

Meadows Standardbred Owners Association

Financial Statements and Supplementary Information

**Years Ended December 31, 2015 and 2014
with Independent Auditor's Reports**

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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MEADOWS STANDARD BRED OWNERS ASSOCIATION

YEARS ENDED DECEMBER 31, 2015 AND 2014

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Meadows Standardbred Owners Association (Association), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and changes in net assets and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2015 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2016 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Prior Period Financial Statements

The financial statements of the Association as of December 31, 2014 were audited by other auditors whose report, dated April 30, 2015, expressed an unmodified opinion on those statements.

Maher Duessel

Harrisburg, Pennsylvania
June 17, 2016

MEADOWS STANDARD BRED OWNERS ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 930,873	\$ 1,230,783
Prepaid expenses	22,114	2,752
Total current assets	952,987	1,233,535
Fixed assets:		
Equipment, at cost	15,022	15,022
Less: accumulated depreciation	(14,266)	(13,729)
Net fixed assets	756	1,293
Other assets:		
Restricted cash and cash equivalents	4,529,822	1,401,177
Total Assets	\$ 5,483,565	\$ 2,636,005
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 18,488	\$ -
Accrued expenses	5,811	3,027
Payroll taxes and deductions	7,703	3,234
Total current liabilities	32,002	6,261
Noncurrent Liabilities:		
Escrow funds:		
Purse	3,431,677	282,010
Health and welfare	1,098,145	1,119,167
Total noncurrent liabilities	4,529,822	1,401,177
Total Liabilities	4,561,824	1,407,438
Net Assets:		
Unrestricted	921,741	1,228,567
Total Liabilities and Net Assets	\$ 5,483,565	\$ 2,636,005

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

MEADOWS STANDARD BRED OWNERS ASSOCIATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Revenues:		
Pari-mutuel	\$ 10,457,211	\$ 10,643,909
Membership dues	17,650	18,985
Horsemen's services and benefits	3,614	2,760
Pension expense reimbursement	23,342	-
Interest income	2,629	4,803
Miscellaneous income	13,994	6,071
Total revenues	10,518,440	10,676,528
Expenses:		
Program services - Horsemen's expense:		
Purses paid	8,969,021	10,224,222
Grooms health insurance	710,695	638,909
Insurance	98,566	98,145
Fair operations	141,750	151,837
PA Sires supplement	-	390,000
Salaries, payroll taxes, and employee benefits	156,444	121,858
Rent and leased equipment	6,290	5,928
Telephone	3,614	3,561
Licenses and permits	1,000	3,650
Professional fees	169,397	128,542
Membership dues	11,561	11,551
Horsemen's services and events	40,745	39,690
Donations, scholarships, and research	134,135	107,411
Pension	200	23,342
Miscellaneous expense	-	3,490
Total program services - Horsemen's expense	10,443,418	11,952,136
Support services:		
Salaries, payroll taxes, and employee benefits	40,107	38,522
General office	12,617	9,057
Advertising	95,281	116,070
Meetings and travel	17,631	15,217
Professional fees	215,675	178,960
Depreciation	537	556
Total support services	381,848	358,382
Total expenses	10,825,266	12,310,518
Change in Net Assets	(306,826)	(1,633,990)
Net Assets:		
Beginning of year	1,228,567	2,862,557
End of year	\$ 921,741	\$ 1,228,567

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

**MEADOWS STANDARD BRED
OWNERS ASSOCIATION**

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash Flows From Operating Activities:		
Change in net assets	\$ (306,826)	\$ (1,633,990)
Adjustments to reconcile change in in assets to net cash provided by (used in) operating activities:		
Depreciation	537	556
Effects of changes in operating assets and liabilities:		
Restricted cash	3,128,645	1,582,938
Prepaid expenses	(19,362)	-
Escrow liabilities	(3,128,645)	(1,582,938)
Accounts payable	18,488	-
Payroll liabilities	2,784	(186)
Accrued expenses	4,469	(16,038)
Net cash provided by (used in) operating activities	(299,910)	(1,649,658)
Cash Flows From Investing Activities:		
Acquisition of property, plant, and equipment	-	(959)
Net Increase (Decrease) in Cash and Cash Equivalents	(299,910)	(1,650,617)
Cash and Cash Equivalents:		
Beginning of year	1,230,783	2,881,400
End of year	\$ 930,873	\$ 1,230,783

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

MEADOWS STANDARD BRED OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

The financial statements of the Association are prepared on the accrual basis of accounting. Under this method, revenues are recognized when earned rather than received, and expenses are recognized when incurred rather than when the obligation is paid. In accordance with accounting principles generally accepted in the United States of America, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Association does not have any temporarily restricted or permanently restricted net assets at December 31, 2015 and 2014.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent gains and losses. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The restricted cash accounts are not included in cash balances for the purpose of the statements of cash flows, as they are not available for normal operations of the Association.

