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**LOUISIANA THOROUGHBRED BREEDERS
ASSOCIATION**

December 31, 1997

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Audit of Financial Statements

December 31, 1997

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 16 1998

CONTENTS

Independent Auditor's Report	1 - 2
Statement of Assets, Liabilities and Fund Balance - Modified Cash Basis	3
Statement of Revenues and Expenses - Modified Cash Basis	4
Statement of Changes in Fund Balance - Modified Cash Basis	5
Notes to Financial Statements	6 - 11
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>	12-13

Board of Directors
Louisiana Thoroughbred Breeders Association

Independent Auditor's Report

We have audited the statement of assets, liabilities and fund balance - modified cash basis of **LOUISIANA THOROUGHbred BREEDERS ASSOCIATION** (a non-profit organization) as of December 31, 1997, and the related statements of revenues and expenses - modified cash basis, and changes in fund balance - modified cash basis, for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on the financial statements based on our audit.

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. 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 described in Note A, the Association's policy is to prepare its financial statements on the modified basis of cash receipts and disbursements; consequently, certain revenues and related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

As discussed in Note A, the Association has recorded accounts receivable related to the publication of the Louisiana Horse magazine. In our opinion, accounts receivable should not be recorded using the modified cash basis of accounting. The effect of recording accounts receivable is to increase assets, fund balance and revenues by \$31,205.

As discussed in Note A, the Association has decided not to adopt Statement of Financial Accounting Standards (SFAS 116), "Accounting for Contributions Received and Contributions Made" and Statement of Financial Accounting Standards (SFAS 117), "Financial Statements of Not-for-Profit Organizations". Management feels that the financial statements are more beneficial to the reader without the adoption of these two Statements. Not adopting SFAS 116 and SFAS 117, had no effect on the Association's financial position, results of operations and changes in financial position.

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International Affiliation with Accounting Firms Associated, Inc.

In our opinion, except for the effects of recording accounts receivable, and not adopting SFAS 116 and SFAS 117 as discussed in the preceding paragraphs, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and fund balance of **LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION** as of December 31, 1997, and its related revenue and expenses and changes in fund balance for the year then ended on the basis of accounting as described in Note A.

Schulte, Schult, Long & Neal

A Professional Accounting Corporation

May 20, 1998

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE - MODIFIED CASH BASIS
 December 31, 1997

ASSETS	Operating	Louisiana			Political Action Council	Totals (Memorandum Only)
		Louisiana Horse	Champions Day	SALAM Races		
CURRENT ASSETS						
Cash and Cash Equivalents	\$ 1,253,906	\$ 39,968	\$ 4,767	\$ 19,735	\$ 4,291	\$ 2,609,189
Accounts Receivable	-	31,205	-	-	-	31,205
NSF Checks Held	60	-	-	-	-	60
Total Current Assets	<u>1,253,966</u>	<u>71,173</u>	<u>4,767</u>	<u>19,735</u>	<u>4,291</u>	<u>2,640,454</u>
PROPERTY AND EQUIPMENT						
Furniture and Equipment	73,169	56,038	-	-	-	129,207
Buildings	85,791	-	-	-	-	85,791
Automobiles	<u>18,227</u>	-	-	-	-	<u>18,227</u>
	177,187	56,038	-	-	-	233,225
Less: Accumulated Depreciation	<u>(96,950)</u>	<u>(41,550)</u>	-	-	-	<u>(138,500)</u>
Property and Equipment - Net	<u>80,237</u>	<u>14,488</u>	-	-	-	<u>94,725</u>
OTHER ASSETS						
Due From Breeders Sales Company	42,037	-	-	-	-	42,037
Investment - Breeders Sales Company	20,000	-	-	-	-	20,000
Cash Surrender Value - Key Man Life	32,592	-	-	-	-	32,592
Due From Other Funds	6,400	-	-	-	-	6,400
Due From IRS/Pension Plan	202	-	-	-	-	202
Deposits	<u>875</u>	-	-	-	-	<u>875</u>
Total Other Assets	<u>102,106</u>	-	-	-	-	<u>102,106</u>
	<u>\$ 1,436,309</u>	<u>\$ 85,661</u>	<u>\$ 4,767</u>	<u>\$ 19,735</u>	<u>\$ 4,291</u>	<u>\$ 2,837,285</u>

