

Meadows Standardbred Owners Association

Financial Statements and Supplementary Information

Years Ended December 31, 2020 and 2019
with Independent Auditor's Reports

MaherDuessel

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MEADOWS STANDARD BRED OWNERS ASSOCIATION

YEARS ENDED DECEMBER 31, 2020 AND 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2021 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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

Board of Directors and Secretary Albright,
Pennsylvania Office of the Budget
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Independent Auditor's Report
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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
April 23, 2021

MEADOWS STANDARD BRED OWNERS ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2020 AND 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,826,180	\$ 7,903,586
Prepaid expenses	2,845	11,900
Total current assets	3,829,025	7,915,486
Fixed assets:		
Equipment	97,869	97,869
Less: accumulated depreciation	(39,122)	(30,479)
Net fixed assets	58,747	67,390
Other assets:		
Restricted cash and cash equivalents	780,662	3,121,231
Total Assets	\$ 4,668,434	\$ 11,104,107
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 9,194	\$ 97,159
Accrued expenses	7,739	9,393
Payroll taxes and deductions	3,688	1,009
Total current liabilities	20,621	107,561
Noncurrent Liabilities:		
Escrow funds:		
Purse	100,206	1,986,913
Health and welfare	680,456	1,134,318
Total noncurrent liabilities	780,662	3,121,231
Total Liabilities	801,283	3,228,792
Net Assets:		
Without donor restrictions	3,867,151	7,875,315
Total Liabilities and Net Assets	\$ 4,668,434	\$ 11,104,107

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, 2020 AND 2019

	2020	2019
Revenues:		
Pari-mutuel	\$ 8,853,056	\$ 10,855,100
Government grants	-	317,610
Membership dues	13,150	13,620
Horsemen's services and benefits	-	3,668
Pension expense reimbursement	-	25,460
Interest income	67,856	112,744
Miscellaneous income	8,180	2,300
Total revenues	8,942,242	11,330,502
Expenses:		
Program services - Horsemen's expense:		
Purses paid	11,319,305	7,490,798
Grooms health insurance	534,683	609,605
Insurance	67,983	80,508
Salaries, payroll taxes, and employee benefits	225,722	231,595
Rent and leased equipment	11,690	4,783
Telephone	1,825	2,225
Licenses and permits	1,680	70
Professional fees	168,105	177,512
Membership dues	9,630	10,830
Horsemen's services and events	37,030	56,352
Donations, scholarships, and research	28,256	34,014
Total program services - Horsemen's expense	12,405,909	8,698,292
Support services:		
Salaries, payroll taxes, and employee benefits	70,563	53,750
General office	21,108	14,195
Advertising	143,775	353,314
Meetings and travel	22,648	22,017
Professional fees	277,760	293,811
Depreciation	8,643	8,643
Total support services	544,497	745,730
Total expenses	12,950,406	9,444,022
Change in Net Assets	(4,008,164)	1,886,480
Net Assets Without Donor Restrictions:		
Beginning of year	7,875,315	5,988,835
End of year	\$ 3,867,151	\$ 7,875,315

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

MEADOWS STANDARD BRED OWNERS ASSOCIATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Cash Flows From Operating Activities:		
Change in net assets	\$ (4,008,164)	\$ 1,886,480
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	8,643	8,643
Effects of changes in operating assets and liabilities:		
Gaming funds received	14,057,810	26,102,915
Interest on restricted funds	20,042	58,536
Prepaid expenses	9,055	5,981
Purse payments	(14,806,893)	(25,197,975)
Health and welfare benefits disbursements	(1,611,528)	(1,830,815)
Accounts payable	(87,965)	78,123
Payroll liabilities	(1,654)	1,707
Accrued expenses	2,679	(3,785)
Net cash provided by (used in) operating activities	(6,417,975)	1,109,810
Net Increase (Decrease) in Cash and Cash Equivalents	(6,417,975)	1,109,810
Cash and Cash Equivalents:		
Beginning of year	11,024,817	9,915,007
End of year	\$ 4,606,842	\$ 11,024,817
Consists of:		
Cash and cash equivalents	\$ 3,826,180	\$ 7,903,586
Restricted cash and cash equivalents	780,662	3,121,231
	\$ 4,606,842	\$ 11,024,817

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

MEADOWS STANDARDBRED OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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, 2020 and 2019.

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, 2020 AND 2019

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, 2020.

