

**LOUISIANA THOROUGHBRED BREEDERS
ASSOCIATION**

December 31, 2013

Audit of Financial Statements

December 31, 2013

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.

Release Date AUG 06 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Louisiana Thoroughbred Breeders Association

Report on the Financial Statements

We have audited the accompanying statement of assets, liabilities and net assets - modified cash basis of **LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION** (the Association), a non-profit organization, as of December 31, 2013, and the related statements of revenues and expenses - modified cash basis, and changes in net assets - modified cash basis, for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified-cash basis of accounting; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall financial statement presentation.

NEW ORLEANS HOUSTON BATON ROUGE COVINGTON

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The McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. The McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

As discussed in Note 3, the Association has accrued certain revenues related to the publication of *Louisiana Horse Magazine*. If the revenues were not accrued, accounts receivable of \$61,932 would not be recorded and net assets would decrease by \$61,932 as of December 31, 2013. Deficit revenues over expenses would decrease by \$10,270 for the year ended December 31, 2013.

Qualified Opinion

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, 2013, and its related revenues and expenses and changes in net assets for the year then ended on the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Other Matters

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 17 - 23 is presented for the purpose 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 the accrual of certain revenues, 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 1. The December 31, 2012 amounts were included for comparative purposes only.

Report on Summarized Comparative Information

We have previously audited the Association's 2012 financial statements, and we expressed a modified audit opinion, due to the accrual of certain revenues consistent with the current year modification, on those audited financial statements in our report dated, May 28, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2014, on our consideration of **LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Metairie, LA
May 14, 2014

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
as of December 31, 2013

WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2012

ASSETS	Operating	Louisiana Champions Day	SALAM Races	Other Races	Slot Machine	Totals (Memorandum Only)	
						2013	2012
CURRENT ASSETS							
Cash	\$ 1,811,148	\$ 16,450	\$ -	\$ -	\$ -	\$ 1,827,598	\$ 2,018,665
Restricted Cash	41,300	-	9,644	612,596	2,963,576	3,627,116	4,159,168
Accounts Receivable	61,932	-	-	-	-	61,932	72,202
Total Current Assets	1,914,380	16,450	9,644	612,596	2,963,576	5,516,646	6,250,035
PROPERTY AND EQUIPMENT - NET							
Furniture and Equipment	300,565	-	-	-	-	300,565	275,528
Buildings	159,545	-	-	-	-	159,545	159,545
Software	9,926	-	-	-	-	9,926	9,376
Automobile	30,658	-	-	-	-	30,658	30,658
	500,694	-	-	-	-	500,694	475,107
Less: Accumulated Depreciation	(370,779)	-	-	-	-	(370,779)	(353,083)
Total Property and Equipment - Net	129,915	-	-	-	-	129,915	122,024
OTHER ASSETS							
Cash Surrender Value - Key Man Life	-	-	-	-	-	-	315,018
Restricted Cash	28,390	-	-	-	-	28,390	26,250
Investment - Breeders Sales Company	20,000	-	-	-	-	20,000	20,000
Deposits	875	-	-	-	-	875	875
Total Other Assets	49,265	-	-	-	-	49,265	362,143
	\$ 2,093,560	\$ 16,450	\$ 9,644	\$ 612,596	\$ 2,963,576	\$ 5,695,826	\$ 6,734,202

