

**LOUISIANA THOROUGHBRED BREEDERS
ASSOCIATION**

December 31, 2006

Audit of Financial Statements

December 31, 2006

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 9/5/07

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Board of Directors
Louisiana Thoroughbred Breeders Association

Independent Auditor's Report

We have audited the statement of assets, liabilities and net assets - modified cash basis of **LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION** (the Association), a non-profit organization, as of December 31, 2006, and the related statements of revenues and expenses - modified cash basis, and changes in net assets - modified cash basis, for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note A, the Association's policy is to prepare its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

As discussed in Note C, the Association has accrued certain revenues related to the publication of *Louisiana Horse Magazine*. If the revenues were not accrued, accounts receivable of \$66,340 would not be recorded and net assets would decrease by \$31,293 as of December 31, 2006. Excess revenues over expenses would decrease by \$31,293 for the year ended December 31, 2006.

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, 2006, and its related revenues and expenses and changes in net assets for the year then ended on the basis of accounting described in Note A.

110 VETERANS MEMORIAL BOULEVARD, SUITE 200, METAIRIE, LA 70005-4958 • 504.835.5522 • FAX 504.835.5535
5100 VILLAGE WALK, SUITE 202, COVINGTON, LA 70433-4012 • 985.892.5850 • FAX 985.892.5956

WWW.LAPORTE.COM

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In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2007, 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 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 read in conjunction with this report in considering the results of our audit.

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 13 - 20 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 recording accounts receivable, as discussed above, is fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note A. The December 31, 2005, amounts were included for comparative purposes only.



A Professional Accounting Corporation

June 8, 2007

LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
 December 31, 2006

WITH SUMMARIZED FINANCIAL INFORMATION FOR DECEMBER 31, 2005

ASSETS	Operating	Louisiana Horse	Louisiana Champions Day	SALAM Races	Other Races	Slot Machine	Political Action Council	Totals	
								(Memorandum Only) 2006	2005
CURRENT ASSETS									
Cash	\$ 1,221,613	\$ 53,172	-	\$ -	\$ -	\$ -	\$ -	\$ 1,274,785	\$ 878,503
Restricted Cash	55,320	-	46,464	16,331	1,934,425	5,805,499	-	7,858,039	5,417,473
Accounts Receivable	-	66,340	-	-	-	-	-	66,340	35,047
Total Current Assets	<u>1,276,933</u>	<u>119,512</u>	<u>46,464</u>	<u>16,331</u>	<u>1,934,425</u>	<u>5,805,499</u>	-	<u>9,199,164</u>	<u>6,331,023</u>
PROPERTY AND EQUIPMENT - NET									
Furniture and Equipment	168,578	56,903	-	-	-	-	-	225,481	206,740
Buildings	145,811	-	-	-	-	-	-	145,811	53,460
Software	9,376	-	-	-	-	-	-	9,376	5,964
Automobile	30,953	-	-	-	-	-	-	30,953	30,953
Less: Accumulated Depreciation	<u>(193,825)</u>	<u>(56,903)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(248,790)</u>	<u>(225,659)</u>
Total Property and Equipment - Net	<u>160,893</u>	<u>1,938</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>162,831</u>	<u>71,458</u>
OTHER ASSETS									
Due from Breeders Sales Company	70,000	-	-	-	-	-	-	70,000	70,000
Cash Surrender Value - Key Man Life	204,960	-	-	-	-	-	-	204,960	180,949
Restricted Cash	288,745	-	-	-	-	-	-	288,745	166,395
Investment - Breeders Sales Company	20,000	-	-	-	-	-	-	20,000	20,000
Due from Other Funds	25,334	-	-	-	-	-	-	25,334	90,764
Deposits	875	-	-	-	-	-	-	875	875
Total Other Assets	<u>609,914</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>609,914</u>	<u>528,983</u>
	<u>\$ 2,047,740</u>	<u>\$ 121,450</u>	<u>\$ 46,464</u>	<u>\$ 16,331</u>	<u>\$ 1,934,425</u>	<u>\$ 5,805,499</u>	<u>\$ -</u>	<u>\$ 9,971,909</u>	<u>\$ 6,931,464</u>