	Operating	Louisiana			Louisiana		Political Action Council	Totals (Memorandum Only)
		Louisiana Horse	Champions Day	SALAM Races	Other Races	Other Races		
LIABILITIES AND FUND BALANCE (DEFICIT)								
CURRENT LIABILITIES								
Deposits - Futurity Races	\$ 38,520	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 38,520
Accrued Payroll Taxes and Other Liabilities	<u>1,685</u>	-	-	-	-	-	-	<u>1,685</u>
Total Current Liabilities	<u>40,205</u>	-	-	-	-	-	-	<u>40,205</u>
LONG-TERM LIABILITIES								
Deposits - Futurity Races	25,800	-	-	-	-	-	-	25,800
Due to Other Funds	<u>-</u>	-	-	-	-	6,400	6,400	<u>6,400</u>
Total Long-Term Liabilities	<u>25,800</u>	-	-	-	-	6,400	6,400	<u>32,200</u>
Total Liabilities	66,005	-	-	-	-	6,400	6,400	72,405
FUND BALANCE (DEFICIT)								
	<u>1,370,304</u>	<u>85,661</u>	<u>4,767</u>	<u>19,735</u>	<u>1,286,522</u>	<u>(2,109)</u>	<u>2,764,880</u>	
	<u>\$ 1,436,309</u>	<u>\$ 85,661</u>	<u>\$ 4,767</u>	<u>\$ 19,735</u>	<u>\$ 1,286,522</u>	<u>\$ 4,291</u>	<u>\$ 2,837,285</u>	

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

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES - MODIFIED CASH BASIS
For The Year Ended December 31, 1997

	Operating	Louisiana Horse	Louisiana Champions Day	SALAM Races	Other Races	Political Action Council	Totals (Memorandum Only)
REVENUES							
Awards - 9.1%	\$ -	\$ -	\$ 200,000	\$ -	\$ 1,670,989	\$ -	\$ 1,870,989
Fees - 14%	404,187	-	-	-	-	-	404,187
Commissions - 2%	185,761	-	-	-	-	-	185,761
SALAM Awards - 8% & 15.1%	-	-	-	147,400	-	-	147,400
Awards - Kentucky Derby Day	-	-	103,633	-	-	-	103,633
Administrative Income - 10%	131,004	-	-	-	-	-	131,004
Publications	-	93,026	-	-	-	-	93,026
Interest	60,662	-	2,537	372	66,106	-	129,677
Sponsorship	-	-	21,500	-	-	-	21,500
Nominations	-	-	35,250	-	-	-	35,250
Accrediting Fees	35,380	-	-	-	-	-	35,380
Silent Auction	-	-	7,768	-	-	-	7,768
Member's Dues	15,122	-	-	-	-	2,625	17,747
Miscellaneous	1,000	737	1,025	-	-	-	2,762
Stallion Fees	-	-	8,670	-	-	-	8,670
Ticket Sales	-	-	8,674	-	-	-	8,674
	<u>833,116</u>	<u>93,763</u>	<u>389,057</u>	<u>147,772</u>	<u>1,737,095</u>	<u>2,625</u>	<u>3,203,428</u>

