

**LOUISIANA THOROUGHBRED BREEDERS
ASSOCIATION**

December 31, 2003

Audits of Financial Statements

**December 31, 2003
and
December 31, 2002**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the 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.

Date 9.1.04

CONTENTS

Independent Auditor's Report	1 - 2
Statement of Assets, Liabilities and Net Assets - Modified Cash Basis	3
Statement of Revenues and Expenses - Modified Cash Basis	4
Statement of Changes in Net Assets - Modified Cash Basis	5
Notes to Financial Statements	6 - 13
Schedule I - Statements of Revenues and Expenses - Operating	14
Schedule II - Statements of Revenues and Expenses - Louisiana Horse	15
Schedule III - Statements of Revenues and Expenses - Louisiana Champions Day	16
Schedule IV - Statements of Revenues and Expenses - SALAM	17
Schedule V - Statements of Revenues and Expenses - Other Races	18
Schedule VI - Statements of Revenues and Expenses - Slot Machine	19
Schedule VII - Comparison of Budget to Actual - Operating	20
Schedule VIII - Comparison of Budget to Actual - Louisiana Horse	21
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>	22 - 23



Board of Directors
Louisiana Thoroughbred Breeders Association

Independent Auditor's Report

We have audited the statement of assets, liabilities and net assets - modified cash basis of **LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION** (a non-profit organization) as of December 31, 2003, and the related statements of revenues and expenses - modified cash basis, and changes in net assets - 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 these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

As discussed in Note C, the Association has accrued certain revenues related to the publication of *Louisiana Horse Magazine*. If the revenues were not accrued, accounts receivable of \$29,787 would not be recorded and net assets would be increased by \$6,002 as of December 31, 2003. Excess revenues over expenses would be increased by \$6,002 for the year ended December 31, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2004, on our consideration of **LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

110 VETERANS MEMORIAL BOULEVARD, SUITE 200, MEMPHIS, LA 70005-4958 • 504.835.5522 • FAX 504.835.5535
5100 VILLAGE WALK, SUITE 202, COVINGTON, LA 70435-4012 • 985.892.5850 • FAX 985.892.5956
WWW.LAPORTE.COM

RSM McGladrey Network
A Division of RSM

In our opinion, except for the effects of accruing certain revenues, as discussed in a preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and net assets of **LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION** as of December 31, 2003, and its related revenues and expenses and changes in net assets for the year then ended on the basis of accounting described in Note A.

Our audit was made for the purposes of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 14 - 21 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects of recording accounts receivable, as discussed above, is fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note A.



A Professional Accounting Corporation

May 7, 2004

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
December 31, 2003

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2002

ASSETS	Operating	Louisiana Horse	Louisiana Champions Day	SALAM Races	Other Races	Slot Machine	Political Action Council	Totals	
								2003	2002
CURRENT ASSETS									
Cash	\$ 556,319	\$ 74,474	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 630,793	\$ 545,392
Restricted Cash	43,760	-	16,859	8,319	1,851,863	1,937,492	-	3,858,293	4,142,770
Trade Receivable	-	29,787	-	-	-	-	-	29,787	35,789
Due from IRS/Pension Plan	491	-	-	-	-	-	-	491	327
Total Current Assets	600,570	104,261	16,859	8,319	1,851,863	1,937,492	-	4,519,364	4,724,278
PROPERTY AND EQUIPMENT									
Furniture and Equipment	116,340	51,969	-	-	-	-	-	168,309	158,997
Buildings	111,820	-	-	-	-	-	-	111,820	83,340
Automobile	20,161	-	-	-	-	-	-	20,161	20,161
	248,321	51,969	-	-	-	-	-	300,290	262,498
Less: Accumulated Depreciation	(138,644)	(50,949)	-	-	-	-	-	(189,593)	(201,770)
Property and Equipment - Net	109,677	1,020	-	-	-	-	-	110,697	60,728
OTHER ASSETS									
Due from Breeders Sales Company	70,000	-	-	-	-	-	-	70,000	70,000
Cash Surrender Value - Key Man Life	134,866	-	-	-	-	-	-	134,866	113,944
Restricted Cash	30,580	-	-	-	-	-	-	30,580	29,430
Investment - Breeders Sales Company	20,000	-	-	-	-	-	-	20,000	20,000
Due from Other Funds	6,400	-	-	-	-	-	-	6,400	6,400
Deposits	875	-	-	-	-	-	-	875	875
Total Other Assets	262,721	-	-	-	-	-	-	262,721	240,649
	\$ 972,968	\$ 105,281	\$ 16,859	\$ 8,319	\$ 1,851,863	\$ 1,937,492	\$ -	\$ 4,892,782	\$ 5,025,655

