
**LOUISIANA HORSEMEN'S BENEVOLENT
AND PROTECTIVE ASSOCIATION 1993, INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017



Postlethwaite & Netterville

A Professional Accounting Corporation

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CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Louisiana Horsemen's Benevolent and Protective Association 1993, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Louisiana Horsemen's Benevolent and Protective Association 1993, Inc. and Subsidiaries (LAHBPA 1993 Inc.) which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Horsemen's Benevolent and Protective Association 1993 Inc. and Subsidiaries as of December 31, 2017 and 2016, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information on pages 16 through 20 is presented for purposes of additional analysis, and it is not a required part of the consolidated 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 consolidated financial statements. The supplemental information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements taken 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 Louisiana Horsemen's Benevolent and Protective Association 1993 Inc. and Subsidiaries' 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 *Government Auditing Standards* in considering LAHBPA 1993 Inc.'s internal control over financial reporting and compliance.

Postlethwaite & Netterville

Metairie, Louisiana
June 29, 2018

**LOUISIANA HORSEMEN'S BENEVOLENT
AND PROTECTIVE ASSOCIATION 1993, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016**

ASSETS

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 622,962	\$ 690,376
Claims escrow funds	162,367	162,359
Fees receivable - workers' compensation program	73,296	109,149
Accounts receivable - workers' compensation program	60,605	42,048
Premium receivable	95,848	81,674
Prepaid expenses	142,721	150,807
Restricted cash - workers' compensation program	1,413,414	212,299
Due from related parties	983	831,306
Property and equipment, net	<u>158,940</u>	<u>163,206</u>
Total assets	<u>\$ 2,731,136</u>	<u>\$ 2,443,224</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 102,021	\$ 130,868
Reserve for losses and loss adjustment expenses	81,613	102,093
Losses payable	2,345	51,992
Unearned premiums - workers' compensation	240,860	289,148
Due to related parties	<u>820,880</u>	<u>699,509</u>
Total liabilities	<u>1,247,719</u>	<u>1,273,610</u>
Net assets:		
Unrestricted - workers' compensation program	1,655,712	339,296
Unrestricted - LAHBPA 1993 Inc.	<u>(172,295)</u>	<u>830,318</u>
Total net assets	<u>1,483,417</u>	<u>1,169,614</u>
Total liabilities and net assets	<u>\$ 2,731,136</u>	<u>\$ 2,443,224</u>

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

**LOUISIANA HORSEMEN'S BENEVOLENT
AND PROTECTIVE ASSOCIATION 1993, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDING DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Revenue and other support		
Workers' compensation premiums	\$ 414,307	\$ 262,913
Management fee income	1,521,700	1,523,700
Underwriting (loss) gain	(81,848)	177,121
Pony lead fees	599,353	534,555
Investment income - Horsemen's Bookkeeper	153,593	143,011
Jockey payroll and NSF fees	57,281	38,832
Investment income	1,331	2,444
Other income	216,690	3,553
	<u>2,882,407</u>	<u>2,686,129</u>
 Expenses		
Workers' compensation and underwriting program expenses	83,116	223,861
Support services	2,485,488	2,507,515
	<u>2,568,604</u>	<u>2,731,376</u>
 Change in net assets	<u>313,803</u>	<u>(45,247)</u>
 Net assets, beginning of year	<u>1,169,614</u>	<u>1,214,861</u>
 Net assets, end of year	<u><u>\$ 1,483,417</u></u>	<u><u>\$ 1,169,614</u></u>

