

PENNSYLVANIA GAMING CONTROL BOARD

PUBLIC HEARING
MOUNT AIRY #1, LLC

APRIL 10, 2008, 11:47 A.M.

NORTH OFFICE BUILDING
HEARING ROOM 1
HARRISBURG, PENNSYLVANIA

BEFORE:

MARY DiGIACOMO COLINS, CHAIRMAN
RAYMOND S. ANGELI
JEFFREY W. COY
JAMES B. GINTY
KENNETH T. McCABE
GARY SOJKA

ALSO PRESENT:

OFFICE OF ENFORCEMENT COUNSEL
BY: NAN DAVENPORT, ESQUIRE

FOR - PENNSYLVANIA GAMING CONTROL BOARD

LEVINE, STALLER, SKLAR, CHAN, BROWN & DONNELLY, PA
MICHAEL SKLAR, ESQUIRE

FOR - MOUNT AIRY, #1, LLC

HILLARY M. HAZLETT, REPORTER
NOTARY PUBLIC

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1 CHAIRMAN DiGIACOMO COLINS: Very good. We will
2 now hear from the petitioner for Mount Airy. I think --
3 are we -- are we all in our appointed spots? Okay.
4 Very good. Thank you. We'll begin the Mount Airy
5 matter.

6 Counsel, the Petitioner will go forward. Who
7 is the Petitioner?

8 MS. DAVENPORT: Mount Airy is.

9 CHAIRMAN DiGIACOMO COLINS: Let's allow
10 Petitioner to go forward. Petitioner has the burden.

11 Mr. Gleason, do you want to pull up -- are you
12 okay there?

13 MR. GLEASON: I am, Your Honor. If I need to
14 speak, I can move that down.

15 MS. DAVENPORT: Madam Chairman, we have
16 stipulated facts that we would like to admit into the
17 record.

18 CHAIRMAN DiGIACOMO COLINS: All right. Then we
19 will begin with that.

20 MS. DAVENPORT: Thank you. I believe you have
21 a copy of that. Just a general background, Madam
22 Chairman, Commissioners, I'm Nan Davenport, Deputy Chief
23 Enforcement Counsel for the Central Region.

24 On January 11th, 2008, Mount Airy filed a
25 petition requesting that the Board approve Demetrius &

1 Company, LLC, to provide auditing services for Mount
2 Airy for the year ending in 2007.

3 The Office of Enforcement Counsel objected to
4 this petition because our review indicated that
5 Demetrius did not meet the criteria that was set forth
6 in Paragraph 12 of the Board's October 2nd, 2007 Order
7 regarding the Independent Audit Committee criteria
8 policy.

9 The parties have met and have entered into a
10 stipulation agreement regarding the facts in this case.
11 I have filed it this morning with the Office of Hearing
12 and Appeals. I would like to read it into the record.

13 CHAIRMAN DiGIACOMO COLINS: Please.

14 MS. DAVENPORT: Thank you. Pursuant to 58 Pa.
15 Code 491a.10, this stipulation agreement is made and
16 entered into by Petitioner, Mount Airy, #1, LLC, Mount
17 Airy, and the Pennsylvania Gaming Control Board's Office
18 of Enforcement Counsel, OEC, collectively the parties.

19 The parties do hereby stipulate to the
20 following.

21 Number 1, on December 19th, 2006, the
22 Pennsylvania Gaming Control Board, Board, awarded a
23 Category 2 Slot Machine License to Mount Airy.

24 On February 27th, 2007, the Board granted Louis
25 A. DeNaples the sole owner of Mount Airy, a Principal

1 License.

2 On March 23rd, 2007, Mount Airy engaged
3 Demetrius & Company, LLC, Demetrius, to provide
4 accounting services to the company.

5 Demetrius is a member of Private Companies
6 Practice Section (PCPS) of the American Institute of
7 Certified Public Accountants or AICPA and is enrolled in
8 AICPA's Public Company Audit Firms Peer Review Program.
9 As such, its policy and practices are subjected to
10 periodic independent peer review.

11 Number 5, Demetrius is a Public Company
12 Accounting Oversight Board, PCAOB, approved accounting
13 firm.

14 The PCAOB is a regulatory body created by the
15 Sarbanes-Oxley Act of 2002 to oversee the audit of
16 public companies that are subject to securities law.

17 The PCAOB operates under the oversight of the
18 United States Securities and Exchange Commission and has
19 the authority for registration, inspection, and
20 discipline of firms auditing SEC registrants and
21 establishes standards for public company audits.

22 Under the Sarbanes-Oxley Act of 2002 and the
23 PCAOB's rules, certified public accounting firms must be
24 registered with the PCAOB to prepare or issue audit
25 reports on public companies or to participate in the

1 preparation or issuance of such audits.