LIABILITIES AND NET ASSETS	Operating	Louisiana Horse	Louisiana Champions Day	SALAM Races	Other Races	Slot Machine	Political Action Council	Totals	
								2003	2002
CURRENT LIABILITIES									
Deposits - Futurity Races	\$ 43,760	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,760	\$ 43,280
Total Current Liabilities	43,760	-	-	-	-	-	-	43,760	43,280
LONG-TERM LIABILITIES									
Deposits - Futurity Races	30,580	-	-	-	-	-	-	30,580	29,430
Due to Other Funds	-	-	-	-	-	-	6,400	6,400	6,400
Total Long-Term Liabilities	30,580	-	-	-	-	-	6,400	36,980	35,830
Total Liabilities	74,340	-	-	-	-	-	6,400	80,740	79,110
NET ASSETS	898,628	105,281	16,859	8,319	1,851,863	1,937,492	(6,400)	4,812,042	4,946,545
	\$ 972,968	\$ 105,281	\$ 16,859	\$ 8,319	\$ 1,851,863	\$ 1,937,492	\$ -	\$ 4,892,782	\$ 5,025,655

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, 2003

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2002

	Operating	Louisiana Horse	Louisiana Champions Day	SALAM Races	Other Races	Slot Machine	Political Action Council	Totals	
								2003	2002
REVENUES									
Slot Machine Proceeds - 2%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,218,879	\$ -	\$ 3,218,879	\$ 2,103,118
Awards - 9.1%	-	-	200,000	-	832,047	-	-	1,032,047	1,624,049
Commissions - 2%	362,348	-	-	-	-	-	-	362,348	248,570
Fees - 14%	347,137	-	-	-	-	-	-	347,137	380,381
Awards - Triple Crown Races	-	-	246,209	-	-	-	-	246,209	273,365
Publications	-	137,341	-	-	-	-	-	137,341	109,530
SALAM Awards - 8% and 15.1%	-	-	-	117,712	-	-	-	117,712	123,186
Nominations	-	-	44,100	-	-	-	-	44,100	41,450
Members' Dues	44,070	-	-	-	-	-	-	44,070	28,360
Interest	6,807	77	20	96	21,782	6,497	-	35,279	55,905
Accrediting Fees	33,550	-	-	-	-	-	-	33,550	39,960
OTB Interest Transfer	24,477	-	-	-	-	-	-	24,477	37,503
Sponsorship	-	-	15,455	-	-	-	-	15,455	17,000
Silent Auction	-	-	12,485	-	-	-	-	12,485	15,160
Stallion Fees	-	-	8,520	-	-	-	-	8,520	13,870
Ticket Sales	-	-	7,955	-	-	-	-	7,955	6,560
Miscellaneous	570	-	-	-	-	-	-	570	200
Management Fee Income	-	-	-	-	-	-	-	-	40,000
LQHBA Expense Sharing	-	-	-	-	-	-	-	-	3,500
Loss on Disposal of Asset	(3,035)	-	-	-	-	-	-	(3,035)	(11,459)
Total Revenues	815,924	137,418	534,744	117,808	853,829	3,225,376	-	5,685,099	5,150,208

