

**Pennsylvania Harness Horsemen's
Association**

Financial Statements and Supplementary
Information

Years Ended December 31, 2023 and 2022
with Independent Auditor's Reports

MaherDuessel

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

YEARS ENDED DECEMBER 31, 2023 AND 2022

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Pennsylvania Harness Horsemen's Association (Association), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2024 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
August 29, 2024

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2023 AND 2022

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,279,098	\$ 4,056,565
Accounts receivable	120,856	138,899
Prepaid expenses	27,658	23,426
Total current assets	1,427,612	4,218,890
Fixed assets:		
Property, plant, and equipment, at cost	113,991	113,991
Less: accumulated depreciation	(106,887)	(105,681)
Net fixed assets	7,104	8,310
Other assets:		
Restricted cash and cash equivalents	5,376,354	4,132,892
Restricted investments	31,791,894	29,573,723
Total other assets	37,168,248	33,706,615
Intangible assets:		
Naming rights, net of accumulated amortization of \$293,750 in 2023 and \$218,750 in 2022	81,250	156,250
Total Assets	\$ 38,684,214	\$ 38,090,065
Liabilities and Net Assets		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 344,715	\$ 424,431
Accrued employer retirement plan contribution	20,000	42,500
Total current liabilities	364,715	466,931
Noncurrent Liabilities:		
Escrow funds and deferred revenue:		
Purses - racing revenue	16,764	1,741,836
Purses - slot revenue	3,812,963	1,954,759
Health and pension - slot revenue	33,355,285	31,753,505
Total escrow funds and deferred revenue	37,185,012	35,450,100
Total non-current liabilities	37,185,012	35,450,100
Total liabilities	37,549,727	35,917,031
Net Assets:		
Without donor restrictions	1,134,487	2,173,034
Total Liabilities and Net Assets	\$ 38,684,214	\$ 38,090,065

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Revenues:		
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Race track revenues:		
Downs Racing	\$ 1,279,637	\$ 1,232,813
Harrah's Chester	740,000	1,115,250
Membership dues	30,560	30,480
Race Horse Development Fund	2,011,341	1,644,569
Grants	219,229	193,545
Member benefit reimbursements	531,830	542,506
Interest income	2,696	403
Special events	25,000	25,000
Miscellaneous income	16,245	16,742
	4,856,538	4,801,308
Expenses:		
<hr/>		
Program	5,690,647	6,303,948
Management and general	204,438	225,448
	5,895,085	6,529,396
Change in Net Assets	(1,038,547)	(1,728,088)
Net Assets:		
<hr/>		
Beginning of year	2,173,034	3,901,122
End of year	\$ 1,134,487	\$ 2,173,034

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2023

	Program						Total Program	Management and General	Total
	Health Program	Pension Program	Member Benefits	Racetrack Relations	Industry Promotions	Regulatory Matters			
Salaries	\$ 45,070	\$ 37,559	\$ 37,559	\$ 71,361	\$ 71,361	\$ 30,047	\$ 292,957	\$ 82,628	\$ 375,585
Payroll taxes	3,581	2,984	2,984	5,670	5,670	2,387	23,276	6,567	29,843
Employee benefits	14,846	12,372	12,372	23,506	23,506	9,897	96,499	27,219	123,718
General insurance	-	-	162,035	-	-	-	162,035	48,330	210,365
Member benefits	-	-	2,762,505	1,367,917	-	-	4,130,422	-	4,130,422
Advertising, newsletter, and public relations	-	-	-	-	523,995	-	523,995	-	523,995
Meeting expense and travel	5,925	4,938	4,938	9,381	9,381	3,950	38,513	10,863	49,376
National dues	-	-	-	-	14,300	-	14,300	-	14,300
Office expense	4,202	3,501	3,501	6,653	6,653	2,801	27,311	7,702	35,013
Telephone	746	622	622	1,181	1,181	497	4,849	1,367	6,216
Legal and accounting	10,225	8,521	8,521	16,190	16,190	6,817	66,464	18,746	85,210
Legislative fees	-	-	-	-	-	195,221	195,221	-	195,221
Donation and gifts	-	-	-	-	36,203	-	36,203	-	36,203
Depreciation	145	121	121	229	229	96	941	265	1,206
Amortization	-	-	-	-	75,000	-	75,000	-	75,000
Miscellaneous expense	410	341	341	648	648	273	2,661	751	3,412
Total expenses	\$ 85,150	\$ 70,959	\$ 2,995,499	\$ 1,502,736	\$ 784,317	\$ 251,986	\$ 5,690,647	\$ 204,438	\$ 5,895,085

