

AGRICULTURE AND NEW YORK STATE HORSE BREEDING DEVELOPMENT FUND

(A Component Unit of the State of New York)

Management's Discussion and Analysis
and
Financial Statements

December 31, 2022

(With Independent Auditor's Report)



**AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND**

(A Component Unit of the State of New York)

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees of
Agriculture and New York State Horse Breeding Development Fund

Opinions

We have audited the accompanying financial statements of the Agriculture and New York State Horse Breeding Development Fund (the Fund), a component unit of the State of New York, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

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, 2022 and 2021, and the changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of Agriculture and New York State Horse Breeding Development Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Agriculture and New York State Horse Breeding Development Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that include our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Agriculture and New York State Horse Breeding Development Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Agriculture and New York State Horse Breeding Development Fund's ability to continue as a going concern for a reasonable period.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 and additional information on pages 26 through 27 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 April 24, 2023, 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 in considering the Fund's internal control over financial reporting and compliance.

In accordance with Government Auditing Standards, we have also issued our report dated April 24, 2023, on the Fund's compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules and Regulations of the State of New York. The purpose of that report is to provide an opinion as to the Fund's compliance with investment guidelines contained therein. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Fund's internal control over financial reporting and compliance.

Valles Vendola LLP

New York, New York

April 24, 2023

**AGRICULTURE AND NEW YORK STATE
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Management's Discussion and Analysis
December 31, 2022

The management of the Agriculture and New York State Horse Breeding Development Fund (the Fund) offers readers of the Fund's financial statements this analysis of the financial activities of the Fund for the years ended December 31, 2022 and 2021.

This Management's Discussion and Analysis (MD&A) should be read in conjunction with the Fund's financial statements and the accompanying notes in order to obtain a full understanding of the Fund's financial position and results of operations.

The Fund was created by an Act of the State of New York (the State), as more fully described in Note 1 to the financial statements and commenced operations in 1965. The Fund is empowered with the task of promoting agriculture in general, developing the breeding of horses, and the encouraging and funding of equine research in New York State.

OVERVIEW OF FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS OF THE FUND

Net Position

The following table summarizes the net position as of December 31, 2022 and 2021:

	2022	2021
Assets:		
Cash and cash equivalents	\$ 15,651,773	\$ 12,457,384
Receivables, net	7,212,107	2,568,993
Prepaid expenses	4,000	-
Net Pension Assets – proportionate share	47,683	-
Total assets	22,915,563	15,026,377
Deferred outflows of resources – pension/OPEB	213,181	312,793
Total Assets and Deferred Outflow of Resources	\$ 23,128,744	\$ 15,339,170
Liabilities		
Accounts payable and accrued expenses	\$ 399,050	\$ 179,083
Breeder awards	119,921	-
Payable to Harry M. Zweig Memorial Fund	416,204	251,254
Other Postemployment benefits	512,915	866,596
Total liabilities	1,448,090	1,296,933

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Net Position (Continued)

	<u>2022</u>	<u>2021</u>
Deferred inflows of resources – pension/OPEB	163,328	177,081
Total Liabilities and Deferred Inflow	<u>1,611,418</u>	<u>1,474,014</u>
Net position	<u>21,517,326</u>	<u>13,865,156</u>
Total Liabilities, Deferred Inflow and Net Position	<u>\$ 23,128,744</u>	<u>\$ 15,339,170</u>

The following summarizes the changes in net position for the years ended December 31, 2022, and 2021.

	<u>2022</u>	<u>2021</u>
Operating revenue	\$ 20,795,983	\$ 15,494,612
Operating expenses	<u>13,231,707</u>	<u>11,524,519</u>
Operating income	7,564,276	3,970,093
Non-operating revenue – interest income and others	<u>87,894</u>	<u>52,528</u>
Changes in net position	<u>\$ 7,652,170</u>	<u>\$ 4,022,621</u>

Operating Revenue

The Fund receives revenue from the following sources:

	<u>2022</u>	<u>2021</u>
Handle and breakage revenue	\$ 1,350,582	\$ 1,278,975
Advance deposit wagering revenue	1,086,449	1,310,222
VLT and Casino commissions	14,097,119	11,796,772
Statutory adjustments	3,185,658	-
Net nomination and sustaining fees	<u>1,076,175</u>	<u>1,108,643</u>
Total operating revenue	<u>\$ 20,795,983</u>	<u>\$ 15,494,612</u>

Operating revenues in 2022 of approximately \$20.8 million was \$5.3 million higher than 2021 due primarily to an increase in VLT and Casino commissions, including statutory adjustments of approximately \$3.2 million.

