

**NEW YORK STATE THOROUGHBRED BREEDING  
AND DEVELOPMENT FUND CORPORATION  
(A Component Unit of the State of New York)  
FINANCIAL REPORT  
DECEMBER 31, 2018**

**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 (the Fund), a component unit of the State of New York, as of and for the years ended December 31, 2018 and 2017, 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 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, 2018 and 2017, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Change in Accounting Principle**

As described in Note 9 to the financial statements, the Fund changed its method of accounting for Postemployment Benefits Other than Pensions in 2018 as required by the provisions of GASB Statement Number 75. Our opinion is not modified with respect to that matter.

## **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 under GASB No. 45, schedules of proportionate share of the net pension liability (asset), the schedules of Fund contributions, and the schedule of total OPEB liability under GASB No. 75 on pages 31-34 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 26, 2019, 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 26, 2019

NEW YORK STATE THOROUGHBRED BREEDING  
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Management's Discussion and Analysis  
December 31, 2018 and 2017

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, 2018 and 2017.

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

Cash and equivalents increased by \$312,787 in 2018 as compared to 2017. The increase is attributed to a \$402,978 increase in the VLT recapture revenue recognized in 2018 of \$552,836 as compared to \$149,858 in 2017. The VLT recapture revenue allows the Fund to maintain 2013 Resort World VLT revenue levels, adjusted for inflation.

In 2018, the Fund adopted GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB. The adoption of this Statement resulted in a restatement of January 1, 2018 net position and the recognition of deferred outflows of resources, deferred inflows of resources and an adjustment of the Fund's share of OPEB liability.

By statute, the Fund pays the Harry M. Zweig Memorial Fund of Cornell University 2% of its operating revenues to fund equine research. The Fund's 2018 revenues increased slightly over 2017 amounts. The amount payable to Cornell University for 2018 is \$390,689, an increase of \$1,290 from the 2017 contribution.

In accordance with the Racing Pari-mutuel Wagering and Breeding 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 2018 and 2017:

Assets:	<u>2018</u>	<u>2017</u>
Cash and equivalents	\$5,706,262	\$5,393,475
Receivables, net	1,219,006	1,173,025
Other assets	<u>208,076</u>	<u>254,547</u>
Total assets	<u>\$7,133,344</u>	<u>\$6,821,047</u>
Deferred outflows of resources - pensions/OPEB	<u>\$ 201,770</u>	<u>\$ 164,118</u>
Total Assets and Deferred Outflow of Resources	<u><u>\$7,335,114</u></u>	<u><u>\$6,985,165</u></u>
Liabilities:		
Accounts payable and accrued expenses	\$ 313,895	\$ 336,918
Awards payable	2,247,155	2,150,003
Awards payable reserve, current	1,509,892	1,509,101
Payable to Harry M. Zweig Memorial Fund	390,689	389,399
Purse enrichments payable	211,188	525,492
VLT payable - NY Gaming Commission	1,242,949	1,179,689
Postemployment benefits (OPEB) liability	1,027,973	672,118
Net pension liability - proportionate share	<u>39,274</u>	<u>122,272</u>
Total liabilities	<u>\$6,983,015</u>	<u>\$6,884,992</u>
Deferred inflows of resources - pensions/OPEB	<u>\$ 289,876</u>	<u>\$ 25,173</u>
Net position	<u>\$ 62,223</u>	<u>\$ 75,000</u>
Total Liabilities, Deferred Inflows and Net Position	<u><u>\$7,335,114</u></u>	<u><u>\$6,985,165</u></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 29% and 30% of revenue in 2018 and 2017, respectively, while breakage is 2% of total operating revenue for both years.

The Fund obtained an additional contractual source of revenue from VLTs at Finger Lakes Gaming and Racetrack beginning in 2004, which provided approximately 7% of total operating revenue for both 2018 and 2017. Further 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 is approximately \$10.4 million in 2018 and \$10.5 million in 2017 or 53% and 54% of total operating revenue, respectively. Furthermore, the VLT recapture noted earlier resulted in a 63% combined percentage from all VLT revenue sources in 2018 versus 62% in 2017.

Effective January 1, 2014, legislation provided for the Fund to receive additional revenues from Advanced Deposit Wagering (ADW) sources. Total ADW revenue accounted for 5% of the Fund's total operating revenue in both 2018 and 2017.