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

**LOUISIANA HORSEMEN'S BENEVOLENT
AND PROTECTIVE ASSOCIATION 1993, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDING DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 313,803	\$ (45,247)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	32,980	29,056
Realized and unrealized gain on investments	-	(733)
Net change in operating assets and liabilities:		
Fees receivable	35,853	(36,341)
Accounts receivable - workers' compensation	(18,557)	(2,398)
Premium receivable	(14,174)	(15,729)
Prepaid expenses	8,086	(36,743)
Claims escrow funds	(8)	-
Accounts payable and accrued expenses	(28,847)	34,216
Reserve for losses and loss adjustment expenses	(20,480)	(112,531)
Losses payable	(49,647)	(112,475)
Unearned premiums	(48,288)	17,579
Due to/from related parties	951,694	(758,915)
Net cash provided by (used in) operating activities	<u>1,162,415</u>	<u>(1,040,261)</u>
Cash flows from investing activities		
Capital expenditures	(28,714)	(10,700)
Purchases of investments	-	(1,984)
Proceeds from sale of investments	<u>-</u>	<u>473,571</u>
Net cash (used in) provided by investing activities	<u>(28,714)</u>	<u>460,887</u>
Net increase (decrease) in cash and cash equivalents	<u>1,133,701</u>	<u>(579,374)</u>
Cash and cash equivalents, beginning of year	<u>902,675</u>	<u>1,482,049</u>
Cash and cash equivalents, end of year	<u>\$ 2,036,376</u>	<u>\$ 902,675</u>
<u>Reconciliation to the consolidated statements of financial position</u>		
Cash and cash equivalents	\$ 622,962	\$ 690,376
Restricted cash workers' compensation program	1,413,414	212,299
	<u>\$ 2,036,376</u>	<u>\$ 902,675</u>

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

LOUISIANA HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION 1993, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

1. Significant Accounting Policies

Organization

The Louisiana Horsemen's Benevolent and Protective Association 1993, Inc. (LAHBPA 1993 Inc.) was formed for the purpose of protecting the interest of the horse owners and trainers, particularly as it relates to their relationships with the owners and managers of race tracks. More specifically, LAHBPA 1993 Inc. operates with the express purpose "...to foster, protect, represent, and promote the welfare and common interest of thoroughbred and quarter horse owners and trainers, to improve conditions in the horse racing industry, to improve relationships between horsemen, other members of the racing industry, and the general public in the State of Louisiana..." LAHBPA 1993 Inc. mediates on behalf of individual members when problems arise with racetrack management or the State Racing Commission, negotiates fair distributions at race tracks, and monitors state and federal legislative developments in the interest of horsemen.

With amendments to Louisiana Revised Statutes (LRS) 4:251 and 252, LAHBPA 1993 Inc. formed a wholly owned subsidiary, Horsemen's Alliance Holdings, Inc. (HAH) which serves as the parent holding company for Horsemen's Insurance Alliance SPC (HIA), which was incorporated in the Cayman Islands and holds an Insurer's license, through which a workers' compensation insurance program is marketed to the members of LAHBPA 1993 Inc.

HAH, was incorporated on June 30, 2006 in the state of Louisiana, and is the parent holding company for the HIA. HIA was incorporated on June 23, 2006 in the Cayman Islands, as an exempted segregated portfolio company with limited liability and holds an Unrestricted Class "B" insurer's license, subject to the provisions of the Insurance Law (2008) of the Cayman Islands. HIA is comprised of a general portfolio which carries no risk and one segregated portfolio (Louisiana SP).

The principal business of Louisiana SP was to provide reinsurance of the workers' compensation, occupational disease and employer's liability coverage issued by National Union Fire Insurance Company of Pittsburgh and other member companies of Chartis (the "Ceding Insurer") to LAHBPA 1993 Inc. The limit of liability is \$300,000 per occurrence and \$3,040,000 in aggregate for the policy period of July 1, 2010 to July 1, 2011. Effective in 2011, HIA discontinued writing insurance coverage and commenced running off its existing claims. HIA has three remaining open claims as of December 31, 2017.

On July 13, 2011, the Horsemen's Workers' Compensation Insurance Trust (HWCIT) was formed for the purpose of directly insuring a significant portion of the insurance risks previously reinsured through HIA. HWCIT began providing insurance coverage on July 17, 2011.

