

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

Combined Financial Statements and
Supplementary Information

Year Ended December 31, 2020
with Independent Auditor's Report

MaherDuessel

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

YEAR ENDED DECEMBER 31, 2020

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PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

YEAR ENDED DECEMBER 31, 2020

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying combined financial statements of the Pennsylvania Thoroughbred Horsemen's Association, Inc. (Association) (a nonprofit organization), which comprise the combined statement of financial position as of December 31, 2020, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We did not audit the financial statements of Turning for Home, Inc. (TFH) which statements reflect total assets, liabilities, net assets, revenue, and expenses of \$70,402, \$31,916, \$38,486, \$464,681, and \$499,449, respectively, as of December 31, 2020. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for PRDF and TFH, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinion

In our opinion, based on our audit and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the Association adopted ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*." Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary information on pages 27-35 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2023, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
April 4, 2023

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

DECEMBER 31, 2020

Assets	
Current Assets:	
Cash and cash equivalents	\$ 857,772
Accounts receivable, net	42,494
Other receivables	50,775
Inventory	186,521
Prepaid expenses	15,576
Total current assets	1,153,138
Investments	434,744
Restricted Pennsylvania Racehorse Development Trust Fund Assets:	
Restricted cash	3,062,671
Restricted investments	1,421,053
Restricted statutory funds receivable	-
Restricted prepaid expenses	4,500
Total restricted Pennsylvania Racehorse Development Trust Fund assets	4,488,224
Equipment and Furnishings:	
Cemetery lots	2,410
Vehicles	167,400
Storage trailers and related equipment	71,659
Office equipment and furniture	116,318
Less: accumulated depreciation	(274,946)
Net equipment and furnishings	82,841
Total Assets	\$ 6,158,947
Liabilities and Net Assets	
Liabilities:	
Current Liabilities:	
Accounts payable	\$ 383,687
Customer deposits	23,416
Due to Philadelphia Park	129,660
Accrued payroll	23,206
Other accrued expenses	6,500
Loans payable - current portion	149,230
Total current liabilities	715,699
Non-current Liabilities:	
Loans payable	86,774
Pennsylvania Race Horse Development Trust Fund Liabilities:	
Total Pennsylvania Race Horse Development Trust Fund liabilities	4,488,224
Total liabilities	5,290,697
Net Assets:	
Without donor restrictions	631,566
With donor restrictions	236,684
Total net assets	868,250
Total Liabilities and Net Assets	\$ 6,158,947

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Support:			
Shares of wagering - per Live Racing Agreement	\$ 916,065	\$ -	\$ 916,065
Secondary Pari-Mutuel Organization fees	-	-	-
Grants	222,206	31,445	253,651
Contributions	596,850	-	596,850
Sale of merchandise	3,206,702	-	3,206,702
Interest on Horsemen's funds - Philadelphia Park	45,258	-	45,258
Broadcasting income	9,300	-	9,300
Miscellaneous income	1,500	-	1,500
Investment return, net	(22,321)	-	(22,321)
Unrealized gain on investments	89,490	-	89,490
Box seat income	250,021	-	250,021
Total revenues and support	5,315,071	31,445	5,346,516
Expenses:			
Program services:			
Horsemen's Advocacy Program	1,666,721	-	1,666,721
Horse Supplies Program	3,261,055	-	3,261,055
Backstretch Social Programs	3,375	-	3,375
Thoroughbred Horse Retirement Program	488,556	-	488,556
Total program services	5,419,707	-	5,419,707
Management and general	87,155	-	87,155
Fundraising	6,733	-	6,733
Total expenses	5,513,595	-	5,513,595
Change in Net Assets	(198,524)	31,445	(167,079)
Net Assets:			
Beginning of year	830,090	205,239	1,035,329
End of year	\$ 631,566	\$ 236,684	\$ 868,250

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2020

	Horsemen's Advocacy Program	Horse Supplies Program	Backstretch Social Programs	Thoroughbred Horse Retirement Program	Total Program	Management and General	Fundraising	Total Expenses
Salaries and employee benefits	\$ 534,909	\$ 294,582	\$ -	\$ 53,095	\$ 882,586	\$ 3,124	\$ 6,246	\$ 891,956
Payroll taxes	32,233	22,408	-	4,138	58,779	243	487	59,509
Professional fees	428,651	-	-	45	428,696	4,814	-	433,510
Information technology support	37,425	5,614	-	-	43,039	-	-	43,039
Television and advertising	2,348	2,500	-	4,527	9,375	-	-	9,375
Public relations	55,652	-	-	-	55,652	-	-	55,652
Newsletter	650	-	-	-	650	-	-	650
Office expenses	25,020	17,263	-	-	42,283	2,486	-	44,769
Telephone	16,033	-	-	-	16,033	-	-	16,033
Travel and meetings	77,736	-	-	-	77,736	-	-	77,736
Depreciation	35,432	1,489	-	-	36,921	-	-	36,921
Insurance	27,517	-	-	-	27,517	12,395	-	39,912
Cost of goods sold	-	2,580,276	-	-	2,580,276	-	-	2,580,276
Donations	74,287	-	-	2,300	76,587	-	-	76,587
Dues and subscriptions	3,506	-	-	-	3,506	57,873	-	61,379
Handicapper	11,550	-	-	-	11,550	-	-	11,550
Horse care expenses	-	-	-	424,451	424,451	-	-	424,451
Flowers, gifts, and awards	7,490	225	-	-	7,715	1,000	-	8,715
Parties, picnics, and dinners	-	-	3,375	-	3,375	-	-	3,375
Race event days	208,049	-	-	-	208,049	-	-	208,049
Repairs and maintenance	-	3,352	-	-	3,352	-	-	3,352
Shavings removal	-	297,500	-	-	297,500	-	-	297,500
Vehicle	9,615	-	-	-	9,615	-	-	9,615
Miscellaneous	78,618	35,846	-	-	114,464	5,220	-	119,684
Total expenses	\$ 1,666,721	\$ 3,261,055	\$ 3,375	\$ 488,556	\$ 5,419,707	\$ 87,155	\$ 6,733	\$ 5,513,595