Restricted Cash and Cash Equivalents

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

MEADOWS STANDARD BRED OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Accounts Receivable

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

Furniture and Equipment

Furniture and equipment is stated at cost. Depreciation is calculated using the straight-line method over the estimated lives of depreciable assets, which range from five to ten years based on management's estimate of the useful lives. Additions, major replacements, and betterments which are individually in excess of \$500, and have a life in excess of one year, are capitalized. Maintenance and repairs are charged to expense as incurred.

Long-Lived Assets

Long-lived assets, such as property and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be reduced to fair value. No impairment losses have been recorded through December 31, 2015.

Income Taxes

The Association is a non-profit organization which is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code. FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, requires an assessment of the Association's exposure to income taxes at the entity level as a result of uncertain tax positions taken in current and previously filed tax returns. Examples of tax positions taken at the entity level include the continuing validity of its 501(c)(6) status, potential unrelated business activities, and other tax positions that could result in income taxes to the Association upon examinations by taxing authorities. The Association's management is not aware of any activities that would jeopardize its tax-exempt status or would be subject to unrelated business or excise tax.

The Association files Form 990 - Return of Organization Exempt from Income Tax, on an annual basis.

MEADOWS STANDARD BRED OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Reclassifications

Certain amounts from the 2014 financial statements have been reclassified to conform to the 2015 presentation. These reclassifications had no impact on financial position, change in net assets, or cash flows.

Subsequent Events

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

2. RESTRICTED FUNDS

Pennsylvania law requires certain portions of revenue from slot machines at Pennsylvania racetracks to be used for horse racing purses and pension and health benefits for horse men and women. The Association acts as fiduciary in the collection and disbursement of these funds, which are required to be maintained in separate accounts. These funds are also recorded as escrows on the statement of financial position. The detail of transactions in these accounts for 2015 and 2014 is as follows:

MEADOWS STANDARD BRED OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	Purses	Benefits
Restricted Cash Balance, January 1, 2014	\$ 1,753,416	\$ 1,230,699
Gaming funds - WTA	28,213,428	1,775,987
Interest income	1,489	1,241
	28,214,917	1,777,228
Purse payments - WTA	(29,686,323)	-
Health and welfare benefits	-	(1,865,418)
Expenses	-	(23,342)
	(29,686,323)	(1,888,760)
Restricted Cash Balance, December 31, 2014	282,010	1,119,167
Gaming funds - WTA	30,960,894	1,770,364
Interest income	2,602	1,126
	30,963,496	1,771,490
Purse payments - WTA	(27,813,829)	-
Health and welfare benefits	-	(1,792,312)
Expenses	-	(200)
	(27,813,829)	(1,792,512)
Restricted Cash Balance, December 31, 2015	\$ 3,431,677	\$ 1,098,145

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, 2015 and 2014, cash on deposit in excess of insured amounts was \$5,187,774 and \$3,366,807, respectively.

The Association also maintains several certificate of deposit accounts. These accounts are commonly referred to as Certificate of Deposit Account Registry Service (CDARS). CDARS will invest the funds in different financial institutions under the \$250,000 FDIC limit to ensure the funds are insured. The amount held in CDARS as of December 31, 2015 and 2014 was \$500,000 and \$500,062, respectively.

MEADOWS STANDARD BRED OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

4. WASHINGTON TROTTING ASSOCIATION, INC. (WTA) AND MOUNTAIN LAUREL RACING, INC. (MLR) AGREEMENT

Effective January 1, 2008, and subsequent extensions through December 31, 2017, an agreement was signed between the Association and WTA and MLR. The agreement specifies a mutually agreeable purse structure and set of related economic arrangements. The Association shall receive on a weekly basis all pari-mutuel receipts, net of Association contributions subject to providing WTA/MLR with a continuing cash balance of \$100,000. The Association is responsible for payment of its own administrative costs as well as the following disbursements: Christian Harness Horsemen's Association dues; fire/disaster insurance premiums; and sulky accident-related payments. In addition, WTA and MLR are obligated to make office space available to the Association without charge, and to provide certain administrative services. The estimated value of the office space is \$7,200 per year.