EXPENSES	Operating	Louisiana Horse	Louisiana Champions Day	SALAM Races	Other Races	Slot Machine	Political Action Council	Totals	
								2003	2002
Breeder's Awards	\$ 16,518	\$ -	\$ 417,566	\$ 837,576	\$ 1,049,317	\$ 1,349,232	\$ -	\$ 3,670,209	\$ 2,180,786
Purse Supplements	500	-	-	-	727,235	-	-	727,735	554,497
Stallion Awards	-	-	-	-	-	500,000	-	500,000	383,231
Salaries - Regular	201,481	25,598	-	-	-	-	-	227,079	187,147
Triple Crown Race Funds - HBPA/LQHBA	-	-	73,863	-	-	-	-	73,863	105,383
Insurance	66,356	-	-	-	-	-	-	66,356	50,352
Publication Expense	-	63,655	-	-	-	-	-	63,655	62,980
Profit Sharing Expense	51,193	-	-	-	-	-	-	51,193	47,488
Advertising and Promotion	44,648	-	4,049	-	-	-	-	48,697	32,234
Meetings and Banquets	23,315	-	21,375	-	-	-	-	44,690	42,267
Office Supplies	27,773	2,060	22	-	-	-	-	29,855	20,612
General Accounting	26,358	-	-	-	-	-	-	26,358	22,419
Interest Transfers	-	-	-	-	24,477	-	-	24,477	37,503
Outsourced Accounting	24,262	-	-	-	-	-	-	24,262	34,901
Telephone Expense	22,775	225	-	-	-	-	-	23,000	22,451
Computer Fees - Website/Internet	21,579	120	-	-	-	-	-	21,699	10,009
Salaries - Bonus	19,702	-	-	-	-	-	-	19,702	17,000
Payroll Taxes	16,598	2,042	-	-	-	-	-	18,640	15,013
Postage and Shipping	14,489	2,893	-	-	-	-	-	17,382	14,484
Legal	17,378	-	-	-	-	-	-	17,378	24,595
Depreciation	13,137	2,041	-	-	-	-	-	15,178	16,287
Pedigree Research	13,442	-	-	-	-	-	-	13,442	275
Audit	11,660	-	-	-	-	-	-	11,660	15,684
Equipment Rental	11,250	-	-	-	-	-	-	11,250	8,236
Trophies	7,439	-	3,422	-	-	-	-	10,861	11,997
Festival of Racing	10,000	-	-	-	-	-	-	10,000	10,000
Travel	8,298	1,108	-	-	-	-	-	9,406	11,728
Rent	9,000	-	-	-	-	-	-	9,000	9,000
Other	275	42	2,479	23	-	2,904	-	5,723	1,398
Bad Debts	-	5,721	-	-	-	-	-	5,721	-
Contributions	5,380	-	-	-	-	-	-	5,380	6,320
Repairs and Maintenance	4,524	-	-	-	-	-	-	4,524	2,829
Printing	3,989	-	-	-	-	-	-	3,989	4,173
Dues and Subscriptions	3,533	225	-	-	-	-	-	3,758	4,154
Field Inspector	1,680	-	-	-	-	-	-	1,680	2,561
Auction	-	-	1,050	-	-	-	-	1,050	6,118
Utilities	-	450	-	-	-	-	-	450	825
Casual Labor	-	300	-	-	-	-	-	300	1,180
Total Expenses	698,532	106,480	523,826	837,599	1,801,029	1,852,136	-	5,819,602	3,978,117
EXCESS (DEFICIT) REVENUES OVER EXPENSES	\$ 117,392	\$ 30,938	\$ 10,918	\$ (719,791)	\$ (947,200)	\$ 1,373,240	\$ -	\$ (134,503)	\$ 1,172,091

The accompanying notes are an integral part of these financial statements

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
STATEMENT OF CHANGES IN NET ASSETS - MODIFIED CASH BASIS
For The Year Ended December 31, 2003

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Operating</u>	<u>Louisiana Horse</u>	<u>Louisiana Champions Day</u>	<u>SALAM Races</u>	<u>Other Races</u>	<u>Slot Machine</u>	<u>Political Action Council</u>	<u>Totals (Memorandum Only)</u>	
								<u>2003</u>	<u>2002</u>
NET ASSETS - BEGINNING OF YEAR	\$ 770,605	\$ 82,850	\$ 8,065	\$ 9,313	\$ 2,799,063	\$ 1,283,049	\$ (6,400)	\$ 4,946,545	\$ 3,774,454
EXCESS (DEFICIT) REVENUES OVER EXPENSES	117,392	30,938	10,918	(719,791)	(947,200)	1,373,240	-	(134,503)	1,172,091
TRANSFER FROM (TO) OTHER FUNDS	<u>10,631</u>	<u>(8,507)</u>	<u>(2,124)</u>	<u>718,797</u>	<u>-</u>	<u>(718,797)</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ 898,628</u>	<u>\$ 105,281</u>	<u>\$ 16,859</u>	<u>\$ 8,319</u>	<u>\$ 1,851,863</u>	<u>\$ 1,937,492</u>	<u>\$ (6,400)</u>	<u>\$ 4,812,042</u>	<u>\$ 4,946,545</u>

The accompanying notes are an integral part of these financial statements

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

INTRODUCTION

The **LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION** (the Association) is a Louisiana non-profit 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 the *Louisiana Horse Magazine*, the official publication of the Association, on a quarterly basis, as well as the annual *Stallion Register*. In addition, the 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; currently there are branch offices in Lafayette and Shreveport, at Evangeline Downs and Louisiana Downs, respectively. The Association has approximately 1,200 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, 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 had seven full-time employees as of December 31, 2003.