EXPENSES	Operating	Louisiana		Louisiana		SALAM Races	Other Races	Political Action Council	Totals (Memorandum Only)
		Horse	Champions Day	Champions Day	Races				
Breeder's Awards	95,030	-	-	-	270,905	872,467	-	-	1,238,402
Purse Supplements	5,000	-	317,955	-	-	301,266	-	-	624,221
Salaries	132,259	32,174	-	-	-	-	-	-	164,433
Administrative - 10%	-	-	-	-	-	131,004	-	-	131,004
Publication Expenses	-	59,052	-	-	-	-	-	-	59,052
Advertising and Promotion	18,955	115	33,717	-	-	-	-	-	52,787
Insurance	38,986	-	-	-	-	-	-	-	38,986
Stallion Awards	47,894	-	-	-	-	-	-	-	47,894
Profit Sharing Expense	26,733	-	-	-	-	-	-	-	26,733
Kentucky Derby Day Funds - LQBA	-	-	31,851	-	-	-	-	-	31,851
Casual Labor	56,750	-	150	-	-	-	-	-	56,900
General Accounting	13,139	-	-	-	-	-	-	-	13,139
Audit	13,766	-	-	-	-	-	-	-	13,766
Meetings and Banquets	17,573	-	22,153	-	-	-	-	-	39,726
Rent	9,000	2,400	-	-	-	-	-	-	11,400
Depreciation	12,694	11,747	-	-	-	-	-	-	24,441
Computer Fees	17,291	860	-	-	-	-	-	-	18,151
Repairs and Maintenance	4,631	548	-	-	-	-	-	-	5,179
Postage and Shipping	10,721	3,419	-	33	-	-	-	-	14,173
Telephone Expense	15,466	2,030	-	-	-	-	-	-	17,496
Payroll Taxes	10,425	2,584	-	-	-	-	-	-	13,009
Travel	15,929	785	-	-	-	-	-	-	16,714
Dues and Subscriptions	2,353	225	-	-	-	-	-	-	2,578
Office Supplies	11,635	1,854	-	-	-	-	-	-	13,489
Printing	5,822	1,562	4,342	-	-	-	-	-	11,726
Trophies	5,611	-	1,978	-	-	-	-	-	7,589
Utilities	-	946	-	-	-	-	-	-	946
Contributions	19,550	-	-	-	-	-	-	2,750	22,300
Equipment Rental	1,613	129	-	-	-	-	-	-	1,742
Other	875	259	113	-	178	30	-	77	1,532
Interest	611	-	-	-	-	-	-	-	611
	<u>610,312</u>	<u>120,689</u>	<u>412,292</u>	<u>271,083</u>	<u>1,304,767</u>	<u>2,827</u>	<u>2,721,970</u>		
EXCESS (DEFICIT) REVENUES OVER EXPENSES	\$ 222,804	\$ (26,926)	\$ (23,235)	\$ (123,311)	\$ 432,328	\$ (202)	\$ 481,458		

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

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
 STATEMENT OF CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
 For The Year Ended December 31, 1997

		Louisiana Operating	Louisiana Horse	Louisiana Champions Day	SALAM Races	Other Races	Political Action Council	Totals (Memorandum Only)
BALANCE - BEGINNING OF YEAR	\$	1,312,925	\$ 64,824	\$ 51,530	\$ 13,546	\$ 843,694	\$ (3,097)	\$ 2,283,422
EXCESS (DEFICIT) REVENUES OVER EXPENSES, AS RESTATED		222,804	(26,926)	(23,235)	(123,311)	432,328	(202)	481,458
TRANSFER FROM (TO) OTHER FUNDS		(165,425)	47,763	(23,528)	129,500	10,500	1,190	-
BALANCE - END OF YEAR	\$	<u>1,370,304</u>	<u>\$ 85,661</u>	<u>\$ 4,767</u>	<u>\$ 19,735</u>	<u>\$ 1,286,522</u>	<u>\$ (2,109)</u>	<u>\$ 2,764,880</u>

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

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS**

NOTE A

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS

The **LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION** is a non-profit organization which seeks to promote and further the thoroughbred breeding industry within the state of Louisiana.

14% LICENSE FEE

In order to assist the Association in its promotion of the industry, the Association receives 14% of the 1.5% license fee collected by the Louisiana State Racing Commission from off-track wagering facilities. The Association has also elected to use these receipts to pay breeders awards to breeders of accredited Louisiana bred horses finishing first, second or third in out-of-state stakes races with a base value of \$25,000. These awards are paid at a rate of 10% of the earned purse, with the maximum award based on a purse of \$100,000 for Open Stakes and \$150,000 for Graded Stakes.

LOUISIANA HORSE

The Louisiana Horse is the official publication of the Association.

BREEDERS AWARDS - SALAM RACES

Each racing association shall conduct one special accredited Louisiana bred maiden (SALAM) thoroughbred race each thoroughbred racing day of each race meeting, if sufficient horses are available. The Executive Committee of the Association shall specify the type, age, distance and purse of each SALAM race.

Of the commissions earned by the racing association hosting each SALAM race, the Association receives 8%. Of the remaining commissions, 40% shall be paid into a special maiden race purse account from which purses shall be disbursed. Any monies left in the account at the conclusion of the race meet shall revert to the Association to supplement other Louisiana bred thoroughbred purses at the next available race meeting conducted by that racing association.

Of the commissions on wagers made at off-track wagering facilities on each SALAM race, the Association receives 15.1%.