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

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
as of December 31, 2013

WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2012

LIABILITIES AND NET ASSETS	Operating	Louisiana Champions Day	SALAM Races	Other Races	Slot Machine	Totals (Memorandum Only)	
						2013	2012
CURRENT LIABILITIES							
Deposits - Futurity Races	\$ 41,300	\$ -	\$ -	\$ -	\$ -	\$ 41,300	\$ 52,910
Total Current Liabilities	41,300	-	-	-	-	41,300	52,910
LONG-TERM LIABILITIES							
Deposits - Futurity Races	28,390	-	-	-	-	28,390	26,250
Total Long-Term Liabilities	28,390	-	-	-	-	28,390	26,250
Total Liabilities	69,690	-	-	-	-	69,690	79,160
NET ASSETS							
Restricted - Breeders Awards	-	-	9,644	612,596	2,963,576	3,585,816	4,106,258
Undesignated	1,713,870	16,450	-	-	-	1,730,320	2,068,784
Board Designated - Stallion Stakes	300,000	-	-	-	-	300,000	470,000
Board Designated - Scholarships	10,000	-	-	-	-	10,000	10,000
Total Net Assets	2,023,870	16,450	9,644	612,596	2,963,576	5,626,136	6,655,042
	<u>\$ 2,093,560</u>	<u>\$ 16,450</u>	<u>\$ 9,644</u>	<u>\$ 612,596</u>	<u>\$ 2,963,576</u>	<u>\$ 5,695,826</u>	<u>\$ 6,734,202</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, 2013

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2012

	Operating	Louisiana Champions Day	SALAM Races	Other Races	Slot Machine	Totals (Memorandum Only)	
						2013	2012
REVENUES							
Slot Machine Proceeds - 2%	\$ -	\$ -	\$ -	\$ -	\$ 8,763,200	\$ 8,763,200	\$ 8,688,500
10% from Tracks	-	-	-	1,080,396	-	1,080,396	962,566
Commissions - 2%	716,093	-	-	-	-	716,093	728,731
Awards - 9.1%	-	-	-	650,787	-	650,787	701,352
Awards - Triple Crown Races	-	265,212	-	-	-	265,212	270,268
Fees - 14%	166,549	-	-	-	-	166,549	226,126
Publications - Louisiana Horse	108,835	-	-	-	-	108,835	104,415
Accrediting Fees	86,650	-	-	-	-	86,650	88,965
SALAM Awards - 8% and 15.1%	-	-	80,092	-	-	80,092	86,280
Members' Dues	86,300	-	-	-	-	86,300	78,905
Nominations	-	48,800	-	-	-	48,800	49,300
Stallion Stakes Nominations	41,800	-	-	-	-	41,800	40,200
Mare Registration	30,190	-	-	-	-	30,190	26,010
Stallion Fees	-	32,320	-	-	-	32,320	21,480
Interest and Dividend Income	11,741	170	11	344	4,813	17,079	18,229
Miscellaneous	9,590	-	-	-	-	9,590	13,163
Sponsorship	-	6,000	-	-	-	6,000	12,715
Management Fee Income	20,000	-	-	-	-	20,000	11,900
Slot/OTB Interest Transfer	7,384	-	-	-	-	7,384	10,049
LAHRA Fee	-	-	-	-	-	-	7,155
Ticket Sales	-	4,500	-	-	-	4,500	5,950
LQHBA Contribution	-	-	-	-	-	-	3,500
Finance Charges	5,293	-	-	-	-	5,293	1,598
(Loss)/Gain on Sale of Asset	-	-	-	-	-	-	(15,200)
Total Revenues	1,290,425	357,002	80,103	1,731,527	8,768,013	12,227,070	12,142,157

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

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES - MODIFIED CASH BASIS (Continued)
For the Year Ended December 31, 2013

