

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

Management's Discussion and Analysis  
and Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

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

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
New York State Thoroughbred Breeding  
and Development Fund Corporation:

### Report on the Financial Statements

We have audited the accompanying financial statements of the New York State Thoroughbred Breeding and Development Fund Corporation (the Fund), a component unit of the State New York, as of and for the years ended December 31, 2012 and 2011, 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 opinions on these financial statements based on our audits. We conducted our audit 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 audit 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 opinions.

## 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, 2012 and 2011, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

As discussed in note 2 to the financial statements, the Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," and GASB Statement No. 63 - "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."

## 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.

## Reports on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Fund's internal control over financial reporting and compliance.

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2013 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.

Toski & Co., CPAs, P.C.

Williamsville, New York  
March 22, 2013

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

Management's Discussion and Analysis

December 31, 2012 and 2011

Management of the New York State Thoroughbred Breeding and Development Fund Corporation (the Fund), offers readers of the Fund's financial statements this analysis of the financial activities of the Fund for the years ended December 31, 2012 and 2011.

Following this Management's Discussion and Analysis (MD&A) are the financial statements of the Fund together with the notes thereto. Please read the MD&A 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 1973. The Fund's mission statement is: "To promote by monetary incentives the responsible breeding of quality thoroughbred racehorses in keeping with the founding legislation to preserve New York's irreplaceable farmland."

**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, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Assets:</b>			
Cash and equivalents	\$ 2,947,261	4,183,750	5,839,269
Receivables, current and long-term	1,076,791	1,080,476	1,204,935
Other assets	72,473	125,881	73,790
Total assets	<u>4,096,525</u>	<u>5,390,107</u>	<u>7,117,994</u>
<b>Liabilities:</b>			
Accounts payable and accrued expenses	94,482	171,480	58,558
Awards payable	2,024,458	2,288,407	2,626,947
Awards payable reserve, current	1,080,478	2,202,672	3,710,880
Payable to Harry M. Zweig Memorial Fund	330,721	218,762	270,423
Postemployment benefits	491,386	433,786	376,186
Total liabilities	<u>4,021,525</u>	<u>5,315,107</u>	<u>7,042,994</u>
Net position	<u>\$ 75,000</u>	<u>75,000</u>	<u>75,000</u>

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Management's Discussion and Analysis, Continued

In 2011, the Fund withheld 30% of awards pending final 2011 revenue numbers. The withhold percentage was reduced to 10% in 2012, which enabled the Fund to pay a higher percentage of cash to award earners earlier than in 2011. This resulting in a 30% or \$1.2 million decrease in cash and cash equivalents and a corresponding 51% or \$1.1 million decrease in the awards payable reserve, current, from 2011 to 2012 at year end.

By statute, the Fund pays the Harry M. Zweig Memorial Fund of Cornell University 2% of Fund operating revenues to fund equine research. Due to the 53% increase in revenue in 2012, the amount payable to Cornell University increased \$112 thousand in 2012 to \$331 thousand.

In accordance with the Racing Pari-mutuel Wagering and Breeding Law (the Racing Law) enacted by the New York State Legislature in 1973, moneys of the Fund in excess of \$75,000 on hand at the end of the calendar year must be paid to the State and the regional off-track betting corporations.

Operating Activities

Under founding statutes, the Fund receives revenue from on-track and off-track thoroughbred handle in New York and breakage from regional off-track betting wagers. Handle accounted for 42% of revenue in 2012, down from 69% in 2011, while breakage totaled 3% and 6% of revenue in 2012 and 2011, respectively. In 2004, the Fund obtained an additional contractual source of revenue from Video Lottery Terminals (VLTs) at Finger Lakes Casino and Raceway (FLCR), which provided 12% and 17% of total revenue for 2012 and 2011, respectively. Further significantly enhancing Fund revenues, the New York Racing Association (NYRA) began operation of VLTs at the Aqueduct racetrack's casino (Resorts World Casino New York City) in late 2011. Statutory revenue received from this operation was \$7 million in 2012 and \$900 thousand in 2011, or 42% and 8% of total 2012 and 2011 revenue, respectively.

