

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

**FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

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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, 2014 and 2013, 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, 2014 and 2013, 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 April 30, 2015, 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.



**CliftonLarsonAllen LLP**

Baltimore, Maryland

April 30, 2015

**FINANCIAL STATEMENTS**

**MEADOWS STANDARD BRED OWNERS ASSOCIATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,230,783	\$ 2,881,400
Total current assets	1,230,783	2,881,400
<b>FIXED ASSETS</b>		
Equipment	15,022	14,063
Less: accumulated depreciation	(13,729)	(13,173)
Net fixed assets	1,293	890
<b>RESTRICTED CASH</b>	1,401,177	2,984,115
<b>TOTAL ASSETS</b>	\$ 2,633,253	\$ 5,866,405
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accrued expenses	\$ 275	\$ 16,313
Payroll liabilities	3,234	3,420
Total current liabilities	3,509	19,733
<b>NONCURRENT LIABILITIES</b>		
Purse escrow fund	282,010	1,753,416
Health and welfare escrow fund	1,119,167	1,230,699
Total noncurrent liabilities	1,401,177	2,984,115
<b>UNRESTRICTED NET ASSETS</b>	1,228,567	2,862,557
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 2,633,253	\$ 5,866,405

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, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>SUPPORT AND REVENUE</b>		
Pari-mutuel receipts	\$ 10,643,909	\$ 13,545,194
Membership dues	18,985	11,590
Horsemen's services & benefits	2,760	4,019
Pension expense reimbursement	-	6,222
Miscellaneous	6,071	-
Interest	4,803	4,847
Total income	10,676,528	13,571,872
<b>EXPENSES</b>		
Program services - Horsemen's expense:		
Purses paid	10,224,222	10,980,426
Grooms health insurance	638,909	459,383
Insurance	98,145	98,109
Fair operations	151,837	152,151
PA Sires supplement	390,000	480,000
Salaries, payroll taxes and employee benefits	160,380	157,881
Rent and leased equipment	5,928	6,462
Telephone	3,561	3,318
Licenses and permits	3,650	270
General office	9,057	11,409
Professional fees	307,502	375,058
Meetings and travel	15,217	25,078
Membership dues	11,551	11,016
Horsemen's services and events	39,690	40,405
Donations, scholarships and research	107,411	103,630
Pension	23,342	15,153
Advertising	116,070	97,000
Miscellaneous	3,490	1,532
Total program services	12,309,962	13,018,281
Support services:		
Depreciation	556	364
Total support services	556	364
Total expenses	12,310,518	13,018,645
<b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b>	(1,633,990)	553,227
<b>UNRESTRICTED NET ASSETS, BEGINNING OF YEAR</b>	2,862,557	2,309,330
<b>UNRESTRICTED NET ASSETS, END OF YEAR</b>	\$ 1,228,567	\$ 2,862,557

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

**MEADOWS STANDARD BRED OWNERS ASSOCIATION**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ (1,633,990)	\$ 553,227
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	556	364
Effects of changes in operating assets and liabilities:		
Restricted Cash	1,582,938	221,700
Escrow liabilities	(1,582,938)	(221,700)
Payroll liabilities	(186)	(4,437)
Accrued expenses	(16,038)	4,161
Net cash provided by (used in) operating activities	(1,649,658)	553,315
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	(959)	-
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,650,617)	553,315
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	2,881,400	2,328,085
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 1,230,783	\$ 2,881,400

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

**MEADOWS STANDARDBRED OWNERS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

**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 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, 2014 and 2013.

**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, 2014 and 2013**

**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, 2014.

**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 2014 are as follows:

	<b>Purses</b>	<b>Benefits</b>	<b>Total</b>
Escrow balance at January 1, 2014	\$ 1,753,416	\$ 1,230,699	\$ 2,984,115
Gaming funds from WTA	28,213,428	1,775,987	29,989,415
Interest income	1,489	1,241	2,730
	28,214,917	1,777,228	29,992,145
Purse payments to WTA	(29,686,323)	-	(29,686,323)
Payments for health & welfare benefits	-	(1,865,418)	(1,865,418)
Expenses	-	(23,342)	(23,342)
	(29,686,323)	(1,888,760)	(31,575,083)
<b>Escrow balance at December 31, 2014</b>	<b>\$ 282,010</b>	<b>\$ 1,119,167</b>	<b>\$ 1,401,177</b>