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2022

	Program						Total Program	Management and General	Total
	Health Program	Pension Program	Member Benefits	Racetrack Relations	Industry Promotions	Regulatory Matters			
Salaries	\$ 48,577	\$ 40,481	\$ 40,481	\$ 76,913	\$ 76,913	\$ 32,385	\$ 315,750	\$ 89,058	\$ 404,808
Payroll taxes	3,810	3,175	3,175	6,033	6,033	2,540	24,766	6,985	31,751
Employee benefits	23,181	19,317	19,317	36,702	36,702	15,454	150,673	42,498	193,171
General insurance	-	-	171,093	-	-	-	171,093	45,178	216,271
Member benefits	-	-	2,457,519	2,040,204	-	-	4,497,723	-	4,497,723
Advertising, newsletter, and public relations	-	-	-	-	611,244	-	611,244	-	611,244
Meeting expense and travel	5,446	4,538	4,538	8,622	8,622	3,630	35,396	9,986	45,382
National dues	-	-	-	-	14,450	-	14,450	-	14,450
Office expense	2,668	2,222	2,222	4,222	4,222	1,778	17,334	4,889	22,223
Telephone	764	636	636	1,209	1,209	509	4,963	1,400	6,363
Legal and accounting	12,394	10,328	10,328	19,624	19,624	8,263	80,561	22,723	103,284
Legislative fees	-	-	-	-	-	220,261	220,261	-	220,261
Donation and gifts	-	-	-	-	78,150	-	78,150	-	78,150
Depreciation	132	110	110	209	209	88	858	241	1,099
Amortization	-	-	-	-	75,000	-	75,000	-	75,000
Miscellaneous expense	881	734	734	1,395	1,395	587	5,726	2,490	8,216
Total expenses	\$ 97,853	\$ 81,541	\$ 2,710,153	\$ 2,195,133	\$ 933,773	\$ 285,495	\$ 6,303,948	\$ 225,448	\$ 6,529,396

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Reconciliation of Change in Net Assets to Net Cash, Cash Equivalents, and Restricted Cash Provided by (Used in) Operating Activities:		
Change in net assets	\$ (1,038,547)	\$ (1,728,088)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	76,206	76,099
Effects of changes in operating assets and liabilities:		
Purse funds received	40,145,872	38,596,367
Benefits funds received	3,127,266	3,216,854
Interest on restricted funds	205,862	104,278
Racing revenue received	2,213,954	2,318,396
Accounts receivable	18,043	(70,021)
Prepaid expenses	(4,232)	1,754
Purse payments	(38,444,870)	(39,784,528)
Health insurance payments	(2,009,918)	(1,744,500)
Racing revenue distributions	(3,939,025)	(5,470,625)
Accounts payable	(79,716)	(91,453)
Accrued employer retirement plan contribution	(22,500)	2,500
Accrued severance	(1,650)	(377)
Net cash, cash equivalents, and restricted cash provided by (used in) operating activities	246,745	(4,573,344)
Cash Flows From Investing Activities:		
Purchase of investments	(1,780,750)	(1,750,000)
Net cash, cash equivalents, and restricted cash provided by (used in) investing activities	(1,780,750)	(1,750,000)
Net Decrease in Cash, Cash Equivalents, and Restricted Cash	(1,534,005)	(6,323,344)
Cash, Cash Equivalents, and Restricted Cash:		
Beginning of year	8,189,457	14,512,801
End of year	\$ 6,655,452	\$ 8,189,457

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

1. Summary of Significant Accounting Policies

The Pennsylvania Harness Horsemen's Association (Association) is a membership organization which promotes the welfare and development of harness racing in Pennsylvania. The primary sources are from two harness race tracks in Pennsylvania.

Basis of Presentation

The financial statements of the Association are prepared on the accrual basis of accounting. Under this method, revenues are recognized when earned rather than received, and expenses are recognized when incurred rather than when the obligation is paid. In accordance with FASB ASC 958, *Not-for-Profit Entities*, the Association is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. The Association had no net assets with donor restrictions at December 31, 2023 and 2022.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent gains and losses. Accordingly, actual results could differ from those estimates.

Cash, Cash Equivalents, Restricted Cash, and Investments

For purposes of the statements of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Certain cash, cash equivalents, and investments are restricted as to use by Pennsylvania law. These funds are held in separate accounts. The restricted cash accounts are included in cash balances for the purpose of the statement of cash flows.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

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

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,279,098	\$ 4,056,565
Restricted cash and cash equivalents	<u>5,376,354</u>	<u>4,132,892</u>
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 6,655,452</u>	<u>\$ 8,189,457</u>

Accounts Receivable

Accounts receivable consists of member health benefit reimbursements and grant receivables. For health benefit reimbursement receivables, the Association has considered factors impacting the need for an allowance for credit losses given historical experience, current conditions, as well as reasonable and supportable forecasts, and has determined the ending allowance estimate or any adjustment to the allowance, would be immaterial to the financial statements at December 31, 2023 and 2022.

