
HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 2020

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Horsemen's Workers' Compensation Insurance Trust

We have audited the accompanying financial statements of the Horsemen's Workers' Compensation Insurance Trust (the Trust), which comprise the statements of net assets as of December 31, 2020 and 2019, and the related statements of revenues, expenses, and changes in net assets, and cash flows 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 with *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 auditors' 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 position of the Horsemen's Workers' Compensation Insurance Trust as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about short-duration insurance contracts on page 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information in the Schedule of Compensation, Benefits and Other Payments to Agency Head on page 17, which is the responsibility of management, is presented for purposes 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 supplementary information has been subjected to the auditing procedures applied in the audits 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 supplementary information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 29, 2021, on our consideration of the Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads 'Postlethwaite & Netterville'.

Baton Rouge, Louisiana
June 29, 2021

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST

STATEMENTS OF NET ASSETS
DECEMBER 31, 2020 AND 2019

	<u>ASSETS</u>	
	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,528,447	\$ 2,714,812
Cash held in claims escrow funds	330,128	210,196
Investments - fixed income securities	393,005	400,284
Investments - equity securities	138,238	379,005
Prepaid excess insurance	266,346	302,661
Excess insurance receivable	358,674	218,919
Other prepaid expenses	33,750	48,267
Due from affiliates, net	<u>1,059,998</u>	<u>1,082,504</u>
 Total assets	 <u>\$ 5,108,586</u>	 <u>\$ 5,356,648</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Unpaid claims liability	\$ 3,027,520	\$ 4,031,411
Accounts payable and accrued liabilities	210,027	476,347
Unearned premiums	<u>1,000</u>	<u>-</u>
 Total liabilities	 3,238,547	 4,507,758
 Net assets	 <u>1,870,039</u>	 <u>848,890</u>
 Total liabilities and net assets	 <u>\$ 5,108,586</u>	 <u>\$ 5,356,648</u>

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

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>Revenue and Other Support</u>		
Purse receipts allocated to workers compensation revenue	\$ 680,186	\$ 868,467
Start premium revenue	2,140,370	2,522,470
Farm premium revenue	256,848	267,410
Net investment income earned	38,623	9,935
Interest and dividend income	25,804	28,827
Total operating revenues	<u>3,141,831</u>	<u>3,697,109</u>
<u>Expenses</u>		
Claims expense	642,513	3,388,957
Excess insurance premiums	557,962	606,548
Claims handling fees	63,538	87,301
Professional fees and contingencies	143,619	124,449
Management fees	688,800	688,800
Other	24,250	24,389
Total operating expenses	<u>2,120,682</u>	<u>4,920,444</u>
<u>CHANGE IN NET ASSETS</u>	1,021,149	(1,223,335)
NET ASSETS - BEGINNING	<u>848,890</u>	<u>2,072,225</u>
NET ASSETS - ENDING	<u>\$ 1,870,039</u>	<u>\$ 848,890</u>

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

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,021,149	\$ (1,223,335)
Adjustments to reconcile change in net assets to net cash used in operations:		
Change in receivables	(139,755)	(105,557)
Change in prepaid excess insurance	36,315	1,226
Change in unpaid claims liability	(1,003,891)	838,633
Change in other prepaid expenses	14,517	(761)
Change in accounts payable	(266,320)	36,723
Change in unearned premiums	1,000	(3,000)
Change in due from affiliates	22,506	(435,262)
	<u>(314,479)</u>	<u>(891,333)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	612,387	-
Investment purchases	(364,341)	(779,289)
	<u>248,046</u>	<u>(779,289)</u>
Net cash provided by (used in) investing activities		
Net change in cash	(66,433)	(1,670,622)
Cash and cash equivalents, beginning of year	<u>2,925,008</u>	<u>4,595,630</u>
Cash and cash equivalents, end of year	<u>\$ 2,858,575</u>	<u>\$ 2,925,008</u>
<u>Summary of Cash Balances</u>		
Cash and cash equivalents	\$ 2,528,447	\$ 2,714,812
Cash held in claims escrow funds	330,128	210,196
	<u>\$ 2,858,575</u>	<u>\$ 2,925,008</u>