LIABILITIES AND NET ASSETS	Operating	Louisiana Horse	Louisiana Champions Day	SALAM Races	Other Races	Slot Machine	Political Action Council	Totals (Memorandum Only)	
								2006	2005
CURRENT LIABILITIES									
Deposits - Futurity Races	\$ 55,320	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,320	\$ 46,070
Accounts Payable	-	-	-	-	-	-	-	-	12,652
Total Current Liabilities	<u>55,320</u>	-	-	-	-	-	-	<u>55,320</u>	<u>58,722</u>
LONG-TERM LIABILITIES									
Deposits - Stallion Stakes	252,625	-	-	-	-	-	-	252,625	131,125
Deposits - Futurity Races	36,120	-	-	-	-	-	-	36,120	35,270
Due to Other Funds	-	25,334	-	-	-	-	-	25,334	90,764
Total Long-Term Liabilities	<u>288,745</u>	<u>25,334</u>	-	-	-	-	-	<u>314,079</u>	<u>257,159</u>
Total Liabilities	<u>344,065</u>	<u>25,334</u>	-	-	-	-	-	<u>369,399</u>	<u>315,881</u>
NET ASSETS									
	1,703,675	96,116	46,464	16,331	1,934,425	5,805,499	-	9,602,510	6,615,583
	<u>\$ 2,047,740</u>	<u>\$ 121,450</u>	<u>\$ 46,464</u>	<u>\$ 16,331</u>	<u>\$ 1,934,425</u>	<u>\$ 5,805,499</u>	<u>\$ -</u>	<u>\$ 9,971,909</u>	<u>\$ 6,931,464</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, 2006

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2005

	Operating	Louisiana Horse	Louisiana Champions Day	SALAM Races	Other Races	Slot Machine	Political Action Council	Totals	
								2006	(Memorandum Only) 2005
REVENUES									
Slot Machine Proceeds - 2%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,653,450	\$ -	\$ 7,653,450	\$ 6,271,915
Awards - 9.1%	-	-	-	1,185,044	-	-	-	1,185,044	898,322
10% from Tracks	-	-	-	707,900	-	-	-	707,600	596,829
Commissions - 2%	642,395	-	-	-	-	-	-	642,395	507,427
Fees - 14%	441,657	-	-	-	-	-	-	441,657	306,839
Awards - Triple Crown Races	-	-	323,791	-	-	-	-	323,791	279,548
LA Quarter Horse Reimbursement	-	-	3,501	-	-	-	-	3,501	-
Publications	-	208,263	-	-	-	-	-	208,263	144,137
Interest	-	324	6,974	140	71,184	156,479	-	289,466	140,538
SALAM Awards - 8% and 15.1%	54,365	-	-	84,250	-	-	-	84,250	125,267
Members' Dues	52,590	-	-	-	-	-	-	52,590	44,900
Accrediting Fees	44,660	-	-	-	-	-	-	44,660	34,940
Nominations	-	-	54,750	-	-	-	-	54,750	26,550
Sponsorship	-	-	24,335	-	-	-	-	24,335	12,500
Silent Auction	-	-	31,275	-	-	-	-	31,275	22,100
Interest Transfer	207,578	-	-	-	-	-	-	207,578	117,343
Stallion Fees	-	-	19,410	-	-	-	-	19,410	14,830
Ticket Sales	-	-	3,795	-	-	-	-	3,795	4,833
Mare Registration	6,980	-	-	-	-	-	-	6,980	6,480
Miscellaneous	50,510	-	-	-	-	-	-	50,510	3,200
Total Revenues	1,500,735	208,587	467,831	84,390	1,963,828	7,809,929	-	12,035,310	9,558,498

