

LOUISIANA QUARTER HORSE BREEDERS ASSOCIATION

ALEXANDRIA, LOUISIANA

DECEMBER 31, 2018 AND 2017

LOUISIANA QUARTER HORSE BREEDERS ASSOCIATION

ALEXANDRIA, LOUISIANA

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AUDITED FINANCIAL STATEMENTS

HEARD, McELROY, & VESTAL

LLC

CERTIFIED PUBLIC ACCOUNTANTS

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June 21, 2019

To the Board of Directors
Louisiana Quarter Horse Breeders Association
Alexandria, Louisiana

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying statements of assets, liabilities and net assets-modified cash basis of Louisiana Quarter Horse Breeders Association (the Association), a nonprofit organization, as of December 31, 2018 and 2017, and the related statements of revenues and expenses-modified cash basis, functional expenses-modified cash basis and changes in net assets-modified cash basis, 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 the modified cash basis of accounting; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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, where 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of Louisiana Quarter Horse Breeders Association as of December 31, 2018 and 2017, and its related revenues and expenses and changes in net assets for the years then ended on the basis of accounting described in Note 1.

Basis of Accounting

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

Emphasis-of-Matter

As discussed in Note 2 to the financial statements, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2016-14, “*Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities.*” The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Ark-La-Tex Regional Air Service Alliance adopted ASU 2016-14 for the year ended December 31, 2018, and applied it retrospectively to the comparative information for the year ended December 31, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Louisiana Quarters Horse’s Breeders Association’s basic financial statements. The information required in accordance with Louisiana Revised Statute 24:513(A)(3) on page 11 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2019 on our consideration of Louisiana Quarter Horse Breeders Association’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Association’s internal control over financial reporting and compliance.

Heard, McElroy & Vestal, LLC

Shreveport, Louisiana

LOUISIANA QUARTER HORSE BREEDERS ASSOCIATION

STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS-MODIFIED CASH BASIS

DECEMBER 31, 2018 AND 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
<u>Current assets:</u>		
Cash	396,805	390,492
Investments	1,643,183	1,565,991
Restricted cash	1,137,453	627,870
Investments-restricted	<u>6,959,744</u>	<u>7,545,635</u>
Total current assets	10,137,185	10,129,988
<u>Property, premises, furniture, and equipment:</u>		
Land	107,000	107,000
Building	147,289	147,289
Furniture and equipment	<u>154,896</u>	<u>98,646</u>
	409,185	352,935
<u>Less-accumulated depreciation</u>	<u>(165,229)</u>	<u>(149,965)</u>
Total property, premises, furniture, and equipment	243,965	202,970
<u>Other assets:</u>		
Accounts receivable-other	-	367,798
Other	38,760	23,150
Deposits	<u>500</u>	<u>500</u>
Total other assets	<u>39,260</u>	<u>391,448</u>
 Total assets	 <u>10,420,410</u>	 <u>10,724,406</u>

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

<u>LIABILITIES AND NET ASSETS</u>	<u>2018</u>	<u>2017</u>
<u>Current liabilities:</u>		
Accounts payable-other	21,299	-
Miscellaneous taxes and IRA	<u>7,283</u>	<u>2,960</u>
Total current liabilities	28,582	2,960
<u>Other liabilities-long-term:</u>		
Breeders Futurity payable	660,890	666,413
Video Poker tax liability	-	91,929
LQHBA-youth scholarships	<u>3,255</u>	<u>-</u>
Total other liabilities-long-term	<u>664,145</u>	<u>758,342</u>
Total liabilities	692,727	761,302
<u>Net assets:</u>		
Without donor/grantor restriction	826,846	1,252,409
With donor/grantor restriction	<u>8,900,837</u>	<u>8,710,695</u>
Total net assets	<u>9,727,683</u>	<u>9,963,104</u>
 Total liabilities and net assets	 <u>10,420,410</u>	 <u>10,724,406</u>

