

**Pennsylvania Harness Horsemen's
Association**

Financial Statements and Supplementary
Information

Years Ended December 31, 2024 and 2023
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, 2024 AND 2023

TABLE OF CONTENTS

Independent Auditor's Report

Financial Statements:

Statements of Financial Position	1
Statements of Activities	2
Statements of Functional Expenses	3
Statements of Cash Flows	5
Notes to Financial Statements	6

Supplementary Information:

Statement of Cash Receipts and Cash Disbursements and Changes in Escrow Balances	31
Notes to Statement of Cash Receipts and Cash Disbursements and Changes in Escrow Balances	32

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

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 <i>Government Auditing Standards</i>	33
Schedule of Findings and Responses	35

Independent Auditor's Report

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

Qualified Opinion on 2024 and Unmodified Opinion on 2023

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, 2024 and 2023, 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, except for the possible effects on the 2024 financial statements of the matter described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2024 and 2023, 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 Qualified Opinion on 2024 and Unmodified Opinion on 2023

We were unable to obtain sufficient appropriate audit evidence regarding the fair value of an alternative investment in the amount of \$3,129,048 in the 2024 financial statements due to the absence of an active market and lack of sufficient observable inputs. We were unable to obtain sufficient appropriate audit evidence to verify the reasonableness of the valuation of the investment asset and corresponding escrow liability of the investment by other auditing procedures.

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 qualified audit opinion on the 2024 financial statements and our unmodified audit opinion on the 2023 financial statements.

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 is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 6, 2025 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 6, 2025

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2024 AND 2023

Assets	2024	2023
Current assets:		
Cash and cash equivalents	\$ 1,045,293	\$ 1,279,098
Accounts receivable	132,569	120,856
Prepaid expenses	59,323	27,658
Total current assets	<u>1,237,185</u>	<u>1,427,612</u>
Fixed assets:		
Property, plant, and equipment, at cost	113,991	113,991
Less: accumulated depreciation	<u>(107,775)</u>	<u>(106,887)</u>
Net fixed assets	<u>6,216</u>	<u>7,104</u>
Other assets:		
Restricted cash and cash equivalents	3,194,069	5,376,354
Restricted investments	33,030,534	31,791,894
Total other assets	<u>36,224,603</u>	<u>37,168,248</u>
Intangible assets:		
Naming rights, net of accumulated amortization of \$293,750 in 2023 and \$218,750 in 2022	<u>6,250</u>	<u>81,250</u>
Total Assets	<u><u>\$ 37,474,254</u></u>	<u><u>\$ 38,684,214</u></u>
Liabilities and Net Assets		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 249,914	\$ 344,715
Accrued employer retirement plan contribution	20,000	20,000
Deferred revenue - purses racing revenue	76,731	16,764
Total current liabilities	<u>346,645</u>	<u>381,479</u>
Noncurrent Liabilities:		
Escrow funds:		
Purses - slot revenue	1,565,588	3,812,963
Health and pension - slot revenue	34,659,015	33,355,285
Total escrow funds	<u>36,224,603</u>	<u>37,168,248</u>
Total non-current liabilities	<u>36,224,603</u>	<u>37,168,248</u>
Total liabilities	<u>36,571,248</u>	<u>37,549,727</u>
Net Assets:		
Without donor restrictions	<u>903,006</u>	<u>1,134,487</u>
Total Liabilities and Net Assets	<u><u>\$ 37,474,254</u></u>	<u><u>\$ 38,684,214</u></u>

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
Revenues:		
Race track revenues:		
Downs Racing	\$ 1,237,565	\$ 1,279,637
Harrah's Chester	475,000	740,000
Membership dues	29,770	30,560
Race Horse Development Fund	2,125,000	2,011,341
Grants	224,880	219,229
Member benefit reimbursements	509,056	531,830
Interest income	971	2,696
Special events	25,000	25,000
Miscellaneous income	19,830	16,245
Total revenues	<u>4,647,072</u>	<u>4,856,538</u>
Expenses:		
Program	4,717,894	5,690,647
Management and general	160,659	204,438
Total expenses	<u>4,878,553</u>	<u>5,895,085</u>
Change in Net Assets	(231,481)	(1,038,547)
Net Assets:		
Beginning of year	<u>1,134,487</u>	<u>2,173,034</u>
End of year	<u><u>\$ 903,006</u></u>	<u><u>\$ 1,134,487</u></u>