5. SIMPLIFIED EMPLOYEE PENSION (SEP) PLAN (PLAN)

The Association established a deferred salary arrangement under I.R.C. Section 408(k). The Plan covers substantially all its eligible employees. The Association's matching contribution is discretionary and is equal to a uniform percentage as determined by the employer of each participant's elective deferral. The Association's contribution for 2015 and 2014 totaled \$6,563 and \$6,250, respectively.

6. LEASE

The Association leases copier equipment under an operating lease with a maturity date of March 1, 2019. Minimum monthly payments total \$239 per month, which consists of the contracted rental amount of \$210 plus tax and other fees of \$29. The Association also leases a portable office under a month-to-month operating lease. Monthly payments under this lease total \$220 and are subject to change by the lessor. Total rental payments for 2015 and 2014 were \$5,284 and \$5,423, respectively.

Minimum lease payments required under the copier lease are:

2016	\$	2,520
2017		2,520
2018		2,520
2019		420
Total	\$	<u>7,980</u>

Supplementary Information

MEADOWS STANDARDBRED OWNERS ASSOCIATION

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

YEAR ENDED DECEMBER 31, 2015

	Purses	Benefits	Total
Cash Receipts:			
Gaming funds - WTA	\$ 30,960,894	\$ 1,770,364	\$ 32,731,258
Interest incurred	2,602	1,126	3,728
Total cash receipts	30,963,496	1,771,490	32,734,986
Cash Disbursements:			
Purse payments - WTA	27,813,829	-	27,813,829
Health and welfare benefit payments	-	1,792,312	1,792,312
Administrative expenses	-	200	200
Total cash disbursements	27,813,829	1,792,512	29,606,341
Changes in Restricted Cash Balances	3,149,667	(21,022)	3,128,645
Restricted Cash Balance at January 1, 2015	282,010	1,119,167	1,401,177
Restricted Cash Balance at December 31, 2015	\$ 3,431,677	\$ 1,098,145	\$ 4,529,822
Reconciliation to audited financial statements:			
Gaming funds, as reported above	\$ 30,960,894	\$ 1,770,364	\$ 32,731,258
Gaming funds, as reported in Note 2 to the audited financial statements	\$ 30,960,894	\$ 1,770,364	\$ 32,731,258
Purse and benefit payments, as reported above	\$ 27,813,829	\$ 1,792,312	\$ 29,606,141
Purse and benefit payments, as reported in Note 2 to the audited financial statements	\$ 27,813,829	\$ 1,792,312	\$ 29,606,141

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

MEADOWS STANDARDBRED OWNERS ASSOCIATION

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

YEAR ENDED DECEMBER 31, 2015

1. BASIS OF PRESENTATION

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

2. FLOW OF THE PENNSYLVANIA HORSE FUNDS

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

Management of the Association determines the portion of the Pennsylvania Race Horse Development Funds to transfer to the casinos for purse purposes, based on an estimate provided by the casinos. The frequency of purse payments to the casinos is dependent upon the established racing schedules. The Association maintains schedules detailing all purse fund payments. The purse payments are reconciled to the actual purses paid by the casinos. Health and pension disbursements are made directly to the carriers based on invoiced amounts. There were \$200 in administrative expenses charged to those funds in 2015.

**Meadows Standardbred
Owners Association**

Independent Auditor's Report in
Accordance with
Government Auditing Standards

Year Ended December 31, 2015

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Meadows Standardbred Owners Association (Association), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 17, 2016.

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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness. (2015-001)

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

Compliance and Other Matters

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

The Association's Response to Findings

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

Purpose of this Report

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

Maher Duessel

Harrisburg, Pennsylvania
June 17, 2016

MEADOWS STANDARDBRED OWNERS ASSOCIATION

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2015

Finding 2015-001 Segregation of Duties

Statement of Condition/Cause:

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

Criteria:

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

Effect:

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

Recommendation:

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

Views of Responsible Officials and Planned Corrective Action:

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

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