
LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
NEW ORLEANS, LOUISIANA

FINANCIAL STATEMENTS

DECEMBER 31, 2017



Postlethwaite & Netterville

A Professional Accounting Corporation

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LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
NEW ORLEANS, LOUISIANA

FINANCIAL STATEMENTS

DECEMBER 31, 2017

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST

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Independent Auditors' Report

The Trustees
Louisiana Horsemen's Medical Benefit Trust

Report on the Financial Statements

We have audited the accompanying financial statements of the Louisiana Horsemen's Medical Benefit Trust (the Trust), which comprise the statements of net assets as of December 31, 2017 and 2016, and the related statements of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Trust as of December 31, 2017 and 2016, and changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The Schedule of Compensation, Benefits, and Other Payments to the Agency Head is presented for purpose of additional analysis and is not a required part of the 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 the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2018, on our consideration of the Louisiana Horsemen's Medical Benefit Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Metairie, Louisiana
June 29, 2018

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST

STATEMENTS OF NET ASSETS
DECEMBER 31, 2017 AND 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Assets		
Cash	\$ 2,008,926	\$ 2,979,204
Receivables		
4% Medical Benefit receivable	301,323	296,715
Prepaid escrow reserve	35,000	25,000
Investments at fair value	402,036	396,268
Investments - other, at cost	55,235	55,000
Building and equipment, net	<u>116,247</u>	<u>136,175</u>
Total assets	<u><u>\$ 2,918,767</u></u>	<u><u>\$ 3,888,362</u></u>

LIABILITIES

Liabilities		
Accounts payable	\$ 37,128	\$ 46,596
Medical claims payable	<u>406,900</u>	<u>417,628</u>
Total liabilities	<u>444,028</u>	<u>464,224</u>
Net assets available for benefits	<u><u>\$ 2,474,739</u></u>	<u><u>\$ 3,424,138</u></u>

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

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Additions to net assets attributed to:		
Contributions		
4% Medical Benefit revenue	\$ 3,379,102	\$ 3,409,907
Investment and other income		
Investment income	<u>11,486</u>	<u>11,762</u>
Total additions	<u>3,390,588</u>	<u>3,421,669</u>
Reductions to net assets attributed to:		
Medical benefit payments	3,513,471	3,429,172
Administrative expenses	<u>826,516</u>	<u>803,592</u>
Total reductions	<u>4,339,987</u>	<u>4,232,764</u>
Net decrease in net assets	(949,399)	(811,095)
Net assets available, beginning of year	<u>3,424,138</u>	<u>4,235,233</u>
Net assets available, end of year	<u><u>\$ 2,474,739</u></u>	<u><u>\$ 3,424,138</u></u>

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

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

1. Nature of Activities

General

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

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

Benefits

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

Under the Plan, to be eligible for Plan benefits, an applicant must be licensed by, and in good standing with the Louisiana State Racing Commission. In addition, an applicant must enroll in the Plan and satisfy various eligibility requirements/conditions for participation. These requirements/conditions vary according to defined classifications. Also, the Plan provides financial assistance with eligible medical and hospital expenses, substance abuse counseling, and on-track chaplaincy. Reference to the Plan agreement should be made for a complete description of the eligible expenses and the dollar limit of coverage related to each eligible expense, together with conditions for assistance when a covered person has other medical and/or hospital insurance, major medical coverage, Medicare, or any other form of medical coverage.

Contributions

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

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

2. Significant Accounting Policies

Basis of Accounting

The financial statements of the Trust have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America and accordingly reflect all significant receivables, payables, and other liabilities.

Cash and cash equivalents

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

Investments

The Trust's investments consist of mutual funds that invest in a range of government and U.S. government agency securities, a certificate of deposit, and an annuity. The mutual funds and annuity are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Certificates of deposit are reported at cost which approximates fair value.

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

Building and Equipment

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

Tax Status

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

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

2. Significant Accounting Policies (continued)

Tax Status (continued)

The Trust applies a "more-likely-than-not" recognition threshold for all tax uncertainties. This approach only allows the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities. As a result of implementing this approach, the Trust has reviewed its tax positions and determined there were no outstanding or retroactive tax positions with less than a 50% likelihood of being sustained upon examination by the taxing authorities. Therefore, the implementation of this standard has not had a material effect on the Trust.

