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, 2015

(With Independent Auditor's Report Thereon)

AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND

(A Component Unit of the State of New York)

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INDEPENDENT AUDITOR'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 year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Fund's basic 2015 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, 2015, and the changes in financial position and its cash flows for the year 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 17, 2016, 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 17, 2016 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.

Valles Vendiola LLP

Elmhurst, New York
March 17, 2016

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, 2015

Management of the Agriculture and New York State Breeding Development Fund (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, 2015 and 2014.

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 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, 2015 and 2014:

	2015	2014
Assets:		
Cash and cash equivalents	$ 7,891,488	$ 7,036,063
Receivables	2,108,982	2,167,094
Total assets	10,000,470	9,203,157
Liabilities:		
State, county and town fair obligations	203,663	168,175
Accrued payroll and payroll related liabilities	1,497	11,538
Payable to Harry M. Zweig Memorial Fund	124,795	114,853
Postemployment benefits	461,663	412,909
Total liabilities	791,619	707,475
Net position	$ 9,208,851	$ 8,495,682

The following table summarizes the changes in net position for the years ended December 31, 2015 and 2014:

	2015	2014
Operating revenue:		
Handle and breakage	$ 2,451,557	$ 2,610,005
Advance deposit wagering	455,355	333,875
VLT commissions	12,403,776	12,067,220
Nomination and sustaining fees	387,082	308,732
	15,697,770	15,319,832
Operating expenses:		
Awards and purses	13,737,759	13,848,987
State, county and town fair repairs and construction	79,900	76,948
Grants	96,948	70,400
4-H standardbred development	40,000	76,835
General and administrative	753,177	809,790
Harry M. Zweig Memorial Fund	306,006	299,705
Bad debt - Suffolk OTB	-	31,299
	15,013,791	15,213,964
Operating income (loss)	683,979	105,868
Nonoperating revenue-interest income	29,190	13,826
Change in net position	$ 713,169	$ 119,694

Operating Activities

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 15.7% of revenue in 2015, down from 17.1% in 2014. The Fund also receives revenue from Video Lottery Terminals (VLTs) from the seven New York harness tracks: Batavia Downs, Buffalo Raceway, Saratoga Harness, Tioga Downs, Vernon Downs, and Yonkers Raceway. In total, VLT revenue accounted for approximately 79.1% of all revenue, up from 78.8% in 2014.

Beginning on January 1, 2014, new legislation provided for the Fund to receive additional revenues from the Multi-Jurisdictional Account Wagering Providers. The revenue from these sources for 2015 totaled $455,355 or 2.9% of total revenue for the year, an increase from the $333,875 or 2.2% of total revenue in 2014.

Nomination and sustaining fees increased slightly from $308,732 in 2014 to $387,082 in 2015.

In 2012, Suffolk Off-track Betting Corporation filed a petition for bankruptcy. At December 31, 2015, approximately $70,000 due from Suffolk to the Fund is being withheld pending court resolution of the bankruptcy petition. Management's estimate of the uncollectible amount has been set up as an allowance against the receivable at December 31, 2015 and 2014.

Purses paid out during the year totaled $12.8 million, lower than the $13.1 million in 2014. However, breeder awards increased to $0.9 million from $0.7 million in 2014.

The increase in operating revenue and decrease in operating expenses have resulted to a net operating income of $684 thousand which is 545% higher than the prior year.

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)

Statement of Net Position
December 31, 2015

ASSETS	
Current assets	
Cash and cash equivalents	$ 7,891,488
Receivables, less allowance for losses of $70,064	2,108,982
Total assets	10,000,470
LIABILITIES AND NET POSITION	
Current liabilities	
State, county and town fair obligations	203,663
Accrued payroll and payroll liabilities	1,497
Payable to Harry M. Zweig Memorial Fund	124,795
Total current liabilities	329,956
Noncurrent liabilities - postemployment benefits payable	461,663
Total liabilities	791,619
Commitment and contingencies (Note 11)	
Net position	
Restricted - expendable	8,680,342
Unrestricted	528,509
Total net position	$ 9,208,851

See accompanying notes to financial statements.

AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND
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Statement of Revenue, Expenses and Changes in Net Position
For the Year Ended December 31, 2015

OPERATING REVENUE	
Handle and breakage revenue	$ 2,451,557
Advance deposit wagering revenue	455,355
VLT commissions	12,403,776
Nomination and sustaining fees	387,082
Total operating revenue	15,697,770
OPERATING EXPENSES	
Racetrack purses	11,489,103
State, county and town fair purses	1,298,729
Breeder awards	949,927
State, county and town fair repairs and construction expenses	79,900
General and administrative	753,177
Grants	96,948
4-H standardbred development	40,000
Harry M. Zweig Memorial Fund	306,006
Total operating expenses	15,013,791
Operating income (loss)	683,979
Nonoperating revenue - interest income	29,190
Changes in net position	713,169
Net position at beginning of year	8,495,682
Net position at end of year	$ 9,208,851

See accompanying notes to financial statements.

AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND
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Statement of Cash Flows
For the Year Ended December 31, 2015

Cash flows from operating activities	
Receipts from operations	$ 15,755,882
Payments for awards and purses	(13,737,759)
Payments to Harry M. Zweig Memorial Fund	(296,064)
Payments to contractors and suppliers	(572,701)
Payments to employees	(106,275)
State, county and town fair repairs and construction	(79,900)
Grants	(96,948)
4-H standard development	(40,000)
Net cash provided by (used in) operating activities	826,234
Cash flows from investing activities - interest earned	29,190
Net decrease in cash and cash equivalents	855,425
Cash and cash equivalents at beginning of year	7,036,063
Cash and cash equivalents at end of year	$ 7,891,488
Reconciliation of operating income to net cash used in operating activities:	
Operating income	683,979
Adjustments to reconcile operating income to net cash used in operating activities:	
Changes in:	
Receivables	58,112
State, county and town fair obligations	35,489
Accrued payroll and related liabilities	(10,042)
Payable to Harry M. Zweig Memorial Fund	9,942
Postemployment benefits payable	48,754
Net cash used in operating activities	$ 826,234

See accompanying notes to financial statements.

Notes to Financial Statements
December 31, 2015

(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 trustees consisting of the Chairman of the New York State Gaming Commission or his or her designee, the Commissioner of Agriculture and Markets, and 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, including 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 The Multi-Jurisdictional Account Wagering Providers 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 $8,680,342 at December 31, 2015 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.

(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, 2015, 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 standard bred 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), 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 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, 2014, New York State Racing, Pari-Mutuel Wagering and Breeding law, Section 115-b, provides for Fund revenues generated from out of state Multi-Jurisdictional Account Wagering Provider handle from New York State residents.

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

- 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, Section 254. 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 standard bred development are authorized under the Act in amounts determined by the Trustees of the Fund.

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

- Equine research: An amount equal to 2% of 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;

(6) Memorandum of Understanding (Continued)

- 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.

The Fund has not yet received assessments from the Commission but has set aside a total of $32,000 for rent and $100,000 for other services as of December 31, 2015.

(7) Service Agreement

The Fund contracts with the Harness Horse Breeders of New York State, Inc., a not-for-profit membership organization, for purposes of obtaining consulting, advisory and other services regarding the breeding of standard bred horses in New York State. Amounts paid under the agreement amounted to $316,600 for the year ended December 31, 2015. The amounts were included in general and administrative expenses on the Fund's statements of revenues, expenses and changes in net position. The contract is renewable annually.

(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.

(8) Pension Plan (Continued)

(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.

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, 2015 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
2015	$ 9,240
2014	$ 18,685
2013	$ 11,017

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

(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.

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

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, 2013, information related to the Fund's annual OPEB cost, ARC, contributions and changes in net OPEB obligations for the year ended December 31, 2015 is as follows:

ARC	$ 141,974
Interest on net OPEB obligation from Prior Year	10,300
Actuarial Adjustments	(56,295)
Annual OPEB Cost	$ 95,979

Net OPEB obligation at beginning of year	$ 412,909
Annual OPEB cost	95,979
Contributions	(47,225)
Net OPEB obligation at end of year	$ 461,663

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

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

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, 2013 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 5.7% initially, decreasing to an ultimate rate of 4.2% 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, 2013 valuation was 6 years.

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 2015. 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, 22 years of which remain at December 31, 2015. Some of the more significant assumptions used in the calculation are as follows:

Funding interest rate	4.0%
Trend rate	5.7%
Ultimate trend rate	4.2%
Year ultimate trend rate rendered	2015/2015
The remaining amortization period	22 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.

(12) Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 72 - "Fair Value Measurement and Application" provides guidance regarding accounting and financial reporting related to fair value measurements of certain investments. The requirements of this statement are effective for periods beginning after June 15, 2015, which is the calendar year beginning January 1, 2016 for the Fund. This statement is being evaluated for its effect on the financial statements of the Fund.

Statement No. 73 - "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68" establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes.

(12) Accounting Standards Issued But Not Yet Implemented

The requirements of this Statement that address accounting and financial reporting by employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, which is the calendar year beginning January 1, 2017 and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015, which is the calendar year beginning January 1, 2016. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015, which is the calendar year beginning January 1, 2016. This statement is being evaluated for its effect on the financial statements of the Fund.

GASB Statement No. 74 - "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures. The requirements of this statement are effective for periods beginning after June 15, 2016, which is the calendar year beginning January 1, 2017 for the Fund. This statement is being evaluated for its effect on the financial statements of the Fund.

GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. The requirements of this statement are effective for periods beginning after June 15, 2017, which is the calendar year beginning January 1, 2018 for the Fund. This statement is being evaluated for its effect on the financial statements of the Fund.

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

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

Valuation date	Actuarial Value of assets	Actuarial Accrued liability	Unfunded liability	Funded ratio	Covered payroll	Unfunded liability as a percentage of covered payroll
1/1/2013	$ -	$ 265,076	$265,076	0%	$ 100,257	264.40%
1/1/2013	-	223,812	223,812	0%	138,390	161.73%
1/1/2012	-	223,812	223,812	0%	138,390	161.73%

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INDEPENDENT AUDITOR'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 year ended December 31, 2015, 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 17, 2016.

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.

Vallera Verdiale LLP

Elmhurst, New York
March 17, 2016

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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 year ended December 31, 2015.

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, 2015.

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.

Vallen Verdiela LLP

Elmhurst, New York
March 17, 2016