
LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
NEW ORLEANS, LOUISIANA

FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

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 21 2013



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LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
NEW ORLEANS, LOUISIANA

FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST

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Independent Auditor's Report

The Trustees
Louisiana Horsemen's Medical Benefit Trust

Report on the Financial Statements

We have audited the accompanying statements of net assets of the Louisiana Horsemen's Medical Benefit Trust (the Trust) as of December 31, 2012 and 2011, and the related statements of changes in net assets available for benefits for the years 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 accounting principles generally accepted in the United States of America; 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 audits. We conducted our audits 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 audits 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 accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2012 and 2011, and changes in its financial status for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2013, 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* in considering the Trust's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Metairie, Louisiana
June 28, 2013

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST

STATEMENTS OF NET ASSETS
DECEMBER 31, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Assets		
Cash	\$ 2,086,084	\$ 976,271
Receivables		
4% Purse receivable	300,740	286,563
Due from related party - LAHBPA 1993 Inc.	-	470,356
	<u>300,740</u>	<u>756,919</u>
Investments at fair value		
Certificate of deposit	54,955	54,955
Government mortgage fund	87,748	88,182
	<u>142,703</u>	<u>143,137</u>
Building and equipment, net	<u>79,566</u>	<u>97,334</u>
Total assets	<u>\$ 2,609,093</u>	<u>\$ 1,973,661</u>

LIABILITIES

Liabilities		
Accounts payable	\$ 5,506	\$ 17,806
Medical claims payable	154,235	394,471
Due to related party - LAHBPA Horsemen's Bookkeeper Account	-	195
Total liabilities	<u>159,741</u>	<u>412,472</u>
Net assets available for benefits	<u>\$ 2,449,352</u>	<u>\$ 1,561,189</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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Additions to net assets attributed to:		
Contributions		
4% medical benefit revenue	\$ 3,924,584	\$ 3,882,723
Investment and other income		
Investment return	2,148	6,470
Other income	181	1,064
Total additions	<u>3,926,913</u>	<u>3,890,257</u>
Reductions to net assets attributed to:		
Medical benefit payments	2,129,394	2,612,627
Administrative expenses	909,356	1,063,800
Total reductions	<u>3,038,750</u>	<u>3,676,427</u>
Net increase in net assets	888,163	213,830
Net assets available, beginning of year	<u>1,561,189</u>	<u>1,347,359</u>
Net assets available, end of year	<u>\$ 2,449,352</u>	<u>\$ 1,561,189</u>

See accompanying notes to financial statements.

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

1. Nature of Activities

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

Except for employees of the Louisiana Horsemen's Benevolent & Protective Association 1993, Inc. (LAHBPA 1993 Inc.) who meet the eligibility requirements to receive benefits, the Trust shall not provide benefits to any employee of LAHBPA 1993 Inc. In June 2012, the State of Louisiana Legislature approved and the governor signed House Bill No. 1111 which clarifies the hospital and medical benefits provided by the Trust. House Bill No. 1111 amends Louisiana Revised Statute 4:183 to define hospital and medical benefits to include but not be limited to reasonable medical surgical, hospitalization, and physical rehabilitation, and dental and optical services, death benefits, drug and alcohol counseling, and other spiritual, mental, and psychological services provided for the welfare of eligible participants in the Trust. The term "hospital and medical" benefits also includes one-time benevolence payments to persons in the equine industry who are in financial need as a result of serious illness or injury, fire, or natural disaster, including but not limited to hurricane, tornado, or flood.

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 vary according to defined classifications. Also, the Plan provides financial assistance with eligible medical and hospital expenses, substance abuse counseling, and on-track chaplaincy. 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 revenue.

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

2. Significant Accounting Policies

Basis of Accounting

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

Cash and cash equivalents

Cash equivalents are all highly-liquid investments with maturities of three months or less at date of acquisition.

Investments

The Trust's investments consist of a mutual fund that invests in a range of government and U.S. government agency 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 investments 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, and 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 ("IRC"). 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 IRC. 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, 2012 AND 2011

2. Significant Accounting Policies (continued)

Tax Status (continued)

The Trust applies a "more-likely-than-not" recognition threshold for all tax uncertainties. This approach only allows the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities. As a result of implementing this approach, the Trust has reviewed its tax positions and determined there were no outstanding or retroactive tax positions with less than a 50% likelihood of being sustained upon examination by the taxing authorities. Therefore, the implementation of this standard has not had a material effect on the Trust. The Trust's tax returns for the years ended December 31, 2011, 2010 and 2009 remain open and subject to examination by taxing authorities. The Trust return for the year ended December 31, 2012 has not been filed as of the report date and is on valid extension.

