

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Louisiana Thoroughbred Breeders Association
New Orleans, Louisiana

June 24, 1999



Financial and Compliance Audit Division

***Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor***

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LEGISLATIVE AUDITOR

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LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
New Orleans, Louisiana

Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended December 31, 1998

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor and at the office of the parish clerk of court.

June 24, 1999

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
New Orleans, Louisiana

Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended December 31, 1998

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June 17, 1999

Independent Auditor's Report
on the Financial Statements

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
New Orleans, Louisiana

We have audited the accompanying statement of assets, liabilities, and fund balance - modified cash basis of the Louisiana Thoroughbred Breeders Association (a nonprofit organization) as of December 31, 1998, and the related statements of revenues and expenses 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 discussed in note 1-A, the association's policy is to prepare its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

As discussed in note 1-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 \$27,155.

In our opinion, except for the effects of recording accounts receivable of the *Louisiana Horse Magazine* as discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities, and fund balances of the Louisiana Thoroughbred Breeders Association as of December 31, 1998, and its related revenues, expenses, and changes in fund balance for the year then ended, on the basis of accounting as described in note 1-A.

LEGISLATIVE AUDITOR

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION

New Orleans, Louisiana

Audit Report, December 31, 1998

In accordance with *Government Auditing Standards*, we have also issued a report dated June 17, 1999, on our consideration of the Louisiana Thoroughbred Breeders Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle". The signature is written in a cursive style with a large initial "D".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

ES:THC:RCL:dl

[LTBA]

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
New Orleans, Louisiana

**Statement of Assets, Liabilities, and
Fund Balance - Modified Cash Basis
As of December 31, 1998**

	OPERATING FUND	LOUISIANA HORSE FUND	LOUISIANA CHAMPIONS DAY FUND
ASSETS			
Current assets:			
Cash and cash equivalents (note 6)	\$1,161,941	\$64,169	\$19,231
Accounts receivable (note 1-A)		27,155	
Total current assets	<u>1,161,941</u>	<u>91,324</u>	<u>19,231</u>
Property and equipment:			
Furniture and equipment	81,234	41,763	
Buildings	83,341		
Automobiles	18,227		
Total property and equipment	<u>182,802</u>	<u>41,763</u>	NONE
Less - accumulated depreciation	<u>(114,481)</u>	<u>(33,680)</u>	
Property and equipment - net	<u>68,321</u>	<u>8,083</u>	NONE
Non-current assets:			
Cash and cash equivalents held for futurity races (note 6)	25,680		
Due from Breeders' Sales Company	42,037		
Investments - Breeders' Sales Company (note 11)	20,000		
Cash surrender value - Key Man Life Insurance	45,897		
Due from other funds	6,400		
Due from IRS/pension plan	202		
Deposits	875		
Total non-current assets	<u>141,091</u>	NONE	NONE
TOTAL ASSETS	<u><u>\$1,371,353</u></u>	<u><u>\$99,407</u></u>	<u><u>\$19,231</u></u>
LIABILITIES AND FUND BALANCE (Deficit)			
Current liabilities:			
Deposits - futurity races (note 5)	\$39,330		
Accrued payroll taxes and other liabilities	142		
Total current liabilities	<u>39,472</u>	NONE	NONE
Non-current liabilities:			
Deposits - futurity races (note 5)	25,680		
Due to other funds	165,520		
Total non-current liabilities	<u>191,200</u>	NONE	NONE
Total Liabilities	<u>230,672</u>	NONE	NONE
Fund balance (deficit)	<u>1,140,681</u>	<u>\$99,407</u>	<u>\$19,231</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$1,371,353</u></u>	<u><u>\$99,407</u></u>	<u><u>\$19,231</u></u>

The accompanying notes are an integral part of this statement.

