
HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 2021

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Horsemen's Workers' Compensation Insurance Trust

Opinion

We have audited the accompanying financial statements of Horsemen's Workers' Compensation Insurance Trust (the Trust), which comprise the statements of net assets as of December 31, 2021 and 2020, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Horsemen's Workers' Compensation Insurance Trust as of December 31, 2021 and 2020, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Horsemen's Workers' Compensation Insurance Trust and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Horsemen's Workers' Compensation Insurance Trust's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Horsemen's Workers' Compensation Insurance Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Horsemen's Workers' Compensation Insurance Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about short-duration insurance contracts on page 17 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.



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 18, 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 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 supplementary information is fairly stated, in all material respects, in relation to the 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 July 8, 2022, 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.

Postlethwaite & Netterville

Baton Rouge, Louisiana
July 8, 2022

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST

STATEMENTS OF NET ASSETS
DECEMBER 31, 2021 AND 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 2,893,378	\$ 2,528,447
Cash held in claims escrow funds	95,889	330,128
Investments - fixed income securities	524,010	393,005
Investments - equity securities	199,026	138,238
Prepaid excess insurance	297,171	266,346
Excess insurance receivable	874,887	358,674
Other prepaid expenses	33,750	33,750
Due from affiliates, net	592,096	1,059,998
	<hr/>	<hr/>
Total assets	\$ 5,510,207	\$ 5,108,586
	<hr/> <hr/>	<hr/> <hr/>

LIABILITIES AND NET ASSETS

Liabilities:		
Unpaid claims liability	\$ 2,847,503	\$ 3,027,520
Accounts payable and accrued liabilities	137,571	210,027
Unearned premiums	420	1,000
	<hr/>	<hr/>
Total liabilities	2,985,494	3,238,547
Net assets	<hr/>	<hr/>
	2,524,713	1,870,039
Total liabilities and net assets	\$ 5,510,207	\$ 5,108,586
	<hr/> <hr/>	<hr/> <hr/>

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, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>Revenue and Other Support</u>		
Purse receipts allocated to workers compensation revenue	\$ 903,774	\$ 680,186
Start premium revenue	2,392,780	2,140,370
Farm premium revenue	243,846	256,848
Net realized and unrealized gains	32,652	38,623
Interest and dividend income	15,708	25,804
Total operating revenues	<u>3,588,760</u>	<u>3,141,831</u>
<u>Expenses</u>		
Claims expense	1,327,979	642,513
Excess insurance premiums	574,232	557,962
Claims handling fees	102,700	63,538
Professional fees	168,309	143,619
Management fees	729,300	688,800
Other	31,566	24,250
Total operating expenses	<u>2,934,086</u>	<u>2,120,682</u>
<u>CHANGE IN NET ASSETS</u>	654,674	1,021,149
NET ASSETS - BEGINNING	<u>1,870,039</u>	<u>848,890</u>
NET ASSETS - ENDING	<u>\$ 2,524,713</u>	<u>\$ 1,870,039</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, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 654,674	\$ 1,021,149
Adjustments to reconcile change in net assets to net cash provided by (used in) operations:		
Change in excess insurer receivables	(516,213)	(139,755)
Change in prepaid excess insurance	(30,825)	36,315
Change in unpaid claims liability	(180,017)	(1,003,891)
Change in other prepaid expenses	-	14,517
Change in accounts payable	(72,456)	(266,320)
Change in unearned premiums	(580)	1,000
Change in due from affiliates	467,902	22,506
	<u>322,485</u>	<u>(314,479)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	148,139	612,387
Investment purchases	(339,932)	(364,341)
	<u>(191,793)</u>	<u>248,046</u>
Net cash provided by (used in) investing activities		
Net change in cash	130,692	(66,433)
Cash and cash equivalents, beginning of year	<u>2,858,575</u>	<u>2,925,008</u>
Cash and cash equivalents, end of year	<u>\$ 2,989,267</u>	<u>\$ 2,858,575</u>
<u>Summary of Cash Balances</u>		
Cash and cash equivalents	\$ 2,893,378	\$ 2,528,447
Cash held in claims escrow funds	95,889	330,128
	<u>\$ 2,989,267</u>	<u>\$ 2,858,575</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, 2021 and 2020, 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 3.

