

**NEW YORK STATE THOROUGHBRED BREEDING
AND DEVELOPMENT FUND CORPORATION
(A Component Unit of the State of New York)
FINANCIAL REPORT
DECEMBER 31, 2016**

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

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INDEPENDENT AUDITOR'S REPORT

To the Members
New York State Thoroughbred Breeding and Development Fund

Report on the Financial Statements

We have audited the accompanying financial statements of the New York State Thoroughbred Breeding and Development Fund's (the Fund), a component unit of the State of New York, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility

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 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 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 entity'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 entity'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, 2016, 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.

Prior Period Financial Statements

The financial statements of the New York State Thoroughbred Breeding and Development Fund as of December 31, 2015, were audited by other auditors whose report dated March 16, 2016, expressed an unmodified opinion on those financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 5 and the schedule of funding progress for the retiree health plan, schedules of proportionate share of the net pension liability (asset), and the schedules of Fund contributions on pages 27-29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2017, on our consideration of New York State Thoroughbred Breeding and Development 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* in considering the New York State Thoroughbred Breeding and Development Fund's internal control over financial reporting and compliance.

Marvin and Company, P.C.

Latham, NY
March 21, 2017

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, 2016 and 2015

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, 2016 and 2015.

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 of 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

In 2016, the Fund authorized an increase of approximately \$2.5 million in purse enrichment payments to be used to enhance NY-bred restricted races at NYRA and Finger Lakes race tracks due to increased revenues. In 2015 and 2014, the increased revenue was used to make supplemental award payments of approximately \$1.9 million and \$2.5 million, respectively. The additional purse enrichment for 2016 has been withheld for payout pending determination of final year-end revenue numbers.

Cash and equivalents are comparable to 2015. The increase of \$117,513 in other assets is attributed to the capitalization of costs for our award-system software re-write. Increases to pension-related accounts are due to changes in the Fund's proportionate share of pension costs as determined by actuarial valuation provided by the NYS and Local Retirement System.

By statute, the Fund pays the Harry M. Zweig Memorial Fund of Cornell University 2% of its operating revenues to fund equine research. The amount payable to Cornell University for 2016 is approximately \$433,000, which is comparable to the amount paid for 2015.

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 to the regional off-track betting corporations.

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The following table summarizes the Fund's net position for 2016 and 2015:

Assets:	<u>2016</u>	<u>2015</u>
Cash and equivalents	\$6,021,711	\$6,026,449
Receivables	1,171,109	1,111,847
Other assets	<u>272,374</u>	<u>154,861</u>
Total assets	<u>7,465,194</u>	<u>7,293,157</u>
Deferred outflows of resources - pensions	<u>282,448</u>	<u>99,192</u>
Liabilities:		
Accounts payable and accrued expenses	238,435	210,027
Awards payable	2,060,242	4,470,842
Awards payable reserve, current	1,513,627	1,552,820
Payable to Harry M. Zweig Memorial Fund	432,946	439,108
Purse enrichments payable	2,541,699	6,732
Postemployment benefits	635,646	593,187
Net pension liability - proportionate share	<u>216,871</u>	<u>34,673</u>
Total liabilities	<u>7,639,466</u>	<u>7,307,389</u>
Deferred inflows of resources - pensions	<u>33,176</u>	<u>9,960</u>
Net position	<u>\$ 75,000</u>	<u>\$ 75,000</u>

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 approximately 28% and 29% of revenue in 2016 and 2015, respectively, while breakage totaled 2% of revenue in both years.

In 2004, the Fund obtained an additional contractual source of revenue from Video Lottery Terminals (VLTs) at Finger Lakes Gaming and Racetrack (FLGR), which provided approximately 7% and 8% of total revenue for 2016 and 2015, respectively. Further significantly enhancing Fund revenues, Resorts World Casino New York City began operation of VLTs at Aqueduct Racetrack in late 2011. Statutory revenue received from this operation was approximately \$12 million in 2016 and 2015, or 57% of total revenue in both years.

Effective January 1, 2014, legislation provided for the Fund to receive additional revenues from Advanced Deposit Wagering (ADW) sources. Total ADW revenue accounted for 4% of total Fund revenue in 2016 and 2015.

