

**AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND**

**Financial Statements and
Independent Auditors' Report**

December 31, 2012 and 2011

**AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND**

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INDEPENDENT AUDITORS' REPORT

To the Trustees of
Agriculture and New York State Horse Breeding Development Fund

Report on the Financial Statements

We have audited the accompanying financial statements of Agriculture and New York State Horse Breeding Development Fund (the Fund), a component reporting unit of the State of New York, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Fund's financial statements as listed in the table of contents.

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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund'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 Fund'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 net position of the Agriculture and New York State Horse Breeding Development Fund as of December 31, 2012, and the changes in net position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Predecessor Auditor's Opinion

The financial statements of the Fund as of December 31, 2011 were audited by other auditors whose report dated May 11, 2012 expressed an unqualified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The accompanying Investment Information for New York State is presented for purposes of additional information and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2013, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, including compliance with investment guidelines. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Dacia Valles-Vandora LLP

Elmhurst, New York
May 17, 2013

**AGRICULTURE AND NEW YORK STATE
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**Management's Discussion and Analysis
December 31, 2012 and 2011**

Overview of the Financial Statements

The Fund is accounted for as a proprietary fund and, therefore, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The financial statements include the following:

- **Statement of Net Position** – The Statement of Net Position, or balance sheet, includes all assets and liabilities of the Fund using the accrual basis of accounting. The Statement of Net Position reports the Fund's net position, the difference between total Fund assets and total Fund liabilities.
- **Statement of Revenues, Expenses and Changes in Net Position** – The Statement of Revenues, Expenses, and Changes in Net Position records revenue and expenses on the accrual basis. Revenues are recorded when measurable and earned and expenses are recorded when incurred regardless of when cash is received or paid.
- **Statement of Cash Flows** – The Statement of Cash Flows provides information about the sources and uses of the Fund's cash through operating and investing activities.
- **Notes to the Financial Statements** – The accompanying notes to the financial statements provide information essential to a full understanding of the Fund's financial statements and should be read in conjunction with the financial statements.

Financial Analysis of the Fund

Net Position

The following is a summary of the Fund's assets, liabilities and net position for the years ended December 31, 2012 and 2011.

	<u>12/31/2012</u>	<u>12/31/2011</u>
Assets	\$ 11,719,612	\$ 13,370,203
Current Liabilities	1,592,658	531,562
Net OPEB Obligation	257,488	251,739
Total Liabilities	<u>1,850,146</u>	<u>783,301</u>
Net Position		
Restricted for purposes	6,738,568	8,023,152
Restricted for other purposes	2,081,472	3,320,919
Unrestricted	1,049,426	1,242,831
Total Net Position	<u>9,869,466</u>	<u>12,586,902</u>
	\$ 11,719,612	\$ 13,370,203

**AGRICULTURE AND NEW YORK STATE
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**Management's Discussion and Analysis
December 31, 2012 and 2011
(continued)**

The Fund's assets consist of cash, including excess cash invested in the New York State Short Term Investment pool, and amounts due for handle, breakage and VLT revenue from the harness tracks and OTB parlors. The Fund's current liabilities are made up of amounts due to state and county fair obligations, breeders' awards, vendor, and payroll and related liabilities. The Fund's net OPEB obligation is the actuarial determined estimate of the Fund's liability for post-retirement health benefits provided to its employees.