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2020

Cash Flows From Operating Activities:	
Change in net assets	\$ (167,079)
Adjustments to reconcile change in assets to net cash used in operating activities:	
Depreciation	36,921
Unrealized gain on investments	(89,490)
Effects of changes in operating assets and liabilities:	
Accounts receivable	65,403
Other receivables	58,324
Inventory	10,245
Prepaid expenses	3,726
Restricted investments	(169,033)
Restricted statutory funds receivable	2,538,588
Restricted prepaid expenses	4,875
Accounts payable	237,807
Customer deposits	13,433
Due to Philadelphia Park	(259,852)
Accrued payroll	(12,983)
Other accrued expenses	(14,790)
PRDF accounts payable	233,815
PRDF accrued purse payouts	(2,873,786)
PRDF accrued employee and trainers pension funds	(88,651)
PRDF other accrued expenses	(121,140)
Net cash used in operating activities	(593,667)
Cash Flows From Investing Activities:	
Proceeds from the sale of investments	88,421
Purchase of investments	(62,932)
Purchase of equipment and furnishings	(3,228)
Net cash provided by investing activities	22,261
Cash Flows From Financing Activities:	
Proceeds from lines of credit	134,489
Proceeds from Payroll Protection Program Loan	54,300
Principal payments on loans payable and lines of credit	(17,151)
Net cash provided by financing activities	171,638
Net Decrease in Cash, Cash Equivalents and Restricted Cash	(399,768)
Cash, Cash Equivalents, and Restricted Cash:	
Beginning of year	4,320,211
End of year	\$ 3,920,443
Reconciliation of Cash, Cash Equivalents, and Restricted Cash:	
Cash and cash equivalents	857,772
Restricted cash	3,062,671
Total cash, cash equivalents, and restricted cash	\$ 3,920,443
Supplemental Cash Flow Disclosures:	
Cash paid for interest	\$ 6,642

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

1. Summary of Significant Accounting Policies

Organization

The combined financial statements include the following entities: Pennsylvania Thoroughbred Horsemen's Association, Inc. (PTHA), Horsemen's Purchasing Association, Inc. (HPA), Turning for Home, Inc. (TFH), the Pennsylvania Thoroughbred Horsemen's Political Action Committee (PAC), and PTHA Charities (PTHA-C). For the purposes of these combined financial statements, the reporting entities of PTHA, HPA, TFH, PRDF, PAC, and PTHA-C will be referred to as the Association.

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

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

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

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

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

The PTHA-C was created to provide financial assistance in the form of grants to stable employees of owners and trainers at any thoroughbred racetrack in eastern Pennsylvania who are in need of aid due to emergency hardship such as serious illness, accidental injury, death, violent crime, loss of home, natural disaster, etc., and to provide for scholarships for higher education and vocational training for such persons.

Combination Policy

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

Basis of Accounting

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

Use of Estimates

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

Combined Financial Statement Presentation

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

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

- General – Represents resources available for support of operations.
- Fixed assets – Represents resources designated for fixed asset acquisitions and net assets expended for fixed assets.
- Board-designated – The Board has designated certain amounts, within which the balance of net assets together with accumulated earnings thereon is to be spent only for purposes approved by the Board.

Net assets with donor restrictions – Net assets with donor restrictions result from contributions whose use is limited by donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met by either the passage of time or can be fulfilled and removed by actions of the Association pursuant to those stipulations. Other donor restrictions are perpetual in nature; those restrictions neither expire by the passage of time nor can be fulfilled or otherwise removed by the Board's actions. The Association has no net assets with donor restrictions that are perpetual in nature. The Association's net assets with donor restrictions consist of revenue received under the marketing grant from the state of Pennsylvania.

Cash and Cash Equivalents

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

The Association maintains cash accounts at various financial institutions. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

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

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

Accounts Receivable and Reserve for Uncollectible Receivables

Accounts receivable is stated at the amount management expects to collect from outstanding balances. The Association uses the allowance method for potential uncollectible amounts. The amount written off by PTHA in 2020 as bad debt expense totaled \$53,601. A reserve was established totaling \$5,179 for potential uncollectible amounts for the sale of horse supplies and equipment. The amount written off by HPA in 2020 as bad debt expense totaled \$0.

Accounts receivable consist of the following:

	<u>PTHA</u>	<u>HPA</u>	<u>TFH</u>
Accounts receivable, December 31, 2019	\$126,676	\$ 57,920	\$ 32,400
Cash received that was included in accounts receivable at the beginning of the year	(69,507)	(57,920)	(32,400)
Bad debt expense that was included in accounts receivable at the beginning of the year	(53,601)	-	-
Increase in accounts receivable	-	38,926	50,775
Accounts receivable, December 31, 2020	<u>\$ 3,568</u>	<u>\$ 38,926</u>	<u>\$ 50,775</u>

Investments

Fair Value Measurements

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

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

Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available, but traded less frequently, and investments that are fair valued using other securities, the parameters of which can be directly observed.

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

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

Valuation of Investments

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

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

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

Mutual Funds and Exchange Traded Funds: Fair value of mutual funds and exchange traded funds is based on quoted market prices for identical securities. These investments are classified within Level 1 of the valuation hierarchy.

Money Market Mutual Funds: Money market mutual funds are valued at a stable \$1.00 net assets value, which is the value at which the fund is traded and approximates fair value based on the fair value of the underlying investment. Such securities are classified within Level 1 of the valuation hierarchy.

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

Inventory

Horse supplies are valued at the lower of cost or net realizable value. Cost is computed using the average cost method. Inventory is valued at \$186,521 for the year ended December 31, 2020.

Equipment and Furnishings

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

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

Revenue Recognition

Shares of Wagering: Under the terms of the Live Racing Agreement as further described in Note 6, the Association is considered to be the exclusive representative of all horsemen who own, train, and/or racehorses at Philadelphia Park. As such, the Association is entitled to receive 3% of purse monies to operate. This fee is earned monthly as services are provided.

