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, 2013 and 2012

(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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TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
AN EFP ROTENBERG COMPANY

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the New York State Thoroughbred Breeding and Development Fund Corporation (the Fund), a component unit of the State of New York, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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, 2013 and 2012, and the changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the Schedule of Funding Progress for Other Postemployment Benefits (OPEB) on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Reports on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated March 21, 2014, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

In accordance with Government Auditing Standards, we have also issued our report dated March 21, 2014 on the Fund's compliance with Section 201.3 of Title Two if the Official Compilation of Codes, Rules and Regulations of the State of New York. The purpose of that report is to provide an opinion as to the Fund's compliance with investment guidelines contained therein. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Fund's internal control over financial reporting and compliance.

Toski & Co., CPAs, P.C.

Williamsville, New York
March 21, 2014

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, 2013 and 2012

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, 2013 and 2012.

Following this Management's Discussion and Analysis (MD&A) are the financial statements of the Fund together with the notes thereto. Please read the MD&A in conjunction with the Fund's financial statements and the accompanying notes in order to obtain a full understanding of the Fund's financial position and results of operations.

The Fund was created by an Act of the State of New York (the State), as more fully described in note 1 to the financial statements, and commenced operations in 1973. The Fund's mission statement is: "To promote by monetary incentives the responsible breeding of quality thoroughbred racehorses in keeping with the founding legislation to preserve New York's irreplaceable farmland."

OVERVIEW OF FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS OF THE FUND

Net Position

The following table summarizes the net position as of December 31, 2013, 2012 and 2011:

	2013	2012	2011
Assets:			
Cash and equivalents	$ 4,223,440	2,947,261	4,183,750
Receivables, current and long-term	1,283,142	1,076,791	1,080,476
Other assets	36,129	72,473	125,881
Total assets	5,542,711	4,096,525	5,390,107
Liabilities:			
Accounts payable and accrued expenses	117,595	94,482	171,480
Awards payable	2,844,788	2,024,458	2,288,407
Awards payable reserve, current	1,591,884	1,080,478	2,202,672
Payable to Harry M. Zweig Memorial Fund	388,757	330,721	218,762
Postemployment benefits	524,687	491,386	433,786
Total liabilities	5,467,711	4,021,525	5,315,107
Net position	$ 75,000	75,000	75,000

In 2013 and 2012, the Fund withheld 10% of awards pending final revenue numbers. In 2011, the Fund withheld 30%. The decrease in the percent withheld enabled the Fund to pay out a higher percentage of cash to awardees earlier than in 2011. At December 31, 2013, purse enrichments of approximately $408,000 were outstanding due to the timing of payments.

By statute, the Fund pays the Harry M. Zweig Memorial Fund of Cornell University 2% of Fund operating revenues to fund equine research. Due to the 54% increase in revenue in 2012, the amount payable to Cornell University increased $112 thousand in 2012 to $331 thousand. A 15% increase in revenues for 2013 caused the amount payable in 2013 to increase by approximately $58 thousand from 2012.

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

Operating Activities

Under founding statutes, the Fund receives revenue from on-track and off-track thoroughbred handle in New York and breakage from regional off-track betting wagers. Handle accounted for 34% of revenue in 2013, down from 42% in 2012, while breakage totaled 3% of revenue for both 2013 and 2012, respectively. In 2004, the Fund obtained an additional contractual source of revenue from Video Lottery Terminals (VLTs) at Finger Lakes Casino and Raceway (FLCR). Further significantly enhancing Fund revenues, the New York Racing Association (NYRA) began operation of VLTs at the Aqueduct racetrack's casino (Resorts World Casino New York City) in late 2011. VLT revenues from these sources accounted for 63% and 54% of total revenue for 2013 and 2012, respectively.

In 2011, Suffolk Off-track Betting Corporation filed a petition for bankruptcy. Suffolk accounted for approximately 2.2% and 2.7% of Fund's revenues in 2013 and 2012, respectively. At December 31, 2013, $130 thousand due the Fund is being withheld pending court resolution of the bankruptcy petition.