**MEADOWS STANDARD BRED OWNERS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

**NOTE 2 – RESTRICTED CASH AND ESCROW FUNDS (CONTINUED)**

Transactions for 2013 are as follows:

	<u>Purses</u>	<u>Benefits</u>	<u>Total</u>
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
	<u>26,776,090</u>	<u>1,831,694</u>	<u>28,607,784</u>
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)
	<u>(26,874,768)</u>	<u>(1,954,716)</u>	<u>(28,829,484)</u>
<b>Escrow balance at December 31, 2013</b>	<u>\$ 1,753,416</u>	<u>\$ 1,230,699</u>	<u>\$ 2,984,115</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, 2014 and 2013, cash on deposit at this institution was \$3,366,807 and \$4,955,872, 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, 2014 and 2013 was \$500,062 and \$1,000,000, 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, 2014 and 2013**

**NOTE 5 – LEASE COMMITMENTS**

The Association has entered into a five-year operating lease agreement for office equipment effective March 1, 2014. Total lease expense was \$5,423 and \$4,423 for the years ended December 31, 2014 and 2013, respectively. The future minimum rental payments of the operating lease are as follows:

2015	\$	2,520
2016		2,520
2017		2,520
2018		2,520
2019		420
Total	\$	<u>10,500</u>

**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, 2013, 2012 and 2011 are subject to examination by the IRS, generally for three years after they were filed.

**NOTE 7 – SUBSEQUENT EVENTS**

Management evaluated subsequent events through April 30, 2015, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2014, but prior to April 30, 2015, that provided additional evidence about conditions that existed at December 31, 2014, have been recognized in the financial statements for the year ended December 31, 2014. Events or transactions that provided evidence about conditions that did not exist at December 31, 2014, 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, 2014.

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, 2014, 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 30, 2015.

**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 responses as item 2014-001 that we consider to be a significant deficiency.

**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 responses. The Association's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.



**CliftonLarsonAllen LLP**

Baltimore, Maryland

April 30, 2015

**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, 2014. 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 436a 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, 2014.

### **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 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.

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

April 30, 2015

**MEADOWS STANDARD BRED OWNERS ASSOCIATION**  
**STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS AND CHANGES IN ESCROW BALANCES**  
**Period January 1, 2014 through December 31, 2014**

	<u>Purses</u>	<u>Benefits</u>	<u>Total</u>
<b>CASH RECEIPTS</b>			
Gaming Funds -WTA	\$ 28,213,428	\$ 1,775,987	\$ 29,989,415
Interest incurred	1,489	1,241	2,730
Total cash receipts	<u>28,214,917</u>	<u>1,777,228</u>	<u>29,992,145</u>
<b>CASH DISBURSEMENTS</b>			
Purse payments - WTA	(29,686,323)	-	(29,686,323)
Health & welfare benefit payments	-	(1,865,418)	(1,865,418)
Administrative expenses	-	(23,342)	(23,342)
Total cash disbursements	<u>(29,686,323)</u>	<u>(1,888,760)</u>	<u>(31,575,083)</u>
<b>CHANGES IN ESCROW BALANCES</b>	(1,471,406)	(111,532)	(1,582,938)
<b>ESCROW BALANCE AT JANUARY 1, 2014</b>	<u>1,753,416</u>	<u>1,230,699</u>	<u>2,984,115</u>
<b>ESCROW BALANCE AT DECEMBER 31, 2014</b>	<u>\$ 282,010</u>	<u>\$ 1,119,167</u>	<u>\$ 1,401,177</u>
<b>RECONCILIATION TO AUDITED FINANCIAL STATEMENTS</b>			
Gaming funds, as reported above	<u>\$ 28,213,428</u>	<u>\$ 1,775,987</u>	<u>\$ 29,989,415</u>
Gaming funds, as reported in Note 2 to the audited financial statements	<u>\$ 28,213,428</u>	<u>\$ 1,775,987</u>	<u>\$ 29,989,415</u>
Purse and benefit payments, as reported above	<u>\$ (29,686,323)</u>	<u>\$ (1,865,418)</u>	<u>\$ (31,551,741)</u>
Purse and benefit payments, as reported in Note 2 to the audited financial statements	<u>\$ (29,686,323)</u>	<u>\$ (1,865,418)</u>	<u>\$ (31,551,741)</u>