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

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Background and Organization

Horsemen's Workers' Compensation Insurance Trust (the Trust) was established on July 13, 2011, as a trust pursuant to Louisiana Revised Statute 4:251 and 4:252 to administer an insurance program for the purpose of providing workers' compensation insurance coverage and related benefits to members of the Louisiana Horsemen's Benevolent and Protective Association 1993, Inc. (the Association). The Trust began providing insurance coverage on July 16, 2011, which is considered the date of inception of operations. The Association 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. The purpose of the Trust is to provide workers' compensation insurance certificates of coverage and related benefits for certain workers participating in the horse racing industry and members of the Association. The Trust's objective is to formulate, develop, and administer a program of workers' compensation and loss control programs for the benefit of participants. This includes developing underwriting and rate-setting policies and administering benefits to claimants under the insurance certificates and to purchase excess insurance contracts for the benefit of the Trust.

Workers' compensation benefits provided by the Trust were previously provided to members of the Association pursuant to insurance policies issued by a third party and reinsured by Horsemen's Insurance Alliance SPC (HIA), which is incorporated in the Cayman Islands as a segregated portfolio Trust and a captive insurer owned by the Association. Effective July 16, 2011, the Trust began providing coverage to members, which were previously provided by a third party insurance policy in conjunction with HIA acting as the reinsurer for a specified amount of covered risks. All claims and other liabilities prior to this date remain the obligation of the third party insurer and HIA.

The Trust is administered by a Board of Trustees who are appointed by the Board of Directors of the Association. The Trust also contracts with the Association to act as the administrator and manager of the Trust and with other parties to perform certain functions to carry out the objectives of the Trust. The Trust and the Association are affiliated through common membership and management control and are considered to be related parties. Although these entities are related parties, their various net assets are available only to each individual entity for their respective operations.

In the event the Trust has excess assets available for a trust year of operations, the Trustees may, at their sole discretion, declare a dividend payable to members meeting eligibility requirements. Such a dividend will be payable only upon determination by the Board of Trustees and any necessary regulatory approvals.

(b) Basis of Accounting

The accompanying financial statements are presented in accordance with U.S. generally accepted accounting principles (GAAP) and prevailing practices within the insurance industry. The Trust utilizes the accrual method of accounting for financial reporting purposes.

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Revenues and Accounts Receivable

The Association is funded by the statutorily dedicated funds described in the Louisiana Revised Statute (La R.S) 4:251 through 252, relative to workers' compensation insurance coverage. Pursuant to La R.S. 4:252 (c)(5), the Association receives 2% of all purses and purse supplements available for purses for any race meets in Louisiana. Of the 2% receipts, the Association may utilize up to one-half of the authorized two percent for the improvement and administration of the Louisiana Horsemen's Pension Trust. During the years ended December 31, 2020 and 2019, 1% of the Association's total 2% purse receipts was dedicated to the Trust and recognized as revenues in these financial statements. The remaining 1% of the Association's purse receipts was dedicated to the Louisiana Horsemen's Pension Trust. See Note 2.

The Association's workers' compensation insurance program also generates premium revenue charged based on either the number of race starts or per payroll level if the member is a non-racing farm. The percentage of purse funds received and premiums charged to members on either a per-start or covered payroll basis by the Association were contributed to the Trust and included in revenues in these financial statements.

For Louisiana domiciled participants and participants who meet a Louisiana racing test, coverage is extended while temporarily participating in horse racing and/or training operations. For other participants, coverage is provided while operating at the Louisiana Race Tracks and Louisiana recognized Training Centers. Participants must obtain coverage through the Trust unless the Association declines to provide coverage. In such case, the trainer must provide evidence that other worker's compensation insurance is in place in order to race in Louisiana.

Louisiana domiciled participants and participants who meet a Louisiana racing test pay premiums on a per start fee. There was a \$65 to \$85 charge for in-state races. Participants for out-of-state and out-of-country races are charged a fee of \$85 to \$105 per start, respectively. The base farm rate remained at 12% of farm payroll. Quarter Horse and Thoroughbred farms premiums are based on their estimated annual payroll.

Revenues received from a percentage of purses or on a per-start basis are recognized as revenue by the Trust when the event occurs. Premiums from non-racing farms are recognized as revenues over the term of the coverage agreements as they become earned. This method of premium recognition is considered by management to reasonably represent the periods of risk of loss exposure. Premiums are also subject to verification and any adjustments to premiums or revenues are considered to be a change in estimate and are recognized in the period they become known. The Trust evaluates the collectability of its accounts receivable based on the length of time the receivable is outstanding and historical experience. Accounts receivable are charged against the allowance for uncollectible accounts when they are deemed uncollectible. Acquisition costs associated with new and renewal coverage agreements are deemed immaterial to the financial statements and are expensed when incurred.