LOUISIANA HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION 1993, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

1. Significant Accounting Policies (continued)

Organization (continued)

LAHBPA 1993 Inc. also administers a non-qualified Pension Plan and a Medical Benefit Plan with scheduled benefits for its members and their dependents. Although LAHBPA 1993 Inc. appoints the Board of Trustees for both Plans and HWCIT and shares overhead expenses, each Trust is a separate legal entity with its own funding sources and operating expenses, separate and apart from LAHBPA 1993 Inc.'s operations. LAHBPA 1993 Inc. also maintains and serves as the disbursing agent for the Horsemen's Bookkeeper Account which is the recipient of all Louisiana horse race purses for disbursement for the owners.

Principles of Consolidation

The accompanying consolidated financial statements of the Louisiana Horsemen's Benevolent and Protective Association 1993, Inc. and Subsidiaries include the accounts of the Louisiana Horsemen's Benevolent and Protective Association 1993, Inc., and its wholly owned subsidiary, HAH. Also included are the accounts of the HIA, a wholly owned subsidiary of the HAH. All intercompany activities and transactions have been eliminated upon consolidation.

Basis of Accounting

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

Financial Statement Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of LAHBPA 1993 Inc. and changes therein are classified and reported as follows:

- *Unrestricted Net Assets* – Net assets that are not subject to donor-imposed stipulations.
- *Temporarily Restricted Net Assets* – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of LAHBPA 1993 Inc. and or the passage of time. At December 31, 2017 and 2016 there were no temporarily restricted net assets.
- *Permanently Restricted Net Assets* – Net assets are subject to donor-imposed stipulations that they be maintained permanently by LAHBPA 1993 Inc. Generally, the donors of these assets permit LAHBPA 1993 Inc. to use all or part of the income earned on any related investments for general or specific purposes. At December 31, 2017 and 2016 there were no permanently restricted net assets.

LOUISIANA HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION 1993, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

1. Significant Accounting Policies (continued)

Financial Statement Presentation (continued)

The statement of activities presents expenses of LAHBPA 1993 Inc.'s operations functionally between program services and management and general. Those expenses which cannot be functionally categorized are allocated between functions based upon management's estimate of usage applicable to conducting those functions.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, LAHBPA 1993 Inc. considers all highly liquid investments, including certificates of deposit, with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are carried at cost. LAHBPA 1993 Inc.'s policy is to capitalize property and equipment over \$2,500. Depreciation is computed using the straight-line method over the estimated useful lives (3 - 10 years) of the respective assets. When assets are retired or otherwise disposed of, the cost and the 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, significant renewals, and betterment are capitalized.

Unearned Premiums

Unearned premiums represent advance workers' compensation premiums paid excluding the non-refundable minimum deposit of \$1,000 as of December 31, 2017 and 2016.

Reinsurance premiums are recognized on a pro rata basis of the policy terms. The portion of premiums and ceding commissions that relate to future periods are deferred and recorded as unearned premiums and deferred ceding commissions.

Reserve for Losses and Loss-Adjustment Expenses

HIA determines its reserves for losses and loss-adjustment expenses on the basis of the losses reported by loss managers. Losses incurred but not reported are provided for on the basis of the advice of an independent actuary.

LOUISIANA HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION 1993, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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1. Significant Accounting Policies (continued)

Reserve for Losses and Loss-Adjustment Expenses (continued)

The reserve for losses and loss-adjustment expenses represents management's best estimate of the ultimate settlement costs of all losses and loss-adjustment expenses and are subject to the impact of further changes in loss severity, frequency and other factors. Management believes that amounts are adequate and recognizes the variability inherent in the data used in determining the liability, however, the absence of sufficient historical loss experience to support the assumptions inherent in establishing the estimate results in uncertainty as to the amount which will ultimately be required for the settlement of losses and loss expenses, and the differences could be material. The estimate is continuously reviewed, and as adjustments to the liability become necessary, they are reflected in current operations.