Total 2016 operating revenues of approximately \$22 million were comparable to 2015 and 2014 revenues. Due to the increase in revenues beginning in 2014, the Fund has been able to significantly increase breeder, stallion and owner award payouts and purse enrichments. As a result, award and purse enrichment expenses were \$19.2 million, \$19.6 million and \$20 million in 2016, 2015 and 2014, respectively, compared to \$17.5 million in 2013.

NEW YORK STATE THOROUGHBRED BREEDING
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December 31, 2016 and 2015

The following table summarizes the Fund's operating income for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Operating revenue:		
Handle revenue	\$ 6,025,242	\$ 6,258,188
ADW revenue	863,223	858,982
Breakage revenue	469,013	497,307
VLT commission	14,158,259	14,169,737
Other income	131,550	171,200
	<u>21,647,287</u>	<u>21,955,414</u>
Total operating revenue		
Operating expenses:		
Awards	15,081,119	17,460,376
Purse enrichments	4,150,335	2,126,683
Promotion	1,239,973	1,224,137
Administration	773,788	655,042
Harry M. Zweig Memorial Fund	432,946	439,108
Bad debt - Suffolk OTB	-	-
	<u>21,678,161</u>	<u>21,905,346</u>
Total operating expenses		
Operating income (loss)	(30,874)	50,068
Nonoperating revenue - interest income	<u>30,874</u>	<u>1,630</u>
Change in net assets	-	51,698
Net position at beginning of year	<u>75,000</u>	<u>23,302</u>
Net position at end of year	<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 1 Broadway Center, Suite 601, Schenectady, New York 12305.

**NEW YORK STATE THOROUGHBRED BREEDING
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(A Component Unit of the State of New York)
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and equivalents	\$ 6,021,711	\$ 6,026,449
Receivables	1,171,109	1,111,847
Prepaid expenses	<u>34,497</u>	<u>15,377</u>
Total current assets	<u>7,227,317</u>	<u>7,153,673</u>
Property and equipment, at cost:		
Office furniture and equipment	28,072	37,294
Vehicles	43,564	43,564
Software and website	128,700	-
Software - work-in-process	<u>111,175</u>	<u>123,900</u>
	311,511	204,758
Less accumulated depreciation	<u>(73,634)</u>	<u>(65,274)</u>
Net property and equipment	<u>237,877</u>	<u>139,484</u>
Total assets	<u>7,465,194</u>	<u>7,293,157</u>
Deferred outflow of resources - pension	<u>282,448</u>	<u>99,192</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 7,747,642</u>	<u>\$ 7,392,349</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current liabilities:		
Accounts payable and accrued expenses	\$ 238,435	\$ 210,027
Awards payable	2,060,242	4,470,842
Awards payable reserve	1,513,627	1,552,820
Payable to Harry M. Zweig Memorial Fund	432,946	439,108
Purse enrichments payable	<u>2,541,699</u>	<u>6,732</u>
Total current liabilities	<u>6,786,949</u>	<u>6,679,529</u>
Long-term liabilities:		
Postemployment benefits payable	635,646	593,187
Net pension liability - proportionate share	<u>216,871</u>	<u>34,673</u>
Total liabilities	<u>7,639,466</u>	<u>7,307,389</u>
Deferred inflow of resources - pension	<u>33,176</u>	<u>9,960</u>
Net position:		
Net investment in capital assets	237,877	139,484
Restricted - expendable	<u>(162,877)</u>	<u>(64,484)</u>
Total net position	<u>75,000</u>	<u>75,000</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 7,747,642</u>	<u>\$ 7,392,349</u>

See accompanying notes to financial statements.