	Operating	Louisiana Horse	Louisiana Champions Day	SALAM Races	Other Races	Slot Machine	Political Action Council	Totals (Memorandum Only)	
								2005	2005
EXPENSES									
Breeder's Awards	\$ -	\$ -	\$ -	\$ 1,277,103	\$ 2,220,412	\$ 2,369,665	\$ -	\$ 5,867,180	\$ 6,522,809
Purse Supplements	-	-	460,000	-	605,450	-	-	1,065,450	842,974
Stallion Awards	-	-	-	-	-	592,674	-	592,674	598,123
Salaries - Regular	291,346	55,511	-	-	-	-	-	346,857	326,599
Interest Transfers	-	-	-	-	68,644	138,934	-	207,578	117,343
Insurance	131,545	-	-	-	-	-	-	131,545	90,954
Publication Expense	-	129,793	-	-	-	-	-	129,793	47,241
Meetings and Banquets	61,564	-	3,000	-	-	-	-	64,564	64,976
Loss on Disposal of Asset	-	-	-	-	-	-	-	-	60,305
Out of State Stakes Awards	-	-	-	-	-	38,385	-	38,385	61,374
Pension Expense	80,203	-	-	-	-	-	-	80,203	60,613
Advertising and Promotion	46,513	100	11,862	-	-	-	-	58,475	51,120
Computer Fees	38,088	500	-	-	-	-	-	38,588	38,428
Salaries - Boutis	28,680	-	-	-	-	-	-	28,680	33,311
Hurricane Katrina Relief	-	-	-	-	-	-	-	-	30,000
Office Supplies	24,167	1,218	-	-	-	-	-	25,385	29,158
Payroll Taxes	28,642	1,032	-	-	-	-	-	29,674	27,024
Postage and Shipping	20,256	5,418	-	-	3,309	-	-	25,674	20,324
Mixed Race Awards	-	-	-	-	-	-	-	3,309	20,980
Depreciation	21,924	1,151	-	-	-	-	-	23,075	17,485
Travel	17,513	2,483	-	-	-	-	-	19,996	19,305
Audit	18,258	-	-	-	-	-	-	18,258	15,686
Telephone Expense	12,047	1,542	6,298	-	-	-	-	13,589	16,310
Trophies	8,037	-	-	-	-	-	-	14,335	14,175
Legal	20,830	-	-	-	-	-	-	20,830	14,083
Printing	8,885	-	368	-	-	-	-	9,253	12,418
Equipment Rental	13,154	-	-	-	-	-	-	13,154	10,295
Rent	8,250	-	-	-	-	-	-	8,250	9,000
Field Inspector	1,890	-	-	-	-	-	-	1,890	7,861
General Accounting	6,522	-	-	-	-	-	-	6,522	6,744
Contributions	9,150	-	-	-	-	-	-	9,150	5,683
Dues and Subscriptions	6,942	99	-	-	-	-	-	7,041	3,686
Utilities	-	1,250	-	-	-	-	-	1,350	900
Repairs and Maintenance	4,665	-	-	-	-	-	-	4,665	807
Taxes and Licenses	-	-	-	-	-	-	-	-	568
Pedigree Research	335	20,034	-	-	-	-	-	20,369	17,585
Sub-Contractors	-	7,450	-	-	-	-	-	7,450	6,086
Bad Debt	-	250	-	-	-	-	-	250	685
Phones	-	-	-	-	-	-	-	-	175
Website / Internet	14,939	-	-	-	-	-	-	14,939	-
Other	764	41	28	-	-	79	-	912	12
Triple Crown Race Funds - LQHBA	-	-	99,081	-	-	-	-	99,081	85,361
Total Expenses	925,109	227,972	580,637	1,277,103	2,897,815	3,139,737	-	9,048,373	9,308,566
EXCESS (DEFICIT) REVENUES OVER EXPENSES	\$ 575,626	\$ (19,385)	\$ (112,806)	\$ (1,192,713)	\$ (933,987)	\$ 4,670,192	\$ -	\$ 2,986,927	\$ 249,932