Fair Value of Investments

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

Furniture and Equipment

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

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

Long-Lived Assets

Long-lived assets, such as property and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be reduced to fair value. No impairment losses have been recorded through December 31, 2023.

Intangible Assets

The intangible asset represents the naming rights to an arena located in Wilkes-Barre, Pennsylvania and is amortized over the life of the agreement.

Revenue Recognition

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

Race horse development funds and member benefit reimbursements are utilized to pay a portion of member insurance premiums. This revenue is recognized when health insurance expenses are incurred.

Race track revenues are recognized as disclosed in Note 7.

Marketing Grant

A portion of the Association's revenue is derived from a yearly cost-reimbursable marketing grant from the state of Pennsylvania, which is conditioned upon the incurrence of qualifying marketing expenses. Amounts received are recognized as revenue when the Association has incurred expenditures in compliance with grant provisions. The period of the grant was originally April 1, 2017, through September 30, 2017, but was extended until June 30, 2024. During the years ended December 31, 2023, and 2022, the Association incurred expenses of \$219,229 and \$193,545 respectively, and recognized the corresponding contribution.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

Functional Allocation of Expenses

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

Income Taxes

The Association is a non-profit organization which is exempt from federal income taxes under Section 501(c)(5) of the Internal Revenue Code. FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, requires an assessment of the Association's exposure to income taxes at the entity level as a result of uncertain tax positions taken in current and previously filed tax returns. Examples of tax positions taken at the entity level include the continuing validity of its 501(c)(5) status, potential unrelated business activities, and other tax positions that could result in income taxes to the Association upon examinations by taxing authorities. The Association's management is not aware of any activities that would jeopardize its tax-exempt status or would be subject to unrelated business or excise tax.

The Association files Form 990 - Return of Organization Exempt from Income Tax, on an annual basis.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

Adopted Accounting Standards

ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* These amendments and related amendments require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. This includes loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The impact of the adoption was not considered

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

material to the financial statements, and primarily resulted in new/enhanced disclosures only.

Subsequent Events

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

2. Escrow Funds, Deferred Revenue, and Restricted Cash/Investments

Pennsylvania law requires certain portions of revenue from slot machines at Pennsylvania racetracks to be used for horse racing purses and pension and health benefits for horse men and women. The Association acts as fiduciary in the collection and disbursement of these funds, which are required to be maintained in separate accounts. The detail of transactions in these accounts for 2023 and 2022 is as follows:

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

	Purses	Benefits
Escrow balance, January 1, 2022	\$ 3,124,862	\$ 35,246,858
Gaming Funds - Chester Downs and Marina, LLC	16,295,855	1,364,101
Gaming Funds - Downs Racing, LP	22,300,512	1,852,753
Unrealized/realized losses on investments	-	(6,014,133)
Interest and investment income (net of fees)	16,409	1,692,599
	<u>38,612,776</u>	<u>(1,104,680)</u>
Purse payments - Chester Downs and Marina, LLC - purse account	(16,299,068)	-
Purse payments - Downs Racing, LP - purse account	(23,485,460)	-
Health insurance payments	-	(1,744,500)
Retirement distributions	-	(644,173)
	<u>(39,784,528)</u>	<u>(2,388,673)</u>
Escrow balance, December 31, 2022	<u>1,953,110</u>	<u>31,753,505</u>
Gaming Funds - Chester Downs and Marina, LLC	15,721,333	1,223,642
Gaming Funds - Downs Racing, LP	24,424,539	1,903,624
Unrealized/realized gains on investments	-	502,809
Interest and investment income (net of fees)	158,851	1,160,178
	<u>40,304,723</u>	<u>4,790,253</u>
Purse payments - Chester Downs and Marina, LLC - purse account	(15,638,980)	-
Purse payments - Downs Racing, LP - purse account	(22,805,890)	-
Health insurance payments	-	(2,009,918)
Retirement distributions	-	(1,178,555)
	<u>(38,444,870)</u>	<u>(3,188,473)</u>
Escrow balance, December 31, 2023	<u>\$ 3,812,963</u>	<u>\$ 33,355,285</u>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>Purses</u>	<u>Benefits</u>
December 31, 2023		
Composition of ending balance:		
Cash and cash equivalents	\$ 3,812,963	\$ 1,563,391
Investments	-	31,791,894
Ending cash and cash equivalents and investments	<u>\$ 3,812,963</u>	<u>\$ 33,355,285</u>
December 31, 2022		
Composition of ending balance:		
Cash and cash equivalents	\$ 1,953,110	\$ 2,179,782
Investments	-	29,573,723
Ending cash and cash equivalents and investments	<u>\$ 1,953,110</u>	<u>\$ 31,753,505</u>

