

# **Meadows Standardbred Owners Association**

Financial Statements and  
Supplementary Information

Years Ended December 31, 2019 and 2018  
with Independent Auditor's Reports

**MaherDuessel**  
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

Pursuing the profession while promoting the public good®  
[www.md-cpas.com](http://www.md-cpas.com)

# MEADOWS STANDARD BRED OWNERS ASSOCIATION

YEARS ENDED DECEMBER 31, 2019 AND 2018

## TABLE OF CONTENTS

---

### **Independent Auditor's Report**

#### **Financial Statements:**

Statements of Financial Position	1
Statements of Activities and Changes in Net Assets	2
Statements of Cash Flows	3
Notes to Financial Statements	4

#### **Supplementary Information:**

Statement of Cash Receipts and Cash Disbursements and Changes in Restricted Cash Balances	12
Notes to the Statement of Cash Receipts and Cash Disbursements and Changes in Restricted Cash Balances	13

#### **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>	14
Schedule of Findings and Responses	16

## Independent Auditor's Report

**Board of Directors and Secretary Albright,  
Pennsylvania Office of the Budget  
Meadows Standardbred  
Owners Association**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Meadows Standardbred Owners Association (Association), which

comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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 financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2019 and 2018, 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.

### **Emphasis of Matter**

As described in Note 1 to the financial statements, the Client adopted ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*," which provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customers and related disclosures, ASU 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash*," and ASU 2018-08, "*Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*,". Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of cash receipts and cash disbursements and changes in restricted cash balances, as required by Chapter 436a of the Pennsylvania Horse Development and Gaming Act, 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. That 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Board of Directors and Secretary Albright,  
Pennsylvania Office of the Budget  
Meadows Standardbred  
Owners Association  
Independent Auditor's Report  
Page 3 of 3

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2020 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.

*Mahe Duessel*

Harrisburg, Pennsylvania  
June 29, 2020

# MEADOWS STANDARD BRED OWNERS ASSOCIATION

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

	2019	2018
<b>Assets</b>		
<hr/>		
Current assets:		
Cash and cash equivalents	\$ 7,903,586	\$ 5,926,437
Prepaid expenses	11,900	17,881
Total current assets	7,915,486	5,944,318
Fixed assets:		
Equipment	97,869	97,869
Less: accumulated depreciation	(30,479)	(21,836)
Net fixed assets	67,390	76,033
Other assets:		
Restricted cash and cash equivalents	3,121,231	3,988,570
<b>Total Assets</b>	<b>\$ 11,104,107</b>	<b>\$ 10,008,921</b>
<b>Liabilities and Net Assets</b>		
<hr/>		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 97,159	\$ 19,036
Accrued expenses	9,393	7,686
Payroll taxes and deductions	1,009	4,794
Total current liabilities	107,561	31,516
Noncurrent Liabilities:		
Escrow funds:		
Purse	1,986,913	2,752,330
Health and welfare	1,134,318	1,236,240
Total noncurrent liabilities	3,121,231	3,988,570
Total Liabilities	3,228,792	4,020,086
Net Assets:		
Without donor restrictions	7,875,315	5,988,835
<b>Total Liabilities and Net Assets</b>	<b>\$ 11,104,107</b>	<b>\$ 10,008,921</b>

