

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, 2010 and 2009

(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:

We have audited the accompanying statements of net assets of the New York State Thoroughbred Breeding and Development Fund Corporation, a component unit of the State of New York (the Fund), as of December 31, 2010 and 2009, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New York State Thoroughbred Breeding and Development Fund Corporation as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2011, 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 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.

The Management's Discussion and Analysis information, as listed in the forgoing table of contents, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Toski, Schaefer & Co, P.C.

Williamsville, New York
March 31, 2011

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, 2010 and 2009

As management of the New York State Thoroughbred Breeding and Development Fund Corporation (the Fund), we offer readers of the Fund's financial statements this narrative objective and analysis of the financial activities of the Fund for the years ended December 31, 2010 and 2009.

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.

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 Assets

The following table summarizes the net assets for 2010, 2009 and 2008:

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|------------------|------------------|------------------|
| Assets: | | | |
| Cash and equivalents | \$ 5,839,269 | 1,909,241 | 1,390,946 |
| Receivables, current and long-term | 1,204,935 | 3,399,167 | 2,117,605 |
| Other assets | <u>73,790</u> | <u>81,430</u> | <u>67,426</u> |
| Total assets | <u>7,117,994</u> | <u>5,389,838</u> | <u>3,575,977</u> |
| Liabilities: | | | |
| Accounts payable and accrued expenses | 58,558 | 58,516 | 56,007 |
| Awards payable | 2,626,947 | 2,083,490 | 1,735,551 |
| Awards payable reserve current and long-term | 3,710,880 | 2,602,039 | 1,216,859 |
| Payable to Harry M. Zweig Memorial Fund | 270,423 | 252,196 | 272,701 |
| Postemployment benefits | <u>376,186</u> | <u>318,597</u> | <u>219,859</u> |
| Total liabilities | <u>7,042,994</u> | <u>5,314,838</u> | <u>3,500,977</u> |
| Net assets | <u>\$ 75,000</u> | <u>75,000</u> | <u>75,000</u> |

NEW YORK STATE THOROUGHBRED BREEDING
AND DEVELOPMENT FUND CORPORATION
(A Component Unit of the State of New York)
Management's Discussion and Analysis, Continued

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

The Fund receives revenue from on-track and off-track thoroughbred handle in New York and breakage from regional off-track betting wagers. In 2004, the Fund obtained an additional source of revenue from Video Lottery Terminals (VLTs) at Finger Lakes Racing Association (FLRA). During 2011, the New York Racing Association (NYRA) is expected to begin operation of VLTs at the Aqueduct racetrack. Operations are expected to begin in late summer.

Of note in 2010 is the closure of New York City Off-track Betting Corporation (NYCOTB), which leaves the Fund without its largest single source of revenue, having generally accounted for about one-third of Fund revenues. This loss of NYCOTB revenue also adversely impacts FLRA in that they receive by statute, 75% of the Fund's in-state breakage revenues, the lion's share of which was historically provided by NYCOTB. During January and February of 2011, the loss of NYCOTB revenue has been partially offset by a significant increase in handle revenue from NYRA. In addition, Suffolk Off-track Betting Corporation is considering filing for Chapter 9 bankruptcy. Suffolk has historically accounted for about 6% of the Fund's revenues. Fund management will closely monitor these situations.

Due to the projected decrease in revenues for 2010, the Fund was not able to budget for any purse enrichment in 2011. Fund management will monitor its revenue and expenses throughout the year to determine if any funds become available to resume purse enrichment in 2011. Also, the Fund would look for relief from the statutory requirement that requires purse enrichment be paid to both Finger Lakes and NYRA if money is sent to one of the tracks.

In 2010, Fund management began a review of certain internal policies and practices in order to identify cost reductions. In recent years, foal crops have fallen off significantly and the number of breeding farms has also declined. Therefore, Fund management trimmed one position from the field inspection team in the belief that the two person team could handle the reduced work load.

A Fund management review of health insurance benefits revealed that the Fund was paying 100% of the costs of employee health insurance. Subsequently, all employees now contribute to their NYSHIP coverage. In 2010, the Fund also began looking into the possibility of having retirees share in the cost of health coverage in the near future.

