

**Meadows Standardbred  
Owners Association**

Financial Statements and  
Supplementary Information

Years Ended December 31, 2017 and 2016  
with Independent Auditor's Reports

**MaherDuessel**

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# MEADOWS STANDARD BRED OWNERS ASSOCIATION

YEARS ENDED DECEMBER 31, 2017 AND 2016

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## Independent Auditor's Report

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

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

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

comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Other Information***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2018 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

Board of Directors and Secretary Albright,  
Pennsylvania Office of the Budget  
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Owners Association  
Independent Auditor's Report  
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part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

*Mahe Duessel*

Harrisburg, Pennsylvania  
March 16, 2018

# MEADOWS STANDARD BRED OWNERS ASSOCIATION

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	2017	2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,238,422	\$ 1,737,459
Prepaid expenses	31,867	26,138
Total current assets	3,270,289	1,763,597
Fixed assets:		
Equipment	16,705	16,705
Less: accumulated depreciation	(15,363)	(14,834)
Net fixed assets	1,342	1,871
Other assets:		
Restricted cash and cash equivalents	4,360,002	1,707,316
<b>Total Assets</b>	\$ 7,631,633	\$ 3,472,784
<b>Liabilities and Net Assets</b>		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 12,139	\$ 19,091
Accrued expenses	4,471	4,463
Payroll taxes and deductions	3,293	3,814
Total current liabilities	19,903	27,368
Noncurrent Liabilities:		
Escrow funds:		
Purse	3,308,640	652,148
Health and welfare	1,051,362	1,055,168
Total noncurrent liabilities	4,360,002	1,707,316
Total Liabilities	4,379,905	1,734,684
Net Assets:		
Unrestricted	3,251,728	1,738,100
<b>Total Liabilities and Net Assets</b>	\$ 7,631,633	\$ 3,472,784

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

# MEADOWS STANDARDBRED OWNERS ASSOCIATION

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
<b>Revenues:</b>		
Pari-mutuel	\$ 9,353,485	\$ 9,837,140
Government grants	150,000	-
Membership dues	14,065	9,000
Horsemen's services and benefits	3,279	2,862
Pension expense reimbursement	10,347	22,274
Interest income	6,589	2,319
Miscellaneous income	10,869	-
Total revenues	9,548,634	9,873,595
<b>Expenses:</b>		
Program services - Horsemen's expense:		
Purses paid	6,193,080	7,177,048
Grooms health insurance	726,123	692,747
Insurance	94,559	96,229
Fair operations	-	216,702
Salaries, payroll taxes, and employee benefits	143,210	140,978
Rent and leased equipment	7,957	7,348
Telephone	3,608	3,903
Licenses and permits	1,365	350
Professional fees	176,229	162,586
Membership dues	10,811	10,800
Horsemen's services and events	44,580	45,654
Donations, scholarships, and research	49,671	49,630
Pension	10,346	22,074
Total program services - Horsemen's expense	7,461,539	8,626,049
Support services:		
Salaries, payroll taxes, and employee benefits	44,218	42,019
General office	19,921	19,626
Advertising	314,286	96,006
Meetings and travel	14,032	17,290
Professional fees	180,481	255,678
Depreciation	529	568
Total support services	573,467	431,187
Total expenses	8,035,006	9,057,236
<b>Change in Net Assets</b>	1,513,628	816,359
<b>Net Assets:</b>		
Beginning of year	1,738,100	921,741
End of year	\$ 3,251,728	\$ 1,738,100

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

**MEADOWS STANDARD BRED  
OWNERS ASSOCIATION**

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 1,513,628	\$ 816,359
Adjustments to reconcile change in in assets to net cash provided by operating activities:		
Depreciation	529	568
Effects of changes in operating assets and liabilities:		
Restricted cash	2,652,686	(2,822,506)
Prepaid expenses	(5,729)	(4,024)
Escrow liabilities	(2,652,686)	2,822,506
Accounts payable	(6,952)	603
Payroll liabilities	8	(1,348)
Accrued expenses	(521)	(3,889)
Net cash provided by operating activities	1,500,963	808,269
<b>Cash Flows From Investing Activities:</b>		
Acquisition of property, plant, and equipment	-	(1,683)
<b>Net Increase in Cash and Cash Equivalents</b>	1,500,963	806,586
<b>Cash and Cash Equivalents:</b>		
Beginning of year	1,737,459	930,873
End of year	\$ 3,238,422	\$ 1,737,459

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

# MEADOWS STANDARDBRED OWNERS ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### 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, 2017 and 2016.

#### 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, 2017 AND 2016

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### 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, 2017.

### Contributions and Grants

The Association reports gifts of cash and other assets as restricted contributions when they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (such as when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Association reports the support as unrestricted.

### 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

# MEADOWS STANDARD BRED OWNERS ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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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.

### Pending Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued amendments to the FASB Accounting Standards Codification that will become effective in future years including ASU Nos. 2014-09 (*Revenue from Contracts with Customers [Topic 606]*), 2016-02 (*Leases [Topic 842]*), 2016-14 (*Not-for-Profit Entities [Topic 958]: Presentation of Financial Statements of Not-for-Profit Entities*), and 2016-18 (*Statement of Cash Flows [Topic 230]: Restricted Cash*). Management has not yet determined the impact of these amendments on the Association's financial statements.