Operations

The following summarizes operating income for the years ended December 31, 2012 and 2011:

	<u>12/31/2012</u>	<u>12/31/2011</u>
Revenues		
Video Lottery Terminal Revenues	\$ 12,499,376	\$ 13,129,322
Handle and Breakage Revenues	2,933,997	3,070,685
Nomination and Sustaining Fees	947,659	1,831,200
Other	18,849	38
	<u>16,399,881</u>	<u>18,031,245</u>
Expenses		
Purses and Breeders awards	17,727,942	17,227,866
Administration	849,401	640,697
Zweig Memorial Fund	257,724	297,683
Other	301,723	401,838
	<u>19,136,790</u>	<u>18,568,084</u>
Operating Income (Loss)	(2,736,909)	(536,839)
Interest income	<u>19,473</u>	<u>20,649</u>
Change in Net Position	(2,717,436)	(516,190)
Net Position at Beginning of year	<u>12,586,902</u>	<u>13,103,092</u>
Net Position at End of year	<u>\$ 9,869,466</u>	<u>\$ 12,586,902</u>

**AGRICULTURE AND NEW YORK STATE
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**Management's Discussion and Analysis
December 31, 2012 and 2011
(continued)**

The Fund's revenues decreased by \$1.63 million from prior year. This decrease was mainly attributed to lower video lottery terminal (VLT) receipts from Downstate Yonkers due to the start-up operation of a casino competitor, and lesser nomination and sustaining fees during the year. By law, gambling handle revenue, whether from pari-mutuel betting or VLT, is largely returned in the form of Sire Stakes purses. For this reason the majority of revenue has been dedicated to New York Sire Stakes purses at New York's harness tracks.

The Fund's investment income dropped by 6% from \$20,649 to \$19,473 due to reduction in the fund balance and lower interest rates.

While 2012 was a challenging year for the New York Standardbred breeding industry, the Fund was able to maintain its commitment to the industry. In 2012, the Fund disbursed about \$16.5 million in Sire Stakes purses for New York bred. After reinstating breeders' awards in 2008, the program accrued \$1.2 million in awards in 2012. General and administrative expenses increased by \$0.2 million from prior year mainly due to higher expenditures for race horse blood testing, professional services and temporary help, and escalation of contract cost with the Harness Horse Breeders, a sole-source provider.

The Fund's net position as of December 31, 2012 was down by \$2.7 million mainly due to the decline in revenues. Most of the Fund's equity is restricted for the payment of future purses and breeders' awards.

The Fund's mission is to promote agriculture and the conduct of equine research. As the seven "racinos" mature and develop, VLT contributions to the Fund are expected to keep New York competitive with other states and improve the Fund's steadfast commitment to promote agriculture.

Requests for Information

The accompanying financial statements are designed to provide readers with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the revenue it receives. Questions concerning any of the information provided in this report, or any request for additional information, should be addressed to the Executive Director, Agriculture and New York State Horse Breeding Development Fund, 1 Broadway Center, Schenectady, NY 12305.

**AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND**

**Statements of Net Position
As of December 31, 2012 and 2011**

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Assets:		
Cash and cash equivalents	\$ 8,351,580	\$ 11,293,066
Handle, breakage and VLT receivables, net	3,367,162	2,076,053
Accrued interest receivable	870	1,034
Other receivables	<u>-</u>	<u>50</u>
 TOTAL ASSETS	 <u>\$ 11,719,612</u>	 <u>\$ 13,370,203</u>
 <u>LIABILITIES AND NET POSITION</u>		
Current Liabilities:		
State, county and town fair obligations	\$ 249,974	\$ 363,000
Accounts payable and accrued expenses	1,325,109	163,324
Accrued payroll and related liabilities	<u>17,575</u>	<u>5,238</u>
 Total Current Liabilities	 <u>1,592,658</u>	 <u>531,562</u>
 Net OPEB Obligation	 <u>257,488</u>	 <u>251,739</u>
 Total liabilities	 <u>1,850,146</u>	 <u>783,301</u>
Net Position:		
Restricted for purses	6,738,568	8,023,152
Restricted for other purposes	2,081,472	3,320,919
Unrestricted	<u>1,049,426</u>	<u>1,242,831</u>
 Total net position	 <u>9,869,466</u>	 <u>12,586,902</u>
 TOTAL LIABILITIES AND NET POSITION	 <u>\$ 11,719,612</u>	 <u>\$ 13,370,203</u>

See accompanying notes to financial statements.

**AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND**

**Statements of Revenues, Expenses and Changes in Net Position
For the years ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Video Lottery Terminal (VLT) revenue	\$ 12,499,376	\$ 13,129,322
Handle and breakage	2,933,997	3,070,685
Nomination and sustaining fees	947,659	1,831,200
Other income	18,849	38
	16,399,881	18,031,245
EXPENSES		
Racetrack purses	15,844,522	14,497,825
State, county and town fair purses	680,000	1,606,450
Breeders' awards	1,203,420	1,123,591
General and administrative	849,401	640,697
Zweig Memorial Fund	257,724	297,683
State, county and town fair repairs and construction expenses	176,000	213,000
Grants	50,000	85,000
4-H standardbred development	75,723	65,073
Bad debt expenses	-	38,765
	19,136,790	18,568,084
Operating loss	(2,736,909)	(536,839)
Interest income	19,473	20,649
Changes in net position	(2,717,436)	(516,190)
Net position at beginning of year	12,586,902	13,103,092
Net position at end of year	\$ 9,869,466	\$ 12,586,902

See accompanying notes to financial statements.

**AGRICULTURE AND NEW YORK STATE
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**Statements of Cash Flows
For the years ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Proceeds from handle, breakage, video lottery terminals and other fees	\$ 15,089,922	\$ 18,588,018
Proceeds from other income	18,899	38
Payments for racetrack purses	(15,844,522)	(14,497,825)
Payments for state, county and town fair purses	(680,000)	(1,606,450)
Payments for breeders' awards	(22,726)	(1,247,138)
Payments for general and administrative expenses	(793,399)	(665,816)
Payments for Zweig Memorial Fund	(314,548)	(250,046)
Payments for state, county and town fair repairs and construction expenses	(289,026)	(176,000)
Payments for grants	(50,000)	(85,000)
Payments for 4-H standardbred development	<u>(75,723)</u>	<u>(65,073)</u>
Net cash used in operating activities	<u>(2,961,123)</u>	<u>(5,292)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from interest income	<u>19,637</u>	<u>21,820</u>
Net cash provided by investing activities	<u>19,637</u>	<u>21,820</u>
Net increase (decrease) in cash and cash equivalents	(2,941,486)	16,528
Cash and cash equivalents at beginning of year	<u>11,293,066</u>	<u>11,276,538</u>
Cash and cash equivalents at end of year	<u>\$ 8,351,580</u>	<u>\$ 11,293,066</u>

See accompanying notes to financial statements.

**AGRICULTURE AND NEW YORK STATE
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**Statements of Cash Flows
For the years ended December 31, 2012 and 2011
(continued)**

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (2,736,909)	\$ (536,839)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Bad debt expense	-	38,765
Changes in operating assets and liabilities:		
Handle, breakage and VLT receivable	(1,291,109)	556,811
Other receivables	50	(50)
State, county and town fair obligations	(113,026)	50,023
Accounts payable and accrued expenses	1,161,785	(86,761)
Accrued payroll and related liabilities	12,337	(32,990)
Net OPEB obligation	<u>5,749</u>	<u>5,749</u>
Net cash used in operating activities	<u>\$ (2,961,123)</u>	<u>\$ (5,292)</u>

See accompanying notes to financial statements.

**AGRICULTURE AND NEW YORK STATE
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**Notes to Financial Statements
December 31, 2012 and 2011**

1. NATURE OF ORGANIZATION

The Agriculture and New York State Horse Breeding Development Fund (the Fund) was established in July 1965 as a public benefit corporation pursuant to Section 8040 (Article IV), Title 21, Chapter 2 of the Laws of New York State (the Act). The Fund's Board of Trustees is, by law, comprised of the Chairman of New York State Racing and Wagering Board, the New York State Commissioner of Agriculture and Markets, and the Chairman and two other members of the New York State Harness Racing Commission. The Fund is empowered with the task of promoting agriculture in general, developing the breeding of horses, and the encouraging and funding of equine research in New York State.