**NEW YORK STATE THOROUGHBRED BREEDING
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STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating revenue:		
Handle revenue	\$ 6,025,242	\$ 6,258,188
Advance Deposit Wagering revenue	863,223	858,982
Breakage revenue	469,013	497,307
VLT commission revenue	14,158,259	14,169,737
Registration and web advertising fees revenue	<u>131,550</u>	<u>171,200</u>
Total operating revenue	<u>21,647,287</u>	<u>21,955,414</u>
Operating expenses:		
Breeder awards	10,717,922	12,406,050
Stallion awards	2,658,877	3,020,302
Owner awards	1,704,320	2,034,024
FLRA breakage	113,785	126,683
Purse enrichment	4,036,550	2,000,000
Promotion	1,239,973	1,224,137
Administration	773,788	655,042
Harry M. Zweig Memorial Fund	<u>432,946</u>	<u>439,108</u>
Total operating expenses	<u>21,678,161</u>	<u>21,905,346</u>
Operating income (loss)	(30,874)	50,068
Nonoperating revenue - interest income	<u>30,874</u>	<u>1,630</u>
Change in net position	-	51,698
Net position at beginning of year	<u>75,000</u>	<u>23,302</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Receipts from operations	\$ 21,588,025	\$ 21,987,765
Payments for awards and purses	(19,146,280)	(19,729,779)
Payments to Harry M. Zweig Memorial Fund	(439,108)	(441,928)
Payments to employees	(370,365)	(504,470)
Payments to contractors and suppliers	<u>(1,550,845)</u>	<u>(1,352,569)</u>
Net cash provided by (used in) operating activities	81,427	(40,981)
Cash flows from capital and related financing activities - acquisition of property and equipment	(117,039)	(120,619)
Cash flows from investing activities - interest earned	<u>30,874</u>	<u>1,630</u>
Net change in cash and equivalents	(4,738)	(159,970)
Cash and equivalents at beginning of year	<u>6,026,449</u>	<u>6,186,419</u>
Cash and equivalents at end of year	<u>\$ 6,021,711</u>	<u>\$ 6,026,449</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (30,874)	\$ 50,068
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	18,647	11,650
Amortization of deferred inflows - pension (non-cash)	5,916	(2,490)
Net change in deferred outflows and inflows related to pensions (non-cash)	(165,956)	(92,060)
Changes in:		
Receivables	(59,261)	32,351
Prepaid expenses	(19,121)	14,589
Accounts payable and accrued expenses	28,408	66,959
Awards payable	(2,410,600)	(163,617)
Awards payable reserve	(39,193)	14,165
Purse enrichments payable	2,534,967	6,732
Harry M. Zweig Memorial Fund payable	(6,163)	(2,820)
Postemployment benefits payable	42,459	35,199
Pension liability	<u>182,198</u>	<u>(11,707)</u>
Net cash provided by (used in) operating activities	<u>\$ 81,427</u>	<u>\$ (40,981)</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, 2016 AND 2015**

(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.

For the year ended December 31, 2016, the Fund adopted:

- GASB Statement No. 72 - "Fair Value Measurement and Application" provides guidance regarding accounting and financial reporting related to fair value measures of certain investments. The requirements of this Statement are effective for periods beginning after June 15, 2015, which is the fiscal year beginning January 1, 2016 for the Fund. This Statement did not have a material impact on the financial statements of the Fund as the Fund currently has no investments.
- GASB Statement No. 73 - "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." This Statement, issued in June 2015, establishes requirements for defined benefit pension plans and defined contribution pension plans that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as requirements for the assets accumulated for purposes of providing those pensions. The requirements of this Statement for pensions that are not within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2016. Requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions as well as the requirements for pension plans within the scope of Statements 67 and 68 are effective for fiscal years beginning after June 15, 2015, which is the fiscal year beginning January 1, 2016. This Statement had no material impact on the financial statements of the Fund.
- GASB Statement No. 76 - "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments." This Statement, issued in June 2015, supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, and reduces the GAAP hierarchy to

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(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements for this Statement are effective for financial statements for periods beginning after June 15, 2015, which is the fiscal year beginning January 1, 2016 for the Fund. This Statement had no material impact on the financial statements of the Fund.

- GASB Statement No. 77 - "Tax Abatement Disclosures." This Statement, issued in August 2015, requires governments that enter into tax abatement agreements to disclose taxes abated, the gross amount of such taxes abated during the period and any other commitments made by the government other than to abate taxes, as a part of the abatement agreement. The requirements for this Statement are effective for financial statements for periods beginning after December 15, 2015, which is the fiscal year beginning January 1, 2016 for the Fund. This Statement had no material impact on the financial statements of the Fund.
- GASB Statement No. 78 - "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans." This Statement, issued in December 2015 amends GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The provisions of this Statement are effective for financial statements for years beginning after December 15, 2015, which is the fiscal year beginning January 1, 2016 for the Fund. This Statement had no material impact on the financial statements of the Fund.
- GASB Statement No. 79 - "Certain External Investment Pools and Pool Participants." This Statement, issued in December 2015, addresses the accounting and financial reporting for certain external investment pools and pool participants. It establishes the criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The provisions of this Statement are effective for financial statements for years beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. For the Fund, this statement

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(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

became effective for the fiscal year beginning January 1, 2016. This Statement had no material impact on the financial statements of the Fund.