Statement A

SALAM RACES FUND	OTHER RACES FUND	POLITICAL ACTION COUNCIL FUND	TOTAL (MEMORANDUM ONLY)
\$34,373	\$1,276,208	\$244	\$2,556,166
			27,155
<u>34,373</u>	<u>1,276,208</u>	<u>244</u>	<u>2,583,321</u>
			122,997
			83,341
			18,227
<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>224,565</u>
			(148,161)
<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>76,404</u>
			25,680
			42,037
			20,000
			45,897
	165,520		171,920
			202
			875
<u>NONE</u>	<u>165,520</u>	<u>NONE</u>	<u>306,611</u>
<u>\$34,373</u>	<u>\$1,441,728</u>	<u>\$244</u>	<u>\$2,966,336</u>
			\$39,330
			142
<u>NONE</u>	<u>NONE</u>	<u>NONE</u>	<u>39,472</u>
			25,680
		\$6,400	171,920
<u>NONE</u>	<u>NONE</u>	<u>6,400</u>	<u>197,600</u>
<u>NONE</u>	<u>NONE</u>	<u>6,400</u>	<u>237,072</u>
<u>\$34,373</u>	<u>\$1,441,728</u>	<u>(6,156)</u>	<u>2,729,264</u>
<u>\$34,373</u>	<u>\$1,441,728</u>	<u>\$244</u>	<u>\$2,966,336</u>

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
New Orleans, Louisiana

**Statement of Revenues, Expenses,
and Changes in Fund Balance -
Modified Cash Basis
For the Year Ended December 31, 1998**

	<u>OPERATING FUND</u>	<u>LOUISIANA HORSE FUND</u>	<u>LOUISIANA CHAMPIONS DAY FUND</u>
REVENUES			
Breeders' awards			
Fees - 14%	\$407,753		
Commissions - 2%	195,360		
SALAM awards - 8% & 15.1%			
Awards - triple crown races			\$257,406
Publications		\$106,878	
Interest	55,530		5,108
Sponsorship			14,000
Nominations			45,400
Accrediting fees	25,720		
Silent auction			5,030
Members' dues	28,035		
Stallion fees			9,250
Ticket sales			4,335
Miscellaneous	440		400
Total revenues	<u>712,838</u>	<u>106,878</u>	<u>340,929</u>
EXPENSES			
Breeders' awards	100,970		
Purse supplements	32,750		434,338
Legal	174,075		
Salaries	133,189	30,286	
Publication expenses		53,596	
Advertising and promotion	15,428	140	12,268
Insurance	40,355		
Stallion awards	68,240		
Employer pension contribution	37,888		
Triple Crown Race Funds - LQHBA			76,455
Casual labor	57,617	988	
General accounting	16,122		
Audit	16,900		
Meetings and banquets	21,336		21,266
Rent	9,000		
Depreciation	18,981	6,405	
Computer fees	19,072	497	

(Continued)

The accompanying notes are an integral part of this statement.

Statement B

SALAM RACES FUND	OTHER RACES FUND	POLITICAL ACTION COUNCIL FUND	TOTAL (MEMORANDUM ONLY)
	\$1,569,853		\$1,569,853
			407,753
			195,360
\$145,027			145,027
			257,406
			106,878
464	70,521		131,623
			14,000
			45,400
			25,720
			5,030
		\$305	28,340
			9,250
			4,335
			840
<u>145,491</u>	<u>1,640,374</u>	<u>305</u>	<u>2,946,815</u>
295,715	1,050,988		1,447,673
	120,000		587,088
			174,075
			163,475
			53,596
			27,836
			40,355
			68,240
			37,888
			76,455
			58,605
			16,122
			16,900
			42,602
			9,000
			25,386
			19,569

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
New Orleans, Louisiana
Statement of Revenues, Expenses,
and Changes in Fund Balance -
Modified Cash Basis, 1998