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.

3. Investments

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

At December 31, 2012 and 2011, investments consist of:

	<u>2012</u>	<u>2011</u>
Certificates of deposit	\$ 54,955	\$ 54,955
Mutual fund	87,748	88,182
Total	<u>\$ 142,703</u>	<u>\$ 143,137</u>

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

4. **Building and Equipment – Net**

At December 31, 2012 and 2011, building and equipment consist of the following:

	<u>2012</u>	<u>2011</u>
Buildings	\$ 20,142	\$ 20,142
Computers	59,301	59,301
Furniture and fixtures	12,112	12,112
Equipment	19,720	19,720
Field office trailers	<u>120,951</u>	<u>120,951</u>
Total cost	232,226	232,226
Less: Accumulated depreciation	<u>(152,660)</u>	<u>(134,892)</u>
Building and equipment, net	<u>\$ 79,566</u>	<u>\$ 97,334</u>

Depreciation expense of \$17,769 and \$21,390 is included in administrative expenses for the years ended December 31, 2012 and 2011, respectively

5. **Related Party Transactions**

At December 31, 2012 and 2011 the Statements of Net Assets included \$0 and \$470,356 due from LAHBPA, 1993 Inc. and Horsemen's Alliance Holdings, Inc. During the years ended December 31, 2012 and 2011, general and administrative expenses included \$842,000 and \$930,000 for management fees to LAHBPA 1993 Inc.

Balances due from LAHBPA 1993 Inc. (including its subsidiaries) at December 31, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Due from related party - 1993 Inc.	\$ -	\$ 462,356
Due from related party - Horsemen's Alliance Holdings, Inc.	<u>-</u>	<u>8,000</u>
Due from related party - 1993 Inc., net	<u>\$ -</u>	<u>\$ 470,356</u>

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

5. Related Party Transactions (continued)

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 2011 through December 2012, 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. As December 31, 2012, no amounts are due to the Trust from LAHBPA 1993, Inc.

6. 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 & 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).

7. Risks and Uncertainties

The Trust invests in various investments. Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments 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.

8. 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 99.94% and 99.81% of total additions to plan assets during the years ended December 31, 2012 and 2011.

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

9. 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.

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, 2012 and 2011.

Mutual funds: Valued at the closing price reported on the active market on which the mutual fund is traded.

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

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

9. Fair Value Measurements (continued)

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, 2012 and 2011.

<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 54,955	\$ -	\$ 54,955
Mutual fund	87,748	-	-	87,748
Total	\$ 87,748	\$ 54,955	\$ -	\$ 142,703
<u>2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 54,955	\$ -	\$ 54,955
Mutual fund	88,182	-	-	88,182
Total	\$ 88,182	\$ 54,955	\$ -	\$ 143,137

10. Federal Indictment

In November 2010, the United States indicted the President and Executive Director of LAHBPA 1993, Inc. in a 29-count indictment charging mail fraud, wire fraud, identification information fraud and health care fraud in connection with the rigging of an election by which the President and Board of Directors of LAHBPA were elected in March 2008 and financial irregularities related to the Trust. Their positions with LAHBPA 1993, Inc. were terminated shortly after their indictments. In July 2011, the former Executive Director of LAHBPA 1993 Inc. pleaded guilty to one count of conspiracy to commit mail fraud, wire fraud, and fraud in connection with identification documents, all in connection with the rigging of the March 2008 election. In September 2011, the former President of LAHBPA 1993, Inc. pleaded guilty to one count of conspiracy to commit mail fraud, wire fraud, fraud in connection with identification documents and health care fraud, all in connection with the rigging of the March 2008 election and financial irregularities related to the Trust. The former Executive Director and the former President were sentenced in 2012.