Use of Estimates

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

3. Investments

At December 31, 2017 and 2016, investments consist of:

	<u>2017</u>	<u>2016</u>
Certificates of deposit	\$ 55,235	\$ 55,000
Mutual funds	84,598	84,535
Annuity	<u>317,438</u>	<u>311,733</u>
Total	<u>\$ 457,271</u>	<u>\$ 451,268</u>

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

4. Building and Equipment – Net

At December 31, 2017 and 2016, building and equipment consist of the following:

	<u>2017</u>	<u>2016</u>
Buildings	\$ 20,142	\$ 20,142
Computer software	153,050	127,800
Computer hardware	75,207	75,207
Furniture and fixtures	12,112	12,112
Equipment	19,720	19,720
Field office trailers	<u>120,952</u>	<u>120,952</u>
Total cost	401,183	375,933
Less: Accumulated depreciation	<u>(284,936)</u>	<u>(239,758)</u>
Building and equipment, net	<u>\$ 116,247</u>	<u>\$ 136,175</u>

Depreciation expense of \$45,179 and \$42,274 is included in administrative expenses for the years ended December 31, 2017 and 2016, respectively.

5. Related Party Transactions

During the years ended December 31, 2017 and 2016, general and administrative expenses included \$739,200 and \$734,100, respectively, for management fees to LAHBPA 1993 Inc. in accordance with the management agreement.

6. Termination of Plan

After advance consultation with the Louisiana Horsemen's Benevolent & Protective Association 1993, Inc., the Trustees may terminate the Trust. Upon that termination, the Trustees shall allocate the assets of the Trust as follows: (a) first, to pay any benefits due and owing under the Trust to the then current participants, dependents, and beneficiaries; (b) second, to pay the expenses of terminating the Trust; and (c) third, after consultation with the Louisiana Horsemen's Benevolent & Protective Association 1993, Inc., the excess shall be applied to the benefit of the then current participants, dependents, and beneficiaries. In no event, shall any assets of the Trust Fund be paid to, or inure to the benefit of the Louisiana Horsemen's Benevolent & Protective Association 1993, Inc. or any member thereof (other than through the payment of benefits in accordance with the Plan or the Agreement).

7. Risks and Uncertainties

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

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

8. Concentrations

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

Contributions received from purse and purse supplements as reported on the Statements of Changes in Net Assets Available for Benefits represent 99.66% of total additions to plan assets during the years ended December 31, 2017 and 2016.

9. Fair Value Measurements

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

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

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

Level 2: Inputs to the valuation methodology include:

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

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

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

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

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

9. Fair Value Measurements (continued)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Trust are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Trust are deemed to be actively traded.

Annuity: Valued at fair value by the insurance company by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Trust believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The following table sets forth by level, within the fair value hierarchy, the Trust's net assets at fair value as of December 31, 2017 and 2016.

<u>2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual fund	\$ 84,598	\$ -	\$ -	\$ 84,598
Annuity	-	-	317,438	317,438
Total	<u>\$ 84,598</u>	<u>\$ -</u>	<u>\$ 317,438</u>	<u>\$ 402,036</u>

<u>2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual fund	\$ 84,535	\$ -	\$ -	\$ 84,535
Annuity	-	-	311,733	311,733
Total	<u>\$ 84,535</u>	<u>\$ -</u>	<u>\$ 311,733</u>	<u>\$ 396,268</u>

The following table sets forth a summary of changes in the fair value of the Trust's Level 3 assets for the years ended December 31, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 311,733	\$ 306,605
Unrealized gains related to instruments still held at the reporting date	<u>5,705</u>	<u>5,128</u>
Balance, end of year	<u>\$ 317,438</u>	<u>\$ 311,733</u>

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

10. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 29, 2018, and determined no items require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST

**SCHEDULE OF COMPENSATION, BENEFITS,
AND OTHER PAYMENTS TO AGENCY HEAD
FOR THE YEAR ENDED DECEMBER 31, 2017**

Agency Head Name: Edwin Fenasci, Executive Director

<u>Purpose</u>	<u>Amount</u>
Salary	\$ 115,972
Benefits - insurance	6,412
Per diem	161
Registration fees	150
Conference travel	759

The Executive Director function is performed by an employee of LAHBPA 1993 Inc., a related party. The Louisiana Horsemen's Medical Benefit Trust does not have any employees.