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Unpaid Claims Liability

The Trust provides workers' compensation coverage to members for claims incurred during the policy period regardless of when the claims are reported to the Trust. The Trust establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Estimated amounts of excess insurance recoverable on unpaid claims are deducted from the liability for unpaid claims.

Adjustments to claims liabilities are charged or credited to claims expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expense are not discounted for the present value of future payments in the financial statements.

(e) Excess Insurance Contracts

The Trust enters into excess insurance agreements to reduce its exposure to large losses on insured events. Excess insurance provides for recovery of a portion of losses from third-party insurers, although it does not discharge the primary liability of the Trust as the direct insurer of the insured risks under the coverage agreement. The Trust does not report insured risks as liabilities unless management determines it is probable that those risks will not be covered by the insurers.

(f) Contributed Services

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

(g) Income Tax Status

The Trust is exempt from federal income taxes under Sections 501(c)(4) of the Internal Revenue Code (IRC). The Trust has no unrelated business activities which could be deemed taxable activities. Therefore, no provision for income taxes has been included in the Trust's financial statements.

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) *Insurance Related Assessments*

The Trust's management and legal counsel are evaluating whether the Trust's activities are subject to assessments made by the Louisiana Second Injury Fund and the Office of Workers' Compensation based on benefits paid each year. If the Trust is determined to be subject to these types of loss-based assessments, the Trust intends to recognize these assessments as expense when related claim benefits are incurred rather than paid. The Trust would also be eligible to seek reimbursement for claims cost incurred for claimants which qualify for reimbursement under the Louisiana Second Injury Fund. At December 31, 2020 and 2019, the Trust accrued \$125,000, as potential contingent liabilities associated with these loss-based assessments which is continually updated as additional information is evaluated. Changes in the accrued liabilities for these assessments are recorded as charges or credits to expense each year.

(i) *Investments*

Effective January 1, 2019, the Trust adopted the FASB ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, to address the recognition, measurement, presentation, and disclosure of certain financial instruments. This ASU requires equity investments, except those accounted for under the equity method of accounting, that have readily determinable fair values to be measured at fair value with changes in fair values recognized in net income. Equity investments that do not have readily determinable fair values may be remeasured at fair value either upon the occurrence of an observable price change or upon identification of impairment. A qualitative assessment for impairment is required for equity investments without readily determinable fair values.

(j) *Statements of Cash Flows*

For purposes of the statements of cash flows, the Trust considers cash and cash equivalents to be short-term, highly liquid assets that are readily convertible to known amounts of cash. The Trust also applies Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* and combines unrestricted and restricted cash for purposes of the statements of cash flows.

(k) *Use of Estimates*

Management of the Trust has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST

NOTES TO FINANCIAL STATEMENTS

2. INVESTMENTS

The carrying value, gross unrealized gains and losses, and estimated fair value of investment securities at December 31, are shown below:

	2020			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Certificate of deposits	\$ 380,000	\$ 13,270	\$ (265)	\$ 393,005
Total debt securities	380,000	13,270	(265)	393,005
Equity securities	145,001	10,541	(17,304)	138,238
Total equity securities	145,001	10,541	(17,304)	138,238
Total Investments	<u>\$ 525,001</u>	<u>\$ 23,811</u>	<u>\$ (17,569)</u>	<u>\$ 531,243</u>

	2019			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Certificate of deposits	\$ 400,000	\$ 330	\$ (46)	\$ 400,284
Total debt securities	400,000	330	(46)	400,284
Equity securities	296,528	8,553	(421)	304,660
Mutual funds	72,776	1,579	(10)	74,345
Total equity securities	369,304	10,132	(431)	379,005
Total Investments	<u>\$ 769,304</u>	<u>\$ 10,462</u>	<u>\$ (477)</u>	<u>\$ 779,289</u>

The above securities held in an unrealized loss position were not considered to be other-than-temporary impairment of the underlying issuer.