	<u>OPERATING FUND</u>	<u>LOUISIANA HORSE FUND</u>	<u>LOUISIANA CHAMPIONS DAY FUND</u>
EXPENSES (CONT.)			
Repairs and maintenance	\$5,062	\$150	
Postage and shipping	9,402	3,280	
Telephone expense	13,025	1,225	\$44
Payroll taxes	10,509	2,518	
Travel	12,567	453	
Dues and subscriptions	2,028	125	
Office supplies	12,930	604	78
Printing	11,971	1,984	1,702
Trophies	7,503		283
Contributions	6,385		
Equipment rental	5,532		
Expense reimbursement	2,235		
Other	299	179	161
Pedigree research	847		
Total expenses	<u>862,218</u>	<u>102,430</u>	<u>546,595</u>
EXCESS (Deficit) OF REVENUES OVER EXPENSES	<u>(149,380)</u>	<u>4,448</u>	<u>(205,666)</u>
TRANSFERS IN	114,185	9,298	220,130
TRANSFERS OUT	(194,428)		
Total transfers	<u>(80,243)</u>	<u>9,298</u>	<u>220,130</u>
EXCESS (Deficit) OF REVENUES AND TRANSFERS OVER EXPENSES AND TRANSFERS OUT	<u>(229,623)</u>	<u>13,746</u>	<u>14,464</u>
BALANCE AT BEGINNING OF YEAR	<u>1,370,304</u>	<u>85,661</u>	<u>4,767</u>
BALANCE AT END OF YEAR	<u><u>\$1,140,681</u></u>	<u><u>\$99,407</u></u>	<u><u>\$19,231</u></u>

(Concluded)

The accompanying notes are an integral part of this statement.

Statement B

<u>SALAM RACES FUND</u>	<u>OTHER RACES FUND</u>	<u>POLITICAL ACTION COUNCIL FUND</u>	<u>TOTAL (MEMORANDUM ONLY)</u>
			\$5,212
			12,682
			14,294
			13,027
			13,020
			2,153
			13,612
			15,657
			7,786
		\$4,225	10,610
			5,532
			2,235
\$138		122	899
			847
<u>295,853</u>	<u>\$1,170,988</u>	<u>4,347</u>	<u>2,982,431</u>
<u>(150,362)</u>	<u>469,386</u>	<u>(4,042)</u>	<u>(35,616)</u>
165,000			508,613
	(314,180)	(5)	(508,613)
<u>165,000</u>	<u>(314,180)</u>	<u>(5)</u>	<u>NONE</u>
14,638	155,206	(4,047)	(35,616)
<u>19,735</u>	<u>1,286,522</u>	<u>(2,109)</u>	<u>2,764,880</u>
<u>\$34,373</u>	<u>\$1,441,728</u>	<u>(\$6,156)</u>	<u>\$2,729,264</u>

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
New Orleans, Louisiana

Notes to the Financial Statements
As of and for the Year Ended December 31, 1998

INTRODUCTION

The Louisiana Thoroughbred Breeders Association is a Louisiana nonprofit organization, which seeks to promote and further the thoroughbred breeding industry within the state of Louisiana. The association is engaged in programs for the encouragement and improvement of the raising and breeding of Louisiana owned thoroughbred horses including, but not limited to, the payment of breeders' awards to breeders of accredited Louisiana bred horses and supplementing purses for races written for accredited Louisiana bred horses. The association also publishes quarterly the *Louisiana Horse Magazine*, the official publication of the association. In addition, the Louisiana Thoroughbred Breeders Association is recognized as the sole official registrar of accredited thoroughbred foals in Louisiana, as provided by Louisiana Revised Statute (R.S.) 4:178.

The association's principal office is located at the Fair Grounds Racetrack in New Orleans. The Board of Directors can also maintain branch offices, and currently there are branch offices in Lafayette and Shreveport, at Evangeline Downs and Louisiana Downs, respectively. The association has approximately 800 members and is under the management and supervision of its Board of Directors. The Board of Directors is composed of 14 members elected by the association's membership. The secretary-treasurer is a full-time employee of the association and serves as the executive director of the association, subject to the direction and instruction of the Board of Directors, and manages the daily operations of the association. The association has five full-time and two part-time employees.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

The association's policy is to prepare its financial statements on a modified cash basis of accounting 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 (except for accounts receivable), accrued expenses, payables and deferred expenses, which may be material in amount, are not reflected in the accompanying financial statements.

Interfund transfers are used to provide available funds to satisfy various fund purposes and are recognized when the transfer is made or when an interfund liability is incurred. Accordingly, the association records interfund transactions due to and from the individual funds at December 31, 1998.

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
New Orleans, Louisiana
Notes to the Financial Statements (Continued)

If an expense results in the acquisition of an asset having an estimated useful life that extends beyond the year of acquisition, the expense is capitalized and the asset is depreciated over its estimated useful life. In addition, the association records its investment in the Breeders' Sales Company at cost. Thus, the accompanying financial statements are not intended to present the financial position and results of operations in conformity with generally accepted accounting principles.

