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LOUISIANA QUARTERHORSE BREEDERS ASSOCIATION, INC.

VIDEO POKER TAX SUPPLEMENT FUND

ALEXANDRIA, LOUISIANA

FINANCIAL STATEMENTS

AND

AUDITORS' REPORTS

FOR THE FISCAL YEARS ENDED DECEMBER 31, 1997 AND 1996

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **DEC 7 6 1998**

**LOUISIANA QUARTERHORSE BREEDERS ASSOCIATION, INC.
VIDEO POKER TAX SUPPLEMENT FUND
ALEXANDRIA, LOUISIANA**

**FINANCIAL STATEMENTS AND AUDITORS' REPORTS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 1997 AND 1996**

Table of Contents

Independent Auditor's Report	1
FINANCIAL STATEMENTS	
Statement of Financial Position - Video Poker Tax Supplement Fund	3
Statement of Activities - Video Poker Tax Supplement Fund	4
Statement of Cash Flows - Video Poker Tax Supplement Fund	5
Notes to Financial Statements	6
Other Reports Required by <i>Government Auditing Standards</i>	9
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	10
Schedule of Findings and Questioned Costs	12
Schedule of Prior Year Findings	14

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Louisiana Quarterhorse Breeders Association, Inc.
Video Poker Tax Supplement Fund
Alexandria, Louisiana

We have audited the accompanying statement of financial position of the Video Poker Tax Supplement Fund of Louisiana Quarterhorse Breeders Association, Inc., (a non-profit, quasi-public organization) as of and for the years ended December 31, 1997 and 1996 and the related statements of activities and cash flows for the years ended December 31, 1997 and 1996. These financial statements are the responsibility of the **Organization's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Video Poker Tax Supplement Fund and are not intended to present fairly the financial position of Louisiana Quarterhorse Association, Inc., and the results of its operations and cash flows in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Video Poker Tax Supplement Fund of Louisiana Quarterhorse Breeders Association, Inc., as of December 31, 1997 and 1996, and the results of its changes in net assets and its cash flows for the years ended December 31, 1997 and 1996, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 1998, on our consideration of the **Organization's** internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, and contracts.

The additional information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Video Poker Tax Supplement Fund. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements of the Video Poker Tax Supplement Fund.



Certified Public Accountants
November 23, 1998

Louisiana Quarterhorse Breeders Association, Inc.
Video Poker Tax Supplement Fund
Statement of Financial Position
December 31

	<u>1997</u>	<u>1996</u>
ASSETS		
Cash and cash equivalents	<u>\$ 323,617</u>	<u>\$ 258,729</u>
 NET ASSETS		
Temporarily restricted	<u>\$ 323,617</u>	<u>\$ 258,729</u>

See Accompanying Notes to Financial Statements

Louisiana Quarterhorse Breeders Association, Inc.
Video Poker Tax Supplement Fund
Statement of Activities
For the Years Ended December 31

	<u>1997</u>		<u>1996</u>	
	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>
REVENUES				
Video Poker Purse Supplements	\$ 976,117	\$ —	\$ 878,518	\$ —
Dividends	18,146	—	13,014	—
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>(929,375)</u>	<u>929,375</u>	<u>(676,868)</u>	<u>676,868</u>
Total Revenues	<u>64,888</u>	<u>929,375</u>	<u>214,664</u>	<u>676,868</u>
EXPENSES				
Program services				
Race track purse supplements	<u>—</u>	<u>929,375</u>	<u>—</u>	<u>676,868</u>
Total Expenses	<u>—</u>	<u>929,375</u>	<u>—</u>	<u>676,868</u>
CHANGE IN NET ASSETS	64,888	—	214,664	—
NET ASSETS - BEGINNING OF YEAR	<u>258,729</u>	<u>—</u>	<u>44,065</u>	<u>—</u>
NET ASSETS - END OF YEAR	<u>\$ 323,617</u>	<u>\$ —</u>	<u>\$ 258,729</u>	<u>\$ —</u>

See Accompanying Notes to Financial Statements

Louisiana Quarterhorse Breeders Association, Inc.
Video Poker Tax Supplement Fund
Statement of Cash Flows
For the Years Ended December 31,

	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ <u>64,888</u>	\$ <u>214,664</u>
Net Cash Provided by Operating Activities	64,888	214,664
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>258,729</u>	<u>44,065</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 323,617</u>	<u>\$ 258,729</u>

See Accompanying Notes to Financial Statements

Louisiana Quarterhorse Breeders Association, Inc.
Video Poker Tax Supplement Fund
Notes to of Financial Statements
December 31, 1997

NOTE A NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation

The accompanying financial statements reflect financial position, results of operations and changes in net assets of the Video Poker Tax Supplement Fund only and do not include financial information of Louisiana Quarterhorse Breeders Association, Inc. taken as a whole. The members of Louisiana Quarterhorse Breeders Association, Inc. elect the board of directors of the organization.

Nature of Activities

The **Organization** is a not-for-profit entity and is exempt from federal income tax under section 501(C) (5) of the Internal Revenue Code.

Louisiana State Act No. 627, Senate bill 1169 of 1995 provides for allocation of quarterhorse purse supplements awarded from the Video Draw Poker Device Purse Supplement Fund. One-third of the funds appropriated to the commission pursuant to the act are allocated and provided to Louisiana Quarterhorse Breeders Association to be used to supplement purses for Louisiana bred quarterhorses. The funds are distributed periodically based on requests from Louisiana Quarterhorse Breeders Association for scheduled race days during active race meetings. The funds are maintained in a separate interest-bearing account and disbursed to the horsemen's bookkeeper for purse distribution.