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2012

EXPENSES	Operating	Louisiana Champions Day	SALAM Races	Other Races	Slot Machine	Totals (Memorandum Only)	
						2013	2012
Breeder's Awards	-	-	1,296,410	3,405,083	4,361,094	9,062,587	8,418,194
Purse Supplements	138,100	340,422	-	699,850	-	1,178,372	1,096,142
Bayou State Bonus	100,000	-	-	-	-	100,000	-
Stallion Awards	-	-	-	-	900,000	900,000	900,000
Salaries	626,701	-	-	-	-	626,701	688,412
Breeder's Awards - Out of State	-	-	-	-	399,589	399,589	400,163
Insurance	218,726	-	-	-	-	218,726	227,435
Meetings and Banquets	48,580	19,593	-	-	-	68,173	97,394
Publication Expense	60,759	-	-	-	-	60,759	93,306
Advertising and Promotion	90,538	1,191	-	-	-	91,729	73,601
Out of State Stakes Awards	-	-	-	-	32,367	32,367	60,774
Payroll Taxes	49,505	-	-	-	-	49,505	52,192
Field Inspector	51,445	-	-	-	-	51,445	49,470
Computer Fees	72,145	-	-	-	-	72,145	44,631
Contributions	5,050	-	-	-	-	5,050	38,400
Postage and Shipping	28,145	-	-	-	-	28,145	33,553
Audit	37,300	-	-	-	-	37,300	31,032
Pension Expense	20,932	-	-	-	-	20,932	25,333
Travel	20,494	-	-	-	-	20,494	24,905
Office Expense	16,943	-	-	-	-	16,943	23,941
Pedigree Research	10,796	-	-	-	-	10,796	23,860
Depreciation	17,696	-	-	-	-	17,696	21,024
Nominator Awards	20,000	-	-	-	-	20,000	20,000
Trophies	12,709	2,828	-	-	-	15,537	19,935
Telephone Expense	17,506	-	-	-	-	17,506	19,479
Printing	13,793	2,433	-	-	-	16,226	17,876
Website/Internet	18,254	-	-	-	-	18,254	15,689
Equipment Rental	12,808	-	-	-	-	12,808	12,654
Legal	16,399	-	-	-	-	16,399	11,682
General Accounting	9,402	-	-	-	-	9,402	9,932
Scholarships	12,000	-	-	-	-	12,000	8,000
Interest Transfers	-	-	-	88	5,694	5,782	7,549
Rent	6,930	-	-	-	-	6,930	6,780
Election Expense	5,943	-	-	-	-	5,943	8,360
Writers and Photographer Fees	7,188	-	-	-	-	7,188	6,052
Dues and Subscriptions	4,818	-	-	-	-	4,818	5,479
Refunds	2,685	-	-	-	-	2,685	3,660
Bank Charges	1,845	145	-	306	164	2,460	2,633
Repairs and Maintenance	4,700	-	-	-	-	4,700	2,579
Taxes and Licenses	483	-	-	-	-	483	2,434
Miscellaneous	1,145	-	-	-	-	1,145	1,485
PAC	7,500	-	-	-	-	7,500	831
Utilities	872	-	-	-	-	872	739
Bad Debt	86	-	-	-	-	86	-
Total Expenses	1,788,719	386,612	1,296,410	4,105,327	5,688,908	13,255,976	12,803,570
(DEFICIT) EXCESS REVENUES OVER EXPENSES	\$ (488,294)	\$ (9,610)	\$ (1,216,307)	\$ (2,373,800)	\$ 3,069,105	\$ (1,028,906)	\$ (481,413)

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, 2013

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2012

	Operating	Louisiana Champions Day	SALAM Races	Other Races	Slot Machine	Totals (Memorandum Only)	
						2013	2012
NET ASSETS - BEGINNING OF YEAR	\$ 2,522,724	\$ 26,060	\$ 9,663	\$ 742,479	\$ 3,354,116	\$ 6,655,042	\$ 7,116,455
(DEFICIT) EXCESS REVENUES OVER EXPENSES	(498,294)	(9,610)	(1,216,307)	(2,373,800)	3,069,105	(1,028,906)	(461,413)
TRANSFER FROM (TO) OTHER FUNDS	(560)	-	1,216,288	2,243,917	(3,459,645)	-	-
NET ASSETS - END OF YEAR	<u>\$ 2,023,870</u>	<u>\$ 16,450</u>	<u>\$ 9,644</u>	<u>\$ 612,596</u>	<u>\$ 2,963,576</u>	<u>\$ 5,626,136</u>	<u>\$ 6,655,042</u>

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

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
NOTES TO THE 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 Opelousas and Shreveport, at Evangeline Downs and Louisiana Downs, respectively. The Association has approximately 1,000 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.

NOTE 1. 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 accounting principles generally accepted in the United States of America primarily because certain revenues are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when incurred.

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

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 accounting principles generally accepted in the United States of America.

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

NOTE 1. 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 2.