NEW YORK STATE THOROUGHBRED BREEDING
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(A Component Unit of the State of New York)
Management's Discussion and Analysis, Continued

The following table summarizes operating income for the years ended December 31, 2010, 2009 and 2008:

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|-------------------|-------------------|-------------------|
| Operating revenue: | | | |
| Handle revenue | \$ 8,492,767 | 9,672,350 | 10,664,798 |
| Breakage revenue | 1,153,693 | 1,458,993 | 1,633,722 |
| VLT commission | <u>1,735,077</u> | <u>1,464,604</u> | <u>1,299,655</u> |
| Total operating revenue | <u>11,381,537</u> | <u>12,595,947</u> | <u>13,598,175</u> |
| Operating expenses: | | | |
| Awards and purses | 9,933,031 | 11,214,854 | 12,135,194 |
| Promotion | 668,243 | 630,045 | 681,752 |
| Administration | 563,508 | 504,036 | 545,402 |
| Harry M. Zweig Memorial Fund | <u>227,853</u> | <u>251,968</u> | <u>272,701</u> |
| Total operating expenses | <u>11,392,635</u> | <u>12,600,903</u> | <u>13,635,049</u> |
| Operating loss | (11,098) | (4,956) | (36,874) |
| Nonoperating revenue - interest income | <u>11,098</u> | <u>4,956</u> | <u>36,874</u> |
| Change in net assets | - | - | - |
| Net assets at beginning of year | <u>75,000</u> | <u>75,000</u> | <u>75,000</u> |
| Net assets at end of year | <u>\$ 75,000</u> | <u>75,000</u> | <u>75,000</u> |

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 Saratoga Spa State Park, 19 Roosevelt Drive, Suite 250, Saratoga Springs, New York 12866.

NEW YORK STATE THOROUGHBRED BREEDING
AND DEVELOPMENT FUND CORPORATION
(A Component Unit of the State of New York)
Statements of Net Assets
December 31, 2010 and 2009

| | <u>Assets</u> | <u>2010</u> | <u>2009</u> |
|--|-----------------------------------|---------------------|------------------|
| Current assets: | | | |
| Cash and equivalents | | \$ 5,839,269 | 1,909,241 |
| Receivables | | 1,204,935 | 1,182,387 |
| Prepaid expenses | | <u>17,579</u> | <u>21,469</u> |
| Total current assets | | <u>7,061,783</u> | <u>3,113,097</u> |
| Property and equipment, at cost: | | | |
| Office furniture and equipment | | 57,627 | 44,030 |
| Vehicles | | 49,927 | 49,927 |
| Leasehold improvements | | <u>58,699</u> | <u>58,502</u> |
| | | 166,253 | 152,459 |
| Less accumulated depreciation | | <u>(110,042)</u> | <u>(92,498)</u> |
| Net property and equipment | | <u>56,211</u> | <u>59,961</u> |
| Other assets - long-term revenue receivables | | <u>-</u> | <u>2,216,780</u> |
| Total assets | | <u>\$ 7,117,994</u> | <u>5,389,838</u> |
| | <u>Liabilities and Net Assets</u> | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | | 58,558 | 58,516 |
| Awards payable | | 2,626,947 | 2,083,490 |
| Awards payable reserve | | 3,710,880 | 385,259 |
| Payable to Harry M. Zweig Memorial Fund | | <u>270,423</u> | <u>252,196</u> |
| Total current liabilities | | <u>6,666,808</u> | <u>2,779,461</u> |
| Noncurrent liabilities: | | | |
| Postemployment benefits payable | | 376,186 | 318,597 |
| Long-term awards payable reserve | | <u>-</u> | <u>2,216,780</u> |
| Total noncurrent liabilities | | <u>376,186</u> | <u>2,535,377</u> |
| Total liabilities | | <u>7,042,994</u> | <u>5,314,838</u> |
| Net assets: | | | |
| Invested in capital assets, net | | 56,211 | 59,961 |
| Restricted - expendable | | <u>18,789</u> | <u>15,039</u> |
| Total net assets | | <u>75,000</u> | <u>75,000</u> |
| Commitment (note 10) | | | |
| Total liabilities and net assets | | <u>\$ 7,117,994</u> | <u>5,389,838</u> |

See notes to accompanying financial statements.