LOUISIANA QUARTER HORSE BREEDERS ASSOCIATION
STATEMENTS OF REVENUES AND EXPENSES-MODIFIED CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018		
	<u>Without Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Revenues:			
Slots support-1%	-	4,231,684	4,231,684
Video Poker tax support	-	840,430	840,430
State Breeders Fund support	-	1,080,449	1,080,449
Stallion award fees	6,960	-	6,960
Off track betting	-	26,295	26,295
HBPA contribution-2%	298,371	-	298,371
Futurity fees	15,828	-	15,828
Accreditation fees/foal reports	55,460	-	55,460
Membership fees	77,790	-	77,790
Mare report fees	123,875	-	123,875
Flyer mail out income	4,775	-	4,775
Yearling and fall mixed sales commission	854,529	-	854,529
Interest, dividends and unrealized (losses)	(346,160)	-	(346,160)
Other income	18,328	-	18,328
Total revenues	<u>1,109,756</u>	<u>6,178,858</u>	<u>7,288,614</u>
Net assets released from restriction	<u>5,988,716</u>	<u>(5,988,716)</u>	<u>-</u>
	7,098,472	190,142	7,288,614
Expenses:			
Breeders awards (slots)	3,789,390	-	3,789,390
Video Poker tax awards	1,043,533	-	1,043,533
State breeders fund	1,055,784	-	1,055,784
Breeders fund supplement	100,000	-	100,000
Yearling and fall mixed sales expense	502,110	-	502,110
Salaries	399,065	-	399,065
Payroll taxes	27,021	-	27,021
Pension expense	8,022	-	8,022
Professional fees-legal and accounting	171,723	-	171,723
Advertising	20,916	-	20,916
Trophies, awards, and promotional	122,804	-	122,804
Office supplies	10,407	-	10,407
IT	16,017	-	16,017
Postage	35,314	-	35,314
Travel, entertainment, convention, and meetings expenses	45,115	-	45,115
Telephone and utilities	13,643	-	13,643
Repairs and maintenance	8,057	-	8,057
Depreciation	14,035	-	14,035
Mare expense-out of state	24,708	-	24,708
Insurance	17,675	-	17,675
Other expenses	98,696	-	98,696
Total expenses	<u>7,524,035</u>	<u>-</u>	<u>7,524,035</u>
Change in net assets	(425,563)	190,142	(235,421)
Net assets, beginning of year	<u>1,252,409</u>	<u>8,710,695</u>	<u>9,963,104</u>
Net assets, end of year	<u>826,846</u>	<u>8,900,837</u>	<u>9,727,683</u>

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

2017		
<u>Without Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
-	3,445,553	3,445,553
-	1,095,722	1,095,722
-	861,684	861,684
15,650	-	15,650
-	7,609	7,609
295,210	-	295,210
41,973	-	41,973
61,460	-	61,460
52,350	-	52,350
114,900	-	114,900
5,294	-	5,294
680,809	-	680,809
185,035	-	185,035
6,365	-	6,365
<u>1,459,046</u>	<u>5,410,568</u>	<u>6,869,614</u>
<u>5,439,840</u>	<u>(5,439,840)</u>	<u>-</u>
6,898,886	(29,272)	6,869,614
3,949,048	-	3,949,048
628,799	-	628,799
861,993	-	861,993
160,800	-	160,800
437,112	-	437,112
373,272	-	373,272
26,696	-	26,696
8,429	-	8,429
138,788	-	138,788
18,418	-	18,418
117,271	-	117,271
10,162	-	10,162
11,779	-	11,779
31,920	-	31,920
48,329	-	48,329
18,193	-	18,193
8,133	-	8,133
3,738	-	3,738
39,833	-	39,833
11,551	-	11,551
72,536	-	72,536
<u>6,976,800</u>	<u>-</u>	<u>6,976,800</u>
(77,914)	(29,272)	(107,186)
<u>1,330,323</u>	<u>8,739,967</u>	<u>10,070,290</u>
<u>1,252,409</u>	<u>8,710,695</u>	<u>9,963,104</u>

LOUISIANA QUARTER HORSE BREEDERS ASSOCIATION

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>		<u>2017</u>	
	<u>Program Services</u>	<u>Management and General</u>	<u>Program Services</u>	<u>Management and General</u>
Breeders awards (slots)	3,789,390	-	3,949,048	-
Video Poker tax awards	1,043,533	-	628,799	-
State breeders fund	1,055,784	-	861,993	-
Breeders fund supplement	100,000	-	160,800	-
Yearling and fall mixed sales	502,110	-	437,112	-
Salaries	339,205	59,860	317,281	55,991
Payroll taxes	22,968	4,053	22,692	4,004
Pension expense	6,818	1,204	7,165	1,264
Professional fees-legal and accounting	145,965	25,758	117,970	20,818
Advertising	17,779	3,137	15,655	2,763
Trophies, awards and promotional	122,804	-	117,271	-
Office supplies	8,846	1,561	8,638	1,524
IT	13,614	2,403	10,012	1,767
Postage	30,017	5,297	26,597	5,323
Travel, entertainment, convention and meeting expenses	38,348	6,767	41,080	7,249
Telephone and utilities	11,597	2,046	15,464	2,729
Repairs and maintenance	6,848	1,209	6,913	1,220
Depreciation	11,930	2,105	3,177	561
Mare expense-out of state	24,708	-	39,833	-
Insurance	15,024	2,651	9,818	1,733
Other expenses	<u>83,892</u>	<u>14,804</u>	<u>61,656</u>	<u>10,880</u>
Totals	<u>7,391,180</u>	<u>132,855</u>	<u>6,858,974</u>	<u>117,826</u>