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

# MEADOWS STANDARD BRED OWNERS ASSOCIATION

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
<b>Revenues:</b>		
Pari-mutuel	\$ 10,855,100	\$ 12,010,453
Government grants	317,610	295,325
Membership dues	13,620	13,510
Horsemen's services and benefits	3,668	3,336
Pension expense reimbursement	25,460	-
Interest income	112,744	48,576
Miscellaneous income	2,300	3,816
Total revenues	11,330,502	12,375,016
<b>Expenses:</b>		
Program services - Horsemen's expense:		
Purses paid	7,490,798	7,752,438
Grooms health insurance	609,605	572,277
Insurance	80,508	82,980
Salaries, payroll taxes, and employee benefits	231,595	195,894
Rent and leased equipment	4,783	6,831
Telephone	2,225	2,561
Licenses and permits	70	1,150
Professional fees	177,512	168,757
Membership dues	10,830	10,820
Horsemen's services and events	56,352	48,288
Donations, scholarships, and research	34,014	46,051
Total program services - Horsemen's expense	8,698,292	8,888,047
Support services:		
Salaries, payroll taxes, and employee benefits	53,750	46,428
General office	14,195	35,341
Advertising	353,314	337,185
Meetings and travel	22,017	22,510
Professional fees	293,811	301,925
Depreciation	8,643	6,473
Total support services	745,730	749,862
Total expenses	9,444,022	9,637,909
<b>Change in Net Assets</b>	1,886,480	2,737,107
<b>Net Assets Without Donor Restrictions:</b>		
Beginning of year	5,988,835	3,251,728
End of year	\$ 7,875,315	\$ 5,988,835

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

# MEADOWS STANDARD BRED OWNERS ASSOCIATION

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 1,886,480	\$ 2,737,107
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	8,643	6,473
Effects of changes in operating assets and liabilities:		
Gaming funds received	26,102,915	25,868,124
Interest on restricted funds	58,536	43,400
Prepaid expenses	5,981	13,986
Purse payments	(25,197,975)	(24,654,775)
Health and welfare benefits disbursements	(1,830,815)	(1,628,181)
Accounts payable	78,123	6,897
Payroll liabilities	1,707	3,215
Accrued expenses	(3,785)	1,501
Net cash provided by (used in) operating activities	1,109,810	2,397,747
<b>Cash Flows From Investing Activities:</b>		
Acquisition of property, plant, and equipment	-	(81,164)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,109,810	2,316,583
<b>Cash and Cash Equivalents:</b>		
Beginning of year	9,915,007	7,598,424
End of year	\$ 11,024,817	\$ 9,915,007
Consists of:		
Cash - operations	\$ 7,903,586	\$ 5,926,437
Restricted cash	3,121,231	3,988,570
	\$ 11,024,817	\$ 9,915,007

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

# MEADOWS STANDARDBRED OWNERS ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

---

### 1. Summary of Significant Accounting Policies

The Meadows Standardbred Owners Association (Association) is a membership organization which promotes the welfare and development of harness racing in Pennsylvania. The primary sources of revenues are from a harness race track in Meadow Lands, Pennsylvania.

#### Basis of Accounting

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.

#### Basis of Net Assets

In accordance with accounting principles generally accepted in the United States of America, the Association is required to report information regarding its financial position and activities according to the following two classes of net assets:

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations.

Net Assets with Donor Restrictions – Net assets that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will meet either the actions of the Association and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources are maintained in perpetuity. Generally, the donors of these assets permit the use of all or part of the income earned and capital gains, if any, on related investments for general or specific purposes. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Association does not have any net assets with donor restrictions at December 31, 2019 and 2018.

#### 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

---

# MEADOWS STANDARD BRED OWNERS ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

---

expenses, and the disclosure of contingent gains and losses. Accordingly, actual results could differ from those estimates.

### Cash and Cash Equivalents

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.

### Restricted Cash and Cash Equivalents

Certain cash and cash equivalents are restricted as to use by the Pennsylvania Horse Development and Gaming Act. These funds are held in separate accounts.

### Accounts Receivable

The Association uses the direct write-off method for bad debts, the results of which are not materially different from those under the allowance method.

### 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 five to ten years based on management's estimate of the useful lives. Additions, major replacements, and betterments which are individually in excess of \$500, and have a life in excess of one year, are capitalized. Maintenance and repairs are charged to expense as incurred.