NOTE A

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The Association's policy is to prepare its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. That basis differs from generally accepted accounting principles primarily because certain revenues are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when incurred. Also, depreciation of property and equipment is reported on the financial statements.

USE OF ESTIMATES

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.

BASIS OF PRESENTATION

Statement of Financial Accounting Standards (SFAS) No. 117 establishes standards for external financial statements provided by a non-profit 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.

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

NOTE A

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

To observe the limitations and restrictions placed on the use of available resources, the accounts of the Association are presented separately under fund captions that indicate the source of revenues and their availability for expenditure. These sources and uses are more fully described in Note B. The net assets of the Association are unrestricted.

Interfund transfers are used to provide available funds to satisfy various 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, 2003.

TOTAL COLUMNS - OVERVIEW

The financial statements include certain prior-year summarized comparative information in total but not by assets, liabilities, revenue, expenses and changes in net assets. Such information does not include sufficient detail to constitute a presentation in conformity with the modified cash basis of accounting – a comprehensive basis of accounting other than generally accepted accounting principles.

NOTE B

SOURCES AND USES OF FUNDS

As mentioned in Note A, to observe the limitations and restrictions placed on the use of available resources, the accounts of the Association are presented in accordance with the specific activity or objective of the fund sources. A brief description of each fund source follows:

OPERATING FUNDS

The Operating funds are 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 funds include:

14% License Fee

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 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 20% 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 THOROUGHBRED BREEDERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS**

**NOTE B
SOURCES AND USES OF FUNDS (Continued)**

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 funds

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

LOUISIANA HORSE FUNDS

The Louisiana Horse funds are generated from the activities of the *Louisiana Horse Magazine*, the official publication of the Association, as well as the annual *Stallion Register*.

LOUISIANA CHAMPIONS DAY

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 legislature, 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 shall be 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)].

Awards - Triple Crown Race fund revenues represent 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, 2003, the Association received \$246,209 of Triple Crown Race Funds. These receipts were used, in full, to supplement Louisiana Champions Day purses.

SALAM RACES FUNDS

As provided by R.S. 4:184, 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.

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

NOTE B

SOURCES AND USES OF FUNDS (Continued)

SALAM RACES FUNDS (Continued)

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 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 pays an award equal to 20% of the earned purse to the breeders of an accredited Louisiana bred finishing first, second, or third in the SALAM races.

OTHER RACES FUNDS

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 and 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 20% 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.

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 is transferring the interest earned on these funds to the general operation of the Association. This transfer assists in covering administrative costs incurred in maintaining the breeders awards program.

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

NOTE B

SOURCES AND USES OF FUNDS (Continued)

SLOT MACHINE

As prescribed by Louisiana R.S. 27:362(B)(4)(b), each licensed eligible facility shall pay annually a fixed percentage of two percent of the annual net slot machine proceeds received from slot machine gaming operations at the licensed eligible facility to the Association. The Executive Committee of the Association shall distribute such amount, according to a schedule or formula which shall be established by the Committee, for special breeder awards to the breeders of accredited Louisiana bred horses.

POLITICAL ACTION COUNCIL FUNDS

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.

VIDEO DRAW POKER DEVICE PURSE SUPPLEMENT FUNDS

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 that conduct live horse racing. These funds are appropriated on the basis of the number of thoroughbred race days each association conducted for the preceding year bears in proportion to the total number of thoroughbred race days conducted statewide for the preceding year. 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 \$15,000.

Due to the fact that the Association is not in receipt of these funds, but rather the licensed racing associations that 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 of the Association do not reflect the receipts and disbursements of the licensed racing associations that conduct live horse racing.

NOTE C

TRADE RECEIVABLES

Although using the modified cash basis of accounting, as mentioned in Note A, the Association records trade receivables related to advertisements in its publication of the *Louisiana Horse Magazine* as well as its annual *Stallion Register*. Trade receivables are carried at original invoice amount. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. 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.