Interfund transfers are used by the Association to support the activities of other funds. Operating funds are unrestricted and are used to support the activities of any other program that needs cash flow. Slot Machine funds are restricted and are required to be used to support the payment of breeder's awards to the breeder of Louisiana bred accredited horses running in, LABRED, SALAM, and other races, as described in Note 2. Accordingly, the Association records interfund transactions due to and from the individual funds at December 31, 2013.

TOTAL COLUMNS - OVERVIEW

The financial statements include certain prior-year summarized comparative information in total. 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 2. SOURCES AND USES OF FUNDS

As mentioned in Note 1, 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 receives 14% of the 1.5% license fee collected by the Louisiana State Racing Commission from off-track wagering facilities. The Association uses these receipts to promote the thoroughbred breeding industry and to pay breeders' awards on thoroughbred races.

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 Association. The amounts withheld from the supplemental purses shall be paid to the Association for operating and administrative expenses.

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

NOTE 2. SOURCES AND USES OF FUNDS (Continued)

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*. These funds are included under the "Operating" heading in the financial statements.

LOUISIANA CHAMPIONS DAY FUNDS

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, seven thoroughbred and three quarter horse races are included on the same racing program. For the year ended December 31, 2013, the racing program on Louisiana Champions Day included one additional thoroughbred race which was underwritten by the host racing association.

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 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, 2013, the Association received \$265,212 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 offer 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, 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.

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

NOTE 2. SOURCES AND USES OF FUNDS (Continued)

SALAM RACES FUNDS (Continued)

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 horse 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) are to be remitted to the Association. The Association is obligated to use these funds 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 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 the 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 maximum award paid from the combined funds is 20%.

The maximum award paid by the Association on Other Races is based on a purse of \$200,000.

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.

SLOT MACHINE FUNDS

As prescribed by Louisiana R.S. 27:362(B)(4)(b), each licensed eligible facility shall pay a fixed percentage of 2% 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 and within a time period, which shall be established by the Committee, for special breeder awards to the breeders of accredited Louisiana-bred horses.

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.

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

NOTE 2. SOURCES AND USES OF FUNDS (Continued)

VIDEO DRAW POKER DEVICE PURSE SUPPLEMENT FUNDS (Continued)

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 based on how 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.

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 3. TRADE RECEIVABLES

Although using the modified cash basis of accounting, as mentioned in Note 1, 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. Credit is extended to those who are members of the Association. For accounts older than 90 days that the Association deems collectible, a 1.5% finance charge is assessed monthly. At December 31, 2013, the Association has \$33,443 of receivables that are older than 90 days.

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. The Association capitalizes all equipment and improvements with a cost greater than \$500. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets which extends periods ranging from 3 to 40 years. 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 \$17,696 for the year ended December 31, 2013.

NOTE 5. ADVERTISING EXPENSES

The Association expenses costs incurred in advertising and promoting the mission and services of the Association as they are incurred. Advertising and promotional type expenses totaled \$91,729 for the year ended December 31, 2013.

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

NOTE 6. 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 to be operating revenue of the Association. As of December 31, 2013, the Association's deposits held for futurity races are classified accordingly: \$41,300 for the 2014 futurity, in current liabilities, and \$28,390 for the 2015 futurity, in non-current liabilities.

Funds on deposit for SALAM Races, Other Races and Slot Machine proceeds are restricted according to their limited use as prescribed by Louisiana Revised Statutes and as described fully within Note 2.

NOTE 7. 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 requires disclosure of expenses between the functional classifications of program and support. Program services, totaling \$10,962,399 include payments of breeders' awards, stallion awards, purse supplements, and the Louisiana Champions Day, and account for approximately 83% of the Association's expenditures. Approximately 17% of expenses are for supporting activities, totaling \$2,293,577 and include membership development and management and general expenditures.

NOTE 8. DEFINED CONTRIBUTION PENSION PLAN

All full-time employees are currently eligible to participate in a 401(k) retirement plan with a 4% safe harbor provision. Contributions to the Plan by the Association totaled \$20,932 for the year ended December 31, 2013.