Due to the increase in revenues for 2012, the Fund was able to significantly increase breeder, stallion and owner awards payout rates for 2012. Revenues increased again in 2013 allowing the Fund to maintain the increased award payouts for 2013. These increased revenues allowed awards to increase from $8.6 million in 2011 to $12.9 million in 2012 and to $15.9 million in 2013. Purse enrichments were $820 thousand in 2011, $1.8 million in 2012 and $1.5 million in 2013.

The following table summarizes operating income for the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Operating revenue:			
Handle revenue	$ 6,549,453	7,078,953	7,533,679
Breakage revenue	532,398	564,363	601,999
VLT commission	12,192,002	9,023,015	2,792,363
Registration and advertising	161,699	-	-
Total operating revenue	19,435,552	16,666,331	10,928,041
Operating expenses:			
Awards and purses	17,513,730	14,918,489	9,535,564
Promotion	844,489	721,011	639,630
Administration	695,125	575,531	544,143
Harry M. Zweig Memorial Fund	388,757	330,721	218,762
Bad debt - Suffolk OTB	-	130,274	-
Total operating expenses	19,442,101	16,676,026	10,938,099
Operating loss	(6,549)	(9,695)	(10,058)
Nonoperating revenue - interest income	6,549	9,695	10,058
Change in net position	-	-	-
Net position at beginning of year	75,000	75,000	75,000
Net position at end of year	$ 75,000	75,000	75,000

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
AND DEVELOPMENT FUND CORPORATION
(A Component Unit of the State of New York)
Statements of Net Position
December 31, 2013 and 2012

Assets	2013	2012
Current assets:		
Cash and equivalents	$ 4,223,440	2,947,261
Receivables	1,283,142	1,076,791
Prepaid expenses	13,691	32,917
Total current assets	5,520,273	4,056,969
Property and equipment, at cost:		
Office furniture and equipment	55,657	62,602
Vehicles	47,047	55,969
	102,704	118,571
Less accumulated depreciation	(80,266)	(79,015)
Net property and equipment	22,438	39,556
Total assets	5,542,711	4,096,525
Liabilities and Net Position		
Current liabilities:		
Accounts payable and accrued expenses	117,595	94,482
Awards payable	2,844,788	2,024,458
Awards payable reserve	1,591,884	1,080,478
Payable to Harry M. Zweig Memorial Fund	388,757	330,721
Total current liabilities	4,943,024	3,530,139
Noncurrent liabilities - postemployment benefits payable	524,687	491,386
Total liabilities	5,467,711	4,021,525
Commitment (note 9)		
Net position:		
Net investment in capital assets	22,438	39,556
Restricted - expendable	52,562	35,444
Total net position	$ 75,000	75,000

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 Position
Years ended December 31, 2013 and 2012

	2013	2012
Operating revenue:		
Handle revenue	$ 6,549,453	7,078,953
Breakage revenue	532,398	564,363
VLT commission	12,192,002	9,023,015
Registration and web advertising fees	161,699	-
Total operating revenue	19,435,552	16,666,331
Operating expenses:		
Breeder awards	11,263,094	9,535,435
Stallion awards	2,789,603	2,209,223
Owner awards	1,791,964	1,205,956
FLRA breakage	135,623	151,208
Purse enrichment	1,533,446	1,816,667
Promotion	844,489	721,011
Administration	695,125	575,531
Harry M. Zweig Memorial Fund	388,757	330,721
Bad debt - Suffolk OTB	-	130,274
Total operating expenses	19,442,101	16,676,026
Operating loss	(6,549)	(9,695)
Nonoperating revenue - interest income	6,549	9,695
Change in net position	-	-
Net position at beginning of year	75,000	75,000
Net position at end of year	$ 75,000	75,000