In 2011, Suffolk Off-track Betting Corporation filed a petition for bankruptcy. Suffolk accounted for approximately 3% and 5% of Fund's revenues in 2012 and 2011, respectively. At December 31, 2012, \$130 thousand due the Fund is being withheld pending court resolution of the bankruptcy petition. The closure of New York City Off-track Betting Corporation (NYCOTB) in 2010 left the Fund without its largest single source of revenue at that time, having generally accounted for about one-third of Fund revenues.

Due to the projected increase in revenues for 2012, the Fund was able to significantly increase breeder, stallion and owner awards payout rates for 2012. As a result, award expense jumped from \$8.6 million in 2011 to \$12.9 million in 2012, a 51% increase. In addition, the Fund budgeted \$1.5 million for purse enrichment in 2012, which was later increased to approximately \$1.8 million during the year. This compares to purse enrichment of \$820 thousand in 2011.

NEW YORK STATE THOROUGHBRED BREEDING  
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Management's Discussion and Analysis, Continued

The following table summarizes operating income for the years ended December 31, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenue:			
Handle revenue	\$ 7,078,953	7,533,679	8,492,767
Breakage revenue	564,363	601,999	1,153,693
VLT commission	9,023,015	2,792,363	1,735,077
Total operating revenue	<u>16,666,331</u>	<u>10,928,041</u>	<u>11,381,537</u>
Operating expenses:			
Awards and purses	14,918,489	9,535,564	9,933,031
Promotion	721,011	639,630	668,243
Administration	575,531	544,143	563,508
Harry M. Zweig Memorial Fund	330,721	218,762	227,853
Bad debt - Suffolk OTB	130,274	-	-
Total operating expenses	<u>16,676,026</u>	<u>10,938,099</u>	<u>11,392,635</u>
Operating loss	(9,695)	(10,058)	(11,098)
Nonoperating revenue - interest income	9,695	10,058	11,098
Change in net position	-	-	-
Net position at beginning of year	<u>75,000</u>	<u>75,000</u>	<u>75,000</u>
Net position at end of year	<u>\$ 75,000</u>	<u>75,000</u>	<u>75,000</u>

Beginning February 1, 2013, the Fund came under the umbrella of the new Gaming Commission of the State of New York. It is not anticipated that this reorganization will impact the Fund's mission or revenue sources.

#### **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, Suite 601, Schenectady, New York 12305.

NEW YORK STATE THOROUGHBRED BREEDING  
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Statements of Net Position  
December 31, 2012 and 2011

Assets:	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and equivalents	\$ 2,947,261	4,183,750
Receivables	1,076,791	1,080,476
Prepaid expenses	<u>32,917</u>	<u>2,905</u>
Total current assets	<u>4,056,969</u>	<u>5,267,131</u>
Property and equipment, at cost:		
Office furniture and equipment	62,602	64,443
Vehicles	55,969	49,927
Leasehold improvements	<u>-</u>	<u>58,699</u>
	118,571	173,069
Less accumulated depreciation	<u>(79,015)</u>	<u>(128,564)</u>
Net property and equipment	<u>39,556</u>	<u>44,505</u>
Other assets - long-term revenue receivables, net	<u>-</u>	<u>78,471</u>
Total assets	<u>4,096,525</u>	<u>5,390,107</u>
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	94,482	171,480
Awards payable	2,024,458	2,288,407
Awards payable reserve	1,080,478	2,202,672
Payable to Harry M. Zweig Memorial Fund	<u>330,721</u>	<u>218,762</u>
Total current liabilities	3,530,139	4,881,321
Noncurrent liabilities - postemployment benefits payable	<u>491,386</u>	<u>433,786</u>
Total liabilities	<u>4,021,525</u>	<u>5,315,107</u>
Commitment (note 9)	<u>-</u>	<u>-</u>
Net position:		
Invested in capital assets	39,556	44,505
Restricted	<u>35,444</u>	<u>30,495</u>
Total net position	<u>\$ 75,000</u>	<u>75,000</u>

See notes to accompanying financial statements.