2 Number 6, one of Demetrius's public company
3 audit clients is First National Community Bank.

4 Number 7, Demetrius has engaged Morowitz &
5 Company, LLC, to provide gaming expertise and services
6 for gaming and casino audit and internal control matters
7 at Mount Airy.

8 Number 8, on July 19th, 2007, the Board issued
9 a Category 2 Slot Machine License to Mount Airy.

10 Number 9, on October 17th, 2007, the Board
11 approved the Mount Airy Independent Audit Committee
12 Charter or Charter.

13 Number 10, on November 1st, 2007, RFPs for the
14 audit services for calendar year 2007 were sent by
15 Robert Peloquin, Chairman of the Mount Airy Independent
16 Audit Committee, to the following CPA firms: Ernst &
17 Young, KPMG, Price WaterhouseCoopers, BDO Seidman, Grant
18 Thornton, and Deloitte & Touche.

19 Number 11, on January 11th, 2008, Mount Airy
20 filed the instant petition for the approval of Demetrius
21 & Company, LLC, as Mount Airy #1, LLC's, certified
22 public accounting firm whereby it requested that the
23 Board approve Demetrius as Mount Airy's certified public
24 accounting firm to provide auditing services for Mount
25 Airy for the year ending in 2007.

1 Number 12, on January 31st, 2008, the Office of
2 Hearings and Appeals granted OEC's motion for a 20-day
3 extension of time to respond to the petition.

4 Number 13, on February 6th, 2008, following the
5 Dauphin County Investigating Grand Jury's presentment,
6 Louis A. DeNaples stepped down as Chairman of the Board
7 of First National Community Bank.

8 Subsequently, on February 11th, 2008, the
9 United States Office of the Comptroller of the Currency
10 suspended Louis A. DeNaples from that position and
11 prohibited him from participation in the affairs of the
12 bank.

13 Number 14, on February 20th, 2008, OEC filed an
14 answer to the petition in which it objected to the
15 petition and requested that the Board deny the petition.

16 Number 15, the answer objected on the stated
17 grounds that Demetrius did not meet the three criteria
18 set forth in Paragraph 12 of the Board's October 2nd,
19 2007 Order regarding the Independent Audit Criteria
20 Committee policy.

21 Number 16, Paragraph 12 of the Order states in
22 pertinent part, quote, the Independent Certified Public
23 Accountant shall have a nationally recognized and
24 respected reputation and have expertise in the gaming
25 industry.

1 Number 17, pursuant to the answer, a nationally
2 recognized and respected certified public accounting
3 firm is one that provides accounting and auditing
4 services in multiple regions of the United States and
5 includes amongst its clients a significant number of
6 publically traded companies.

7 Number 18, pursuant to 4 Pa.C.S. Section
8 1207(4), a slot machine licensee shall provide the Board
9 with audited financial statements not later than 60 days
10 after the end of its fiscal year.

11 Number 19, Mount Airy's audited financial
12 statements were due February 29th, 2008.

13 Number 20, on February 29th, 2008, Dr. Anthony
14 Ceddia, the Board-appointed Trustee and Mark Gleason,
15 the Board-approved Account Advisor to the Trustee sent a
16 letter to the Bureau of Licensing requesting an
17 extension of time to file Mount Airy's annual audited
18 financial statements.

19 Number 21, on March 3rd, 2008, the Bureau of
20 Licensing advised Mount Airy that it had 45 days until
21 April 17th, 2008 to provide the audited financial
22 statements.

23 We signed this stipulation this morning. I
24 would like to move that into the record.

25 CHAIRMAN DiGIACOMO COLINS: Any objection?

1 MR. SKLAR: No.

2 CHAIRMAN DiGIACOMO COLINS: It's offered as
3 Joint Exhibit 1 accepted.

4 Now, you may proceed.

5 MS. DAVENPORT: Thank you, Madam Chairman.

6 MR. SKLAR: Thank you. My name is Michael
7 Sklar. I'm counsel for Mount Airy #1, LLC. With me
8 this morning is Barbara Lang the Audit Committee
9 financial expert, Dr. Anthony Ceddia, the
10 Board-appointed Trustee for Mount Airy, Joe D'Amato, CEO
11 of Mount Airy and Mark Gleason, the Trustee's
12 accountant.

13 CHAIRMAN DiGIACOMO COLINS: Maybe the first
14 order of business would be to ask these potential
15 witnesses to take an oath, if you would.

16 MS. DAVENPORT: Madam Chairman, I have James
17 Talerico who should be sworn in as well.

18 CHAIRMAN DiGIACOMO COLINS: Thank you. Very
19 good.

20 (Witnesses sworn en masse.)

21 MR. SKLAR: Just to give a brief overview of
22 the presentation this morning. The critical dates are
23 March 23rd, 2007, Demetrius was retained by Mount Airy
24 to provide accounting services for the company.