B. BASIS OF PRESENTATION

Statement of Financial Accounting Standards (SFAS) No. 117 establishes standards for external financial statements provided by a nonprofit organization. SFAS No. 117 requires a statement of financial position identifying three classes of net assets (unrestricted, temporarily restricted, and permanently restricted), a statement of activities showing changes in the three classes of net assets by functional classifications, and a statement of cash flows. Management of the association believes that it would be more beneficial to the users of the association's financial statements to report on a modified cash basis of accounting, which is a basis of accounting not in accordance with generally accepted accounting principles, and has, therefore, not implemented SFAS No. 117. Instead, the substance of the requirements of SFAS No. 117 has been disclosed in notes 7 and 8. Also, use of the modified cash basis precludes the association from including a statement of cash flows as required by SFAS No. 117.

C. 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. Neither is such data comparable to a consolidation.

2. FUND ACCOUNTING

To observe the limitations and restrictions placed on the use of available resources, the accounts of the association are maintained in accordance with the principles of fund accounting. Accounts are maintained for each fund for accounting and reporting purposes in accordance with the specified activities or objectives. A brief description of each fund follows:

Operating Fund

The Operating Fund is used for operating purposes on which there are no restrictions, except the budgetary control provisions provided by the budget adopted by the Board of Directors. The revenues of the Operating Fund include:

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
New Orleans, Louisiana
Notes to the Financial Statements (Continued)

Fees 14%

To assist the association in its promotion of the industry, R.S. 4:218 provides that the association receive 14% of the 1.5% license fee collected by the Louisiana State Racing Commission from off-track wagering facilities. The association has 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.

Commissions 2%

As provided by R.S. 4:165(C), each licensee conducting race meetings shall withhold 2% of the total supplemental purse to be paid to the Louisiana Thoroughbred Breeders Association. The amounts withheld from the supplemental purses shall be paid to the association for operating and administrative expenses.

Other Operating Fund Revenues

The association records interest earned on investments, membership dues, accrediting fees, and miscellaneous revenues when received.

Louisiana Horse Fund

The *Louisiana Horse Fund* accounts for the activities of the *Louisiana Horse Magazine*, the official publication of the association.

Louisiana Champions Day Fund

R.S. 4:202 authorizes the association 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. As provided by the legislation, both thoroughbred and quarter horse races are included on the same racing program. The racing program on Louisiana Champions Day consists of seven races for thoroughbreds and three races for quarter horses.

Louisiana Champions Day purses are determined by the association after consultation with the Louisiana Quarter Horse Breeders Association. Louisiana Champions Day races are funded through purses offered by participating racing associations, the appropriate breeders association, corporate contributions, funds from the Triple Crown races, and up to \$200,000 from the 9.1% funds from off-track wagering [R.S. 4:217(B)(2)(a)].

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
New Orleans, Louisiana
Notes to the Financial Statements (Continued)

Awards-Triple Crown Races revenue represents all fees from pari-mutuel wagering on races held on the same day as the running of the Kentucky Derby, the Preakness, and the Belmont Stakes races. These funds are paid to the association as provided by R.S. 4:203 and are required to be placed in an interest-bearing account known as the "Louisiana Champions Day Account." During the year ended December 31, 1998, the association received \$257,406 of Triple Crown Race Funds. These receipts were used, in full, to supplement Louisiana Champions Day purses for thoroughbred races.

SALAM Races Fund

As provided by R.S. 4:184, each racing association conducts 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 specifies the type, age, distance and purse of each SALAM race.

Of the commissions earned by the racing association hosting each SALAM race, R.S. 4:184(B)(1) provides that the association receives 8%. In addition, the association receives 15.1% of the commission on wagers made at off-track wagering facilities on each SALAM race.

The association is obligated to use these funds for payment of breeders' awards in accordance with a distribution formula established by the executive committee of the association. Accordingly, the association pays an award equal to 15% of the earned purse to the breeders of an accredited Louisiana bred finishing first, second, or third in the SALAM races.

Other Races Fund

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. R.S. 4:217(B)(2)(a) provides that 9.1% of the commissions collected by the off-track betting facilities throughout the state that are designated for purse supplements (except for SALAM and Triple Crown races) be remitted to the association. 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.

