AGRICULTURE AND NEW YORK STATE HORSE BREEDING DEVELOPMENT FUND

(A Component Unit of the State of New York)

Management's Discussion and Analysis
and
Financial Statements

December 31, 2017

(With Independent Auditor's Report)

VALLES VENDIOLA LLP
Certified Public Accountants
Since 1983

AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND

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Table of Contents

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INDEPENDENT AUDIOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Agriculture and New York State Horse Breeding Development Fund (the Fund), a component unit of the State of New York, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic 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 from 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 financial position of the Fund as of December 31, 2017 and 2016, and the changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

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 and the Schedule of Funding Progress for Other Postemployment Benefits (OPEB) on page 19 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.

Reports on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2018, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

In accordance with *Government Auditing Standards,* we have also issued our report dated (March 21, 2018) on the Fund's compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules and Regulations of the State of New York. The purpose of that report is to provide an opinion as to the Fund's compliance with investment guidelines contained therein. 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.

Vallez Vendiola LLP

Bronx, New York
March 21, 2018

AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND
(A Component Unit of the State of New York)

Management's Discussion and Analysis
December 31, 2017

The management of the Agriculture and New York State Horse Breeding Development Fund (the Fund) offers readers of the Fund's financial statements this analysis of the financial activities of the Fund for the year ended December 31, 2017.

This Management's Discussion and Analysis (MD&A) should be read in conjunction with the Fund's financial statements and the accompanying notes in order to obtain a full understanding of the Fund's financial position and results of operations.

The Fund was created by an Act of the State of New York (the State), as more fully described in Note 1 to the financial statements and commenced operations in 1965. 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.

OVERVIEW OF FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The Fund follows enterprise fund reporting; therefore, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

FINANCIAL ANALYSIS OF THE FUND

Net Position

The following table summarizes the net position as of December 31, 2017 and 2016:

	2017	2016
Assets:		
Cash and cash equivalents	$ 9,174,787	$ 8,864,063
Receivables	2,143,969	1,910,227
Deferred outflows of resources - pension	23,639	31,629
Total assets	11,342,395	10,805,918
Liabilities:		
Accounts payable and accrued expenses	707,458	382,558
Payable to Harry M. Zweig Memorial Fund	129,371	123,633
Postemployment benefits	580,298	546,030
Deferred inflows of resources - pension	4,261	5,295
Total liabilities	1,421,387	1,057,516
Net position	$ 9,921,008	$ 9,748,403

The following summarizes the changes in net position for the years ended December 31, 2017 and 2016.

	2017	2016
Operating revenue	$ 16,510,853	$ 16,107,604
Operating expenses	16,431,497	15,601,896
Operating income	79,356	505,708
Non-operating revenue - interest income and others	93,248	33,843
Changes in net position	$ 172,605	$ 539,552

Operating Revenue

The Fund receives revenue from the following sources:

	2017	2016
Handle and breakage revenue	$ 2,153,287	$ 2,284,236
Advance deposit wagering revenue	593,759	578,989
VLT commissions	12,887,497	12,901,270
Net Nomination and Sustaining fees	286,340	264,024
Total operating revenue	15,920,883	16,028,518

Operating revenue was essentially flat due to competition from other gaming alternatives such as online casinos.

Under founding statutes, the Fund receives revenue from on-track and off-track handle on wagers made at all New York racetracks and New York Off-Track Betting organizations. Handle and breakage accounted for approximately 13.0% of revenue in 2017 and 14.2% in 2016.

In 2004, the Fund obtained an additional contractual source of revenue from Video Lottery Terminals (VLTs) from the seven New York harness tracks: Batavia Downs, Buffalo Raceway, Monticello Raceway, Saratoga Harness, Tioga Downs, Vernon Downs, and Yonkers Raceway. In total, VLT revenue accounted for approximately 78.1% of all revenue in 2017 and 80.1% in 2016.

Beginning on January 1, 2015, new legislation provided for the Fund to receive additional revenues from Advance Deposit Wagering (ADW) sources. ADW revenue totaled $593,759 in 2017 and $578,989 in 2016, or 3.6% of total revenue for each year.