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 workers' 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 charge for in-state races. Participants for out-of-state and out-of-country races are charged a fee of \$85 to \$90 per start, respectively. Effective August 1, 2021, the rates for out-of-state and out-of-country races were increased to \$90 and \$110, 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 excess 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, 2021 and 2020, 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

The Trust applies FASB ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, for 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:

	2021			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Certificate of deposits	\$ 520,000	\$ 5,717	\$ (1,707)	\$ 524,010
Total debt securities	520,000	5,717	(1,707)	524,010
Equity securities	160,351	38,675	-	199,026
Total equity securities	160,351	38,675	-	199,026
Total Investments	<u>\$ 680,351</u>	<u>\$ 44,392</u>	<u>\$ (1,707)</u>	<u>\$ 723,036</u>

	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>

The above securities held in an unrealized loss position were not considered to be other-than-temporarily impaired.

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, 2021, 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	\$ 81,146
Due after one year through five years	440,000	442,864
Total Investments	<u>\$ 520,000</u>	<u>\$ 524,010</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 \$729,300 and \$688,800 during the years ended December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, the Statements of Net Assets included \$592,096 and \$1,059,998, 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. 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, 2021 and 2020, the Trust maintained funds held by a third party service provider, which are restricted and used to pay out claims, totaling \$95,889 and \$330,128, 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, 2021 and 2020, net of amounts insured by excess insurers as described in Note 6:

	<u>2021</u>	<u>2020</u>
Balance – beginning, net	\$ 3,027,520	\$ 4,031,411
Net incurred related to:		
Current year	1,947,576	1,871,610
Prior years	<u>(619,597)</u>	<u>(1,229,097)</u>
Total incurred	<u>1,327,979</u>	<u>642,513</u>
Net paid related to:		
Current year	687,288	718,023
Prior years	<u>820,708</u>	<u>928,381</u>
Total paid	<u>1,507,996</u>	<u>1,646,404</u>
Balance – ending, net	<u>\$ 2,847,503</u>	<u>\$ 3,027,520</u>

The Trust engages an independent consulting actuary to advise on the necessary level of reserves for losses and loss-adjustment expenses. During 2021 and 2020, the Trust experienced overall favorable development of approximately \$620,000 and \$1,229,000, respectively, on unpaid claims liabilities established in prior years. The 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.

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, 2021. 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 2021 included the relevant changes in certain methodologies implemented in the 2020 analysis 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, 2021, 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, 2021

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	\$ 686,215	\$ 686,209	\$ 6	177
2012	1,592,768	1,591,251	1,517	159
2013	1,847,944	1,796,526	-	113
2014	1,900,963	1,891,241	9,722	87
2015	1,662,724	1,644,089	18,635	88
2016	1,931,578	1,885,138	46,440	103
2017	1,414,319	1,268,054	-	79
2018	2,167,518	1,858,612	112,477	86
2019	2,070,824	1,626,420	270,376	94
2020	1,657,948	1,098,046	437,946	68
2021	1,947,576	687,288	948,798	82
	<u>\$ 18,880,377</u>	<u>\$ 16,032,874</u>		

Liabilities for claims and allocated claims
adjustment expenses, net of excess insurance \$ 2,847,503

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, 2022, and July 1, 2021, exceeding 366% and 347% 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, 2021 and 2020, the Trust included amounts receivable from the excess insurer of \$874,887 and \$358,674, respectively, for reimbursement of claims paid. 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 million at December 31, 2021 and 2020.