As provided by R.S. 4:177, 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. Funds received as provided by R.S. 4:217(B)(2)(a) and R.S. 4:177 are classified as Breeders' Awards Revenue of the Other Races Fund.

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION

New Orleans, Louisiana

Notes to the Financial Statements (Continued)

The maximum award paid by the association on an Open Race - Non-Graded Stakes is based on a purse of \$100,000, and the maximum award paid by the association on an Open Race - Graded Stakes is based on a purse of \$150,000.

Over and above the purse supplements mentioned above, R.S. 4:217(B)(2)(e) provides that the association can use up to \$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 Council Fund

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 of the association are asked to contribute \$20 per year for the support of this committee.

3. 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.

4. PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. 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 \$25,386 for the year ended December 31, 1998.

5. DEPOSITS HELD FOR FUTURITY RACES

As shown on Statement A, deposits held for futurity races were \$39,330 in current liabilities and \$25,680 in non-current liabilities. 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). Any interest earned on these funds is considered as operating revenue of the association.

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION

New Orleans, Louisiana

Notes to the Financial Statements (Continued)

6. CASH AND 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. Cash and cash equivalents include amounts available for current use (\$2,556,166) and are reported as current assets. The association also has cash and cash equivalents (\$25,680) held for futurity races that will occur in years after 1999 (years 2000 and 2001) that are reported as non-current assets.

7. CLASSIFICATIONS OF NET ASSETS

Unrestricted Net Assets

Unrestricted net assets do not have any donor-imposed restrictions on their use and include the activities of the Operating and Louisiana Horse funds. For the year ended December 31, 1998, the changes in unrestricted net assets of the association (reported as fund balance on Statements A and B) are as follows:

	<u>Operating Fund</u>	<u>Louisiana Horse Fund</u>	<u>Unrestricted Funds Total</u>
Revenues	\$712,838	\$106,878	\$819,716
Expenses	<u>(862,218)</u>	<u>(102,430)</u>	<u>(964,648)</u>
Excess (deficit) revenues over expenses	(149,380)	4,448	(144,932)
Transfers to unrestricted fund	(9,298)	9,298	NONE
Transfers to support temporarily restricted funds	<u>(70,945)</u>	NONE	<u>(70,945)</u>
Increase (decrease) in Net Assets	(229,623)	13,746	(215,877)
Unrestricted Net Assets - December 31, 1997	<u>1,370,304</u>	<u>85,661</u>	<u>1,455,965</u>
Unrestricted Net Assets - December 31, 1998	<u><u>\$1,140,681</u></u>	<u><u>\$99,407</u></u>	<u><u>\$1,240,088</u></u>

Temporarily Restricted Net Assets

Temporarily restricted net assets include amounts that can only be used for certain types of expenses. Net assets of the Louisiana Champions Day Fund, SALAM Races Fund, Other Races Fund, and the Political Action Council Fund are temporarily restricted until they are used for allowable types of expenses as shown on Statement B. For the year ended December 31, 1998, the changes in the association's temporarily restricted net assets (reported as fund balance on Statements A and B) are as follows:

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION

New Orleans, Louisiana

Notes to the Financial Statements (Continued)

	Louisiana Champions Day Fund	SALAM Races Fund	Other Races Fund	Political Action Council Fund	Temporarily Restricted Funds Total
Revenues	\$340,929	\$145,491	\$1,640,374	\$305	\$2,127,099
Net Assets Released from Restrictions:					
Expenses	546,596	295,853	1,170,987	4,347	2,017,783
Less (add) transfers from (to) Unrestricted Fund	220,131	165,000	(314,181)	(5)	70,945
Net Assets Satisfying Purpose of Restrictions	326,465	130,853	1,485,168	4,352	1,946,838
Increase (decrease) in Net Assets	14,464	14,638	155,206	(4,047)	180,261
Net Assets - Temporarily Restricted December 31, 1997	4,767	19,735	1,286,522	(2,109)	1,308,915
Net Assets - Temporarily Restricted December 31, 1998	\$19,231	\$34,373	\$1,441,728	(\$6,156)	\$1,489,176

Permanently Restricted Net Assets

Permanently restricted net assets include those assets donated with stipulations that they be used for a specified purpose, preserved, and not sold, or assets donated with stipulations that they be invested to provide a permanent source of income. At December 31, 1998, the association has no permanently restricted net assets.