Operating Expenses

	2017	2016
Racetrack purses	11,758,445	11,730,773
State, county and town fair purses	1,317,114	1,315,187
Breeder awards	1,099,983	950,000
State, county and town fair repairs and maintenance	107,948	121,353
Drug testing program	131,546	107,468
General and administrative	963,800	845,039
Grants	150,000	137,700
Harry M. Zweig Memorial Fund	312,691	315,290
Total operating expenses	15,841,527	15,522,810

Total purses paid out, net of horsemen fees deducted and offset against revenue, represent 82.1% and 81.4%, respectively, of total operating revenue. Breeder awards totaled $1.10 million in 2017 and $0.95 million in 2016.

General and administrative expenses increased by $119 thousand due mainly to adjustments for the Fund's share in the New York State Gaming Commission expenses as provided for in the Memorandum of Understanding that was effective January 1, 2014.

The Harry M. Zweig Memorial Fund represents 2% of total operating revenue and are used for equine research.

Non-operating revenue

Interest income amounted to $85,248 compared to $33,843 in 2016. The increase was due mainly to higher bank interest rates and higher average daily balances.

The other income of $8,000 in 2017 represents monies received for sponsorship for Sire Stakes finals race.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide readers with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the revenue that it receives. If you have questions about this report or need additional financial information, contact the Fund at 1 Broadway Center. Schenectady, New York 12305.

AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND
(A Component Unit of the State of New York)

Statements of Net Position
As of the years ended December 31, 2017 and 2016

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 9,174,787	$ 8,864,063
Receivables, less allowance for losses of $70,064	2,143,969	1,910,227
Total assets	$ 11,318,756	$ 10,774,289
Deferred outflows of resources - pensions	$ 23,639	$ 31,629
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses	$ 707,458	$ 382,558
Payable to Harry M. Zweig Memorial Fund	129,371	123,633
Total current liabilities	836,828	506,191
Noncurrent liabilities - postemployment benefits payable	580,298	546,030
Total liabilities	1,417,126	1,052,221
Commitment and contingencies (Notes 10 and 11)		
Net position		
Restricted - expendable	9,777,507	9,386,785
Unrestricted	143,500	361,618
Total net position	$ 9,921,008	$ 9,748,403
Deferred inflows of resources - pensions	$ 4,261	$ 5,295

See accompanying notes to financial statements.

AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND
(A Component Unit of the State of New York)

Statements of Revenue, Expenses and Changes in Net Position
For the Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUE		
Handle and breakage revenue	$ 2,153,287	$ 2,284,236
Advance deposit wagering revenue	593,759	578,989
VLT commissions	12,887,497	12,901,270
Net Nomination and Sustaining fees	286,340	264,024
Total operating revenue	15,920,883	16,028,518
OPERATING EXPENSES		
Racetrack purses	11,758,445	11,730,773
State, county and town fair purses	1,317,114	1,315,187
Breeder awards	1,099,983	950,000
State, county and town fair repairs and maintenance	107,948	121,353
Drug testing program	131,546	107,468
General and administrative	963,800	845,039
Grants	150,000	137,700
Harry M. Zweig Memorial Fund	312,691	315,290
Total operating expenses	15,841,527	15,522,810
Operating income (loss)	79,356	505,708
Nonoperating revenue		
Interest income	85,248	33,843
Other income	8,000	-
Total nonoperating revenue	93,248	33,843
Changes in net position	172,605	539,552
Net position at beginning of year	9,748,403	9,208,851
Net position at end of year	$ 9,921,008	$ 9,748,403

See accompanying notes to financial statements.

AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND
(A Component Unit of the State of New York)

Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Receipts from operations	$ 15,687,141	$ 16,306,360
Payments for awards and purses	(14,175,542)	(14,075,046)
Payments to Harry M. Zweig Memorial Fund	(306,953)	(316,451)
Payments to contractors and suppliers	(630,836)	(633,653)
Payments to employees	(98,386)	(83,425)
State, county and town fair repairs and maintenance	(107,948)	(121,353)
Grants	(150,000)	(137,700)
Net cash provided by (used in) operating activities	217,476	938,732
Cash flows from investing activities - interest earned and other income	93,248	33,843
Net decrease in cash and cash equivalents	310,724	972,575
Cash and cash equivalents at beginning of year	8,864,063	7,891,488
Cash and cash equivalents at end of year	$ 9,174,787	$ 8,864,063
Reconciliation of operating income to net cash used in operating activities:		
Operating income	$ 79,356	$ 505,708
Adjustments to reconcile operating income to net cash used in operating activities:		
Amortization of deferred inflows - pension (non-cash)	(1,034)	(1,324)
Net change in deferred outflow and inflows related to pension (non-cash)	7,990	(9,240)
Changes in:		
Receivables	(233,742)	198,756
Accounts payable and accrued expenses	324,900	187,961
Payable to Harry M. Zweig Memorial Fund	5,738	(1,162)
Pension obligation	(15,732)	8,821
Postemployment benefits payable	50,000	49,212
Net cash used in operating activities	$ 217,476	$ 938,732

See accompanying notes to financial statements.

(1) Organization

The Agriculture and New York State Horse Breeding Development Fund (the Fund) was established in July 1965 pursuant to Section 8040 (Article IV), Title 21, Chapter 2 of the Laws of New York State (the Act). The Fund shall be a body corporate and politic constituting a public benefit corporation. It shall be administered by a board of directors consisting of the Chairman of the New York State Gaming Commission or his or her designee, the Commissioner of Agriculture and Markets, three members appointed by the Governor, all of whom are experienced or have been actively engaged in the breeding of Standardbred horses in New York State, one upon the recommendation of the President of the Senate, and one upon the recommendation of the Speaker of the Assembly. The Fund is empowered with the task of promoting agriculture in general, developing the breeding of horses, and 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) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statement have been prepared on the accrual basis of Accounting in accordance with accounting principles generally accepted in the United States of America as applied to government entities. The Government Account Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

(b) Assets, Liabilities and Net Position

- Revenue receivable consists of handle, breakage, a percentage of Advanced Deposit Wagering (ADW), and a percentage of Video Lottery Terminals (VLT) revenue amounts and is reported at their outstanding unpaid principal balances. The Fund records revenue receivable at the estimated fair value, net of a reserve based upon the estimated collectability.

- Retirement Plan - The Fund provides retirement benefits for its regular, full-time employees through contributions to the New York State Employees' Retirement System. The System provides various plans and options, some of which require employee contributions.

- Advertising and promotion costs are expensed as incurred.

(2) Summary of Significant Accounting Policies (Continued)

(c) 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 $9,777,507 and $9,386,785 at December 31, 2017 and 2016, respectively, to fund future purses and breeder awards and for other restricted purposes.

(d) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures at the date of these financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(e) Subsequent Events

The Fund has evaluated subsequent events through the date of the report which is the date the financial statements were available to be issued.

(f) Deferred Outflows and Inflows of Resources

In the Statement of Net Position, in addition to assets, the Fund will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The Fund has two items that qualify for reporting in this category. The first item is related to pensions reported in the Statement of Net Position. This represents the effect of the net change in the Fund's proportion of the collective net pension asset or liability and difference during the measurement period between the Fund's contributions and its proportion share of total contributions to the pension systems not included in pension expense. The second item is the Fund contributions to the New York State and Local Employees' Retirement System (the System) subsequent to the March 31 measurement date.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section of deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources represent the net effect of the change in the Fund's proportion of the collective net pension liability related to its participation in the System and differences between the Fund's contributions and its proportionate share of total contributions to the System not included in pension expense.

(3) Cash and Cash Equivalents

For the purposes 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's investment policies are governed by New York State Statute. Fund monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Fund is authorized to use demand accounts, certificates of deposit and short-term U.S. Treasury bills or notes.

Collateral is required for demand deposits and certificates of deposit in an amount equal to or greater than the amount of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are outlined in chapter 623 of the laws of the State of New York.

Custodial Credit Risk - This is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. As noted above, by State statute, all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2017, all uninsured bank deposits were fully collateralized with securities held by the pledging financial institution's trust department or agent as part of the collateral used to secure all the institution's deposits from the State of New York.

(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 5, the Fund is required to allocate not less the 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.