25 On October 17th, 2007, the Board approved

1 Barbara Lang, Brad Smith, and Robert Peloquin as Audit
2 Committee members and the Board also approved the Mount
3 Airy Audit Committee Charter.

4 The Audit Committee Charter has three
5 requirements for CPA firms.

6 Number 1 is independence.

7 Number 2, the CPA firm had to be a regional
8 firm and have a significant number of publicly traded
9 audit clients.

10 Number 3, had to have gaming experience.

11 So, upon the approval of the Mount Airy Board,
12 I'm going to have Barbara Lang and Joe D'Amato describe
13 the efforts that were made to retain a CPA firm that met
14 those three requirements. I don't think Barbara has
15 appeared before the Board before, if she could just give
16 her background.

17 CHAIRMAN DiGIACOMO COLINS: Absolutely.

18 MS. LANG: My name is Barbara Lang. I am a
19 CPA. I have been certified for over 25 years. I also
20 have over 25 years of gaming-related experience, both
21 working internally for a gaming company and externally,
22 serving gaming clients through my CPA firm, which I
23 established in 1987. I also hold an MBA degree.

24 I am currently serving as the President of the
25 Atlantic Cape May Chapter of the New Jersey Society of

1 CPAs, which is our state professional organization.

2 I previously served on the Audit Committee of
3 Great Big Holdings Company, which was the operator of
4 the Atlantic City Sands. I did that for about three
5 years.

6 I hold a number -- a key casino license issued
7 by the New Jersey Casino Control Commission. I was
8 proffered as a principal qualifier license in
9 Pennsylvania.

10 As you heard, I'm serving as the financial
11 expert for the Independent Audit Committee of Mount
12 Airy.

13 In addition, for the past 18 years, my firm has
14 done accounting and administration for certain wide area
15 progressive slot trusts in Atlantic City. These are
16 joint ventures between the various gaming halls in
17 Atlantic City to operate wide area progressive slot
18 systems.

19 The structure is that each structure is formed
20 into a separate business entity. There are various
21 numbers of these games and entities. At one time, we
22 had up to 36 of these entities. So I have done that
23 work for the past 18 years.

24 CHAIRMAN DiGIACOMO COLINS: Excuse me. Could
25 everyone turn off their BlackBerries, please?

1 MS. LANG: And my client list also includes the
2 Casino Association of New Jersey, which is New Jersey's
3 trade group.

4 We want to tell you a little bit about the
5 efforts that we made with regard to hiring external
6 auditors, because, as you know, that's one of the
7 responsibilities of the Audit Committee.

8 Of course, the Audit Committee wasn't formed
9 until late October. Actually, on November 1st, we sent
10 out RFPs to the largest firms who we thought would meet
11 the initial criteria that was established. That was the
12 largest six CPA firms in the world actually.

13 So that was done in November. We have had some
14 informal contact with various members of those firms,
15 mainly through the CEO Joe D'Amato.

16 We have not had any success in getting anyone
17 interested in doing the audit, but Joe is going to talk
18 to you specifically about what those efforts were.

19 The Audit Committee was very concerned about
20 meeting the criteria that was set out. We sent out the
21 RFPs. We had some follow-up conference calls regarding
22 the status of the RFP. We were monitoring the situation
23 along the way.

24 Unfortunately, we had no success in getting any
25 of those six firms who met the initial criteria set to

1 accept the engagement.

2 I'll turn it over to Joe.

3 MR. D'AMATO: Thank you. Using the contacts
4 that I believe that both Barbara and myself had built up
5 over the time, there are two major firms that do audits
6 of gaming operations and Ernst & Young.

7 CHAIRMAN DiGIACOMO COLINS: Speak up, sir.

8 MR. D'AMATO: I'm sorry. Ernst & Young and
9 Deloitte & Touche are the two major firms in the gaming
10 industry, both of which I have substantial personal
11 contacts with certain people.

12 Upon the issuance of the RFP, we contacted
13 those representatives and asked if there was interest.
14 They attempted -- the RFP through their national offices
15 and we received a negative response.

16 We also received interest from KPMG. We
17 actually had a meeting in Mount Airy with the
18 representatives of KPMG. I believe they also had a
19 telephone conversation with Miss Lang to discuss it.

20 In fact, they took the Social Security numbers
21 and the home addresses of myself, the CFO, and Mr.
22 DeNaples.

23 Subsequently, I received a phone call back and
24 verbally received that, the decline pursuing the 2007
25 audit.

1 We also issued the RFPs to BDO Seidman, Price
2 Waterhouse and Grant Thornton. I believe Price
3 Waterhouse declined because of the possible conflict of
4 doing work for the Gaming Control Board.