(b) Assets, Liabilities and Net Position

- Receivables consist of handle, breakage, a percentage of Advanced Deposit Wagering (ADW), and a percentage of Video Lottery Terminal (VLT) revenue amounts which are reported at their outstanding unpaid principal balances. The Fund records revenues receivable at estimated fair value, net of an allowance based upon the estimated collectability. The allowance was \$130,275 for both 2016 and 2015.
- 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. Note 8 provides more information on the retirement plan.
- The Fund expenses advertising and promotion costs as incurred. Advertising costs for the years ended December 31, 2016 and 2015 amounted to \$359,787 and \$424,423, respectively. Promotion costs for the years ended December 31, 2016 and 2015 were \$880,186 and \$799,714, respectively.
- Other areas of assets, liabilities and net position are addressed throughout these footnotes.

(c) Deferred Outflows and Inflows of Resources

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

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

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NOTES TO FINANCIAL STATEMENTS
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(2) Summary of Significant Accounting Policies

(d) 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, deferred outflows of resources, liabilities, deferred inflows of resources 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) Reclassifications

Certain 2015 amounts have been reclassified to conform to the 2016 financial statement presentation.

(f) Property, Equipment and Depreciation

Property and equipment are reported at cost. Purchases and improvements over \$1,000 are capitalized. Maintenance and repairs are expensed as incurred. For assets placed in service, depreciation and amortization is calculated over estimated useful lives of between 3 -10 years using the straight-line method.

(g) Subsequent Events

The Fund has evaluated subsequent events through the date of the auditor's report which is the date the financial statements were available to be issued. There were no subsequent events requiring recording or disclosure.

(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, 2016 and 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.

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(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 Terminal (VLT) gaming devices at Finger Lakes Gaming 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 Gaming and Racetrack under a contractual agreement that expired March 31, 2015. Upon expiration of the contract, this revenue source continues by statute but is reduced to 1.25% of Net Win. 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, and to 1.5% in October 2013.
- **Effective October 15, 2016, Resorts World Casino – New York City (RW) entered into an agreement with Nassau OTB to host up to 1,000 VLT devices. Machines designating by RW to Nassau OTB will pay the Fund a reduced rate of .5% of Net Win up to 2013 revenue levels adjusted by the Consumer Price Index. At December 31, 2016, 460 machines were designated to Nassau OTB.**
- **ADW:** 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 ADW handle from New York State residents.

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:** 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%

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

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.

- 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 Gaming and Racetrack. In addition, 75% of in-state breakage revenue is to be provided to Finger Lakes Gaming and Racetrack for purse enrichment.
- Promotion: Up to 6% to advance and promote breeding and raising of thoroughbreds in New York. This cap will be decreased to 5% as of October 28, 2017.
- Administration: Up to 5% for the administration and management of the Fund. This cap will be decreased to 4% as of October 28, 2017.
- Equine research: An amount equal to 2% thereof for the promotion of equine research.
- At the end of any calendar year, any Fund net position 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>2016</u>	<u>2015</u>
Breeder awards	\$ 10,717,922	\$ 12,406,050
Stallion awards	2,658,877	3,020,302
Owner awards	1,704,320	2,034,024
FLRA breakage	113,785	126,683
Purse enrichment	<u>4,036,550</u>	<u>2,000,000</u>
	<u>\$ 19,231,454</u>	<u>\$ 19,587,059</u>

The awards payable reserve represents the retention of 10% of awards due as established in accordance with Fund policy. The reserve at December 31, 2016 was paid out in January 2017.

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(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, 2016 and 2015, the Fund maintained available funds in interest bearing checking accounts, since the rate of return was comparable to short-term Treasury bills.