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Management's Discussion and Analysis (Continued)
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Operating Revenue (Continued)

Under founding statutes, the Fund receives revenue from on-track and off-track handle on wagers made at all New York racetracks and New York Off-Track Betting organizations. Handle and breakage accounted for approximately 6.5 percent of revenue in 2022 and 8.3 percent in 2021.

Beginning in, and amended since, 2004, the Fund obtained additional statutory sources of revenue from Video Lottery Terminals (VLTs) and Casinos from the seven New York harness tracks: Batavia Downs, Buffalo Raceway, Monticello Raceway, Saratoga Harness, Tioga Downs, Vernon Downs, and Yonkers Raceway. Statutory revenue received from these operations was approximately \$14.1 million in 2022 and \$11.8 million in 2021, or 67.8 percent and 76.1 percent of total operating revenue, respectively.

Statutory amendments to Article 13, Section 1355 of the Racing, Pari-Mutuel Wagering and Breeding Law (effective April 9, 2022) - Racing support payments (1)(a), states to maintain payments from video lottery gaming operations at the same level realized in the year 2013, to be adjusted annually pursuant to changes in the consumer price index for all urban consumers, as published by the United States department of labor bureau of labor statistics. Accordingly, the Fund recognized additional revenue representing commissions from Resorts World Catskill of \$2.6 million for 2019 to 2021. Racing support payments (2)(a) states to maintain payments from video lottery gaming facilities in the region to such funds to be maintained at the same dollar levels realized in the year 2013, to be adjusted by the consumer price index for all urban consumers, as published annually by the United States department of labor bureau of labor statistics. Accordingly, the Fund recognized additional revenue representing commissions from Rivers Casino of \$0.6 million for 2019.

Effective January 1, 2015, legislation provided for the Fund to receive revenues from Advance Deposit Wagering (ADW) sources. Total ADW revenue accounted for approximately \$1.1 million in 2022 and \$1.3 million in 2021, or 5.2 percent and 8.5 percent of total operating revenue, respectively.

Operating Expenses

	2022	2021
Racetrack purses	\$ 10,473,200	\$ 8,292,500
Breeder awards	797,798	1,231,522
General and administrative	604,418	843,129
State, county, and town fair purses	604,414	666,418
Harry M. Zweig Memorial Fund	416,204	309,967
State, county, and town fair repairs and maintenance	69,950	117,465
Drug testing program	67,250	63,518
Grants	198,473	-
Total operating expenses	\$ 13,231,707	\$ 11,524,519

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Operating Expenses (Continued)

Total purses paid out represent 53 percent and 58 percent of total operating revenues in 2022 and 2021, respectively. Breeder awards totaled \$798 thousand in 2022 and \$1.2 million in 2021.

The Harry M. Zweig Memorial Fund used for equine research of approximately \$416 thousand in 2022 and \$310 thousand in 2021, accounting for 2 percent of the total operating revenues in both years.

Non-operating revenue

The non-operating revenue of \$88 thousand in 2022, was 67 percent higher than in 2021, which mainly consists of interest income.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide readers with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the revenue that it receives. If you have questions about this report or need additional financial information, contact the Fund at 1 Broadway Center, Schenectady, New York 12305.

**AGRICULTURE AND NEW YORK STATE
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Statements of Net Position
As of the Years ended December 31, 2022 and 2021