The restricted cash accounts each include deposits made by the Association to open the accounts.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

Pursuant to an agreement with Chester Downs and Marina, LLC dated January 1, 2011, certain racing revenues are to be paid to the Association. The Association is required to maintain these funds in a separate account. These funds are to be used to finance the Association's operating expenses, marketing and promotional costs, or fund purses at the Chester racetrack. Revenue is recognized when cash is moved from restricted to unrestricted in order to cover Association expenses. The detail of the transactions for 2023 and 2022 is as follows:

	<u>Racing Revenues</u>
Deferred revenue balance, January 1, 2023	\$ 1,741,836
Transfers from Chester Downs and Marina, LLC - racing income	2,151,785
Investment income (net of fees)	62,169
	<u>2,213,954</u>
Racetrack payouts	(3,199,026)
Purse payments	-
Racetrack (pari-mutuel) revenues paid to the Association	(740,000)
	<u>(3,939,026)</u>
Deferred revenue balance, December 31, 2023	<u>\$ 16,764</u>
Compositions of ending balance:	
Cash and cash equivalents	\$ 16,764
Investments	-
Ending cash and cash equivalents and investments	<u>\$ 16,764</u>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

	Racing Revenues
Deferred revenue balance, January 1, 2022	\$ 4,894,065
Transfers from Chester Downs and Marina, LLC - racing income	2,284,917
Investment income (net of fees)	33,479
	2,318,396
Racetrack payouts	(3,873,875)
Purse payments	(481,500)
Racetrack (pari-mutuel) revenues paid to the Association	(1,115,250)
	(5,470,625)
Deferred revenue balance, December 31, 2022	\$ 1,741,836
Compositions of ending balance:	
Cash and cash equivalents	\$ 1,741,836
Investments	-
Ending cash and cash equivalents and investments	\$ 1,741,836

Summary of all escrow and deferred accounts:

	Purses - Slot Revenue	Benefits - Slot Revenue	Racing Revenue	Total
December 31, 2023				
Cash and cash equivalents	\$ 3,812,963	\$ 1,563,391	\$ 16,764	\$ 5,393,118
Investments	-	31,791,894	-	31,791,894
Escrow and deferred revenue balance, December 31, 2023	\$ 3,812,963	\$ 33,355,285	\$ 16,764	\$ 37,185,012

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>Purses - Slot Revenue</u>	<u>Benefits - Slot Revenue</u>	<u>Racing Revenue</u>	<u>Total</u>
December 31, 2022				
Cash and cash equivalents	\$ 1,953,110	\$ 2,179,782	\$ 1,741,836	\$ 5,874,728
Investments	-	29,573,723	-	29,573,723
Escrow and deferred revenue balance, December 31, 2022	<u>\$ 1,953,110</u>	<u>\$ 31,753,505</u>	<u>\$ 1,741,836</u>	<u>\$ 35,448,451</u>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

Investments are stated at fair value. Fair value and unrealized appreciation (depreciation) at December 31, 2023 and 2022 are summarized as follows:

	2023			Fair Value
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Mutual funds:				
Fixed income - domestic	\$ 1,022,163	\$ 14,294	\$ -	\$ 1,036,457
Fixed income - other	1,000,007	9,742	-	1,009,749
Equity - domestic	919,326	-	(2,962)	916,364
Money market	4,644,574	-	-	4,644,574
Total mutual funds	7,586,070	24,036	(2,962)	7,607,144
Exchange traded funds:				
Fixed income - domestic	3,382,705	57,835	(18,348)	3,422,192
Fixed income - U.S. government	2,234,187	12,549	(65,185)	2,181,551
Fixed income - other	964,049	2,931	(27,280)	939,700
Equity - domestic	3,915,534	414,858	(4,264)	4,326,128
Equity - international	704,711	26,167	(1,721)	729,157
Total exchange traded funds	11,201,186	514,340	(116,798)	11,598,728
Certificates of deposit	1,250,030	3,922	-	1,253,952
Corporate domestic bonds	2,896,092	82,032	(91,124)	2,887,000
U.S. government bonds	883,569	-	(82,001)	801,568
U.S. government agency bonds	2,423,221	7,828	(175,030)	2,256,019
Municipal bonds	410,152	41	(30,432)	379,761
Fixed index annuity	2,500,000	500,442	-	3,000,442
Other investments:				
FS Real Estate Income Trust	1,518,777	-	(17,889)	1,500,888
FS Specialty Lending Fund	506,392	-	-	506,392
Total other investments	2,025,169	-	(17,889)	2,007,280
Total investments	\$ 31,175,489	\$ 1,132,641	\$ (516,236)	\$ 31,791,894