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, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Receipts from operations	$ 19,229,201	16,618,213
Payments for awards and purses	(16,169,969)	(16,304,632)
Payments to Harry M. Zweig Memorial Fund	(330,721)	(218,762)
Payments to employees	(277,525)	(582,496)
Payments to contractors and suppliers	(1,181,356)	(730,253)
Net cash provided by (used in) operating activities	1,269,630	(1,217,930)
Cash flows from capital and related financing activities - acquisition of property and equipment	-	(28,254)
Cash flows from investing activities - interest earned	6,549	9,695
Net increase (decrease) in cash and equivalents	1,276,179	(1,236,489)
Cash and equivalents at beginning of year	2,947,261	4,183,750
Cash and equivalents at end of year	$ 4,223,440	2,947,261
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	(6,549)	(9,695)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	17,118	19,081
Loss on disposal of assets	-	14,122
Bad debts	-	130,274
Changes in:		
Receivables	(206,351)	(48,118)
Prepaid expenses	19,226	(30,012)
Accounts payable and accrued expenses	23,113	(76,998)
Awards payable	820,330	(263,949)
Awards payable reserve	511,406	(1,122,194)
Harry M. Zweig Memorial Fund payable	58,036	111,959
Postemployment benefits payable	33,301	57,600
Net cash provided by (used in) operating activities	$ 1,269,630	(1,217,930)

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, 2013 and 2012

(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 Sates of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles.

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

For the year ended December 31, 2012, the Fund adopted GASB Statement No. 63 - "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position." This statement amends the net asset reporting requirements in Statement No. 34 - "Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments" and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

For the year ended December 31, 2013, the Fund adopted GASB statement No. 65 "Items Previously Reported as Assets and Liabilities." This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets or liabilities.

(2) Summary of Significant Accounting Policies, Continued

(b) Assets, Liabilities and Net Position

- Revenue receivable consists of handle, breakage and a percentage of Video Lottery Terminals (VLT) revenue amounts and are reported at their outstanding unpaid principal balances. The Fund records revenue receivable at the estimated fair value, net of a reserve based upon the estimated collectibility.
- 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.
- The Fund expenses advertising and promotion costs as incurred. Advertising costs for the years ended December 31, 2013 and 2012 amounted to $340,866 and $95,792, respectively. Promotion costs for the years ended December 31, 2013 and 2012 were $503,603 and $625,219, respectively.

(c) Use of Estimates

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

(d) Subsequent Events

The Fund has evaluated events after December 31, 2013, and through March 21, 2014, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(3) Cash and Equivalents and Investments

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

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

(3) Cash and Equivalents and Investments, Continued

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, 2013 and 2012, 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 Position

New York State Racing, Pari-Mutuel Wagering and Breeding law (the Law), Section 254, provides for Fund revenues from New York on-track and off-track thoroughbred handle and breakage from regional off-track betting wagers as well as from Video Lottery Terminals (VLT) gaming devices at Finger Lakes Casino and Racetrack, and Resort World Casino New York City.

- Handle: Handle of one-half of one percent (.5%) of the regular, multiple, exotic and super exotic wagers are paid to the Fund. The Fund receives an additional two-tenths of 1% (.2%) of live racing handle only at New York Racing Association (NYRA) tracks. However, under Section 905(4) of the Law, when out-of-state track retention rates vary from New York State retention rates, entities are entitled to pro-rate the difference. This reduces the overall handle received by the Fund to less than .5%. "Special Event" races, which include the Kentucky Derby, the Preakness and the Breeder's Cup, generate handle of one-half of one percent (.5%), as specified in Section 904 of the Law, with NYRA paying an additional .2%.
- Breakage: Twenty percent of New York State off-track betting breakage from bets on harness races and fifty percent on all other races is paid to the Fund and to the Agriculture and New York State Horse Breeding Development Fund; the Fund receives one half of such payments.
- VLT: Since 2004, the Fund has received revenue from VLT devices at Finger Lakes Casino and Racetrack under a contractual agreement expiring in 2015. Upon expiration of the contract, this revenue source will continue by statute. In 2011, the Fund began to receive VLT device revenue from Resorts World Casino - New York City at the Aqueduct Racetrack at the rate of 1% of Net Win. This increased to 1.25% in October of 2012, and to 1.5% in October 2013.

