

**MEADOWS STANDARD BRED OWNERS ASSOCIATION
A NONPROFIT MEMBERSHIP CORPORATION
Meadow Lands, Pennsylvania**

**FINANCIAL STATEMENTS
December 31, 2013 and 2012**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Meadows Standardbred Owners Association
Meadow Lands, Pennsylvania

Secretary
Pennsylvania Office of the Budget

Report on the Financial Statements

We have audited the accompanying financial statements of the Meadows Standardbred Owners Association (a nonprofit membership corporation) (the Association), which comprise the statements of financial position as of December 31, 2013 and 2012, 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 *Governmental 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 financial statements are free of 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 auditors' 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 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, 2013 and 2012, 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 – Statement of Cash Receipts and Cash Disbursements and Changes in Escrow Balances and Schedule of Administrative Expenses*

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 escrow balances and schedule of administrative expenses, as required by Chapter 436b of the Pennsylvania Horse Development and Gaming Act, are presented for purposes of additional analysis and are not required as part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Information – Membership Information

The membership information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2014, 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 result of that testing, and not to provide an opinion on 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.



Baltimore, Maryland
May 14, 2014

FINANCIAL STATEMENTS

MEADOWS STANDARD BRED OWNERS ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,881,400	\$ 2,328,085
Total current assets	2,881,400	2,328,085
FIXED ASSETS		
Equipment	14,063	14,063
Less: accumulated depreciation	(13,173)	(12,809)
Net fixed assets	890	1,254
RESTRICTED CASH	2,984,115	3,205,815
TOTAL ASSETS	\$ 5,866,405	\$ 5,535,154
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued expenses	\$ 16,313	\$ 12,152
Payroll liabilities	3,420	7,857
Total current liabilities	19,733	20,009
NONCURRENT LIABILITIES		
Purse escrow fund	1,753,416	1,852,094
Health and welfare escrow fund	1,230,699	1,353,721
Total noncurrent liabilities	2,984,115	3,205,815
UNRESTRICTED NET ASSETS	2,862,557	2,309,330
TOTAL LIABILITIES AND NET ASSETS	\$ 5,866,405	\$ 5,535,154

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

MEADOWS STANDARD BRED OWNERS ASSOCIATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended December 31, 2013 and 2012

	2013	2012
SUPPORT AND REVENUE		
Pari-mutuel receipts	\$ 13,545,194	\$ 13,355,628
Membership dues	11,590	21,652
Horsemen's services & benefits	4,019	7,079
Pension expense reimbursement	6,222	17,866
Interest	4,847	8,843
Total income	13,571,872	13,411,068
EXPENSES		
Program services - Horsemen's expense:		
Purses paid	10,980,426	12,759,468
Grooms health insurance	459,383	558,793
Insurance	98,109	87,638
Fair operations	152,151	144,025
PA Sires supplement	480,000	-
Salaries, payroll taxes and employee benefits	157,881	165,438
Rent and leased equipment	6,462	5,579
Telephone	3,318	2,950
Licenses and permits	270	826
General office	11,409	13,664
Professional fees	375,058	272,652
Meetings and travel	25,078	26,514
Membership dues	11,016	11,556
Horsemen's services and events	40,405	37,661
Donations, scholarships and research	103,630	144,766
Pension	15,153	16,936
Advertising	97,000	95,474
Casino contractor payments	-	443,789
Miscellaneous	1,532	1,135
Total program services	13,018,281	14,788,864
Support services:		
Depreciation	364	500
Total support services	364	500
Total expenses	13,018,645	14,789,364
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	553,227	(1,378,296)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	2,309,330	3,687,626
UNRESTRICTED NET ASSETS, END OF YEAR	\$ 2,862,557	\$ 2,309,330

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

MEADOWS STANDARD BRED OWNERS ASSOCIATION
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 553,227	\$ (1,378,296)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	364	500
Effects of changes in operating assets and liabilities:		
Restricted Cash	221,700	(143,004)
Accounts receivable	-	2,000
Escrow liabilities	(221,700)	143,004
Payroll liabilities	(4,437)	3,847
Accrued expenses	4,161	2,290
Net cash provided by (used in) operating activities	553,315	(1,369,659)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	553,315	(1,369,659)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,328,085	3,697,744
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,881,400	\$ 2,328,085

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

MEADOWS STANDARDBRED OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Meadows Standardbred Owners Association (MSOA) was organized in January 1977 and operates as a nonprofit membership corporation under the laws of the Commonwealth of Pennsylvania. Membership consists of owners, trainers and drivers of Standardbred horses actively participating in harness race meetings at The Meadows.