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, 2006

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2005

	Operating	Louisiana Horse	Louisiana Champions Day	SALAM Races	Other Races	Slot Machine	Political Action Council	Totals	
								(Memorandum Only) 2006	2005
NET ASSETS - BEGINNING OF YEAR	\$ 1,137,728	\$ 110,560	\$ 3,815	\$ 25,906	\$ 1,714,455	\$ 3,629,519	\$ (6,400)	\$ 6,615,583	\$ 6,365,651
EXCESS (DEFICIT) REVENUES OVER EXPENSES	575,626	(19,385)	(112,806)	(1,192,713)	(933,987)	4,670,192	-	2,986,927	249,932
TRANSFER FROM (TO) OTHER FUNDS	(9,679)	4,941	155,455	1,183,138	1,153,957	(2,494,212)	6,400	-	-
NET ASSETS - END OF YEAR	\$ 1,703,675	\$ 96,116	\$ 46,464	\$ 16,331	\$ 1,934,425	\$ 5,805,499	\$ -	\$ 9,602,510	\$ 6,615,583

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

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

INTRODUCTION

The **LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION** (the Association) is a Louisiana non-profit organization, which seeks to promote and further the thoroughbred breeding industry within the State of Louisiana. The Association is engaged in programs for the encouragement and improvement of the raising and breeding of Louisiana-owned thoroughbred horses including, but not limited to, the payment of breeders' awards to breeders of accredited Louisiana-bred horses and supplementing purses for races written for accredited Louisiana-bred horses. The Association also publishes the *Louisiana Horse Magazine*, the official publication of the Association, on a quarterly basis, as well as the annual *Stallion Register*. In addition, the Association is recognized as the sole official registrar of accredited thoroughbred foals in Louisiana, as provided by Louisiana Revised Statute (R.S.) 4:178.

The Association's principal office is located at the Fair Grounds Racetrack in New Orleans. The Board of Directors can also maintain branch offices; currently there are branch offices in Opelousas and Shreveport, at Evangeline Downs and Louisiana Downs, respectively. The Association has approximately 1,400 members and is under the management and supervision of its Board of Directors. The Board of Directors is composed of 14 members, elected by the Association's membership. The Secretary-Treasurer is a full-time employee of the Association and serves as the executive director of the Association, subject to the direction and instruction of the Board of Directors, and manages the daily operations of the Association. The Association had nine full-time employees as of December 31, 2006.

NOTE A

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

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

USE OF ESTIMATES

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

BASIS OF PRESENTATION

Management of the Association believes that it would be more beneficial to the users of the Association's financial statements to report on a modified cash basis of accounting, which is a basis of accounting not in accordance with generally accepted accounting principles.

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

NOTE A

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

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

Interfund transfers are used to provide available funds to satisfy various purposes and are recognized when the transfer is made or when an interfund liability is incurred. Accordingly, the Association records interfund transactions due to and from the individual funds at December 31, 2006.

TOTAL COLUMNS - OVERVIEW

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

NOTE B

SOURCES AND USES OF FUNDS

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

OPERATING FUNDS

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

14% License Fee

To assist the Association in its promotion of the industry, R.S. 4:218 provides that the Association 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 FINANCIAL STATEMENTS**

NOTE B

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*.

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, 2006, 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 Race fund revenues represent all fees from pari-mutuel wagering on races held on the same day as the running of the Kentucky Derby, the Preakness, and the Belmont stakes races. These funds are paid to the Association as provided by R.S. 4:203 and are required to be placed in an interest-bearing account known as the "Louisiana Champions Day Account." During the year ended December 31, 2006, the Association received \$323,791 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 FINANCIAL STATEMENTS**

NOTE B

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 horses finishing first, second, or third in the SALAM races. Subsequent to December 31, 2006, the award paid was increased to 22% of the earned purse.

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) to be remitted to the Association. The Association is obligated to use these funds to supplement purses for allowance, handicap, stake races for accredited Louisiana-bred horses and to pay breeders' awards to breeders of accredited Louisiana-bred horses finishing first, second and third in Open Races at any track in Louisiana.