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

LOUISIANA QUARTER HORSE BREEDERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

1. Summary of Significant Accounting Policies

a. Introduction

The Louisiana Quarter Horse Breeders Association (the Association) is a Louisiana non-profit organization, which seeks to promote and further the quarter horse 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 quarter 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. In addition, the Association is recognized as the sole official registrar of accredited quarter horse foals in Louisiana, as provided by Louisiana Revised Statute (R.S.) 4:179.

The Association's principal office is located in Alexandria, Louisiana. The Association 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 Executive Director is a full-time employee of the Association and serves subject to the direction and instruction of the Board of Directors, and manages the daily operations of the Association.

b. Basis of Accounting

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

c. Basis of Presentation

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

The Association is required to report information regarding its financial position and activities based on the existence or absence of donor or grantor imposed restrictions, as follows:

Net assets without donor designations – Net assets that are not subject to donor or grantor imposed restrictions. Some net assets without donor restrictions may be designated for specific purposes by action of the governing board.

Net assets with donor designations – Net assets subject to donor or grantor imposed restrictions that may or will be met by actions of the Association.

1. Summary of Significant Accounting Policies (Continued)

d. Income Taxes

The Association meets the requirements of Section 501(c) 5 of the Internal Revenue Code and, therefore, is exempt from federal and state income taxes.

The Association follows the provisions of the *Accounting for Uncertainty in Income Taxes* Topic of the Financial Accounting Standards Board Accounting Standards Codification, which clarifies the accounting and recognition for income tax positions taken or expected to be taken in the Association's income tax return. The Association doesn't have any uncertain tax positions.

All tax returns have been appropriately filed by the Association. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The Association files income tax returns in the federal jurisdiction and the State of Louisiana. The Association's tax returns for 2015 and beyond remain subject to examination.

e. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

f. Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include all demand deposits and certificates of deposits, with original purchased maturities of ninety days or less. Money market accounts held by investment firms are classified as investments.

g. Securities

Securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. The Association classifies all its securities as available for sale and they primarily are mortgage-backed securities. During 2017, they were classified as held to maturity. The write-down on securities to market value for 2018 was \$527,898 and is recognized as an unrealized loss on investments.

Mortgage-backed securities represent participating interests in pools of long-term first mortgage loans originated and serviced by issuers of the securities. Mortgage-backed securities are carried at unpaid principal balances, adjusted for unamortized premiums and unearned discounts. Premiums and discounts are amortized using the interest method over the remaining period to contractual maturity.

h. Sources and Uses of Funds

As mentioned above in (b), 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:

1. Summary of Significant Accounting Policies (Continued)

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:

Breeders Awards

To assist the Association in its promotion of the industry, R.S. 4:165 (B) (1) (2) (3) provides that the Louisiana State Racing Commission will pay \$800,000 annually to make special stallion awards to owners of stallions of accredited Louisiana bred offspring and to supplement purses and to make special breeders' awards to the breeders of accredited Louisiana bred quarter horses which finish first second or third in a race or races conducted at a race meeting or meetings in Louisiana.

Commissions 2%

As provided by R.S. 4:165 (C), each licensee conducting race meetings shall withhold 1% 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.

Other Operating Funds

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

Slot Machine Funds

As prescribed by Louisiana R.S. 27:361(B)(4)(c), each licensed eligible facility shall pay a fixed percentage of 1% of the annual net slot machine proceeds received from slot machine gaming operations at the licensed eligible facility to the Association. The Executive Committee of the Association shall distribute such amount, according to a schedule or formula and within a time period, which shall be established by the Committee, for special breeder awards to the breeders of accredited Louisiana-bred horses.