The Fund is a component reporting unit of the State of New York and as such, is combined with other component units in the State's annual financial report.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles for government entities, as prescribed by the Government Accounting Standards Board (GASB). In accordance with the provisions promulgated by GASB, the Fund has elected not to apply Financial Accounting Standards Board (FASB) pronouncements and interpretations issued after November 30, 1989.

The operations of the Fund are reported as a proprietary fund and, as such, are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. Within this measurement focus, all assets and liabilities associated with operations are included on the balance sheet with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

b) New Accounting Pronouncement

For the year ended December 31, 2012, the Fund adopted the provisions of GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement amends the net asset reporting requirements in Statement No. 34 – “Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments” and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

**AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND**

**Notes to Financial Statements
December 31, 2012 and 2011
(continued)**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Accounts Receivable

All receivables are reported net of estimated uncollectible amounts. Receivable balances are periodically reviewed by management for collectability based on past history and current economic conditions. The Fund has established an allowance for uncollectible accounts of \$38,765 as of December 31, 2012 and 2011.

d) Restricted Net Position

Restricted net position consists of restrictions placed on net position use through external constraints, such as those imposed under law (see Note 4). The Fund has restricted certain cash and receivables in the approximate amount of \$8,820,040 and \$11,344,000 at December 31, 2012 and 2011, respectively, to fund future purses and breeders awards and for other restricted purposes.

e) Revenue and Expense Recognition

Handle, breakage, and video lottery terminal (VLT) revenues are recognized on the accrual basis, based on a percentage of total wagering during the year at all harness tracks and off-track betting (OTB) operations in New York State, including the handle revenues from simulcasting out-of-state thoroughbred racing. Nomination and sustaining fees are paid by participating horsemen. Expenses are paid or accrued based on commitments, contractual arrangements or on events held during the year.

f) Use of Estimates

Management of the Fund has made estimates and assumptions relating to the reporting of assets and liabilities and disclosure of contingent assets and liabilities to prepare these financial statements in accordance with generally accepted accounting principles. Actual results could differ from those estimates.

3. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, the Fund considers cash in operating bank accounts and the funds invested in the "New York State Short Term Investment Pool" to be cash and cash equivalents.

The Fund has adopted the guidelines established by the State of New York Office of the State Comptroller ("OSC") as its investment policy. These guidelines describe the administration of an investment program and are intended to represent minimum standards for most investment situations. The Fund also has a written investment policy

**AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND**

**Notes to Financial Statements
December 31, 2012 and 2011
(continued)**

3. CASH AND CASH EQUIVALENTS (continued)

approved by the Board of Trustees that establishes its own investment policies and procedures relative to the investment activities of the Fund.

At December 31, 2012 and 2011, all of the Fund's investments were held in the "New York State Short Term Investment Pool" and are available upon demand. The interest rate, which fluctuates during the year, was approximately 0.119% at December 31, 2012. New York State ensures that the deposits held in the Short Term Investment Pool are fully collateralized.

Cash and cash equivalents consist of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Cash held at a bank	\$ 3,111,893	\$ 1,554,790
Cash held in the New York State Short Term Investment Pool	<u>5,239,687</u>	<u>9,738,276</u>
	<u>\$ 8,351,580</u>	<u>\$ 11,293,066</u>

4. RESTRICTED ASSETS AND NET POSITION

Restricted cash and receivables, and the related restricted net position, reflect certain anticipated future cash expenditures, substantially all of which are encumbered under Law. As more fully described in Note 6, the Fund is required to allocate not less than 75% of handle revenues for purses and breeders' awards. Accordingly, undistributed minimum purses and breeders' awards have been restricted for this purpose in the accompanying financial statements. Other restricted funds include monies committed for State and County fair repairs, 4-H standardbred development, and other purposes.