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Total 2018 operating revenues of approximately \$19.5 million is comparable to 2017. The Fund was able to pay 100% of all breeder, stallion, and owner awards earned in 2018. All remaining revenue was applied against the January 1, 2018 restatement of net position resulting from a change in governmental accounting standards (GASB 75).

The following table summarizes the Fund's operating income for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Operating revenue:		
Handle revenue	\$ 5,683,164	\$ 5,925,135
ADW revenue	1,015,302	929,863
Breakage revenue	443,996	446,737
VLT commission	12,247,476	12,025,220
Other income	144,500	143,000
	<u>\$ 19,534,438</u>	<u>\$ 19,469,955</u>
Operating expenses:		
Awards	\$ 15,019,597	\$ 15,078,741
Purse enrichments	1,797,166	2,124,753
Promotion	1,092,667	1,168,787
Administration	640,792	737,364
Harry M. Zweig Memorial Fund	390,689	389,399
Bad debt expense	55,290	-
	<u>\$ 18,996,201</u>	<u>\$ 19,499,044</u>
Operating income (loss)	\$ 538,237	\$ (29,089)
Nonoperating revenue - interest income	<u>30,300</u>	<u>29,089</u>
Change in net assets	\$ 568,537	\$ -
Net position at beginning of year	<u>75,000</u>	<u>75,000</u>
Cumulative effect of change in accounting principle	<u>(581,314)</u>	<u>-</u>
Net position at end of year	<u>\$ 62,223</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 – 1<sup>st</sup> floor, Schenectady, New York 12305.

**NEW YORK STATE THOROUGHBRED BREEDING  
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**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2018 AND 2017**

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and equivalents	\$ 5,706,262	\$ 5,393,475
Receivables, net	1,219,006	1,173,025
Prepaid expenses	6,543	22,452
Total current assets	<u>6,931,811</u>	<u>6,588,952</u>
Property and equipment, at cost:		
Office furniture and equipment	25,106	25,106
Vehicles	43,564	43,564
Software and website	260,550	257,350
	<u>329,220</u>	<u>326,020</u>
Less accumulated depreciation	<u>(127,687)</u>	<u>(93,925)</u>
Net property and equipment	<u>201,533</u>	<u>232,095</u>
Total assets	<u>7,133,344</u>	<u>6,821,047</u>
Deferred outflow of resources - pension	193,836	164,118
Deferred outflow of resources - OPEB	<u>7,934</u>	<u>-</u>
Total deferred outflows	<u>201,770</u>	<u>164,118</u>
 Total Assets and Deferred Outflow of Resources	 <u>\$ 7,335,114</u>	 <u>\$ 6,985,165</u>