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, July 8, 2022, 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	2021			
2011	\$ 1,132,083	\$ 908,584	\$ 789,785	\$ 777,509	\$ 750,754	\$ 714,609	\$ 700,027	\$ 693,070	\$ 689,683	\$ 687,304	\$ 686,215	\$ 686,215	\$ 6	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	1,592,768	1,592,768	1,517	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	1,847,944	1,847,944	-	113
2014				2,066,056	2,336,140	1,967,750	2,047,031	1,948,033	1,914,677	1,889,232	1,900,963	1,900,963	9,722	87
2015					1,797,516	1,777,634	1,594,611	1,551,173	1,723,606	1,580,750	1,662,724	1,662,724	18,635	88
2016						2,048,280	1,952,183	1,860,372	2,153,139	2,018,420	1,931,578	1,931,578	46,440	103
2017							1,528,571	1,397,486	1,514,460	1,437,317	1,414,319	1,414,319	-	79
2018								2,634,673	2,613,805	2,248,134	2,167,518	2,167,518	112,477	86
2019									2,947,806	2,284,570	2,070,824	2,070,824	270,376	94
2020											1,871,610	1,871,610	1,657,948	437,946
2021												1,947,576	948,798	82
												<u>\$ 18,880,377</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	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	1,796,526		
2014				500,380	1,360,414	1,637,406	1,795,799	1,788,558	1,873,200	1,867,804	1,891,241		
2015					352,540	1,103,715	1,343,040	1,397,659	1,641,115	1,544,159	1,644,089		
2016						659,293	1,204,785	1,477,899	1,771,708	1,842,711	1,885,138		
2017							453,516	852,955	1,071,660	1,190,299	1,268,054		
2018								792,579	1,578,834	1,776,928	1,858,612		
2019									921,598	1,420,170	1,626,420		
2020										718,023	1,098,046		
2021											687,288		
											Total	<u>\$ 16,032,874</u>	
												Liabilities for claims and allocated claims adjustment expenses, net of excess insurance	<u>\$ 2,847,503</u>

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, 2021**

Agency Head Name: Edwin Fenasci, Executive Director

<u>Purpose</u>	
Salary	\$ 141,325
Benefits - insurance	6,227
Meals and parking	168
Conference travel	1,125
	<u>148,845</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, 2021, 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 July 8, 2022.

Report on 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.

Report on 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.

Postlithwaite & Nutterville

Baton Rouge, Louisiana

July 8, 2022

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST

REPORT ON STATEWIDE
AGREED-UPON PROCEDURES ON COMPLIANCE AND
CONTROL AREAS

FOR THE YEAR ENDED DECEMBER 31, 2021

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INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

To the Members of the
Horsemen's Workers' Compensation Insurance Trust and the
Louisiana Legislative Auditor:

We have performed the procedures enumerated in Schedule A on the control and compliance (C/C) areas identified in the Louisiana Legislative Auditor's (LLA's) Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2021 through December 31, 2021. Horsemen's Workers' Compensation Insurance Trust's (the Entity) management is responsible for those C/C areas identified in the SAUPs.

The Entity has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of the engagement, which is to perform specified procedures on the C/C areas identified in LLA's SAUPs for the fiscal period January 1, 2021 through December 31, 2021. Additionally, LLA has agreed to and acknowledged that the procedures performed are appropriate for its purposes. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures we performed, and the associated findings are summarized in the attached Schedule A, which is an integral part of this report.

We were engaged by the Entity to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. We were not engaged to and did not conduct an examination or review engagement, 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.

We are required to be independent of the Entity and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended 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.



Baton Rouge, Louisiana
July 8, 2022

HORSEMEN’S WORKERS’ COMPENSATION INSURANCE TRUST
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
DECEMBER 31, 2021

Schedule A

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” or for step 25 “we performed the procedure and discussed the results with management”. If not, then a description of the exception ensues.

The Entity administers 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 Entity also contracts with the Association to act as the administrator and manager of the Entity and with other parties to perform certain functions to carry out the objectives of the Entity. The Entity 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.

A - Written Policies and Procedures

1. Obtain and inspect the entity’s written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity’s operations):

a) **Budgeting**, including preparing, adopting, monitoring, and amending the budget.

