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**LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST**  
**NEW ORLEANS, LOUISIANA**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2009 AND 2008**

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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 7/27/11



A Professional Accounting Corporation

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**LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST**  
**NEW ORLEANS, LOUISIANA**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2009 AND 2008**

**LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST**

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**Independent Auditors' Report**

The Board of Directors  
Louisiana Horsemen's Medical Benefit Trust

We have audited the accompanying statement of net assets of the Louisiana Horsemen's Medical Benefit Trust (the Trust) as of December 31, 2009, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Trustees. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Trust as of December 31, 2008 were audited by other auditors whose report dated January 7, 2010 expressed an unqualified opinion on those statements.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Trust's internal control over financial reporting. Accordingly, we express no such opinion. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Trust as of December 31, 2009, and changes in its financial status for the year then ended in conformity with auditing principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2011, on our consideration of the Louisiana Horsemen's Medical Benefit Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

*Postlethwaite + Netterville*

Metairie, Louisiana  
June 30, 2011

**LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST**

**STATEMENTS OF NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**ASSETS**

|   | <u>2009</u>         | <u>2008</u><br>(as restated) |
|---|---------------------|------------------------------|
| Assets  |                     |                              |
| Cash  | \$ 968,922          | \$ 1,550,179                 |
| Receivables                                   |                     |                              |
| 4% Purse receivable                           | 289,945             | 367,743                      |
| Due from related party - LAHBPA 1993 Inc.     | 996,279             | 435,229                      |
| Due from related party - LAHBPA Pension Trust | -                   | 9,180                        |
|   | <u>1,286,224</u>    | <u>812,152</u>               |
| Investments at fair value                     |                     |                              |
| Certificate of deposit                        | 54,955              | 55,000                       |
| Government mortgage fund                      | 83,598              | 83,431                       |
|   | <u>138,553</u>      | <u>138,431</u>               |
| Building and equipment, net                   | <u>137,451</u>      | <u>47,387</u>                |
| Total assets                                  | <u>\$ 2,531,150</u> | <u>\$ 2,548,149</u>          |

**LIABILITIES**

|   |                     |                     |
|---|---------------------|---------------------|
| Liabilities                                 |                     |                     |
| Accounts payable                            | \$ 52,603           | \$ -                |
| Medical claims payable                      | 744,502             | 692,359             |
| Due to related party - LAHBPA Pension Trust | 57,903              | -                   |
| Total liabilities                           | <u>855,008</u>      | <u>692,359</u>      |
| Net assets available for benefits           | <u>\$ 1,676,142</u> | <u>\$ 1,855,790</u> |

See accompanying notes to financial statements.

**LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST**

**STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

|   | <u>2009</u>         | <u>2008</u><br>(as restated) |
|---|---------------------|------------------------------|
| Additions to net assets attributed to:  |                     |                              |
| Contributions                           |                     |                              |
| 4% Purse revenue                        | \$ 4,110,445        | \$ 4,450,050                 |
| Investment and other income             |                     |                              |
| Investment return                       | 17,074              | 9,341                        |
| Other income                            | 201,039             | 92,195                       |
| Total additions                         | <u>4,328,558</u>    | <u>4,551,586</u>             |
| Reductions to net assets attributed to: |                     |                              |
| Medical benefit payments                | 3,422,027           | 3,133,700                    |
| Administrative expenses                 | 1,086,179           | 1,209,415                    |
| Total reductions                        | <u>4,508,206</u>    | <u>4,343,115</u>             |
| Net increase (decrease) in net assets   | (179,648)           | 208,471                      |
| Net assets available, beginning of year | <u>1,855,790</u>    | <u>1,647,319</u>             |
| Net assets available, end of year       | <u>\$ 1,676,142</u> | <u>\$ 1,855,790</u>          |

See accompanying notes to financial statements.

**LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

**1. Significant Accounting Policies**

**General**

The Louisiana Horsemen's Medical Benefit Trust (the Trust) was formed to administer funds for the Louisiana Horsemen's Medical Benefit Plan. Louisiana race tracks at which horse races are held are obligated by Louisiana Revised Statute 4:183 to receive and distribute a determined amount, as specified in the statute, in order to provide for hospital and medical benefits and related administrative expenses.

The Louisiana Horsemen's Medical Benefit Plan (the Plan) was established to provide hospital and medical benefits and to pay for the administrative expenses related to providing such benefits for owners, owner/trainers, and trainers licensed to race horses in Louisiana, the employees of the owners, owner/trainers, trainers, and others.