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION**

Current liabilities:		
Accounts payable and accrued expenses	\$ 313,895	\$ 336,918
Awards payable	2,247,155	2,150,003
Awards payable reserve	1,509,892	1,509,101
Payable to Harry M. Zweig Memorial Fund	390,689	389,399
Purse enrichments payable	211,188	525,492
VLT payable - NY Gaming Commission	1,242,949	1,179,689
Total current liabilities	<u>5,915,768</u>	<u>6,090,602</u>
Long-term liabilities:		
Postemployment benefits liability	1,027,973	672,118
Net pension liability - proportionate share	39,274	122,272
Total liabilities	<u>6,983,015</u>	<u>6,884,992</u>
Deferred inflow of resources - OPEB	158,281	-
Deferred inflow of resources - pension	<u>131,595</u>	<u>25,173</u>
Total deferred inflows	<u>289,876</u>	<u>25,173</u>
Net position:		
Net investment in capital assets	201,533	232,095
Restricted - expendable	<u>(139,310)</u>	<u>(157,095)</u>
Total net position	<u>62,223</u>	<u>75,000</u>
 Total Liabilities, Deferred Inflows, and Net Position	 <u>\$ 7,335,114</u>	 <u>\$ 6,985,165</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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Operating revenue:		
Handle revenue	\$ 5,683,164	\$ 5,925,135
Advance Deposit Wagering revenue	1,015,302	929,863
Breakage revenue	443,996	446,737
VLT commission revenue	12,247,476	12,025,220
Registration and web advertising fees revenue	144,500	143,000
Total operating revenue	<u>19,534,438</u>	<u>19,469,955</u>
Operating expenses:		
Breeder awards	10,563,562	10,643,537
Stallion awards	2,616,709	2,615,534
Owner awards	1,839,326	1,819,670
FLRA breakage	97,166	104,401
Purse enrichment	1,700,000	2,020,352
Promotion	1,092,667	1,168,787
Administration	640,792	737,364
Harry M. Zweig Memorial Fund	390,689	389,399
Bad debt expense, net of recoveries	55,290	-
Total operating expenses	<u>18,996,201</u>	<u>19,499,044</u>
Operating income (loss)	538,237	(29,089)
Nonoperating revenue - interest income	<u>30,300</u>	<u>29,089</u>
Change in net position	568,537	-
Net position at beginning of year, as previously stated	75,000	75,000
Cumulative effect of change in accounting principle (note 9)	<u>(581,314)</u>	<u>-</u>
Net position at beginning of year, as restated	<u>(506,314)</u>	<u>75,000</u>
Net position at end of year	<u>\$ 62,223</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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Receipts from operations	\$ 19,433,167	\$ 19,471,871
Payments for awards and purses	(17,033,124)	(19,134,467)
Payments to Harry M. Zweig Memorial Fund	(389,399)	(432,946)
Payments to employees	(485,283)	(388,560)
Payments to contractors and suppliers	<u>(1,239,674)</u>	<u>(148,580)</u>
Net cash provided by (used in) operating activities	285,687	(632,682)
Cash flows from capital and related financing activities - acquisition of property and equipment	(3,200)	(24,643)
Cash flows from investing activities - interest earned	<u>30,300</u>	<u>29,089</u>
Net change in cash and equivalents	312,787	(628,236)
Cash and equivalents at beginning of year	<u>5,393,475</u>	<u>6,021,711</u>
Cash and equivalents at end of year	<u>\$ 5,706,262</u>	<u>\$ 5,393,475</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 538,237	\$ (29,089)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	33,762	30,425
Amortization of deferred inflows - pension (non-cash)	9,290	7,478
Amortization of deferred inflows - OPEB (non-cash)	(121,755)	-
Net change in deferred outflows and inflows related to pensions (non-cash)	67,414	102,849
Net change in deferred outflows and inflows related to OPEB (non-cash)	272,102	-
Bad debts	72,877	-
Changes in:		
Receivables	(118,858)	(1,916)
Prepaid expenses	15,909	12,045
Accounts payable and accrued expenses	(23,023)	98,483
Awards payable	97,152	89,761
Awards payable reserve	791	(4,526)
Purse enrichments payable	(314,304)	(2,016,207)
VLT payable - NY Gaming Commission	63,260	1,179,689
Harry M. Zweig Memorial Fund payable	1,290	(43,547)
Postemployment benefits liability	(225,459)	36,472
Pension liability	<u>(82,998)</u>	<u>(94,599)</u>
Net cash provided by (used in) operating activities	<u>\$ 285,687</u>	<u>\$ (632,682)</u>

See accompanying notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS  
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(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, 2018, the Fund adopted:

- GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." This Statement, issued in June 2016, 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.
- 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. This Statement had no material effect on the financial statements of the Fund.

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(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

- GASB Statement No. 85 – “Omnibus 2017”. This statement address practice issues that have been identified during implementation and application of certain GASB statements (including blending component units, goodwill, fair value measurement and application, other post-employment benefits). The provisions of this statement are effective for financial statements reporting period beginning after June 15, 2017, which is the fiscal year beginning January 1, 2018 for the Fund. This Statement had no material effect on the financial statements of the Fund.
- GASB Statement No. 86 – “Certain Debt Extinguishment Issues”. The objective is to improve consistency for in-substance defeasance of debt when cash and other monetary assets acquired with only existing resources (resources other than proceeds) are placed in an irrevocable trust for the sole purpose of debt extinguishment. Also improves prepaid insurance on debt that is extinguished and notes to the FS for the in-substance defeased debt. The provisions of this statement are effective for financial statements reporting period beginning after June 15, 2017, which is the fiscal year beginning January 1, 2018 for the Fund. This Statement had no material effect 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 \$185,565 and \$130,275 for 2018 and 2017, respectively.
- Retirement Plan - The Fund provides retirement benefits for its 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, 2018 and 2017 amounted to \$322,718 and \$296,576, respectively. Promotion costs for the years ended December 31, 2018 and 2017 were \$769,949 and \$872,211, respectively.
- Other areas of assets, liabilities and net positon are addressed throughout these footnotes.