### 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, 2019.

# MEADOWS STANDARD BRED OWNERS ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

---

### Contributions and Grants

The Association reports gifts of cash and other assets as restricted contributions when they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (such as when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are released to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Association reports the support as without donor restrictions.

### 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 coincides with the state fiscal year, July 1<sup>st</sup> to June 30<sup>th</sup>, and any amount remaining after June 30<sup>th</sup> is kept by the state. During the years ended December 31, 2019 and 2018 the Association incurred \$317,610 and \$295,325 in costs under this grant, all of which were reimbursed by the state and recorded. The Association had \$0 and \$154,218 remaining award balances at December 31, 2019 and 2018, respectively, all of which was still held by the state. These award balances are not recognized as assets and will be recognized as revenue when the expenses are incurred.

### Membership Dues

Membership dues, which are nonrefundable, are payable each January and provide membership for the calendar year. They are comprised of an exchange element based on the value of benefits provided. The Association recognizes the membership dues over the membership period.

### Income Taxes

The Association is a non-profit organization which is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code. Financial Accounting Standards Board (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

---

# MEADOWS STANDARD BRED OWNERS ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

---

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)(6) 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.

### Expense Allocation

Expenses directly related to a specific program are charged to that program. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, salaries, benefits, payroll taxes, professional services, insurance, information technology, and other, which are allocated based on a budgeted rate per hour that management asserts is equivalent to the actual effort expended.

### Adopted Accounting Standards

The provisions of these Standards Updates have been adopted and incorporated into these financial statements.

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 the related disclosures.

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

ASU 2018-08, "*Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*." The amendments provide guidance for characterizing grants and similar contracts with government agencies and

# MEADOWS STANDARD BRED OWNERS ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

---

others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions.

### Pending Standards Update

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Updates (individually and collectively, ASU) that will become effective in future years as outlined below. Management has not yet determined the impact of these Updates on the financial statements.

ASU 2016-02, "*Leases (Topic 842)*," is effective, as delayed, for the financial statements for the year beginning after December 15, 2020. These amendments and related amendments 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.

### 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.

### Reclassifications

Certain reclassifications have been made to the statement of income and expenses and statement of cash flows for the year ended December 31, 2018 to conform to the current year's presentation.

## **2. Restricted Funds**

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. These funds are also recorded as escrows on the statements of financial position.

# MEADOWS STANDARD BRED OWNERS ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

The detail of transactions in these accounts for 2019 and 2018 is as follows:

	Purses	Benefits
<b>Restricted Cash Balances, January 1, 2018</b>	\$ 3,308,640	\$ 1,051,362
Gaming funds - WTA	24,062,693	1,805,431
Interest income	35,772	7,628
	24,098,465	1,813,059
Purse payments - WTA	(24,654,775)	-
Health and welfare benefits	-	(1,628,181)
	(24,654,775)	(1,628,181)
<b>Restricted Cash Balances, December 31, 2018</b>	2,752,330	1,236,240
Gaming funds - WTA	24,386,743	1,716,172
Interest income	45,815	12,721
	24,432,558	1,728,893
Purse payments - WTA	(25,197,975)	-
Health and welfare benefits	-	(1,830,815)
	(25,197,975)	(1,830,815)
<b>Restricted Cash Balances, December 31, 2019</b>	\$ 1,986,913	\$ 1,134,318

### 3. Concentration of Credit Risk

The Association maintains several bank accounts consisting of checking accounts and a money market account at one financial institution. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured. As of December 31, 2019 and 2018, cash on deposit in excess of insured amounts was \$0.

### 4. Availability and Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the balance sheet date, comprise cash and

# MEADOWS STANDARD BRED OWNERS ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

---

cash equivalents of \$7,903,586 and \$5,926,437 for the years ended December 31, 2019 and 2018 respectively.

As part of the Association's liquidity management plan, it invests cash in excess of daily requirements in short-term investments, CDs, and money market funds.