As provided by R.S. 4:177, each racing association authorized to conduct race meets shall pay the equivalent of 10% of the winner's share of the purse of each Open Race won by an accredited Louisiana-bred horse. The Association uses these funds together with 9.1% funds from above to pay breeders' awards to breeders of accredited Louisiana-bred horses finishing first, second, and third in Open Races at any track in Louisiana. The maximum award paid from the combined funds is 20%; however, subsequent to December 31, 2006, the award paid has been increased to 22%.

The maximum award paid by the Association on Other Races is based on a purse of \$150,000.

Over and above the purse supplements mentioned above, R.S. 4:217(B)(2)(e) provides that the Association can use up to \$200,000 of the 9.1% funds, per year to supplement purses on Louisiana Champions Day.

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

SLOT MACHINE

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

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

NOTE B

SOURCES AND USES OF FUNDS (Continued)

VIDEO DRAW POKER DEVICE PURSE SUPPLEMENT FUNDS

As enacted by Louisiana Revised Statute 33:4862.23(B), monies in the Video Draw Poker Device Purse Supplement Fund shall be annually appropriated to the Department of Economic Development, Louisiana State Racing Commission, and shall be allocated by the commission.

Two-thirds of the funds appropriated by the commission shall be allocated and provided to the licensed racing associations in the state that conduct live horse racing. These funds are appropriated 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, not to exceed \$20,000.

Due to the fact that the Association is not in receipt of these funds, but rather the licensed racing associations that conduct live horse racing, and because the Association does not disburse these funds, but rather provides direction to the licensed racing associations on which purses for Louisiana-bred thoroughbred races will be supplemented, the financial activities of the Association do not reflect the receipts and disbursements of the licensed racing associations that conduct live horse racing.

NOTE C

TRADE RECEIVABLES

Although using the modified cash basis of accounting, as mentioned in Note A, the Association records trade receivables related to advertisements in its publication of the *Louisiana Horse Magazine* as well as its annual *Stallion Register*. Trade receivables are carried at original invoice amount. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. Use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles. Credit is extended to those who are members of the Association.

NOTE D

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 \$23,075 for the year ended December 31, 2006.

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

NOTE E

ADVERTISING EXPENSES

The Association expenses advertising costs as they are incurred. Advertising expenses totaled \$58,475 for the year ended December 31, 2006.

NOTE F

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, 2006, the Association's deposits held for futurity and stallion stakes races are classified accordingly: \$55,320, for the 2007 futurity, in current liabilities, and \$288,745 for the 2008, 2009 and 2010 futurities and stallion stakes, in non-current liabilities.

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

NOTE G

FUNCTIONAL CLASSIFICATION OF EXPENSES

The Association reports expenses in its Statement of Revenues and Expenses – Modified Cash Basis in the natural expense categories. Statement of Financial Accounting Standards (SFAS) No. 117 requires disclosure of expenses between the functional classifications of program and support. Program services, totaling \$7,666,079 include payments of breeders' awards, stallion awards, purse supplements, and the Louisiana Champions Day, and account for approximately 85% of the Association's expenditures. Approximately 15% of expenses are for supporting activities, totaling \$1,382,294, and include membership development and management and general expenditures.

NOTE H

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.

NOTE I

DEFINED CONTRIBUTION PENSION PLAN

The Association has a defined contribution pension plan for all employees who have reached twenty-one years of age and have a minimum of one year of service. The annual employer contribution is equal to 25% of each eligible employee's annual wages and shall be paid in January of the year following the year of eligibility. The employees do not contribute to the plan. The Association paid employer contributions under this plan totaling \$80,203 for the year ended December 31, 2006.

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

NOTE J

RELATED PARTY TRANSACTIONS

Breeders' Sales Company of Louisiana, Inc.

