

LOUISIANA QUARTER HORSE BREEDERS ASSOCIATION

ALEXANDRIA, LOUISIANA

DECEMBER 31, 2017 AND 2016

LOUISIANA QUARTER HORSE BREEDERS ASSOCIATION

ALEXANDRIA, LOUISIANA

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AUDITED FINANCIAL STATEMENTS

HEARD, McELROY, & VESTAL

LLC

CERTIFIED PUBLIC ACCOUNTANTS

333 TEXAS STREET, SUITE 1525
SHREVEPORT, LOUISIANA 71101
318-429-1525 PHONE • 318-429-2070 FAX

June 30, 2018

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, 2017 and 2016, and the related statements of revenues and 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, 2017 and 2016, 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.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2018 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, 2017 AND 2016

<u>A S S E T S</u>	<u>2017</u>	<u>2016</u>
<u>Current assets:</u>		
Cash	390,492	153,767
Investments	1,565,991	2,152,289
Restricted cash	627,870	777,979
Investments-restricted	<u>7,545,635</u>	<u>7,495,177</u>
Total current assets	10,129,988	10,579,212
<u>Property, premises, furniture, and equipment:</u>		
Land	107,000	107,000
Building	147,289	147,289
Furniture and equipment	<u>98,646</u>	<u>98,646</u>
	352,935	352,935
<u>Less-accumulated depreciation</u>	<u>(149,965)</u>	<u>(144,786)</u>
Total property, premises, furniture, and equipment	202,970	208,149
<u>Other assets:</u>		
Accounts receivable-other	367,798	-
Other	23,150	9,785
Deposits	<u>500</u>	<u>500</u>
Total other assets	<u>391,448</u>	<u>10,285</u>
Total assets	<u>10,724,406</u>	<u>10,797,646</u>

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

<u>LIABILITIES AND NET ASSETS</u>	<u>2017</u>	<u>2016</u>
<u>Current liabilities:</u>		
Miscellaneous taxes and IRA	2,960	2,532
<u>Other liabilities-long-term:</u>		
Breeders Futurity payable	666,413	618,250
Maiden stakes payable (2018/2017)	-	24,850
Video Poker tax liability	91,929	76,286
LQHBA-youth scholarships	-	5,438
Total other liabilities-long-term	<u>758,342</u>	<u>724,824</u>
 Total liabilities	 761,302	 727,356
<u>Net assets:</u>		
Unrestricted	1,252,409	1,330,323
Temporarily restricted-various	811,412	811,412
Temporarily restricted-Breeder's Awards	<u>7,899,283</u>	<u>7,928,555</u>
Total net assets	<u>9,963,104</u>	<u>10,070,290</u>
 Total liabilities and net assets	 <u>10,724,406</u>	 <u>10,797,646</u>

LOUISIANA QUARTER HORSE BREEDERS ASSOCIATION

STATEMENTS OF REVENUES AND EXPENSES-MODIFIED CASH BASIS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017		
	Unrestricted	Temporarily Restricted	Total
<u>Revenues:</u>			
Slots support-1%	-	3,445,553	3,445,553
Video Poker tax support	-	1,095,722	1,095,722
State Breeders Fund support	-	861,684	861,684
Stallion award fees	15,650	-	15,650
Off track betting	-	7,609	7,609
HBPA contribution-2%	295,210	-	295,210
Futurity fees	41,973	-	41,973
Accreditation fees	61,460	-	61,460
Membership fees	52,350	-	52,350
Mare report fees	114,900	-	114,900
Flyer mail out income	5,294	-	5,294
Yearling and fall mixed sales commission	680,809	-	680,809
Interest and dividends	185,035	-	185,035
Other income	6,365	-	6,365
Total revenues	1,459,046	5,410,568	6,869,614
Net assets released from restriction	5,439,840	(5,439,840)	-
	6,898,886	(29,272)	6,869,614
<u>Expenses:</u>			
Breeders awards (slots)	3,949,048	-	3,949,048
Video Poker tax awards	628,799	-	628,799
State breeders fund	861,993	-	861,993
Breeders fund supplement	160,800	-	160,800
Yearling and fall mixed sales expense	437,112	-	437,112
Salaries	373,272	-	373,272
Payroll taxes	26,696	-	26,696
Pension expense	8,429	-	8,429
Professional fees-legal and accounting	138,788	-	138,788
Advertising	18,418	-	18,418
Trophies, awards, and promotional	117,271	-	117,271
Office supplies	10,162	-	10,162
IT	11,779	-	11,779
Postage	31,920	-	31,920
Travel, entertainment, convention, and meetings expenses	48,329	-	48,329
Telephone and utilities	18,193	-	18,193
Repairs and maintenance	8,133	-	8,133
Depreciation	3,738	-	3,738
Mare expense-out of state	39,833	-	39,833
Insurance	11,551	-	11,551
Other expenses	72,536	-	72,536
Total expenses	6,976,800	-	6,976,800
<u>Change in net assets</u>	(77,914)	(29,272)	(107,186)
<u>Net assets, beginning of year</u>	1,330,323	8,739,967	10,070,290
<u>Net assets, end of year</u>	1,252,409	8,710,695	9,963,104