**Benefits**

Under no circumstances shall the Trust provide benefits to any employee of the Louisiana Horsemen's Benevolent & Protective Association 1993, Inc. (an affiliate of the Trust).

Under the Plan, to be eligible for Plan benefits, an applicant must be licensed by, and in good standing with the Louisiana State Racing Commission. In addition, an applicant must enroll in the Plan and satisfy various eligibility requirements/conditions for participation. These requirements/conditions are varied according to defined classifications. Reference to the Plan agreement should be made for a complete description of the Plan's eligibility requirements/conditions.

The Plan provides financial assistance with eligible medical and hospital expenses. Reference to the Plan agreement should be made for a complete description of the eligible expenses and the dollar limit of coverage related to each eligible expense, together with conditions for assistance when a covered person has other medical and/or hospital insurance, major medical coverage, Medicare, or any other form of medical coverage.

**Contributions**

The Trust is funded exclusively from the statutorily dedicated funds described in Louisiana Revised Statutes 4:183, together with Revised Statute 27:361 (B)(4)(b), relative to slot machines. These funds are referred to in the financial statements as 4% Medical Benefits.

**LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

**1. Significant Accounting Policies (continued)**

**Basis of Accounting**

The financial statements of the Trust have been prepared on the accrual basis of accounting and accordingly reflect all significant receivable, payables, and other liabilities.

**Valuation of Investments**

The Trust's investments consist of government securities and a certificate of deposit. The investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Trust's gains and losses on investments bought and sold as well as held during the year.

**Building and Equipment**

Building and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, between three and ten years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

**Tax Status**

The Trust is exempt from federal income taxes under Section 501 (c) (4) of the Internal Revenue Code. Trust management and the Trust's counsel believe that the Trust is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Service. Therefore, no provision for income taxes has been included in the Trust's financial statements.



**LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

**1. Significant Accounting Policies (continued)**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of additions to and reduction of net assets during the reporting period. Accordingly, actual results may differ from those estimates.

**2. Investments**

Investments are stated at fair value, and are backed by the full faith and credit of either the U.S. Treasury or the municipalities that issued them.

At December 31, 2009 and 2008, investments are stated at fair value and consist of:

|                         | <u>2009</u>       | <u>2008</u>       |
|-------------------------|-------------------|-------------------|
| Certificates of deposit | \$ 54,955         | \$ 55,000         |
| Government securities   | 83,598            | 83,431            |
| Total                   | <u>\$ 138,553</u> | <u>\$ 138,431</u> |

**3. Building and Equipment – Net**

At December 31, 2009 and 2008, building and equipment consist of the following:

|                                |                   |                  |
|--------------------------------|-------------------|------------------|
| Buildings                      | \$ 20,142         | \$ 20,142        |
| Computers                      | 57,368            | 49,767           |
| Furniture and fixtures         | 12,112            | 7,304            |
| Equipment                      | 17,525            | 7,352            |
| Field office trailers          | 120,952           | 29,102           |
| Total cost                     | <u>228,099</u>    | <u>113,667</u>   |
| Less: Accumulated depreciation | (90,648)          | (66,280)         |
| Building and equipment, net    | <u>\$ 137,451</u> | <u>\$ 47,387</u> |

**LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

**3. Building and Equipment – Net (continued)**

During the year ended December 31, 2009, trailer additions of \$91,850 represent new field office trailers at the Fairgrounds and Louisiana Downs sites.

**4. Related Party Transactions**

The Louisiana Horsemen's Medical Benefit Trust shares certain overhead costs with the Louisiana Horsemen's Benevolent & Protective Association 1993, Inc. (LAHBPA 1993, Inc.) and the Louisiana Horsemen's Pension Trust (Pension), affiliates of the Trust. During the year ended December 31, 2008, LAHBPA 1993, Inc. and the Trust generally funded the overhead expenses and recorded amounts due from the related parties. Total allocated expenses from LAHBPA 1993 Inc. included in the Statements of Changes in Net Assets available for benefits during the year ended December 31, 2008 is \$115,760. At December 31, 2008 included on the Statements of Net Assets is \$435,229 due from LAHBPA 1993 Inc. and \$9,180 due from Pension.

At December 31, 2009 included on the Statements of Net Assets is \$996,279 due from LAHBPA 1993 Inc. and \$57,903 due to Pension. During the year ended December 31, 2009, included in administrative expenses is \$930,000 for management fees.