Video Draw Poker Device Purse Supplement Funds

As enacted by Louisiana Revised Statute 27:439(B)(2) & (2) (a), 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.

One-third of the funds appropriated to the commission pursuant to the act are allocated and provided to The Louisiana Quarter Horse Breeders Association. The funds are distributed periodically based on requests from the Association for scheduled race days during active race meetings. The funds shall be used solely to supplement purses and are maintained in separate accounts and thus restricted funds.

Yearling and Mixed Sales

The Association conducts annual yearling and mixed sales and receives a commission on the sales proceeds to conduct the sales. Some board members participate in these sales on occasions. The transactions between the Association and board members are exchanged at an arms-length transaction with no special considerations.

i. Accounting Changes

In August 2016, the FASB issued ASU No. 2016-14, "Presentation of Financial Statements of Not-for-Profit Entities," with the stated purpose of improving financial reporting by those entities. Among other provisions, this ASU reduces the number of classes of net assets from three to two,

1. **Summary of Significant Accounting Policies** (Continued)

requires the presentation of expenses in both natural and functional classifications, and requires additional disclosures concerning liquidity and the availability of financial resources. This standard is effective for fiscal years beginning after December 15, 2017, and requires the use of the retrospective transition method. The organization adopted this standard for the year ended December 31, 2018, and applied it retrospectively to the comparative information for the year ended December 31, 2017.

Implementation of ASU 2016-14 did not require reclassification or restatement of any opening balances related to the periods presented.

Functional Expenses

The costs of providing the various programs have been summarized on a functional basis in the statement of activities. Certain categories of expenses are attributable to both program services and supporting activities, and are charged directly to either program services or supporting expenses based on the nature of expense.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. On April 1, 2015, the FASB proposed to defer the effective date by one year until January 1, 2018, but would allow early adoption as of the original January 1, 2017, effective date. The standard permits the use of either the retrospective or cumulative effect transition method. The Organization does not believe that ASU 2014-09 will have a significant effect on its financial statements and related disclosures.

j. **Property, Premises, Furniture, and Equipment**

Property, premises, furniture, and equipment are carried at cost less accumulated depreciation. Depreciation of premises, furniture, and equipment is provided on the straight-line and accelerated methods over the estimated useful lives of the related assets. Maintenance and repairs are charged to expense as incurred, and renewals and betterments are capitalized.

2. **Investment Securities and Certificates of Deposit**

Securities held to maturity and certificates of deposit consist of the following:

	<u>2018</u>	<u>2017</u>
<u>Restricted:</u>		
Investments at Wells Fargo		
Mortgage backed securities (market value \$4,390,105-2017)	4,460,588	3,929,478
Money market accounts-cost approximates market value	<u>2,499,156</u>	<u>3,616,157</u>
Total	<u>6,959,744</u>	<u>7,545,635</u>
<u>Non-restricted:</u>		
Investments at Wells Fargo		
Mortgage backed securities (market value \$827,605-2017)	608,344	785,191
Money market account-cost approximates market value	<u>1,034,839</u>	<u>780,800</u>
Total	<u>1,643,183</u>	<u>1,565,991</u>

3. Functional Classification of Expenses

The Association reports expenses in its Statement of Revenues and Expenses - Modified Cash Basis in the natural expense categories. Financial Accounting Standards requires disclosure of expenses between the functional classifications of program and support.

4. Defined Contribution Pension Plan

All full-time employees are currently eligible to participate in a simple IRA retirement plan. Contributions to the Plan by the Association totaled \$8,022 and \$8,429 for the years ended December 31, 2018 and 2017, respectively.

5. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 21, 2019, and determined that no other events occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

SUPPLEMENTARY INFORMATION

LOUISIANA QUARTER HORSE BREEDERS ASSOCIATION
SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER PAYMENTS TO AGENCY HEAD
FOR THE YEAR ENDED DECEMBER 31, 2018

Tony Patterson, Executive Director

Salary	160,592
Car allowance	7,200
Cell phone	180

OTHER REPORTS

HEARD, McELROY, & VESTAL

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CERTIFIED PUBLIC ACCOUNTANTS

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June 21, 2019

To the Board of Directors
Louisiana Quarter Horse Breeders Association
Alexandria, Louisiana

**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**

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 Quarter Horse Breeders Association (a non-profit organization), which collectively comprise the statement of assets, liabilities, and net assets-modified cash basis as of December 31, 2018, and the related statements of revenues and expenses-modified cash basis, and changes in net assets-modified cash basis for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 21, 2019.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Louisiana Quarter Horse Breeders Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance, or other matters, that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

This report is intended for the information and use of the Legislative Auditor of the State of Louisiana, the Louisiana Quarter Horse 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.