### **5. Washington Trotting Association, Inc. (WTA) and Mountain Laurel Racing, Inc. (MLR) Agreement**

Effective January 1, 2018 through December 31, 2028, an agreement was signed between the Association and WTA and MLR. The agreement specifies a mutually agreeable purse structure and set of related economic arrangements. The Association shall receive on a weekly basis all pari-mutuel receipts, net of Association contributions subject to providing WTA/MLR with a continuing cash balance of \$100,000. These pari-mutuel receipts are derived from wagering concentrated in Southwestern Pennsylvania. Any significant economic change to this region could have a significant impact on these pari-mutuel receipts. From these receipts, the Association is responsible for payment of its own administrative costs as well as the following disbursements: Christian Harness Horsemen's Association dues; fire/disaster insurance premiums; and sulky accident-related payments. In addition, WTA and MLR are obligated to make office space available to the Association without charge, and to provide certain administrative services. The estimated value of the office space is \$7,200 per year. The receipts are recognized as revenue when received by the Association.

### **6. Simplified Employee Pension (SEP) Plan (Plan)**

The Association established a deferred salary arrangement under I.R.C. Section 408(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's contribution for 2019 and 2018 totaled \$25,460 and \$23,380, respectively.

# MEADOWS STANDARD BRED OWNERS ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

---

### 7. Lease

The Association leases copier equipment under a noncancelable operating lease with a maturity date of September 1, 2023. Minimum monthly payments total \$273 per month. The Association also leased a portable office under a month-to-month operating lease until it was donated into the Association in May 2018. Total rental payments for 2019 and 2018 were \$3,608 and \$5,751, respectively.

Minimum lease payments required under the copier lease are:

2020	\$	3,276
2021		3,276
2022		3,276
2023		<u>2,184</u>
Total	\$	<u>12,012</u>

### 8. Subsequent Event Footnote

If a pandemic, epidemic or outbreak of an infectious disease occurs, our business may be adversely affected. For example, in December 2019, a new strain of the coronavirus (COVID-19) spread through China as well as other countries including the United States. The impact of the virus varies from region to region and from day to day and any significant additional spreading of the virus could adversely affect the Association's business.

The outbreak of the COVID-19 virus is likely to have a further negative impact in 2020 on the global economy and, in the future, might impact the Association's financial results in 2020 and beyond. Given the dynamic nature of this outbreak, however, the extent to which the COVID-19 virus impacts the Association's results will depend on future developments, which remain highly uncertain and cannot be predicted at this time.

## **SUPPLEMENTARY INFORMATION**

**MEADOWS STANDARDBRED  
OWNERS ASSOCIATION**

**STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS  
AND CHANGES IN RESTRICTED CASH BALANCES**

YEAR ENDED DECEMBER 31, 2019

	<u>Purses</u>	<u>Benefits</u>	<u>Total</u>
Cash Receipts:			
Gaming funds - WTA	\$ 24,386,743	\$ 1,716,172	\$ 26,102,915
Interest earned	45,815	12,721	58,536
Total cash receipts	<u>24,432,558</u>	<u>1,728,893</u>	<u>26,161,451</u>
Cash Disbursements:			
Purse payments - WTA	25,197,975	-	25,197,975
Health and welfare benefit payments	-	1,830,815	1,830,815
Total cash disbursements	<u>25,197,975</u>	<u>1,830,815</u>	<u>27,028,790</u>
Changes in Restricted Cash Balances	(765,417)	(101,922)	(867,339)
Restricted Cash Balance at January 1, 2019	<u>2,752,330</u>	<u>1,236,240</u>	<u>3,988,570</u>
Restricted Cash Balance at December 31, 2019	<u>\$ 1,986,913</u>	<u>\$ 1,134,318</u>	<u>\$ 3,121,231</u>
Reconciliation to audited financial statements:			
Gaming funds, as reported above	<u>\$ 24,386,743</u>	<u>\$ 1,716,172</u>	<u>\$ 26,102,915</u>
Gaming funds, as reported in Note 2 to the audited financial statements	<u>\$ 24,386,743</u>	<u>\$ 1,716,172</u>	<u>\$ 26,102,915</u>
Purse and benefit payments, as reported above	<u>\$ 25,197,975</u>	<u>\$ 1,830,815</u>	<u>\$ 27,028,790</u>
Purse and benefit payments, as reported in Note 2 to the audited financial statements	<u>\$ 25,197,975</u>	<u>\$ 1,830,815</u>	<u>\$ 27,028,790</u>