(5) Receipt and Distribution of Revenue and Basis of Net Position

New York State Racing, Pari-Mutuel Wagering and Breeding law (the Law) provides for Fund revenues from New York on-track and off-track thoroughbred handle and breakage from regional off-track betting wagers as well as from Video Lottery Terminals (VLT) gaming devices.

(5) Receipt and Distribution of Revenue and Basis of Net Position (Continued)

- Handle: Handle of one percent is received from each harness racing track licensed to conduct pari-mutuel betting within the State for 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 simulcasts of out-of-state thoroughbred races conducted at licensed harness tracks within the state.

- Breakage: Twenty percent of New York State off-track betting breakage from bets on harness races and fifty percent on all other races is paid to the Fund and to the NYS Thoroughbred Breeding Development Fund; the Fund receives one half of such payments.

- VLT: The Fund receive money from all seven (7) New York State harness tracts at the rate of 1.25% of Net Win. The tracks are as follows: Batavia Downs, Buffalo Raceway, Monticello Raceway, Saratoga Harness, Tioga Downs, Vernon Downs and Yonkers Raceway.

- Effective January 1, 2015, New York State Racing, Pari-Mutuel Wagering and Breeding law, Section 115-b, provides for Fund revenues generated from out of state ADW handle from New York State residents.

- 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.

Moneys received by the Fund are disposed and distributed, and the Fund's net position is maintained, in accordance with the Law. The Fund is authorized to dispose and distribute the moneys received by it for the following purposes and no other:

- Awards and Purses: An amount as determined by the Fund, not less than 75% of the handle revenue, with not less than 10% nor more than 20% of that amount 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.

- Expenditures for the purposes of State, County and Town fair purses, repairs 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.

(5) Receipt and Distribution of Revenue and Basis of Net Position (Continued)

- Administration: Up to 4% for the administration and management of the Fund.

- Equine research: An amount equal to 2% of racetrack handle and OTB revenue for the promotion of equine research.

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

(6) Memorandum of Understanding

Under the Memorandum of Understanding with the New York State Gaming Commission that was effective January 1, 2014, the Fund occupies a portion of the Commission's headquarters and uses certain service employees of the Commission to fulfill the statutory duties and objectives of the Fund. The Office of Racing Promotion and Development (Office), a separate and independent entity within the Commission, shall coordinate with the Commission for all use of service employees and establish a liaison with the harness racing stakeholders and community by promoting the breeding of Standardbred horses and the conduct of equine research in the state in behalf of the Fund. In consideration thereof, the Fund shall:

- Pay the Commission a pro-rata share of the Commission's rent based upon the square footage of space utilized by the fund, plus allocation charge for use of utilities, communications, information technology, common areas and facilities, parking and cleaning and maintenance charges;

- Reimburse the Commission for actual costs and expenses incurred by utilized service employees; and

- Pay the Commission a portion of all costs of the Office other than Personnel Service Costs that are consistent with the allocation of time that the Office spends on Fund Matters.

Based on the billing received from the Commission for the period January 1, 2014 to March 31, 2017, the Fund has adjusted the accruals for expenses covered by the MOU to a total of $685,000 as of December 31, 2017, from $348,000 as of December 2016.

(7) Service Agreements

a) The Fund contracted 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. The contract was terminated effective April 30, 2017.

b) The Fund has entered into the following contracts with Capitol Hills Management Services, Inc.(CHMS):

- For Equine Program Administrative Services, from May 1, 2017 to April 30, 2018 for $48,500;

- For Equine Marketing and Public Relations, from May 1, 2017 to April 30, 2018 for $138,000 for years 1 and 2 and $142,000 for year 3. In addition, the Fund will pay CHMS for event staffing at $62.50 per hour.

Payments under the foregoing contracts totaled $275,356 in 2017 and $316,600 in 2016 which are included in General and Administrative expenses.

(8) Pension Plan

(a) Plan Description
The Fund participates in the New York State and Local Employees' Retirement System (ERS or the System) cost sharing multiple employer retirement system. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for custody and control of their funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, New York 12244.

(b) Funding Policy
The System is noncontributory except for employees who joined the ERS after July 27, 1976 and prior to January 1, 2010, who have less than ten years of service or membership, are required to contribute 3% of their salary throughout their active membership. Employees who joined on or after January 1, 2010 and before April 1, 2012 are required to contribute 3.5% throughout their active membership. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, dependent upon their salary, for their entire working career.