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(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) and OPEB subsequent to the 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. 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 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. The second item is related to the OPEB reported in the Statement of Net Position. This represents the effects of the differences between actual and expected experience and changes of assumptions or other inputs.

(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.

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(2) Summary of Significant Accounting Policies

(e) 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.

(f) 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, 2018 and 2017, 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 Terminal (VLT) gaming devices at Finger Lakes Gaming and Racetrack, and Resort World Casino-New York City.

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

- **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 – Finger Lakes Gaming and Racetrack:** The Fund receives revenue from VLT devices at Finger Lakes Gaming and Racetrack under statute at 1.25% of Net Win.
- **VLT – Resort World Casino – New York City:** In 2011, the Fund began to receive VLT device revenue from Resorts World Casino - New York City (RW) at the Aqueduct Racetrack at the rate of 1% of Net Win. The rate increased to 1.25% in October of 2012, and to 1.5% in October 2013. On October 15, 2016, RW entered into an agreement with Nassau OTB to host up to 1,000 VLT devices. Machines designated by RW to Nassau OTB will pay the Fund a reduced rate of .5% of Net Win. There were 505 and 460 VLT machines designated to Nassau OTB at December 31, 2018 and 2017, respectively.
- **VLT – Nassau OTB and Suffolk OTB:** The Fund receives .5% of VLT revenues from Nassau OTB and Suffolk OTB under New York State Tax Code, Section 1612. Amounts collected by the Fund in excess of the amount necessary to maintain payments from VLTs at RW at the same level realized in 2013, adjusted by the Consumer Price Index, must be returned to the New York Gaming Commission. The Fund recognized revenues of \$552,836 and \$149,858 and payables to the New York Gaming Commission of \$1,242,949 and \$1,179,689 at December 31, 2018 and 2017, respectively.
- **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:

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

- 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 entered in all races, the conditions of which have been approved by the Fund. 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, 2019.
- Administration: Up to 5% for the administration and management of the Fund. This cap will be decreased to 4% as of October 28, 2019.
- 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>2018</u>	<u>2017</u>
Breeder awards	\$ 10,563,562	\$ 10,643,537
Stallion awards	2,616,709	2,615,534
Owner awards	1,839,326	1,819,670
FLRA breakage	97,166	104,401
Purse enrichment	<u>1,700,000</u>	<u>2,020,352</u>
	<u>\$ 16,816,763</u>	<u>\$ 17,203,494</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, 2018 was paid out in January 2019.



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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, 2018 and 2017 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 1/1/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2018</u>
Office furniture and equipment	\$ 25,106	\$ -	\$ -	\$ 25,106
Vehicles	43,564	-	-	43,564
Software and website	<u>257,350</u>	<u>3,200</u>	<u>-</u>	<u>260,550</u>
Total	326,020	3,200	-	329,220
Less accumulated depreciation/amortization	<u>93,925</u>	<u>33,762</u>	<u>-</u>	<u>127,687</u>
Net property and equipment	<u>\$232,095</u>	<u>\$ (30,562)</u>	<u>\$ -</u>	<u>\$ 201,533</u>
	<u>Balance 1/1/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2017</u>
Office furniture and equipment	\$ 28,072	\$ 7,168	\$ 10,134	\$ 25,106
Vehicles	43,564	-	-	43,564
Software and website	<u>128,700</u>	<u>128,650</u>	<u>-</u>	<u>257,350</u>
	200,336	135,818	10,134	326,020
Software – work-in-process	<u>111,175</u>	<u>17,475</u>	<u>128,650</u>	<u>-</u>
Total	311,511	153,293	138,784	326,020
Less accumulated depreciation/amortization	<u>73,634</u>	<u>30,709</u>	<u>10,418</u>	<u>93,925</u>
Net property and equipment	<u>\$237,877</u>	<u>\$ 122,584</u>	<u>\$ 128,366</u>	<u>\$ 232,095</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](http://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.