HORSEMEN’S WORKERS’ COMPENSATION INSURANCE TRUST

NOTES TO FINANCIAL STATEMENTS

2. INVESTMENTS (continued)

The amortized cost and estimated fair values of certificates of deposit at December 31, 2020, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due within one year	\$ 80,000	\$ 81,309
Due after one year through five years	<u>300,000</u>	<u>311,696</u>
Total Investments	<u>\$ 380,000</u>	<u>\$ 393,005</u>

The Trust uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. U.S. GAAP defines fair value as the amount at which that asset could be bought or sold in a current transaction between willing parties; that is, other than in a forced or liquidation sale.

Certain of the Trust’s investment securities are carried at fair value and have been classified based on a hierarchy which prioritizes the inputs to valuation techniques to measure fair value into three broad levels. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Classification is based on the lowest level input that is significant to its measurement. The levels of the fair value hierarchy are as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.
- Level 2 – Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data 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, determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The fair values of equity securities and certificates of deposit are considered to have a fair value determined as Level 1 above.

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST

NOTES TO FINANCIAL STATEMENTS

3. RELATED PARTY TRANSACTIONS

The Association provides various management and administrative functions for the benefit of the Trust, including the collection of the Trust's revenues. The Trust incurred management fees to the Association of \$688,800 during the years ended December 31, 2020 and 2019. At December 31, 2020 and 2019, the Statements of Net Assets included \$1,059,998 and \$1,082,504, respectively, of net amounts due from the Association.

As previously described in Note 1, the Trust's purpose is to provide benefits for members of the Association and is dependent on the Association to contribute revenues to the Trust, which are statutorily derived. Effective June 1, 2017, the revenue dedicated to the Trust and Pension were revised to one percent (1.00%) to each. The Trust's viability is dependent on the Association for operating revenues, management services, and funding any cash flow needs.

4. CLAIMS ESCROW FUNDS

At December 31, 2020 and 2019, the funds held by a third party service provider, which are restricted and used to pay out claims, were \$330,128 and \$210,196, respectively.

5. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the Trust's aggregate unpaid claims liabilities for the years ended December 31, 2020 and 2019, net of amounts insured by excess insurers as described in Note 5:

	<u>2020</u>	<u>2019</u>
Balance – beginning, net	\$ 4,031,411	\$ 3,192,778
Net incurred related to:		
Current year	1,871,610	2,947,806
Prior years	<u>(1,229,097)</u>	<u>441,151</u>
Total incurred	<u>642,513</u>	<u>3,388,957</u>
Net paid related to:		
Current year	718,023	921,598
Prior years	<u>928,381</u>	<u>1,628,726</u>
Total paid	<u>1,646,404</u>	<u>2,550,324</u>
Balance – ending, net	\$ <u>3,027,520</u>	\$ <u>4,031,411</u>

The Trust engages an independent consulting actuary to advise on the necessary level of reserves for losses and loss-adjustment expenses. During 2020, the Trust experienced overall favorable development of approximately \$1,229,000 on unpaid claims liabilities established in prior years. The significant favorable development related primarily to more recent accident years which is attributed, at least in part, to changes in treatment patterns related to COVID-19 pandemic factors. During 2019, the Trust experienced overall unfavorable development of approximately \$441,000.

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST

NOTES TO FINANCIAL STATEMENTS

5. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY (continued)

In the opinion of the Trust's management, the reserve estimates are adequate to cover the estimated ultimate liability for the losses and loss-adjustment expenses at December 31, 2020. Consistent with most companies with similar insurance operations, the Trust'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. The Trust does not discount its reserves for losses and loss-adjustment expenses.

The Trust's reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid at any given point in time based on known facts and circumstances. The Trust estimates its reserves for loss and loss adjustment expenses using individual case valuations and actuarial analysis. The Trust utilizes a combination of generally accepted and standard actuarial methods including paid and incurred loss development factor approaches, expected loss ratio methods and other paid and incurred approaches to estimate its reserves for loss and loss adjustment expenses. Embedded within these actuarial methods are loss development assumptions selected by either a review of the Trust's specific loss development history, industry loss development characteristics, or a combination of both depending on the maturity of the loss experience to date. The Trust's actuarial reserve analysis for 2020 included changes in certain methodologies due to the temporary suspension of horse racing during 2020 due to the COVID-19 pandemic.