Revenue and Other Support

Pursuant to Louisiana Revised Statute (La R.S.) 4:251 through 252, the Louisiana Legislature authorized and empowered the LAHPBA 1993 Inc. "To establish, operate and administer an insurance program for the purpose of providing workers' compensation insurance coverage and related benefits to members of the Horsemen's Benevolent and Protective Association and other persons including and especially owners of race horses, licensed by the Louisiana State Racing Commission." LAHBPA 1993 Inc. formed the Horsemen's Workers Compensation Insurance Trust (HWCIT) effective July 17, 2011 to provide this insurance coverage. The worker's compensation program is authorized to utilize up to 2% of all purses and purse supplements, of which, up to one half is authorized to be used for the improvement and administration of the Horsemen's Self-Help Pension Program (Pension Trust). Prior to June 1, 2016, distribution provides one percent to the Pension Trust and one percent to HWCIT. Effective from June 1, 2016 until May 31, 2017, the LAHBPA 1993 inc. directed that one and a half percent be dedicated to HWCIT and one half percent be dedicated to the Pension Trust. Effective June 1, 2017, LAHBPA 1993 inc. directed that one percent be dedicated to HWCIT and one percent be dedicated to Pension Trust. No statutorily dedicated funds are recognized as revenue by LAHBPA 1993 Inc. The Pension Trust and Medical Trust receive their distribution directly from the race tracks. Funds received for workers' compensation are passed through in their entirety to HWCIT.

The Workers' Compensation Insurance Program also generates premium revenue for LAHBPA 1993 Inc. Members of LAHBPA 1993 Inc. are charged a premium based on either the number of race starts or per payroll level if the member is a non-racing farm. Effective July 17, 2011 premium revenue earned for coverage provided by HWCIT is recorded as revenue in HWCIT.

LAHBPA 1993 Inc. is also funded by the investment income earned on deposits maintained in the Horsemen's Bookkeeper Account.

Other income for the year ended December 31, 2017 includes approximately \$213,000 related to litigation which was settled during the year.

LOUISIANA HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION 1993, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

1. Significant Accounting Policies (continued)

Income Taxes

LAHBPA 1993 Inc. is a nonprofit organization exempt from income taxes under provisions of the Internal Revenue Service Code Sections 501(c)(6), respectively, and the La R.S.; therefore, no provision has been made for federal and state income taxes.

LAHBPA 1993 Inc. 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% percent likelihood of being sustained upon examination by the taxing authorities. As a result of implementing this approach, LAHBPA 1993 Inc. 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 LAHBPA 1993 Inc.

HIA is not subject to taxes on income or gains under Section 6 of the Cayman Islands Tax Concessions Law (Revised). Therefore, no provision for taxes has been made in these financial statements. HIA intends to conduct its activities so as not to be subject to taxation in any other jurisdiction. As a result of the above matters, no tax liability or expense has been recognized in the consolidated financial statements.

Pony Lead Fees

Pony lead fee (administrative fee) revenue is paid by each owner and is earned based on each start. Prior to June 1, 2017, the fee was \$16 per start and divided as follows: \$0.90 to HAH PAC, \$0.10 to Pension, and \$15 to 1993 Inc. for administrative expenses. Effective June 1, 2017, the fee was approved by the Board of Directors of LAHBPA 1993 Inc. and raised to \$20 and divided as follows: \$0.90 to HAH PAC, \$0.10 to Pension, and \$19 to 1993 Inc. for administrative expenses.

Contributed Services

A portion of LAHBPA 1993 Inc.'s functions are conducted by unpaid volunteer officers and committee members. The value of this contributed time is not reflected in the accompanying financial statements since it is not susceptible to objective measurement or valuation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LOUISIANA HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION 1993, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2. Property and Equipment

The following is a summary of the major classes of property and equipment and the related depreciation at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 110,000	\$ 110,000
Building	685,760	685,760
Building improvements	381,193	369,808
Furniture and fixtures	185,487	185,487
Computers	101,694	101,694
Equipment	185,696	168,367
Field office trailers	235,212	235,212
Total	<u>1,885,042</u>	<u>1,856,328</u>
Less: accumulated depreciation	<u>(1,726,102)</u>	<u>(1,693,122)</u>
Property and equipment, net	<u>\$ 158,940</u>	<u>\$ 163,206</u>

Depreciation expense totaled \$32,980 and \$29,056 for the years ended December 31, 2017 and 2016, respectively.