5 Grant Thornton and BDO both, on the telephone
6 conversations on the same day to me, declined the 2007
7 audit. So, to the six major firms that we know of, we
8 received a negative to our part.

9 MR. SKLAR: Joe, I'm going to show you a letter
10 from Deloitte & Touche and an e-mail. Can you identify
11 those?

12 MR. D'AMATO: Yes. The first letter went to
13 Bob Peloquin, who is the Chairman of the Independent
14 Audit Committee of Mount Airy. It was from Deliotte.
15 It was from Michael Gamash, who is an audit partner with
16 Deliotte.

17 It says I appreciate the opportunity to submit
18 a proposal to provide audit services to Mount Airy #1,
19 LLC, and your consideration of Deliotte to serve you.

20 Unfortunately, our firm will not be submitting
21 a proposal for such services. There's a little more, a
22 salutation and closing. That's the decline.

23 The other one is an e-mail that we received
24 from a Tom Valvano, V-a-l-v-a-n-o. He's a partner with
25 Grant Thornton, LLP. Basically, it's very similar to

1 the letter we received from Deloitte.

2 They are claiming it's -- we have determined
3 that we do not have the expertise in the gaming and
4 hospitality industries in order to appropriately serve
5 Mount Airy. It was a decline on that as well.

6 MR. SKLAR: Madam chairman, can we have those
7 marked as exhibits 1 and 2?

8 CHAIRMAN DiGIACOMO COLINS: Yes.

9 MR. SKLAR: So, Joe, the other four firms --

10 CHAIRMAN DiGIACOMO COLINS: Why don't you mark
11 them yourself? Mount Airy No. 1 and Mount Airy No. 2.
12 Thanks.

13 MR. SKLAR: The other four firms, they were all
14 verbal declines pretty much?

15 MR. D'AMATO: To the best of my knowledge, yes.

16 MR. SKLAR: And after -- Barbara, after you
17 received declines from each of the six firms there are,
18 did the Audit Committee direct counsel to file a
19 petition?

20 MS. LANG: Yes, that is true.

21 CHAIRMAN DiGIACOMO COLINS: Could you repeat
22 that question? I couldn't hear it.

23 MR. SKLAR: Sure.

24 After the big six firms all declined the
25 engagement, did the Audit Committee direct counsel to

1 file the instant petition?

2 MS. LANG: Yes, we did.

3 MR. SKLAR: Seeking the approval of Demetrius
4 for 2007?

5 MS. LANG: Yes.

6 MR. SKLAR: Now, I want Mr. Gleason to go
7 through the experience and qualifications of Demetrius.

8 MR. GLEASON: Madam Chairman and the Board, I
9 would like to just summarize for you what the Trustee
10 has asked me to do and that is to analyze Demetrius in
11 terms of their qualifications, their experience, and
12 their independence, their ability to serve as the
13 auditors for the year 2007.

14 To give you a summary, it is my conclusion and
15 opinion that Demetrius does meet those three standards.
16 I would like to review for you some of the things that
17 have been considered in getting to that conclusion.

18 CHAIRMAN DiGIACOMO COLINS: Thank you.

19 MR. GLEASON: First of all, Demetrius has been
20 in business for roughly 22 years. In those years, they
21 have been very active as a regional firm in the Wayne,
22 New Jersey area as well as Eastern Pennsylvania, New
23 Jersey, and those contiguous states.

24 They have a very -- they have a very wide -- a
25 very wide selection of audit clients who are in many

1 industries. They do not have significant gaming
2 experience.

3 I think it's important to point out in this
4 case, they did seek out the firm of Morowitz, which is
5 located in Atlantic City, New Jersey, who is very
6 steeped in the gaming experience.

7 They have used that firm to supplement their
8 resources and to be able to deal with gaming. I think
9 they have done it in a very professional way.

10 If you would like, I could or Barbara Lang can
11 give you more explanation as to the firm of Morowitz.

12 I think they have at least put together a team
13 that is qualified to do that. I think Demetrius as a
14 firm has achieved certain things within the accounting
15 profession that should be recognized as being -- giving
16 them the capability to do this type of work.

17 One, they have been selected by the Public
18 Company Accounting Oversight Board. They have been
19 identified and privileged to do that. I think that is a
20 very important part of the SEC and the Sarbanes-Oxley
21 process.

22 In addition to that, Demetrius is a member of
23 the Private Company Practice of the American Institute
24 of CPAs, as well as the SEC portion of that practice for
25 the American Institute of CPAs. Going with that are

1 very high standards and recognition for doing that. I
2 think that's another indication of what they have done
3 and the respect that they've received from their peers.

4 Another, I think, important part is that they
5 have been -- JP Morgan, who is the significant leader of
6 the bank group in this particular situation, has
7 reviewed and is accepting of Demetrius to serve in that
8 role.