The purposes for which the MSOA has been organized for, and operations consist primarily of (a) the promotion of the sport of harness racing and the best interest of its horsemen in general and at The Meadows in particular, and (b) the provision of effective representation for horsemen interested in racing at The Meadows, including the negotiation of proper contracts with the licensed harness racing associations conducting harness race meetings at The Meadows, the furnishing of appropriate grievance procedures, and the maintaining of consultations and communications between horsemen and the licensed racing associations involved at The Meadows.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ASC 958, *Not-for-Profit Entities*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. MSOA did not have any temporarily or permanently restricted net assets at December 31, 2013 and 2012.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents

The Association considers all short-term investments with an original maturity of three months or less at the time of purchase to be cash equivalents.

Restricted Cash and Cash Equivalents and Investments

Certain cash, cash equivalents and investments are restricted as to use by Pennsylvania law and employee benefit plans. These funds are held in separate accounts.

MEADOWS STANDARD BRED OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equipment

Acquisitions of property and equipment with an individual cost in excess of \$500 are capitalized. Equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the individual assets.

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, 2013.

Revenue and Expenses

Membership dues are recognized as revenue based on the membership period covered by the individual member's dues. Other revenues are recognized when earned, and expenses are recognized when incurred.

NOTE 2 – RESTRICTED CASH AND ESCROW FUNDS

Pursuant to Title 4, Pennsylvania Consolidated Statute, Section 1406, distributions of gaming funds from the Pennsylvania Racehorse Development Fund must be used for horse racing purses and pension and health benefits for horsemen and horsewomen. The Association acts as a fiduciary in the collection and dispersal of these funds. On the accompanying financial statements, the funds have been recorded as restricted cash, and a corresponding liability as funds held in escrow.

Transactions for 2013 are as follows:

	Purses	Benefits	Total
Escrow balance at January 1, 2013	\$ 1,852,094	\$ 1,353,721	\$ 3,205,815
Gaming funds from WTA	26,773,864	1,830,203	28,604,067
Interest income	2,226	1,491	3,717
	26,776,090	1,831,694	28,607,784
Purse payments to WTA	(26,874,768)	-	(26,874,768)
Payments for health & welfare benefits	-	(1,939,563)	(1,939,563)
Expenses	-	(15,153)	(15,153)
	(26,874,768)	(1,954,716)	(28,829,484)
Escrow balance at December 31, 2013	\$ 1,753,416	\$ 1,230,699	\$ 2,984,115

**MEADOWS STANDARD BRED OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 2 – RESTRICTED CASH AND ESCROW FUNDS (CONTINUED)

Transactions for 2012 are as follows:

	<u>Purses</u>	<u>Benefits</u>	<u>Total</u>
Escrow balance at January 1, 2012	\$ 1,749,686	\$ 1,313,125	\$ 3,062,811
Gaming funds from WTA	29,608,252	1,902,033	31,510,285
Interest income	4,662	2,365	7,027
	<u>29,612,914</u>	<u>1,904,398</u>	<u>31,517,312</u>
Purse payments to WTA	(29,510,506)	-	(29,510,506)
Payments for health & welfare benefits	-	(1,845,936)	(1,845,936)
Expenses	-	(17,866)	(17,866)
	<u>(29,510,506)</u>	<u>(1,863,802)</u>	<u>(31,374,308)</u>
Escrow balance at December 31, 2012	<u>\$ 1,852,094</u>	<u>\$ 1,353,721</u>	<u>\$ 3,205,815</u>

NOTE 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, 2013 and 2012, cash on deposit at this institution was \$4,955,872 and \$4,796,713, respectively.

The Association also maintains several certificate of deposit accounts held at the same financial institution. These accounts are commonly referred to as Certificate of Deposit Account Registry Service (CDARS). The amount invested in CDARS as of December 31, 2013 and 2012 was \$1,000,000 and \$600,337, respectively.