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2024

	Program						Total	Management	
	Health	Pension	Member	Racetrack	Industry	Regulatory			
	Program	Program	Benefits	Relations	Promotions	Matters	Program	and General	Total
Salaries	\$ 43,714	\$ 37,809	\$ 54,596	\$ 73,203	\$ 84,724	\$ 45,533	\$ 339,579	\$ 59,925	\$ 399,504
Payroll taxes	3,416	2,955	4,267	5,721	6,621	3,558	26,538	4,682	31,220
Employee benefits	9,077	7,851	11,337	15,200	17,592	9,455	70,512	12,443	82,955
General insurance	-	-	149,145	-	-	-	149,145	53,356	202,501
Member benefits	-	-	2,840,447	214,649	-	-	3,055,096	-	3,055,096
Advertising, newsletter, and public relations	-	-	-	-	562,670	-	562,670	-	562,670
Meeting expense and travel	4,914	4,250	6,137	8,228	9,523	5,118	38,170	6,737	44,907
National dues	-	-	-	-	14,300	-	14,300	-	14,300
Office expense	2,762	2,389	3,450	4,626	5,353	2,877	21,457	3,787	25,244
Telephone	630	545	786	1,054	1,220	656	4,891	863	5,754
Legal and accounting	9,233	7,986	11,532	15,462	17,895	9,617	71,725	12,656	84,381
Legislative fees	-	-	-	-	-	194,125	194,125	-	194,125
Donation and gifts	-	-	-	-	59,500	-	59,500	-	59,500
Depreciation	97	84	121	163	188	101	754	134	888
Amortization	-	-	-	-	75,000	-	75,000	-	75,000
Miscellaneous expense	4,432	3,834	5,536	7,422	8,591	4,617	34,432	6,076	40,508
Total expenses	<u>\$ 78,275</u>	<u>\$ 67,703</u>	<u>\$ 3,087,354</u>	<u>\$ 345,728</u>	<u>\$ 863,177</u>	<u>\$ 275,657</u>	<u>\$ 4,717,894</u>	<u>\$ 160,659</u>	<u>\$ 4,878,553</u>

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	Management	Total
	Health Program	Pension Program	Member Benefits	Racetrack Relations	Industry Promotions	Regulatory Matters	Program	and General	
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	<u>\$ 85,150</u>	<u>\$ 70,959</u>	<u>\$ 2,995,499</u>	<u>\$ 1,502,736</u>	<u>\$ 784,317</u>	<u>\$ 251,986</u>	<u>\$ 5,690,647</u>	<u>\$ 204,438</u>	<u>\$ 5,895,085</u>

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
Reconciliation of Change in Net Assets to Net Cash, Cash Equivalents, and Restricted Cash Provided by (Used in) Operating Activities:		
Change in net assets	\$ (231,481)	\$ (1,038,547)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	75,888	76,206
Effects of changes in operating assets and liabilities:		
Purse funds received	33,798,712	40,145,872
Benefits funds received	3,108,856	3,127,266
Interest on restricted funds	257,007	205,862
Accounts receivable	(11,713)	18,043
Prepaid expenses	(31,665)	(4,232)
Purse payments	(36,245,610)	(38,444,870)
Health insurance payments	(2,125,000)	(2,009,918)
Deferred revenue - purses racing revenue	59,966	(1,725,071)
Accounts payable	(94,801)	(79,716)
Accrued employer retirement plan contribution	-	(22,500)
Accrued severance	(1,650)	(1,650)
Net cash, cash equivalents, and restricted cash provided by (used in) operating activities	<u>(1,441,491)</u>	<u>246,745</u>
Cash Flows From Investing Activities:		
Purchase of investments	<u>(974,599)</u>	<u>(1,780,750)</u>
Net cash, cash equivalents, and restricted cash provided by (used in) investing activities	<u>(974,599)</u>	<u>(1,780,750)</u>
Net Decrease in Cash, Cash Equivalents, and Restricted Cash	(2,416,090)	(1,534,005)
Cash, Cash Equivalents, and Restricted Cash:		
Beginning of year	6,655,452	8,189,457
End of year	<u><u>\$ 4,239,362</u></u>	<u><u>\$ 6,655,452</u></u>

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2024 AND 2023

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, 2024 and 2023.

