# Meadows Standardbred Owners Association

Financial Statements and
Supplementary Information

Years Ended December 31, 2018 and 2017
with Independent Auditor's Reports

MaherDuessel

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# MEADOWS STANDARDBRED OWNERS ASSOCIATION

YEARS ENDED DECEMBER 31, 2018 AND 2017

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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, 2018 and 2017, 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, 2018 and 2017 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.

### *Emphasis of Matter*

As described in Note 1 to the financial statements, the Association adopted ASU 2016-14, *"Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities."* The amendment changes how nonprofit organizations classify net assets and provide information in its financial statements and notes about its financial performance, cash flow, and liquidity, among other requirements. Our opinion is not modified with respect to this matter.

### *Other Matters*

*Other Information*

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

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated April 5, 2019 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.  The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control 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.

Maher Duessel

Harrisburg, Pennsylvania
April 5, 2019

# MEADOWS STANDARDBRED OWNERS ASSOCIATION

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

| | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 5,926,437 | $ 3,238,422 |
| Prepaid expenses | 17,881 | 31,867 |
| Total current assets | 5,944,318 | 3,270,289 |
| Fixed assets: | | |
| Equipment | 97,869 | 16,705 |
| Less: accumulated depreciation | (21,836) | (15,363) |
| Net fixed assets | 76,033 | 1,342 |
| Other assets: | | |
| Restricted cash and cash equivalents | 3,988,570 | 4,360,002 |
| **Total Assets** | $ 10,008,921 | $ 7,631,633 |
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | $ 19,036 | $ 12,139 |
| Accrued expenses | 7,686 | 4,471 |
| Payroll taxes and deductions | 4,794 | 3,293 |
| Total current liabilities | 31,516 | 19,903 |
| Noncurrent Liabilities: | | |
| Escrow funds: | | |
| Purse | 2,752,330 | 3,308,640 |
| Health and welfare | 1,236,240 | 1,051,362 |
| Total noncurrent liabilities | 3,988,570 | 4,360,002 |
| Total Liabilities | 4,020,086 | 4,379,905 |
| Net Assets: | | |
| Without donor restrictions | 5,988,835 | 3,251,728 |
| **Total Liabilities and Net Assets** | $ 10,008,921 | $ 7,631,633 |

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, 2018 AND 2017

| | 2018 | 2017 |
|---|---|---|
| **Revenues:** | | |
| Pari-mutuel | $ 12,010,453 | $ 9,353,485 |
| Government grants | 295,325 | 150,000 |
| Membership dues | 13,510 | 14,065 |
| Horsemen's services and benefits | 3,336 | 3,279 |
| Pension expense reimbursement | - | 10,347 |
| Interest income | 48,576 | 6,589 |
| Miscellaneous income | 3,816 | 10,869 |
| Total revenues | 12,375,016 | 9,548,634 |
| **Expenses:** | | |
| Program services - Horsemen's expense: | | |
| Purses paid | 7,752,438 | 6,193,080 |
| Grooms health insurance | 572,277 | 726,123 |
| Insurance | 82,980 | 94,559 |
| Salaries, payroll taxes, and employee benefits | 195,894 | 143,210 |
| Rent and leased equipment | 6,831 | 7,957 |
| Telephone | 2,561 | 3,608 |
| Licenses and permits | 1,150 | 1,365 |
| Professional fees | 168,757 | 176,229 |
| Membership dues | 10,820 | 10,811 |
| Horsemen's services and events | 48,288 | 44,580 |
| Donations, scholarships, and research | 46,051 | 49,671 |
| Pension | - | 10,346 |
| Total program services - Horsemen's expense | 8,888,047 | 7,461,539 |
| Support services: | | |
| Salaries, payroll taxes, and employee benefits | 46,428 | 44,218 |
| General office | 35,341 | 19,921 |
| Advertising | 337,185 | 314,286 |
| Meetings and travel | 22,510 | 14,032 |
| Professional fees | 301,925 | 180,481 |
| Depreciation | 6,473 | 529 |
| Total support services | 749,862 | 573,467 |
| Total expenses | 9,637,909 | 8,035,006 |
| **Change in Net Assets** | 2,737,107 | 1,513,628 |
| **Net Assets without donor restrictions:** | | |
| Beginning of year | 3,251,728 | 1,738,100 |
| End of year | $ 5,988,835 | $ 3,251,728 |