NOTE 9. RELATED PARTY TRANSACTIONS

Breeders' Sales Company of Louisiana, Inc. - Unaudited

Breeders' Sale Company of Louisiana (the Corporation) is a C-Corporation which is wholly owned by the Association. The purpose of the Corporation is to promote the sale of thoroughbred horses, in order to further fulfill the objective and purpose of the Association as listed in the Articles of Incorporation of said Association. It was formed by the Association's Board of Directors in 1988, in alignment with the mission of the Association. The Association has not consolidated the Corporation based upon its assessment of significance to the reporting entity. Management anticipates that the Corporation will merit consolidation in 2014 as its resources and activities continue to grow in relation to the Association. The Association's investment is stated at cost, as opposed to the equity method, which is required by the modified cash basis of accounting. As of December 31, 2013, the market value of this investment cannot be readily determined. As of December 31, 2013, the total equity of this company equaled \$84,868.

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

NOTE 9. RELATED PARTY TRANSACTIONS (Continued)

Breeders' Sales Company of Louisiana, Inc. - Unaudited (Continued)

Use of the equity method requires that the investment be carried at \$84,868, thus creating a difference of \$64,868, which is not reflected in the accompanying financial statements. The effect of the difference between cost and equity is considered immaterial to the financial statements as a whole. In 2013, the Association received \$20,000 from Breeders' Sales Company of Louisiana, Inc. for administrative expenses incurred while conducting one horse sale.

Other Related Party Transactions

All Board Members are required to be members of the Association and thus are active in breeding accredited Louisiana bred horses. As such, the Board Members can earn breeder's awards, as discussed in Note 2, and advertise in the *Louisiana Horse Magazine*. During the year ended December 31, 2013, the members of the Board of Directors had related party transactions with the Association as follows:

Included within accounts receivable by *Louisiana Horse Magazine* is \$19,128 that is owed by various directors.

NOTE 10. CONCENTRATION OF CREDIT RISK

The Association periodically maintains cash in bank accounts in excess of insured limits. The Association has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

NOTE 11. COMMITMENTS

During the 2012 year, the Association terminated its contract with its Chief Executive Officer, opting to settle through a severance package. The Association's commitment under the severance package was paid in completion on April 30, 2013. To assist in funding the settlement, the Association, in January 2013, cashed out approximately \$120,000 of the cash surrender value of the key man policy that is presented on the statement of assets, liabilities and net assets – modified cash basis

Following the above termination, the Association executed an employment contract with its Secretary – Treasurer, expanding his duties and serving as the Executive Director of the Association. The Association is committed to a contract through December 31, 2015, providing a base salary of \$96,000 per year.

The Association has executed an independent contractor's agreement for a Field Inspector. On February 28, 2013, the Association renewed the contract for one year with consideration in the amount of \$50,500.

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

NOTE 12. 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.

The Association follows the provisions of the *Accounting for Uncertainty in Income Taxes* Topic of the Financial Accounting Standards Board Accounting Standards Codification, which clarifies the accounting and recognition for income tax positions taken or expected to be taken in the Association's income tax return.

All tax returns have been appropriately filed by the Association. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The Association files income tax returns in the federal jurisdiction and various state jurisdictions. None of the returns are currently under examination by such jurisdictions. The Association's open audit periods are 2010 - 2012. Management evaluated the Association's tax positions and concluded that the Association had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

NOTE 13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the financial statements were available to be issued, May 14, 2014, and determined that no other events occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