9 Now, I would like to also address the issue of
10 independence because I think that has been raised. I
11 think it is a very important point.

12 I feel that Demetrius does meet that from a
13 professional standpoint, because there are certain
14 professional standards that are within the American
15 Institute of CPAs; in particular, Standards 101 and 102
16 that deal with independence and integrity and
17 objectivity.

18 I think they have gone through that exercise as
19 a CPA firm to satisfy themselves that this engagement
20 would be taken on and then could fulfill it.

21 The second thing is that the Sarbanes-Oxley has
22 put forth certain standards of independence. Again, I
23 think they have met that.

24 I have met with John Demetrius and his staff.
25 I believe that they are qualified and well prepared to

1 do this work.

2 So, it is my conclusion and a recommendation
3 for the Trustee and I do pass it on to this Board that I
4 think that Demetrius would be appropriate to serve as
5 the auditors for 2007.

6 CHAIRMAN DiGIACOMO COLINS: Thank you.

7 MR. SKLAR: Mark, can you address the issue
8 with Demetrius having First National Community Bank as
9 an audit client of which Louis DeNaples previously was
10 Chairman of the Board.

11 MR. GLEASON: Yes. That is an issue that was
12 raised by the Board. I think, again, understandably so.

13 However, I don't believe that that rises to the
14 level of creating a conflict as far as independence goes
15 in this case.

16 The First Community National Bank matter was --
17 that is a very independent, a very different situation.
18 Mr. DeNaples, who did serve as Chairman, but that
19 decision to select Demetrius was done in conjunction
20 with other Board members who did have independence,
21 which I think that is important.

22 But I would go back to the very important
23 criteria that Demetrius as a CPA firm has an obligation
24 to look at the professional standards as well as
25 Sarbanes-Oxley. They have looked at that and found that

1 they are free of conflicts. Based on my review and
2 discussions with them, I think that would be the case.

3 MR. SKLAR: Thank you. Finally, I'll have
4 Dr. Ceddia address the timing of filing audited
5 financial statements for 2007.

6 MR. CEDDIA: Thank you very much. Madam
7 Chairman, good afternoon and members of the Board.

8 Basically, this Board is familiar with the fact
9 that currently with the banks involved in the original
10 financing of Mount Airy #1 LLC, they were in the
11 process of a restructuring activity.

12 Basically, at this point, there are a number of
13 related items that Demetrius needs to close out as part
14 of this restructuring effort to complete their '07
15 audit.

16 So, there is the necessity of an extension in
17 order for us to complete the '07 activity. As this
18 Board has done previously in the approval of the initial
19 extension, the additional 90 days will give us time to
20 be able to complete all this process and close out '07
21 in relationship to the restructuring effort underway
22 now.

23 COMMISSIONER ANGELI: 90 days for what?

24 MR. CEDDIA: I think -- why don't you -- -

25 CHAIRMAN DiGIACOMO COLINS: Are you now

1 requesting a 90 day extension from what?

2 MR. CEDDIA: Well, I think I'll ask Mr. Sklar
3 to address that.

4 CHAIRMAN DiGIACOMO COLINS: From the statutory
5 deadline?

6 MR. SKLAR: No. Ninety days from whenever, if
7 the petition is approved for Demetrius. It's really two
8 separate --

9 CHAIRMAN DiGIACOMO COLINS: What's the
10 statutory deadline for the submission?

11 MR. SKLAR: February 29th. That's within 60
12 days of the close of the year.

13 CHAIRMAN DiGIACOMO COLINS: The condition
14 imposed was 45 days?

15 MR. SKLAR: An additional 45 days was given by
16 the Bureau of Licensing and that is until April 17th.

17 CHAIRMAN DiGIACOMO COLINS: Okay.

18 MR. SKLAR: We have it, but as Dr. Ceddia
19 indicated, we're going to need more time given the JP
20 Morgan issues.

21 CHAIRMAN DiGIACOMO COLINS: 90 days from April
22 17th.

23 MR. SKLAR: Or 90 days from today would be
24 fine.

25 CHAIRMAN DiGIACOMO COLINS: From today. All

1 right. All right. Then let me go to Chief Enforcement
2 Counsel and see if they have any questions at this point
3 and then we'll turn it over to the Board.

4 MS. DAVENPORT: Thank you, Madam Chairman.

5 With respect to the e-mails, we reviewed the
6 e-mails and saw the letter from Deloitte & Touche but
7 also the conversations you had with the six firms, did
8 they state a specific reason for declining your RFPs?

9 MR. D'AMATO: There is a multitude of issues.
10 One was the timing aspect, being late in the area when
11 the RFPs went out in October, most of their manpower
12 staffing level is committed. We are a year-end audit.

13 Some of it had to deal with the size of the
14 audit. It wasn't a significant one. Part of it is
15 frankly, the public relations surrounding
16 Mr. DeNaples and also then subsequently his license
17 suspension.