NEW YORK STATE THOROUGHBRED BREEDING
AND DEVELOPMENT FUND CORPORATION
(A Component Unit of the State of New York)
Statements of Revenue, Expenses and Changes in Net Assets
Years ended December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|--|-------------------|-------------------|
| Operating revenue: | | |
| Handle revenue | \$ 8,492,767 | 9,672,350 |
| Breakage revenue | 1,153,693 | 1,458,993 |
| VLT commission | <u>1,735,077</u> | <u>1,464,604</u> |
| Total operating revenue | <u>11,381,537</u> | <u>12,595,947</u> |
| Operating expenses: | | |
| Breeder awards | 6,646,168 | 6,300,452 |
| Stallion awards | 1,559,369 | 2,370,029 |
| Owner awards | 859,622 | 1,107,667 |
| FLRA breakage | 292,872 | 353,372 |
| Purse enrichment | 575,000 | 1,083,334 |
| Promotion | 668,243 | 630,045 |
| Administration | 563,508 | 504,036 |
| Harry M. Zweig Memorial Fund | <u>227,853</u> | <u>251,968</u> |
| Total operating expenses | <u>11,392,635</u> | <u>12,600,903</u> |
| Operating loss | (11,098) | (4,956) |
| Nonoperating revenue - interest income | <u>11,098</u> | <u>4,956</u> |
| Change in net assets | - | - |
| Net assets at beginning of year | <u>75,000</u> | <u>75,000</u> |
| Net assets at end of year | <u>\$ 75,000</u> | <u>75,000</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)
Statements of Cash Flows
Years ended December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|---|---------------------|------------------|
| Cash flows from operating activities: | | |
| Receipts from operations | \$ 11,358,989 | 11,314,385 |
| Payments for awards and purses | (6,063,953) | (9,481,735) |
| Payments to Harry M. Zweig Memorial Fund | (209,626) | (272,473) |
| Payments to employees | (850,378) | (795,444) |
| Payments to contractors and suppliers | <u>(302,308)</u> | <u>(241,339)</u> |
| Net cash provided by operating activities | 3,932,724 | 523,394 |
| Cash flows from capital and related financing activities - acquisition of property and equipment | (13,794) | (10,055) |
| Cash flows from investing activities - interest earned | <u>11,098</u> | <u>4,956</u> |
| Net increase in cash and equivalents | 3,930,028 | 518,295 |
| Cash and equivalents at beginning of year | <u>1,909,241</u> | <u>1,390,946</u> |
| Cash and equivalents at end of year | <u>\$ 5,839,269</u> | <u>1,909,241</u> |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | (11,098) | (4,956) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation expense | 17,544 | 13,875 |
| Changes in: | | |
| Receivables | 2,194,232 | (1,281,562) |
| Prepaid expenses | 3,890 | (17,824) |
| Accounts payable and accrued expenses | 42 | 2,509 |
| Awards payable | 543,457 | 347,939 |
| Awards payable reserve | 1,108,841 | 1,385,180 |
| Harry M. Zweig Memorial Fund payable | 18,227 | (20,505) |
| Postemployment benefits payable | <u>57,589</u> | <u>98,738</u> |
| Net cash provided by operating activities | <u>\$ 3,932,724</u> | <u>523,394</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, 2010 and 2009

(1) Organization

The New York State Thoroughbred Breeding and Development Fund Corporation (the Fund) is a public benefit corporation organized pursuant to Sections 245 through 250 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 in conformity with generally accepted accounting principles (GAAP) as applied to governmental units and follow the pronouncements of the Governmental Accounting Standards Board (GASB). In addition, the Fund follows the pronouncements of all applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

(b) Assets, Liabilities and Net Assets

- 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.
- 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 and promotion costs for the years ended December 31, 2010 and 2009 amounted to \$668,243 and \$630,045, respectively.
- The financial statements are prepared on the accrual basis of accounting.

(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.

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

(2) Summary of Significant Accounting Policies, Continued

(d) Subsequent Events

The Fund has evaluated events after December 31, 2010, and through March 31, 2011, 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.

(e) Reclassifications

Reclassifications have been made to certain 2009 balances in order to conform them to the 2010 presentation.

(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, 2010 and 2009, 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) Receipt and Distribution of Revenue and Basis of Net Assets

The Fund's revenue is derived from New York on-track and off-track thoroughbred handle and breakage from regional off-track betting wagers as well as from a percentage of the revenue from VLT gaming devices at Finger Lakes Race Track. One-half of one percent (.5%) of the regular, multiple and exotic wagers and three percent (3.0%) of super exotic wagers are paid to the Fund. In addition, the Fund receives one-quarter of one percent (.25%) from handle derived from "Special Event" races. Twenty percent of New York State off-track betting breakage from bets on harness races and 50% 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. Beginning in September 1999, with the opening of the Belmont Fall Meet, the Fund received an additional one-tenth of 1% of live racing only at New York Racing Association (NYRA) tracks. On April 1, 2001, the Fund received an additional one-tenth of 1% from NYRA tracks. In 2004, the Fund began to receive revenue

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

Notes to Financial Statements, Continued

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

from VLT devices at Finger Lakes Race Track. Beginning April 1, 2006, and for a period of one year, the Fund received an increase of 0.2% (from 0.5% to 0.7%) in thoroughbred handle from regional off-track betting corporations and Finger Lakes Racing Association (FLRA). Additionally, the Fund received this additional percentage from statewide harness tracks only on their in-state thoroughbred handle.