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

NOTE D

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. The Association's policy is to record acquisitions over \$1,000. 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 \$15,178 for the year ended December 31, 2003.

NOTE E

RESTRICTED CASH

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. As of December 31, 2003, the Association's deposits held for futurity races are classified accordingly: \$43,760, for the 2004 futurity, in current liabilities and \$30,580, for the 2005 and 2006 futurities, in non-current liabilities.

Funds on deposit for Louisiana Champions Day, SALAM Races, Other Races and Slot Machine proceeds are restricted according to their limited use as prescribed by Louisiana Revised Statutes as described fully within Note B.

NOTE F

FUNCTIONAL CLASSIFICATION 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 \$5,001,729, include payments of breeders' awards, stallion awards, purse supplements, and the Louisiana Champions Day and account for approximately 86% of the Association's expenditures. Approximately 14% of expenses are for supporting activities, totaling \$817,873, and include membership development and management and general expenditures.

NOTE G

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
NOTES TO FINANCIAL STATEMENTS**

NOTE H

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 employees' annual wages and shall be 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 \$51,193 for the year ended December 31, 2003.

NOTE I

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, 2003, the market value of this investment cannot be readily determined. The Retained Earnings of this company equals \$10,300 as of December 31, 2003. Use of the equity method would require that the investment be carried at approximately \$30,300, thus creating a difference of \$10,300, which is not reflected in the accompanying financial statements, the effect of which is considered immaterial to the financial statements as a whole.

For the year ended December 31, 2003, the Breeders' Sales Company of Louisiana, Inc. had a net income of \$5.

The Association has deposited \$70,000 of its funds into a certificate of deposit under the name of the Breeders' Sales Company of Louisiana, for the purpose of the Sales Company complying with Department of Agriculture requirements. As of December 31, 2003, there are no set terms for the repayment of these funds to the Association.

Other Related Party Transactions

During the year ended December 31, 2003, the 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 is a board member. The Fair Grounds Corporation receives \$750 a month in rent from the Association.

A former board member also receives commissions from the Association's group health and key man life insurance policies, as an insurance agent.

Included within trade receivable is \$10,320 that is owed by various members of the Board.

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

NOTE J

CONCENTRATION OF CREDIT RISK

The Association has deposits in three financial institutions whose balances exceed the insurance coverage provided by the Federal government. As of December 31, 2003, this balance exceeds the insurance ceiling by \$640,138.

NOTE K

COMMITMENTS

The Association has executed an employment agreement with its Secretary-Treasurer that extends through March 30, 2004. The contract became effective March 30, 1999 with a base salary of \$54,000 that is increased annually by a cost of living adjustment, as determined by the United States Department of Labor, plus any merit raise approved by the Board of Directors.

The contract also provides for dependent health care coverage, use of an automobile, and life insurance coverage. Subsequent to year end, this contract was extended through March 30, 2009.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

**SCHEDULE I
STATEMENTS OF REVENUES AND EXPENSES
OPERATING**

	For The Years Ended	
	December 31,	
	2003	2002
REVENUES		
Commissions - 2%	\$ 362,348	\$ 248,570
Fees - 14%	347,137	380,381
Members' Dues	44,070	28,360
Accrediting Fees	33,550	39,960
OTB Interest Transfer	24,477	37,503
Interest Income	6,807	6,907
Miscellaneous	570	200
Management Fee Income	-	40,000
Loss on Disposal of Asset	(3,035)	(11,459)
	815,924	770,422
EXPENSES		
Salaries - Regular	201,481	162,232
Insurance	66,356	50,352
Profit Sharing Expense	51,193	47,488
Advertising and Promotion	44,648	21,914
Office Supplies	27,773	19,125
General Accounting	26,358	22,419
Outsourced Accounting	24,262	34,901
Meetings and Banquets	23,315	19,024
Telephone Expense	22,775	21,914
Computer Fees - Website/Internet	21,579	9,399
Salaries - Bonus	19,702	17,000
Legal	17,378	24,595
Payroll Taxes	16,598	13,092
Breeder's Awards	16,518	18,586
Postage and Shipping	14,489	12,336
Pedigree Research	13,442	275
Depreciation	13,137	14,250
Audit	11,660	15,684
Equipment Rental	11,250	8,236
Festival of Racing	10,000	10,000
Rent	9,000	9,000
Travel	8,298	10,212
Trophies	7,439	8,573
Contributions	5,380	6,320
Repairs and Maintenance	4,524	2,829
Printing	3,989	4,173
Dues and Subscriptions	3,533	3,660
Field Inspector	1,680	2,561
Purse Supplements	500	1,985
Other	275	1,226
	698,532	593,361
EXCESS REVENUES OVER EXPENSES	\$ 117,392	\$ 177,061