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

	For the Years Ended December 31,	
	2013	2012
REVENUES		
Commissions - 2%	\$ 716,093	\$ 728,731
Fees - 14%	186,549	226,128
Members' Dues	86,300	78,905
Publications	108,835	104,415
Stallion Stakes Nominations	41,800	40,200
Accrediting Fees	86,650	88,965
Management Fee Income	20,000	11,900
Mare Registration	30,190	28,010
Interest and Dividend Income	11,741	11,658
Loss on Sale of Property and Equipment	-	(15,200)
Slot/OTB Interest Transfer	7,384	10,049
LAHRA Fee	-	7,155
Finance Charges	5,293	1,598
Miscellaneous	9,590	7,252
Total Revenues	1,290,425	1,327,764
EXPENSES		
Salaries	626,701	688,412
Insurance	216,726	227,435
Purse Supplements	238,100	130,000
Meetings and Banquets	48,580	82,502
Publication Expense	60,759	93,306
Advertising and Promotion	90,538	72,338
Payroll Taxes	49,505	52,182
Field Inspector	51,445	49,470
Computer Fees	72,145	44,631
Audit	37,300	31,032
Office Expense	16,943	23,941
Pension Expense	20,932	25,333
Postage and Shipping	28,145	33,553
Pedigree Research	10,796	23,860
Telephone Expense	17,506	19,479
Travel	20,494	24,905
Website/Internet	18,254	15,689
Rent	8,930	8,780
Depreciation	17,896	21,024
Nominator Awards	20,000	20,000
Printing	13,793	17,876
General Accounting	9,402	9,932
Trophies	12,709	19,935
Writer and Photographer Fees	7,188	6,052
Equipment Rental	12,606	12,654
Bad Debt	88	-
Scholarships	12,000	8,000
Contributions	5,050	38,400
Legal	16,399	11,662
Election Expense	5,943	6,360
Refunds	2,685	3,680
Repairs and Maintenance	4,700	2,579
Dues and Subscriptions	4,818	5,479
Bank Charges	1,845	2,227
Taxes and Licenses	483	2,434
Miscellaneous	1,145	1,485
Utilities	872	739
PAC	7,500	831
Total Expenses	1,788,719	1,834,185
DEFICIT REVENUES OVER EXPENSES	\$ (498,294)	\$ (506,421)

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

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

	For the Years Ended December 31,	
	2013	2012
REVENUES		
Awards - Triple Crown Races	\$ 265,212	\$ 270,268
Nominations	48,800	49,300
Stallion Fees	32,320	21,480
Sponsorship	6,000	12,715
Ticket Sales	4,500	5,950
LQHBA Contribution	-	3,500
Interest	170	511
	357,002	363,724
EXPENSES		
Purses Paid Out	340,422	345,360
Advertising and Promotion	1,191	1,265
Trophies	2,828	-
Meetings and Banquets	19,593	14,892
Bank Charges	2,433	1
Printing and Stationery	145	-
	366,612	361,518
EXCESS (DEFICIT) REVENUES OVER EXPENSES	\$ (9,610)	\$ 2,206

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

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

	For the Years Ended December 31,	
	2013	2012
REVENUES		
SALAM Awards - 8% and 15.1%	\$ 80,092	\$ 86,280
Interest	11	11
Miscellaneous	-	5,911
	80,103	92,202
EXPENSES		
Breeders' Awards	1,296,410	1,288,187
	1,296,410	1,288,187
DEFICIT REVENUES OVER EXPENSES	\$ (1,216,307)	\$ (1,195,985)

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

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

	For the Years Ended December 31,	
	2013	2012
REVENUES		
10% from Tracks	\$ 1,080,396	\$ 962,566
Awards - 9.1%	650,787	701,352
Interest	344	501
	1,731,527	1,664,419
EXPENSES		
Breeders' Awards	3,405,083	2,953,299
Purse Supplements	699,850	620,782
Bank Charges	306	247
Interest Transfers	88	63
	4,105,327	3,574,391
DEFICIT REVENUES OVER EXPENSES	\$ (2,373,800)	\$ (1,909,972)