The Association is the sole shareholder of the Breeders' Sales Company of Louisiana, Inc. The purpose of this company is to organize and operate horse auctions in order for breeders to have a forum for selling their horses. It was formed by the Association's Board of Directors to keep the income of the two organizations separate. This investment is stated at cost, as opposed to the equity method, which is required by generally accepted accounting principles. As of December 31, 2006, the market value of this investment cannot be readily determined. As of December 31, 2006, the Retained Earnings of this company equaled \$8,892. Use of the equity method requires that the investment be carried at \$11,108, thus creating a difference of \$8,892, which is not reflected in the accompanying financial statements. The calculation of the value under the equity method at December 31, 2006, was not made, and thus the presentation of the difference between the cost and equity method at December 31, 2006, is not made in this footnote; however, the effect of the difference between cost and equity is considered immaterial to the financial statements as a whole.

The Association has deposited \$70,000 of its funds into a certificate of deposit under the name of the Breeders' Sales Company of Louisiana, Inc. for the purpose of the company complying with Department of Agriculture requirements. As of December 31, 2006, there are no set terms for the repayment of these funds to the Association.

Other Related Party Transactions

During the year ended December 31, 2006, the members of the Board of Directors had related party transactions with the Association as follows:

Included within accounts receivable is \$24,235 that is owed by various members and former members of the Board of Directors.

NOTE K

CONCENTRATION OF CREDIT RISK

The Association has deposits in three financial institutions whose balances exceed the insurance coverage provided by the Federal government. As of December 31, 2006, this balance exceeds the insurance ceiling by \$722,527. Having deposits in excess of insurance is typically created due to the timing of the year-end and the need to pay breeders awards shortly after year-end.

NOTE L

COMMITMENTS

The Association has executed an employment agreement with its Secretary-Treasurer. This agreement extends through March 30, 2009, and as amended in 2005, provides for a base salary of \$75,000 that is increased annually by a cost of living adjustment, as determined by the United States Department of Labor, plus any merit raise approved by the Board of Directors.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

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

	For the Years Ended	
	December 31,	
	2006	2005
REVENUES		
Commissions - 2%	\$ 642,395	\$ 507,427
Fees - 14%	441,657	306,839
Sto/OTB Interest Transfer	207,578	117,343
Members' Dues	52,590	44,900
Accrediting Fees	44,660	34,940
Interest Income	54,365	9,245
Mare Registration	6,980	6,480
Miscellaneous	50,510	3,200
Total Revenues	<u>1,500,735</u>	<u>1,030,374</u>
EXPENSES		
Salaries - Regular	291,346	270,793
Salaries - Bonus	28,680	33,311
Insurance	131,545	90,954
Loss on Disposal of Assets	-	60,305
Pension Expense	80,203	60,613
Computer Fees	38,088	36,827
Advertising and Promotion	46,513	34,993
Meetings and Banquets	61,564	32,249
Hurricane Katrina Relief	-	30,000
Office Supplies	24,167	26,239
Payroll Taxes	28,642	25,928
Postage and Shipping	20,256	18,103
Depreciation	21,924	16,804
Travel	17,513	17,119
Audit	18,258	15,686
Legal	20,830	14,083
Telephone Expense	12,047	13,575
Printing	8,885	10,975
Equipment Rental	13,154	10,295
Rent	8,250	9,000
Trophies	8,037	8,403
Field Inspector	1,890	7,861
General Accounting	6,522	6,744
Contributions	9,150	5,683
Dues and Subscriptions	6,942	3,487
Repairs and Maintenance	4,665	807
Taxes and Licenses	-	568
Pedigree Research	335	240
Bank Charges	533	8
Website / Internet	14,939	-
Miscellaneous	231	-
Total Expenses	<u>925,109</u>	<u>861,653</u>
EXCESS REVENUES OVER EXPENSES	<u>\$ 575,626</u>	<u>\$ 168,721</u>