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

**SCHEDULE II
STATEMENTS OF REVENUES AND EXPENSES
LOUISIANA HORSE**

	For The Years Ended December 31,	
	2003	2002
REVENUES		
Publications	\$ 137,341	\$ 109,530
Interest Income	77	112
Total Revenues	137,418	109,642
EXPENSES		
Publication Expense	63,655	62,980
Salaries	25,598	24,915
Bad Debts	5,721	-
Postage and Shipping	2,893	2,148
Office Supplies	2,060	1,487
Payroll Taxes	2,042	1,921
Depreciation	2,041	2,037
Travel	1,108	1,516
Utilities	450	825
Casual Labor	300	1,180
Telephone Expense	225	537
Dues and Subscriptions	225	494
Computer Fees - Website/Internet	120	610
Other	42	17
Advertising and Promotion	-	212
Total Expenses	106,480	100,879
EXCESS REVENUES OVER EXPENSES	\$ 30,938	\$ 8,763

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

**SCHEDULE III
STATEMENTS OF REVENUES AND EXPENSES
LOUISIANA CHAMPIONS DAY**

	For The Years Ended December 31,	
	2003	2002
REVENUES		
Awards - Triple Crown Races	\$ 246,209	\$ 273,365
Awards - 9.1%	200,000	200,000
Nominations	44,100	41,450
Sponsorship	15,455	17,000
Silent Auction	12,485	15,160
Stallion Fees	8,520	13,870
Ticket Sales	7,955	6,560
Interest	20	1,425
LQHBA Expense Sharing	-	3,500
	534,744	572,330
EXPENSES		
Purses Paid Out	417,566	444,904
Triple Crown Race Funds - HBPA/LQHBA	73,863	82,009
Meetings and Banquets	21,375	23,243
Advertising and Promotion	4,049	10,108
Trophies	3,422	3,424
Other	2,479	-
Auction	1,050	6,118
Office Supplies	22	-
	523,826	569,806
EXCESS REVENUES OVER EXPENSES	\$ 10,918	\$ 2,524

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

**SCHEDULE IV
STATEMENTS OF REVENUES AND EXPENSES
SALAM**

	For The Years Ended December 31,	
	2003	2002
REVENUES		
SALAM Awards - 8% and 15.1%	\$ 117,712	\$ 123,186
Interest	96	115
Total Revenues	117,808	123,301
EXPENSES		
Breeders' Awards	837,576	592,550
Other	23	-
Total Expenses	837,599	592,550
DEFICIT REVENUES OVER EXPENSES	\$ (719,791)	\$ (469,249)

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

**SCHEDULE V
STATEMENTS OF REVENUES AND EXPENSES
OTHER RACES**

	For The Years Ended December 31,	
	2003	2002
REVENUES		
Awards - 9.1%	\$ 832,047	\$ 1,424,049
Interest	21,782	44,152
Total Revenues	853,829	1,468,201
EXPENSES		
Breeders' Awards	1,049,317	944,750
Purse Supplements	727,235	552,512
Interest Transfers	24,477	37,503
Total Expenses	1,801,029	1,534,765
DEFICIT REVENUES OVER EXPENSES	\$ (947,200)	\$ (66,564)

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

**SCHEDULE VI
STATEMENTS OF REVENUES AND EXPENSES
SLOT MACHINE**

	For The Years Ended December 31,	
	2003	2002
REVENUES		
Slot Machine Proceeds - 2%	\$ 3,218,879	\$ 2,103,118
Interest	6,497	3,194
Total Revenues	3,225,376	2,106,312
EXPENSES		
Breeders' Awards	1,349,232	203,370
Stallion Awards	500,000	383,231
Other	2,904	155
Total Expenses	1,852,136	586,756
EXCESS REVENUES OVER EXPENSES	\$ 1,373,240	\$ 1,519,556