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

**SCHEDULE V
STATEMENTS OF REVENUES AND EXPENSES
SLOT MACHINES**

	For the Years Ended December 31,	
	2013	2012
REVENUES		
Slot Machine Proceeds - Fair Grounds	\$ 945,943	\$ 938,986
Slot Machine Proceeds - Evangeline Downs	1,856,457	1,958,142
Slot Machine Proceeds - Delta Downs	3,803,090	3,709,650
Slot Machine Proceeds - Louisiana Downs	1,457,743	1,343,804
Louisiana State Racing Commission Co Op	699,967	737,918
Interest	4,813	5,548
Total Revenues	8,768,013	8,694,048
EXPENSES		
Breeders' Awards - LA Bred	4,361,094	4,176,708
Breeders' Awards - Out of State	399,589	400,163
Stallion Awards	900,000	900,000
Out of State Stakes Awards	32,367	60,774
Transfer of Interest	5,694	7,486
Bank Charges	164	158
Total Expenses	5,698,908	5,545,289
EXCESS REVENUES OVER EXPENSES		
	\$ 3,069,105	\$ 3,148,759

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

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

	For the Year Ended December 31, 2013		Favorable (Unfavorable)
	Budget	Actual	Variance
REVENUES			
Commissions - 2%	\$ 730,000	\$ 716,093	\$ (13,907)
Fees - 14%	230,000	166,549	(63,451)
Members' Dues	80,000	86,300	6,300
Accrediting Fees	80,000	86,650	6,650
Management Fee Income (BSCOL)	20,000	20,000	-
Mare Registration	20,000	30,190	10,190
Slot/OTB Interest Transfer	10,000	7,384	(2,616)
Interest and Dividend Income	5,000	11,736	6,736
Other Income	14,000	9,590	(4,410)
Stallion Stakes Nominations	40,000	41,800	1,800
Key Man Policy	121,016	-	(121,016)
Total Revenues	1,350,016	1,176,292	(173,724)
EXPENSES			
Salaries	583,624	537,796	45,828
Insurance	180,000	174,275	5,725
Stallion Stakes Program	138,100	138,100	-
Bayou State Bonus	100,000	100,000	-
Advertising and Promotion	75,000	73,038	1,962
Meetings and Banquets	75,000	48,580	26,420
Field Inspector	52,000	51,445	555
Payroll Taxes	44,647	42,700	1,947
Pension Expense	20,932	20,932	-
Computer Fees	85,000	70,193	14,807
Office Expense	20,000	16,607	3,393
Postage and Shipping	25,000	23,324	1,676
Travel	20,000	18,707	1,293
Audit	27,500	37,300	(9,800)
Depreciation	9,000	17,341	(8,341)
Telephone Expense	16,500	15,034	1,466
Legal	10,000	16,399	(6,399)
Trophies	15,000	12,709	2,291
Printing	15,000	8,273	6,727
General Accounting	10,000	9,402	598
Website and Internet	20,000	17,465	2,535
Scholarships	10,000	12,000	(2,000)
Election Expense	6,000	5,943	57
Dues and Subscriptions	5,000	4,818	182
Contributions	10,000	5,050	4,950
Repairs and Maintenance	5,000	4,700	300
Bank Charges	2,000	1,793	207
Taxes and Licenses	500	390	110
Nominator Awards	20,000	20,000	-
Equipment Rental	13,000	12,606	394
Refunds	2,500	2,685	(185)
PAC	8,350	7,500	850
Research and Public Relations	17,500	17,500	-
Pedigree Research	250	273	(23)
Miscellaneous	-	799	(799)
Bad Debt	-	86	(86)
Total Expenses	1,642,403	1,545,763	96,640
DEFICIT REVENUES OVER EXPENSES	\$ (292,387)	\$ (369,471)	\$ (77,084)

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

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

	For the Year Ended December 31, 2013		Favorable (Unfavorable) Variance
	Budget	Actual	
REVENUES			
Publications	\$ 100,000	\$ 108,835	\$ 8,835
Finance Charges	3,500	5,293	1,793
Interest Income	25	5	(20)
Total Revenues	103,525	114,133	10,608
EXPENSES			
Publication Expense	80,000	60,759	19,241
Salaries	75,000	88,905	(13,905)
Pedigree Research	10,000	10,523	(523)
Insurance	30,000	42,451	(12,451)
Postage	8,500	4,821	3,679
Writers and Photographer Fees	7,500	7,188	312
Rent and Utilities	7,500	7,802	(302)
Travel	3,500	1,787	1,713
Telephone Expense	2,000	2,472	(472)
Depreciation	1,000	355	645
Printing and Stationery	900	5,520	(4,620)
Office Expense	1,000	336	664
Taxes and Licenses	100	93	7
Dues and Subscriptions	300	-	300
Computer Fees	1,000	1,952	(952)
Payroll Taxes	6,120	6,805	(685)
Website/Internet	500	789	(289)
Bad Debt	-	346	(346)
Bank Charges	-	52	(52)
Total Expenses	234,920	242,956	(8,036)
DEFICIT REVENUES OVER EXPENSES	\$ (131,395)	\$ (128,823)	\$ 2,572

See independent auditor's report.