### 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 statements of financial position.

# MEADOWS STANDARD BRED OWNERS ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

The detail of transactions in these accounts for 2017 and 2016 is as follows:

	Purses	Benefits
<b>Restricted Cash Balance, January 1, 2016</b>	\$ 3,431,677	\$ 1,098,145
Gaming funds - WTA	23,548,446	1,809,703
Interest income	5,309	1,333
	23,553,755	1,811,036
Purse payments - WTA	(26,333,284)	-
Health and welfare benefits	-	(1,831,939)
Administrative expenses	-	(22,074)
	(26,333,284)	(1,854,013)
<b>Restricted Cash Balance, December 31, 2016</b>	652,148	1,055,168
Gaming funds - WTA	27,869,250	1,825,794
Interest income	7,217	1,341
	27,876,467	1,827,135
Purse payments - WTA	(25,219,975)	-
Health and welfare benefits	-	(1,820,594)
Administrative expenses	-	(10,347)
	(25,219,975)	(1,830,941)
<b>Restricted Cash Balance, December 31, 2017</b>	\$ 3,308,640	\$ 1,051,362

### 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, 2017 and 2016, cash on deposit in excess of insured amounts was \$7,133,708 and \$2,683,363, 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

# MEADOWS STANDARD BRED OWNERS ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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ensure the funds are insured. The amount held in CDARS as of December 31, 2017 and 2016 was \$800,000 and \$500,000, respectively.

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

Effective January 1, 2008, and subsequent extensions through March 31, 2018, 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 2017 and 2016 totaled \$17,614 and \$12,122, respectively.

#### **6. Lease**

The Association leases copier equipment under a noncancelable 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 \$349 and are subject to change by the lessor. Total rental payments for 2017 and 2016 were \$6,870 and \$6,332, respectively.

**MEADOWS STANDARD BRED  
OWNERS ASSOCIATION**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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Minimum lease payments required under the copier lease are:

2018	\$	2,520
2019		<u>420</u>
Total	\$	<u><u>2,940</u></u>

## **SUPPLEMENTARY INFORMATION**

**MEADOWS STANDARD BRED  
OWNERS ASSOCIATION**

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

YEAR ENDED DECEMBER 31, 2017

	<u>Purses</u>	<u>Benefits</u>	<u>Total</u>
Cash Receipts:			
Gaming funds - WTA	\$ 27,869,250	\$ 1,825,794	\$ 29,695,044
Interest incurred	7,217	1,341	8,558
Total cash receipts	<u>27,876,467</u>	<u>1,827,135</u>	<u>29,703,602</u>
Cash Disbursements:			
Purse payments - WTA	25,219,975	-	25,219,975
Health and welfare benefit payments	-	1,820,594	1,820,594
Administrative expenses	-	10,347	10,347
Total cash disbursements	<u>25,219,975</u>	<u>1,830,941</u>	<u>27,050,916</u>
Changes in Restricted Cash Balances	2,656,492	(3,806)	2,652,686
Restricted Cash Balance at January 1, 2017	<u>652,148</u>	<u>1,055,168</u>	<u>1,707,316</u>
Restricted Cash Balance at December 31, 2017	<u>\$ 3,308,640</u>	<u>\$ 1,051,362</u>	<u>\$ 4,360,002</u>
Reconciliation to audited financial statements:			
Gaming funds, as reported above	<u>\$ 27,869,250</u>	<u>\$ 1,825,794</u>	<u>\$ 29,695,044</u>
Gaming funds, as reported in Note 2 to the audited financial statements	<u>\$ 27,869,250</u>	<u>\$ 1,825,794</u>	<u>\$ 29,695,044</u>
Purse and benefit payments, as reported above	<u>\$ 25,219,975</u>	<u>\$ 1,820,594</u>	<u>\$ 27,040,569</u>
Purse and benefit payments, as reported in Note 2 to the audited financial statements	<u>\$ 25,219,975</u>	<u>\$ 1,820,594</u>	<u>\$ 27,040,569</u>

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

# MEADOWS STANDARDBRED OWNERS ASSOCIATION

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

YEAR ENDED DECEMBER 31, 2017

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

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

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

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

Management of the Association determines the portion of the Pennsylvania Race Horse Development Funds to transfer to the casinos for purse purposes, based on an estimate provided by the casinos. The frequency of purse payments to the casinos is dependent upon the established racing schedules. The Association maintains schedules detailing all purse fund payments. The purse payments are reconciled to the actual purses paid by the casinos. Health and pension disbursements are made directly to the carriers based on invoiced amounts. There were \$10,347 in administrative expenses charged to those funds in 2017.

**Meadows Standardbred  
Owners Association**

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

Years Ended December 31, 2017 and 2016

**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, 2017, 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 March 16, 2018.

### **Internal Control over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness (2017-001).

Board of Directors and Secretary Albright,  
Pennsylvania Office of the Budget  
Meadows Standardbred  
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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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Maher Duessel*

Harrisburg, Pennsylvania  
March 16, 2018

# MEADOWS STANDARDBRED OWNERS ASSOCIATION

## SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2017

### **Finding 2017-001 Segregation of Duties**

#### Statement of Condition/Cause:

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

#### Criteria:

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

#### Effect:

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

#### Repeat Finding:

This is a repeat of prior year finding 2016-001.

#### Recommendation:

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

# **MEADOWS STANDARD BRED OWNERS ASSOCIATION**

## **SCHEDULE OF FINDINGS AND RESPONSES**

**YEAR ENDED DECEMBER 31, 2017**

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

The Board is aware of the risks to financial reporting in an environment where segregation of duties is limited. Focus is on the cash receipts and cash disbursements because we feel those are the vulnerable areas. Every month, the Board 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 detailed schedule of all cash receipts and disbursements on a quarterly basis.