8. FUNCTIONAL CLASSIFICATIONS OF EXPENSES

The association reports expenses in its Statement of Revenues and Expenses - Modified Cash Basis in the natural expense categories. Financial Accounting Standards Board Statement (SFAS) No. 117 requires disclosure of expenses between the functional classifications of program and support. Program services, totaling \$2,215,258, include payments of breeders' awards, stallion awards, purse supplements, and the Louisiana Champions Day and account for approximately 74% of the association's expenditures. Approximately 26% of expenses are for supporting activities, totaling \$767,173, and include membership development and management and general expenditures.

9. 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.

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION

New Orleans, Louisiana

Notes to the Financial Statements (Continued)

10. 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 employer contribution is equal to 25% of each eligible employee's annual wages and is paid in January of the year following the year of eligibility. The employee does not contribute to the plan. The association paid employer contributions under this plan totaling \$37,888 in the year ended December 31, 1998.

11. RELATED PARTY TRANSACTIONS

Breeders' Sales Company of Louisiana, Inc.

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 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, 1998, the market value of this investment cannot be readily determined. The retained deficit of this company equals \$18,068. Use of the equity method would require that the investment be carried at a basis of \$1,932, thus creating a difference of \$18,068, which is not reflected in the accompanying financial statements.

As in past years, the association did not charge and was not paid for the management of the Breeders' Sales Company of Louisiana, Inc., during 1998. For the year ended December 31, 1998, the Breeders' Sales Company of Louisiana, Inc., had a net profit of \$726.

As of December 31, 1998, the Breeders' Sales Company of Louisiana, Inc., owes the association \$42,037.

Other Related Party Transactions

During the year ended June 30, 1998, members of the Board of Directors had related party transactions with the association as follows:

The president and general manager of the Fair Grounds Corporation, Mr. Bryan Krantz, is a board member. The Fair Grounds Corporation receives \$750 a month in rent from the association.

Two board members, Mr. B. B. Rayburn and Mr. Harry Benoit, are lobbyists for the association, receiving \$17,500 each for the year.

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
New Orleans, Louisiana
Notes to the Financial Statements (Concluded)

Mr. Harry Benoit, board member and insurance agent, received \$2,948 and \$892, respectively, in commissions from the association's group health and key man life insurance policies.

A board member, Mr. Doyle Wardrop, received salary plus commissions totaling \$10,684 for sales of advertisements of the *Louisiana Horse Publication*.

12. CONCENTRATION OF CREDIT RISK

The association has three bank accounts whose balances exceed the insurance coverage provided by the Federal Deposit Insurance Corporation. As of December 31, 1998, these balances exceed the insurance ceiling by \$29,373.

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

The following pages contain a report on compliance with certain provisions of laws and regulations and on internal controls as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
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June 17, 1999

Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of the Financial Statements
Performed in Accordance With Government Auditing Standards

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
New Orleans, Louisiana

We have audited the financial statements of the Louisiana Thoroughbred Breeders Association (a nonprofit organization) as of and for the year ended December 31, 1998, and have issued our report thereon dated June 17, 1999. 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 Louisiana Thoroughbred Breeders Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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 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 under *Government Auditing Standards*.

**Improper Use of Funds From
Off-Track Betting Facilities**

The Louisiana Thoroughbred Breeders Association did not use all funds received from Off-Track Betting (OTB) facilities for the purposes required by state law. Louisiana Revised Statute (R.S.) 4:217(B)(2)(a) requires 9.1% of those funds collected by OTB facilities which are designated for purse supplements to be distributed to the association to supplement purses for allowance, handicap, and stakes races for accredited Louisiana bred horses and to pay breeders' awards to breeders of accredited Louisiana bred horses finishing first, second, or third in open races at any track in Louisiana. For calendar year 1998, the association transferred 10% of these monies (approximately \$112,000) to its Operating Fund to be used for administrative expenses.