18 There are issues, I think, ever since some of
19 the accounting scandals back in the -- the early 2000,
20 2001, accounting firms taking over higher standards on
21 the risk management. So we have had declines
22 unfortunately because of that reason as well.

23 MS. DAVENPORT: It's my understanding you have
24 some RFPs out for '08 and '09; is that correct?

25 MR. D'AMATO: Yes, we do. The Independent

1 Audit Committee has requested us to do that as well and
2 they are out.

3 MS. DAVENPORT: Have there been any responses
4 or conversations with those firms?

5 MR. D'AMATO: Yes. All big six, I believe,
6 have declined the bid on '08 and '09. We have expanded
7 the number of RFPs we sent out to some other firms that
8 have gaming-related experience and have received
9 negatives on those as well except for one that I'm
10 waiting to hear back on out in the Pittsburgh area.
11 They have not called back in over three weeks. I will
12 initiate another phone call to them as well.

13 MS. LANG: I would like to add to that because
14 the Audit Committee, you know, is very concerned about
15 getting auditors for '08-'09. So we have also assisted
16 in the search to try to expand who else might be
17 available to do the audit.

18 We have used our contacts to try to develop new
19 firms that might be interested. We have developed a
20 few. It's not easy to find firms that meet our
21 criteria. In every case, we have had declines.

22 CHAIRMAN DiGIACOMO COLINS: Miss Lang, with
23 respect to the issues before this Board, which is the
24 request to allow Demetrius to be retained for the 2007
25 audit, to close the books on 2007, in your experience

1 that you have outlined for this Board, are you satisfied
2 with the level of, and as the financial representative
3 on the Audit Committee, are you satisfied with the level
4 of independence and with the qualifications of Demetrius
5 in terms of the regulatory requirement?

6 MS. LANG: I am. Actually, I reviewed the
7 standards that were set by the various organizations
8 that we missed, NICPA, the SEC, and I reviewed the
9 standards.

10 I also reviewed the qualifications of Demetrius
11 & Company. I am intimately familiar with the
12 qualifications of the gaming group that was hired to do
13 part of the work for Morowitz & Company. Based on all
14 of that and based on my experience with audits, I didn't
15 mention that I oversee the audits on these progressive
16 slot trusts, which, by the way, are done by a Big Four
17 firm.

18 Based on that, I am completely satisfied that
19 Demetrius is not only capable but has the independence
20 that is required to do the job.

21 CHAIRMAN DiGIACOMO COLINS: Tell us about the
22 consulting firm that was retained, Morowitz, is it?

23 MS. LANG: Yes.

24 CHAIRMAN DiGIACOMO COLINS: Tell us about that
25 firm and whether or not that firm, based on your

1 evaluation, has any connections to the bank. I forget
2 the name of the bank, First National.

3 MS. LANG: Well, I really wouldn't have any
4 knowledge about that. I didn't specifically ask them
5 about that, but they certainly don't list that bank as a
6 client and that would be very farfetched because this
7 company deals almost exclusively with gaming companies.
8 That's what they do.

9 They are gaming advisors. They do a lot of
10 work with developing internal controls, which is the
11 basis for a lot of the work that is done on audits.
12 They also do internal -- internal audit outsourcing.
13 They are really known -- it's a very small gaming world.
14 The company is known to be gaming experts.

15 I personally actually know the founder of the
16 company as well. I know his educational background.
17 So, I'm very satisfied with the level of work that they
18 have done.

19 CHAIRMAN DiGIACOMO COLINS: All right. Do you
20 have any more questions, Miss Davenport?

21 MS. DAVENPORT: No other questions, Your Honor;
22 but I would like to have Jim Talerico testify.

23 CHAIRMAN DiGIACOMO COLINS: Do any of the Board
24 members have questions of Miss Lang or Mr. D'Amato at
25 this point?

1 Let's start with Commissioner Sojka and then
2 we'll go on from there.

3 COMMISSIONER SOJKA: I'm sticking on the
4 Morowitz issue. Could you tell us just a bit more about
5 what sort of service they actually provide? Do they
6 have persons on-site? Are they advising only or are
7 they actually exploring the books? Are they really
8 producing the audit and have Demetrius look at it? I
9 can't understand the level --

10 MS. LANG: Morowitz Group was actually on-site.
11 There are certain aspects of an audit that have to be
12 done at specific times. The Morowitz Group had auditors
13 on-site at year-end right at 12/31 to do things like
14 observing the inventory and observing the cage count.

15 There are specific jobs that have to be done in
16 person and on-site. I know that the group was there
17 doing that in person. They're not just in ivory towers.
18 They're actually rolling up their sleeves and doing the
19 work.