NOTE 4 – WASHINGTON TROTTING ASSOCIATION, INC. (WTA) AND MOUNTAIN LAUREL RACING, INC. (MLR) – MEADOWS STANDARD BRED OWNERS ASSOCIATION AGREEMENT

Effective January 1, 2008, and subsequent extensions to and including December 31, 2017, an agreement was signed between the MSOA and WTA and MLR. This agreement specifies a mutually agreeable purse structure and set of related economic arrangements. The MSOA shall receive on a weekly basis all Pari-Mutuel receipts, net of the MSOA contributions subject to providing WTA/MLR with a continuing cash balance of \$100,000. MSOA is responsible for payment of its own administration 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 available without charges to MSOA, office space, and to provide certain administrative services. The estimated value of the office space is \$7,200 per year.

MEADOWS STANDARD BRED OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 5 – LEASE COMMITMENTS

The Association has entered into a long-term operating lease for office equipment expiring April 1, 2014. Total lease expense was \$4,423 and \$5,159 for the years ended December 31, 2013 and 2012, respectively. The future minimum rental payments of the operating lease are as follows:

2014	\$ <u>651</u>
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NOTE 6 - INCOME TAX STATUS

The Association is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code and is exempt from state income taxes. The Association's forms 990, Return of Organization Exempt from Income Tax, for the years ending December 31, 2012, 2011 and 2010 are subject to examination by the IRS, generally for three years after they were filed.

NOTE 7 – SUBSEQUENT EVENTS

Management evaluated subsequent events through May 14, 2014, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2013, but prior to May 14, 2014, that provided additional evidence about conditions that existed at December 31, 2013, have been recognized in the financial statements for the year ended December 31, 2013. Events or transactions that provided evidence about conditions that did not exist at December 31, 2013, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended December 31, 2013.

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

PENNSYLVANIA RACE HORSE DEVELOPMENT FUND



**INDEPENDENT AUDITORS' 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
Meadows Standardbred Owners Association
Meadow Lands, Pennsylvania

Secretary
Pennsylvania Office of the Budget

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 (the Association), which comprise the statement of financial position as of December 31, 2013, 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 May 14, 2014.

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 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002 that we consider to be significant deficiencies.

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. 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*.

Response to Findings

The Association's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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 result of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Baltimore, Maryland

May 14, 2014



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON PENNSYLVANIA RACE HORSE DEVELOPMENT FUNDS
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH CHAPTER 436a OF THE
PENNSYLVANIA HORSE DEVELOPMENT AND GAMING ACT**

Board of Directors
Meadows Standardbred Owners Association
Meadow Lands, Pennsylvania

Secretary
Pennsylvania Office of the Budget

Report on Compliance

We have audited the Meadows Standardbred Owners Association (the Association) compliance with the types of compliance requirements described in Chapter 436a of the Pennsylvania Horse Development and Gaming Act that could have a direct and material effect on the Association's Race Horse Development Funds for the year ended December 31, 2013. The Association's Race Horse Development Funds are identified in the summary of independent auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to Race Horse Development Funds.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Association based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and Chapter 436b of the Pennsylvania Horse Development and Gaming Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on Race Horse Development Funds occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for Race Horse Development Funds. However, our audit does not provide a legal determination of the Association's compliance.

Opinion

In our opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Race Horse Development Funds for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with Chapter 436a and which is described in the accompanying schedule of findings and questioned costs as item 2013-002. Our opinion is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types of requirements that could have a direct and material effect on the Race Horse Development Funds to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Race Horse Development Funds and to test and report on internal control over compliance in accordance with the Pennsylvania Horse Development and Gaming Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the Race Horse Development Funds on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of Race Horse Development Funds, that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-002 that we consider to be a significant deficiency.

The Association's response to the internal control over compliance finding identified in our audit is described in the schedule of findings and questioned costs. The Association's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of Chapter 436a of the Pennsylvania Horse Development and Gaming Act. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

Baltimore, Maryland
May 14, 2014

MEADOWS STANDARDBRED OWNERS ASSOCIATION
STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS AND CHANGES IN ESCROW BALANCES
Period January 1, 2013 through December 31, 2013