Grants: A portion of the Association's revenue is derived from a yearly unconditional cost-reimbursable marketing grant from the state of Pennsylvania. This grant is considered an unconditional contribution and is recognized when received. The period of the grant is July 1, 2017 through June 30, 2022. During the year ended December 31, 2020, the Association received funding in the amount of \$252,956 which was recognized as revenue. Allowable expenses incurred totaled \$221,511, all of which were reimbursed by the state and recorded. \$31,445 was received in advance of incurring expenses. As such, this amount is reflected as an increase in donor restricted net assets for the year ended December 31, 2020. These expenses will be incurred by the Association during the year ended December 31, 2021.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

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

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

Secondary Pari-Mutuel Organization fees: The funds must be used to pay purses based on races won, and the Association does not have discretion to redirect the funds. As a result, the funds are not shown as revenue and expense in the Statements of Activities.

Contributed Services and Facilities

A number of unpaid volunteers, which include the Directors of the Association, have made significant contributions of their time toward developing and achieving the Association's goals and objectives. Contributions of donated services that create or enhance nonfinancial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. During the year ended December 31, 2020, there were no donated services that met the reporting requirements.

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

Functional Expense Allocation Method

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

Income Taxes

PTHA, HPA, PTHA-C and TFH were organized under the Pennsylvania Nonprofit Corporation Law of 1972 and, as such, are exempt from state income taxes. PTHA and TFH have been granted tax-exempt status by the Internal Revenue Service under Section 501(c)(6). TFH and PTHA-C have been granted tax exempt status under and Section 501(c)(3). HPA is subject to income tax for federal purposes only. PAC is exempt from federal income taxes under Section 527 of the U.S. Internal Revenue Service Code. However, income from investments is subject to taxation. All tax forms are filed on an annual basis.

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

Adoption of Accounting Standards

The requirements of the following Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) were adopted during the year ended December 31, 2020:

ASU 2014-09, *“Revenue from Contracts with Customers (Topic 606).”* The amendments provide guidance for revenue recognition related to contracts involving the transfer of promised goods or services to customers and related disclosures. The implementation of this standard was applied retrospectively to all periods presented. Implementation resulted in financial statement disclosure modifications only.

ASU 2018-13, *“Fair Value Measurement (Topic 820).”* The amendments remove and modify certain fair value hierarchy leveling disclosures. The implementation of this standard was applied retrospectively to all periods presented. Implementation resulted in no financial statement disclosure modifications.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

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Pending Standards Update

ASU 2016-02, "*Leases (Topic 842)*," is effective for the Association's financial statements for the year ending December 31, 2022. This amendment will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

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

Subsequent Events

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

2. Program Services

Services are provided through the following programs:

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

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

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

Thoroughbred Horse Retirement Program – provides care for thoroughbred horses that can no longer race, due to injury or lack of ability. The program provides a humane and

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

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dignified retirement for thoroughbred horses through rehabilitation, including veterinary care and surgery, and adoption to approved homes.

3. Restricted Pennsylvania Race Horse Development Trust Fund Activity

The PRDF Division of the PTHA distributes the funds received by Parx Racetrack's Horsemen's Association in accordance with Sections 1405 and 1406 of the Pennsylvania Consolidated Statutes Title 4 Amusements (Statute) and the PA Fiscal Code, an act of 1929, as amended. As a result these funds are only included in the Statement of Financial Position and not recorded as revenue or expense.

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

PRDF's only funding source, except for interest and investment income earned, is the daily assessment each active and operating gaming entity pays into the Pennsylvania Race Horse Development Trust Fund, subject to the daily assessment rate cap. The daily assessment rate for the year ended December 31, 2020 was 12% of operating licensed gaming entity's daily gross terminal revenue. The daily assessment is to be distributed to each of the active and operating Category I licensees conducting live racing pursuant to Section 1406 of the Statute.

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

For the Pennsylvania Race Horse Development Trust Fund's fiscal year 2019 – 2020 through 2020 – 2021, 17% of the money in the Pennsylvania Race Horse Development Trust Fund shall be transferred to the general fund of the Commonwealth of Pennsylvania. The remaining 83% will be allocated as follows:

- The greater of 4% or \$220,000 shall be distributed weekly to fund health and pension benefits for the members of the horsemen's organizations representing the owners and trainers at the racetrack at which the licensed racing entity operates for the benefit of the organization's members, their families, employees, and others in accordance with the rules and eligibility requirements of the organization, as

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NOTES TO COMBINED FINANCIAL STATEMENTS

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approved by the State Horse Racing Commission. Of this amount, \$250,000 shall be paid annually to the thoroughbred jockeys' organization at the racetrack at which the licensed racing entity operates. The total distributions to health and pension funds shall not exceed \$11,400,000 for the fiscal year.

- The remaining amount will be allocated as follows:
 - 83 1/3% shall be deposited weekly into a separate, interest-bearing purse account to be established by and for the benefit of the horsemen.
 - 16 2/3% shall be deposited weekly into the Pennsylvania Breeding Fund (not affiliated with the PTHA or PRDF Division).

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

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

For fiscal year July 1, 2020 – June 30, 2021, the Governor's budget assessed \$19,659,000 to be removed from the Pennsylvania Race Horse Development Trust Fund to support agricultural related programs. This assessment was collected through an allocation of approximately \$894,000 a week for twenty weeks and \$1,779,000 in the twenty-first week. This money was collected during the period of September 2, 2020 through January 27, 2021. In addition, on July 15, 2020, a transfer in the amount of \$1,710,935 was required from the Pennsylvania Race Horse Development Trust Fund to the State Racing Fund for the

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

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promotion of horse racing. Lastly, the Governor's budget assessed \$10,066,000 to be removed from the Pennsylvania Race Horse Development Trust Fund for costs associated with the collection and research of the testing of medication. This assessment is to be collected through an allocation of approximately \$195,000 a week for fifty-one weeks and \$121,000 in the fifty-second week. This money was collected during the period of June 25, 2020 through June 30, 2021.