**AGRICULTURE AND NEW YORK STATE
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**Notes to Financial Statements
December 31, 2012 and 2011
(continued)**

5. REVENUES

Handle revenues are authorized under the Act, for collection by the Fund, from each harness racing track licensed to conduct pari-mutuel betting within the State in an amount equal to one percent of all monies deposited in pari-mutuel betting pools. The Fund also receives handle revenues of one half of one percent of all monies deposited in pari-mutuel betting pools from simulcasting of out-of-state thoroughbred races conducted at licensed harness tracks within the state.

Additionally, the Act provides for similar revenues, at the same rate, from each regional OTB corporation designated to accept off-track bets on harness racing in New York State. Handle revenues earned approximated to \$2,398,000 and \$2,474,000 during the years ended December 31, 2012 and 2011, respectively. Beginning in 1994, breakage revenues were authorized under the Act, for collection by the Fund, from each regional OTB corporation. The Fund's portion of breakage revenue is an amount equal to fifty percent of all breakage monies from pari-mutuel betting pools from both thoroughbred and harness racing. Breakage revenue earned approximated \$536,000 and \$597,000 for the years ended December 31, 2012 and 2011, respectively.

Beginning in 2004, video lottery terminal (VLT) revenue was authorized for collection by the Fund from each harness track that has installed video gaming machines. The Fund's portion of VLT revenues was equal to 1.25% of the net hold from participating harness tracks. Through 2012 the Fund has continued to receive 1.25% of the net hold from the participating harness tracks.

Nomination and sustaining fees represent amounts paid by owners and other fees paid by horsemen to enter their horses in New York Sire Stakes' events conducted at harness racing tracks, including State and County fairs. These fees are collected directly by the Fund.

6. EXPENSES

Racetrack purses and breeders' awards are provided for in the Act under the designation "New York State Breeding Farms". The Act (as amended) further defines that expenditures made for the purpose of race track purses shall not be less than 75% of the fund (handle revenue), and that of this amount, an amount not less than 10%, nor more than 20% may be used for breeders' awards. The specific allocation of amounts for both purses and breeders' awards, within the aforementioned ranges, are determined by the Trustees of the Fund.

**AGRICULTURE AND NEW YORK STATE
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**Notes to Financial Statements
December 31, 2012 and 2011
(continued)**

6. EXPENSES (continued)

Expenditures for the purposes of State, County and Town fair purses, repair and construction, and for the purpose of 4-H standardbred development are authorized under the Act in amounts determined by the Trustees of the Fund.

Contributions to the Zweig Memorial Fund are authorized in the Act under the designation of equine research and funded in an amount equal to 2% of handle revenues. In addition, the Fund also contributes 2% of breakage and VLT revenues.

General and administrative expenses are funded under the Act in an amount not to exceed 4% of handle revenues. Additionally, a decision of the New York State Attorney General allows the Fund to use a portion of nomination and sustaining fees to defray the administrative costs of organizing and promoting Fund sponsored activities. Due to a lack of legislative guidance, the Board of Trustees has decided to allow 4% of breakage and VLT revenues to be spent on general and administrative expenses.

The Act provides for the allocation and distribution of interest income, within the aforementioned expenses categories, at the discretion of the Trustees of the Fund.

7. SERVICES AGREEMENT

The Fund contracts with the Harness Horse Breeders of New York State, Inc., a not-for-profit membership organization, for purposes of obtaining consulting, advisory and other services regarding the breeding of standardbred horses in New York State. Amounts paid under the agreement amounted to \$269,000 and \$142,500 for the years ended December 31, 2012 and 2011, respectively. The amounts were included in general and administrative expenses on the Fund's statements of revenues, expenses, and changes in net position. The contract expired on December 31, 2012 and was renewed for another year.

8. RETIREMENT PLAN

The Fund provides a pension benefit to employees through New York State Employees' Retirement System ("ERS"). The ERS is a cost-sharing multiple-employer defined benefit plan administered by the New York State and Local Retirement Systems.