	<u>Purses</u>	<u>Benefits</u>	<u>Total</u>
CASH RECEIPTS			
Gaming Funds -WTA	\$ 26,773,864	\$ 1,830,203	\$ 28,604,067
Interest incurred	2,226	1,491	3,717
Total cash receipts	<u>26,776,090</u>	<u>1,831,694</u>	<u>28,607,784</u>
CASH DISBURSEMENTS			
Purse payments - WTA	(26,874,768)	-	(26,874,768)
Health & welfare benefit payments	-	(1,939,563)	(1,939,563)
Administrative expenses	-	(15,153)	(15,153)
Total cash disbursements	<u>(26,874,768)</u>	<u>(1,954,716)</u>	<u>(28,829,484)</u>
CHANGES IN ESCROW BALANCES	(98,678)	(123,022)	(221,700)
ESCROW BALANCE AT JANUARY 1, 2013	<u>1,852,094</u>	<u>1,353,721</u>	<u>3,205,815</u>
ESCROW BALANCE AT DECEMBER 31, 2013	<u>\$ 1,753,416</u>	<u>\$ 1,230,699</u>	<u>\$ 2,984,115</u>
RECONCILIATION TO AUDITED FINANCIAL STATEMENTS			
Gaming funds, as reported above	<u>\$ 26,773,864</u>	<u>\$ 1,830,203</u>	<u>\$ 28,604,067</u>
Gaming funds, as reported in Note 2 to the audited financial statements	<u>\$ 26,773,864</u>	<u>\$ 1,830,203</u>	<u>\$ 28,604,067</u>
Purse and benefit payments, as reported above	<u>\$ (26,874,768)</u>	<u>\$ (1,939,563)</u>	<u>\$ (28,814,331)</u>
Purse and benefit payments, as reported in Note 2 to the audited financial statements	<u>\$ (26,874,768)</u>	<u>\$ (1,939,563)</u>	<u>\$ (28,814,331)</u>

**MEADOWS STANDARD BRED OWNERS ASSOCIATION
SCHEDULE OF ADMINISTRATIVE EXPENSES FROM RACE HORSE
DEVELOPMENT FUNDS
December 31, 2013**

	<u>Date</u>	<u>Amount</u>	<u>Description</u>
Dunbar, Bender & Zapf, Inc.	5/3/2013	\$ 7,165	Actuarial services
Dunbar, Bender & Zapf, Inc.	5/3/2013	4,286	Actuarial services
Dunbar, Bender & Zapf, Inc.	12/13/2013	914	Actuarial services
Dunbar, Bender & Zapf, Inc.	12/13/2013	<u>2,788</u>	Actuarial services
Administrative Expenses at December 31, 2013		<u>\$ 15,153</u> *	

* These expenses are included in professional fees in the Statement of Activities and Changes in Net Assets in the financial statements.

MEADOWS STANDARDBRED OWNERS ASSOCIATION
NOTES TO THE STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
AND CHANGES IN ESCROW BALANCES
December 31, 2013

NOTE 1 – BASIS OF PRESENTATION

The accompanying Statement of Cash Receipts and Cash Disbursements and Changes in Escrow Balances includes the Pennsylvania Race Horse Development Fund activity of Meadows Standardbred Owners Association (the Association) and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the 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.

NOTE 2 – FLOW OF THE PENNSYLVANIA RACE HORSE DEVELOPMENT FUNDS

Occurring on Friday of each week, the Pennsylvania Department of Revenue will email representatives at the Casino stating how much Pennsylvania Racehorse Development Funds they are transferring to the Casino, including the allocation for purses and health and welfare benefits. The Association is copied on this correspondence. Approximately two weeks following this transmittal, funds are wired from the Casino to the Association into separate bank accounts.

The Racing Secretary from The Meadows Racing provides the Association with an estimate of purses to be paid. The Association writes a check for this money to the Casino to be paid for future purses. After the races are completed, the Association receives a schedule of purses paid for the prior week that details the purse payouts by race and by date. Health & welfare disbursements are made directly by the Association based on invoices received.

**MEADOWS STANDARD BRED OWNERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2013**

I. Summary of Independent Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____	Yes	_____	No
			X	
Significant deficiency(ies) identified that are not considered to be material weakness?	_____	Yes	_____	None reported
	X			
Noncompliance material to financial statements noted?	_____	Yes	_____	No
			X	

Pennsylvania Racehorse Development Funds

Type of auditors' report on compliance issued: Unmodified

Internal control over compliance:

Material weakness(es) identified?	_____	Yes	_____	No
			X	
Significant deficiency(ies) identified that are not considered to be material weakness?	_____	Yes	_____	None reported
	X			

**MEADOWS STANDARD BRED OWNERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2013**

II. Financial Statement Findings

Finding Reference: 2013-001
Description: Segregation of Duties
Type of Finding: Significant Deficiency in Internal Control

Condition/Context

The Association does not have effective controls to safeguard assets, and prevent or detect misstatements on a timely basis, as a result of a lack of segregation of duties. This condition increases the possibility that errors or irregularities may occur and not be detected on a timely basis. Due to the small number of people employed in administrative functions, the Association may not be able to fully achieve an ideal segregation of duties. Currently, management's and the board's close oversight and review of accounting information are the best means of preventing or detecting errors and irregularities.