(6) Property and Equipment

	<u>Balance 1/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2016</u>
Office furniture and equipment	\$ 37,294	\$ 1,064	\$ 10,286	\$ 28,072
Vehicles	43,564	-	-	43,564
Software and website	<u>-</u>	<u>128,700</u>	<u>-</u>	<u>128,700</u>
	80,858	129,764	10,286	200,336
Software - work-in-process	<u>123,900</u>	<u>106,475</u>	<u>119,200</u>	<u>111,175</u>
Total	204,758	236,239	129,486	311,511
Less accumulated depreciation/amortization	<u>65,274</u>	<u>18,646</u>	<u>10,286</u>	<u>73,634</u>
Net property and equipment	<u>\$139,484</u>	<u>\$ 217,593</u>	<u>\$ 119,200</u>	<u>\$ 237,877</u>
	<u>Balance 1/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2015</u>
Office furniture and equipment	\$ 55,657	\$ -	\$ 18,363	\$ 37,294
Vehicles	<u>47,047</u>	<u>17,020</u>	<u>20,503</u>	<u>43,564</u>
	102,704	17,020	38,866	80,858
Software - work-in-process	<u>20,300</u>	<u>103,600</u>	<u>-</u>	<u>123,900</u>
Total	123,004	120,620	38,866	204,758
Less accumulated depreciation/amortization	<u>92,489</u>	<u>11,651</u>	<u>38,866</u>	<u>65,274</u>
Net property and equipment	<u>\$ 30,515</u>	<u>\$ 108,969</u>	<u>\$ -</u>	<u>\$ 139,484</u>

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(7) Harry M. Zweig Memorial Fund

By law, 2% of operating revenue 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.

(8) Pension Plan

(a) Plan Descriptions and Benefits Provided

The Fund participates in the New York State and Local Employees' Retirement System (the System). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (NYSCRF), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the NYSCRF and is the administrative head of the System. Benefits are established under the provision of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Fund also participates in the Public Employees Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/inex.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, New York 12244.

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(8) Pension Plan

(a) Plan Descriptions and Benefits Provided

The System is noncontributory except for employees who joined after July 27, 1976, who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 and before April 1, 2012 who generally contribute 3.0 to 3.5 percent of their salary for their entire length of service. For employees joining on or after April 1, 2012, employee contribution rates under System tier VI vary based on a sliding salary scale. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31.

Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

	<u>ERS</u>
2016	\$ 61,234
2015	92,060
2014	37,768

(b) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

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

Date	3/31/2016	3/31/2015
Net pension liability	\$ 216,871	\$ 34,673
Fund's proportion of the Plan's net pension liability	0.0013512%	0.0010264%

At December 31, 2016 and 2015 the Fund's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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(8) Pension Plan

(b) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

	<u>2016</u>		<u>2015</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,096	\$ 25,706	\$ 1,110	\$ -
Change in assumptions	57,833	-	-	-
Net difference between projected and actual earnings on pension plan investments	128,660	-	6,022	-
Changes in proportion and differences between the Fund's contributions and proportionate share of contributions	33,625	7,470	-	9,960
Fund's contributions subsequent to the measurement date	<u>61,234</u>	<u>-</u>	<u>92,060</u>	<u>-</u>
Total	<u>\$ 282,448</u>	<u>\$ 33,176</u>	<u>\$ 99,192</u>	<u>\$ 9,960</u>

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

Year ended	<u>ERS</u>
2017	\$ 46,410
2018	46,410
2019	46,410
2020	48,808
2021	-

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(8) Pension Plan

(c) Actuarial Assumptions

The total pension liability as of the March 31 measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

Significant actuarial assumptions used in the valuations were as follows:

Measurement date	March 31, 2016	March 31, 2015
Actuarial valuation date	April 1, 2015	April 1, 2014
Investment return	7.0%	7.5%
Salary scale	3.8% Average	4.9% Average
Decrement tables	April 1, 2010 - March 31, 2015 ERS's Experience	April 1, 2005- March 31, 2010 ERS's Experience
Inflation rate	2.5%	2.7%

Annuitant mortality rates are based on April 1, 2010 - March 31, 2015 System's experience with adjustments for mortality improvements based on the Society of Actuaries Scale MP-2014 for the March 31, 2016 measurement date.

Annuitant mortality rates are based on April 1, 2005 - March 31, 2011 System's experience with adjustments for mortality improvements based on MP-2014 for the March 31, 2015 measurement date.