Loss development factors are a key assumption underlying many of the actuarial methods utilized. Loss development factors are the ratio of losses at successive evaluations for a defined group of claims (e.g., accident year, accident quarter, etc.). Loss development factors may be dependent on a number of elements, including frequency and severity of claims, length of time to achieve ultimate settlement of claims, case reserving practices, projected inflation of medical costs and wages, judicial determinations and existing laws and regulations. The predictive ability of loss development factors is dependent on consistent underwriting, claims handling, and inflation, among other factors, and predictable legislatively and judicially imposed legal requirements.

The Trust only writes workers' compensation insurance. The incurred claims information below also includes the cumulative number of claims reported in each accident year. The number of claims reported are aggregated on a per claimant basis and are included to help measure claim frequency.

The following is information about the incurred and paid claims as of December 31, 2020, net of excess insurance, as well as cumulative claim frequency and the total of incurred but not reported liabilities plus expected development on reported claims included within the net incurred claims amounts.

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST

NOTES TO FINANCIAL STATEMENTS

5. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY (continued)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Excess Insurance
As of December 31, 2020

Accident Year	Incurred claims and allocated claim adjustment expenses, net of excess insurance	Cumulative Paid	Incurred but not reported plus expected development on reported claims	Cumulative number of claims reported
2011	\$ 687,304	\$ 686,209	\$ 1,095	177
2012	1,593,773	1,591,251	2,522	159
2013	1,820,034	1,766,070	-	114
2014	1,889,232	1,867,804	11,716	89
2015	1,580,750	1,544,159	36,591	91
2016	2,018,420	1,842,711	17,765	108
2017	1,437,317	1,190,299	45,244	81
2018	2,248,134	1,776,928	343,718	88
2019	2,284,570	1,420,170	548,115	95
2020	1,871,610	718,023	1,057,285	68
	<u>\$ 17,431,144</u>	<u>\$ 14,403,624</u>		

Liabilities for claims and allocated claims
adjustment expenses, net of excess insurance \$ 3,027,520

6. EXCESS INSURANCE COVERAGE

The Trust purchases specific and aggregate excess insurance policies from commercial excess insurers to limit the Trust's losses in excess of specified and aggregate loss limits. The Trust's specific excess policy limits the Trust's losses to the retention amount for any single occurrence, up to a maximum benefit. The Fund's aggregate excess coverage provided protection against losses in the aggregate, subject to a minimum retention by the Trust.

The specific excess insurance obtained from the Trust's inception to July 2015 provides coverage for each and every accident in excess of a \$400,000 retention amount retained by the Trust. For the period July 2015 to July 2020, the Trust's specific retention amount was increased to \$500,000 for each occurrence. Beginning in July 2020, the Trust's specific retention amount was increased to \$600,000 for each occurrence. The specific excess insurance provides coverage for all statutory benefits owed to the claimant under the Trust's coverage agreement.

The aggregate excess insurance provides for coverage of aggregate losses for the coverage periods ending July 1, 2021, and July 1, 2020, exceeding 347% and 336% of earned normal premium, respectively, which is estimated to be an aggregate attachment point of approximately \$3,000,000.

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST

NOTES TO FINANCIAL STATEMENTS

6. EXCESS INSURANCE COVERAGE (continued)

As of December 31, 2020 and 2019, the Trust included amounts receivable from the excess insurer of \$358,674 and \$218,919, respectively. The Trust also presented its loss reserve liability in Note 5 net of unpaid losses incurred in excess of the Trust's retention levels. The ultimate amount of losses in excess of the Trust's retention has not been determined but case reserves were estimated to be approximately \$1.8 at both December 31, 2020 and 2019, respectively.

The excess insurance contracts do not relieve the Trust from its obligations to claimants. The Trust remains liable to claimants for the portion insured to the extent that the excess insurer does not meet the obligations assumed under the excess insurance agreement. Failure of the excess insurers to honor their obligation could result in losses to the Trust.

7. COMMITMENTS AND CONTINGENCIES

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets in the local area and around the world. The Trust is uncertain how long these conditions will last and what the complete financial effect will be.