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, 2024 AND 2023

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:

	2024	2023
Cash and cash equivalents	\$ 1,045,293	\$ 1,279,098
Restricted cash and cash equivalents	3,194,069	5,376,354
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 4,239,362</u>	<u>\$ 6,655,452</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, 2024 and 2023.

Fair Value of Investments

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, 2024 AND 2023

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, 2024.

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 6.

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, 2025. During the years ended December 31, 2024, and 2023, the Association incurred expenses of \$224,880 and \$219,229 respectively, and recognized the corresponding contribution.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2024 AND 2023

Functional Allocation of Expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of actual or estimated employee time. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Association.

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.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Subsequent Events

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

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2024 AND 2023

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 2024 and 2023 is as follows:

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2024 AND 2023

	Purses	Benefits
Escrow balance, January 1, 2023	\$ 1,953,110	\$ 31,753,505
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 losses 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>
Gaming Funds - Chester Downs and Marina, LLC	12,777,270	1,172,215
Gaming Funds - Downs Racing, LP	21,021,443	1,936,641
Unrealized/realized gains on investments	-	803,552
Interest and investment income (net of fees)	199,522	1,132,182
	<u>33,998,235</u>	<u>5,044,590</u>
Purse payments - Chester Downs and Marina, LLC - purse account	(12,770,535)	-
Purse payments - Downs Racing, LP - purse account	(23,475,075)	-
Health insurance payments	-	(2,125,000)
Retirement distributions	-	(1,615,860)
	<u>(36,245,610)</u>	<u>(3,740,860)</u>
Escrow balance, December 31, 2024	<u>\$ 1,565,588</u>	<u>\$ 34,659,015</u>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>Purses</u>	<u>Benefits</u>
December 31, 2024		
Composition of ending balance:		
Cash and cash equivalents	\$ 1,565,588	\$ 1,628,481
Investments	<u>-</u>	<u>33,030,534</u>
Ending cash and cash equivalents and investments	<u><u>\$ 1,565,588</u></u>	<u><u>\$ 34,659,015</u></u>

December 31, 2023		
Composition of ending balance:		
Cash and cash equivalents	\$ 3,812,963	\$ 1,563,391
Investments	<u>-</u>	<u>31,791,894</u>
Ending cash and cash equivalents and investments	<u><u>\$ 3,812,963</u></u>	<u><u>\$ 33,355,285</u></u>

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

Summary of all escrow accounts:

	<u>Purses - Slot Revenue</u>	<u>Benefits - Slot Revenue</u>	<u>Total</u>
December 31, 2024			
Cash and cash equivalents	\$ 1,565,588	\$ 1,628,481	\$ 3,194,069
Investments	<u>-</u>	<u>33,030,534</u>	<u>33,030,534</u>
Escrow balance, December 31, 2024	<u><u>\$ 1,565,588</u></u>	<u><u>\$ 34,659,015</u></u>	<u><u>\$ 36,224,603</u></u>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>Purses - Slot Revenue</u>	<u>Benefits - Slot Revenue</u>	<u>Total</u>
December 31, 2023			
Cash and cash equivalents	\$ 3,812,963	\$ 1,563,391	\$ 5,376,354
Investments	<u>-</u>	<u>31,791,894</u>	<u>31,791,894</u>
Escrow balance, December 31, 2023	<u>\$ 3,812,963</u>	<u>\$ 33,355,285</u>	<u>\$ 37,168,248</u>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2024 AND 2023

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 2024 and 2023 is as follows:

	Racing Revenues
Deferred revenue balance, January 1, 2024	\$ 16,764
Transfers from Chester Downs and Marina, LLC - racing income	2,023,190
Investment income (net of fees)	10,927
	2,034,117
Purse payments	(1,499,150)
Racetrack (pari-mutuel) revenues paid to the Association	(475,000)
	(1,974,150)
Deferred revenue balance, December 31, 2024	\$ 76,731
Compositions of ending balance:	
Cash and cash equivalents	\$ 76,731
Investments	-
Ending cash and cash equivalents and investments	\$ 76,731

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2024 AND 2023

	Racing Revenues
	<u> </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)	<u>62,169</u>
	2,213,954
Purse payments	(3,199,026)
Racetrack (pari-mutuel) revenues paid to the Association	<u>(740,000)</u>
	<u>(3,939,026)</u>
Deferred revenue balance, December 31, 2023	<u><u>\$ 16,764</u></u>
Compositions of ending balance:	
Cash and cash equivalents	\$ 16,764
Investments	<u>-</u>
Ending cash and cash equivalents and investments	<u><u>\$ 16,764</u></u>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2024 AND 2023

Summary of all deferred accounts:

	<u>Racing Revenue</u>	<u>Total</u>
December 31, 2024		
Cash and cash equivalents	\$ 76,731	\$ 76,731
Investments	<u>-</u>	<u>-</u>
Deferred revenue balance, December 31, 2024	<u>\$ 76,731</u>	<u>\$ 76,731</u>
	<u>Racing Revenue</u>	<u>Total</u>
December 31, 2023		
Cash and cash equivalents	\$ 16,764	\$ 16,764
Investments	<u>-</u>	<u>-</u>
Deferred revenue balance, December 31, 2023	<u>\$ 16,764</u>	<u>\$ 16,764</u>

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2024 AND 2023

Investments are stated at fair value. Fair value and unrealized appreciation (depreciation) at December 31, 2024 and 2023 are summarized as follows:

	2024			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mutual funds:				
Fixed income - domestic	\$ 1,081,548	\$ 15,577	\$ -	\$ 1,097,125
Fixed income - other	1,085,279	32,035	-	1,117,314
Equity - domestic	919,326	16,356	-	935,682
Money market	1,599,063	-	-	1,599,063
Total mutual funds	4,685,216	63,968	-	4,749,184
Exchange traded funds:				
Fixed income - domestic	3,700,075	68,904	(95,475)	3,673,504
Fixed income - U.S. government	3,608,781	12,518	(78,552)	3,542,747
Fixed income - other	59,369	-	(1,029)	58,340
Equity - domestic	6,214,584	701,067	(9,854)	6,905,797
Equity - international	680,897	17,613	(15,347)	683,163
Total exchange traded funds	14,263,706	800,102	(200,257)	14,863,551
Certificates of deposit	1,000,020	14,895	-	1,014,915
Corporate domestic bonds	3,106,811	42,246	(94,912)	3,054,145
U.S. government bonds	879,758	-	(144,568)	735,190
U.S. government agency bonds	2,402,299	717	(214,558)	2,188,458
Municipal bonds	241,541	-	(28,477)	213,064
Other investments:				
FS Real Estate Income Trust	1,609,397	3,378	(4,581)	1,608,194
AMG Pantheon Fund Tax Exempt	1,000,000	390	-	1,000,390
* iCapital Apollo Aligned Alt. Access	3,000,000	129,048	-	3,129,048
FS Specialty Lending Fund	474,395	-	-	474,395
Total other investments	6,083,792	132,816	(4,581)	6,212,027
Total investments	\$ 32,663,143	\$ 1,054,744	\$ (687,353)	\$ 33,030,534

* See Note 3 regarding the fair value of this investment.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2024 AND 2023

	2023			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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, 2024 AND 2023

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

	2024	2023
Interest and dividends	\$ 1,233,309	\$ 1,271,309
Investment fees	(158,611)	(158,142)
	<u>\$ 1,074,698</u>	<u>\$ 1,113,167</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, 2024 AND 2023

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, 2024 and 2023.

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, 2024 AND 2023

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.