3. Reserve for Losses and Loss-Adjustment Expenses

Reserve for losses consists of the following at December 31, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Reported claims	\$ 50,166	\$ 71,722
Incurred but not reported and adverse development	<u>31,447</u>	<u>30,371</u>
	<u>\$ 81,613</u>	<u>\$ 102,093</u>

LOUISIANA HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION 1993, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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3. Reserve for Losses and Loss-Adjustment Expenses (continued)

Movement in the reserve for losses and loss-adjustment expenses for all policies is summarized as follows:

	2017		2016	
	General Portfolio	Segregated Portfolio	General Portfolio	Segregated Portfolio
Balance – beginning of year	\$ -	\$ 102,093	\$ -	\$ 214,624
Incurred related to:				
Current year	-	-	-	-
Prior years	-	(70,127)	-	(47,885)
	-	(70,127)	-	(47,885)
Paid related to:				
Current year	-	-	-	-
Prior years	-	49,647	-	(64,646)
	-	49,647	-	(64,646)
Balance – end of year	<u>\$ -</u>	<u>\$ 81,613</u>	<u>\$ -</u>	<u>\$ 102,093</u>

As described in Note 1, HIA ceased writing new business and insuring risks as of July 16, 2011. Incurred losses resulting from claims related to insured events for prior years were adjusted during the years ended December 31, 2017 and 2016 due to changes in estimates of the ultimate settlement costs of such losses.

HIA engaged independent consulting actuaries to advise on the necessary level of the reserve for losses and loss-adjustment expenses. At December 31, 2017 and 2016, the estimated outstanding losses for all policy years on an undiscounted basis were \$81,613 and \$102,093, respectively, at an expected confidence level. As the number of open claims continues to reduce, there may continue to be more variability in the overall reserve setting process.

In the opinion of the Directors, these provisions are adequate to cover the estimated ultimate liability for the losses and loss-adjustment expenses at the balance sheet date. Consistent with most organizations with similar insurance operations, HIA's reserve for losses and loss-adjustment expenses is ultimately based on management's reasonable expectations of the future events. It is reasonably possible that the expectations associated with these amounts could change in the near term (i.e. within one year) and that the effect of such changes could be material to the financial statements. LAHBPA 1993 Inc. and HIA do not discount the reserves for losses and loss-adjustment expenses.

LOUISIANA HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION 1993, INC.
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4. Related Party Transactions

LAHBPA 1993, Inc. shares certain overhead costs with the Louisiana Horsemen's Medical Benefit Trust (Medical Benefit Trust), the Louisiana Horsemen's Pension Trust (Pension), and the Horsemen's Workers Compensation Insurance Trust (HWCIT), affiliates of LAHBPA 1993 Inc. Balances due to and from LAHBPA 1993 Inc. (including its subsidiaries) consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Due from Horsemen's Alliance	\$ 250	\$ 250
Due from Charitable Foundation	733	733
Due from 1993, Inc. Bookkeeper	<u>-</u>	<u>830,323</u>
Due from related party - 1993 Inc., net	<u>\$ 983</u>	<u>\$ 831,306</u>
	<u>2017</u>	<u>2016</u>
Due to Horsemen's Workers'		
Compensation Insurance Trust	\$ 820,416	\$ 697,009
Due to Worker's Compensation reserve fund	-	2,500
Due to Pension Trust	<u>464</u>	<u>-</u>
Due to related party - 1993 Inc., net	<u>\$ 820,880</u>	<u>\$ 699,509</u>

The amount due to the affiliated entities on behalf of LAHBPA 1993 Inc. was \$832,620 and \$702,195 at December 31, 2017 and 2016, respectively. The balance due to related parties are non-interest bearing and are unsecured. The balances due to HWCIT of \$820,416 and \$697,009 in 2017 and 2016, respectively, represent the worker's compensation premiums and purse funding collected by LAHBPA 1993 Inc. in excess of insurance related and administrative expenses incurred for HWCIT for the years ended December 31, 2017 and 2016. As described in Note 1, the purpose of HWCIT is to provide benefits for certain workers in the horse racing industry and members of LAHBPA 1993 Inc. HWCIT's viability is dependent on LAHBPA 1993 Inc. for funding any cash flow needs and any deficits incurred by HWCIT.