NEW YORK STATE THOROUGHBRED BREEDING  
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Statements of Revenue, Expenses and Changes in Net Position  
Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenue:		
Handle revenue	\$ 7,078,953	7,533,679
Breakage revenue	564,363	601,999
VLT commission	<u>9,023,015</u>	<u>2,792,363</u>
Total operating revenue	<u>16,666,331</u>	<u>10,928,041</u>
Operating expenses:		
Breeder awards	9,535,435	5,747,661
Stallion awards	2,209,223	1,665,089
Owner awards	1,205,956	1,152,286
FLRA breakage	151,208	150,528
Purse enrichment	1,816,667	820,000
Promotion	721,011	639,630
Administration	575,531	544,143
Harry M. Zweig Memorial Fund	330,721	218,762
Bad debt - Suffolk OTB	<u>130,274</u>	<u>-</u>
Total operating expenses	<u>16,676,026</u>	<u>10,938,099</u>
Operating loss	(9,695)	(10,058)
Nonoperating revenue - interest income	<u>9,695</u>	<u>10,058</u>
Change in net position	-	-
Net position at beginning of year	<u>75,000</u>	<u>75,000</u>
Net position at end of year	<u>\$ 75,000</u>	<u>75,000</u>

See accompanying notes to financial statements.

NEW YORK STATE THOROUGHBRED BREEDING  
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Statements of Cash Flows  
Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from operations	\$ 16,618,213	10,974,029
Payments for awards and purses	(16,304,632)	(11,382,312)
Payments to Harry M. Zweig Memorial Fund	(218,762)	(270,423)
Payments to employees	(582,496)	(771,140)
Payments to contractors and suppliers	<u>(730,253)</u>	<u>(208,915)</u>
Net cash used in operating activities	(1,217,930)	(1,658,761)
Cash flows from capital and related financing activities - acquisition of property and equipment	(28,254)	(6,816)
Cash flows from investing activities - interest earned	<u>9,695</u>	<u>10,058</u>
Net decrease in cash and equivalents	(1,236,489)	(1,655,519)
Cash and equivalents at beginning of year	<u>4,183,750</u>	<u>5,839,269</u>
Cash and equivalents at end of year	<u>\$ 2,947,261</u>	<u>4,183,750</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	(9,695)	(10,058)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	19,081	18,522
Loss on disposal of assets	14,122	-
Bad debts	130,274	-
Changes in:		
Receivables	(48,118)	45,988
Prepaid expenses	(30,012)	14,674
Accounts payable and accrued expenses	(76,998)	112,922
Awards payable	(263,949)	(338,540)
Awards payable reserve	(1,122,194)	(1,508,208)
Payable to Harry M. Zweig Memorial Fund	111,959	(51,661)
Postemployment benefits payable	<u>57,600</u>	<u>57,600</u>
Net cash used in operating activities	<u>\$ (1,217,930)</u>	<u>(1,658,761)</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

December 31, 2012 and 2011

(1) Organization

The New York State Thoroughbred Breeding and Development Fund Corporation (the Fund) is a public benefit corporation organized pursuant to Sections 251 through 257 of the Racing, Pari-mutuel Wagering and Breeding Law (the Law) enacted by the New York State Legislature in 1973. The Fund is a component unit of the State of New York (the State) and is included in the State's Comprehensive Annual Financial Report of the Comptroller as a public benefit corporation.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of the Fund have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles.

Beginning in 2012, the Fund adopted the provisions of GASB Statement No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements." This statement codifies all sources of accounting principles generally accepted in the United States of America into the GASB's authoritative literature.

For the year ended December 31, 2012, the Fund adopted 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 - 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.

(b) Assets, Liabilities and Net Position

- Revenue receivable consists of handle, breakage and a percentage of Video Lottery Terminals (VLT) revenue amounts and are 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 collectibility.

NEW YORK STATE THOROUGHBRED BREEDING  
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Notes to Financial Statements, Continued

(2) Summary of Significant Accounting Policies, Continued

- Retirement Plan - The Fund provides retirement benefits for substantially all of 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.
- The Fund expenses advertising and promotion costs as incurred. Advertising costs for the years ended December 31, 2012 and 2011 amounted to \$95,792 and \$62,480, respectively. Promotion costs excluding advertising for the years ended December 31, 2012 and 2011 were \$625,219 and \$577,150, respectively.