Criteria

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

Cause

This is a result of the limited number of personnel employed at the Association.

Effect

An increased risk that error or inconsistencies may occur and not be detected.

Recommendation

We recommend that management continue to be constantly aware of the potential for discrepancy in such an environment. With limited personnel to segregate duties, focus should concentrate on the most vulnerable areas. Accordingly, we believe this focus should be in the areas of cash receipts and disbursements. The Association management and board should continue to closely monitor financial related duties, including the review of interim financial statements at least quarterly.

Management's Response

In response to the internal control recommendation, the MSOA will provide a detail schedule of the cash receipts and cash disbursements to the Treasurer of the Board of Directors for review and approval on a quarterly basis.

**MEADOWS STANDARDBRED OWNERS ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2013**

III. Pennsylvania Race Horse Development Funds Findings

Finding Reference: 2013-002
Description: Inaccurate Quarterly Reporting
Type of Finding: Significant Deficiency in Internal Control, Compliance

Condition/Context

The Association included a deposit of Pari-Mutuel funds of \$1,365,546 (which were erroneously deposited into the Purse account) as a Purse receipt in their 3rd quarter filing with the Pennsylvania Gaming Control Board (the Board). A transfer was made to correct this deposit and properly move it to the Pari-Mutuel account. This transfer of \$1,365,546 was incorrectly included in the quarterly purse disbursement total reported to the Board. The error was identified, but was not corrected by the Association.

Criteria

Chapter 436a, Subsection 5, Reports, requires that the registered horsemen's organizations file quarterly reports with the Pennsylvania Gaming Control Board of; a) funds received from the Race Horse Development Funds through the Category 1 licensee conducting live racing, b) funds distributed for purse supplements and c) funds received for health and pension benefits from the account established by and for the benefit of the horsemen.

Cause

The Association did not sufficiently monitor controls to ensure compliance with Chapter 436a, Subsection 5 reporting requirements of the Pennsylvania Gaming Control Board.

Effect

The Association is not in compliance with Chapter 436a, Subsection 5, Reports.

Recommendation

We recommend that the Association continue to review and strengthen procedures and controls to ensure compliance with the quarterly reporting requirements of the Pennsylvania Gaming Control Board.

Management's Response

There was deposit of \$1,365,546 on September 12, 2013 that was wired directly from the Casino into the MSOA's restricted gaming purse account. It was quickly discovered to be deposited into the wrong account by the MSOA's office manager and she promptly contacted the Casino accounting manager for a resolution. The Casino accounting office instructed the MSOA that they could not move or withdraw the funds. therefore a check had to be written from the Gaming Purse Account to the correct Pari-Mutuel bank account to resolve this issue.

We understand that these were not true PRHDF monies, but in order to correctly report what transpired in the PRHDF restricted cash bank account, we felt it was appropriate to report these as both a cash receipt and disbursement, the net effect on the account being zero. In the future, we will make a note in our report to the Pennsylvania Gaming Control Board, if any of the cash receipts and disbursements that occurred in these accounts were not true PRHDF receipts or disbursements.

**MEADOWS STANDARDBRED OWNERS ASSOCIATION
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
December 31, 2012**

Finding Reference: 2012-001
Description: Segregation of Duties
Type of Finding: Significant Deficiency in Internal Control

Condition/Context

The Association does not have effective controls to safeguard assets, and prevent or detect misstatements on a timely basis, as a result of a lack of segregation of duties. This condition increases the possibility that errors or irregularities may occur and not be detected on a timely basis. Due to the small number of people employed in administrative functions, the Association may not be able to fully achieve an ideal segregation of duties. Currently, management's and the board's close oversight and review of accounting information are the best means of preventing or detecting errors and irregularities.

Criteria

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

Cause

This is a result of the limited number of personnel employed at the Association.

Effect

An increased risk that error or inconsistencies may occur and not be detected.