Plan benefits including retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries are provided under the provisions of the New York State Retirement and Social Security Law and are guaranteed

**AGRICULTURE AND NEW YORK STATE
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**Notes to Financial Statements
December 31, 2012 and 2011
(continued)**

8. RETIREMENT PLAN (continued)

under the State Constitution. The ERS issues a financial report that includes financial statements and required supplementary information for the ERS that is available to the public.

The Fund and certain employees are required to contribute annually to ERS based on a percentage rate of payroll. The rates, which vary according to the employees' date of hire, include normal, administrative, supplemental pension contributions and prior service cost. At December 31, 2012 and 2011, all Fund employees were covered by this plan.

Total pension contributions were approximately \$10,000 and \$15,000 for the years ended December 31, 2012 and 2011, respectively.

9. OTHER POSTEMPLOYMENT BENEFITS OBLIGATION

The Fund provides postemployment healthcare benefits as a participating employer in The New York State Health Insurance Program (NYSHIP). NYSHIP was established by the New York State Legislature in 1957 to provide health insurance for New York State Employees, retirees and their eligible dependents. The NYSHIP is an agent multiple-employer plan and financial information is reported in an agency fund of the State of New York. The Fund has not set aside any assets to fund the liabilities of this plan. The Plan is funded on a pay as you go basis.

The Fund's OPEB obligation under the plan is calculated based on an annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of Government Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than pensions*. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to provide sufficient resources to fund both the normal cost each year and to amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed thirty years.

There is no available actuarial valuation report as of December 31, 2012 and accrual for the year was made based on the December 31, 2011 actuarial valuation (the most recent available). Information related to the Fund's annual OPEB cost, ARC, actual contributions and changes in net OPEB obligation for the year ending December 31, 2011 are as follows:

**AGRICULTURE AND NEW YORK STATE
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**Notes to Financial Statements
December 31, 2012 and 2011
(continued)**

9. OTHER POSTEMPLOYMENT BENEFITS OBLIGATION (continued)

	<u>2011</u>
Annual Required Contribution	\$ 34,561
Interest on Net OPEB Obligation from prior year	11,070
Actuarial adjustment	<u>(24,364)</u>
Annual OPEB Cost	<u>\$ 21,267</u>
Net OPEB Obligation at the beginning of the year	\$ 245,990
Annual OPEB Cost	21,267
Current year contributions	<u>(15,518)</u>
Net OPEB Obligation at the end of the year	<u>\$ 251,739</u>

The Fund's annual OPEB costs, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for the year ending December 31, 2011 are as follows:

<u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>NET OPEB</u> <u>Obligation</u>
12/31/2011	\$ 21,267	72.97%	\$ 251,739

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, which is presented below, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND**

**Notes to Financial Statements
December 31, 2012 and 2011
(continued)**

9. OTHER POSTEMPLOYMENT BENEFITS OBLIGATION (continued)

<u>Fiscal Year</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
2011	1/1/2012	\$ -	\$ 223,812	\$ 223,812	0.00%	\$ 138,390	161.73%
2010	12/31/2010	\$ -	\$ 344,046	\$ 344,046	0.00%	\$ 149,500	230.13%
2009	12/31/2008	\$ -	\$ 424,986	\$ 424,986	0.00%	\$ 236,500	179.70%

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2011 actuarial valuation (the most recent available), the entry age normal method was used. The actuarial assumptions include a 4.5% investment rate of return and an annual healthcare cost trend of 5.2% initially, decreasing to an ultimate rate of 4.2% after 10 years. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period used for the December 31, 2011 valuation was 11 years.

10. LEASES

The Fund's lease agreement for the office space at 90 State Street, Albany, NY 12207, under a non-cancellable operating lease expiring on January 31, 2014, was terminated effective December 31, 2012. The Fund paid \$10,000 for the lease buyout settlement. The Fund subsequently moved to a new office location at 1 Broadway Center, Schenectady, NY 12305. The lease agreement for the new office space has not yet been executed.