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

**SCHEDULE VII
COMPARISON OF BUDGET TO ACTUAL
OPERATING**

	For The Year Ended December 31, 2003		Favorable (Unfavorable) Variance
	Budget	Actual	
REVENUES			
Commissions - 2%	\$ 320,000	\$ 362,348	\$ 42,348
Fees - 14%	400,000	347,137	(52,863)
Members' Dues	30,000	44,070	14,070
Accrediting Fees	40,000	33,550	(6,450)
Transfer of Interest on 9.1% Funds	45,000	24,477	(20,523)
Interest Income	10,000	6,807	(3,193)
Miscellaneous	-	570	570
Loss on Disposal of Asset	-	(3,035)	(3,035)
Total Revenues	845,000	815,924	(29,076)
EXPENSES			
Salaries - Regular	220,000	201,481	18,519
Insurance	75,000	66,356	8,644
Profit Sharing Expense	51,193	51,193	-
Advertising and Promotion	35,000	44,648	(9,648)
Legal	30,000	17,378	12,622
Meetings and Banquets	25,000	23,315	1,685
Salaries - Bonus	25,000	19,702	5,298
Telephone Expense	24,000	22,775	1,225
Office Supplies	20,000	27,773	(7,773)
Payroll Taxes	16,800	16,598	202
Depreciation	16,000	13,137	2,863
Audit	16,000	11,660	4,340
Field Inspector	15,000	1,680	13,320
Postage and Shipping	12,000	14,489	(2,489)
Travel	12,000	8,298	3,702
General Accounting	10,000	26,358	(16,358)
Trophies	10,000	7,439	2,561
Rent	9,000	9,000	-
Equipment Rental	8,000	11,250	(3,250)
Computer Fees	12,000	21,579	(9,579)
Contributions	6,000	5,380	620
Repairs and Maintenance	4,000	4,524	(524)
Printing	4,000	3,989	11
Dues and Subscriptions	3,800	3,533	267
Pedigree Research	500	13,442	(12,942)
Other	200	275	(75)
Breeder's Awards	-	16,518	(16,518)
Outsourced Accounting	15,000	24,262	(9,262)
Festival of Racing	-	10,000	(10,000)
Purse Supplements	-	500	(500)
Total Expenses	675,493	698,532	(23,039)
EXCESS REVENUE OVER EXPENSES	\$ 169,507	\$ 117,392	\$ (52,115)

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

**SCHEDULE VIII
COMPARISON OF BUDGET TO ACTUAL
LOUISIANA HORSE**

	For The Years Ended December 31, 2003		Favorable (Unfavorable) Variance
	Budget	Actual	
REVENUES			
Publications	\$ 115,000	\$ 137,341	\$ 22,341
Interest Income	-	77	77
 Total Revenues	 <u>115,000</u>	 <u>137,418</u>	 <u>22,418</u>
EXPENSES			
Publication Expense	55,700	63,655	(7,955)
Salaries	26,000	25,598	402
Pedigree Research	13,000	-	13,000
Depreciation	2,500	1,108	1,392
Postage and Shipping	2,200	2,893	(693)
Payroll Taxes	2,200	2,042	158
Office Supplies	1,500	2,060	(560)
Travel	1,500	2,041	(541)
Computer Fees	1,200	120	1,080
Casual Labor	1,000	300	700
Utilities	900	450	450
Telephone Expense	750	225	525
Dues and Subscriptions	500	225	275
Photos	500	-	500
Repairs and Maintenance	500	-	500
Advertising and Promotion	200	-	200
Bad Debts	-	5,721	(5,721)
Other	-	42	(42)
 Total Expenses	 <u>110,150</u>	 <u>106,480</u>	 <u>3,670</u>
 EXCESS REVENUES OVER EXPENSES	 <u>\$ 4,850</u>	 <u>\$ 30,938</u>	 <u>\$ 26,088</u>

See independent auditor's report.



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 statement of **LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION** (a non-profit organization) as of and for the year ended December 31, 2003, and have issued our report thereon dated May 7, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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.

110 VETERANS MEMORIAL BOULEVARD, SUITE 200, METairie, LA 70005-1958 • 504.835.5522 • FAX 504.835.5535
5100 VILLAGE WALK, SUITE 202, COVINGTON, LA 70433-4012 • 985.892.5850 • FAX 985.892.5956

WWW.LAPORTE.COM

22
RSM McGladrey Network

Member of the RSM McGladrey Network

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. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Salute, Schut, Long & Head

A Professional Accounting Corporation

May 7, 2004