(c) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

(d) Subsequent Events

The Fund has evaluated events after December 31, 2012, and through \_\_\_\_\_, 2013, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(3) Cash and Equivalents and Investments

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, 2012 and 2011, 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.

NEW YORK STATE THOROUGHBRED BREEDING  
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Notes to Financial Statements, Continued

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

New York State Racing, Pari-Mutuel Wagering and Breeding law (the Law), Section 254, 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 at Finger Lakes Casino and Racetrack, and Resort World Casino New York City.

- **Handle:** Handle of one-half of one percent (.5%) of the regular, multiple, exotic and super exotic wagers are paid to the Fund. The Fund receives an additional two-tenths of 1% (.2%) of live racing handle only at New York Racing Association (NYRA) tracks. However, under Section 905(4) of the Law, when out-of-state track retention rates vary from New York State retention rates, entities are entitled to pro-rate the difference. This reduces the overall handle received by the Fund to less than .5%. "Special Event" races, which include the Kentucky Derby, the Preakness and the Breeder's Cup, generate handle of one-half of one percent (.5%), as specified in Section 904 of the Law, with NYRA paying an additional .2%.
- **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 Agriculture and New York State Horse Breeding Development Fund; the Fund receives one half of such payments.
- **VLT:** Since 2004, the Fund has received revenue from VLT devices at Finger Lakes Casino and Racetrack under a contractual agreement expiring in 2015. Upon expiration of the contract, this revenue source will continue by statute. In 2011, the Fund began to receive VLT device revenue from Resorts World Casino - New York City at the Aqueduct Racetrack at the rate of 1% of Net Win. This increased to 1.25% in October of 2012.

Moneys received by the Fund are disposed and distributed, and the Fund's net asset amount is maintained, in accordance with the Law, Section 254. The Fund is authorized to dispose and distribute the moneys received by it for the following purposes and no other:

- **Awards:** An amount as determined by the Fund but not in excess of: (a) 43% as awards to breeders of New York-breds finishing first, second, third and fourth in races, (b) 33% as awards to owners of New York-breds finishing first, second, third and fourth in open races, (c) 15% as awards to stallion owners, whose New York stallions have sired New York-breds finishing first, second, third and fourth in races. However, the Fund, with two-thirds vote of its Board of Directors, may increase these awards up to but not in excess of (a) 65% as awards to breeders, (b) 40% as awards to owners and (c) 20% as awards to stallion owners. On August 16, 2008 the Board approved a motion to limit the distribution of monies to first, second and third place finishing New York-breds effective September 1, 2008.

NEW YORK STATE THOROUGHBRED BREEDING  
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Notes to Financial Statements, Continued

(4) Receipt and Distribution of Revenue and Basis of Net Position, Continued

- Purse: An amount as determined by the Fund but not in excess of 44% to provide purse moneys for races exclusively for New York-breds, of which 40% is to be paid to a franchised corporation (NYRA) and 60% to Finger Lakes Casino and Racetrack. In addition, 75% of in-state breakage revenue is to be provided to Finger Lakes Casino and Racetrack for purse enrichment.
- Promotion: Up to 6% to advance and promote breeding and raising of thoroughbreds in New York.
- Administration: Up to 5% for the administration and management of the Fund.
- Equine research: An amount equal to 2% thereof for the promotion of equine research.
- At the end of any calendar year, any Fund moneys on hand in excess of \$75,000 shall be remitted to and vested in the State or the contributing Off-Track Betting Corporations.

Distribution of awards and purses is as follows:

	<u>2012</u>	<u>2011</u>
Breeder awards	\$ 9,535,435	5,747,661
Stallion awards	2,209,223	1,665,089
Owner awards	1,205,956	1,152,286
FLRA breakage	151,208	150,528
Purse enrichment	<u>1,816,667</u>	<u>820,000</u>
	<u>\$ 14,918,489</u>	<u>9,535,564</u>

In determining compliance with the distribution provision of the Law, the Fund considers registry and advertising fees received as a recapture and reduction of administrative and promotion expenses, respectively.

Approximately \$207,756 and \$120,539 in registry fees were collected by the Fund and reported on the Fund's financial statements for the years ended December 31, 2012 and 2011, respectively. The entire amount was recorded by the Fund as a recapture and reduction of administrative expenses directly incurred in the administration of the registry.