Rent expense, which included charges for utilities and building operations, as well as the lease buyout settlement for 2012, was approximately \$28,000 and \$19,000 for the years ended December 31, 2012 and 2011, respectively.

**AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND**

**Notes to Financial Statements
December 31, 2012 and 2011
(continued)**

11. CONTINGENCIES

In March 2011, Suffolk Off Track Betting Corporation (Suffolk OTB) filed for protection under Chapter 9 of the United States bankruptcy Code. Suffolk OTB accounted for approximately 2% of the Funds revenue during the year ending December 31, 2010 and owed the Fund approximately \$38,000 in handle and breakage payments for the months of February to March 2011 as of December 31, 2011. The entire amount owed to the Fund has a Reserve for allowance for bad debts as of December 31, 2012.

12. SUBSEQUENT EVENTS

The Fund has evaluated subsequent events through May 17, 2013, which is the date the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to the statement of financial position date that would require adjustment to, or disclosure in, the accompanying financial statements.

13. ACCOUNTING STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 61 – “The Financial Reporting Entity: Omnibus” is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14 “The Financial Reporting Entity” and No. 34 “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.” This statement amends the criteria for including component units by only including those component units for which the elected officials are financially accountable or that the government determines would be misleading to exclude. This statement also amends the criteria for blending of component units to include only those component units that are also intertwined with the primary government that they are essentially the same as the primary government. The provisions of this statement are effective for periods beginning after June 15, 2012, which is the calendar year beginning January 1, 2013 for the Fund. Management has not yet determined the effect that this statement will have on the future financial statements of the Fund.

GASB Statement No. 67 – “Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25” replaces existing standards of financial reporting and notes disclosures for most pension plans that are administered through trusts or equivalent arrangements. The provisions of this statement are effective for periods beginning after June 15, 2013, which is the calendar year beginning January 1, 2014 for the Fund. Management has not yet determined the effect that this statement will have on the future financial statements of the Fund.

**AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND**

**Notes to Financial Statements
December 31, 2012 and 2011
*(continued)***

**13. ACCOUNTING STANDARDS ISSUED BUT NOT YET IMPLEMENTED
(continued)**

GASB Statement No. 68 – “Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27” replaces existing standards of accounting and financial reporting for pension plans that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The provisions of this statement are effective for periods beginning after June 15, 2014, which is the calendar year beginning January 1, 2015 for the Fund. Management has not yet determined the effect that this statement will have on the future financial statements of the Fund.

COMPLIANCE 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***

To the Board of Trustees of
Agriculture and New York State Horse Breeding Development Fund

We have audited, 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, the financial statements of the Agriculture and New York State Horse Breeding Development Fund (the Fund) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated May 17, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund'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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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 Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grant agreements, including the Fund's investment guidelines, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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 Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dacia Valle-Vandora LLP

Elmhurst, New York
May 17, 2013

SUPPLEMENTARY INFORMATION

**AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND**

**Investment Information for New York State
December 31, 2012**

INVESTMENTS:

At December 31, 2012, total Fund Investments consisted of deposits with the “New York State Short Term Investment Pool” in the total amount of \$5,239,687. The deposits were third party collateralized at December 31, 2012.

INVESTMENT EARNINGS:

Investment earnings net of interest earned on the operating cash amount totaled \$19,473 for the year ended December 31, 2012 and consisted of interest earned on deposits with the New York State Investment Pool”. The average yield on the Fund’s investments for the year ended December 31, 2012 was approximately 0.119%.

INVESTMENT REPORT:

The Independent Auditors’ Report on compliance, including compliance with Investment Guidelines, for 2012 indicated that there were no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

FEES AND COMMISSIONS:

There were no direct fees, commissions or other charges paid for investment related services for the year ended December 31, 2012.