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

2016		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
-	3,762,902	3,762,902
-	732,208	732,208
-	573,741	573,741
11,065	-	11,065
-	8,603	8,603
308,592	-	308,592
50,196	-	50,196
58,841	-	58,841
36,440	-	36,440
133,800	-	133,800
12,583	-	12,583
895,286	-	895,286
352,167	-	352,167
<u>5,368</u>	<u>-</u>	<u>5,368</u>
1,864,338	5,077,454	6,941,792
<u>5,887,842</u>	<u>(5,887,842)</u>	<u>-</u>
7,752,180	(810,388)	6,941,792
4,337,242	-	4,337,242
975,884	-	975,884
574,716	-	574,716
100,000	-	100,000
736,186	-	736,186
426,622	-	426,622
30,790	-	30,790
8,747	-	8,747
154,125	-	154,125
26,979	-	26,979
105,857	-	105,857
11,064	-	11,064
9,147	-	9,147
33,441	-	33,441
64,595	-	64,595
22,842	-	22,842
7,316	-	7,316
8,180	-	8,180
41,303	-	41,303
12,330	-	12,330
90,697	-	90,697
<u>7,778,063</u>	<u>-</u>	<u>7,778,063</u>
(25,883)	(810,388)	(836,271)
<u>1,356,206</u>	<u>9,550,355</u>	<u>10,906,561</u>
<u>1,330,323</u>	<u>8,739,967</u>	<u>10,070,290</u>

LOUISIANA QUARTER HORSE BREEDERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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 according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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.

1. Summary of Significant Accounting Policies (Continued)

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. Management evaluated the Association's tax positions and concluded that the Association had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

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" (HTM) 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 held for sale and they primarily are mortgage-backed securities.

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. Management intends and has the ability to hold such securities to maturity, and thus recognizes them as HTM.

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:

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.

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

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. **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>2017</u>	<u>2016</u>
<u>Restricted:</u>		
Investments at Wells Fargo		
Mortgage backed securities (market value \$4,390,105-2017 and \$3,943,848-2016)	3,929,478	3,787,410
Money market accounts-cost approximates market value	<u>3,616,157</u>	<u>3,707,767</u>
Total	<u>7,545,635</u>	<u>7,495,177</u>

2. **Investment Securities and Certificates of Deposit** (Continued)

	<u>2017</u>	<u>2016</u>
<u>Non-restricted:</u>		
Investments at Wells Fargo		
Mortgage backed securities (market value \$827,605- 2017 and \$1,294,282-2016)	785,191	1,335,905
Money market account-cost approximates market value	<u>780,800</u>	<u>816,384</u>
Total	<u><u>1,565,991</u></u>	<u><u>2,152,289</u></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. Program services, totaling \$5,757,744-2017 and \$6,135,002-2016 include payments of breeders' awards, state breeders awards, purse supplements, trophies and awards, and mare expenses account for approximately 82.5% and 78.9% of the Association's expenditures, respectively. Approximately 17.5%-2016 and 21.1%-2016 of expenses are for supporting activities, totaling \$1,219,056-2017 and \$1,639,204-2016 and include membership development and management and general expenditures.

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 \$8,429 and \$8,747 for the years ended December 31, 2017 and 2016, respectively.

5. **Subsequent Events**

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 30, 2018, 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, 2017

Tony Patterson, Executive Director

Salary	157,562
Car allowance	7,200
Cell phone	864

OTHER REPORTS

HEARD, McELROY, & VESTAL

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CERTIFIED PUBLIC ACCOUNTANTS

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June 30, 2018

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, 2017, 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 30, 2018.

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, 2017

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, 2017.