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

10. Federal Indictment (continued)

Effective November 22, 2010, pursuant to the bylaws, the Vice President assumed the position of President. The Vice President was replaced on the Board by the trainer candidate with the next highest number of votes in the March 2008 election. On March 31, 2011, as prescribed by the bylaws of LAHBPA 1993, Inc., an election was held to elect a new President and new Board of Directors, all to serve for a three-year term. The new President and Board of Directors were sworn into office on April 8, 2011. On April 8, 2011, the Board of LAHBPA 1993 Inc. voted to remove the existing Trustees of the Trust and appointed new Trustees of the Trust.

Certain members filed a derivative action against the former President, former Executive Director and eight former Board Members to recover for alleged wrongdoing. Another Board Member filed a similar lawsuit against the former President. On June 15, 2012, the parties to the derivative actions agreed to a settlement. On August 24, 2012, the LAHBPA 1993 Inc. received settlement funds of \$329,830 and reduced the balance owed to the Trust.

The Louisiana Legislative Auditor's office has performed procedures and on May 4, 2011 issued a compliance audit on the LAHBPA 1993, Inc. and its related entities.

11. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 28, 2013, and determined the following items require disclosure.

The Louisiana Legislative Auditor's office has performed procedures and on March 20, 2013 issued a compliance audit on the LAHBPA 1993, Inc. and its related entities. Management is not aware of any impact on the financial statements of the Trust as a result of the compliance report.

INDEPENDENT AUDITOR'S 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

The Trustees
Louisiana Horsemen's Medical Benefit Trust

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 Horsemen's Medical Benefit Trust (the Trust) which comprise the statements of net assets as of December 31, 2012 and 2011 and the statements of changes in net assets available for benefits for the years ended December 31, 2012 and 2011 and the related notes to the financial statements, and have issued our report thereon dated June 28, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust'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 Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust'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 Trust'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 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.

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 as item 2012-01.

We noted certain other matters that we reported to management of Louisiana Horsemen's Medical Benefit Trust in a separate letter dated June 28, 2013.

Louisiana Horsemen's Medical Benefit Trust's Response to Findings

The Trust's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Trust's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Trust'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 Trust's internal control and compliance. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite + Nettewille

Metairie, Louisiana
June 28, 2013

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
SCHEDULE OF CURRENT YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2012

SECTION I-GOVERNMENT AUDITING STANDARDS FINDINGS

2012-1 Use of Medical Trust Funds

Condition: During the year ended December 31, 2010, the Trust advanced funds to its related parties including LAHBPA 1993 Inc. and the Louisiana Horsemen's Pension Trust. At December 31, 2012, the balance due from LAHBPA 1993 Inc. was paid in full. No new advances were made during the year ending December 31, 2012. During the year ending December 31, 2012, \$470,356 was paid to the Trust by LAHBPA, 1993, Inc and the balance was paid in full.

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 were 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 continue to 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.

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
SCHEDULE OF CURRENT YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2012

SECTION I-GOVERNMENT AUDITING STANDARDS FINDINGS (Continued)

2012-1 Use of Medical Trust Funds (Continued)

Management Response:

Effective February 1, 2011, the Trust 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. During 2011, the Trust received payments from LAHBPA 1993, Inc. as a reduction of the balance due from LAHBPA 1993, Inc. As of December 31, 2012, all outstanding obligations due from LAHBPA 1993 Inc. and the Pension Trust were paid in full.

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2012

SECTION I-GOVERNMENT AUDITING STANDARDS FINDINGS

2011-1 Use of Medical Trust Funds

Condition: During the year ended December 31, 2010, the Trust advanced funds to its related parties including LAHBPA 1993 Inc. and the Louisiana Horsemen's Pension Trust. At December 31, 2011 included on the Statements of Net Assets are amounts due from LAHBPA 1993 Inc. of (\$195). No new advances were made during the year ending December 31, 2011. During the year ending December 31, 2011, \$679,138 was paid to the Trust by LAHBPA, 1993, Inc.

Current Status: Unresolved. See item 2012-01.

2010-1 Use of Medical Trust Funds

Condition: During the year ended December 31, 2010, the Trust advanced funds to its related parties including LAHBPA 1993 Inc. and the Louisiana Horsemen's Pension Trust. At December 31, 2010 included on the Statements of Net Assets are amounts due from LAHBPA 1993 Inc of \$1,149,299.

Current Status: Unresolved. See item 2012-01.