Heard, McElroy & Vestal, LLC

Shreveport, Louisiana

LOUISIANA QUARTER HORSE BREEDERS ASSOCIATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2018

I. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the financial statements of Louisiana Quarter Horse Breeders Association.
2. No material weaknesses or significant deficiencies relating to the audit of the financial statements are reported.
3. No instances of noncompliance were disclosed during the audit.
4. Louisiana Quarter Horse Breeders Association is not subject to a federal single audit for the year ended December 31, 2018.

II. Findings – Financial Statement Audit

None

III. Findings – Prior Year

None

LOUISIANA QUARTER HORSE BREEDERS ASSOCIATION

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

FOR THE YEAR ENDED DECEMBER 31, 2018

HEARD, McELROY, & VESTAL

LLC

CERTIFIED PUBLIC ACCOUNTANTS

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June 20, 2019

Bruce Salard
Louisiana Quarter Horse Breeders Association
105 Carolyn Lane
Alexandria, LA 71303
Louisiana Legislative Auditor
Baton Rouge, Louisiana

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors of by Louisiana Quarter Horse Breeders Association and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by Louisiana Quarter Horse Breeders Association (LQHBA) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2018 through December 31, 2018. The Entity's management is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The findings obtained are described in the attachment to this report.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

Heard, McElroy & Vestal, LLC

Monroe, Louisiana

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**SUPPLEMENT TO INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

Louisiana Quarter Horse Breeders Association
Agreed-Upon Procedures and Findings
Year Ended Dec 31, 2018

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):
 - a) **Budgeting**, including preparing, adopting, monitoring, and amending the budget
 - b) **Purchasing**, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.
 - c) **Disbursements**, including processing, reviewing, and approving
 - d) **Receipts/Collections**, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).
 - e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
 - f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process
 - g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases)
 - h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers

Findings

Purchasing Policy does not address how vendors are added to the accounting software vendor list.

Except as otherwise stated, no exceptions were identified in the performance of the procedures listed above.

Management's Response

Per discussion with Executive Director, the association will revise its policy to include how vendors are added.

Board or Finance Committee

Not tested, no findings in prior year.

Bank Reconciliations

2. Obtain a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for selected each account, and observe that:
 - a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);
 - b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and
 - c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

Findings

No exceptions were identified in the performance of the procedures listed above.

Collections

3. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).
4. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:

- a) Employees that are responsible for cash collections do not share cash drawers/registers.
 - b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.
 - c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.
 - d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.
5. Inquire of management that all employees who have access to cash are covered by a bond or insurance policy for theft.
6. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and:
- a) Observe that receipts are sequentially pre-numbered.
 - b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.
 - c) Trace the deposit slip total to the actual deposit per the bank statement.
 - d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100).
 - e) Trace the actual deposit per the bank statement to the general ledger.

Findings

Checks being received in the mail are not properly documented with a receipt date.

Lag time between receipt date and deposit date exceed one day.

Except as otherwise stated, no exceptions were identified in the performance of the procedures listed above.

Management's Response

Per discussion with Executive Director, the association will document the date checks are received. The association will also deposit checks received more timely; however, there are situations unique to their industry where the entity will hold checks.

Non-Payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases)

7. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).
8. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:
 - a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.
 - b) At least two employees are involved in processing and approving payments to vendors.
 - c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.
 - d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.
9. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:
 - a) Observe that the disbursement matched the related original invoice/billing statement.
 - b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

Findings

Person who processes checks also mails the checks.

Except as otherwise stated, no exceptions were identified in the performance of the procedures listed above.

Management's Response

Per discussion with Executive Director, the association will segregate the duties of the bookkeeper, so they are not responsible for processing payments and mailing checks.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

Not tested, no findings in prior year.

Travel and Travel-Related Expense Reimbursements (excluding card transactions)

Not tested, no findings in prior year.

Contracts

10. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternately, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:

- a) Observe that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.
- b) Observe that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).
- c) If the contract was amended (e.g. change order), observe that the original contract terms provided for such an amendment.
- d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

Findings

No exceptions were identified in the performance of the procedures listed above.

Payroll and Personnel

Not tested, no findings in prior year.

Other

Not tested, no findings in prior year.