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

	2022			Fair Value
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Mutual funds:				
Fixed income - domestic	\$ 1,789,109	\$ -	\$ (206,653)	\$ 1,582,456
Fixed income - international	1,790,128	-	(138,716)	1,651,412
Equity - domestic	4,609,545	141,386	(483,475)	4,267,456
Equity - international	676,091	18,216	(63,583)	630,724
Money market	442,143	-	-	442,143
Total mutual funds	<u>9,307,016</u>	<u>159,602</u>	<u>(892,427)</u>	<u>8,574,191</u>
Exchange traded funds:				
Fixed income - domestic	4,510,111	-	(406,623)	4,103,488
Fixed income - U.S. government	2,526,467	3,862	(340,471)	2,189,858
Fixed income - other	1,418,252	922	(91,064)	1,328,110
Equity - domestic	3,107,278	123,137	(195,567)	3,034,848
Equity - international	557,273	1,103	(68,387)	489,989
Total exchange traded funds	<u>12,119,381</u>	<u>129,024</u>	<u>(1,102,112)</u>	<u>11,146,293</u>
Corporate domestic bonds	2,562,084	400	(363,899)	2,198,585
U.S. government bonds	1,168,204	76,556	(210,905)	1,033,855
U.S. government agency bonds	2,092,750	-	(210,108)	1,882,642
Municipal bonds	436,527	-	(56,562)	379,965
Fixed index annuity	2,500,000	472,689	-	2,972,689
Other investments:				
FS Energy and Power Fund	535,661	-	-	535,661
FS Global Credit Opportunities Fund	849,842	-	-	849,842
Total other investments	<u>1,385,503</u>	<u>-</u>	<u>-</u>	<u>1,385,503</u>
Total investments	<u>\$ 31,571,465</u>	<u>\$ 838,271</u>	<u>\$ (2,836,013)</u>	<u>\$ 29,573,723</u>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

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

	<u>2023</u>	<u>2022</u>
Interest and dividends	\$ 1,271,309	\$ 1,363,305
Investment fees	<u>(158,142)</u>	<u>(172,143)</u>
	<u>\$ 1,113,167</u>	<u>\$ 1,191,162</u>

3. Fair Value Measurements

The fair value measurement framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the assets or liabilities.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

ASC 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs be used when available. This hierarchy consists of three broad levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities and have the highest priority. Level 1 assets may include securities that are traded in an active exchange market, or actively traded over-the-counter markets. Level 2 valuation is based on directly or indirectly observable inputs other than quoted prices for identical assets. Level 3 assets may include financial instruments whose value is determined using pricing models with internally developed assumptions, discounted cash flows methodologies, or similar techniques.

The Association uses the following valuation techniques to measure fair value of assets on a recurring basis. There have been no changes in the methodologies used at December 31, 2023 and 2022.

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.

Certificates of Deposit: Certificates of deposit (CD) are valued at the closing price reported in the active market in which the CD is traded. These investments are classified within Level 2 of the valuation hierarchy.

Government Agency Bonds: Certain government agency bonds are valued at the closing price reported in the active market in which the bond is traded. These investments are classified within Level 1 of the valuation hierarchy.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

Corporate and Municipal Bonds: Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issues with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued using a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks. These investments are classified within Level 2 of the valuation hierarchy.

Fixed Index Annuity: The annuity is valued at the initial premium plus or minus any transfers, surrenders, or interest credited. Interest earned is based on changes in an underlying market index, calculated using an annual point-to-point margin method. Interest credited will not be less than zero. Inputs used by the Association include surrender charge and interest rate based on an index as calculated by the insurance company. This annuity is recorded at its cash surrender value at year-end and is classified within Level 3 of the valuation hierarchy.

Investments Measured Using the Net Asset Value (NAV) per Share Practical Expedient

In accordance with ASC 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value presented in the following notes is intended to permit the reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

FS Energy and Power Fund: The underlying investments consist primarily of income-oriented securities of privately-held and power related energy companies. The fund is an externally managed, non-diversified, closed-end management investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended. The fund's investment policy is to invest at least 80% of total assets in securities of Energy companies defined as those companies that engage in the exploration, development, production, gathering, transportation, processing, storage, refining, distribution, mining, generation, or marketing of natural gas, crude oil, refined products, or coal. The investment objectives are to generate current income and long-term capital appreciation. The company determines the net asset value of its investment portfolio each quarter. Securities that are publicly-traded are valued at the reported closing price on the valuation date. Securities that are not publicly-traded are valued at fair value as determined in good faith by the company's board of trustees with portfolio company

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

valuations which are based on relevant inputs, including, but not limited to, indicative dealer quotes, values of like securities, recent portfolio company financial statements and forecasts, and valuations prepared by third-party valuation services. These holdings were sold during 2023.