Statutory funds receivable consists of Pennsylvania Race Horse Development Trust Fund allocations for daily assessments that are due to the PTHA – PRDF Division. Payments of the assessment are statutorily required and are expected to be collected in full. At December 31, 2020, the statutory funds receivable was \$0. This balance represents the gross terminal revenue allocation (GTR) due from the Pennsylvania Race Horse Development Trust Fund for PTHA – PRDF Division's share of GTR generated at Category I, Category II, and Category III casinos throughout Pennsylvania. No accounts receivable were outstanding at December 31, 2020, due to the races being suspended in December 2020 due to COVID-19.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

4. Investments and Fair Value Measurements

Fair Value of Financial Instruments

The following tables summarize the valuation of the Association's assets subject to measurements at fair value as of December 31, 2020:

	Level	Fair Value	Cost
Money market funds	1	\$ 24,437	\$ 24,437
Mutual funds:			
U.S. equity	1	368,615	240,176
International equity	1	389,383	267,715
Fixed income	1	88,972	86,689
Other	1	113,647	101,060
Exchange-traded funds:			
U.S. equity	1	474,945	276,705
International equity	1	223,516	187,879
Alternative Investments	3	172,282	158,678
Total investments		1,855,797	<u>\$ 1,343,339</u>
Restricted PRDF investments		<u>(1,421,053)</u>	
Total investments without donor restrictions		<u>\$ 434,744</u>	

Investment income activity is as follows at December 31, 2020:

	PRDF	Without Donor Restrictions	Total Investments
Interest and dividend income	\$ 21,369	\$ 1,316	\$ 22,685
Investment fees	(11,127)	(3,764)	(14,891)
Realized loss	(4,445)	(19,873)	(24,318)
Unrealized gain	163,236	89,490	252,726
Total investment gain	<u>\$ 169,033</u>	<u>\$ 67,169</u>	<u>\$ 236,202</u>

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

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The following tables sets forth a summary of changes in the fair value of the Association's Level 3 assets for the year ended December 31, 2020:

Balance, beginning of year	\$ 153,926
Investment gain	<u>18,356</u>
Balance, end of year	<u><u>\$ 172,282</u></u>

There were no transfers into or out of Level 3 investments for the year ended December 31, 2020.

5. Loans Payable

Vehicle Loans Payable

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

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

Future maturities for the two vehicle loans are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 15,183	\$ 2,574	\$ 17,757
2022	16,113	1,644	17,757
2023	14,209	658	14,867
2024	<u>2,152</u>	<u>40</u>	<u>2,192</u>
Total	<u><u>\$ 47,657</u></u>	<u><u>\$ 4,916</u></u>	<u><u>\$ 52,573</u></u>

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Lines of Credit

PTHA has a revolving line of credit with The Bryn Mawr Trust Company up to a maximum of \$162,500 secured by securities or investment property of PTHA. Interest is payable monthly and is 1.25 percentage points over the Lender's Prime Rate. The effective interest rate as of December 31, 2020 was 8.75%. The outstanding balance on the line of credit at December 31, 2020 was \$49,975. Interest paid on the line of credit was \$1,188 for the year ended December 31, 2020.

HPA has a revolving line of credit with The Bryn Mawr Trust Company up to a maximum of \$92,500 secured by inventory, chattel paper, accounts, equipment and general intangibles of HPA. Interest is payable monthly and is 1.25 percentage points over the Lender's Prime Rate. The effective interest rate as of December 31, 2020 was 8.75%. The outstanding balance on the line of credit at December 31, 2020 was \$84,072. Interest paid on the line of credit was \$2,004 for the year ended December 31, 2020.

Paycheck Protection Program Loans

On May 12, 2020, HPA qualified for and received a loan pursuant to the Paycheck Protection Program, a program implemented by the Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the "PPP Lender"), for an aggregate principal amount of \$54,300 (the "HPA PPP Loan 1"). The HPA PPP Loan 1 bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the SBA. The principal amount of the HPA PPP Loan 1 is subject to forgiveness under the Paycheck Protection Program upon the HPA's request to the extent that the HPA PPP Loan 1 proceeds are used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the HPA. At December 31, 2020, the balance is included in loans payable on the Combined Statement of Financial Position. Subsequent to year-end, on January 11, 2021, the loan was forgiven by the SBA in full.

Subsequent to year end, on February 24, 2021, HPA qualified for and received a loan pursuant to the Paycheck Protection Program, a program implemented by the SBA under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the "PPP Lender"), for an aggregate principal amount of \$81,823 (the "HPA PPP Loan 2"). The HPA PPP Loan 2 bears interest at a fixed rate of 1.0% per annum, with the first six months of interest

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deferred, has a term of five years, and is unsecured and guaranteed by the SBA. The principal amount of the HPA PPP Loan 2 is subject to forgiveness under the Paycheck Protection Program upon the HPA's request to the extent that the HPA PPP Loan 2 proceeds are used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the HPA. Also subsequent to year-end, on December 13, 2021, the loan was forgiven by the SBA in full.

Subsequent to year end, on March 2, 2021, PTHA qualified for and received a loan pursuant to the Paycheck Protection Program, a program implemented by the SBA under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the "PPP Lender"), for an aggregate principal amount of \$148,253 (the "PTHA PPP Loan"). The PTHA PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of five years, and is unsecured and guaranteed by the SBA. The principal amount of the PTHA PPP Loan is subject to forgiveness under the Paycheck Protection Program upon the PTHA's request to the extent that the PTHA PPP Loan proceeds are used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the PTHA. Also subsequent to year-end, on December 17, 2021, the loan was forgiven by the SBA in full.

6. Live Racing Agreement

PTHA entered into a live racing agreement with Keystone Turf Club, Inc. and Bensalem Racing Association, Inc. d/b/a PARX RACING effective September 4, 2004. The agreement was set to expire on July 31, 2021. During 2019, the Live Racing Agreement was amended, and purse monies received during 2019 and forward were allocated as follows:

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

On July 26, 2021, the Live Racing Agreement was amended, and purse monies received after July 26, 2021 and forward will be allocated as follows:

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NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

- Eighty-nine percent (89%) of purses shall be allocated to overnights.
- Seven percent (7%) of purses shall be applied to stake races.
- Three percent (3%) of purses shall be paid to PTHA.
- One percent (1%) of purses shall be allocated to associations to subsidize workmen's compensation insurance for the trainers who meet certain conditions outlined in the agreement.

Every contract year, beginning January 1, 2022, the amount allocated to stakes races shall be reviewed and may be increased up to a maximum of 9% for that contract year, solely at the discretion of PTHA-PRDF. To the extent that such amount is increased above the 7%, the percentage allocated to overnight purses will decrease. The agreement was set to expire on June 30, 2022.