The Entity does not prepare or operate using 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; and (5) documentation required to be maintained for all bids and price quotes.

No exception noted. Steps (4) and (5) are not applicable to the Entity.

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

No exception noted.

d) **Receipts/Collections**, including receiving, recording, and preparing deposits. Also, policies and procedures should include management’s actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g., periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

No exception noted.

e) **Payroll/Personnel**, including (1) payroll processing, (2) reviewing and approving time and attendance records, including leave and overtime worked, and (3) approval process for employee(s) rate of pay or approval and maintenance of pay rate schedules.

Not applicable – the Entity does not have any employees.

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
DECEMBER 31, 2021

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- 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.

No exception noted.

- g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases).

Not applicable – the Entity 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.

No exception noted.

- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute (R.S.) 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) a requirement that documentation is maintained to demonstrate that all employees and officials were notified of any changes to the entity's ethics policy.

Not applicable – the Entity does not have any employees.

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

Not applicable – the Entity has no debt.

- k) **Information Technology Disaster Recovery/Business Continuity**, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.

The Entity has written policies for Disaster Recovery/ Business Continuity; however, the policy does not specifically address attribute (4) use of antivirus software on all systems and (5) timely application of all available system and software patches\updates. While not included in the written policies, it was observed that the antivirus software was installed and in use and system software was updated.

- l) **Sexual Harassment**, including R.S. 42:342-344 requirements for (1) agency responsibilities and prohibitions, (2) annual employee training, and (3) annual reporting.

Not applicable – the Entity does not have any employees.

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST
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B - Board or Finance Committee

2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:
- a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.

No charter or legislation dictates the frequency of the Entity's board meetings. Board meetings for the Entity are on an as needed basis. Our procedures noted that the Entity met twice during 2021.

- b) For those entities reporting on the governmental accounting model, observe whether the minutes referenced or included monthly budget-to-actual comparisons on the general fund, quarterly budget-to-actual, at a minimum, on proprietary funds, and semi-annual budget-to-actual, at a minimum, on all special revenue funds. *Alternately, for those entities reporting on the nonprofit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.*

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

- c) For governmental entities, obtain the prior year audit report and observe the unassigned fund balance in the general fund. If the general fund had a negative ending unassigned fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unassigned fund balance in the general fund.

Not applicable to the Entity

C - Bank Reconciliations

3. Obtain a listing of entity bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for each selected account, and observe that:

A listing of bank accounts was provided and included a total of four bank accounts. No exceptions noted.

We selected all bank accounts and obtained the bank reconciliations for the month ending December 31, 2021, resulting in 4 bank reconciliations obtained and subjected to the below procedures.

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
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- a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);

No exceptions noted.

- b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and

No exceptions noted.

- c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

Not applicable – There were no reconciling items that have been outstanding for more than 12 months after the end of the fiscal period.

D - Collections (excluding electronic funds transfers)

4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).

A listing of cash collection locations was provided and included only one cash collection location. No exceptions were noted as a result of performing this procedure.

From the listing provided, we selected the 1 deposit site and performed the procedures below.

5. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:

A listing of collection locations for each deposit site selected in procedure #4 was provided and included a total of 1 collection location. No exceptions were noted as a result of performing this procedure.

- a) Employees that are responsible for cash collections do not share cash drawers/registers.

No exceptions noted.

- b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST
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No exception noted.

- c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.

No exception noted.

- d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.

No exception noted.

6. Obtain from management a copy of the bond or insurance policy for theft covering all employees who have access to cash. Observe the bond or insurance policy for theft was enforced during the fiscal period.

No exception noted.

7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and:

We randomly selected two deposit dates from one bank account selected in procedure #3 as only one account receives deposits. We obtained supporting documentation for each of the 2 deposits and performed the procedures below.

- a) Observe that receipts are sequentially pre-numbered.

The Entity does not maintain sequentially pre-numbered receipts.

- b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

No exceptions noted.

- c) Trace the deposit slip total to the actual deposit per the bank statement.

No exceptions noted.