Moneys received by the Fund are disposed and distributed, and the Fund's net asset amount is maintained, in accordance with Section 247 of the Law enacted in the State of New York in Assembly, March 6, 1973.

Prior to 1999, the Fund was authorized to dispose and distribute the moneys received by it for the following purposes and no other: 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, (d) 44% to provide purse moneys for races exclusively for New York - Breds, (e) 5% to advance and promote breeding and raising of thoroughbreds in New York, (f) 4% for the administration and management of the Fund, and (g) an amount equal to 2% thereof for the promotion of equine research. In 1999, Senate Bill No. 5499 was enacted which allows the Fund, with 75% approval of its Board of Directors, to pay the following increases on the above-mentioned awards: (a) breeder awards of 43% may increase up to 50%, (b) owner awards of 33% may increase up to 40% and (c) stallion awards of 15% may increase up to 20%. 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.

Chapter 473 of the Laws of 2010 authorized the Fund to increase breeder awards to an amount not to exceed 65% of the total revenue and increased the percentage of revenue that may be used for administration and promotion to 5% and 6%, respectively.

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.

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

Distribution of awards and purses is as follows:

| | <u>2010</u> | <u>2009</u> |
|------------------|---------------------|-------------------|
| Breeder awards | \$ 5,784,278 | 6,300,452 |
| Stallion awards | 1,559,369 | 2,370,029 |
| Owner awards | 859,622 | 1,107,667 |
| FLRA breakage | 292,872 | 353,372 |
| Purse enrichment | <u>575,000</u> | <u>1,083,334</u> |
| | <u>\$ 9,071,141</u> | <u>11,214,854</u> |

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

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

Approximately \$100,526 and \$224,400 in registry fees were collected by the Fund and reported on the Fund's financial statements for the years ended December 31, 2010 and 2009, 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 \$19,525 and \$55,600 in advertising recoveries were collected by the Fund and reported on the Fund's financial statements for the years ended December 31, 2010 and 2009, 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.

(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, 2010 and 2009, 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) New York Racing Association, Inc.

New York Racing Association, Inc. agreed to forego receipt of its 2010 purse enrichment allocation from the Fund in the amount of \$383,333 on the condition that the amount be used to pay breeder awards. Breeder awards and purse enrichment expenses have been presented consistent with NYRA's consent.

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

(8) Pension Plan

(a) Plan Description

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

(b) Funding Policy

The System is noncontributory except for employees who joined the ERS after July 27, 1976 who contribute 3% of their salary. The New York State Legislature passed legislation in 2000 that suspends the 3% contribution for employees who have ten years or more of credited service. 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, 2010 was 15.6% of covered payroll. The required contributions for the current and preceding year were:

| <u>Year</u> | <u>Contribution</u> |
|-------------|---------------------|
| 2010 | \$ 60,727 |
| 2009 | <u>38,101</u> |

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

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

(9) 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.

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, 2010 and 2009 amounted to \$102,317 and \$144,353, respectively. At December 31, 2010 and 2009, the liability for retired employees included in noncurrent accrued fringe benefits amounted to \$376,186 and \$318,597, respectively.

The number of participants as of January 1, 2010 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, 2010 and 2009, the Fund's annual OPEB cost amounted to \$102,317.

| <u>Benefit Obligations and Normal Cost</u> | <u>2010</u> | <u>2009</u> |
|--|-------------------|------------------|
| Actuarial accrued liability (AAL): | | |
| Retired employees | \$ 473,320 | 672,823 |
| Active employees | <u>294,958</u> | <u>425,115</u> |
| Total | \$ <u>768,278</u> | <u>1,097,938</u> |
| Underfunded actuarial accrued liability (UAAL) | \$ <u>768,278</u> | <u>1,097,938</u> |
| Normal cost at beginning of year | \$ <u>57,012</u> | <u>72,784</u> |