On June 30, 2022, the Live Racing Agreement was again amended. Effective January 1, 2022 the 1% described above is no longer an allocation. All monies collected prior to January 1, 2022, net of workers' compensation subsidies paid for calendar year 2021, will be used to promote racing at Parx Racing in consultation with PTHA. Any funds collected on or after January 1, 2022, will be transferred to PTHA's overnight purse account. Additionally, PTHA's portion of the Horseracing Integrity and Safety Act "safety assessment" for the calendar year 2022 will be paid from PTHA's overnight purse account. The agreement is now set to expire December 31, 2022.

During the year, PTHA determined that payments owed to PARX from previous periods will not be made due to PARX failing to comply with certain contractual terms regarding box seats at the horse track. As a result, \$250,021 in box seat income is shown on the Statement of Activities.

7. Related Party Transactions

The President of the Association is a partner in a law firm representing PTHA; however, this individual has no voting rights and abstains from all discussions regarding legal fees paid to the firm. Legal expenses incurred by PTHA for the year ended December 31, 2020 were \$175,629 and were entirely related to the law firm in which the President is a partner. The entire amount is included in professional fees as paid from Association funds.

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

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The President of the Association is the sole owner of a firm providing consulting services for PTHA. Consulting expenses relating to the consulting firm in which the President is the sole owner incurred by PTHA for the year ended December 31, 2020 were \$60,000. The entire amount is included in professional fees as paid from Association funds.

During the year, TFH received a \$68,501 contribution from PTHA. This transaction was eliminated in the combined financial statements.

Transfers of contributions collected by PTHA on behalf of the PAC in the amount of \$101,340, presented as contribution revenue and expense, were eliminated in the combined financial statements.

8. Benefit Plans

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

Trainer's Retirement Plan

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

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

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

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

Total contributions made to the Plan from the PRDF on behalf of eligible participants were \$231,431 for the year ended December 31, 2020.

Employees' Retirement Plan

Eligible employees of the Association may participate in an ERISA, nondiscrimination qualified 401(k) plan. To be eligible to participate, an employee must have one year of service with the Association and attained the age of 21. Under the Plan, the PRDF may contribute a discretionary non-elective contribution. Total contributions made to the Plan for employees from the PRDF for the year ended December 31, 2020 were \$102,000.

Total contributions to pension plans from PRDF for the year ended December 31, 2020 were \$333,431.

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NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

9. Commitments

The Association has contracted with a vendor through December 2031 to remove manure and wood shavings waste from the Philadelphia Park facility. The contract expense was \$297,500 for the year ended December 31, 2020.

Future minimum non-cancelable contract payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 286,000
2022	286,000
2023	286,000
2024	286,000
2025	286,000
2026-2030	1,430,000
2031	286,000
Total	<u>\$ 3,146,000</u>

10. Promotional Items - PRDF

On March 27, 2015, the Department of Revenue issued Gaming Tax Bulletin 2015-01. This bulletin clarified the policy concerning the deductibility of promotional items for purposes of calculating GTR as a result of the Pennsylvania's Supreme Court's April 28, 2014 decision to allow all casinos to receive tax credits for promotional giveaways. These items include vehicles, concert tickets, sporting event tickets, and gift cards.

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

11. Risks and Uncertainties

For the year ended December 31, 2020, revenue includes \$916,065 arising from race track revenue received from the Live Racing Agreement. The loss of this revenue source could have a material effect on the Association.

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

12. Availability and Liquidity

The following represents the Association's financial assets available to meet general expenditures as of December 31, 2020. Funds restricted for PRDF are excluded as they are not available to meet general expenditures.

Financial assets at year-end:	
Cash and cash equivalents	\$ 791,276
Accounts receivable	42,494
Other receivables	50,775
Investments	<u>434,744</u>
Total financial assets	<u>1,319,289</u>
Less amounts not available to be used within one year:	
Assets restricted for PAC activities	<u>271,479</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,047,810</u>

Assets available to meet general expenditures include all cash accounts and receivables for PTHA, HPA, TFH, and PTHA-C. These financial assets have no internal or external restrictions and are available to meet current year obligations at December 31, 2020. The Association manages its liquid resources primarily by monitoring the timing of purse monies received

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NOTES TO COMBINED FINANCIAL STATEMENTS

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

SUPPLEMENTARY INFORMATION

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2020

	PTHA	HPA	TFH	PRDF	PAC	PTHA Charities	Eliminations	Combined Total
Assets								
Current Assets:								
Cash and cash equivalents	\$ 390,541	\$ 58,533	\$ 19,627	\$ -	\$ 271,479	\$ 51,096	\$ -	\$ 791,276
Accounts receivable, net	3,568	38,926	-	-	-	-	-	42,494
Other receivables	-	-	50,775	-	-	-	-	50,775
Intercompany receivables	241,872	-	-	824	-	-	(242,696)	-
Inventory	-	186,521	-	-	-	-	-	186,521
Prepaid expenses	13,726	1,850	-	-	-	-	-	15,576
Total current assets	<u>649,707</u>	<u>285,830</u>	<u>70,402</u>	<u>824</u>	<u>271,479</u>	<u>51,096</u>	<u>(242,696)</u>	<u>1,086,642</u>
Investments	<u>434,744</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>434,744</u>
Restricted Pennsylvania Racehorse Development Trust								
Fund Assets:								
Restricted cash	-	-	-	3,129,167	-	-	-	3,129,167
Restricted investments	-	-	-	1,421,053	-	-	-	1,421,053
Restricted statutory funds receivable	-	-	-	-	-	-	-	-
Restricted prepaid expenses	-	-	-	4,500	-	-	-	4,500
Total restricted Pennsylvania Racehorse Development Trust Fund assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,554,720</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,554,720</u>
Equipment and Furnishings:								
Cemetery lots	2,410	-	-	-	-	-	-	2,410
Vehicles	167,400	-	-	-	-	-	-	167,400
Storage trailers and related equipment	-	71,659	-	-	-	-	-	71,659
Office equipment and furniture	106,339	9,979	-	-	-	-	-	116,318
Less: accumulated depreciation	<u>(209,162)</u>	<u>(65,784)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(274,946)</u>
Net equipment and furnishings	<u>66,987</u>	<u>15,854</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>82,841</u>
Total Assets	<u><u>\$ 1,151,438</u></u>	<u><u>\$ 301,684</u></u>	<u><u>\$ 70,402</u></u>	<u><u>\$ 4,555,544</u></u>	<u><u>\$ 271,479</u></u>	<u><u>\$ 51,096</u></u>	<u><u>\$ (242,696)</u></u>	<u><u>\$ 6,158,947</u></u>