Balances due from LAHBPA 1993 Inc. (including its subsidiaries) at December 31, 2009 and 2008 consist of the following:

|  | <u>2009</u>       | <u>2008</u>       |
|--|-------------------|-------------------|
| Due from related party - 1993 Inc.                                       | \$ 1,389,759      | \$ 339,747        |
| Due from (to) related party - Worker's<br>Compensation Insurance Program | (401,480)         | 87,482            |
| Due from related party - Horsemen's Alliance<br>Holdings, Inc.           | 8,000             | 8,000             |
| Due from related party - 1993 Inc., net                                  | <u>\$ 996,279</u> | <u>\$ 435,229</u> |

**5. Termination of Plan**

After advance consultation with the Louisiana Horsemen's Benevolent & Protective Association 1993, Inc., the Trustees may terminate the Trust. Upon that termination, the Trustees shall allocate the assets of the Trust as follows: (a) first, to pay any benefits due and owing under the Trust to the then current participants, dependents, and beneficiaries; (b) second, to pay the expenses of terminating the Trust; and (c) third, after consultation with the Louisiana Horsemen's Benevolent

**LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

**5. Termination of Plan (continued)**

& Protective Association 1993, Inc., the excess shall be applied to the benefit of the then current participants, dependents, and beneficiaries. In no event, shall any assets of the Trust Fund be paid to, or inure to the benefit of the Louisiana Horsemen's Benevolent & Protective Association 1993, Inc. or any member thereof (other than through the payment of benefits in accordance with the Plan or the Agreement).

**6. Risks and Uncertainties**

The Trust invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and that such change could materially affect the amounts reported in the statements of net assets available for benefits.

**7. Fair Value Measurements**

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 Measurements) and the lowest priority to unobservable inputs (Level 3 Measurements).

The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

**7. Fair Value Measurements (continued)**

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2009 and 2008.

*U.S. government securities:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Certificates of deposit:* Valued at fair value which approximates cost.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Trust believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The following table sets forth by level, within the fair value hierarchy, the Trust's net assets at fair value as of December 31, 2009 and 2008.

| <u>2009</u>             | <u>Level 1</u> | <u>Level 2</u>    | <u>Level 3</u> | <u>Total</u>      |
|-------------------------|----------------|-------------------|----------------|-------------------|
| Certificates of deposit | \$ -           | \$ 54,955         | \$ -           | \$ 54,955         |
| Government securities   | -              | 83,598            | -              | 83,598            |
| Total                   | <u>\$ -</u>    | <u>\$ 138,553</u> | <u>\$ -</u>    | <u>\$ 138,553</u> |
| <u>2008</u>             | <u>Level 1</u> | <u>Level 2</u>    | <u>Level 3</u> | <u>Total</u>      |
| Certificates of deposit | \$ -           | \$ 55,000         | \$ -           | \$ 55,000         |
| Government securities   | -              | 83,431            | -              | 83,431            |
| Total                   | <u>\$ -</u>    | <u>\$ 138,431</u> | <u>\$ -</u>    | <u>\$ 138,431</u> |

**LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

**8. Prior period adjustment**

Certain errors resulting in an understatement of previously reported net assets available for benefits were discovered during the current year. The effect of the restatement at December 31, 2008 and for the year ended December 31, 2008 is summarized below:

|   |                     |
|---|---------------------|
| Net assets at December 31, 2008, as previously reported                             | \$ 2,308,971        |
| 4% Purse receivable   | 239,178             |
| Medical claims payable at December 31, 2008   | <u>(692,359)</u>    |
| Net assets at December 31, 2008, as restated  | <u>\$ 1,855,790</u> |
|   |                     |
| Increase in net assets for the year ended December 31, 2008, as previously reported | \$ 84,598           |
| 4% Purse receivable   | 239,178             |
| Medical claims benefit expenses for the year ended December 31, 2007                | 577,054             |
| Medical claims benefit expenses for the year ended December 31, 2008                | <u>(692,359)</u>    |
| Increase in net assets for the year ended December 31, 2008, as restated            | <u>\$ 208,471</u>   |

**9. Credit Risk Concentrations**

The Trust periodically maintains cash in bank accounts in excess of insured limits. The Trust has not experienced any losses and does not believe that significant credit risk exists.

Contributions received from purse and purse supplements as reported on the Statements of Changes in Net Assets Available for Benefits represent 94.96% and 97.77% of total additions to plan assets during the years ended December 31, 2009 and 2008.

**10. Subsequent Events**

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 30, 2011, and determined the following items require disclosure.