- d) Observe the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100 and the cash is stored securely in a locked safe or drawer).

**HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS
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The Entity does not maintain daily collection logs or other similar documentation and written policies and procedures do not require such documentation. Therefore, no daily collection log or other similar documentation was provided and we were unable to determine the number of days from collection to deposit.

- e) Trace the actual deposit per the bank statement to the general ledger.

No exceptions noted.

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

8. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).

The listing of locations that process payments for the fiscal period was provided. No exceptions were noted as a result of performing this procedure.

There was only one location; therefore, the location was selected and the procedures below were performed.

9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:

The listing of employees involved with non-payroll purchasing and payment functions for each payment processing location selected in procedure #8 was provided. No exceptions were noted as a result of performing this procedure.

Review of the Entity's written policies and procedures or inquiry with employee(s) regarding job duties was performed in order to perform the procedures below.

- a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.

No exceptions noted.

- b) At least two employees are involved in processing and approving payments to vendors.

No exceptions noted.

- c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.

HORSEMEN'S WORKERS' COMPENSATION INSURANCE TRUST
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The employee responsible for processing payments can add/modify vendors; however, a separate employee periodically reviews all changes to vendors.

- d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.

No exceptions noted.

10. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:

A listing of non-payroll disbursements for the payment processing location selected in procedures #8 was provided related to the reporting period. No exceptions were noted as a result of performing this procedure.

From the listing provided, we randomly selected 5 disbursements and performed the procedures below.

- a) Observe that the disbursement matched the related original itemized invoice, and that supporting documentation indicates that deliverables included on the invoice were received by the entity.

No exceptions noted.

- b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

No exceptions noted.

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

11. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

Not applicable – the Entity does not have credit cards/debit cards/fuel cards/P-cards.

12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:

Not applicable – the Entity does not have credit cards/debit cards/fuel cards/P-cards.

- a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the

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authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]

Not applicable – the Entity does not have credit cards/debit cards/fuel cards/P-cards.

- b) Observe that finance charges and late fees were not assessed on the selected statements.

Not applicable – the Entity does not have credit cards/debit cards/fuel cards/P-cards.

13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e., each card should have 10 transactions subject to testing). For each transaction, observe it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only). For missing receipts, the practitioner should describe the nature of the transaction and note whether management had a compensating control to address missing receipts, such as a “missing receipt statement” that is subject to increased scrutiny.

Not applicable – the Entity does not have credit cards/debit cards/fuel cards/P-cards.

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

14. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management’s representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:

The listing of travel expense reimbursements was provided for the fiscal period. No exceptions were noted as a result of performing this procedure.

From the listing provided, we randomly selected the only 2 reimbursements and performed the procedures below.

- a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).

Not applicable – the Entity did not have per diem reimbursements.

- b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.

No exceptions noted.

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- c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).

No exceptions noted.

- d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

No exceptions noted.

H - Contracts

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

A listing of general ledger activity for all in effect during the fiscal period was provided. No exceptions were noted as a result of performing this procedure. Only three vendors were noted.

- a) Observe that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.

Not applicable.

- b) Observe that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).

No exceptions noted.

- c) If the contract was amended (e.g., change order), observe the original contract terms provided for such an amendment and that amendments were made in compliance with the contract terms (e.g., if approval is required for any amendment, was approval documented).

No amendments noted, not applicable.

- d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

There were only 3 contracts. No exceptions noted.

I - Payroll and Personnel

16. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid

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salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

Not applicable – the Entity does not have employees.

17. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:

Not applicable – the Entity does not have employees.

- a) Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.).

Not applicable – the Entity does not have employees.

- b) Observe that supervisors approved the attendance and leave of the selected employees or officials.

Not applicable – the Entity does not have employees.

- c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

Not applicable – the Entity does not have employees.

- d) Observe the rate paid to the employees or officials agree to the authorized salary/pay rate found within the personnel file.

Not applicable – the Entity does not have employees.