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

Measurement date	<u>Long-term Expected Real Rate of Return</u>		<u>Target Allocation</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Asset type:				
Domestic equity	7.30%	7.30%	38%	38%
International equity	8.55%	8.55%	13%	13%
Real estate	8.25%	8.25%	10%	10%
Private equity	11.00%	11.00%	8%	8%
Absolute return strategies	6.75%	6.75%	3%	3%

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(8) Pension Plan

(c) Actuarial Assumptions

Measurement date	Long-term Expected <u>Real Rate of Return</u>		<u>Target Allocation</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Opportunities portfolio	8.60%	8.60%	3%	3%
Real assets	8.65%	8.65%	3%	3%
Bonds and mortgages	4.00%	4.00%	18%	18%
Cash	2.25%	2.25%	2%	2%
Inflation - indexed bonds	4.00%	4.00%	2%	2%
Total			100%	100%

(d) Discount Rate

The discount rate used to calculate the total pension liability was 7.0% and 7.5% for the measurement date March 31, 2016 and 2015, respectively. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Fund's proportionate share of the net pension liability calculated using the discount rate of 7.0% and 7.5% for 2016 and 2015, as well as what the Fund's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0% and 6.5%) or 1-percentage point higher (8.0% and 8.5%) than the current rate:

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
December 31, 2016			
Employer's proportionate share of the net pension asset (liability)	\$ (489,029)	\$(216,871)	\$ 13,090

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(8) Pension Plan

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

	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
December 31, 2015			
Employer's proportionate share of the net pension asset (liability)	\$ (231,110)	\$ (34,673)	\$ 131,169

Changes of Assumptions

Changes of assumptions about future economic or demographic factors or other inputs are amortized over a closed period equal to the average of the expected service lives of all employees that are provided with pension benefits.

Collective Pension Expense

Collective pension expense includes certain current period changes in the collective net pension asset/(liability), projected earnings of pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the current period. The collective pension expense for 2016 and 2015 is \$83,393 and \$28,890, respectively.

(f) Pension Plan Fiduciary Net Position

The components of the current-year net pension asset/(liability) of all the participation System employers as of the March 31, 2016 and 2015 valuation dates, were as follows:

(Dollars in Millions)

Valuation date	<u>3/31/2016</u>	<u>3/31/2015</u>
Employers' total pension liability	\$(172,304)	\$ (164,592)
Plan net position	<u>156,253</u>	<u>161,213</u>
Employers' net pension asset/(liability)	\$ <u>(16,050)</u>	\$ <u>(3,379)</u>
Ratio of plan net position to the Employers' total pension asset/(liability)	90.7%	97.9%

(g) Contributions to the Pension Plan

Employer contributions are paid annually based on the System's fiscal year which ends on March 31st. Retirement contributions as of December 31, 2016 and 2015 represent the projected employer contribution for the period of April 1, 2016 through March 31, 2017 and April 1, 2015 through March 31, 2016, respectively based on paid System wages multiplied by the employer's contribution rate, by tier. These amounts have been recorded as deferred outflows of resources in the accompanying financial statements.

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(9) Postemployment Benefits Other Than Pensions

In addition to providing retirement benefits, 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 75% of costs for an individual policy and 35% of the difference between the cost of family and individual coverage. 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 reimburses retirees and their spouses for Medicare Part B premium costs.

The Fund has 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 schedule of funding progress on page 27 presents multiyear trend information that is useful in determining whether the actuarial value of plan assets is increasing or decreasing over time relative to the accrued actuarial liability. The projections of benefits are based upon the types of benefits provided under the substantive plan at the valuation date. The actuarial calculations reflect a long-term perspective: actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The number of participants as of January 1, 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Active employees	5	5
Retired employees	5	4
Spouses covered	<u>2</u>	<u>1</u>
Total	<u>12</u>	<u>10</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.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Annual OPEB Cost at December 31, 2016 and 2015 and 2014</u>			
Normal cost	\$ 37,811	\$ 32,781	\$ 32,781
Interest	<u>122</u>	<u>109</u>	<u>109</u>
Total normal cost	37,933	32,890	32,890
Amortization of unfunded actuarial accrued liability	<u>42,932</u>	<u>45,700</u>	<u>45,700</u>
Annual required contribution	80,865	78,590	78,590
Interest on net OPEB obligation	23,727	19,655	19,655
Adjustment to annual required contribution	<u>(25,624)</u>	<u>(28,417)</u>	<u>(28,417)</u>
Total annual OPEB cost	<u>\$ 78,968</u>	<u>\$ 69,828</u>	<u>\$ 69,828</u>