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>
2018	\$ 63,064
2017	61,770
2016	61,234

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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

At December 31, 2018, 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, 2018. 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	3/31/2018	3/31/2017
Net pension liability	\$ 39,274	\$ 122,272
Fund's proportion of the Plan's net pension liability	0.0012169%	0.0013013%

At December 31, 2018 and 2017 the Fund's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2018</u>		<u>2017</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	\$ 14,008	\$ 11,576	\$ 3,064	\$ 18,568
Change in assumptions	26,042	-	41,773	-
Net difference between projected and actual earnings on pension plan investments	57,043	112,596	24,423	-
Changes in proportion and differences between the Fund's contributions and proportionate share of contributions subsequent to the measurement date	33,679	7,423	33,088	6,605
	<u>63,064</u>	<u>-</u>	<u>61,770</u>	<u>-</u>
Total	<u>\$ 193,836</u>	<u>\$ 131,595</u>	<u>\$ 164,118</u>	<u>\$ 25,173</u>

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(8) Pension Plan

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>
2019	\$ 17,699
2020	18,074
2021	(25,194)
2022	(11,402)
2023	-

(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, 2018	March 31, 2017
Actuarial valuation date	April 1, 2017	April 1, 2016
Investment return	7.0%	7.0%
Salary scale	3.8% Average	3.8% Average
Decrement tables	April 1, 2010 - March 31, 2015 ERS's Experience	April 1, 2010- March 31, 2015 ERS's Experience
Inflation rate	2.5%	2.5%

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, 2018 and March 31, 2017 measurement dates.

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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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(8) Pension Plan

Measurement date	Long-term Expected		<u>Target Allocation</u>	
	<u>Real Rate of Return</u>		<u>2018</u>	<u>2017</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Asset type:				
Domestic equity	4.55%	4.55%	36%	36%
International equity	6.35%	6.35%	14%	14%
Private equity	7.50%	7.75%	10%	10%
Real estate	5.55%	5.80%	10%	10%
Absolute return strategies (1)	3.75%	4.00%	2%	2%
Opportunistic portfolio	5.68%	5.89%	3%	3%
Real assets	5.29%	5.54%	3%	3%
Bonds and mortgages	1.31%	1.31%	17%	7%
Cash	(0.25%)	(0.25%)	1%	1%
Inflation - indexed bonds	1.25%	1.50%	<u>4%</u>	<u>4%</u>
Total			100%	100%

The real rate of return is net of the long-term inflation assumption of 2.50%

(1) Excludes equity-oriented and long-only funds. For investment management purposes, these funds are included in domestic equity and international equity, respectively.

(d) Discount Rate

The discount rate used to measure the total pension liability was 7.0% for the measurement dates ended March 31, 2018 and 2017. 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% for both 2018 and 2017, 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%) or 1-percentage point higher (8.0%) than the current rate:

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(8) Pension Plan

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
December 31, 2018			
Employer's proportionate share of the net pension asset (liability)	\$ (297,159)	\$ (39,274)	\$ 178,886
December 31, 2017			
Employer's proportionate share of the net pension asset (liability)	\$ (390,512)	\$ (122,272)	\$ 104,525

**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 2018 and 2017 is \$56,772 and \$77,498, 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, 2018 and 2017 valuation dates, were as follows:

(Dollars in Millions)

Valuation date	<u>3/31/2018</u>	<u>3/31/2017</u>
Employers' total pension liability	\$(183,400)	\$(177,400)
Plan net position	<u>180,173</u>	<u>168,004</u>
Employers' net pension asset/(liability)	<u>\$ (3,227)</u>	<u>\$ (9,396)</u>
Ratio of plan net position to the Employers' total pension asset/(liability)	98.2%	94.7%

(g) Contributions to the Pension Plan

Employer contributions are paid annually based on the System's fiscal year which ends on March 31<sup>st</sup>. Retirement contributions as of December 31, 2018 and 2017 represent the projected employer contribution for the period of April 1, 2018 through March 31, 2019 and April 1, 2017 through March 31, 2018, 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