8. SUBSEQUENT EVENTS

Management has evaluated events through the date that the financial statements were available to be issued, June 29, 2021, and determined that there were no events that required disclosure. No other subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST

SHORT-DURATION CONTRACTS

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Excess Insurance
For The Years Ended December 31,

Accident Year											Incurred but not reported plus expected development on reported claims	Cumulative number of claims reported
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
2011	\$ 1,132,083	\$ 908,584	\$ 789,785	\$ 777,509	\$ 750,754	\$ 714,609	\$ 700,027	\$ 693,070	\$ 689,683	\$ 687,304	\$ 1,095	177
2012		2,075,737	1,987,329	1,845,713	1,814,422	1,716,578	1,645,004	1,605,541	1,595,466	1,593,773	2,522	159
2013			1,852,228	1,635,334	1,707,955	1,629,730	1,849,709	1,828,227	1,765,832	1,820,034	-	114
2014				2,066,056	2,336,140	1,967,750	2,047,031	1,948,033	1,914,677	1,889,232	11,716	89
2015					1,797,516	1,777,634	1,594,611	1,551,173	1,723,606	1,580,750	36,591	91
2016						2,048,280	1,952,183	1,860,372	2,153,139	2,018,420	17,765	108
2017							1,528,571	1,397,486	1,514,460	1,437,317	45,244	81
2018								2,634,673	2,613,805	2,248,134	343,718	88
2019									2,947,806	2,284,570	548,115	95
2020										1,871,610	1,057,285	68
										<u>\$ 17,431,144</u>		

Cumulative Paid Claims & Allocated Claim Adjustment Expenses, Net of Excess Insurance
For The Years Ended December 31,

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
2011	\$ 190,262	\$ 484,435	\$ 580,082	\$ 605,932	\$ 605,932	\$ 686,209	\$ 686,209	\$ 686,209	\$ 686,209	\$ 686,209	\$ 686,209
2012		605,844	1,257,622	1,467,942	1,579,850	1,584,806	1,585,373	1,586,241	1,591,251	1,591,251	1,591,251
2013			428,434	823,044	1,242,482	1,389,682	1,705,234	1,743,697	1,751,488	1,766,070	1,766,070
2014				500,380	1,360,414	1,637,406	1,795,799	1,788,558	1,873,200	1,867,804	1,867,804
2015					352,540	1,103,715	1,343,040	1,397,659	1,641,115	1,544,159	1,544,159
2016						659,293	1,204,785	1,477,899	1,771,708	1,842,711	1,842,711
2017							453,516	852,955	1,071,660	1,190,299	1,190,299
2018								792,579	1,578,834	1,776,928	1,776,928
2019									921,598	1,420,170	1,420,170
2020										718,023	718,023
										Total	\$ 14,403,624
											\$ 3,027,520

Liabilities for claims and allocated claims adjustment expenses, net of excess insurance

Average Annual Percentage Payout of Incurred Loss and Allocated Claim Adjustment Expense
By Age, Net of Excess Insurance

Years	1	2	3	4	5	6	7	8	Total
Workers' Compensation	40.6%	33.7%	13.3%	5.8%	3.4%	1.7%	0.6%	0.3%	99.4%

The Trust's limited operating history may impact the above payout patterns of ultimate workers' compensation benefits.

See independent auditors' report.

SUPPLEMENTARY INFORMATION

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST

**SCHEDULE OF COMPENSATION, BENEFITS,
AND OTHER PAYMENTS TO AGENCY HEAD
FOR THE YEAR ENDED DECEMBER 31, 2020**

Agency Head Name: Edwin Fenasci, Executive Director

<u>Purpose</u>	
Salary	\$ 128,048
Benefits - insurance	7,841
Meals and parking	25
Registration fees	-
Conference travel	121
	<u>136,035</u>

Note: The governing body of the Horsemen's Workers' Compensation Insurance Trust is the Board of Trustees. The Trustees are appointed by the Board of Directors of LAHBPA 1993, Inc. The Executive Director of LAHBPA 1993, Inc. is the individual responsible for and monitors all activities of the LAHBPA 1993, Inc. and its related organizations including the Horsemen's Workers' Compensation Insurance Trust. The Horsemen's Workers' Compensation Insurance Trust does not have any employees. 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**

Officers and Trustees
Horsemen's Workers' Compensation Insurance 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 the Horsemen's Workers' Compensation Insurance Trust (the "Trust"), which comprise the statements of net assets as of December 31, 2020, and the related statements of revenues, expenses and changes in net assets, 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, 2021.

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 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.

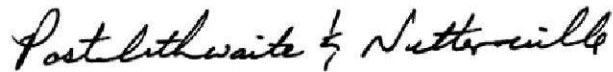
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 the Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. 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.



Baton Rouge, Louisiana
June 29, 2021