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

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

- Awards: An amount as determined by the Fund but not in excess of: (a) 43% as awards to breeders of New York-breds finishing first, second, third and fourth in races, (b) 33% as awards to owners of New York-breds finishing first, second, third and fourth in open races, (c) 15% as awards to stallion owners, whose New York stallions have sired New York-breds finishing first, second, third and fourth in races. However, the Fund, with two-thirds vote of its Board of Directors, may increase these awards up to but not in excess of (a) 65% as awards to breeders, (b) 40% as awards to owners and (c) 20% as awards to stallion owners. On August 16, 2008 the Board approved a motion to limit the distribution of monies to first, second and third place finishing New York-breds effective September 1, 2008.
- Purse: An amount as determined by the Fund but not in excess of 44% to provide purse moneys for races exclusively for New York-breds, of which 40% is to be paid to a franchised corporation (NYRA) and 60% to Finger Lakes Casino and Racetrack. In addition, 75% of in-state breakage revenue is to be provided to Finger Lakes Casino and Racetrack for purse enrichment.
- Promotion: Up to 6% to advance and promote breeding and raising of thoroughbreds in New York. This cap will be decreased to 5% as of October 18, 2014.
- Administration: Up to 5% for the administration and management of the Fund. This cap will be decreased to 4% as of October 18, 2014.
- Equine research: An amount equal to 2% thereof for the promotion of equine research.
- At the end of any calendar year, any Fund moneys on hand in excess of $75,000 shall be remitted to and vested in the State or the contributing Off-Track Betting Corporations.

Distribution of awards and purses is as follows:

	2013	2012
Breeder awards	$ 11,263,094	9,535,435
Stallion awards	2,789,603	2,209,223
Owner awards	1,791,964	1,205,956
FLRA breakage	135,623	151,208
Purse enrichment	1,533,446	1,816,667
	$ 17,513,730	14,918,489

The awards payable reserve represents the retention of 10% of awards due as established in accordance with Fund policy. This reserve is paid out subsequent to year end.

(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, 2013 and 2012, 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 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.

(7) Pension Plan

(a) Plan Description

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

(b) Funding Policy

The System is noncontributory except for employees who joined the ERS after July 27, 1976 and prior to January 1, 2010, who have less than ten years of service or membership, are required to contribute 3% of their salary throughout their active membership. Employees who joined on or after January 1, 2010 and before April 1, 2012 are required to contribute 3.5% throughout their active membership. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, dependent upon their salary, for their entire working career. Additionally, members who meet certain eligibility requirements will receive one month additional service credit for each completed year of service up to a maximum of two additional years of service credit.

(7) Pension Plan, Continued

(b) Funding Policy, Continued

Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by 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, 2013 is based on covered payroll with rates ranging from 16.7% to 20.8%. The required contributions for the current and preceding two years were:

Year	Contribution
2013	$ 48,034
2012	65,750
2011	129,058

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

(8) 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 25% co-pay. The Fund's policy has been to account for and fund these benefits on a pay-as-you-go-basis.

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.

(8) Postemployment Benefits Other Than Pensions, Continued

The schedule of funding progress on page 19 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, 2013 and 2012 was as follows:

	2013	2012
Active employees	5	7
Retired employees	4	5
Spouses covered	1	-
Total	10	12

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.

	2013	2012
Annual OPEB Cost at December 31, 2013 and 2012		
Normal cost	$ 52,436	57,012
Interest	109	3,710
Total normal cost	52,545	60,722
Amortization of unfunded actuarial accrued liability	45,700	41,595
Annual required contribution	98,245	102,317
Adjustment to annual required contribution	(28,417)	-
Total annual OPEB cost	$ 69,828	102,317
Reconciliation of net OPEB obligation at December 31, 2013 and 2012		
Net OPEB obligation at beginning of year	$ 491,386	433,786
Annual OPEB cost	69,828	102,317
Contributions	(36,527)	(44,717)
Net OPEB obligation at end of year	$ 524,687	491,386

(8) Postemployment Benefits Other Than Pensions, Continued

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

Projections assume a closed group population (i.e. no new hires), pay-as-you-go contributions and a 4% and 3.763% annual rate of investment return for 2013 and 2012, respectively. 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, 24 years of which remain at December 31, 2013. Some of the more significant assumptions used in the calculation are as follows:

	2013	2012
Funding interest rate	4.0%	3.763%
Trend rate	5.7%	10%
Ultimate trend rate	4.2%	5%
Year ultimate trend rate rendered	2015/2015	2015/2015
The remaining amortization period	24 years	25 years

(9) Commitment

The Fund had a lease commitment for office space which was to expire on November 30, 2014. This lease was terminated as of December 31, 2012, without penalty or future commitment. Rent expense for this lease for the year ended December 31, 2012 totaled $36,792. There was no rent expense for this lease for 2013.