	2022	2021
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets		
Cash and cash equivalents	\$ 15,651,773	\$ 12,457,384
Receivable, net	7,212,107	2,568,993
Prepaid expenses	4,000	-
Total Current Assets	22,867,880	15,026,377
Noncurrent Assets		
Net Pension Asset – proportionate share	47,683	-
Total assets	22,915,563	15,026,377
Deferred outflow of resources – pension	134,666	171,583
Deferred outflow of resources - OPEB	78,515	141,210
Total Deferred Outflows	213,181	312,793
Total Assets and Deferred Outflow of Resources	\$ 23,128,744	\$ 15,339,170
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses	\$ 399,050	\$ 179,083
Breeder awards	119,921	-
Payable to Harry M. Zweig Memorial Fund	416,204	251,254
Total current liabilities	935,175	430,337
Long-term liabilities – post-employment benefits		
Other post-employment benefits liability	512,915	866,004
Net Pension Liability – proportionate share	-	592
Total Liabilities	1,448,090	1,296,933
Commitment and contingencies (Notes 10 and 11)		
Net position		
Restricted - expendable	11,145,825	10,492,597
Unrestricted	10,371,501	3,372,559
Total net position	21,517,326	13,865,156
Deferred inflows of resources - pension	163,167	172,483
Deferred inflow of resources - OPEB	161	4,598
Total Deferred Inflows	163,328	177,081
Total Liabilities and Deferred Inflow of Resources and Net Position	\$ 23,128,744	\$ 15,339,170

See accompanying notes to financial statements.

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Statements of Revenue, Expenses and Changes in Net Position
For the Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING REVENUE		
Handle and breakage revenue	\$ 1,350,582	\$ 1,278,975
Advance deposit wagering revenue	1,086,449	1,310,222
VLT and Casino commissions	14,097,119	11,796,772
Statutory adjustments	3,185,658	-
Net nomination and sustaining fees	1,076,175	1,108,643
Total operating revenue	20,795,983	15,494,612
OPERATING EXPENSES		
Racetrack purses	10,473,200	8,292,500
Breeder awards	797,798	1,231,522
General and administrative	604,418	843,129
State, county, and town fair purses	604,414	666,418
Harry M. Zweig Memorial Fund	416,204	309,967
State, county and town fair repairs and maintenance	69,950	117,465
Drug testing program	67,250	63,518
Grants	198,473	-
Total operating expenses	13,231,707	11,524,519
Operating income	7,564,276	3,970,093
NONOPERATING REVENUES		
Interest income	73,683	25,765
Other income	14,211	26,763
Total nonoperating revenue	87,894	52,528
Changes in net position	7,652,170	4,022,621
Net position at beginning of year	13,865,156	9,842,535
Net position at end of year	\$ 21,517,326	\$ 13,865,156

See accompanying notes to financial statements.

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Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Receipts from operations	\$ 16,152,869	\$ 16,420,186
Payments for awards and purses	(11,077,614)	(8,958,918)
Payments for breeder awards	(677,877)	(1,231,522)
Payments to Harry M. Zweig Memorial Fund	(251,254)	(309,967)
Payments to contractors and suppliers	(580,446)	(398,264)
Payment to employees	(123,510)	(201,261)
State, county and town fair repairs and maintenance	(137,200)	(117,465)
Grants	(198,473)	-
Net cash flows used in operating activities	3,106,495	5,202,789
Cash flows from investing activities - interest earned and other income	87,894	52,528
Net (decrease)/increase in cash and cash equivalents	3,194,389	5,255,317
Cash and cash equivalents at beginning of the year	12,457,384	7,202,067
Cash and cash equivalents at end of the year	\$ 15,651,773	\$ 12,457,384
Reconciliation of operating income to net cash flows used in operating activities:		
Operating (loss) / income	\$ 7,564,276	\$ 3,970,093
Adjustment to reconcile operating income to net cash used in operating activities:		
Amortization of deferred inflows – pension (non-cash)	(13,753)	155,612
Net change in deferred outflow and inflows related to pension (non-cash)	99,612	(54,991)
Changes in:		
Receivables	(4,643,114)	925,574
Prepaid expense	(4,000)	-
Accounts payable and accrued expenses	219,967	83,716
Breeder awards payable	119,921	-
Payable to Harry M. Zweig Memorial Fund	164,950	119,124
Pension obligation	(48,275)	(154,444)
Postemployment benefits payable	(353,089)	158,105
Net cash flows (used in)/provided by operating activities	\$ 3,106,495	\$ 5,202,789

See accompanying notes to financial statements.