During the years ended December 31, 2017 and 2016, LAHBPA 1993 Inc. earned management fees totaling \$1,521,700 and \$1,523,700 from the Medical Benefit Trust, Pension, and HWCIT, respectively.

LOUISIANA HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION 1993, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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5. Horsemen's Bookkeeper Account

At each race meeting conducted in the State of Louisiana, there shall be a bookkeeper for the collection, disbursement, and investment of monies belonging to horsemen licensed and racing at such a race meeting, who shall be known as the Horsemen's Bookkeeper. The Horsemen's Bookkeeper shall be bonded, selected, and employed by LAHBPA 1993 Inc.

Except for interest earned on the investment of monies in the Horsemen's Bookkeeper Account, and that portion of a pony lead fee as authorized and assessed by LAHBPA 1993 Inc. to provide retirement benefits and to pay the administrative and operating costs of LAHBPA 1993 Inc., withdrawals are limited to monies due horsemen with regard to daily purses, jockey fees, stakes, handicaps, rewards, claims, deposits, monies if any for horsemen's medical and hospital benefit programs, and pony lead fees.

6. Commitments and Contingencies

Insurance Management Agreement

HIA has an appointed insurance manager located in Grand Cayman. HIA's management agreement with the insurance manager stipulates the terms and conditions under which the insurance manager is to conduct business on behalf of HIA. HIA is committed to pay the insurance manager an annual fee for services. HIA pays the insurance manager a yearly management fee of \$35,000.

Letters of Credit

Letters of credit of \$1,135,097 as of December 31, 2016, were issued by HIA's banker in favor of the Ceding insurer to secure HIA's liabilities under the reinsurance assumed. The letters of credit were secured by a guarantee from LAHBPA 1993 Inc.

7. Concentration of Credit Risk

LAHBPA 1993 Inc. receives virtually all of its support as a result of the horse racing industry. Management fee income earned from related entities (See Note 5) represents approximately 53% and 56% of its total revenues earned during the years ended December 31, 2017 and 2016, respectively. Management does not foresee any unfavorable impact as a result of these concentrations.

LAHBPA 1993, Inc. maintains cash in bank accounts in excess of insured limits periodically. LAHBPA 1993, Inc. has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

LOUISIANA HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION 1993, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

8. Subsequent Events

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

SUPPLEMENTAL INFORMATION

**LOUISIANA HORSEMEN'S BENEVOLENT
AND PROTECTIVE ASSOCIATION 1993, INC.
AND SUBSIDIARIES**

**CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017**

	1993, Inc.	HAH	HIA	Eliminating Entries	2017
Assets					
Cash and cash equivalents	\$ 572,176	\$ 50,786	\$ -	\$ -	\$ 622,962
Claims escrow funds	-	-	162,367	-	162,367
Fees receivable - workers' compensation program	73,296	-	-	-	73,296
Accounts receivable - workers' compensation premiums	60,605	-	-	-	60,605
Premium receivable	95,848	-	-	-	95,848
Prepaid expenses	133,726	-	8,995	-	142,721
Restricted cash - workers' compensation program	1,277,304	-	136,110	-	1,413,414
Due from related parties	21,140	-	-	(20,157)	983
Investment in subsidiary	249,643	219,014	-	(468,657)	-
Property and equipment, net	158,940	-	-	-	158,940
Total assets	\$ 2,642,678	\$ 269,800	\$ 307,472	\$ (488,814)	\$ 2,731,136
Liabilities					
Accounts payable and accrued expenses	\$ 97,521	\$ -	\$ 4,500	\$ -	\$ 102,021
Reserve for losses and loss adjustment expenses	-	-	81,613	-	81,613
Losses payable	-	-	2,345	-	2,345
Unearned premiums - workers' compensation	240,860	-	-	-	240,860
Due to related parties	820,880	20,157	-	(20,157)	820,880
Total liabilities	1,159,261	20,157	88,458	(20,157)	1,247,719
Net assets					
Unrestricted	1,483,417	-	-	-	1,483,417
Retained earnings (accumulated deficit)	-	(285,357)	(2,152,464)	2,437,821	-
Additional paid-in capital	-	535,000	2,369,478	(2,904,478)	-
Common stock	-	-	2,000	(2,000)	-
Total net assets	1,483,417	249,643	219,014	(468,657)	1,483,417
Total liabilities and net assets	\$ 2,642,678	\$ 269,800	\$ 307,472	\$ (488,814)	\$ 2,731,136

See accompanying independent auditors' report.