(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.

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

Under the terms of the filing, Suffolk OTB was able to delay payment on debts owed as of the filing date while continuing to make payments on all debts incurred from that date forward. Amounts due and owing the Fund from the OTB at the time of the filing 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 $528,360 and $546,662 or 2.7% and 3.3% of the total Handle and Breakage revenue reported by the Fund for the years ended December 31, 2013 and 2012, 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 impact the Fund's mission or revenue sources. In response to this pending legislation, the Fund relocated its operations to the New York State Gaming Commission building in Schenectady, New York, during December 2012.

(12) Legal Proceedings and Claims

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

(13) Accounting Standards Issued But Not Yet Implemented

- GASB Statement No. 67 - "Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25" replaces existing standards for financial reporting and note disclosure for most pension plans that are administered through trusts or equivalent arrangements. The statement specifies the required approach for measuring the pension liability of all employers and nonemployer contributing entities participating in a pension plan and details required note disclosures for financial reporting. The requirements of this statement are effective for periods beginning after June 15, 2013, which is the fiscal year beginning January 1, 2014 for the Fund. This statement is being evaluated for its effect on the financial statements of the Fund.

(13) Accounting Standards Issued But Not Yet Implemented, Continued

- GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date" replaces existing standards of accounting and financial reporting for pension plans that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The statements establish standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources, and expense/expenditures. The requirements of these statements are effective for periods beginning after June 15, 2014, which is the fiscal year beginning January 1, 2015 for the Fund. These statements are being evaluated for their effect on the financial statements of the Fund.
- GASB Statement No. 69 - "Government Combinations and Disposals of Government Operations" establishes accounting and financial reporting standards for government mergers, acquisitions and disposals. The statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effect of those transactions. The requirements of this statement are effective for periods beginning after December 15, 2013, which is the fiscal year beginning January 1, 2014 for the Fund. This statement is not expected to have a material effect on the financial statements of the Fund.
- GASB Statement No. 70 - "Accounting and Financial Reporting for Nonexchange Financial Guarantees" improves the accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The statement also requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The requirements of this statement are effective for periods beginning after June 15, 2013, which is the fiscal year beginning January 1, 2014 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)
Required Supplementary Information
Schedule of Funding Progress for Other Postemployment Benefits (OPEB)

Actuarial Valuation date	Actuarial Value of assets	Accrued liability	Unfunded liability	Funded ratio	Covered payroll	Unfunded liability as a percentage of covered payroll
1/1/2013	$ -	819,118	819,118	0%	N/A	N/A
1/1/2012	-	766,278	766,278	0%	N/A	N/A
1/1/2011	-	766,278	766,278	0%	N/A	N/A

TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
AN EFP ROTENBERG COMPANY

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the New York State Thoroughbred Breeding and Development Fund Corporation (the Fund), as of and for the year ended December 31, 2013, 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, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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

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

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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.

Toski & Co., CPAs, P.C.

Williamsville, New York
March 21, 2014

INDEPENDENT ACCOUNTANTS' REPORT ON INVESTMENT PROGRAM COMPLIANCE

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

Report on Investment Program Compliance

We have audited the New York State Thoroughbred Breeding and Development Fund Corporation's (the Fund) compliance with the types of compliance requirements described in the Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York related to its investment program during the year ended December 31, 2013.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Investment Program

In our opinion, the Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its investment program for the year ended December 31, 2013.

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Report on Internal Control Over Compliance

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

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

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

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

Toski & Co., CPAs, P.C.

Williamsville, New York
March 21, 2014