AMG Pantheon Fund Tax Exempt: The fund invests substantially all of its assets in the AMG Pantheon Master Fund, LLC (Master Fund), which has the same investment objective and investment policies of the fund. The Master Fund's investment objective is to seek long-term capital appreciation. To achieve its investment objective the fund invests predominantly in interest in private investments, including primary and secondary investments in private equity, infrastructure, and other private asset funds and co-investments in portfolio companies. Equity securities traded on a domestic or international securities exchange are valued at the last quoted sale price, or, lacking any sales, at the last quoted bid price. Investments in open-end registered investment companies are valued at their end day NAV. Short-term debt obligations are valued at amortized cost, provided that amortized cost value is approximately the same as the fair value of the security valued without the use of amortized cost. Direct investments and certain co-investments use the market or income approach to estimate the fair value of private investments. Investment

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2024 AND 2023

funds and certain co-investments are generally based on the valuations provided by the general partners or managers of underlying fund investments as of the date investments are valued.

iCapital Apollo Aligned Alt. Access: The fund seeks to provide investors with access to a diversified and flexible private markets portfolio that generates equity-like return, while maintaining a focus on downside protection. The fund is investment in Apollo-managed funds comprised of credit, real assets, hybrid, and private equity. In addition, it invests in Apollo-led private direct investments, co-investments, and third-party managed funds. The fund is valued utilizing an in-house valuation process as well as third-party valuations no less than quarterly. The funds seeks to use a blend of three key valuation methodologies for private equity positions, including discounted cashflow, transaction comps, and public market comps. For any publicly traded positions or securities, an in-house pricing team is used. For third-party managed funds, the fund will typically follow the practical expedient approach.

This investment is recorded at a fair value of \$3,129,048 at December 31, 2024. Due to the absence of an active market, the valuation relies on internal models and significant management assumptions. As such, there is an inherent uncertainty in its valuation. Any changes in assumptions could significantly impact the reported fair value. Management believes the valuation represents the best estimate based on available information and will continue to seek additional data to enhance the reliability of future fair value measurements.

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.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2024 AND 2023

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.

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, 2024 AND 2023

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, 2024:

	Total	Level 1	Level 2	Level 3
Investments measured at fair value				
Mutual funds:				
Fixed income - domestic	\$ 1,097,125	\$ 1,097,125	\$ -	\$ -
Fixed income - other	1,117,314	1,117,314	-	-
Equity - domestic	935,682	935,682	-	-
Money market	1,599,063	1,599,063	-	-
Total mutual funds	4,749,184	4,749,184	-	-
Exchange traded funds:				
Fixed income - domestic	3,673,504	3,673,504	-	-
Fixed income - U.S. government	3,542,747	3,542,747	-	-
Fixed income - other	58,340	58,340	-	-
Equity - domestic	6,905,797	6,905,797	-	-
Equity - international	683,163	683,163	-	-
Total exchange traded funds	14,863,551	14,863,551	-	-
Certificate of Deposit	1,014,915	-	1,014,915	-
Corporate domestic bonds	3,054,145	-	3,054,145	-
U.S. government bonds	735,190	735,190	-	-
U.S. government agency bonds	2,188,458	2,188,458	-	-
Municipal bonds	213,064	-	213,064	-
Total investments measured at fair value	26,818,507	22,536,383	4,282,124	-
Investments measured at NAV				
FS Real Estate Investment Trust	1,608,194			
AMG Pantheon Fund Tax Exempt	1,000,390			
iCapital Apollo aligned Alt. Access	3,129,048			
FS Specialty Lending Fund	474,395			
Total investments measured at NAV	6,212,027			
Total	<u>\$ 33,030,534</u>			

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2024 AND 2023

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	7,607,144	7,607,144	-	-
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	11,598,728	11,598,728	-	-
Certificate of Deposit	1,253,952	-	1,253,952	-
Corporate domestic bonds	2,887,000	-	2,887,000	-
U.S. government bonds	801,568	801,568	-	-
U.S. government agency bonds	2,256,019	2,256,019	-	-
Municipal bonds	379,761	-	379,761	-
Fixed index annuity	3,000,442	-	-	3,000,442
Total investments measured at fair value	29,784,614	22,263,459	4,520,713	3,000,442
Investments measured at NAV				
FS Real Estate Investment Trust	1,500,888			
FS Specialty Lending Fund	506,392			
Total investments measured at NAV	2,007,280			
Total	\$ 31,791,894			