18. Obtain a listing of those employees or officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees or officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations and the entity's policy on termination payments. Agree the hours to the employee or officials' cumulative leave records, agree the pay rates to the employee or officials' authorized pay rates in the employee or officials' personnel files, and agree the termination payment to entity policy.

Not applicable – the Entity does not have employees.

19. Obtain management's representation that employer and employee portions of third-party payroll related amounts (e.g., payroll taxes, retirement contributions, health insurance premiums, garnishments, workers' compensation premiums, etc.) have been paid, and any associated forms have been filed, by required deadlines.

Not applicable – the Entity does not have employees.

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J - Ethics

20. Using the 5 randomly selected employees/officials from procedure #16 under “Payroll and Personnel” above obtain ethics documentation from management, and:

- a) Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.

Not applicable – the Entity does not have employees.

- b) Observe whether the entity maintains documentation which demonstrates each employee and official were notified of any changes to the entity’s ethics policy during the fiscal period, as applicable.

Not applicable – the Entity does not have employees.

K - Debt Service

21. Obtain a listing of bonds/notes issued during the fiscal period and management’s representation that the listing is complete. Select all bonds/notes on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each bond/note issued.

Not applicable as the Entity does not have debt.

22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management’s representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants (including contingency funds, short-lived asset funds, or other funds required by the debt covenants).

Not applicable as the Entity does not have debt.

L - Fraud Notice

23. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management’s representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

Not applicable – no misappropriation of funds in 2021.

24. Observe that the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

Not applicable – no misappropriation of funds in 2021

M - Information Technology Disaster Recovery/Business Continuity

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25. Perform the following procedures, **verbally discuss the results with management, and report “We performed the procedure and discussed the results with management.”**

- a) Obtain and inspect the entity’s most recent documentation that it has backed up its critical data (if no written documentation, inquire of personnel responsible for backing up critical data) and observe that such backup occurred within the past week. If backups are stored on a physical medium (e.g., tapes, CDs), observe evidence that backups are encrypted before being transported.

We performed the procedure and discussed the results with management.

- b) Obtain and inspect the entity’s most recent documentation that it has tested/verified that its backups can be restored (if no written documentation, inquire of personnel responsible for testing/verifying backup restoration) and observe evidence that the test/verification was successfully performed within the past 3 months.

We performed the procedure and discussed the results with management.

- c) Obtain a listing of the entity’s computers currently in use and their related locations, and management’s representation that the listing is complete. Randomly select 5 computers and observe while management demonstrates that the selected computers have current and active antivirus software and that the operating system and accounting system software in use are currently supported by the vendor.

We performed the procedure and discussed the results with management.

N - Sexual Harassment

26. Using the 5 randomly selected employees/officials from procedure #16 under “Payroll and Personnel” above, obtain sexual harassment training documentation from management, and observe the documentation demonstrates each employee/official completed at least one hour of sexual harassment training during the calendar year.

Not applicable – the Entity does not have employees.

27. Observe the entity has posted its sexual harassment policy and complaint procedure on its website (or in a conspicuous location on the entity’s premises if the entity does not have a website).

Not applicable – the Entity does not have employees.

28. Obtain the entity’s annual sexual harassment report for the current fiscal period, observe that the report was dated on or before February 1, and observe it includes the applicable requirements of R.S. 42:344:

- a) Number and percentage of public servants in the agency who have completed the training requirements;

Not applicable – the Entity does not have employees.

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- b) Number of sexual harassment complaints received by the agency;

Not applicable – the Entity does not have employees.

- c) Number of complaints which resulted in a finding that sexual harassment occurred;

Not applicable – the Entity does not have employees.

- d) Number of complaints in which the finding of sexual harassment resulted in discipline or corrective action; and

Not applicable – the Entity does not have employees.

- e) Amount of time it took to resolve each complaint.

Not applicable – the Entity does not have employees.

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Schedule B

Management corrective action plan

Management acknowledges that the established internal policies and controls related to certain areas in the disaster recovery plan are undocumented and is in the process of updating these procedures to the written policies and procedures manual.