FS Global Credit Opportunities Fund: The underlying investments consist principally of secured and unsecured floating and fixed rate loans, and to a lesser extent, senior secured bonds and other credit instruments. The net asset value of the investment portfolio is determined quarterly using a combination of quoted market prices and estimations based on relevant inputs such as indicative dealer quotes, values of like securities, and valuations prepared by third-party valuation services. These holdings were sold in 2023.

FS Real Estate Income Trust Fund: The underlying investments consist principally of senior floating rate loans and other real estate-related assets, including subordinated debt backed by commercial real estate properties and commercial mortgage-backed securities (CMBS). The investment objectives are to provide current income, stable cash distributions, preserve and protect invested capital, and realize appreciation with lower volatility than public real estate companies. The net asset value of the investment portfolio is determined monthly using quotations obtained from an independent third-party pricing service, which provides prevailing bid and ask prices that are screened for validity by the third-party pricing service on the valuation date. For securities for which there is no readily available market quotations, the security is valued using current market data and a valuation provided by an independent third-party valuation firm. These securities are valued no less frequently than quarterly.

FS Specialty Lending Fund: The underlying investments consist principally of private and public credit in a broad set of industries, sectors, and subsectors. These investments include senior secured loans, senior secured bonds, preferred equity, and other income generating investments. The investment policy is to invest primarily in a portfolio of secured and unsecured floating and fixed rate loans, bonds, and other types of credit instruments for the purpose of generating income. The company determines the net asset value of its investment portfolio each quarter. Securities that are publicly-traded are valued at the reported closing price on the valuation date. Securities that are not publicly-traded are valued at fair value as determined in good faith by the company's board of trustees with portfolio company valuations which are based on relevant inputs, including, but not limited to, indicative dealer quotes, values of like securities, recent portfolio company financial statements and forecasts, and valuations prepared by third-party valuation services.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value on a recurring basis as of December 31, 2023:

	Total	Level 1	Level 2	Level 3
Investments measured at fair value				
Mutual funds:				
Fixed income - domestic	\$ 1,036,457	\$ 1,036,457	\$ -	\$ -
Fixed income - other	1,009,749	1,009,749		
Equity - domestic	916,364	916,364	-	-
Money market	4,644,574	4,644,574	-	-
Total mutual funds	<u>7,607,144</u>	<u>7,607,144</u>	<u>-</u>	<u>-</u>
Exchange traded funds:				
Fixed income - domestic	3,422,192	3,422,192	-	-
Fixed income - U.S. government	2,181,551	2,181,551	-	-
Fixed income - other	939,700	939,700	-	-
Equity - domestic	4,326,128	4,326,128	-	-
Equity - international	729,157	729,157	-	-
Total exchange traded funds	<u>11,598,728</u>	<u>11,598,728</u>	<u>-</u>	<u>-</u>
Certificate of Deposit	<u>1,253,952</u>	<u>-</u>	<u>1,253,952</u>	
Corporate domestic bonds	<u>2,887,000</u>	<u>-</u>	<u>2,887,000</u>	-
U.S. government bonds	<u>801,568</u>	<u>801,568</u>	<u>-</u>	<u>-</u>
U.S. government agency bonds	<u>2,256,019</u>	<u>2,256,019</u>	<u>-</u>	<u>-</u>
Municipal bonds	<u>379,761</u>	<u>-</u>	<u>379,761</u>	<u>-</u>
Fixed index annuity	<u>3,000,442</u>	<u>-</u>	<u>-</u>	<u>3,000,442</u>
Total investments measured at fair value	<u>29,784,614</u>	<u>22,263,459</u>	<u>3,266,761</u>	<u>3,000,442</u>
Investments measured at NAV				
FS Real Estate Investment Trust	1,500,888			
FS Specialty Lending Fund	<u>506,392</u>			
Total investments measured at NAV	<u>2,007,280</u>			
Total	<u><u>\$ 31,791,894</u></u>			

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value on a recurring basis as of December 31, 2022:

