	-	-	-	-	2,410
Vehicles	167,400	-	-	-	-	-	167,400
Storage trailers and related equipment	-	72,208	-	-	-	-	72,208
Office equipment and furniture	133,276	24,909	-	-	-	-	158,185
Less: accumulated depreciation	(200,864)	(79,774)	-	-	-	-	(280,638)
Net equipment and furnishings	102,222	17,343	-	-	-	-	119,565
Total Assets	\$ 1,318,884	\$ 315,630	\$ 101,870	\$ 7,347,347	\$ 248,825	\$ (292,021)	\$ 9,040,535

(Continued)

**PENNSYLVANIA THOROUGHBRED
HORSEMEN'S ASSOCIATION, INC.**

COMBINING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

(Continued)

	PTHA	HPA	TFH	PRDF	PAC	Eliminations	Combined Total
Liabilities and Net Assets							
Liabilities:							
Current liabilities:							
Accounts payable	\$ 135,599	\$ 622	\$ 9,659	\$ -	\$ -	\$ -	\$ 145,880
Customer deposits	-	9,983	-	-	-	-	9,983
Due to Philadelphia Park	389,512	-	-	-	-	-	389,512
Intercompany payables	-	281,493	1,167	9,361	-	(292,021)	-
Accrued payroll	28,946	7,243	-	-	-	-	36,189
Other accrued expenses	-	3,500	17,790	-	-	-	21,290
Loans payable - current portion	14,316	-	-	-	-	-	14,316
Total current liabilities	568,373	302,841	28,616	9,361	-	(292,021)	617,170
Non-current liabilities:							
Loans payable	50,050	-	-	-	-	-	50,050
Total non-current liabilities	50,050	-	-	-	-	-	50,050
Pennsylvania Race Horse Development Trust							
Fund liabilities:							
Accounts payable	-	-	-	100,421	-	-	100,421
Accrued purse payouts	-	-	-	6,633,368	-	-	6,633,368
Accrued employee and trainers pension funds	-	-	-	410,591	-	-	410,591
Other accrued expenses	-	-	-	193,606	-	-	193,606
Total Pennsylvania Race Horse Development Trust Fund liabilities	-	-	-	7,337,986	-	-	7,337,986
Total liabilities	618,423	302,841	28,616	7,347,347	-	(292,021)	8,005,206
Net Assets:							
Without donor restrictions	495,222	12,789	73,254	-	248,825	-	830,090
With donor restrictions	205,239	-	-	-	-	-	205,239
Total net assets	700,461	12,789	73,254	-	248,825	-	1,035,329
Total Liabilities and Net Assets	\$ 1,318,884	\$ 315,630	\$ 101,870	\$ 7,347,347	\$ 248,825	\$ (292,021)	\$ 9,040,535

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

	PTHA	HPA	TFH	PAC	Eliminations	Combined Total
Revenues and Support:						
Without donor restrictions:						
Shares of wagering - per Live Racing Agreement	\$ 1,634,461	\$ -	\$ -	\$ -	\$ -	\$ 1,634,461
Grants	408,229	-	-	-	-	408,229
Contributions	216,580	-	564,626	139,460	(204,088)	716,578
Fundraising, net of direct expenses of \$40,996	-	-	14,158	-	-	14,158
Sale of merchandise	-	3,397,041	-	-	-	3,397,041
Interest on Horsemen's funds - Philadelphia Park	106,372	-	-	-	-	106,372
Broadcasting income	35,300	-	-	-	(17,000)	18,300
Miscellaneous income	17,224	-	-	-	-	17,224
Investment return, net	11,722	-	-	-	(6,325)	5,397
Realized and unrealized gain on investments	61,062	-	-	-	-	61,062
Total revenues and support without donor restrictions	2,490,950	3,397,041	578,784	139,460	(227,413)	6,378,822
With donor restrictions:						
Grants	205,239	-	-	-	-	205,239
Total revenues and support with donor restrictions	205,239	-	-	-	-	205,239
Total revenues and support	2,696,189	3,397,041	578,784	139,460	(227,413)	6,584,061
Expenses:						
Program services:						
Horsemen's Advocacy Program	2,411,138	-	-	80,500	(204,088)	2,287,550
Horse Supplies Program	-	3,400,957	-	-	(23,325)	3,377,632
Backstretch Social Programs	23,332	-	-	-	-	23,332
Thoroughbred Horse Retirement Program	-	-	590,615	-	-	590,615
Total program services	2,434,470	3,400,957	590,615	80,500	(227,413)	6,279,129
Management and general	61,501	15,941	14,759	27	-	92,228
Fundraising	-	-	6,809	-	-	6,809
Total expenses	2,495,971	3,416,898	612,183	80,527	(227,413)	6,378,166
Change in Net Assets	200,218	(19,857)	(33,399)	58,933	-	205,895
Net Assets:						
Beginning of year	500,243	32,646	106,653	189,892	-	829,434
End of year	\$ 700,461	\$ 12,789	\$ 73,254	\$ 248,825	\$ -	\$ 1,035,329