20 COMMISSIONERS SOJKA: Thank you.

21 CHAIRMAN DiGIACOMO COLINS: Commissioner
22 McCabe?

23 COMMISSIONER McCABE: I have a couple of
24 questions about Demetrius. How many companies or
25 clients do they represent?

1 MR. GLEASON: I have information that I have
2 obtained from their website. It has a listing of the
3 publicly traded or the SEC clients.

4 COMMISSIONER McCABE: That was going to be my
5 next question. How many of those companies are publicly
6 traded?

7 MR. D'AMATO: I think there's about 20.

8 MR. GLEASON: Seventeen that was listed on
9 their website.

10 COMMISSIONER McCABE: Okay. So they're
11 representing more than -- their clients are more than
12 Mount Airy and First National Community Bank?

13 MR. GLEASON: Oh, yes. I think it's important
14 to understand, they have been established for many
15 years. They do substantial audits. Having done this
16 many publicly traded companies, they are very familiar
17 with the SEC requirements, as well as the AICPA
18 requirements.

19 COMMISSIONER McCABE: What I am hearing from
20 your testimony is what you believe they are independent
21 because of 101 and 102 and Sarbanes-Oxley.

22 I think I just heard they represent a number of
23 clients that are publicly traded and it's -- more than
24 ten clients that they have?

25 MR. GLEASON: That is right, Commissioner

1 McCabe.

2 COMMISSIONER McCABE: And they have obtained a
3 consultant company to gain that gaming expertise?

4 MS. LANG: And to actually do, you know, some
5 of the internal audit work -- not internal audit, some
6 of the audit work on-site.

7 COMMISSIONER McCABE: Thank you.

8 CHAIRMAN DiGIACOMO COLINS: And you are
9 satisfied with the level of performance, Mr. D'Amato and
10 Miss Lang.

11 MR. D'AMATO: I would comment that in my
12 interactions of the representatives of Demetrius and
13 specifically Mr. Demetrius, are extremely well
14 qualified.

15 The competency level compares to those of audit
16 partners I have met with, some of the Big Six firms.

17 In addition to explore or expand on Morowitz, I
18 want to make it clear they did not do the audit. The
19 opinion will come from Demetrius & Company.

20 They did the segment that dealt with the casino
21 operations portion of it, which as Ms. Lang testified to
22 and discussed is a -- their area of expertise.

23 In addition to that, they helped Demetrius as
24 we went through our initial filings of internal controls
25 that were subsequently reviewed by the Gaming Board and

1 reviewed by staff as well back when we made our initial
2 filings of internal controls. They went through and
3 helped Demetrius and assisted Demetrius as well.

4 The audit and the opinion will be Demetrius.
5 They must rely, my understanding, rely on the work and
6 review the work that Morowitz does.

7 MS. LANG: And I just want to mention that I
8 actually had an opportunity to speak with members of the
9 Morowitz Company who are on the job. So, based on our
10 conversation, yeah, I have no problem with the work that
11 was done.

12 CHAIRMAN DiGIACOMO COLINS: All right.

13 Now, and your witness now?

14 COMMISSIONER GINTY: I have a question.

15 CHAIRMAN DiGIACOMO COLINS: I'm sorry.

16 COMMISSIONER GINTY: I have a question of
17 Mr. Gleason. Do you consider Demetrius nationally
18 recognized? Let me put it another way. Can you define
19 nationally recognized?

20 MR. GLEASON: I don't know that it's a standard
21 term. I think there are a handful of firms that as we
22 have mentioned. The six that were contacted, they are
23 nationally known firms. There's some other large
24 regional firms, there are specialized firms that have a
25 national reputation.

1 I would not say that Demetrius has a national
2 reputation. That's not in any way to disrespect them,
3 but they're just not at that status.

4 COMMISSIONER GINTY: This is a criteria that
5 the Board put in an Order that we can certainly change
6 if we have to.

7 It seems to me from the conversation here that
8 we have really constrained by our own terminology the
9 ability to define a solvent accounting firm. Would you
10 agree with that?

11 MR. GLEASON: I think in this particular
12 situation, the definition makes it difficult to find
13 somebody, to find an auditor.

14 MS. LANG: I wanted to add one thing because
15 the question is, you know, about national recognition.
16 I think your point is well-taken.

17 I did want to mention that I noticed on the
18 Demetrius website that they are a member -- Grant
19 Thornton is a very large national company, a CPA firm.

20 They mention on the website that they are part
21 of their shared professional services, which gives them
22 certain resources of the national firm. So, I think
23 that's important to note and often smaller firms will
24 access, you know, the expertise of larger firms through
25 various either formal or informal connections. So this

1 is a formal way they have been able to do that.