The Association is obligated to use the above funds for payment of breeders awards in accordance with a distribution formula established by the executive committee of the Association. Accordingly, the Association was paying 20% of the earned purse to the breeders of those horses finishing first, second and third in the respective SALAM race. Effective November 23, 1995, the Association reduced the award to 15% of the earned purse.

LOUISIANA CHAMPIONS DAY

The Association is authorized to hold a special day of racing devoted solely to Louisiana bred horses, for the purpose of focusing national attention on and enhancing the horse breeding industry in the State. It was enacted by the state legislature so as to include both thoroughbred and quarter horse races on the same racing program. The racing program on Louisiana Champions Day shall consist of seven races for thoroughbreds and three races for quarterhorses.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS**

NOTE A

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LOUISIANA CHAMPIONS DAY (Continued)

Louisiana Champions Day purses shall be determined by the Association after consultation with the Louisiana Quarterhorse Breeders Association and shall be funded through purses offered by participating racing associations, matching funds from the appropriate breeders association, corporate contributions, funds from Kentucky Derby Day and up to \$200,000 from the 9.1% funds, mentioned below.

Kentucky Derby Day funds represent all fees from pari-mutuel wagering on races held on the first Saturday in May. These funds are paid to the Association by order of the State of Louisiana Department of Economic Development and are required to be placed in an interest bearing account.

During the year ended December 31, 1997, the Association received \$103,634 of Kentucky Derby Day Funds. These receipts were used, in full, to supplement Louisiana Champions Day purses, with \$72,544 paid towards thoroughbred race purses and \$31,090 paid toward quarter horse race purses.

BREEDERS AWARDS - OTHER RACES

For purposes of this disclosure, other races include Accredited Louisiana Bred and Open Races. An Accredited Louisiana Bred Race is one that is written exclusively for accredited Louisiana bred horses. An Open Race is any race other than one written exclusively for accredited Louisiana bred horses. Of the commissions collected by the off-track betting facilities, throughout the State, that are designated for purse supplements, 9.1% is remitted to the Association. The exceptions are those commissions from SALAM races and Kentucky Derby Day races as mentioned above.

The Association is obligated to use these funds to supplement purses for allowance, handicap, stake races for accredited Louisiana bred horses and to pay breeders awards to breeders of accredited Louisiana bred horses finishing first, second and third in Open Races at any track in Louisiana.

Each racing association authorized to conduct race meets shall pay the equivalent of 10% of the winner's share of the purse of each Open Race won by an accredited Louisiana bred horse. The Association uses these funds together with 9.1% funds from above to pay breeders awards to breeders of accredited Louisiana bred horses finishing first, second, and third in Open Races, at any track in Louisiana.

The Association was paying 20% of the earned purse as breeders awards. Effective November 23, 1995, the Association reduced the award to 15% of the earned purse. The maximum breeders award paid on an Accredited Louisiana Bred Race is based on a purse of \$75,000. The maximum award paid by the Association on an Open Race - Non-Graded Stakes is based on a purse of \$100,000. Finally, the maximum award paid by the Association on an Open Race - Graded Stakes is based on a purse of \$150,000.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS**

NOTE A

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BREEDERS AWARDS - OTHER RACES (Continued)

Over and above the purse supplements mentioned above, the Association shall use up to two hundred thousand dollars (\$200,000) of the 9.1% funds, per year to supplement purses on Louisiana Champions Day.

Finally, the Association has elected to contribute 10% of the 9.1% funds to the general operation of the Association. This contribution is to help cover administrative costs incurred in maintaining the breeders awards program.

POLITICAL ACTION COMMITTEE

The Association formed a committee, known as the Breeder's Political Action Committee, for the purpose of representing the Association in legislative matters at the state level. Members are asked to contribute \$20 for the support of this committee.

PURSE SUPPLEMENTS

Any licensee who is licensed in the state of Louisiana to conduct race meetings where pari-mutuel wagering is permitted shall deduct one-half of the breakage, which is understood to be the amount of money left after paying off the bettors, and shall deposit and retain such amounts in a special account to be used for the purpose of supplementing purses for races written only for accredited thoroughbred horses. Amounts so deducted shall be used only at the track where such amount is deducted.