(8) Pension Plan (Continued)

Additionally, members who meet certain eligibility requirements will receive one-month additional service credit for each completed year of service up to a maximum of two additional years of service credit.

Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employees to the pension accumulation fund. Since 1989, the Systems' billings have been based in Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis. The Board is required to contribute at an actuarially determined rate. The rate billed by the Comptroller for ERS during the year ended December 31, 2016 is based on covered payroll with rates ranging from 10.8% to 20.1%. The required contributions for the current and preceding two years were:

Year	Contribution
2017	$ 9,180
2016	$ 9,240
2015	$18,865

The Fund's contributions made to the System were equal to 100% of the contributions required for each year.

(c) Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflow of Resources Related to Pensions

At December 31, 2017 the Fund reported the following liability for its proportionate share of the net pension liability for the System. The net pension liability was measured as of March 31, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation. The Fund's long-term share of contributions to the System relative to the projected contributions of all participating members, actuarially determined. This information was provided by the System in reports provided to the Fund.

Actuarial Valuation Date	3/31/2017	3/31/2016
Net Pension Liability	$ 8,799	$ 17,575
Fund's proportion of the Plan's net pension liability	0.0000936%	0.0001095%

(8) Pension Plan (Continued)

(d) At December 31, 2017 the Fund's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 220	$ 1,336
Net difference between projected and actual earnings on pension plan investments	1,758	
Changes in proportion and differences between the Fund's contributions and proportionate share of contributions	9,475	2,925
Fund's contributions subsequent to the measurement date	9,180	
Change of Assumptions	3,006	-
	$ 23,639	$ 4,261

(e) Fund contributions subsequent to the March 31 measurement date will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended	ERS
2018	$ 3,925
2019	3,925
2020	2,561
2021	(214)
Thereafter	-

(f) Actuarial Assumptions

The total pension liability as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions

(8) Pension Plan (Continued)

Significant actuarial assumptions used in the valuations were as follows:

Measurement date	March 31, 2017
Actuarial Valuation date	April 1, 2016
Interest Rate	7%
Salary Scale	
Decrement tables	
Inflation rate	

The long-term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below:

Measurement date	March 31, 2017
Asset type:	
Domestic equity	7.30%
International equity	8.55%
Real Estate	8.25%
Private equity	11.00%
Absolute return strategies	6.75%
Opportunities portfolio	8.60%
Real assets	8.65%
Bonds and mortgages	4.00%
Cash	2.25%
Inflation – indexed bonds	4.00%

(g) Discount Rate

The discount rate used to calculate the total pension liability was 7%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(8) Pension Plan (Continued)

(f) Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the Fund's proportionate share of the net pension liability calculated using the discount rate of 7%, as well as what the Fund's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6%) or 1-percentage point higher (8%) than the current rate:

	1% Decrease (6%)	Current Discount (7%)	1% Increase (8%)
Employer's proportionate share of The net pension asset (liability)	$28,103	$ 8,799	($7,522)

(9) Postemployment Benefits Other Than Pensions (OPEB)

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 to New York State employees, 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 other post-employment benefits (OPEB) obligation under the plan is calculated based on an annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45, "Accounting and Financial Remising 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.

Based on the latest available actuarial valuations report as of December 31, 2016, information related to the Fund's annual OPEB cost, ARC, contributions and changes in net OPEB/GASB 68 obligations for the year ended December 31, 2017 is as follows:

(9) Postemployment Benefits Other Than Pensions (OPEB) (Continued)

ARC	$	289,368
Interest on net OPEB obligation from Prior Year		18,116
Actuarial Adjustments		(232,452)
Annual OPEB Cost	$	75,032
Net OPEB obligation at beginning of year	$	502,121
Accrual of OPEB cost for 2017		50,000
Net OPEB obligation at end of year	$	552,121

Funding Policy - The fund currently pays for postemployment benefits on a pay-as-you-go basis. These financial statements assume that funding policy will continue.