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

# MEADOWS STANDARDBRED OWNERS ASSOCIATION

## NOTES TO THE STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS AND CHANGES IN RESTRICTED CASH BALANCES

YEAR ENDED DECEMBER 31, 2019

---

### **1. Basis of Presentation**

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

### **2. Flow of the Pennsylvania Horse Funds**

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

Management of the Association determines the portion of the Pennsylvania 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 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 the casinos. Health and pension disbursements are made directly to the carriers based on invoiced amounts. There were \$0 in administrative expenses charged to those funds in 2019.

**Meadows Standardbred  
Owners Association**

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

Year Ended December 31, 2019

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

**Board of Directors and Secretary Albright,  
Pennsylvania Office of the Budget  
Meadows Standardbred  
Owners 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 Meadows Standardbred Owners Association (Association), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2020.

## **Internal Control over Financial Reporting**

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

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 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 a certain deficiency in internal control, described in the accompanying schedule of findings and responses, as item 2019-001, that we consider to be a material weakness.

Board of Directors and Secretary Albright,  
Pennsylvania Office of the Budget  
Meadows Standardbred  
Owners Association  
Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, including Chapter 436a of the Pennsylvania Race Horse Development and Gaming Act and Fiscal Code (72 P.S. § 1701-0). However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## The Association's Response to Findings

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

## 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Maher Duessel*

Harrisburg, Pennsylvania  
June 29, 2020

# MEADOWS STANDARDBRED OWNERS ASSOCIATION

## SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2019

### **Finding 2019-001 Segregation of Duties**

#### Statement of Condition/Cause:

The Meadows Standardbred Owners Association (Association) does not have sufficient controls in place to prevent or detect misstatements of the financial statements on a timely basis. This increases the risk that errors or irregularities may occur in the financial statements and not be detected on a timely basis. This control matter is the result of a limited number of staff being employed by the Association.

#### Criteria:

The Committee of Sponsoring Organizations' (COSO) Internal Control Integrated Framework establishes a set of requirements for assessing and determining whether an entity has implemented an appropriate control environment. Inherent in that analysis is the review of adequate segregation of duties among the staff of an organization, which is an integral component in achieving an effective internal control structure.

#### Effect:

The Association is unable to create an ideal system of internal controls which would reduce the risk that the financial statements include errors. As such, errors, irregularities, or inconsistencies in the application of accounting principles may exist and not be detected.

#### Repeat Finding:

This is a repeat of prior year finding 2018-001.

#### Recommendation:

We recommend that management and the Board of Directors (Board) continue to be aware of the risks to financial reporting in an environment where segregation of duties is limited. We also recommend that management and the Board exercise a high level of scrutiny for activity recorded in the Association's accounting software and look for ways to increase the level of duties segregation to improve the system of internal control.

# MEADOWS STANDARD BRED OWNERS ASSOCIATION

## SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2019

### Views of Responsible Officials and Planned Corrective Action:

The Board is aware of the risks to financial reporting in an environment where segregation of duties is limited. Focus is on the cash receipts and cash disbursements because we feel those are the vulnerable areas. Every month, the Board receives an agenda before each Board meeting, listing all cash disbursements over \$500 for approval at the meeting.

Also, the Treasurer of the Board receives and reviews a detailed schedule of all cash receipts and disbursements on a quarterly basis.