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

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

	For the Years Ended December 31,	
	2006	2005
REVENUES		
Publications	\$ 208,263	\$ 144,137
Interest Income	324	291
Total Revenues	208,587	144,428
EXPENSES		
Salaries	55,511	55,806
Publication Expense	129,793	47,241
Research	20,034	17,345
Sub-Contractors	7,450	6,086
Office Supplies	1,218	2,919
Telephone Expense	1,542	2,735
Postage and Shipping	5,418	2,221
Travel	2,483	2,186
Advertising and Promotion	100	2,055
Computer Fees	500	1,601
Payroll Taxes	1,032	1,096
Utilities	1,350	900
Bad Debt	250	685
Depreciation	1,151	681
Dues and Subscriptions	99	199
Photos	-	175
Other	41	-
Total Expenses	227,972	143,931
EXCESS (DEFICIT) REVENUES OVER EXPENSES	\$ (19,385)	\$ 497

See independent auditors report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

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

	For the Years Ended December 31,	
	2006	2005
REVENUES		
Awards - Triple Crown Races	\$ 323,791	\$ 279,548
Nominations	54,750	26,550
LA Quarter Horse Reimbursement	3,501	-
Silent Auction	31,275	22,100
Stallion Fees	19,410	14,830
Sponsorship	24,335	12,500
Ticket Sales	3,795	4,833
Interest	6,974	4,104
Total Revenues	467,831	364,465
EXPENSES		
Purses Paid Out	460,000	440,474
Triple Crown Race Funds - HPBA/LQHBA	99,081	85,361
Meetings and Banquets	3,000	32,727
Advertising and Promotion	11,862	14,072
Trophies	6,298	5,772
Printing and Stationery	368	1,443
Other	28	4
Total Expenses	580,637	579,853
EXCESS (DEFICIT) REVENUES OVER EXPENSES	\$ (112,806)	\$ (215,388)

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

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

	For the Years Ended December 31,	
	2006	2005
REVENUES		
SALAM Awards - 8% and 15.1%	\$ 84,250	\$ 125,267
Interest	140	135
Total Revenues	84,390	125,402
EXPENSES		
Breeders' Awards	1,277,103	1,164,762
Total Expenses	1,277,103	1,164,762
EXCESS (DEFICIT) REVENUES OVER EXPENSES	\$ (1,192,713)	\$ (1,039,360)

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

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

	For the Years Ended December 31,	
	2006	2005
REVENUES		
Awards - 9.1%	\$ 1,185,044	\$ 898,322
10% from Tracks	707,600	596,829
Miscellaneous	-	-
Interest	71,184	40,237
Total Revenues	1,963,828	1,535,388
EXPENSES		
Breeders' Awards	2,220,412	1,914,065
Purse Supplements	605,450	402,500
Interest Transfers	68,644	36,193
Mixed Race Awards	3,309	20,980
Total Expenses	2,897,815	2,373,738
EXCESS (DEFICIT) REVENUES OVER EXPENSES	\$ (933,987)	\$ (838,350)

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

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

	For the Years Ended	
	December 31,	
	<u>2006</u>	<u>2005</u>
REVENUES		
Slot Machine Proceeds - 2%	\$ 7,653,450	\$ 6,271,915
Interest	<u>156,479</u>	<u>86,526</u>
Total Revenues	<u>7,809,929</u>	<u>6,358,441</u>
EXPENSES		
Breeders' Awards	2,369,665	3,443,982
Stallion Awards	592,674	598,123
Out of State Stakes Awards	38,385	61,374
Transfer of Interest	138,934	81,150
Miscellaneous	<u>79</u>	<u>-</u>
Total Expenses	<u>3,139,737</u>	<u>4,184,629</u>
EXCESS (DEFICIT) REVENUES OVER EXPENSES	<u>\$ 4,670,192</u>	<u>\$ 2,173,812</u>