Recommendation

We recommend that management continue to be constantly aware of the potential for discrepancy in such an environment. With limited personnel to segregate duties, focus should concentrate on the most vulnerable areas. Accordingly, we believe this focus should be in the areas of cash receipts and disbursements. The Association management and board should continue to closely monitor financial related duties, including the review of interim financial statements, at least quarterly.

Current Year Status

Not corrected – refer to 2013-001 for current year finding.

MEMBERSHIP INFORMATION

**MEADOWS STANDARDBRED OWNERS ASSOCIATION
ELIGIBILITY FOR MEMBERSHIP, HEALTH AND PENSION PLANS**

Eligibility for Membership, Health, and Pension Plans

Eligibility requirements to become a Member of the Association:

- Owners, trainers, and drivers of Standardbred race horses are eligible for membership if they are licensed as such in Pennsylvania, are a member in good standing with the United States Trotting Association (USTA), and are the owner, trainer, or driver of any horse entered in a harness racing event at The Meadows Racetrack during the current or preceding racing season.
- Dues are \$25.00 per individual or \$35.00 for a husband and wife together when individually eligible for membership, per calendar year regardless of date joined. Dues must be paid with application.

Eligibility requirements to become an Associate Member of the Association:

- Grooms of Standardbred racehorses, if they are licensed as such in Pennsylvania, and spouses of owners, trainers, and drivers are eligible for associate membership.
- Dues are \$5.00 per individual per calendar year regardless of date joined. Dues must be paid with application.

Eligibility requirements for Trainer Health Plan:

- Must be a member of the Association.
- Must be a resident of the United States.
- Must have a valid trainer's license issued by Pennsylvania Harness Racing Commission (PHRC).
- Must derive at least 75% of his/her income from actual training of harness horses and must stand to prove such with Federal and State Income Tax filings in the event of a challenged eligibility.
- Must have at least 35 programmed starts and 50% of all USTA recognized programmed starts or a minimum of 400 total starts take place at The Meadows Racetrack in the preceding 12 months (Outside of The Meadows Stake Races and Late Closing events, which will not be counted in Trainers total starts).
- New applicants after Jan 1 of each year must complete sixty days of eligibility after application for coverage to begin.

Eligibility requirements for Driver Health Plan:

- Must be a Member of the Association.
- Must be a resident of the United States.
- Must have a valid PHRC license to drive Standardbred horses.
- Must derive at least 75% of his/her income from actual training of harness horses and must stand to prove such with Federal and State Income Tax filings in the event of a challenged eligibility.
- Must have at least 50 programmed drives and 50% of his/her USTA recognized programmed starts take place at The Meadows Racetrack in the preceding 12 months (Outside of The Meadows Stake Races and Late Closing events, which will not be counted in Trainers total starts).
- New applicants after Jan 1 of each year must complete sixty days of eligibility after application for coverage to begin.

Eligibility requirements for Grooms Health Plan:

- Must be a member of the Association.
- Must be a resident of the United States.
- Must have a valid grooms license issued from the Commonwealth of Pennsylvania.

**MEADOWS STANDARD BRED OWNERS ASSOCIATION
ELIGIBILITY FOR MEMBERSHIP, HEALTH AND PENSION PLANS**

- Must be listed as a full-time employee of a licensed trainer who satisfies all of the requirements for trainer eligibility in the Association Health program including the requirement for Association membership.
- Must derive at least 75% of his/her income from being a full time groom and must stand to prove such with Federal and State Income Tax filings in the event of a challenged eligibility.
- Must pay a premium of \$100 (\$50.00 effective May 1, 2009).
- Employer Trainers must sign quarterly stable employee eligibility sheet for the association.
- New grooms after May 1 of each year must complete sixty days of eligibility after application for coverage to begin.

Eligibility requirements for Trainers and Drivers Retirement Plan:

- Must be a member of the Association.
- Driver: 50 qualified starts at The Meadows Racetrack during the plan year.
- Trainer: 35 qualified starts at The Meadows Racetrack during the plan year.

Eligibility requirements for Grooms Retirement Plan:

- Must be an associate member of the Association.
- Must be a legal citizen of the United States.
- Licensed as a groom by the Commonwealth of Pennsylvania.
- Employed as a groom by a Qualified Trainer(s) at The Meadows Racetrack.
- Derive at least 75% of his/her total income from services as a groom for a Qualified Trainer(s) at The Meadows Racetrack.
- Presented true and correct copies of his/her W-2 and/or 1099 Forms.