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2024 AND 2023

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, 2024:

Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Other investments:				
FS Real Estate Investment Trust	\$ 1,608,194	\$ -	*	30 days
AMG Pantheon Fund Tax Exempt	1,000,390	-	**	**
iCapital Apollo Aligned Alt. Access	3,129,048	-	3 months	75 days, ***
FS Specialty Lending Fund	474,395	-	3 months	30 days

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

** Redemptions are subject to approval by the fund's Board of Directors.

*** Redemptions are limited to 5% aggregate NAV of the capital accounts attributable to each class of the underlying fund's interests as of the withdrawal date.

Level 3 Activity

For the year ended December 31, 2024, the entire balance of Level 3 investments were liquidated at a value of \$3,141,970. For the year ended December 31, 2023, 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, 2024 AND 2023

4. Accounts Receivable

Accounts receivable consist of the following:

	At January 1, 2023	At December 31, 2023	At December 31, 2024
Member Benefits Reimbursements	\$ 138,899	\$ 120,856	\$ 132,569
Marketing Grant Receivables	-	-	-
Total Accounts Receivables	<u>\$ 138,899</u>	<u>\$ 120,856</u>	<u>\$ 132,569</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, 2024 AND 2023

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 2024 and 2023, respectively.

6. Race Track Revenues

The Association holds a contract with a harness race track in Pennsylvania, Downs Racing, which expires December 31, 2025. 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 2024 and 2023 totaled \$20,000 and \$20,000, respectively.

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2024 AND 2023

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, 2024 and 2023, the Association had bank deposits of \$4,368,389 and \$6,705,603, respectively.

For the years ended December 31, 2024 and 2023, revenue includes \$1,712,565 and \$2,019,637 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, 2024 AND 2023

10. Availability and Liquidity

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

	2024	2023
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,045,293	\$ 1,279,098
Restricted cash and cash equivalents	3,194,069	5,376,354
Restricted investments	33,030,534	31,791,894
Accounts receivable	132,569	120,856
Total financial assets	<u>37,402,465</u>	<u>38,568,202</u>
Less amounts not available to be used within one year:		
Assets restricted for purses	1,565,588	3,812,963
Assets restricted for health and pension	<u>34,659,015</u>	<u>33,355,285</u>
	<u>36,224,603</u>	<u>37,168,248</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,177,862</u>	<u>\$ 1,399,954</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, 2024 THROUGH DECEMBER 31, 2024

	Purses	Benefits	Total
Cash Receipts:			
Gaming funds - Chester Downs and Marina, LLC	\$ 12,577,265	\$ 1,172,215	\$ 13,749,480
Gaming funds - Downs Racing LP	20,821,438	1,936,641	22,758,079
SPMO funds - Chester Downs and Marina, LLC	200,005	-	200,005
SPMO funds - Downs Racing LP	200,005	-	200,005
Interest and investment income, net of fees	199,522	1,132,182	1,331,704
Total cash receipts	<u>33,998,235</u>	<u>4,241,038</u>	<u>38,239,273</u>
Cash Disbursements:			
Purse payments - Chester Downs and Marina, LLC	12,770,535	-	12,770,535
Purse payments - Downs Racing, LP	23,475,075	-	23,475,075
Health insurance payments	-	2,125,000	2,125,000
Retirement distributions	-	1,615,860	1,615,860
Total cash disbursements	<u>36,245,610</u>	<u>3,740,860</u>	<u>39,986,470</u>
Other:			
Net unrealized and realized gain (loss) on restricted investments	-	803,552	803,552
Total other	<u>-</u>	<u>803,552</u>	<u>803,552</u>
Changes in Escrow Balances	(2,247,375)	1,303,730	(943,645)
Escrow balance at January 1, 2024	<u>3,812,963</u>	<u>33,355,285</u>	<u>37,168,248</u>
Escrow balance at December 31, 2024	<u>\$ 1,565,588</u>	<u>\$ 34,659,015</u>	<u>\$ 36,224,603</u>