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2019

	PTHA	HPA	TFH	PRDF	PAC	Eliminations	Combined Total
Cash Flows From Operating Activities:							
Change in net assets	\$ 200,218	\$ (19,857)	\$ (33,399)	\$ -	\$ 58,933	\$ -	\$ 205,895
Adjustments to reconcile change in assets to net cash provided by operating activities:							
Depreciation	18,224	1,514	-	-	-	-	19,738
Gain on disposal of equipment and furnishings	(17,047)	-	-	-	-	-	(17,047)
Realized and unrealized gain on investments	(61,062)	-	-	-	-	-	(61,062)
Effects of changes in operating assets and liabilities:							
Accounts receivable	7,200	(14,300)	902	-	-	-	(6,198)
Other receivables	14,334	-	2,760	-	-	-	17,094
Intercompany receivables	(77,943)	-	-	24,739	-	53,204	-
Inventory	-	(23,701)	-	-	-	-	(23,701)
Prepaid expenses	5,000	670	-	-	-	-	5,670
Restricted investments	-	-	-	(213,208)	-	-	(213,208)
Restricted statutory funds receivable	-	-	-	(304,091)	-	-	(304,091)
Restricted prepaid expenses	-	-	-	176,198	-	-	176,198
Accounts payable	11,835	(55,333)	(17,189)	-	-	-	(60,687)
Customer deposits	-	(1,943)	-	-	-	-	(1,943)
Due to Philadelphia Park	(24,123)	-	-	-	-	-	(24,123)
Intercompany payables	(24,911)	72,977	(4,223)	9,361	-	(53,204)	-
Accrued payroll	13,514	1,872	-	-	-	-	15,386
Other accrued expenses	-	-	17,790	-	-	-	17,790
PRDF accounts payable	-	-	-	78,849	-	-	78,849
PRDF accrued purse payouts	-	-	-	1,003,258	-	-	1,003,258
PRDF accrued employee and trainers pension funds	-	-	-	(11,883)	-	-	(11,883)
PRDF other accrued expenses	-	-	-	30,482	-	-	30,482
Net cash provided by (used in) operating activities	<u>65,239</u>	<u>(38,101)</u>	<u>(33,359)</u>	<u>793,705</u>	<u>58,933</u>	<u>-</u>	<u>846,417</u>

(Continued)

**PENNSYLVANIA THOROUGHBRED
HORSEMEN'S ASSOCIATION, INC.**

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2019

(Continued)

	PTHA	HPA	TFH	PRDF	PAC	Eliminations	Combined Total
Cash Flows From Investing Activities:							
Proceeds from the sale of investments	28,893	-	-	-	-	-	28,893
Purchase of investments	(34,290)	-	-	-	-	-	(34,290)
Proceeds from the sale of equipment and furnishings	20,000	-	-	-	-	-	20,000
Purchase of equipment and furnishings	(25,000)	(3,125)	-	-	-	-	(28,125)
Net cash used in investing activities	(10,397)	(3,125)	-	-	-	-	(13,522)
Cash Flows From Financing Activities:							
Principal payments on loans payable	(4,880)	-	-	-	-	-	(4,880)
Net cash used in financing activities	(4,880)	-	-	-	-	-	(4,880)
Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	49,962	(41,226)	(33,359)	793,705	58,933	-	828,015
Cash, Cash Equivalents, and Restricted Cash:							
Beginning of year	364,216	81,958	102,829	2,753,301	189,892	-	3,492,196
End of year	<u>\$ 414,178</u>	<u>\$ 40,732</u>	<u>\$ 69,470</u>	<u>\$ 3,547,006</u>	<u>\$ 248,825</u>	<u>\$ -</u>	<u>\$ 4,320,211</u>
Noncash Capital Financing Activities:							
Financing of equipment and furnishings	<u>\$ 69,246</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,246</u>