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

# MEADOWS STANDARDBRED OWNERS ASSOCIATION

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

| | 2018 | 2017 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Change in net assets | $ 2,737,107 | $ 1,513,628 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 6,473 | 529 |
| Effects of changes in operating assets and liabilities: | | |
| Restricted cash | (371,432) | 2,652,686 |
| Prepaid expenses | 13,986 | (5,729) |
| Escrow liabilities | 371,432 | (2,652,686) |
| Accounts payable | 6,897 | (6,952) |
| Payroll liabilities | 3,215 | 8 |
| Accrued expenses | 1,501 | (521) |
| Net cash provided by operating activities | 2,769,179 | 1,500,963 |
| **Cash Flows From Investing Activities:** | | |
| Acquisition of property, plant, and equipment | (81,164) | - |
| **Net Increase in Cash and Cash Equivalents** | 2,688,015 | 1,500,963 |
| **Cash and Cash Equivalents:** | | |
| Beginning of year | 3,238,422 | 1,737,459 |
| End of year | $ 5,926,437 | $ 3,238,422 |

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

## 1. Summary of Significant Accounting Policies

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

Basis of Accounting

The financial statements of the Association are prepared on the accrual basis of accounting. Under this method, revenues are recognized when earned rather than received, and expenses are recognized when incurred rather than when the obligation is paid.

Basis of Net Assets

In accordance with accounting principles generally accepted in the United States of America, the Association is required to report information regarding its financial position and activities according to the following two classes of net assets:

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations.

Net Assets with Donor Restrictions – Net assets that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will meet either the actions of the Association and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources are maintained in perpetuity. Generally, the donors of these assets permit the use of all or part of the income earned and capital gains, if any, on related investments for general or specific purposes. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Association does not have any Net Assets with Donor Restrictions at December 31, 2018 and 2017.

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.

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, 2018.

Contributions and Grants

The Association reports gifts of cash and other assets as restricted contributions when they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (such as when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are released to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Association reports the support as without donor restrictions.

Income Taxes

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

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

Expense Allocation

Expenses directly related to a specific program are charged to that program. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, salaries, benefits, payroll taxes, professional services, insurance, information technology, and other, which are allocated based on a budgeted rate per hour, that management asserts is equivalent to actual effort expended.

Adopted Standard

ASU 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*," became effective for the financial statements for the year ended December 31, 2018. This amendment aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The ASU changes the net asset classification, requires presentation of expenses both by nature and function, requires investment return reported net of investment expenses, requires placed-in-service approach for gifts of/for long-lived assets, and provides enhanced disclosures for: governing body restrictions; composition of net assets with donor restrictions; qualitative and quantitative information on liquidity; methods to allocate costs among program and support functions; and underwater donor-restricted endowment. The 2017 financial information was presented here in accordance with this new standard.

Pending Standards Update

FASB has issued statements that will become effective in future years as outlined below. Management has not yet determined the impact of these statements on the financial statements.

ASU No. 2014-09, *"Revenue from Contracts with Customers (Topic 606),"* is effective for the Association's financial statements for the year ending December 31, 2019. This amendment provides a single, comprehensive revenue recognition model for all contracts with customers, and contains principles to determine the measurement of revenue and timing of when it is recognized.

ASU 2016-02, "*Leases (Topic 842)*," is effective for the financial statements for the year ending December 31, 2020. This amendment will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

ASU 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash*," is effective for the financial statements for the year ending December 31, 2019. This amendment requires that the statement of cash flows explain the change during the period in the total cash,

cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

ASU 2018-08, *"Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,*" is effective for the Association's financial statements for the year ending June 30, 2020. This amendment updates current guidance about whether a transfer of assets — or the reduction, settlement, or cancellation of liabilities — should be accounted for as a contribution or an exchange transaction. Specifically, the ASU establishes criteria for determining whether the asset provider is receiving commensurate value in return for those assets. That determination then dictates whether the organization follows contribution guidance or exchange transaction guidance found in the revenue recognition and other applicable standards. The ASU also provides guidance on when a contribution is conditional, which affects the timing of recognition.

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.

The detail of transactions in these accounts for 2018 and 2017 is as follows:

| | Purses | Benefits |
|---|---|---|
| **Restricted Cash Balance, January 1, 2017** | $ 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) |
| **Restricted Cash Balance, December 31, 2017** | 3,308,640 | 1,051,362 |
| Gaming funds - WTA | 24,062,693 | 1,805,431 |
| Interest income | 35,772 | 7,628 |
| | 24,098,465 | 1,813,059 |
| Purse payments - WTA | (24,654,775) | - |
| Health and welfare benefits | - | (1,628,181) |
| | (24,654,775) | (1,628,181) |
| **Restricted Cash Balance, December 31, 2018** | $ 2,752,330 | $ 1,236,240 |

## 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, 2018 and 2017, cash on deposit in excess of insured amounts was $0 and $7,133,708, 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, 2018 and 2017 was $0 and $800,000, respectively.