**LOUISIANA HORSEMEN'S BENEVOLENT
AND PROTECTIVE ASSOCIATION 1993, INC.
AND SUBSIDIARIES**

**CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016**

(Continued)

	1993, Inc.	HAH	HIA	Eliminating Entries	2016
Assets					
Cash and cash equivalents	\$ 490,400	\$ 199,976	\$ -	\$ -	\$ 690,376
Claims escrow funds	-	-	162,359	-	162,359
Fees receivable - workers' compensation program	109,149	-	-	-	109,149
Accounts receivable - workers' compensation premiums	42,048	-	-	-	42,048
Premium receivable	81,674	-	-	-	81,674
Prepaid expenses	133,063	-	17,744	-	150,807
Restricted cash - workers' compensation program	67,933	-	144,366	-	212,299
Due from related parties	851,463	-	-	(20,157)	831,306
Investment in subsidiary	321,703	141,884	-	(463,587)	-
Property and equipment, net	163,206	-	-	-	163,206
Total assets	\$ 2,260,639	\$ 341,860	\$ 324,469	\$ (483,744)	\$ 2,443,224
Liabilities					
Accounts payable and accrued expenses	\$ 102,368	\$ -	\$ 28,500	\$ -	\$ 130,868
Reserve for losses and loss adjustment expenses	-	-	102,093	-	102,093
Losses payable	-	-	51,992	-	51,992
Unearned premiums - workers' compensation	289,148	-	-	-	289,148
Due to related parties	699,509	20,157	-	(20,157)	699,509
Total liabilities	1,091,025	20,157	182,585	(20,157)	1,273,610
Net assets					
Unrestricted	1,169,614	-	-	-	1,169,614
Retained earnings (accumulated deficit)	-	(168,008)	(2,080,550)	2,248,558	-
Additional paid-in capital	-	489,711	2,220,434	(2,710,145)	-
Common stock	-	-	2,000	(2,000)	-
Total net assets	1,169,614	321,703	141,884	(463,587)	1,169,614
Total liabilities and net assets	\$ 2,260,639	\$ 341,860	\$ 324,469	\$ (483,744)	\$ 2,443,224

See accompanying independent auditors' report.

**LOUISIANA HORSEMEN'S BENEVOLENT
AND PROTECTIVE ASSOCIATION 1993, INC.
AND SUBSIDIARIES**

**CONSOLIDATING STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>1993 Inc.</u>	<u>HAH</u>	<u>HIA</u>	<u>Eliminations</u>	<u>2017</u>
Revenue and other support					
Workers' compensation premiums	\$ 344,180	\$ -	\$ 70,127	\$ -	\$ 414,307
Management fee income	1,521,700	-	-	-	1,521,700
Underwriting loss	-	-	(81,848)	-	(81,848)
Pony lead fees	599,353	-	-	-	599,353
Investment income - Horsemen's Bookkeeper	153,593	-	-	-	153,593
Jockey payroll and NSF fees	57,281	-	-	-	57,281
Investment return	1,275	-	56	-	1,331
Other income	216,690	-	-	-	216,690
Equity on gain of subsidiary	(72,060)	(71,914)	-	143,974	-
	<u>2,822,012</u>	<u>(71,914)</u>	<u>(11,665)</u>	<u>143,974</u>	<u>2,882,407</u>
Total revenue and other support					
Expenses					
Workers' compensation program	83,116	-	-	-	83,116
Support services	2,425,093	146	60,249	-	2,485,488
	<u>2,508,209</u>	<u>146</u>	<u>60,249</u>	<u>-</u>	<u>2,568,604</u>
Total expenses					
Change in net assets	<u>313,803</u>	<u>(72,060)</u>	<u>(71,914)</u>	<u>143,974</u>	<u>313,803</u>
Net assets, beginning of year	<u>1,169,614</u>	<u>321,703</u>	<u>141,884</u>	<u>(463,587)</u>	<u>1,169,614</u>
Net asset contributions (distributions), net	<u>-</u>	<u>-</u>	<u>149,044</u>	<u>(149,044)</u>	<u>-</u>
Net assets, end of year	<u>\$ 1,483,417</u>	<u>\$ 249,643</u>	<u>\$ 219,014</u>	<u>\$ (468,657)</u>	<u>\$ 1,483,417</u>