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Louisiana Thoroughbred Breeders Association

We have audited, in accordance with the 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, the financial statements of **LOUISIANA THOROUGHbred BREEDERS ASSOCIATION** (a non-profit organization), which collectively comprise the statement of assets, liabilities, and net assets – modified cash basis as of December 31, 2013, and the related statements of revenues and expenses - modified cash basis, and changes in net assets - modified cash basis for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 14, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

NEW ORLEANS HOUSTON BATON ROUGE COVINGTON

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The McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. The McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

Compliance and Other Matters

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 grant agreements, 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 no instances of noncompliance, or other matters, that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended for the information and use of the Legislative Auditor of the State of Louisiana, the **LOUISIANA THOROUGHBRED BREEDERS 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.



A Professional Accounting Corporation

Metairie, LA
May 14, 2014



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May 14, 2014

Board of Directors
Louisiana Thoroughbred Breeders Association
New Orleans, Louisiana

This letter includes an update to the comments and suggestions with respect to matters that came to our attention in connection with our audit of the financial statements of the Louisiana Thoroughbred Breeders Association (the Association) as of and for the year ended December 31, 2012. These items were offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the Association's practices and procedures.

Conflict of Interests:

It came to our attention during the audit that individuals on the Board who have identified conflict of interests remain present in the meetings during which the identified conflict is being discussed, but do abstain from voting on any decision that is related to their conflict.

We recommended that any board member with a conflict of interest recuse themselves from a meeting where there is any discussion of that subject with which the board member has a conflict. This recusal includes that board member removing him or herself from the room while discussions and votes are cast on the conflicted subject. Removing one self from the room and avoiding discussion of the subject matter outside with board members who are not conflicted provides greater transparency in the operation of the Association. This would provide greater assurance that no one individual is gaining personally from serving on the board of directors.

Management response: The Board of Directors for the Louisiana Thoroughbred Breeders Association intended to contact a corporate attorney to determine the best way to handle such conflicts in the future.

2013 Status: Resolved- The Association has hired an attorney to give the management and the Board guidance and direction. It was noted through reviews of the Board minutes that board members who had conflicts were at a minimum abstaining from voting, if not leaving the room.

Breeders Sales Company of Louisiana:

We noted that Breeders Sales Company of Louisiana, the corporation that is wholly-owned by Louisiana Thoroughbred Breeders Association, while in good standing with the Secretary of State's office, was not acting in compliance with its Articles of Incorporation, specifically with regards to annual meetings, election of officers, and maintaining corporate minutes.

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We recommended that Louisiana Thoroughbred Breeders Association engage legal counsel, specializing in corporate law, to review the practices of the Breeders Sales Company of Louisiana and provide recommendations for complying with its Articles of Incorporation.

Management response: Management agrees with this finding and has since addressed this finding with its board. The Board of Directors of Louisiana Thoroughbred Breeders Association has subsequently approved the hiring of corporate legal counsel to consult on bringing the Breeders Sales Company of Louisiana into corporate compliance.

2013 Status: Resolved - The Association hired an attorney with experience in corporate law to give them guidance and direction. The Breeders' Sales Company of Louisiana (BSCOL) now has its own Board, in accordance with its Articles of Incorporation. From all indications BSCOL is acting within its Articles of Incorporation.

No issues arose during our 2013 audit that require communication.

This letter is intended solely for the information and use of the Board of Directors, management and others within the Company, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation
Metairie, Louisiana