## 4. Availability and Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the balance sheet date, comprise cash and cash equivalents of $5,926,437.

As part of the Association's liquidity management plan, it invests cash in excess of daily requirements in short-term investments, CDs, and money market funds.

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

Effective January 1, 2018 through December 31, 2028, an agreement was signed between the Association and WTA and MLR. The agreement specifies a mutually agreeable purse structure and set of related economic arrangements. The Association shall receive on a weekly basis all pari-mutuel receipts, net of Association contributions subject to providing WTA/MLR with a continuing cash balance of $100,000. 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.

## 6. Simplified Employee Pension (SEP) Plan (Plan)

The Association established a deferred salary arrangement under I.R.C. Section 408(k). The Plan covers substantially all its eligible employees. The Association's matching contribution is discretionary and is equal to a uniform percentage as determined by the employer of each participant's elective deferral. The Association's contribution for 2018 and 2017 totaled $23,380 and $17,614, respectively.

## 7. Lease

The Association leases copier equipment under a noncancelable operating lease with a maturity date of September 1, 2023. Minimum monthly payments total $273 per month. The Association also leased a portable office under a month-to-month operating lease until it was donated in to the Association in May 2018. Total rental payments for 2018 and 2017 were $5,751 and $6,870, respectively.

Minimum lease payments required under the copier lease are:

| | | |
|---|---|---|
| 2019 | $ | 3,276 |
| 2020 | | 3,276 |
| 2021 | | 3,276 |
| 2022 | | 3,276 |
| 2023 | | 2,184 |
| Total | $ | 15,288 |

# SUPPLEMENTARY INFORMATION

# MEADOWS STANDARDBRED OWNERS ASSOCIATION

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

YEAR ENDED DECEMBER 31, 2018

| | Purses | Benefits | Total |
|---|---|---|---|
| Cash Receipts: | | | |
| Gaming funds - WTA | $ 24,062,693 | $ 1,805,431 | $ 25,868,124 |
| Interest earned | 35,772 | 7,628 | 43,400 |
| Total cash receipts | 24,098,465 | 1,813,059 | 25,911,524 |
| Cash Disbursements: | | | |
| Purse payments - WTA | 24,654,775 | - | 24,654,775 |
| Health and welfare benefit payments | - | 1,628,181 | 1,628,181 |
| Total cash disbursements | 24,654,775 | 1,628,181 | 26,282,956 |
| Changes in Restricted Cash Balances | (556,310) | 184,878 | (371,432) |
| Restricted Cash Balance at January 1, 2018 | 3,308,640 | 1,051,362 | 4,360,002 |
| Restricted Cash Balance at December 31, 2018 | $ 2,752,330 | $ 1,236,240 | $ 3,988,570 |
| Reconciliation to audited financial statements: | | | |
| Gaming funds, as reported above | $ 24,062,693 | $ 1,805,431 | $ 25,868,124 |
| Gaming funds, as reported in Note 2 to the audited financial statements | $ 24,062,693 | $ 1,805,431 | $ 25,868,124 |
| Purse and benefit payments, as reported above | $ 24,654,775 | $ 1,628,181 | $ 26,282,956 |
| Purse and benefit payments, as reported in Note 2 to the audited financial statements | $ 24,654,775 | $ 1,628,181 | $ 26,282,956 |

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, 2018

## 1. Basis of Presentation

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

## 2. Flow of the Pennsylvania Horse Funds

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

Management of the Association determines the portion of the Pennsylvania Race Horse Development Funds to transfer to the casinos for purse purposes, based on an estimate provided by the casinos. The frequency of purse payments to the casinos is dependent upon the established racing schedules. The Association maintains schedules detailing all purse fund payments. The purse payments are reconciled to the actual purses paid by the casinos. Health and pension disbursements are made directly to the carriers based on invoiced amounts. There were $0 in administrative expenses charged to those funds in 2018.

# Meadows Standardbred Owners Association

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

Year Ended December 31, 2018

**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, 2018, 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 5, 2019.

## 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 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 (2018-001).

## 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
April 5, 2019

# MEADOWS STANDARDBRED OWNERS ASSOCIATION

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2018

**Finding 2018-001 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 2017-001.

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 STANDARDBRED
# OWNERS ASSOCIATION

## SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2018

Views of Responsible Officials and Planned Corrective Action:

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

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