See independent auditors' report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

To the Trustees of
Louisiana Horsemen's Medical Benefit Trust

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Louisiana Horsemen's Medical Benefit Trust (the Trust) which comprise the statements of net assets as of December 31, 2017 and the statements of changes in net assets available for benefits for the year then ended and the related notes to the financial statements, and have issued our report thereon dated June 29, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Louisiana Horsemen's Medical Benefit Trust's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 Trust's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Metairie, Louisiana
June 29, 2018

LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST

STATEWIDE AGREED-UPON PROCEDURES

FOR THE YEAR ENDED DECEMBER 31, 2017



Postlethwaite & Netterville

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LOUISIANA HORSEMEN'S MEDICAL BENEFIT TRUST

STATEWIDE AGREED-UPON PROCEDURES

FOR THE YEAR ENDED DECEMBER 31, 2017

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

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

We have performed the procedures enumerated below, which were agreed to by the Louisiana Horsemen's Medical Benefit Trust (Medical Trust or the Entity) and the Louisiana Legislative Auditor (LLA) (the specified parties) 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 procedures performed and the results thereof are set forth below. The procedure is stated first, followed by the results of the procedure presented in italics. If the item being subjected to the procedures is positively identified or present, then the results will read "*no exception noted*". If not, then a description of the exception ensues.

Written Policies and 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.

Medical Trust does not prepare a 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 or state purchasing rules and regulations; and (5) documentation required to be maintained for all bids and price quotes.

Not applicable – no purchases are made through Medical Trust.

- c) ***Disbursements***, including processing, reviewing, and approving.

Medical Trust does not have written policies and procedures regarding disbursements.

Written Policies and Procedures (continued)

- d) ***Receipts***, including receiving, recording, and preparing deposits.

Medical Trust does not have written policies and procedures regarding receipts.

- e) ***Payroll/Personnel***, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

Not applicable – Medical Trust does not have any employees.

- 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

Medical Trust does not have written policies and procedures regarding contracting.

- 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

Not applicable – Medical Trust does not have any credit cards.

- h) ***Travel and expense reimbursement***, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers

Medical Trust does not have written policies and procedures regarding travel and expense reimbursements.

- i) ***Ethics***, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees including elected officials annually attest through signature verification that they have read the Entity's ethics policy.

Not applicable – this does not apply to nonprofits.

- j) ***Debt Service***, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Not applicable – this does not apply to nonprofits.

Board (or Finance Committee, if applicable)

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.

No charter or legislation dictates the frequency of Medical Trust's board meetings. Our procedures noted that the Medical Trust board met twice in 2017.

- b) Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and other major funds. 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.

Medical Trust does not prepare a budget; therefore, no budget to actual comparisons are discussed at the board meetings.

- c) 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.

No exceptions noted.

Bank Reconciliations

3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete.

No exceptions noted.

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:

- a) Bank reconciliations have been prepared;

No exceptions noted.

- b) 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;

A member of management prepares the bank reconciliation and they are then reviewed by the outside CPA firm engaged by Medical Trust. 45 out of 53 bank reconciliations tested did not have evidence of review.

Bank Reconciliations (continued)

- c) 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.

Not applicable – There were no reconciling items outstanding for more than 6 months as of the end of the fiscal period.

Collections

5. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.

No exceptions noted.

6. 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). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. **For each cash collection location selected:**

- a. Obtain existing 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 a board member or an outside party) and 3) not required to share the same cash register or drawer.

No exceptions noted.

- 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 location selected.

We performed the procedures above and noted that the entity has no written documentation stating that 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.

Collections (continued)

- 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.

We performed the procedures above and noted that Medical Trust does not maintain daily collection logs or other similar documentation and written policies and procedures do not require such documentation. Therefore, for the one week tested, no daily collection log or other similar documentation was provided and we were unable to determine the number of days from collection to deposit.

- 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.

We performed the procedures above and noted that Medical Trust does not maintain sequentially numbered receipts, system reports, or other daily collection documentation supporting cash collections. Therefore, for the one week tested, no daily collections documentation supporting cash collections was provided.