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(9) Postemployment Benefits Other Than Pensions

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Reconciliation of net OPEB obligation at December 31</u>			
<u>2016 and 2015 and 2014</u>			
Net OPEB obligation at beginning of year	\$593,187	\$557,988	\$524,687
Annual OPEB cost	78,968	69,828	69,828
Contributions	<u>(36,509)</u>	<u>(34,629)</u>	<u>(36,527)</u>
Total net OPEB obligation	<u>\$635,646</u>	<u>\$593,187</u>	<u>\$557,988</u>
Percentage of Annual OPEB Cost Contributed	46.23%	49.59%	52.31%

Funded Status

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarial Accrued Liability as of			
Beginning of year	\$ 1,008,113	\$ 819,118	\$ 819,118
Plan Assets, end of year	<u>-</u>	<u>-</u>	<u>-</u>
Unfunded Actuarial Accrued Liability	<u>\$ 1,008,113</u>	<u>\$ 819,115</u>	<u>\$ 819,118</u>

Percentage of Funded Accrued Liability	0%	0%	0%
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Actuarial methods and assumptions - The valuation of the postemployment healthcare benefit obligation 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. The method used is the Entry Age Normal Method.

Projections assume a closed group population (i.e. no new hires), pay-as-you-go contributions and a 4% annual rate of return for both 2016 and 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. Some of the more significant assumptions used in the calculation are as follows:

	<u>2016</u>	<u>2015</u>
Funding interest rate	4.0%	4.0%
Initial Medical Trend rate	5.2%	5.7%
Ultimate Medical Trend rate	3.8%	4.2%

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(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 in the Eastern District of New York under Chapter Nine of the U.S. Bankruptcy Code. In October 2014, the Suffolk OTB received court approval on a plan of repayment. The repayment is contingent on several factors and the date repayment will begin remains uncertain.

Under the terms of the original 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 to the Fund from the OTB at the time of the filing included Handle and Breakage totaling \$56,243 and \$74,031 for 2012 and 2011, respectively. Although protected by Schedule F - Creditors Holding Unsecured Non-priority Claims in the 2012 filing, the Fund fully allowed for the non-collectability of these amounts in its 2012 financial statements.

Suffolk OTB accounted for \$424,236 and \$489,350 or approximately 2% and 2.2% of the total operating revenue reported by the Fund for the years ended December 31, 2016 and 2015, 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 anticipated that this reorganization will not significantly impact the Fund's mission or revenue sources. In response, the Fund relocated its operations to the New York State Gaming Commission building in Schenectady, New York, during December 2012.

In August 2015, the Board approval a Shared Services Agreement with the New York State Gaming Commission, which is currently awaiting approval by the State Comptroller. The agreement, which has a ten year term, is effective as of January 1, 2014 and includes fees for office space, utilities, and use of Gaming Commission employees. Estimated occupancy expenditures for the years ended December 31, 2016 and 2015 were \$28,560 and \$47,443, respectively and are included in the accounts payable and accrued expenses on the statement of net position.

(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.

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(13) Accounting Standards Issued But Not Yet Implemented

- GASB Statement No. 74 - “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.” This Statement, issued in June 2015, replaces existing standards of accounting and financial reporting for postemployment benefit plans other than pension plans and also replaces existing requirements for defined contribution OPEB plans. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2016, which is the fiscal year beginning January 1, 2017 for the Fund. This Statement is not expected to have a material effect on the financial statements of the Fund.
- GASB Statement No. 75 - “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.” This Statement, issued in June 2015, 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 is effective for fiscal years beginning after June 15, 2017, which is the fiscal year beginning January 1, 2018 for the Fund. The effects of this Statement on the financial statements of the Fund are not presently determinable.
- GASB Statement No. 80 - "Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14." This Statement, issued in January 2016, amends the blending requirements for the financial statement presentation of component units of all state and local governments. It requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The provisions of this Statement are effective for financial statements for years beginning after June 15, 2016, which is the fiscal year beginning January 1, 2017 for the Fund. This Statement is not expected to have a material effect on the financial statements of the Fund
- GASB Statement No. 81 - “Irrevocable Split-Interest Agreements”. This Statement, issued in March 2016, improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this Statement are effective for financial statements for fiscal years beginning after December 15, 2016, which is the fiscal year beginning January 1, 2017 for the Fund. This Statement is not expected to have a material effect on the financial statements of the Fund.