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

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

	For the Year Ended December 31, 2006		Favorable (Unfavorable)
	Budget	Actual	Variance
REVENUES			
Commissions - 2%	\$ 550,000	\$ 642,395	\$ 92,395
Fees - 14%	350,000	441,657	91,657
Transfer of Interest	100,000	207,578	107,578
Members' Dues	50,000	52,590	2,590
Accrediting Fees	40,000	44,660	4,660
Miscellaneous	15,000	50,510	35,510
Interest Income	10,000	54,365	44,365
Capitalization of Equipment	-	114,504	114,504
Mare Registration	5,000	6,980	1,980
Total Revenues	<u>1,120,000</u>	<u>1,615,239</u>	<u>495,239</u>
EXPENSES			
Salaries - Regular	315,000	291,346	23,654
Insurance	100,000	131,545	(31,545)
Pension Expense	80,203	80,203	-
Computer Fees	20,000	38,088	(18,088)
Advertising and Promotion	50,000	46,513	3,487
Salaries - Bonus	35,000	28,680	6,320
Meetings and Banquets	35,000	61,564	(26,564)
Office Supplies	30,000	24,167	5,833
Payroll Taxes	26,500	28,642	(2,142)
Postage and Shipping	20,000	20,256	(256)
Depreciation	32,000	21,924	10,076
Travel	20,000	17,513	2,487
Audit	20,000	18,258	1,742
Legal	25,000	20,830	4,170
Telephone Expense	15,000	12,047	2,953
Printing	10,000	8,885	1,115
Equipment Rental	13,000	13,154	(154)
Rent	9,000	8,250	750
Trophies	10,000	8,037	1,963
Field Inspector	30,000	1,890	28,110
General Accounting	7,500	6,522	978
Contributions	10,000	9,150	850
Dues and Subscriptions	3,500	6,942	(3,442)
Repairs and Maintenance	1,000	4,665	(3,665)
Pedigree Research	500	335	165
Website and Internet	25,000	14,939	10,061
Bank Charges	100	533	(433)
Miscellaneous	-	231	(231)
New Equipment	10,000	114,504	(104,504)
Total Expenses	<u>953,303</u>	<u>1,039,613</u>	<u>(86,310)</u>
EXCESS (DEFICIT) REVENUE OVER EXPENSES	<u>\$ 166,697</u>	<u>\$ 575,626</u>	<u>\$ 408,929</u>

See independent auditor's report.

**LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION
SUPPLEMENTARY INFORMATION**

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

	For the Year Ended December 31, 2006		Favorable (Unfavorable) Variance
	Budget	Actual	
REVENUES			
Publications	\$ 200,000	\$ 208,263	\$ 8,263
Interest Income	300	324	24
Total Revenues	<u>200,300</u>	<u>208,587</u>	<u>8,287</u>
EXPENSES			
Salaries	40,000	55,511	(15,511)
Publication Expense	80,000	129,793	(49,793)
Pedigree Research	20,000	20,034	(34)
Sub-Contractors	7,500	7,450	50
Office Supplies	3,500	1,218	2,282
Telephone Expense	3,000	1,542	1,458
Postage	5,000	5,418	(418)
Travel	3,000	2,483	517
Advertising and Promotion	2,500	100	2,400
Computer Fees	1,500	500	1,000
Payroll Taxes	2,000	1,032	968
Utilities	1,350	1,350	-
Bad Debt	2,200	250	1,950
Depreciation	-	1,151	(1,151)
Dues and Subscriptions	250	99	151
Photos	500	-	500
Casual Labor	500	-	500
Bank Charges	100	41	59
Total Expenses	<u>172,900</u>	<u>227,972</u>	<u>(55,072)</u>
EXCESS (DEFICIT) REVENUES OVER EXPENSES	<u>\$ 27,400</u>	<u>\$ (19,385)</u>	<u>\$ (46,785)</u>

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***

Board of Directors
Louisiana Thoroughbred Breeders Association

We have audited the financial statements of **LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION** (a non-profit organization) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated June 8, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **LOUISIANA THOROUGHBRED BREEDERS ASSOCIATION's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **ASSOCIATION's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **ASSOCIATION's** internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

110 VETERANS MEMORIAL BOULEVARD, SUITE 200, METAIRIE, LA 70005-4958 • 504.835.5522 • FAX 504.835.5535
5100 VILLAGE WALK, SUITE 202, COVINGTON, LA 70433-4012 • 985.892.5850 • FAX 985.892.5956

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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 that are required to be reported under *Government Auditing Standards*.

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

June 8, 2007