7. 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 of receipt number sequences, reasonableness of cash collections based on licenses issued) by a person who is not responsible for collections.

We performed the procedures above and noted that Medical Trust has no written documentation regarding a process specifically defined to determine completeness of all collections.

Disbursements – Other General

8. 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.

The listing of beginning and ending check ranges for all bank accounts was provided related to the reporting period. No exceptions were noted as a result of performing this procedure.

Disbursements – Other General (continued)

9. 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.

None of the items tested were initiated using a requisition/purchase order system. Medical Trust does not utilize a requisition/purchase order system or electronic equivalent due to the nature of its operations.

- b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.

None of the items tested were initiated using a requisition/purchase order system. Medical Trust does not utilize a requisition/purchase order system or electronic equivalent due to the nature of their operations.

- c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order (P.O.), or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.

Medical Trust does not utilize a requisition/purchase order system or obtain receiving reports due to the nature of the business. Invoices were approved by someone other than the person initiating.

10. 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.

Medical Trust does not utilize a requisition/purchase order system, and there are no written policies and procedures requiring such a system. Medical Trust personnel responsible for processing/preparing payments can also set up vendors in the system.

11. 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.

No exceptions noted.

Disbursements – Other General (continued)

12. 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.

No exceptions noted.

13. 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.

Signature stamps are not maintained under control of authorized signers; however, the stamp is used only with his or her written approval. Signed checks are not maintained and controlled by the authorized signer until mailed.

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

Procedures 14 through 16 are not applicable as the Medical Trust does not have credit cards/debit cards/fuel cards/P-Cards.

Travel and Expense Reimbursement

17. 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.

No exceptions noted.

18. 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 (GSA) and report any rates that exceed the GSA rates.

Medical Trust does not have written policies and procedures related to travel and expense reimbursement.

Travel and Expense Reimbursement (continued)

19. 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 PPM 49 rates (#18 above) and report each reimbursement that exceeded those rates.

Medical Trust does not have written policies and procedures related to travel and expense reimbursement. Medical Trust's policy is to use the standard rates published by the Internal Revenue Service (IRS). We noted started IRS rate applied properly to miles traveled.

- b) Report whether each expense is supported by:

- An original itemized receipt that identifies precisely what was purchased.
- 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).

We performed the procedures above and noted no exceptions. We noted that there was no itemized receipt as the expense tested was a mileage reimbursement. We viewed the expense report and mileage documentation.

- 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.

No exceptions noted.

- d) Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

No exceptions noted.

Contracts

20. 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.

No exceptions noted.

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 or the Louisiana Legislative Auditor). 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.

No exceptions noted. Formal written contracts support the service arrangements and amounts 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 (bid law) and:

For the four contracts selected, none were subject to the Louisiana Public Bid Law or Procurement Code.

- 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).

Not applicable.

- If no, obtain supporting contract documentation and report whether the Entity solicited quotes as a best practice.

Medical Trust did not solicit quotes for the contracts tested.

- 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.

Of the four contracts tested, we noted one contract, originally executed in 2012, had been amended, as permitted by the original contract. The amendments were approved by the Board and totaled \$20,400.

Contracts (continued)

- 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.

No exceptions noted.

- e) Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law.

Not applicable – Board approval not required by policy or law.

Payroll and Personnel

Procedure 22 through 25 are not applicable as Medical Trust does not have any employees.

Ethics

Procedures 26 and 27 are not applicable as Medical Trust is a nonprofit.

Debt Service

Procedures 28 through 30 are not applicable as Medical Trust is a nonprofit.

Other

31. 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.

No misappropriation of public funds or assets based on inquiry of management.

32. 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.

We performed the procedures above and noted no exceptions.

33. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

We performed the procedures above and noted no exceptions.

Corrective Action

34. Obtain management's response and corrective action plan for any exceptions noted in the above agreed-upon procedures.

Management acknowledges that the established internal policies and controls of the organization are undocumented and is in the process of developing a written policies and procedures manual. During this exercise, management will take into consideration the other areas identified in this report in order to strengthen their policies and procedures as necessary.

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.

Postlethwaite & Netterville

Metairie, Louisiana
June 29, 2018