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, 2017

HEARD, McELROY, & VESTAL

LLC

CERTIFIED PUBLIC ACCOUNTANTS

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318-429-1525 PHONE • 318-429-2070 FAX

June 29, 2018

Mr. Tony Patterson, Executive Director and
The Board of Directors of the
Louisiana Quarter Horse Breeders Association
P.O. Box 12300
Alexandria, Louisiana 71315

Louisiana Legislative Auditor
Baton Rouge, Louisiana

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

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, 2017 through December 31, 2017. 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

Shreveport, 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, 2017

Written Policies and Procedures

Procedures

1. Obtain the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:
 - 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***, including receiving, recording, and preparing deposits
 - 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, and (5) monitoring card usage
 - h) ***Travel and expense reimbursement***, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers

Findings

The entity does not have written procedures.

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

Board (or Finance Committee, if applicable)

Procedures

2. Obtain and review the board/committee minutes for the fiscal period, and:
 - a) Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.
 - b) Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the entity's prior audit (GAAP-basis).
 - c) If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, report whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, report whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.
 - d) Report whether the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period.

Findings

The board met six times with a quorum present in accordance with their policy.

Budget to actual budgetary information is discussed during meetings.

At least one meeting's minutes referenced non-budgetary financial information.

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

Bank Reconciliations

Procedures

3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete.
4. Using the listing provided by management, select all of the entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three year rotating basis (if more than 5 accounts). For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:

5. Bank reconciliations have been prepared;
6. Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and
7. If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

Findings

Management provided a listing of nine bank accounts. HMV traced the reconciliations to the general ledger for completeness. Management represented that the listing was complete.

Reconciliations are not reviewed by management, however, an outside CPA reviews the records on a quarterly basis.

We discussed the outstanding check policy with client. Efforts are made to contact payee, void, or reissue outstanding checks.

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

Collections

Procedures

8. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.
9. Using the listing provided by management, select all of the entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than 5 locations). **For each cash collection location selected:**
 - a) Obtain existing written documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.
 - b) Obtain existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.

- c) Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:
- Using entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.
 - Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.

10. Obtain existing written documentation (e.g. policy manual, written procedure) and report whether the entity has a process specifically defined (identified as such by the entity) to determine completeness of all collections, including electronic transfers, for each revenue source and 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) by a person who is not responsible for collections.

Findings

Entity has collections at the main office, offsite sale #1, and offsite sale #2.

Inquired management and notes segregation of duties to the fullest extent possible with the available staff. PDW client, management personnel are not bonded.

There is no formal process to determine completeness of cash/checks collected. The daily sales balance sheet used at offsite sales does not balance with the bank statement, due to checks being held and missing dates.

Client makes deposits daily or as needed.

The bookkeeper agrees the deposit receipt from the bank with the general ledger. There is no cash receipts journal for cash/check intake at main office.

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

Disbursements – General (excluding credit card/debit card/fuel card/P-Card purchases or payments)

Procedures

11. Obtain a listing of entity disbursements from management or, alternately, obtain the general ledger and sort/filter for entity disbursements. Obtain management's representation that the listing or general ledger population is complete.
12. Using the disbursement population from #8 above, randomly select 25 disbursements (or randomly select disbursements constituting at least one-third of the dollar disbursement population if the entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:
 - a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.
 - b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.
 - c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.
13. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system.
14. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.
15. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and report any exceptions. Alternately, if the checks are electronically printed on blank check stock, review entity documentation (electronic system control documentation) and report whether the persons with signatory authority have system access to print checks.
16. If a signature stamp or signature machine is used, inquire of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Report any exceptions.

Findings

Management provided a listing of disbursements for the year ending December 31, 2017, asserting that the listing was complete.

The bookkeeper has the ability to add vendors to the system as well as the authority to process payments.

Purchase orders were not used to initiate all disbursements selected.

Executive Director can initiate and approve purchases; however, checks must have two signatures.

The bookkeeper can process payments and add vendors.

Executive Director and Office Manager have signature stamp, but do not remain in custody of the stamps.

Blanks checks are kept in a locked location. Bookkeeper controls blank checks and does not have signatory authority.