LEGISLATIVE AUDITOR

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION

New Orleans, Louisiana

Compliance and Internal Control Report

June 17, 1999

Page 2

At the inception of this source of funding (1987), the bylaws of the association stated that 10% of the amount of breeders' awards would be deducted as payment for services rendered in collecting and disbursing the breeders' awards. Although the association was following the provisions of its former bylaws, no provision for a 10% deduction for administrative expenses exists in Louisiana law. Accordingly, the association has not complied with Louisiana law, which provides for the specific use of these funds.

The Louisiana Thoroughbred Breeders Association should use funds received from OTB facilities only for the purposes required by state law. Management of the association concurred with the finding and outlined a plan of corrective action (see Appendix A).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 and use of the association's management and Board of Directors and is not intended to be and should not be used by anyone other than these specified parties. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

ES:THC:RCL:dl

[LTBA]

EXHIBIT A

Appendix A

Management's Corrective Action Plan and Response to the Finding and Recommendation

Louisiana Thoroughbred Breeders Association

RECEIVED
P.O. Box 24650 — New Orleans, Louisiana 70184
1-800-772-1195 ❖ 504-947-4676
Fax: 504-943-2149 99 JUN -7 AM 10:25

OFFICERS

B.B. Rayburn, President
Harry Benoit, 1st Vice President
Neal McFadden, 2nd Vice President

TRACKS

Delta Downs, Inc.
Evangeline Downs, Inc.
Fair Grounds Corporation
Louisiana Downs, Inc.

May 31, 1999

Dr. Daniel G. Kyle, CPA, CFB, Legislative Auditor
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

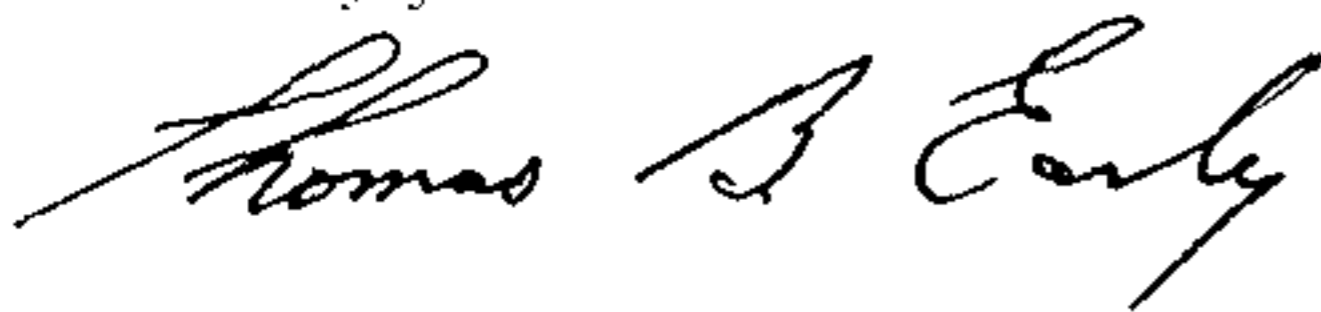
Re: Improper Use of Funds — LRS 4:217(B)(2)(a)

Dear Dr. Kyle:

The Louisiana Thoroughbred Breeders Association agrees that LRS 4:217(B)(2)(a) does not address the administrative expenses but it is our contention that the deduction of 10% of the money received by the association as administrative expenses is a reasonable amount for services provided in the administration of the breeders awards and purse supplements paid. This is the procedure that was established at the inception of these funds by the Board of Directors of the Association, in accordance with our by-laws at the time and after consultation with our accountant and legal counsel. In order to clarify this situation, the association intends to introduce legislation in the next legislative session that will address this issue. We will cease to deduct these monies from this fund until this matter is resolved through legislative procedures.

If you have any questions concerning the above, please contact me.

Sincerely yours,



Thomas B. Early
Secretary-Treasurer

BOARD OF DIRECTORS

Jay Adcock — Dr. Jerry Adkins — Royal Kraft — John Luck — Val Murrell — Donald L. Peltier, Jr.
Nancy C. Rumore — Carrol Sonnier — Donald C. Stemmans — L.P. Thibodaux — Doyle Wardrop
Thomas B. Early, Secretary - Treasurer