2 CHAIRMAN DiGIACOMO COLINS: Thank you. That's
3 very good information for us.

4 COMMISSIONER GINTY: Let me go on further.
5 They represent at least 17 publicly traded companies.
6 So, they obviously sign the financial statements for 17
7 public companies that one can assume are right outside
8 of New Jersey and investors who have accepted their
9 certification as to the -- was that reasonable?

10 MR. GLEASON: I think it definitely is. In
11 light of the fact that they are SEC clients, all of the
12 stringent reporting requirements that the SEC provides,
13 they clearly meet.

14 COMMISSIONER GINTY: They certainly have a
15 national reach, one would say?

16 MR. GLEASON: Yes.

17 COMMISSIONER GINTY: Maybe even an
18 international reach? I'm sorry.

19 CHAIRMAN DiGIACOMO COLINS: Mr. Talerico?
20 Would you like to present him now to testify?

21 MS. DAVENPORT: Thank you, Your Honor.

22 MR. TALERICO: Madam Chairman, members of the
23 Board, first of all, I should put into the record my
24 credentials. I have a master's degree in accounting
25 from Temple University. I have a master's degree in

1 government administration from the University of
2 Pennsylvania.

3 I will be completing my Ph.D. in public
4 administration, my dissertation, next month. I have a
5 certification in fraud examination. I have over 30
6 years of auditing experience with the Pennsylvania
7 Department of the Auditor General.

8 Let me get back to what I'm testifying to. We,
9 the Financial Investigations Unit, realize that in
10 November of 2007, Mount Airy distributed 2007 Audit Firm
11 RFPs to six major, nationally recognized audit firms and
12 that none of those firms responded positively to the
13 RFP.

14 Given those circumstance and the fact that
15 Demetrius is currently in the process of performing work
16 on Mount Airy's 2007 financial statements, the fact that
17 PGCB staff have met with Mount Airy's Independent Audit
18 Committee, the fact that PGCB have met with Trustee Dr.
19 Anthony Ceddia and Mark Gleason, the Board approved
20 Accountant Advisor to the Trustee, and the fact that
21 Gleason & Associates have met with Demetrius & Company
22 and have just testified that they are comfortable with
23 Demetrius' work, and the fact that the Audit Committee
24 by Barbara Lang is also very comfortable with Demetrius'
25 work.

1 We realize that contracting with another
2 auditing firm to perform the audit of Mount Airy #1,
3 LLC's, 2007 financial statements would be extremely
4 difficult in the circumstances. Thank you.

5 MR. PITRE: Madam chairman, I would like to
6 add, in my previous experience, I am familiar with
7 Morowitz in the gaming industry. They do enjoy a solid
8 reputation in the gaming industry. I just wanted to put
9 you at ease about that.

10 CHAIRMAN DiGIACOMO COLINS: Thank you very
11 much. I appreciate that.

12 All right. Mr. Sklar, anything further?

13 MR. SKLAR: I would just like to move Mount
14 Airy No. 1 and No. 2 into evidence.

15 CHAIRMAN DiGIACOMO COLINS: Any objections?

16 MS. DAVENPORT: No objection.

17 CHAIRMAN DiGIACOMO COLINS: Anything further?

18 MS. DAVENPORT: Based upon our review and the
19 facts in this matter, the Office of Enforcement Counsel
20 would not object to the Board waiving the criteria that
21 was set forth in Paragraph 12 of their October 2nd, 2007
22 Order regarding the Independent Audit Committee criteria
23 policy for fiscal year 2007. Thank you.

24 CHAIRMAN DiGIACOMO COLINS: Or the alternative
25 -- in the alternative, perhaps the evidence once we

1 review the evidence and discuss it, perhaps the evidence
2 meets the criteria.

3 MS. DAVENPORT: It's a possibility, Your Honor.

4 CHAIRMAN DiGIACOMO COLINS: So you would be --
5 is your statement that in the absence of the evidence
6 directly meeting the criteria, based on what has been
7 presented, you recommend a waiver under this situation?

8 MS. DAVENPORT: I think that would be in order.

9 CHAIRMAN DiGIACOMO COLINS: All right. Thank
10 you. Very good. What we will do is adjourn for
11 deliberations, and then we will come back and conduct
12 the public meeting and vote on this motion as with the
13 WTA motion during the course of the public meeting. I
14 think maybe 20 minutes to a half an hour for us to
15 discuss these things.

16 MR. CEDDIA: Thank you very much for the
17 attention you have given us this morning. We greatly
18 appreciate that.

19 CHAIRMAN DiGIACOMO COLINS: Thank you very
20 much. I appreciate it.

21 (The hearing concluded at 12:30 p.m.)

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1 I hereby certify that the proceedings and evidence are
2 contained fully and accurately in the notes taken by me
3 on the within proceedings and that this is a correct
4 transcript of the same.

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Hillary M. Hazlett, Reporter
Notary Public

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