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

(9) Postemployment Benefits Other Than Pensions, Continued

| <u>Level Dollar Amortization</u> | <u>2010</u> | <u>2009</u> |
|---|-------------------|-----------------|
| Calculation of ARC under projected Unit Credit Method: | | |
| Amortization of UAAL over 30 years with interest to end of year | \$ 43,160 | 74,581 |
| Normal costs with interest to end of year | <u>59,157</u> | <u>75,808</u> |
| Annual required contribution (ARC) | \$ <u>102,317</u> | <u>150,389</u> |
| <u>Annual OPEB Cost Contribution</u> | | |
| Contribution for years ended December 31, 2010 and 2009 | 44,728 | 45,615 |
| Contribution as a percentage of required contribution | 43.7% | 30.3% |
| <u>Annual OPEB Cost and Net OPEB Obligation</u> | | |
| Normal cost | 57,012 | 72,784 |
| Amortization of unfunded actuarial accrued liability | 41,595 | 71,606 |
| Interest | <u>3,710</u> | <u>5,999</u> |
| Annual required contribution | 102,317 | 150,389 |
| Adjustment to ARC | <u>-</u> | <u>(6,036)</u> |
| Annual OPEB cost | 102,317 | 144,353 |
| Contribution/expected benefit payment | <u>(44,728)</u> | <u>(45,615)</u> |
| Increase in net OPEB obligation | 57,589 | 98,738 |
| Net OPEB obligation at beginning of year | <u>318,597</u> | <u>219,859</u> |
| Net OPEB obligation at end of year | \$ <u>376,186</u> | <u>318,597</u> |
| Actuarial methods and assumptions: | | |
| Funding interest rate | 3.763% | 4.155% |
| 2010 trend rate (Medical/Drugs) | 10%/10% | 8%/10% |
| Ultimate trend rate | 5%/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 | 26 years | 27 years |

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

(10) Commitment

The Fund has a lease commitment for office space which expires November 30, 2014. Rent expense for the years ended December 31, 2010 and 2009 amounted to \$43,140 and \$41,806, respectively. The future minimum annual rental payments required under the operating lease as of December 31, 2010 are as follows:

| | |
|------|-------------------|
| 2011 | \$ 35,186 |
| 2012 | 36,792 |
| 2013 | 36,946 |
| 2014 | <u>35,420</u> |
| | \$ <u>144,344</u> |

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

On June 16, 2009, the State of New York passed legislation under which the State of New York took over control of the New York City Off Track Betting Corporation (NYCOTB). On December 3, 2009, NYCOTB sought protection from its creditors with the filing of a petition for bankruptcy under Chapter Nine of the U.S. Bankruptcy Code in the Southern District of New York.

Under the terms of the filing, NYCOTB will be 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 NYCOTB at the time of the filing included six months of Handle and Breakage amounting to \$2,216,780.

NYCOTB accounted for \$3,025,026 and \$4,216,412 or 31% and 38% of the total Handle and Breakage revenue reported by the Fund for the years ended December 31, 2010 and 2009, respectively.

The Fund had classified the balance due from NYCOTB and the awards payable liability associated with that receivable as long-term at December 31, 2009. In January 2011, NYCOTB ceased operations. As a result, the long-term receivable and liability were written off.

TOSKI, SCHAEFER & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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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 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, 2010, and have issued our report thereon dated March 31, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.

We noted certain matters that we reported to management of the Fund in a separate letter dated March 31, 2011.

This report is intended solely for the information and use of the board of directors, management and officials of the State of New York and is not intended to be and should not be used by anyone other than these specified parties.

Toski, Schaefer & Co., P.C.

Williamsville, New York
March 31, 2011

TOSKI, SCHAEFER & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT ON INVESTMENT COMPLIANCE

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

We have examined the New York State Thoroughbred Breeding and Development Fund Corporation's, a component unit of the State of New York (the Fund), compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York during the year ended December 31, 2010. Management is responsible for the Fund's compliance with those requirements. Our responsibility is to express an opinion on the Fund's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Fund's compliance with specified requirements.

In our opinion, the Fund complied, in all material respects, with the aforementioned requirements during the year ended December 31, 2010.

In accordance with Government Auditing Standards, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to 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 and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Fund complied with the aforementioned requirements and not for the purpose of expressing an opinion on the internal control over compliance with those requirements or other matters; accordingly, we express no such opinion. The results of our tests disclosed no matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Fund, the Board of Directors of the New York State Thoroughbred Breeding and Development Fund Corporation, management of the Fund, the New York State Legislature, the New York State Office of the State Comptroller, the New York State Senate, the New York State Division of the Budget, and the New York State Fund Budget Office and is not intended to be and should not be used by anyone other than those specified parties.

Toski, Schaefer & Co., P.C.

Williamsville, New York
March 31, 2011