The amounts to be supplemented shall be agreed upon by the purse committee of the Association, and said purse committee shall be vested with complete custody and control. Any amount of money above the purse shall be considered supplemental money and shall be paid from the special account as directed by the Association's purse committee.

In relation to the purse supplements, the licensee conducting the race meeting shall withhold 2% of the total supplemental purse. The amounts so withheld from the supplemental purses shall be paid to the Association for use for operating and administrative expenses.

VIDEO DRAW POKER DEVICE PURSE SUPPLEMENT FUND

As enacted by Louisiana Revised Statute 33:4862.23(B), monies in the Video Draw Poker Device Purse Supplement Fund shall be annually appropriated to the Department of Economic Development, Louisiana State Racing Commission, and shall be allocated by the commission.

Two-thirds of the funds appropriated by the commission shall be allocated and provided to the licensed racing associations in the State which conduct live horse racing, on the basis of the proportion the number of thoroughbred race days each association conducted for the preceding year bears to the total number of thoroughbred race days conducted statewide for the preceding year and such funds shall be used solely to supplement purses in accordance with a schedule or formula established by the purse committee of the Association on Louisiana bred thoroughbred races scheduled for purses not to exceed fifteen thousand dollars.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS**

NOTE A

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

VIDEO DRAW POKER DEVICE PURSE SUPPLEMENT FUND (Continued)

Due to fact that the Association is not in receipt of these funds, but rather the licensed racing associations which conduct live horse racing, and because the Association does not disburse these funds, but rather provides direction to the licensed racing associations on which purses for Louisiana bred thoroughbred races will be supplemented, the financial activities do not reflect the receipts and disbursements of the licensed racing associations which conduct live horse racing.

BASIS OF ACCOUNTING

The Association's policy is to prepare its financial statements on a modified cash basis that includes recording of depreciation on long-lived assets. Under this basis, revenues are generally recognized when collected rather than when earned, and expenses are generally recognized when paid rather than when incurred. Consequently, accrued income, with the exception of accounts receivable, expenses, payables and deferred expenses, which may be material in amount, are not reflected in the accompanying financial statements.

Use of the modified cash basis also precludes the Association from including a statement of cash flows as a basic financial statement. It also precludes the Association from altering the presentation of its financial statements, which would include presenting changes in net assets rather than changes in fund balances, and including certain disclosures about its investments, both of which are prescribed by generally accepted accounting principles.

Thus, the accompanying financial statements are not intended to present the financial position and results of operations in conformity with generally accepted accounting principles. If an expenditure results in the acquisition of an asset having an estimated useful life which extends beyond the year of acquisition, the expenditure is capitalized and depreciated over the estimated useful life of the asset.

Management has decided not to adopt Statement of Financial Accounting Standards (SFAS 116), "Accounting for Contributions Received and Contributions Made" and Statement of Financial Accounting Standards (SFAS 117), "Financial Statements of Not-for-Profit Organizations". Management feels that it would be more beneficial to the reader of the financial statements not to adopt these Statements.

TOTAL COLUMNS - OVERVIEW

Total columns - overview are captioned memorandum only to indicate that they are presented to facilitate financial analysis only. Data in these columns do not present assets, liabilities and fund balance, revenues and expenses, and changes in fund balance - modified cash basis in conformity with generally accepted accounting principles.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS**

NOTE A

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ACCOUNTS RECEIVABLE

Beginning with the purchase of the Louisiana Horse publication in 1990, the Association began recording accounts receivable pertaining to the operation of the publication. Uncollectible accounts receivable are charged directly against earnings when they are determined to be uncollectible. Use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

Credit is extended to those who are members of the Association.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation is provided on the straight-line and accelerated methods over the estimated useful lives of the respective assets. Use of the accelerated method does not result in a material difference from the straight-line method required by generally accepted accounting principles. When property and equipment are sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included within the results of operations. Depreciation expense totaled \$24,441 for the year ended December 31, 1997.

DEPOSITS HELD FOR FUTURITY RACES

Funds received as nominations for thoroughbreds to run in races scheduled in future years are accumulated until the races are run, with the funds distributed to the horseman's bookkeeper for distribution to the winning thoroughbred owner(s). These funds are shown as liabilities of the Association. Any interest earned on these funds is considered as operating revenue of the Association.