	Total	Level 1	Level 2	Level 3
Investments measured at fair value				
Mutual funds:				
Fixed income - domestic	\$ 1,582,456	\$ 1,582,456	\$ -	\$ -
Fixed income - international	1,651,412	1,651,412	-	-
Equity - domestic	4,267,456	4,267,456	-	-
Equity - international	630,724	630,724	-	-
Money market	442,143	442,143	-	-
Total mutual funds	<u>8,574,191</u>	<u>8,574,191</u>	<u>-</u>	<u>-</u>
Exchange traded funds:				
Fixed income - domestic	4,103,488	4,103,488	-	-
Fixed income - U.S. government	2,189,858	2,189,858	-	-
Fixed income - other	1,328,110	1,328,110	-	-
Equity - domestic	3,034,848	3,034,848	-	-
Equity - international	489,989	489,989	-	-
Total exchange traded funds	<u>11,146,293</u>	<u>11,146,293</u>	<u>-</u>	<u>-</u>
Corporate domestic bonds	<u>2,198,585</u>	<u>-</u>	<u>2,198,585</u>	<u>-</u>
U.S. government bonds	<u>1,033,855</u>	<u>1,033,855</u>	<u>-</u>	<u>-</u>
U.S. government agency bonds	<u>1,882,642</u>	<u>1,882,642</u>	<u>-</u>	<u>-</u>
Municipal bonds	<u>379,965</u>	<u>-</u>	<u>379,965</u>	<u>-</u>
Fixed index annuity	<u>2,972,689</u>	<u>-</u>	<u>-</u>	<u>2,972,689</u>
Total investments measured at fair value	<u>28,188,220</u>	<u>22,636,981</u>	<u>2,578,550</u>	<u>2,972,689</u>
Investments measured at NAV				
FS Energy and Power Fund	535,661			
FS Global Credit Opportunities Fund	849,842			
Total investments measured at NAV	<u>1,385,503</u>			
Total	<u>\$ 29,573,723</u>			

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

Additional Information for Investments Measured Using the NAV per Share Practical Expedient

The following table sets forth additional disclosures for the measurements of investments in certain entities that calculate net asset value per share (or its equivalent) at December 31, 2023:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Other investments:				
FS Real Estate Investment Trust	\$ 1,500,888	\$ -	*	30 days
FS Specialty Lending Fund	506,392	-	3 months	30 days

* Redemption is limited to 2% of NAV per month and 5% of NAV quarterly.

Level 3 Activity

For the years ended December 31, 2023 and 2022, there were no purchases, issues, or transfers into or out of Level 3 of the fair value hierarchy.

Gains and losses (realized and unrealized) included in changes in value for the period above are reflected as a component of the escrow funds – health and pension liability account.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

4. Accounts Receivable

Accounts receivable consist of the following:

	At January 1, 2022	At December 31, 2022	At December 31, 2023
Member Benefits Reimbursements	\$ 56,448	\$ 138,899	\$ 120,856
Marketing Grant Receivables	12,430	-	-
Total Accounts Receivables	<u>\$ 68,878</u>	<u>\$ 138,899</u>	<u>\$ 120,856</u>

5. Naming Rights

The Association recognized an intangible asset in the amount of \$700,000 for the benefits derived from an agreement related to naming rights entered into with Downs Racing, LP (Downs Racing). Downs Racing owns and operates a gaming and entertainment facility and harness racing track with pari-mutuel wagering in Wilkes-Barre, Pennsylvania known as Mohegan Sun Pocono Downs. Downs Racing entered into an agreement with the Luzerne County Convention Center Authority for the naming rights to the arena located in Wilkes-Barre. The arena is known as the Mohegan Sun Arena at Casey Plaza through January 2020. In consideration of the mutual benefits that the Association and its members and employees will receive relating to the naming rights granted to Downs Racing, the Association has contracted to contribute to Downs Racing \$100,000 annually during the term of Downs Racing's naming rights agreement.

On December 19, 2018, the Association entered into an agreement with Downs Racing to extend the naming rights effective from February 1, 2020 through January 31, 2025. In consideration of the mutual benefits that the Association and its members and employees will receive relating to the naming rights granted to Downs Racing, the Association has contracted to contribute to Downs Racing \$75,000 annually during the term of Downs Racing's naming rights agreement. During the year end December 31, 2020 the Association recognized an intangible asset in the amount of \$375,000 for the benefits derived from this agreement.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

The Association will amortize the intangible asset, naming rights, ratably over the term of the agreement with Downs Racing. The Association recognized \$75,000 and \$75,000 of amortization expense related to naming rights during 2023 and 2022, respectively.

6. Race Track Revenues

The Association holds a contract with a harness race track in Pennsylvania, Downs Racing, which expires December 31, 2024. Under the terms of this contract, the Association will receive \$1,200,000 annually. In addition, the Association can request additional payments exceeding \$100,000 if deemed necessary. These amounts may be used toward Association operating expenses, dues to any national organization, group health insurance for drivers, trainers, and grooms, accident and disability insurance for trainers and drivers, and marketing and promotional items.

In addition, the Association holds a contract with Chester Downs and Marina, LLC that expires January 31, 2028. Under this contract, a percentage of wagering handle shall be paid to the Association to be used toward Association operating expenses, dues to any national horsemen's organizations, group health insurance, marketing and promotional costs to fund purses as determined by the Association in consultation with Chester Downs, or administrative costs. This revenue is recognized when allowable expenses, as defined by the terms of the Live Racing Agreement, are incurred.