(Continued)

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2020

(Continued)

	PTHA	HPA	TFH	PRDF	PAC	PTHA Charities	Eliminations	Combined Total
Liabilities and Net Assets								
Liabilities:								
Current liabilities:								
Accounts payable	\$ 342,882	\$ 15,389	\$ 25,416	\$ -	\$ -	\$ -	\$ -	\$ 383,687
Customer deposits	-	23,416	-	-	-	-	-	23,416
Due to Philadelphia Park	129,660	-	-	-	-	-	-	129,660
Intercompany payables	-	175,376	-	67,320	-	-	(242,696)	-
Accrued payroll	17,741	5,465	-	-	-	-	-	23,206
Other accrued expenses	-	-	6,500	-	-	-	-	6,500
Loans payable - current portion	65,158	84,072	-	-	-	-	-	149,230
Total current liabilities	<u>555,441</u>	<u>303,718</u>	<u>31,916</u>	<u>67,320</u>	<u>-</u>	<u>-</u>	<u>(242,696)</u>	<u>715,699</u>
Non-current liabilities:								
Loans payable	32,474	54,300	-	-	-	-	-	86,774
Total non-current liabilities	<u>32,474</u>	<u>54,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>86,774</u>
Pennsylvania Race Horse Development Trust								
Fund liabilities:								
Accounts payable	-	-	-	334,236	-	-	-	334,236
Accrued purse payouts	-	-	-	3,759,582	-	-	-	3,759,582
Accrued employee and trainers pension funds	-	-	-	321,940	-	-	-	321,940
Other accrued expenses	-	-	-	72,466	-	-	-	72,466
Total Pennsylvania Race Horse Development Trust Fund liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,488,224</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,488,224</u>
Total liabilities	<u>587,915</u>	<u>358,018</u>	<u>31,916</u>	<u>4,555,544</u>	<u>-</u>	<u>-</u>	<u>(242,696)</u>	<u>5,290,697</u>
Net Assets:								
Without donor restrictions	326,839	(56,334)	38,486	-	271,479	51,096	-	631,566
With donor restrictions	236,684	-	-	-	-	-	-	236,684
Total net assets	<u>563,523</u>	<u>(56,334)</u>	<u>38,486</u>	<u>-</u>	<u>271,479</u>	<u>51,096</u>	<u>-</u>	<u>868,250</u>
Total Liabilities and Net Assets	<u>\$ 1,151,438</u>	<u>\$ 301,684</u>	<u>\$ 70,402</u>	<u>\$ 4,555,544</u>	<u>\$ 271,479</u>	<u>\$ 51,096</u>	<u>\$ (242,696)</u>	<u>\$ 6,158,947</u>

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

COMBINING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2020

	PTHA	HPA	TFH	PAC	PTHA Charities	Eliminations	Combined Total
Revenues and Support:							
Without donor restrictions:							
Shares of wagering - per Live Racing Agreement	\$ 916,065	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 916,065
Secondary Pari-Mutuel Organization fees	-	-	-	-	-	-	-
Grants	221,511	695	-	-	-	-	222,206
Contributions	162,660	-	464,681	87,060	52,290	(169,841)	596,850
Sale of merchandise	-	3,206,702	-	-	-	-	3,206,702
Interest on Horsemen's funds - Philadelphia Park	45,258	-	-	-	-	-	45,258
Broadcasting income	9,300	-	-	-	-	-	9,300
Miscellaneous income	-	-	-	1,500	-	-	1,500
Investment return, net	(22,321)	-	-	-	-	-	(22,321)
Unrealized gain on investments	89,490	-	-	-	-	-	89,490
Cancellation of debt	250,021	-	-	-	-	-	250,021
Total revenues and support without donor restrictions	1,671,984	3,207,397	464,681	88,560	52,290	(169,841)	5,315,071
With donor restrictions:							
Grants	31,445	-	-	-	-	-	31,445
Total revenues and support with donor restrictions	31,445	-	-	-	-	-	31,445
Total revenues and support	1,703,429	3,207,397	464,681	88,560	52,290	(169,841)	5,346,516
Expenses:							
Program services:							
Horsemen's Advocacy Program	1,772,212	-	-	64,350	-	(169,841)	1,666,721
Horse Supplies Program	-	3,261,055	-	-	-	-	3,261,055
Backstretch Social Programs	3,375	-	-	-	-	-	3,375
Thoroughbred Horse Retirement Program	-	-	488,556	-	-	-	488,556
Total program services	1,775,587	3,261,055	488,556	64,350	-	(169,841)	5,419,707
Management and general	64,780	15,465	4,160	1,556	1,194	-	87,155
Fundraising	-	-	6,733	-	-	-	6,733
Total expenses	1,840,367	3,276,520	499,449	65,906	1,194	(169,841)	5,513,595
Change in Net Assets	(136,938)	(69,123)	(34,768)	22,654	51,096	-	(167,079)
Net Assets:							
Beginning of year	700,461	12,789	73,254	248,825	-	-	1,035,329
End of year	\$ 563,523	\$ (56,334)	\$ 38,486	\$ 271,479	\$ 51,096	\$ -	\$ 868,250