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, 2024 THROUGH DECEMBER 31, 2024

1. Basis of Presentation

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

2. Flow of the Pennsylvania Horse Funds

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

Management of the Association determines the portion of the Race Horse Development Funds to transfer to the casinos for purse purposes based on an estimate provided by the casinos. The frequency of purse payments to the casinos is dependent on the established racing schedules. The Association maintains schedules detailing all purse fund payments. The purse payments are reconciled to the actual purses paid by the casinos. Health disbursements are made directly to the carriers based on invoiced amounts. There were no administrative expenses charged for those funds in 2024.

**Pennsylvania Harness Horsemen's
Association**

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

Year Ended December 31, 2024

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, 2024, and the related statement 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 6, 2025.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2024-001 to be a material weakness.

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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2024-002 that we consider a significant deficiency.

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*.

The Association's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the Association's response to findings identified in our audit and described in the accompany schedule of findings and responses. The Association's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Maher Duessel

Harrisburg, Pennsylvania
August 6, 2025

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2024

Material Weakness

Finding 2024-001: Obtaining Documentation of Fair Value

Condition: We were unable to obtain sufficient audit evidence regarding the fair value of the Apollo Aligned Alternatives Access Fund (US Tax Exempt), L.P. (Fund). As this investment is presented as an escrow asset, the corresponding value of the escrow liability could not be determined.

Criteria: Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 840 requires documentation to be maintained to support the calculation of fair value.

Cause: Sufficient documentation could not be provided to support the calculation of the ending fair value of the Fund as recorded in the financial statements.

Effect: The value of the Fund asset and escrow liability recorded at year-end may not reflect fair value.

Recommendation: We recommend that the Association obtain an understanding of the calculation of the fair value of the Fund at year-end, and that this documentation be maintained to support the value recorded in the financial statements.

Management's Response: We acknowledge and agree with the recommendation regarding the importance of understanding and documenting the fair value calculation of the Fund at year-end. Based on the statements received, we are confident that the valuation reflected in our financial statements is accurate. Going forward, the Association will request and retain detailed information from the Fund manager or relevant party to ensure a clear understanding of the valuation methodology. This supporting documentation will be reviewed and maintained as part of our year-end financial records to substantiate the reported fair value.

Significant Deficiency

Finding 2024-002: Improving Segregation of Duties

Condition: During the audit, we noted the following duties and controls that could be further segregated:

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2024

- The Executive Director (ED) has full access to Quickbooks, but does not require the ability to record transactions in the accounting software.
- The ED and Chief Financial Officer (CFO) are authorized signers on the Association's bank accounts while having full access to the accounting software. During our testing of checks written to check signers we noted one instance where a check written did not contain two signatures. However, the signature on the check was not the individual receiving the funds.
- Journal entries and financial reports are not formally reviewed.

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

Cause: The Association's controls are not adequately designed, and duties are not properly segregated, to detect and correct errors.

Effect: Improperly designed internal controls or segregation of duties could result in material misstatements in financial records, whether due to fraud or error, that may not be prevented or detected and corrected on a timely basis.

Recommendation: We recommend that the ED's access to Quickbooks be restricted to approve invoices and review financial information only.

While we note that the Association currently has a control in place which requires dual signatures on checks, we recommend that individuals with full access to the accounting software do not have the ability to sign checks. In addition, we recommend that individuals with check signing ability do not have access to check stock.

Due to the small number of employees at the Association, we realize it may not be possible to formally review all journal entries. Therefore, we recommend that financial reports be provided to the ED as part of the monthly bank statement and reconciliation review. We also recommend that financial reports be provided to the Board of Directors for review during meetings.

Management's Response: We acknowledge the recommendation regarding the Executive Director's access to QuickBooks. To strengthen internal controls, the Association will revise the ED's user permissions to limit access strictly to approving invoices and reviewing financial

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2024

information. These changes will be implemented promptly and documented to ensure proper segregation of duties is maintained.