Louisiana Quarterhorse Breeders Association, Inc. was formed to foster, protect and promote the welfare and interest of individuals and concerns engaged in the breeding of quarterhorses in Louisiana and to secure uniformity and equity in business usages and laws by bringing about programs of economic and educational value to all who engage in the breeding of quarterhorses.

Basis of Accounting

The financial statements of the **Organization** have been prepared on the accrual basis of accounting.

Louisiana Quarterhorse Breeders Association, Inc.
Video Poker Tax Supplement Fund
Notes to of Financial Statements
December 31, 1997
(continued)

NOTE A NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation

Financial Statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the **Organization** is required to report information regarding it's financial position and activities according to three classes of assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Video Poker Tax Supplement Fund is classified as temporarily restricted net assets and released from restriction when disbursements are made to race tracks.

Statement of Cash Flows

All highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents for purposes of the statement of cash flows.

NOTE B CASH AND CASH EQUIVALENTS

The **Organization** deposits all funds received from allocation of the Video Tax Purse Supplement into a money market account at A.G. Edwards and Sons. Dividend income is reported as increases in temporarily restricted net assets in the reporting period in which the income is recognized.

NOTE C FUNCTIONAL ALLOCATION OF EXPENSES

Administration costs of administering the Video Poker Tax Supplement activity are insignificant and have not been allocated in these financial statements.

Louisiana Quarterhorse Breeders Association, Inc.
Video Poker Tax Supplement Fund
Notes to of Financial Statements
December 31, 1997
(continued)

NOTE D RESTRICTIONS ON NET ASSETS

All restrictions on net assets at the end of 1997 and 1996 related to the specific purpose of race track purse supplements as enacted by Louisiana State Act No. 627.

Temporarily restricted net assets available for periods after December 31, 1997 are \$323,617.

NOTE E FUTURE ALLOCATION OF RECEIPTS

The anticipated receipt of Video Poker Tax Supplement funds from the Louisiana State Racing Commission subsequent to December 31, 1997 can only be projected and can not be reasonably measured. No amounts have been recorded in the financial statements as a receivable. The Louisiana State Racing Commission operates on a June 30 fiscal year.

**OTHER REPORTS REQUIRED BY
*GOVERNMENT AUDITING STANDARDS***

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Louisiana Quarterhorse Breeders Association, Inc.
Video Poker Tax Supplement Fund

We have audited the financial statements of the Video Poker Tax Supplement Fund of Louisiana Quarterhorse Breeders Association, Inc. as of December 31, 1997 and 1996 and for the years ended December 31, 1997 and 1996, and have issued our report thereon dated November 23, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions is not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings and Questioned Costs as item 97-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Louisiana Quarterhorse Breeders Associations, Inc.'s ability to record, process, summarize and report financial

data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as 97-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended for the information of the Board of Directors, management and the Louisiana State Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.



Certified Public Accountants
November 23, 1998

LOUISIANA QUARTERHORSE BREEDERS ASSOCIATION, INC.
VIDEO POKER TAX SUPPLEMENT FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Years Ended December 31, 1997 and 1996

We have audited the financial statements of the Video Poker Supplement Fund of Louisiana Quarterhorse Breeders Association, Inc. as of December 31, 1997 and 1996 and for the years ended December 31, 1997 and 1996, and have issued our report thereon dated November 23, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of December 31, 1997 and 1996 and for the years ended December 31, 1997 and 1996 resulted in an unqualified opinion.

Section 1-Summary of Auditor's Reports

a. Report on Internal Control and Compliance Material to the Financial Statements

Internal control

Material Weaknesses Yes No Reportable Conditions Yes No

Compliance

Non Compliance Material to Financial Statements Yes No

Section II-Financial Statement Findings

97-1 Reportable Condition

State Audit Law

Condition: Louisiana State Revised Statute 24:513 and Section 329.01 of the Louisiana Governmental Audit Guide require all engagements to be completed and transmitted to the Legislative Auditor within six months of the close of the entity's fiscal year.

Criteria: Any noncompliance with these requirements shall be reported.

Questioned Costs: None

Effect: Violation of compliance with this provision of state law could result in elimination of funding by state agencies and require other remedies enforced by the State Legislative Auditor.

Cause: Louisiana Quarterhorse Breeders Association, Inc. does not administer other public funds and began receiving Video Poker Tax Supplement monies in 1995. Louisiana Quarterhorse Breeders Association, Inc. was unaware of State Audit Law until notified by the Louisiana State Legislative Auditor.

Section III-Corrective Action Plan

97-1 State Audit Law

Response: Louisiana Quarterhorse Breeders Association, Inc. will assure compliance with Louisiana Revised Statute 24:513 in the future by engaging an audit on the Video Poker Tax Supplement Fund.

**LOUISIANA QUARTERHORSE BREEDERS ASSOCIATION, INC.
VIDEO POKER TAX SUPPLEMENT FUND
SUMMARY OF PRIOR YEAR FINDINGS
For the Years Ended December 31, 1997 and 1996**

There were no audit findings prior to the years ended December 31, 1997 and 1996.