**MEADOWS STANDARD BRED OWNERS ASSOCIATION
SCHEDULE OF MEMBERSHIP BY STATE**

Based on information provided to use during our fieldwork, the members by state of the Association are as follows:

Members by State

<u>State</u>	<u>Number of Members</u>
CA	2
DE	2
FL	18
IL	6
IN	11
KY	-
MA	3
MD	5
MI	7
MN	3
NC	1
NJ	3
NY	13
OH	148
Ontario	1
PA	560
Quebec	3
TN	-
TX	2
VA	4
VT	1
WV	5
TOTAL MEMBERS AS OF DECEMBER 31, 2013	<u><u>798</u></u>

**MEADOWS STANDARD BRED OWNERS ASSOCIATION
SCHEDULE OF MEMBERSHIP BY CATEGORY**

Based on information provided to use during our fieldwork, the members by category of the Association are as follows:

Members by Category	Number of
State	Members
<hr/>	
Driver	7
Driver Trainer	27
Driver Trainer Groom	4
Groom	108
Groom Owner	30
Owner	349
Owner Driver	4
Owner Driver Groom	1
Owner Driver Trainer Groom	5
Owner Trainer	65
Owner Trainer Driver	178
Owner Trainer Groom	10
Trainer	9
Trainer Groom	<u>1</u>
 TOTAL MEMBERS AS OF DECEMBER 31, 2013	 <u><u>798</u></u>

**MEADOWS STANDARD BRED OWNERS ASSOCIATION
SCHEDULE OF HEALTH PLAN PARTICIPANTS BY STATE**

Based on information provided to use during our fieldwork, health plan participants by state of the Association are as follows:

Health Plan Participants by State

<u>State</u>	<u>Number of Participants</u>
PA	92
OH	<u>7</u>
TOTAL PARTICIPANTS AS OF DECEMBER 31, 2013	<u><u>99</u></u>

**MEADOWS STANDARD BRED OWNERS ASSOCIATION
SCHEDULE OF HEALTH PLAN PARTICIPANTS BY CATEGORY**

Based on information provided to use during our fieldwork, health plan participants by category of the Association are as follows:

Health Plan Participants by Category

<u>State</u>	<u>Number of Participants</u>
Trainer-Driver	69
Employee	2
Spouse	4
Driver	7
Trainer	<u>17</u>
TOTAL PARTICIPANTS AS OF DECEMBER 31, 2013	<u><u>99</u></u>

**MEADOWS STANDARD BRED OWNERS ASSOCIATION
SCHEDULE OF RETIREMENT PLAN PARTICIPANTS BY STATE**

Based on information provided to use during our fieldwork, retirement plan participants of the Association are as follows:

Retirement Plan Participant Summary

<u>State</u>	<u>Number of Participants- Drivers</u>	<u>Number of Participants- Trainers</u>	<u>Number of Participants- Grooms</u>	<u>Number of Participants- Total</u>
PA	23	121	42	186
OH	4	25	6	35
FL	-	-	1	1
VA	1	-	-	1
IN	1	-	-	1
MI	-	2	-	2
TOTAL PARTICIPANTS AS OF DECEMBER 31, 2013	<u>29</u>	<u>148</u>	<u>49</u>	<u>226</u>

**MEADOWS STANDARD BRED OWNERS ASSOCIATION
SCHEDULE OF RETIREMENT PLAN PARTICIPANTS BY CATEGORY**

Based on information provided to use during our fieldwork, retirement plan participants of the Association are as follows:

Retirement Plan Participants by Category

<u>State</u>	<u>Number of Participants</u>
Driver	29
Groom	49
Trainer	<u>148</u>
TOTAL PARTICIPANTS AS OF DECEMBER 31, 2013	<u><u>226</u></u>

**MEADOWS STANDARD BRED OWNERS ASSOCIATION
SCHEDULE OF RETIREMENT PLAN RANGE OF STARTS**

Based on information provided to use during our fieldwork, retirement plan owners of the Association are as follows:

Trainers	
Range of Starts	Number of Participants
35-69	45
70-104	31
105-139	18
>=140	<u>54</u>
TOTAL PARTICIPANTS AS OF DECEMBER 31, 2013	<u><u>148</u></u>
Drivers	
Range of Starts	
50-99	5
100-149	2
150-199	2
>=200	<u>20</u>
TOTAL PARTICIPANTS AS OF DECEMBER 31, 2013	<u><u>29</u></u>