Approximately \$9,695 and \$18,960 in advertising recoveries were collected by the Fund and reported on the Fund's financial statements for the years ended December 31, 2012 and 2011, respectively. The entire amount was recorded as a recapture and reduction of promotional expenses incurred by the Fund.

Awards payable reserve represents retention of awards due as established in accordance with Fund policy.

NEW YORK STATE THOROUGHBRED BREEDING  
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(A Component Unit of the State of New York)

Notes to Financial Statements, Continued

(5) Investment Policy

The Fund's investment policy requires that all funds available for investment be deposited in interest-bearing accounts or fully secured certificates of deposit with New York State banks for the shortest possible terms and at the highest available interest rates, or in United States Treasury short-term bills or notes at the highest available rate. As of December 31, 2012 and 2011, the Fund maintained available funds in interest bearing checking accounts, since the rate of return was comparable to short-term Treasury bills.

(6) Harry M. Zweig Memorial Fund

By law, 2% of the thoroughbred handle, 2% of the breakage and 2% of VLT accruing to the Fund is to be used for the promotion of equine research through a fund of a land grant university within New York State. The Harry M. Zweig Memorial Fund of Cornell University was established for this purpose.

(7) 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. 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.

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

Notes to Financial Statements, Continued

(7) Pension Plan, Continued

(b) Funding Policy, Continued

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 employers 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, 2012 is based on covered payroll with rates ranging from 9.9% to 18.4%. The required contributions for the current and preceding two years were:

<u>Year</u>	<u>Contribution</u>
2012	\$ 65,750
2011	129,058
2010	<u>60,727</u>

The Fund's contributions made to the System were equal to 100 percent of the contributions required for each year and includes an early retirement incentive lump sum payment of \$73,573 in 2011.

(8) Postemployment Benefits Other Than Pensions

The Fund implemented the accounting and disclosure requirements of GASB Statement No. 45, - "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" effective for its fiscal year beginning January 1, 2007. The Fund previously did not record any liability for retiree health benefits as required by GASB Statement No. 45.

Plan Description - The Fund provides continuation of medical coverage for employees that retire no earlier than age 62 or have at least twenty years of credited State service or are vested in the retirement system plan with ten years of credited service. The Fund will also provide coverage in the event of early retirement if the employee qualifies for a State disability pension. The Fund contributes 100% of costs for employees and an employee's spouse. Surviving spouses of retired employees with at least ten years service are also eligible for continued health insurance coverage subject to a 25% co-pay.

NEW YORK STATE THOROUGHBRED BREEDING  
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Notes to Financial Statements, Continued

(8) Postemployment Benefits Other Than Pensions, Continued

The Fund provides certain health care benefits for retired employees. Substantially all of the Fund's employees may become eligible for these benefits if they reach the normal retirement age, of the respective tier of the New York State Employees' Retirement System, while working for the Fund. The Fund, on an annual basis, accrues a cost which represents the present value of these benefits to be paid over the estimated lives of the retirees. Total expenditures charged to operations for the years ended December 31, 2012 and 2011 amounted to \$102,317. At December 31, 2012 and 2011, the liability for retired employees included in noncurrent accrued fringe benefits amounted to \$491,386 and \$433,786, respectively.

The number of participants as of January 1, 2012 was as follows:

Active employees	7
Retired employees	<u>5</u>
Total	<u>12</u>

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

Annual Other Postemployment Benefit Cost (OPEB) - For the years ended December 31, 2012 and 2011, the Fund's annual OPEB cost amounted to \$102,317.

<u>Benefit Obligations and Normal Cost</u>	<u>2012</u>	<u>2011</u>
Actuarial accrued liability (AAL):		
Retired employees	\$ 473,320	473,320
Active employees	<u>294,958</u>	<u>294,958</u>
Total	\$ <u>768,278</u>	<u>768,278</u>
Underfunded actuarial accrued liability (UAAL)	\$ <u>768,278</u>	<u>768,278</u>
Normal cost at beginning of year	\$ <u>57,012</u>	<u>57,012</u>

Level Dollar Amortization

Calculation of ARC under projected Unit Credit Method:

Amortization of UAAL over 30 years with interest to end of year	\$ 43,160	43,160
Normal costs with interest to end of year	<u>59,157</u>	<u>59,157</u>
Annual required contribution (ARC)	\$ <u>102,317</u>	<u>102,317</u>

NEW YORK STATE THOROUGHBRED BREEDING  
AND DEVELOPMENT FUND CORPORATION  
(A Component Unit of the State of New York)  
Notes to Financial Statements, Continued

(8) Postemployment Benefits Other Than Pensions, Continued

<u>Annual OPEB Cost Contribution</u>	<u>2012</u>	<u>2011</u>
Contribution for years ended December 31, 2012 and 2011	\$ 44,717	44,717
Contribution as a percentage of required contribution	43.7%	43.7%
<u>Annual OPEB Cost and Net OPEB Obligation</u>		
Normal cost	57,012	57,012
Amortization of unfunded actuarial accrued liability	44,595	41,595
Interest	<u>3,710</u>	<u>3,710</u>
Annual required contribution	102,317	102,317
Adjustment to ARC	<u>-</u>	<u>-</u>
Annual OPEB cost	102,317	102,317
Contribution/expected benefit payment	<u>(44,717)</u>	<u>(44,717)</u>
Increase in net OPEB obligation	57,600	57,600
Net OPEB obligation at beginning of year	<u>433,786</u>	<u>376,186</u>
Net OPEB obligation at end of year	\$ <u>491,386</u>	<u>433,786</u>
Actuarial methods and assumptions:		
Funding interest rate	%	3.763%
2010 trend rate (Medical/Drugs)	%/%	10%/10%
Ultimate trend rate	5%	5%/5%
Year ultimate trend rate rendered	2015/2015	2015/2015
Annual payroll growth rate	2.5%	2.5%
Actuarial cost method	Attained Age	Attained Age
The remaining amortization period	25 years	26 years

(9) Commitment

The Fund had a lease commitment for office space which was to expire November 30, 2014. The lease was terminated, effective December 31, 2012, without any penalty or future required payments beyond 2012. Rent expense for the years ended December 31, 2012 and 2011 amounted to \$36,792 and \$35,185, respectively.

NEW YORK STATE THOROUGHBRED BREEDING  
AND DEVELOPMENT FUND CORPORATION  
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Notes to Financial Statements, Continued

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

In 2011, Suffolk OTB sought protection from its creditors with the filing of a petition for bankruptcy under Chapter Nine of the U.S. Bankruptcy Code in the Eastern District of New York. Suffolk OTB re-filed their petition for Chapter Nine bankruptcy in 2012.

Under the terms of the filings, 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 Suffolk OTB at the time of the filings, including handle and breakage, amounted to \$56,243 for 2012 and \$74,031 for 2011, totaling \$130,274. Although this amount is protected by Schedule F Creditors Holding Unsecured Nonpriority Claims in the 2012 filing, it was fully reserved by the Fund in 2012.

Suffolk OTB accounted for \$546,662 and \$595,533 or 3.3% and 5.5% of total operating revenue reported by the Fund for the years ended December 31, 2012 and 2011, respectively.

(11) Contingency

Beginning February 1, 2013, the Fund came under the umbrella of the new Gaming Commission of the State of New York. It is not anticipated that this reorganization will impact the Fund's mission or revenue sources. In response to this pending legislation, the Fund moved operations to the New York State Gaming Commission building in Schenectady, New York, during December 2012.

(12) 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.

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

The Board of Directors  
New York State Thoroughbred Breeding  
and Development Fund Corporation:

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 New York State Thoroughbred Breeding and Development Fund Corporation, a component unit of the State of New York (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 March 22, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Toski & Co., CPAs, P.C.

Williamsville, New York  
March 22, 2013

## INDEPENDENT AUDITORS' REPORT ON INVESTMENT PROGRAM COMPLIANCE

The Board of Directors  
New York State Thoroughbred Breeding  
and Development Fund Corporation:

### Report on Investment Program Compliance

We have audited the New York State Thoroughbred Breeding and Development Fund Corporation'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 year ended December 31, 2012.

### 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 year ended December 31, 2012.

## 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.

Toski & Co., CPAs, P.C.

Williamsville, New York  
March 22, 2013