See accompanying independent auditors' report.

**LOUISIANA HORSEMEN'S BENEVOLENT
AND PROTECTIVE ASSOCIATION 1993, INC.
AND SUBSIDIARIES**

**CONSOLIDATING STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDING DECEMBER 31, 2016**

	1993 Inc.	HAH	HIA	Eliminations	2016
Revenue and other support					
Workers' compensation premiums	\$ 215,028	\$ -	\$ 47,885	\$ -	\$ 262,913
Management fee income	1,523,700	-	-	-	1,523,700
Underwriting income	-	-	177,121	-	177,121
Pony lead fees	534,555	-	-	-	534,555
Investment income - Horsemen's Bookkeeper	139,642	3,369	-	-	143,011
Jockey payroll and NSF fees	38,832	-	-	-	38,832
Investment return	2,398	-	46	-	2,444
Other income	3,553	-	-	-	3,553
Equity on gain of subsidiary	141,626	138,346	-	(279,972)	-
Total revenue and other support	2,599,334	141,715	225,052	(279,972)	2,686,129
Expenses					
Workers' compensation program	223,861	-	-	-	223,861
Support services	2,420,720	89	86,706	-	2,507,515
Total expenses	2,644,581	89	86,706	-	2,731,376
Change in net assets	(45,247)	141,626	138,346	(279,972)	(45,247)
Net assets, beginning of year	1,214,861	290,366	(96,462)	(193,904)	1,214,861
Net asset contributions (distributions), net	-	(110,289)	100,000	10,289	-
Net assets, end of year	\$ 1,169,614	\$ 321,703	\$ 141,884	\$ (463,587)	\$ 1,169,614

See accompanying independent auditors' report.

**LOUISIANA HORSEMEN'S BENEVOLENT
AND PROTECTIVE ASSOCIATION 1993, INC.
AND SUBSIDIARIES**

**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

Note: The Executive Director of LAHBPA 1993, Inc. is the individual responsible for and monitors all activities of the LAHBPA 1993, Inc., its subsidiaries and its related organizations. This schedule reflects the compensation, benefits and other payments made to the Executive Director by LAHBPA 1993, Inc.

See independent auditors' report.

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

Board of Directors

Louisiana Horsemen's Benevolent and Protective Association 1993, Inc.

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 consolidated financial statements of Louisiana Horsemen's Benevolent and Protective Association 1993, Inc. and Subsidiaries (LAHBPA 1993 Inc.) which comprise the consolidated statements of financial position for the years ended December 31, 2017, and the related consolidated statements of activities and cash flows 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 Louisiana Horsemen's Benevolent and Protective Association 1993, Inc. and Subsidiaries' 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 Louisiana Horsemen's Benevolent and Protective Association 1993, Inc. and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of LAHBPA 1993 Inc.'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.

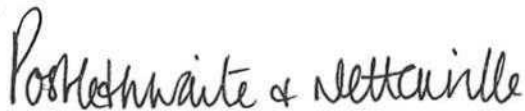
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Benevolent and Protective Association 1993, Inc. and Subsidiaries' consolidated 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 Louisiana Horsemen's Benevolent and Protective Association 1993, Inc. and Subsidiaries' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the LAHBPA 1993 Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose



Metairie, Louisiana
June 29, 2018