(Concluded)

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

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

PERIOD JANUARY 1, 2019 THROUGH DECEMBER 31, 2019

	Purses	Contractual Agreement	Benefits	Total
Cash receipts:				
Gaming funds - cash receipts	\$ 49,727,849	\$ 1,551,942	\$ 3,665,559	\$ 54,945,350
Promotional payback reduction	(597,781)	(18,681)	(39,340)	(655,802)
Interest earned	11,597	-	5,219	16,816
Total cash receipts	49,141,665	1,533,261	3,631,438	54,306,364
Other revenue:				
Unrealized gain on investments	-	-	174,178	174,178
Realized gain on investments	-	-	26,340	26,340
Dividends	-	-	23,126	23,126
Total other revenue	-	-	223,644	223,644
Cash disbursements:				
Purse payments - Parx	(49,286,289)	-	-	(49,286,289)
Contractual disbursements	-	(1,533,261)	-	(1,533,261)
Health and welfare benefit disbursements	-	-	(3,534,410)	(3,534,410)
Administrative disbursements	-	-	(176,048)	(176,048)
Total cash disbursements	(49,286,289)	(1,533,261)	(3,710,458)	(54,530,008)
Changes in escrow balances	(144,624)	-	144,624	-
Escrow balance at January 1, 2019	(1,947,794)	-	1,947,794	-
Escrow balance at December 31, 2019	\$ (2,092,418)	\$ -	\$ 2,092,418	\$ -
Reconciliation to Audited Financial Statements				
Gaming funds - as reported above	\$ 49,727,849	\$ 1,551,942	\$ 3,665,559	\$ 54,945,350
Gaming funds, as reported in Note 3 to the audited financial statements	\$ 49,727,849	\$ 1,551,942	\$ 3,665,559	\$ 54,945,350
Purse payments - as reported above	\$ (49,286,289)	\$ (1,533,261)	\$ -	\$ (50,819,550)
Purse payments, as reported in Note 3 to the audited financial statements	\$ (49,286,289)	\$ (1,533,261)	\$ -	\$ (50,819,550)
Health and welfare benefit payments - as reported above	\$ -	\$ -	\$ (3,710,458)	\$ (3,710,458)
Health and welfare benefit payments - as reported in Note 3 to the audited financial statements	\$ -	\$ -	\$ (3,710,458)	\$ (3,710,458)

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

**PENNSYLVANIA THOROUGHBRED
HORSEMEN'S ASSOCIATION, INC.**

SCHEDULE OF ADMINISTRATIVE EXPENSES

DECEMBER 31, 2019

	<u>Date</u>	<u>Amount</u>	<u>Description</u>
Accounting fees	Total for 2019	\$ 25,000	Accounting fees
Audit fee	Total for 2019	35,000	Audit fee accrual
Bank service charges	Total for 2019	678	Bank service charges
Investment service charges	Total for 2019	10,450	Advisory fees - Morgan Stanley & RBC
Diagnostic Tools	11/3/2019	480	Computer equipment
Diagnostic Tools	11/3/2019	234	Computer software and repairs
Simon, Edward G.	2/9/2019	3,875	Consultant
Simon, Edward G.	2/28/2019	3,625	Consultant
Simon, Edward G.	4/1/2019	3,875	Consultant
Simon, Edward G.	5/1/2019	3,125	Consultant
Simon, Edward G.	6/25/2019	4,875	Consultant
Simon, Edward G.	7/8/2019	3,500	Consultant
Simon, Edward G.	8/3/2019	3,250	Consultant
Simon, Edward G.	8/31/2019	4,375	Consultant
Simon, Edward G.	10/5/2019	4,000	Consultant
Simon, Edward G.	10/31/2019	3,750	Consultant
Simon, Edward G.	11/30/2019	3,875	Consultant
Simon, Edward G.	12/31/2019	3,125	Consultant
Horsemen's Purchasing Association	Total for 2019	43,300	Health Care Expense
Miscellaneous reimbursements	Total for 2019	(1,844)	Miscellaneous reimbursements
State Audit	Total for 2019	17,500	State audit fee accrual
Administrative expenses at December 31, 2019		<u>\$ 176,048</u>	