Actuarial valuations of an ongoing plan involve estimates of the value 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 on page 19 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.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) 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 semi-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, 2016 actuarial valuation, the entry age normal method was used. The actuarial assumptions include a 4.0% investment rate of return and an annual healthcare cost trend of 5.2% initially, decreasing to an ultimate rate of 3.8% after 5 years. The plan’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The amortization period used for the December 31, 2016 valuation was 6 years.

(9) Postemployment Benefits Other Than Pensions (OPEB) (Continued)

Actuarial methods and assumptions - The valuation of the postretirement healthcare benefits involves estimates and assumptions about the probability of events occurring far into the future. Examples are assumptions about future employment, mortality, and the health care cost trend. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of valuation and on the pattern of cost sharing between the Fund and plan participants. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility.

Projections assume a closed group population (i.e. no new hires), pay-as-you-go contributions and a 4% annual rate of investment return for 2016. Also, projections assume that 100% of future contingent eligible participants will receive the healthcare benefits at their full eligibility age, or current age if later. The amortization cost for the initial unfunded actuarial liability is a level dollar amount for a period of 30 years, 21 years of which remain at December 31, 2017. Some of the more significant assumptions used in the calculation are as follows:

Funding interest rate	4.0%
Trend Rate	5.2%
Ultimate trend rate	3.8%
Year ultimate trend rate rendered	2017/2017
Remaining amortization period	21 years

(10) Concentration of Risk - Long-Term Receivable and Payable

In 2012, Suffolk OTB sought protection from its creditors with the filing of a petition for bankruptcy in the Eastern District of New York under Chapter Nine of the U.S. Bankruptcy Code. Under the terms of the filing, Suffolk OTB was able to delay payment on debts owed as of the filing date while continuing to make payments on all debts incurred from that date forward. Amounts due and owing the Fund from the OTB at the time of the filing have been included in the allowance for uncollectible accounts included in the statement of net position. Although protected by Schedule F - Creditors Holding Unsecured Non-Priority Claims in the 2012 filing, the Fund fully provided for the non-collectability of these amounts in its financial statements.

(11) Legal Proceedings and Claims

In the ordinary course of business, the Fund may be subject to certain legal proceedings and claims. For any actions that are not otherwise covered by liability insurance, management believes that the resulting outcome of any such actions will not have a material adverse effect on the financial condition or results of operations of the Fund. In addition, when a loss contingency becomes probable, management establishes reserves on the books and records of the relevant entity.

Required Supplementary Information
Schedule of Funding Progress for Other Postemployment Benefits (OPEB)

Valuation date	Actuarial Value of assets	Accrued liability	Unfunded liability	Funded ratio	Covered payroll	Unfunded liability as a percentage of covered payroll
1/1/2017	-	$ 444,769	$ 444,769	0%	$ 145,000	307%
1/1/2016	-	444,769	444,769	0%	145,000	307%
1/1/2013	-	265,076	265,076	0%	100,257	264%
1/1/2013	-	223,812	223,812	0%	138,390	162%
1/1/2012	-	223,812	223,812	0%	138,390	162%

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

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

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 Agriculture and New York State Horse Breeding Development Fund (the Fund) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated (March 21, 2018).

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.

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 from material misstatement, we performed tests of its compliance with certain provisions of laws, 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 instance of noncompliance or other matter that is 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 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.

Valles Vendiola LLP

Bronx, New York
March 21, 2018

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INDEPENDENT ACCOUNTANTS' REPORT ON INVESTMENT PROGRAM COMPLIANCE

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

Report on Investment Program Compliance

We have audited the Agriculture and New York State Horse Breeding Development Fund's (the Fund) compliance with the types of compliance requirements described in the Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York related to its investment program during the years ended December 31, 2017 and 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York related to its investment program.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for the Fund's investment program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the investment program occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the investment program. However, our audit does not provide a legal determination of the Fund's compliance.

Opinion on Investment Program

In our opinion, the Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its investment program for the years ended December 31, 2017 and 2016.

Report on Internal Control over Compliance

Management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Fund's internal control over compliance with the types of requirement that could have a direct and material effect on the investment program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the investment program and to test and report on internal control over compliance in accordance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York. Accordingly, this report is not suitable for any other purpose.

Valles Vendiola LLP
Bronx, New York
March 21, 2018