Various state and federal agencies are investigating the LAHBPA entities including 1993 Inc. and Subsidiaries, the Louisiana Horsemen's Pension Trust, and the Louisiana Horsemen's Medical Benefit Trust. On November 18, 2010, the federal government issued indictments against the LAHBPA Board President and the Executive Director, and a bill of information against one additional employee. In November and December 2010, the individuals indicted resigned all Board positions and terminated employment with the LAHBPA and its related entities. Effective November 22, 2010, pursuant to the by-laws, the 1<sup>st</sup> Vice President assumed the position of President.

**LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

**10. Subsequent Events (continued)**

On March 31, 2011, as described in the H.B.P.A. by-laws, the Organization conducted the election for new Board Members and the office of Board President. On April 8, 2011, the elected Board Members and Board President were sworn in. On April 8, 2011, the Board of H.B.P.A. voted to remove the existing Medical Trustees and appointed new Medical Trustees.

Effective February 1, 2011, the Board of LAHBPA 1993 Inc. approved an increase in the pony lead fees of \$6 per start with \$2 dedicated to fund the repayment of the balance due from LAHBPA 1993 Inc. to the Trust. In March through June 2011, the Trust received payments from LAHBPA 1993, Inc. as a reduction of the balance due from LAHBPA 1993 Inc. These monthly payments are funded by the increase in pony lead fees described above. Certain members have filed a derivative action against the former President, former Executive Director and eight former Board Members to recover for alleged wrongdoing. Another Board Member has filed a similar lawsuit against the former President. LAHBPA 1993 Inc. intends to use any net recoveries to reduce the balance. At December 31, 2009, no accounts receivable is recorded in the financial statements of the Trust relating to any net recoveries that may be received.

Effective November 8, 2010, the Trustees approved changes to the eligibility requirements and the benefits provided. The number of starts required to be eligible for medical benefits under the Trust was increased from 7 to 10. Overall maximum benefit amounts for employees and employee spouses were reduced. Maximum benefit amounts for specific benefit categories including dental, dentures, and optical were also reduced or eliminated.

**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**

Board of Directors  
Louisiana Horsemen's Medical Benefit Trust

We have audited the financial statements of Louisiana Horsemen's Medical Benefit Trust as of and for the year ended December 31, 2010, and have issued our report thereon dated June 30, 2011. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Louisiana Horsemen's Medical Benefit Trust's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Louisiana Horsemen's Medical Benefit Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control over financial reporting.

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.

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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Louisiana Horsemen's Medical Benefit Trust's financial statements are free of material misstatements, 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses.

We noted certain other matters that we reported to management of Louisiana Horsemen's Medical Benefit Trust in a separate letter dated June 30, 2011.

Louisiana Horsemen's Medical Benefit Trust's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Trust's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Legislative Auditor of the State of Louisiana, the Louisiana Horsemen's Medical Benefit Trust's management and Board of Directors and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Postlethwaite + Nettenville*

Metairie, Louisiana  
June 30, 2011



**LOUISIANA HORESMEN'S MEDICAL BENEFIT TRUST**

**SCHEDULE OF FINDINGS AND RESPONSES**

**FOR THE YEAR ENDED DECEMBER 31, 2009**

**SECTION I-GOVERNMENT AUDITING STANDARDS FINDINGS**

**2009-1 Use of Medical Trust Funds**

**Condition:** During the year ended December 31, 2009, the Trust advanced funds to its related parties including LAHBPA 1993 Inc. and the Louisiana Horsemen's Pension Trust. At December 31, 2009 included on the Statements of Net Assets are amounts due from LAHBPA 1993 Inc. of \$996,279.

**Criteria:** The Louisiana Horsemen's Medical Benefit Trust was created to provide hospital and medical benefits and to pay for the administrative expenses related to providing such benefits to eligible beneficiaries. The trust agreement provides the Trust is funded exclusively from statutorily dedicated funds which were to be used to provide hospital and medical benefits in such form and manner to such individuals specified in the plan. The trust agreement also provides that no part of the Trust funds shall be diverted to the benefit of the HBPA or any HBPA member other than through the payment of benefits.

**Effect:** Amounts advanced by the Trust to LAHBPA 1993 Inc. and to the Louisiana Horsemen's Pension Trust are properly recorded as receivables on the financial statements of the Trust, however, the funds were not used consistent with the trust agreement as described above.

**Cause:** Revenue in LAHBPA 1993 Inc. decreased due to a decline in interest rates and investment income which occurred at the same time that expenditures were increasing.