(a) Actual Methods and Assumptions Under GASB 75 for December 31, 2018

*Change in Accounting Principle and Restatement of Net Position*

For the fiscal year ended December 31, 2018, the Fund implemented GASB Statement No. 75, *Accounting Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of the statement requires the Fund to report Other Post-Employment Benefits (OPEB) liabilities, OPEB expenses, deferred outflow of resources and inflow of resources related to OPEB. The implementation of the statement resulted in an increase in the liability for Other Post Employment Benefits Payable in the Statement of Net Position. The Fund's net position has been restated as follows:

Net Position beginning of year, as previously stated	\$ 75,000
GASB Statement No. 75 implementation	(581,314)
Net position beginning of year, as restated	<u><u>\$ (506,314)</u></u>

*Plan Description*

The Fund administers a defined benefit OPEB plan and provides OPEB for all permanent full-time employees of the Fund with ten years of credited service. The plan is a single-employer defined benefit plan (the Plan). The Plan provides Article 11 of the State Compiled Statutes which grants the authority to establish and amend the benefit terms and financing requirements to the Fund's Board. The Plan does not issue a separate financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan. No assets are accumulated in trust that meet the criteria in paragraph 4 of Statement No. 75.

*Funding Policy*

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 of 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 currently funds the plan to satisfy current obligations on a pay-as-you-go basis. During the year ended December 31, 2018, \$55,631 was paid on behalf of six retirees.

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*Benefits Provided*

The Fund provides for continuation of medical and/or Medicare Part B benefits for certain retirees and their spouses. Retirees and their spouses receive benefits for their lifetime.

*Employees Covered by Benefit Terms* - At December 31, 2018, the following employees were covered by the benefit terms:

Active not eligible to retire	5
Active eligible to retire	0
Inactive employees entitled to but not yet receiving benefit payments	0
Retired and surviving spouses	6
Retiree spouses covered	<u>2</u>
Total	<u>13</u>

*Net OPEB Liability*

The Fund's total OPEB liability of was measured as of September 30, 2018; the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions and Other Inputs*

The total OPEB liability at December 31, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate	2.36%
Salary increases	3.36%
Long-term bond rate	3.83% (based on Fidelity Municipal Go AA 20-Year Bond rate as of the measurement date)
Single discount rate	3.83% (reflects a blending of the investment rate of return and the long-term bond rate using expected plan benefit payments)
Healthcare cost trend rates	5.20% for 2019, adjusted annually to an ultimate rate of 4.32% after 2070

Mortality rates were based on Adjusted RPH-2014 combined mortality, fully generational using scale MP-2018.



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*Actuarial Assumptions and Other Inputs*

Retirement participation rate assumed that 100% of active employees eligible for coverage will elect the benefit and 70% of both male and female employees are to be married at retirement and elect coverage for a spouse. For active employees, it was assumed male spouses to be three years older than female spouses. For current retirees, actual census information was used.

Termination rates are based on the 2003 Society of Actuaries small plan withdrawal.

*Changes in the Net OPEB Liability*

Changes in the Fund's net OPEB liability were as follows:

	<b>Total OPEB Liability</b> [a]	<b>Plan Fiduciary Net Position</b> [b]	<b>Net OPEB Liability</b> [a] – [b]
<b>Balances at December 31, 2017</b>	\$ 1,253,432	\$ -	\$ 1,253,432
Changes for the year:			
Service cost	41,735	-	41,735
Interest	44,232	-	44,232
Difference between expected and actual experience *	(217,159)	-	(217,159)
Contributions – employer	-	-	-
Net investment income	-	-	-
Changes of assumptions or other inputs (change in discount rate)	(62,877)	-	(62,877)
Expected benefit payments **	(31,390)	-	(31,390)
Administrative expense	-	-	-
Net changes	(225,459)	-	(225,459)
<b>Balances, December 31, 2018</b>	\$ (1,027,973)	\$ -	\$ (1,027,973)

\*Includes differences due to changes in health care trend rates.

\*\*Expected benefit payments includes deferred benefit payments between the measurement date and fiscal year end.