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

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2020

	PTHA	HPA	TFH	PRDF	PAC	PTHA Charities	Eliminations	Combined Total
Cash Flows From Operating Activities:								
Change in net assets	\$ (136,938)	\$ (69,123)	\$ (34,768)	\$ -	\$ 22,654	\$ 51,096	\$ -	\$ (167,079)
Adjustments to reconcile change in assets to net cash provided by (used in) operating activities:								
Depreciation	35,432	1,489	-	-	-	-	-	36,921
Unrealized gain on investments	(89,490)	-	-	-	-	-	-	(89,490)
Effects of changes in operating assets and liabilities:								
Accounts receivable	46,409	18,994	-	-	-	-	-	65,403
Other receivables	76,699	-	(18,375)	-	-	-	-	58,324
Intercompany receivables	49,791	-	-	(466)	-	-	(49,325)	-
Inventory	-	10,245	-	-	-	-	-	10,245
Prepaid expenses	2,707	1,019	-	-	-	-	-	3,726
Restricted investments	-	-	-	(169,033)	-	-	-	(169,033)
Restricted statutory funds receivable	-	-	-	2,538,588	-	-	-	2,538,588
Restricted prepaid expenses	-	-	-	4,875	-	-	-	4,875
Accounts payable	207,283	14,767	15,757	-	-	-	-	237,807
Customer deposits	-	13,433	-	-	-	-	-	13,433
Due to Philadelphia Park	(259,852)	-	-	-	-	-	-	(259,852)
Intercompany payables	-	(106,117)	(1,167)	57,959	-	-	49,325	-
Accrued payroll	(11,205)	(1,778)	-	-	-	-	-	(12,983)
Other accrued expenses	-	(3,500)	(11,290)	-	-	-	-	(14,790)
PRDF accounts payable	-	-	-	233,815	-	-	-	233,815
PRDF accrued purse payouts	-	-	-	(2,873,786)	-	-	-	(2,873,786)
PRDF accrued employee and trainers pension funds	-	-	-	(88,651)	-	-	-	(88,651)
PRDF other accrued expenses	-	-	-	(121,140)	-	-	-	(121,140)
Net cash provided by (used in) operating activities	(79,164)	(120,571)	(49,843)	(417,839)	22,654	51,096	-	(593,667)

(Continued)

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

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2020

(Continued)

	PTHA	HPA	TFH	PRDF	PAC	PTHA Charities	Eliminations	Combined Total
Cash Flows From Investing Activities:								
Proceeds from the sale of investments	88,421	-	-	-	-	-	-	88,421
Purchase of investments	(62,932)	-	-	-	-	-	-	(62,932)
Purchase of equipment and furnishings	(3,228)	-	-	-	-	-	-	(3,228)
Net cash provided by investing activities	22,261	-	-	-	-	-	-	22,261
Cash Flows From Financing Activities:								
Proceeds from lines of credit	50,000	84,489	-	-	-	-	-	134,489
Proceeds from Payroll Protection Program Loan	-	54,300	-	-	-	-	-	54,300
Principal payments on loans payable and lines of credit	(16,734)	(417)	-	-	-	-	-	(17,151)
Net cash provided by financing activities	33,266	138,372	-	-	-	-	-	171,638
Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	(23,637)	17,801	(49,843)	(417,839)	22,654	51,096	-	(399,768)
Cash, Cash Equivalents, and Restricted Cash:								
Beginning of year	414,178	40,732	69,470	3,547,006	248,825	-	-	4,320,211
End of year	<u>\$ 390,541</u>	<u>\$ 58,533</u>	<u>\$ 19,627</u>	<u>\$ 3,129,167</u>	<u>\$ 271,479</u>	<u>\$ 51,096</u>	<u>\$ -</u>	<u>\$ 3,920,443</u>
Reconciliation of Cash, Cash Equivalents, and Restricted Cash:								
Cash and cash equivalents	390,541	58,533	19,627	-	271,479	51,096	-	791,276
Restricted cash	-	-	-	3,129,167	-	-	-	3,129,167
Total cash, cash equivalents, and restricted cash	<u>\$ 390,541</u>	<u>\$ 58,533</u>	<u>\$ 19,627</u>	<u>\$ 3,129,167</u>	<u>\$ 271,479</u>	<u>\$ 51,096</u>	<u>\$ -</u>	<u>\$ 3,920,443</u>
Supplemental Cash Flow Disclosures:								
Cash paid for interest	\$ 4,638	\$ 2,004	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,642

(Concluded)

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

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

PERIOD JANUARY 1, 2020 THROUGH DECEMBER 31, 2020

	Purses	Contractual Agreement	Benefits	Total
Cash receipts:				
Gaming funds - cash receipts	\$ 29,342,502	\$ 912,538	\$ 2,669,216	\$ 32,924,256
Promotional payback reduction	(375,450)	(11,733)	(25,783)	(412,966)
Interest earned	13,577	-	2,550	16,127
Total cash receipts	<u>28,980,629</u>	<u>900,805</u>	<u>2,645,983</u>	<u>32,527,417</u>
Other revenue:				
Investment return	-	-	180,160	180,160
Miscellaneous income	-	-	2,400	2,400
Total other revenue	<u>-</u>	<u>-</u>	<u>182,560</u>	<u>182,560</u>
Cash disbursements:				
Purse payments - Parx	(28,228,623)	-	-	(28,228,623)
Contractual disbursements	-	(900,805)	-	(900,805)
Health and welfare benefit disbursements	-	-	(3,336,105)	(3,336,105)
Administrative disbursements	-	-	(244,444)	(244,444)
Total cash disbursements	<u>(28,228,623)</u>	<u>(900,805)</u>	<u>(3,580,549)</u>	<u>(32,709,977)</u>
Changes in escrow balances	752,006	-	(752,006)	-
Escrow balance at January 1, 2020	<u>(2,092,418)</u>	<u>-</u>	<u>2,092,418</u>	<u>-</u>
Escrow balance at December 31, 2020	<u>\$ (1,340,412)</u>	<u>\$ -</u>	<u>\$ 1,340,412</u>	<u>\$ -</u>
Reconciliation to Audited Financial Statements				
Gaming funds - as reported above	<u>\$ 29,342,502</u>	<u>\$ 912,538</u>	<u>\$ 2,669,216</u>	<u>\$ 32,924,256</u>
Gaming funds, as reported in Note 3 to the audited financial statements	<u>\$ 29,342,502</u>	<u>\$ 912,538</u>	<u>\$ 2,669,216</u>	<u>\$ 32,924,256</u>
Purse payments - as reported above	<u>\$ (28,228,623)</u>	<u>\$ (900,805)</u>	<u>\$ -</u>	<u>\$ (29,129,428)</u>
Purse payments, as reported in Note 3 to the audited financial statements	<u>\$ (28,228,623)</u>	<u>\$ (900,805)</u>	<u>\$ -</u>	<u>\$ (29,129,428)</u>
Health and welfare benefit payments - as reported above	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,580,549)</u>	<u>\$ (3,580,549)</u>
Health and welfare benefit payments - as reported in Note 3 to the audited financial statements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,580,549)</u>	<u>\$ (3,580,549)</u>