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Notes to Financial Statements
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(1) Organization

The Agriculture and New York State Horse Breeding Development Fund (the Fund) was established in July 1965 pursuant to Section 8040 (Article IV), Title 21, Chapter 2 of the Laws of New York State (the Act). The Fund shall be a body corporate and politic constituting a public benefit corporation. It shall be administered by a board of directors consisting of the Chairman of the New York State Gaming Commission or his or her designee, the Commissioner of Agriculture and Markets, three members appointed by the Governor, all of whom are experienced or have been actively engaged in the breeding of Standardbred horses in New York State, one upon the recommendation of the President of the Senate, and one upon the recommendation of the Speaker of the Assembly. The Fund is empowered with the task of promoting agriculture in general, developing the breeding of horses, and encouraging and funding of equine research in New York State.

The Fund is a component reporting unit of the State of New York and as such, is combined with other component units in the State's annual financial report.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applied to government entities. The Government Account Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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. This Statement was effective for the period beginning after December 15, 2019, however, GASB Statement no. 95, which was issued and implemented in the prior year, postponed the implementation of Statement no. 87. The provisions of this Statement are effective for the financial statements reporting beginning after June 15, 2021, which is the fiscal year beginning January 1, 2022, for the Fund. Management has evaluated that this Statement has no impact on the financial statement of the Fund.

GASB Statement no. 91 – “Conduit Debt Obligations” The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangement associated with conduit debt obligations, and (3) related note disclosures. The implementation of GASB Statement no. 95 as provided in Note 2 to the financial statements,

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postponed the implementation of this Statement. The provisions of this Statement are effective for fiscal years beginning after December 15, 2021, which is the fiscal year beginning January 1, 2022 for the Fund. Management has evaluated that this Statement has no impact on the financial statement of the Fund.

GASB Statement no. 92 – “Omnibus 2020”. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during the implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions. The provisions of this Statement are effective for fiscal years beginning after June 15, 2021, which is the fiscal year beginning January 1, 2022 for the Fund. Management has evaluated that this Statement has no impact on the financial statements of the Fund

GASB Statement no. 93 – “Replacement of Interbank Offered Rates”. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of IBOR. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR) – most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021, which is the fiscal year beginning January 1, 2022 for the Fund. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021, which is the fiscal year beginning January 1, 2022 for the Fund. Management has evaluated that this Statement has no impact on the financial statements of the Fund.

(b) Revenues, Pension Plan, and Expenses

- Revenue receivable consists of a percentage of handle, breakage, a percentage of Advanced Deposit Wagering (ADW), a percentage of Video Lottery Terminals (VLT) revenue amounts, and a percentage of Casino revenue amounts, and is reported at their outstanding unpaid principal balances. The Fund records revenue receivable at the estimated fair value, net of a reserve based upon the estimated collectability.
- Pension 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.
- Expenses are recognized as incurred.

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Notes to Financial Statements (Continued)
December 31, 2022 and 2021

(2) Summary of Significant Accounting Policies (Continued)

(c) Restricted Net Position

Restricted net position consists of restrictions placed on net position use through external constraints, such as those imposed under law (see note 4). The Fund has restricted certain cash and receivables in the approximate amount of \$11,145,825 and \$10,492,597 for the years ended December 31, 2022 and 2021, respectively, to fund future purses and breeder awards and for other restricted purposes.

(d) Use of Estimates and Assumptions

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures at the date of these financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including allowance for bad debts and pension expenses.

(e) Subsequent Events

The Fund has evaluated subsequent events through the date of the report, which is the date the financial statements were available to be issued.

(f) 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 outflow 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 (expenses/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 proportion share of total contributions to the pension systems not included in pension expense. The second item is the Fund contributions to the New York State and Local Employees' Retirement System (the System) subsequent to the March 31 measurement date.

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

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Notes to Financial Statements (Continued)
December 31, 2022 and 2021

(3) Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Fund considers cash in operating bank accounts and short-term investments with original maturities of three months or less from date of acquisition to be cash and cash equivalents.

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

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

Custodial Credit Risk - This is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. As noted above, by State statute, all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2022 and 2021, all uninsured bank deposits were fully collateralized with securities held by the pledging financial institution's trust department or agent as part of the collateral used to secure all the institution's deposits from the State of New York.

(4) Restricted Assets and Net Position

Restricted cash and receivables, and the related restricted net position, reflect certain anticipated future cash expenditures, substantially all of which are encumbered under Law. As more fully described in note 5, the Fund is required to allocate not less than 75% of handle revenues for purses and breeders' awards. Accordingly, undistributed minimum purses and breeders' awards have been restricted for this purpose in the accompanying financial statements. Other restricted funds include monies committed for State and County fair repairs, 4-H Standardbred development, and other purposes.