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*Sensitivity of the total OPEB Liability to Changes in the Discount Rate*

The following presents the Fund's total OPEB liability, as well as what the Fund's total OPEB liability would be if it were calculated using discount rate that is 1 percentage point lower (2.83%) or 1 percentage point higher (4.83%) than the current discount rate:

	<b>1% Decrease <u>(2.83%)</u></b>	<b>Discount Rate <u>(3.83%)</u></b>	<b>1% Increase <u>(4.83%)</u></b>
Total OPEB Liability	\$ 1,198,545	\$ 1,027,973	\$ 892,049

*Sensitivity of the total OPEB Liability to Changes in the Healthcare Cost Trend Rates*

The following presents the Fund's total OPEB liability, as well as what the Fund's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (4.20% decreasing to 3.32%) or 1 percentage point higher (6.20% decreasing to 5.32%) than the current healthcare cost trend rate:

	<b>1% Decrease (4.20% Decreasing <u>to 3.32%</u>)</b>	<b>Healthcare Cost Trend Rate (5.20% Decreasing <u>to 4.32%</u>)</b>	<b>1% Increase (6.20% Decreasing <u>to 5.32%</u>)</b>
Total OPEB Liability	\$ 862,654	\$ 1,027,973	\$1,260,413

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(9) Postemployment Benefits Other Than Pensions

*OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources  
Related to OPEB*

For the year ended December 31, 2018, the Fund recognized negative OPEB expense of \$75,112. At December 31, 2018, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ -	\$ 217,159
Amounts recognized in OPEB expense	-	(121,755)
Changes of assumptions	-	62,877
Contributions subsequent to the measurement date	7,934	-
Total	<u>\$ 7,934</u>	<u>\$ 158,281</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**Year Ending  
December 31,**

2019	\$(113,821)
2020	(36,526)

(b) Actual Methods and Assumptions Under GASB 45 for December 31, 2017

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 of 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.

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(9) Postemployment Benefits Other Than Pensions

The schedule of funding progress on page 31 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, 2017 was as follows:

	<u>2017</u>
Active employees	5
Retired employees	5
Spouses covered	<u>2</u>
Total	<u>12</u>

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

	<u>2017</u>	<u>2016</u>
<u>Annual OPEB Cost at December 31, 2017 and 2016</u>		
Normal cost	\$ 35,277	\$ 37,811
Interest	<u>114</u>	<u>122</u>
Total normal cost	35,391	37,933
Amortization of unfunded actuarial accrued liability	<u>42,235</u>	<u>42,932</u>
Annual required contribution	77,626	80,865
Interest on net OPEB obligation	25,426	23,727
Adjustment to annual required contribution	<u>(27,458)</u>	<u>(25,624)</u>
Total annual OPEB cost	<u>\$ 75,594</u>	<u>\$ 78,968</u>

**NEW YORK STATE THOROUGHBRED BREEDING  
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(A COMPONENT UNIT OF THE STATE OF NEW YORK)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

(9) Postemployment Benefits Other Than Pensions

Reconciliation of net OPEB obligation at December 31 2017 and 2016

	<u>2017</u>	<u>2016</u>
Net OPEB obligation at beginning of year	\$635,646	\$593,187
Annual OPEB cost	75,594	78,968
Contributions	<u>(39,122)</u>	<u>(36,509)</u>
Total net OPEB obligation	<u>\$672,118</u>	<u>\$635,646</u>
Percentage of Annual OPEB Cost Contributed	51.75%	46.23%
Funded Status		
	<u>2017</u>	<u>2016</u>
Actuarial Accrued Liability as of		
Beginning of year	\$ 991,726	\$ 1,008,113
Plan Assets, end of year	<u>-</u>	<u>-</u>
Unfunded Actuarial Accrued Liability	<u>\$ 991,726</u>	<u>\$ 1,008,113</u>
Percentage of Funded Accrued Liability	0%	0%

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 2017. 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.

**NEW YORK STATE THOROUGHBRED BREEDING  
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(9) Postemployment Benefits Other Than Pensions

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>2017</u>
Funding interest rate	4.0%
Initial Medical Trend rate	5.5%
Ultimate Medical Trend rate	3.8%

(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. 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.

In October 2014, the Suffolk OTB received court approval on a plan of repayment. The repayment is contingent on several factors. During 2018, the Fund received \$17,586 in payments against the amount filed in bankruptcy. Additional payments are anticipated but the timing or amount remains uncertain at this time.