MEADOWS STANDARD BRED OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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 1st to June 30th, and any amount remaining after June 30th is kept by the state. During the years ended December 31, 2020 and 2019, the Association incurred \$0 and \$317,610, respectively, in costs under this grant, all of which were reimbursed by the state and recorded. The Association had \$122,034 and \$0 remaining award balances at December 31, 2020 and 2019, respectively, all of which was still held by the state. These award balances are not recorded in the financial statements 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, 2020 AND 2019

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. Expenses related to more than one program or supporting service are allocated on the basis of actual or estimated employee time.

Pending Accounting Standards Updates

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, 2021. 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.

MEADOWS STANDARD BRED OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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.

The detail of transactions in these accounts for 2020 and 2019 is as follows:

	Purses	Benefits
Restricted Cash Balances, January 1, 2019	\$ 2,752,330	\$ 1,236,240
Gaming funds - WTA	24,386,743	1,716,172
Interest income	45,815	12,721
	<u>24,432,558</u>	<u>1,728,893</u>
Purse payments - WTA	(25,197,975)	-
Health and welfare benefits	-	(1,830,815)
	<u>(25,197,975)</u>	<u>(1,830,815)</u>
Restricted Cash Balances, December 31, 2019	1,986,913	1,134,318
Gaming funds - WTA	12,906,424	1,151,386
Interest income	13,762	6,280
	<u>12,920,186</u>	<u>1,157,666</u>
Purse payments - WTA	(14,806,893)	-
Health and welfare benefits	-	(1,611,528)
	<u>(14,806,893)</u>	<u>(1,611,528)</u>
Restricted Cash Balances, December 31, 2020	<u>\$ 100,206</u>	<u>\$ 680,456</u>

3. Concentration of Credit Risk

The Association maintains several bank accounts consisting of checking accounts and a money market account that are spread across several financial institutions. 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, 2020 and 2019, cash on deposit in excess of insured amounts was \$0.

MEADOWS STANDARD BRED OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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 cash equivalents of \$3,826,180 and \$7,903,586 for the years ended December 31, 2020 and 2019, 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 2020 and 2019 totaled \$37,989 and \$25,460, respectively.

MEADOWS STANDARD BRED OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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 2020 and 2019 were \$3,783 and \$3,608, respectively.

Minimum lease payments required under the copier lease are:

2021	\$	3,276
2022		3,276
2023		<u>2,184</u>
Total	\$	<u><u>8,736</u></u>

8. COVID-19

In early 2020, an outbreak of a novel strain of coronavirus was identified, and infections have been found in a number of countries around the world, including the United States. The coronavirus and its associated impacts on supply chains, travel, employee productivity, and other economic activities has had, and may continue to have, a material effect on financial markets and economic activity. The extent of the impact of the coronavirus on the Association's operational and financial performance is uncertain and cannot be predicted.

SUPPLEMENTARY INFORMATION

MEADOWS STANDARD BRED OWNERS ASSOCIATION

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

YEAR ENDED DECEMBER 31, 2020

	Purses	Benefits	Total
Cash Receipts:			
Gaming funds - WTA	\$ 12,906,424	\$ 1,151,386	\$ 14,057,810
Interest earned	13,762	6,280	20,042
Total cash receipts	12,920,186	1,157,666	14,077,852
Cash Disbursements:			
Purse payments - WTA	14,806,893	-	14,806,893
Health and welfare benefit payments	-	1,611,528	1,611,528
Total cash disbursements	14,806,893	1,611,528	16,418,421
Changes in Restricted Cash Balances	(1,886,707)	(453,862)	(2,340,569)
Restricted Cash Balance at January 1, 2020	1,986,913	1,134,318	3,121,231
Restricted Cash Balance at December 31, 2020	\$ 100,206	\$ 680,456	\$ 780,662
Reconciliation to audited financial statements:			
Gaming funds, as reported above	\$ 12,906,424	\$ 1,151,386	\$ 14,057,810
Gaming funds, as reported in Note 2 to the audited financial statements	\$ 12,906,424	\$ 1,151,386	\$ 14,057,810
Purse and benefit payments, as reported above	\$ 14,806,893	\$ 1,611,528	\$ 16,418,421
Purse and benefit payments, as reported in Note 2 to the audited financial statements	\$ 14,806,893	\$ 1,611,528	\$ 16,418,421

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, 2020

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 2020.

**Meadows Standardbred
Owners Association**

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 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, 2020, 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 April 23, 2021.

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 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 2020-001, 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 financial statements, 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
April 23, 2021

MEADOWS STANDARDBRED OWNERS ASSOCIATION

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2020

Finding 2020-001 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 2019-001.

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, 2020

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.