**Recommendation:** We recommend that the Trust no longer advance funds to its related parties and that the operating expenses of LAHBPA 1993 Inc. and of the Louisiana Horsemen's Pension Trust be paid directly by each respective organization that incurs the cost. Management should define a repayment plan for LAHBPA 1993 Inc. to pay in full over time its balance of \$996,279 due to the Trust.

**LOUISIANA HORESMEN'S MEDICAL BENEFIT TRUST**

**SCHEDULE OF FINDINGS AND RESPONSES**

**FOR THE YEAR ENDED DECEMBER 31, 2009**

**SECTION I-GOVERNMENT AUDITING STANDARDS FINDINGS**

**2009-1 Use of Medical Trust Funds (continued)**

**Management response:**

Effective February 1, 2011, the Trust has discontinued the practice of advancing funds to its affiliated entities. Additionally on that date, the Board of LAHBPA 1993, Inc. approved an increase in the pony lead fees of \$6 per start with \$2 dedicated to fund the repayment of the balance due from LAHBPA 1993, Inc. to the Trust. In March through June 2011, the Trust received payments from LAHBPA 1993, Inc. as a reduction of the balance due from LAHBPA 1993, Inc. It is expected that the Trust will continue to receive monthly payments until the balance of the debt is exhausted. Certain members have filed a derivative action against the former President, former Executive Director and eight former Board Members to recover for alleged wrongdoing. Another Board Member has filed a similar lawsuit against the former President. LAHBPA 1993 Inc. intends to use any net recoveries to reduce the balance.

To the Board of Directors  
Louisiana Horsemen's Medical Benefit Trust

In planning and performing our audit of the financial statements of the Louisiana Horsemen's Medical Benefit Trust (the Trust) as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Trust's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control.

However, during our audit we became aware of several matters as listed in Attachment I that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the Trust's internal control in our *Government Auditing Standards* letter dated June 30, 2011. This letter does not affect our report dated June 30, 2011 on the financial statements of the Trust.

We will review the status of these comments during our next audit engagement. We have discussed many of these comments and suggestions with management and we will be pleased to discuss them in further detail at your convenience.

The Trust's written responses to the comments identified in Attachment I have not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors, the State of Louisiana and the Legislative Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Postlethwaite & Netterville*

Metairie, Louisiana  
June 30, 2011

**LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST**

**MANAGEMENT LETTER COMMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2009**

**2009-1 Outstanding Checks**

**Condition:** During the audit we noted that at December 31, 2009, the Trust has \$44,618 of outstanding checks in excess of one year old.

**Recommendation:** P&N recommends that management review the outstanding checklist and consider the appropriateness of remitting the amounts to the State of Louisiana as unclaimed property.

**Management Response and Corrective Action:** We have assigned the responsibility to review these outstanding checks to our Senior Accountant and will remit all remaining outstanding funds according to Louisiana Escheat Laws by December, 2011.

**2009-2 Medical Benefit limits**

**Condition:** During the course of our audit procedures we had one exception in our test of controls over claims paid. One member's classification changed from trainer to employee during the year ended December 31, 2009. The financial statement impact is the member received benefits of \$100 in excess of the limits described in the plan.

**Recommendation:** P&N recommends that management review procedures to verify that member benefits do not exceed the described limits. In addition, management should consider additional review procedures on members that change status during the year.

**Management Response and Corrective Action:** We are currently using a manual process to determine eligibility of participants. Due to the volume of transactions processed, the risk of human error certainly is increased. We will immediately review all of the eligibility and classification requirements with our personnel to mitigate the risk of a wrong payment. Further, we are exploring modern technological solutions to eliminate the element of human error. To date, we have not yet found or developed a computer program to assist us in more accurately classifying participants into proper benefit categories.

**2009-3 Medical Benefit eligibility**

**Condition:** During the course of our audit procedures we had one exception in our test of controls over eligibility for benefits. One member received benefits and did not have the appropriate number of starts to be eligible for benefits at the time the service was provided.

**Recommendation:** P&N recommends that management review procedures to verify a member's eligibility to receive benefits prior to services being provided.

**LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST**

**MANAGEMENT LETTER COMMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2009**

**2009-3 Medical Benefit eligibility (continued)**

Management Response and Corrective Action: We are currently using a manual process to determine eligibility of participants. Due to the volume of transactions processed, the risk of human error certainly is increased. We will immediately review all of the eligibility requirements with our personnel to mitigate the risk of an improper payment. Further, we are exploring modern technological solutions to eliminate the element of human error. To date, we have not yet found or developed a computer program to assist us in more accurately classifying participants into proper benefit categories.