CASH EQUIVALENTS

For reporting purposes, the Association considers all highly liquid debt instruments with a maturity of six months or less to be considered cash equivalents.

INCOME TAXES

The Association meets the requirements of Section 501(c)6 of the Internal Revenue Code and therefore is exempt from Federal and state income taxes.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ADVERTISING

The Association expenses the cost of advertising as incurred. Advertising and promotion totaled \$52,787 in 1997.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS**

NOTE B

DEFINED CONTRIBUTION PENSION PLAN

The Association has a defined contribution pension plan for all employees who have reached twenty-one years of age and have a minimum of one year of service. The annual contribution shall be equal to 25% of each eligible employees annual wages and shall be paid in January of the year following the year of eligibility.

The contributions paid in 1997 totaled \$26,733.

NOTE C

RELATED PARTY TRANSACTIONS

The Association is the sole shareholder of the Breeders' Sales Company of Louisiana, Inc. The purpose of this company is to organize and operate horse auctions in order for breeders to have a forum for selling their horses. It was formed by the Association's Board of Directors in order to keep the income of the two organizations separate. This investment is stated at cost, as opposed to the equity method which is required by generally accepted accounting principles. As of December 31, 1997, the market value of this investment cannot be readily determined. The Retained (Deficit) of this company equals \$18,794. Use of the equity method would require that the investment be carried at a basis of \$1,206, thus creating a difference of \$18,794, which is not considered material to the financial statements taken as a whole.

During 1997, the Association was paid \$-0- for the management of the Breeders' Sales Company of Louisiana, Inc. For their year ended December 31, 1997, the Breeders' Sales Company of Louisiana, Inc. had a net loss of \$1,241.

As of December 31, 1997, the Breeders' Sales Company of Louisiana, Inc. owes the Association \$42,037.

NOTE D

CONCENTRATION OF CREDIT RISK

The Association has three bank accounts whose balances exceed the insurance coverage provided by the Federal government. As of December 31, 1997, these balances exceed the insurance ceiling by \$96,805.



**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 Thoroughbred Breeders Association

We have audited the financial statements of **LOUISIANA THOROUGHbred BREEDERS ASSOCIATION** (a non-profit organization) as of and for the year ended December 31, 1997, and have issued our report thereon dated May 20, 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 **LOUISIANA THOROUGHbred BREEDERS ASSOCIATION'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 statements amounts. 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 the following instance of noncompliance that is required to be reported herein under *Government Auditing Standards*.

Condition: The **LOUISIANA THOROUGHbred BREEDERS ASSOCIATION** prepares its financial statements on the modified cash basis that includes recording of depreciation on long-lived assets. Under this basis, revenues are generally recognized when collected rather than when earned, and expenses are generally recognized when paid rather than when incurred. Consequently, accrued income, with the exception of accounts receivable, accrued expenses and deferred expenses, which may be material in amount, are not reflected in the financial statements. Use of the modified cash basis also precludes the Association from including a statement of cash flows as a basic financial statement. Thus the financial statements are not intended to present the financial position and results of operations in conformity with generally accepted accounting principles. LA Rev. Stat. 24:514 requires that the financial statements be prepared in accordance with generally accepted accounting principles.

Criteria: Under the above mentioned statute, the financial statements of **LOUISIANA THOROUGHbred BREEDERS ASSOCIATION** should have been prepared according to generally accepted accounting principles; however, the nature of the Association's operations preclude them from following generally accepted accounting principles. Outside of the activity associated with the Louisiana Champions Day, the Association is not able to measure at year end its accrued revenue that is first collected by the Louisiana State Racing Commission, the racing associations, and the off-track betting facilities. As a result of not being able to determine its revenue, the Association therefore is unable to determine its liability for payment of breeders awards.

Effect: This is not expected to have an effect on the financial statements. The facts attributable to the Association not preparing its financial statements in accordance with generally accepted accounting principles was communicated to the legislative auditor in a letter dated October 1, 1998. Said letter acknowledged the understanding by the legislative auditor of the difficulty in following generally accepted accounting principles as opposed to an Other Comprehensive Basis of Accounting.

Internal Control Over Financial Reporting

In planning and performing our audit we considered **LOUISIANA THOROUGHbred BREEDERS ASSOCIATION'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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors and the Legislative Auditor of the State of Louisiana. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



A Professional Accounting Corporation

May 20, 1998