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO THE STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS AND CHANGES IN CASH BALANCES – PENNSYLVANIA RACEHORSE DEVELOPMENT TRUST FUNDS

DECEMBER 31, 2019

1. Basis of Presentation

The accompanying statement of cash receipts and cash disbursements and changes in cash balances includes the Pennsylvania Race Horse Development Trust Fund activity of the Pennsylvania Thoroughbred Horsemen's Association (Association) and is presented on the accrual 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 Trust Funds to the casinos on a weekly basis. Approximately two weeks after the Casino has received the Pennsylvania Racehorse Development Trust Funds, amounts are wired to the Association into their Pennsylvania Racehorse Development Trust 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 Trust 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.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO THE STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS AND CHANGES IN CASH BALANCES – PENNSYLVANIA RACEHORSE DEVELOPMENT TRUST FUNDS

DECEMBER 31, 2019

Management of the Association determines the portion of the Race Horse Development Trust 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, 2019

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

Board of Directors and Secretary Swails, Pennsylvania Office of the Budget and 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, 2019, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated July 29, 2021. Our report includes reference to another report on the Association’s financial statements. The financial statements of the Pennsylvania Race Horse Development Trust Fund Division of the Pennsylvania Thoroughbred Horsemen’s Association, Inc. (PRDF) and Turning for Home, Inc. (TFH) 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be a material weakness 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 consider the deficiency described in the accompanying schedule of findings and responses as item 2019-001 to be a material weakness.

Board of Directors and Secretary Swails, Pennsylvania Office of the Budget
Pennsylvania Thoroughbred Horsemen's Association, Inc.
Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters

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 consider the deficiency described in the accompanying schedule of findings and responses as item 2019-002 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 Responses 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
July 29, 2021

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2019

Material Weakness

Finding 2019-001: Improving Financial Reporting

Condition: The Association had transactions that were either not recorded or not recorded properly during the year, which were detected as a result of audit procedures.

- Accrued contractual income from PARX totaled \$72,680. However, the receivable and revenue were not recorded.
- There was \$20,000 recorded as prepaid expenses for 2019 dues and \$22,500 recorded as accounts payable for 2020 dues. However, the 2019 dues should not be in prepaid expenses since they are related to 2019, and the 2020 dues should not be in accounts payable since they are related to 2020.
- There was \$15,000 recorded as lobbyist expense and accounts payable. However, since the expense related to 2020 and was not paid until 2020, this transaction should not be recorded in 2019.
- During testing over fixed assets, the following errors were noted: For PTHA, prepaid expenses were overstated by \$5,000, fixed assets were understated by \$14,850, accumulated depreciation was overstated by \$21,052, loan payable was understated by \$25,839, gain on sale of vehicle was understated by \$17,047, depreciation expense was understated by \$10,805, and other expenses were understated by \$1,179. For HPA, depreciation expense was understated by \$1,514.
- Accrued payroll and payroll expenses included 2018 balances totaling \$15,432 for PTHA and \$16,113 for HPA that should have been reversed in 2019.

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

Cause: The internal controls surrounding reconciliation of accounts are not properly designed to detect and correct financial reporting errors.

Effect: This resulted in various accounts being misstated at year end.

Recommendation: We recommend that the Association strengthen internal control procedures to ensure that all transactions are properly recorded and reviewed.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2019

Management's Response: We agree with the recommendation and will use our best efforts to comply.

Significant Deficiency

Finding 2019-002: Permitting of Officers

Condition: Five of the members of the Association's Board were not registered with the Pennsylvania Gaming Control Board (PGCB) during 2019.

Criteria: Chapter 436a, Section 436a.3, requires that all representatives of the Association be permitted with the Gaming Control Board.

Cause: The Association does not have an established control to ensure compliance with Section 436a.3, permitting requirements of the PGCB.

Effect: The Association is not in compliance with 436a.3.

Recommendation: We recommend that management develop procedures and controls to ensure that all members of the Association's Board have appropriate permits with the PGCB.

Management's Response: We agree with the recommendation and will use our best efforts to comply.