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.

Current Status: Unresolved. See item 2012-01.

The Trustees
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, 2012, 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 28, 2013. This letter does not affect our report dated June 28, 2013 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 and Attachment II 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 28, 2013

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST

MANAGEMENT LETTER COMMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

2012-1 Medical Benefit eligibility

Condition: During the course of our audit procedures for the years ended December 31, 2012, we noted one exception in our test of eligibility for recipients of benefits. The recipient did not have the necessary number of starts to receive benefits under the plan document stipulations. Additionally, the medical benefits provide for maximum benefits for prescription services for each participant. The Trust does not have appropriate procedures in place to verify that participants have not exceeded the annual limit for prescription benefits as approved by the Trustees.

Recommendation: P&N recommends that management review procedures to verify members' eligibility to receive benefits prior to services being provided. Management should consider additional procedures to ensure that members do not exceed the limits for certain eligible benefits, including prescription benefits.

Management Response and Corrective Action: The eligibility determination process is still being done manually. The volume of transactions to review in determining eligibility is tremendous and complicated due to the number of race tracks involved, the numbers of races held each year and the number of racing partnerships in which a medical participant may be involved. We will again review all eligibility requirements with our personnel to mitigate the risk of an improper payment. We have also discussed an automated determination process with several companies during the course of the past year but, as of this date, they have not been able to design an effective and accurate automated system for our use.

With regards to prescription benefits, our action plan was to meet with representatives of Express Scripts (Service Provider) and AJ Gallagher (Consultant) to implement a more detailed process to review prescription benefits and limits. Our discussions proved fruitless as Express Scripts was unwilling to change its processes to help us strengthen our controls over benefit eligibility and limits. As a result, we terminated our agreement with both of these agencies. We are currently in discussions with another service provider and are continuing to try to automate the process to validate prescriptions and monitor limits. In the interim, our personnel are performing these eligibility tasks.

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST

MANAGEMENT LETTER COMMENTS - PRIOR YEAR

FOR THE YEAR ENDED DECEMBER 31, 2012

2011-1 Outstanding Checks

Condition: During the audit we noted that at December 31, 2011, the Trust has \$64,822 of outstanding checks in excess of six months 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.

Current Status: Resolved

2011-2 Medical Benefit eligibility

Condition: During the course of our audit procedures for the years ended December 31, 2011, we noted one exception in our test of eligibility for recipients of benefits. The recipient did not have the necessary number of starts to receive benefits under the plan document stipulations. Additionally, the medical benefits provide for maximum benefits for prescription services for each participant. The Trust does not have appropriate procedures in place to verify that participants have not exceeded the annual limit for prescription benefits as approved by the Trustees.

Recommendation: P&N recommends that management review procedures to verify members' eligibility to receive benefits prior to services being provided. Management should consider additional procedures to ensure that members do not exceed the limits for certain eligible benefits, including prescription benefits.

Current Status: Not resolved – See item 2012-1

2011-3 Medical benefits in accordance with Louisiana Revised Statute

Condition: The medical benefits available to eligible members are defined in the Louisiana Revised Statute 4:183. Some of the benefits (including death benefits) that have been paid by the Trust are not expressly included as an eligible medical benefit and expense of the Trust as defined by the Louisiana Revised Statute.

Recommendation: P&N recommends that the Board and management consider a review of expenses paid to verify they are in compliance with the Louisiana Revised Statutes.

Current Status: Resolved

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
MANAGEMENT LETTER COMMENTS - PRIOR YEAR
FOR THE YEAR ENDED DECEMBER 31, 2012

2010-1 Outstanding Checks

Condition: During the audit we noted that at December 31, 2010, the Trust has \$54,623 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.

Current Status: Resolved.

2010-2 Medical Benefit eligibility

Condition: During the course of our audit procedures for the years ended December 31, 2010, we noted three exceptions in our test of recipient eligibility for benefits. All exceptions related to cases where the recipient did not have the necessary number of starts to receive benefits under the plan document stipulations.

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

Current Status: Unresolved. See comment 2012-1.

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
MANAGEMENT LETTER COMMENTS - PRIOR YEAR
FOR THE YEAR ENDED DECEMBER 31, 2012

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.

Current Status: Resolved.

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.

Current Status: Unresolved. See comment 2012-1.