7. 401(k) Plan

The Association established a deferred salary arrangement under I.R.C. Section 401(k). The Plan covers substantially all its eligible employees. The Association's matching contribution is discretionary and is equal to a uniform percentage as determined by the Employer of each participant's elective deferral. The Association may also make a discretionary nonelective contribution. The Association's discretionary contribution for 2023 and 2022 totaled \$20,000 and \$42,500, respectively.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

8. Insurance

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

9. Risks and Uncertainties

The Association maintains several cash balances (restricted and unrestricted) at financial institutions located in Pennsylvania. Accounts in these financial institutions are secured by Federal Deposit Insurance Corporation (FDIC) up to specified limits. Beginning in 2018, the Association enrolled in the Certificate of Deposit Account Registry Service (CDARS) and Insured Cash Sweep (ICS) programs, which extended FDIC coverage to all cash held by the Association. At December 31, 2023 and 2022, the Association had bank deposits of \$6,705,603 and \$8,237,276, respectively.

For the years ended December 31, 2023 and 2022, revenue includes \$2,019,637 and \$2,348,063 respectively, arising from race track revenues received from two race tracks. The loss of these revenue sources could have a material effect on the Association.

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

10. Availability and Liquidity

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

	<u>2023</u>	<u>2022</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,279,098	\$ 4,056,565
Restricted cash and cash equivalents	5,376,354	4,132,892
Restricted investments	31,791,894	29,573,723
Accounts receivable	120,856	138,899
Total financial assets	<u>38,568,202</u>	<u>37,902,079</u>
Less amounts not available to be used within one year:		
Assets restricted for purses	3,812,963	1,954,759
Assets restricted for health and pension	<u>33,355,285</u>	<u>31,536,009</u>
	<u>37,168,248</u>	<u>33,490,768</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,399,954</u>	<u>\$ 4,411,311</u>

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

SUPPLEMENTARY INFORMATION

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

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

PERIOD JANUARY 1, 2023 THROUGH DECEMBER 31, 2023

	Purses	Benefits	Total
Cash Receipts:			
Gaming funds - Chester Downs and Marina, LLC	\$ 15,721,333	\$ 1,223,642	\$ 16,944,975
Gaming funds - Downs Racing LP	24,424,539	1,903,624	26,328,163
Interest and investment income, net of fees	158,851	1,160,178	1,319,029
Total cash receipts	40,304,723	4,287,444	44,592,167
Cash Disbursements:			
Purse payments - Chester Downs and Marina, LLC	15,638,980	-	15,638,980
Purse payments - Downs Racing, LP	22,805,890	-	22,805,890
Health insurance payments	-	2,009,918	2,009,918
Retirement distributions	-	1,178,555	1,178,555
Total cash disbursements	38,444,870	3,188,473	41,633,343
Other:			
Net unrealized and realized gain (loss) on restricted investments	-	502,809	502,809
Total other	-	502,809	502,809
Changes in Escrow Balances	1,859,853	1,601,780	3,461,633
Escrow balance at January 1, 2023	1,953,110	31,753,505	33,706,615
Escrow balance at December 31, 2023	\$ 3,812,963	\$ 33,355,285	\$ 37,168,248

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

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

PERIOD JANUARY 1, 2023 THROUGH DECEMBER 31, 2023

1. Basis of Presentation

The accompanying statement of cash receipts and cash disbursements and changes in escrow balances includes the Pennsylvania Race Horse Development Fund activity of the Pennsylvania Harness Horsemen's Association (Association) and is presented on the cash basis of accounting. The information in this statement is presented in accordance with Chapter 436a of the Pennsylvania Horse Development and Gaming Act, and fiscal code (72 P.S. § 1701-0). Therefore, some amounts presented in this statement may differ from amounts presented in, or used in, the preparation of the basic financial statements.

2. Flow of the Pennsylvania Horse Funds

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

Management of the Association determines the portion of the Race Horse Development Funds to transfer to the casinos for purse purposes based on an estimate provided by the casinos. The frequency of purse payments to the casinos is dependent on the established racing schedules. The Association maintains schedules detailing all purse fund payments. The purse payments are reconciled to the actual purses paid by the casinos. Health disbursements are made directly to the carriers based on invoiced amounts. There were no administrative expenses charged for those funds in 2023.

**Pennsylvania Harness Horsemen's
Association**

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

Year Ended December 31, 2023

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 Monson, Pennsylvania Office of the Budget
Pennsylvania Harness Horsemen’s Association**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pennsylvania Harness Horsemen’s Association (Association), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 29, 2024.

Report on Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Association’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

Purpose of this Report

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

Mahe Duessel

Harrisburg, Pennsylvania
August 29, 2024