**MEADOWS STANDARD BRED OWNERS ASSOCIATION  
SCHEDULE OF ADMINISTRATIVE EXPENSES FROM RACE HORSE  
DEVELOPMENT FUNDS  
December 31, 2014**

	<u>Date</u>	<u>Amount</u>	<u>Description</u>
Dunbar, Bender & Zapf, Inc.	10/7/2014	\$ 8,244	Actuarial services
Dunbar, Bender & Zapf, Inc.	10/7/2014	3,888	Actuarial services
Dunbar, Bender & Zapf, Inc.	10/10/2014	8,268	Actuarial services
Dunbar, Bender & Zapf, Inc.	11/14/2014	<u>2,942</u>	Actuarial services
Administrative Expenses at December 31, 2014		<u>\$ 23,342</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, 2014**

**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 the amount of 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, 2014**

**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, 2014**

**II. Financial Statement Findings**

**Finding Reference:** 2014-001, repeat finding  
**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 such as expense and accounts payable being included in the incorrect period or mistakenly as one or the other. Due to the small number of persons employed in administrative functions, the Association may not be able to fully achieve an ideal segregation of duties. Currently, management 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***

Errors, irregularities 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.

## **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 STANDARDBRED 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**

State	Number of Members
CA	3
DE	3
FL	14
GA	1
IL	8
IN	2
KY	4
MA	1
MD	4
MI	8
MN	3
NC	1
NJ	7
NY	14
OH	150
Ontario	1
PA	557
Quebec	2
TX	2
VA	6
VT	1
WV	5
<b>TOTAL MEMBERS AS OF DECEMBER 31, 2014</b>	<b>797</b>

**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:

<b>Members by Category</b>	
State	Number of Members
Driver	11
Driver Trainer	45
Driver Trainer Groom	4
Groom	111
Groom Owner	24
Owner	323
Owner Driver	4
Owner Driver Groom	1
Owner Driver Trainer Groom	6
Owner Trainer	66
Owner Trainer Driver	164
Owner Trainer Groom	14
Trainer	22
Trainer Groom	2
<b>TOTAL MEMBERS AS OF DECEMBER 31, 2014</b>	<b>797</b>

**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**

<b>State</b>	<b>Number of Participants</b>
FL	1
PA	132
OH	<u>9</u>
<b>TOTAL PARTICIPANTS AS OF DECEMBER 31, 2014</b>	<b><u><u>142</u></u></b>

**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	96
Employee	2
Spouse	5
Driver	6
Trainer	<u>33</u>
<b>TOTAL PARTICIPANTS AS OF DECEMBER 31, 2014</b>	<b><u><u>142</u></u></b>

**MEADOWS STANDARDBRED 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**

State	Number of Participants- Drivers	Number of Participants- Trainers	Number of Participants- Grooms	Number of Participants- Total
PA	22	120	58	200
OH	4	31	5	40
NJ	1	1	-	2
FL	-	1	1	2
KY	-	1	-	1
IL	-	2	-	2
VA	1	-	-	1
IN	1	-	-	1
MI	1	1	-	2
<b>TOTAL PARTICIPANTS AS OF DECEMBER 31, 2014</b>	<u>30</u>	<u>157</u>	<u>64</u>	<u>251</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	30
Groom	64
Trainer	<u>157</u>
<b>TOTAL PARTICIPANTS AS OF DECEMBER 31, 2014</b>	<b><u><u>251</u></u></b>

**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**

<b>Range of Starts</b>	<b>Number of Participants</b>
35-69	42
70-104	40
105-139	13
>=140	62
<b>TOTAL PARTICIPANTS AS OF DECEMBER 31, 2014</b>	<b>157</b>

**Drivers**

<b>Range of Starts</b>	
50-99	5
100-149	1
150-199	2
>=200	22
<b>TOTAL PARTICIPANTS AS OF DECEMBER 31, 2014</b>	<b>30</b>