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

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

SCHEDULE OF ADMINISTRATIVE EXPENSES

YEAR ENDED DECEMBER 31, 2020

	<u>Date</u>	<u>Amount</u>	<u>Description</u>
Accounting fees	Total for 2020	\$ 31,980	Accounting fees
Payroll allocation	Total for 2020	66,370	Payroll allocation
Audit fee	Total for 2020	43,610	Audit fee accrual
Bank service charges	Total for 2020	1,402	Bank service charges
Investment service charges	Total for 2020	11,129	Advisory fees - RBC Wealth Managem
Simon, Edward G.	2/12/2020	4,625	Consultant
Simon, Edward G.	3/1/2020	3,875	Consultant
Simon, Edward G.	4/1/2020	1,375	Consultant
Simon, Edward G.	5/1/2020	2,875	Consultant
Simon, Edward G.	5/30/2020	2,375	Consultant
Simon, Edward G.	7/1/2020	875	Consultant
Simon, Edward G.	8/6/2020	3,375	Consultant
Simon, Edward G.	9/1/2020	3,375	Consultant
Simon, Edward G.	10/1/2020	3,500	Consultant
Simon, Edward G.	11/1/2020	4,375	Consultant
Simon, Edward G.	12/31/2020	8,000	Consultant
Horsemen's Purchasing Association	Total for 2020	42,632	Health Care Expense
Miscellaneous reimbursements	Total for 2020	(2,349)	Miscellaneous reimbursements
State Audit	Total for 2020	11,045	State audit fee accrual
Administrative expenses at December 31, 2020		<u>\$ 244,444</u>	

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

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

YEAR ENDED DECEMBER 31, 2020

1. Basis of Presentation

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

2. Flow of the Pennsylvania Horse Funds

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

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

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

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

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

YEAR ENDED DECEMBER 31, 2020

Management of the Association determines the portion of the Race Horse Development Trust Funds to transfer to Parx Racing for purse purposes based on the estimate provided by Parx Racing.

The frequency of purse payments is dependent upon the established racing schedules. The Association maintains schedules detailing all purse fund payments. The purse payments are reconciled to the actual purses paid by Parx Racing by both Parx Racing and the Association's consultants. Health disbursements are made directly to the carriers based on invoiced amounts.

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

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

Year Ended December 31, 2020

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

**Board of Directors and Secretary Thall, Pennsylvania Office of the Budget
Pennsylvania Thoroughbred Horsemen’s Association, Inc.**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements (financial statements) of the Pennsylvania Thoroughbred Horsemen’s Association, Inc. (Association), which comprise the combined statement of financial position as of December 31, 2020, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated April 4, 2023. Our report includes reference to another report on the Association’s financial statements. The financial statements of the Pennsylvania Race Horse Development Trust Fund Division of the Pennsylvania Thoroughbred Horsemen’s Association, Inc. (PRDF) and Turning for Home, Inc. (TFH) funds were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association’s internal control over financial reporting (internal control) 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 entity’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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal

control, described in the accompanying schedule of findings and responses as items 2020-001 and 2020-002 that we consider to be material weaknesses.

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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2020-002.

The Association's Responses to Findings

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

Purpose of this Report

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

Maher Duessel

Harrisburg, Pennsylvania
April 4, 2023

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2020

Material Weakness

Finding 2020-001: Improving Financial Reporting

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

- There was \$22,500 recorded as prepaid expenses and accounts payable for 2021 dues. However, the 2021 dues should not be in prepaid expenses since they were not paid in 2020 and should not be in accounts payable since they are related to 2021.
- There was \$15,000 recorded as net assets for 2020 lobbyist fees and \$15,000 recorded as accounts payable and expense for 2021 lobbyist fees. However, the 2020 fees should be in expenses not net assets, and the 2021 fees should not be in accounts payable or expenses since they are related to 2021.
- Accounts payable of \$29,370 for PTHA was not recorded at year-end.
- Accrued payroll and payroll expenses included 2019 balances totaling \$15,432 for PTHA that should have been reversed in 2020.
- There was \$65,000 recorded as a line of credit and cash for PTHA. However, the draw was not made until 2021.
- The full payments on the vehicle loans payable for PTHA were recorded as a reduction to the loan payable balance. However, the interest portion needs to be recorded as an expense rather than a reduction to the loan payable balance.
- There was \$252,956 recorded as revenue and expenses twice for the marketing grant. This transaction was recorded in revenues and expenses when funds were received and expenses were incurred and again in revenues and expenses when cash was transferred between PTHA bank accounts.
- During testing, it was noted that net assets were not correctly stated. The 2019 balances were not correctly closed to 2020 beginning balance and entries were incorrectly made to 2020 net assets.
- SPMO revenue of \$114,000 was not properly recorded as a liability.

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

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

PENNSYLVANIA THOROUGHBRED HORSEMEN'S ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2020

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

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

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

Finding 2020-002: Filing of Quarterly Reports

Condition: All four of the quarterly reports were not filed timely with the Pennsylvania Gaming Control Board (PGCB) during the year ended December 31, 2020.

Criteria: Chapter 436a, Section 436a.4(e), requires that Horsemen's organizations shall file with the PGCB a quarterly report, due by the 20th day of the month following the end of each calendar quarter, which shall account for (i) funds received and disbursed for purse supplements and (ii) health and retirement benefits.

Cause: The Association does not have an established control to ensure compliance with Section 436a.4(e), filing requirements of the PGCB.

Effect: The Association is not in compliance with 436a.4(e) as all four of the quarterly reports for the year ended December 31, 2020 were not filed until 2022.

Recommendation: We recommend that management develop procedures and controls to ensure that all four of the quarterly reports are filed timely with the PGCB.

Management's Response: Due to the Covid-19 pandemic, the association was delayed in filing the 2020 quarterly reports to the PGCB timely. We agree with the recommendation and will use our best efforts to comply.