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

New York State Racing, Pari-Mutuel Wagering and Breeding law (the Law) 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.

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Notes to Financial Statements (Continued)
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(5) Receipt and Distribution of Revenue and Basis of Net Position (Continued)

- Handle: Handle of one percent is received from each harness racing track licensed to conduct pari-mutuel betting within the State for all monies deposited in pari-mutuel betting pools. The Fund also receives handle revenues of one half of one percent of all monies deposited in pari-mutuel betting pools from simulcasts of out-of-state thoroughbred races conducted at licensed harness tracks within the state.
- Breakage: Twenty percent of New York State off-track betting breakage from bets on harness races and fifty percent on all other races is paid to the Fund and to the NYS Thoroughbred Breeding Development Fund; the Fund receives one half of such payments.
- The Fund receives money from all seven (7) New York State harness tracks for operations: (1) at a rate of 1.25% of Net Win, or (2) based on statutory amendments enacted in 2013 maintaining funding at hold harmless levels adjusted annually for inflation. The tracks are as follows: Batavia Downs, Buffalo Raceway, Monticello Raceway, Saratoga Harness, Tioga Downs, Vernon Downs and Yonkers Raceway.
- Statutory Revenue Adjustment: The Fund recognized additional revenue based upon statutory amendments of Article 13, Section 1355 of the Racing, Pari-Mutuel Wagering and Breeding Law (effective April 9, 2022) - Racing support payments based on video lottery gaming operations at the same level realized in the year 2013, adjusted annually pursuant to changes in the consumer price index for all urban consumers, as published by the United States department of labor bureau of labor statistics. See N.Y. Racing, Pari-Mutuel Wagering and Breeding Law § 1355(1) and (2). The Fund recognized revenues of \$2,571,467 from Resorts World Catskill covering 2019 to 2021 and \$614,191 from Rivers Casino for 2019.
- Effective January 1, 2015, New York State Racing, Pari-Mutuel Wagering and Breeding law, Section 115-b, provides for revenues generated from out of state ADW handle from New York State residents.
- Nomination and sustaining fees represent amounts paid by owners and other fees paid by horsemen to enter their horses in New York Sire Stakes' events conducted at harness racing tracks, including state and county fairs.

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

- Awards and Purses: An amount as determined by the Fund, not less than 75% of the handle revenue, with not less than 10% nor more than 20% of that amount used for breeders' awards. The specific allocation of amounts for both purses and breeders' awards, within the aforementioned ranges, are determined by the Trustees of the Fund.

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

Notes to Financial Statements (Continued)
December 31, 2022 and 2021

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

- Expenditures for the purposes of State, County and Town fair purses, repairs and construction, and for the purpose of 4-H Standardbred development are authorized under the Act in amounts determined by the Trustees of the Fund.
- Administration: Up to 4% for the administration and management of the Fund.
- Equine research: An amount equal to 2% of racetrack handle and OTB revenue for the promotion of equine research.
- The Law provides for the allocating and distribution of interest income, within the aforementioned expense categories, at the discretion of the Trustees of the Fund.

(6) Memorandum of Understanding

Under the Memorandum of Understanding with the New York State Gaming Commission that was effective January 1, 2014, the Fund occupies a portion of the Commission's headquarters and uses certain service employees of the Commission to fulfill the statutory duties and objectives of the Fund. The Office of Racing Promotion and Development (Office), a separate and independent entity within the Commission, shall coordinate with the Commission for all use of service employees and establish a liaison with the harness racing stakeholders and community by promoting the breeding of Standardbred horses and the conduct of equine research in the state in behalf of the Fund. In consideration thereof, the Fund shall:

- Pay the Commission a pro-rata shares of the Commission's rent based upon the square footage of space utilized by the fund, plus allocation charge for use of utilities, communications, information technology, common areas and facilities, parking and cleaning and maintenance charges,
- Reimburse the Commission for actual costs and expenses incurred by utilized service employees, and
- Pay the Commission a portion of all costs of the Office other than Personnel Service Costs that are consistent with the allocation of time that the Office spends on Fund Matters.