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

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

Procedures

17. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.
18. Using the listing prepared by management, randomly select 10 cards (or at least one-third of the cards if the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year. If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner.
19. Obtain the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. Select the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:
 - a) Report whether there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]]

- b) Report whether finance charges and/or late fees were assessed on the selected statements.
20. Using the monthly statements or combined statements selected under #15 above, obtain supporting documentation for all transactions for each of the 10 cards selected (i.e. each of the 10 cards should have one month of transactions subject to testing).
- a) For each transaction, report whether the transaction is supported by:
- An original itemized receipt (i.e., identifies precisely what was purchased)
 - Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.
 - Other documentation that may be required by written policy (e.g., purchase order, written authorization.)
- b) For each transaction, compare the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and report any exceptions.
- c) For each transaction, compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. cash advances or non-business purchases, regardless whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

Findings

Management provided a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), including the card numbers and the names of the persons who maintained possession of the cards and represented that the listing is complete.

Credit card purchases are pre-approved verbally. Executive Director can make purchases and has approval authority. Executive director reviews credit card statement before payment.

No late charges were paid on the selected statements.

No meal charges were selected for testing.

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

Travel and Expense Reimbursement

Procedures

21. Obtain from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtain the general ledger and sort/filter for travel reimbursements. Obtain management's representation that the listing or general ledger is complete.
22. Obtain the entity's written policies related to travel and expense reimbursements. Compare the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration (www.gsa.gov) and report any amounts that exceed GSA rates.
23. Using the listing or general ledger from #17 above, select the three persons who incurred the most travel costs during the fiscal period. Obtain the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:
 - a) Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, compare to the GSA rates (#18 above) and report each reimbursement that exceeded those rates.
 - b) Report whether each expense is supported by:
 - An original itemized receipt that identifies precisely what was purchased. [Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.]
 - Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).
 - Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance)
 - c) Compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.
 - d) Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Findings

Management provided the general ledger detail for travel and reimbursement expenses and represented that the list is complete.

Reimbursements were paid in accordance with policy.

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

Contracts

Procedures

24. Obtain a listing of all contracts in effect during the fiscal period or, alternately, obtain the general ledger and sort/filter for contract payments. Obtain management's representation that the listing or general ledger is complete.
25. Using the listing above, select the five contract "vendors" that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). Obtain the related contracts and paid invoices and:
 - a) Report whether there is a formal/written contract that supports the services arrangement and the amount paid.
 - b) Compare each contract's detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:
 - If yes, obtain/compare supporting contract documentation to legal requirements and report whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder)
 - If no, obtain supporting contract documentation and report whether the entity solicited quotes as a best practice.
 - c) Report whether the contract was amended. If so, report the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.
 - d) Select the largest payment from each of the five contracts, obtain the supporting invoice, compare the invoice to the contract terms, and report whether the invoice and related payment complied with the terms and conditions of the contract.
 - e) Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law (e.g. Lawrason Act or Home Rule Charter).

Findings

Management provided a list of Contracts. HMTV viewed general ledger detail to make selections. Management represented that the list is complete.

We reviewed documentation noting that the majority of the contracts were personal services contracts – obtaining additional quotes not applicable. Some contracts required renewal.

No contract selected was amended. The contracts selected had proper Board Approval.

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

Payroll and Personnel

26. Obtain a listing of employees (and elected officials, if applicable) with their related salaries, and obtain management's representation that the listing is complete.

Randomly select five employees/officials, obtain their personnel files, and:

- a) Review compensation paid to each employee during the fiscal period and report whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.
- b) Review changes made to hourly pay rates/salaries during the fiscal period and report whether those changes were approved in writing and in accordance with written policy.

27. Obtain attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, randomly select 25 employees/officials (or randomly select one-third of employees/officials if the entity had less than 25 employees during the fiscal period), and:

- a) Report whether all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)
- b) Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.
- c) Report whether there is written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.

28. Obtain from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, select the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal

period and obtain the personnel files for the two employees/officials. Report whether the termination payments were made in strict accordance with policy and/or contract and approved by management.

29. Obtain supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. Report whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

Findings

Management provided a listing of active employees with their related compensation and represented that the listing is complete.

All employee and employer portions for payroll taxes and contributions, and related required reporting forms, were submitted to the applicable agencies by the required deadlines.

Compensation paid to each selected employee was made in accordance with the terms and conditions of his contract or pay rate structure and pay rate or salary changes were approved in writing and in accordance with written policy.

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

Other

30. Inquire of management whether the entity had any misappropriations of public funds or assets. If so, obtain/review supporting documentation and report whether the entity reported the misappropriation to the legislative auditor and the district attorney of the parish in which the entity is domiciled.
31. Observe and report whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at www.la.gov/hotline) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.
32. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

Findings

Client has the Fraud Hotline posted on the entities website and premises.

No reports of misappropriations of public funds or assets.