Suffolk OTB accounted for \$403,193 and \$415,982 or approximately 2.1% of the total operating revenue reported by the Fund for the years ended December 31, 2018 and 2017, respectively.

(11) Contingencies

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.

**NEW YORK STATE THOROUGHBRED BREEDING  
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DECEMBER 31, 2018 AND 2017**

(11) Contingencies

The Fund has a Shared Services Agreement with the New York State Gaming Commission for office space, utilities, and use of Gaming Commission employees. The agreement has a ten year term that expires December 31, 2023, but may be terminated by either party with sixty days' advance written notice. Occupancy expenditures for the years ended December 31, 2018 and 2017 were \$22,818 and \$19,261, respectively. Future payments under this agreement are estimated as follows:

2019	\$ 21,900
2020	22,600
2021	23,300
2022	24,200
Thereafter	<u>25,300</u>
	<u>\$117,300</u>

(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.

(13) Accounting Standards Issued But Not Yet Implemented

- 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  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

(13) Accounting Standards Issued But Not Yet Implemented

- GASB Statement No. 87 – “Leases”. The objective of this Statement is to better meet the information needs of financial statement users by improving the accounting and financial reporting for leases by governments. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The provisions of this statements are effective for financial statements reporting period beginning after December 15, 2019, which is the fiscal year beginning January 1, 2020 for the Fund. The effects of this Statement on the financial statements of the Fund are not presently determinable.
- GASB Statement No. 88 – “Certain Disclosures Related to Debt”. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. 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. 89 – “Accounting for Interest Cost Incurred Before the End of a Construction Period”. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The provisions of this Statement are effective for financial statements for fiscal years beginning after December 15, 2019, which is the fiscal year beginning January 1, 2020 for the Fund. The effects of this Statement on the financial statements of the Fund are not presently determinable.
- GASB Statement No. 90 – “Majority Equity Interests”. The objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. 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 UNDER GASB NO. 45  
FOR THE YEAR ENDED DECEMBER 31, 2018**

<b>Actuarial Valuation date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
12/1/2017	\$ -	\$ 991,726	\$ 991,726	0%	\$ 440,550	225.11%
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%

**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, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Fund's proportion of the net pension liability (asset)	0.0012169%	0.0013013%	0.0013512%	0.0010264%
Fund's proportionate share of the net pension liability (asset)	\$ 39,274	\$ 122,272	\$ 216,871	\$ 34,673
Fund's covered payroll	\$ 444,662	\$ 430,449	\$ 426,747	\$ 413,358
Fund's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	8.83%	28.41%	50.82%	8.39%
Plan fiduciary net position as a percentage of the total pension liability	98.2%	94.7%	90.7%	97.9%

\* The amounts presented for each fiscal year were determined as of the March 31, 2018, 2017, 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, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 63,064	\$ 61,770	\$ 61,234	\$ 92,060	\$ 37,768
Contributions in relation to the contractually required contribution	<u>63,064</u>	<u>61,770</u>	<u>61,234</u>	<u>92,060</u>	<u>37,768</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund's covered employee payroll	\$ 444,662	\$ 430,449	\$ 426,747	\$ 413,358	\$ 312,882
Contributions as a percentage of covered employee payroll	14.18%	14.35%	14.35%	22.27%	12.07%

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)  
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY UNDER GASB NO. 75  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<b>Fiscal Year Ending <u>2018</u></b>
<b>Total OPEB Liability</b>	
Measurement date	9/30/2018
Service cost at end of year	\$ 41,735
Interest	44,232
Changes in benefit terms	-
Difference between expected and actual experience in the measurement of the total OPEB liability	(217,159)
Changes in assumptions and other inputs	(62,877)
Benefit payments	<u>(31,390)</u>
Net Change in Total OPEB Liability	<u>(225,459)</u>
Total OPEB Liability - beginning	<u>1,253,432</u>
Total OPEB Liability - ending	<u><u>\$ 1,027,973</u></u>
Covered-employee payroll	\$ 440,209
Total OPEB Liability as a percentage of covered-employee payroll	233.52%

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. Additionally the amounts presented for each fiscal year were determined as of the measurement date as disclosed in the footnotes.

**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, 2018, 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 26, 2019.

**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 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 26, 2019