**NEW YORK STATE THOROUGHBRED BREEDING
AND DEVELOPMENT FUND CORPORATION
A COMPONENT UNIT OF THE STATE OF NEW YORK)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

(13) Accounting Standards Issued But Not Yet Implemented

- GASB Statement No. 82 – “Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73”. This Statement, issued in March 2016, addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2016, which is the fiscal year beginning January 1, 2017 for the Fund, except for the requirements of paragraph 7 in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, which is the fiscal year beginning January 1, 2018 for the Fund. The effects of this Statement on the financial statements of the Fund are not presently determinable.
- GASB Statement No. 83 – “Certain Asset Retirement Obligations”. This Statement, issued in November 2016, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2018, which is the fiscal year beginning January 1, 2019 for the Fund. The effects of this Statement on the financial statements of the Fund are not presently determinable.
- GASB Statement No. 84 – “Fiduciary Activities”. This Statement, issued in January 2017, is to provide guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions of this Statement are effective for financial statements for fiscal years beginning after December 15, 2018, which is the fiscal year beginning January 1, 2019 for the Fund. The effects of this Statement on the financial statements of the Fund are not presently determinable.

**NEW YORK STATE THOROUGHBRED BREEDING
AND DEVELOPMENT FUND CORPORATION
(A Component Unit of the State of New York)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016**

Actuarial Valuation date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/1/2016	\$ -	\$ 1,008,113	\$ 1,008,113	0%	\$ 427,718	235.70%
11/30/2013	-	819,118	819,118	0%	346,427	236.45%
1/1/2011	-	768,278	768,278	0%	Unknown	Unknown

Note: The actuary provides this data for full valuation years not update years, Also the data for covered payroll for the first valuation is unknown and therefore unable to be included in the table above.

**NEW YORK STATE THOROUGHBRED BREEDING
AND DEVELOPMENT FUND CORPORATION
(A Component Unit of the State of New York)
SCHEDULES OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY (ASSET)
LAST 10 FISCAL YEARS
FOR THE YEAR ENDED DECEMBER 31, 2016**

ERS Pension Plan

	<u>2016</u>	<u>2015</u>
Fund's proportion of the net pension liability (asset)	0.0013512%	0.0010264%
Fund's proportionate share of the net pension liability (asset)	\$ 216,871	\$ 34,673
Fund's covered payroll	\$ 426,747	\$ 413,358
Fund's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	50.82%	8.39%
Plan fiduciary net position as a percentage of the total pension liability	90.7%	97.9%

* The amounts presented for each fiscal year were determined as of the March 31, 2016 and 2015 measurement dates of the plan.

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled this presentation will only include information for those years for which information is available.

**NEW YORK STATE THOROUGHBRED BREEDING
AND DEVELOPMENT FUND CORPORATION
(A Component Unit of the State of New York)
SCHEDULES OF FUND CONTRIBUTIONS
LAST 10 FISCAL YEARS
FOR THE YEAR ENDED DECEMBER 31, 2016**

ERS PENSION PLAN

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 61,234	\$ 92,060	\$ 37,768	\$ 48,034	-
Contributions in relation to the contractually required contribution	<u>61,234</u>	<u>92,060</u>	<u>37,768</u>	<u>48,034</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Fund's covered employee payroll	\$ 426,747	\$ 413,358	\$ 312,882	\$ 364,265	
Contributions as a percentage of covered employee payroll	14.35%	22.27%	12.07%	13.19%	N/A

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled this presentation will only include information for those years for which information is available.

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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 PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Members
New York State Thoroughbred Breeding and Development Fund

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New York State Thoroughbred Breeding and Development Fund (the Fund), a component unit of the State of New York, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated March 21, 2017.

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 Funds'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 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 from 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 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.

Marvin and Company, P.C.

Latham, NY
March 21, 2017