Based on the billing received from the Commission for the year ended December 31, 2022, the Fund has increased the accruals for expenses covered by the MOU by \$192,000 to a total of \$201,000.

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

Notes to Financial Statements (Continued)
December 31, 2022 and 2021

(7) Service Agreements

The Fund has entered into an agreement with Capitol Hill Management Services, Inc. (CHMS) for Equine Marketing and Public Relations, from May 1, 2017 to December 31, 2022 for \$138,000 for years 1 and 2 and \$142,000 for subsequent years. Beginning February 1, 2022, the agreement was expanded to include additional Administrative and Financial Services for monthly fees of \$8,333.33 and \$5,000.00, respectively. In addition, the Fund will pay CHMS for event staffing at \$62.50 per hour.

Payments under the foregoing contracts totaled \$317,351 in 2022 and \$104,542 in 2021 which are included in General and Administrative expenses.

(8) 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.

(9) 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.

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

Notes to Financial Statements (Continued)
December 31, 2022 and 2021

(9) Pension Plan (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, 2022 is based on covered payroll with rates ranging from 27%.

The required contributions for the current and preceding three years were:

Year	Contribution
2022	\$30,567
2021	\$26,102
2020	\$27,428
2019	\$9,819

The Fund's contributions made to the System were equal to 100% of the contributions required for each year. In 2022, \$48,275 was recognized as a reduction in pension expense to reflect change from net pension liability of \$592 in 2021 to net pension asset of \$47,683 in 2022.

(c) Pension Liabilities / (Asset), Pension Expense and Deferred Outflows of Resources and Deferred Inflow of Resources Related to Pensions

At December 31, 2022 the Fund reported the following asset for its proportionate share of the net pension asset for the System. The net pension asset was measured as of March 31, 2022. The total pension liability / asset used to calculate the net pension liability /asset was determined by an actuarial valuation. 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.

Actuarial Valuation Date	3/31/2022	3/31/2021
Net Pension Liability / (Asset)	\$ (47,683)	\$ 592
Fund's proportion of the Plan's net pension liability	0.0005833%	0.0005947%

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

Notes to Financial Statements (Continued)
December 31, 2022 and 2021

(9) Pension Plan (continued)

(d) At December 31, 2022 the Fund's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,611	\$ 4,684
Net difference between projected and actual earnings on pension plan investments	-	156,141
Changes in proportion and differences between the Fund's contributions and proportionate share of contributions	20,911	999
Fund's contributions subsequent to the measurement date	30,567	-
Change of assumptions	79,577	1,343
	\$ 134,666	\$ 163,167

(e) 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	ERS
2023	\$ (2,464)
2024	(9,240)
2025	(39,483)
2026	(7,879)
Thereafter	-

(f) Actuarial Assumptions

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

**AGRICULTURE AND NEW YORK STATE
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Notes to Financial Statements (Continued)
December 31, 2022 and 2021

(9) Pension Plan (Continued)

Significant actuarial assumptions used in the valuations were as follows:

Measurement date	March 31, 2022
Actuarial Valuation date	April 1, 2021
Discount Rate	5.90%
Salary Scale Rate	3.53%
Decrement tables	Using Scale MP-2021

(g) Discount Rate

The discount rate used to calculate the total pension liability was 5.90%. 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. 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.

(f) 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 5.90%, 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 (4.90%) or 1-percentage point higher (6.90%) than the current rate:

	1% Decrease <u>(4.90%)</u>	Current Discount <u>(5.90%)</u>	1% Increase <u>(6.90%)</u>
Employer's proportionate share of the net pension asset (liability)	<u>\$ 122,735</u>	<u>\$ (47,683)</u>	<u>\$(190,229)</u>

**AGRICULTURE AND NEW YORK STATE
HORSE BREEDING DEVELOPMENT FUND
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Notes to Financial Statements (Continued)
December 31, 2022 and 2021

(10) Postemployment Benefits Other Than Pensions (OPEB)

The Fund provides postemployment healthcare benefits as a participating employer in the New York State Health Insurance Program (NYSHIP). NYSHIP was established by the New York State Legislature in 1957 to provide health insurance to New York State employees, and financial information is reported in an agency fund of the State of New York. The Fund has not set aside any assets to fund the liabilities of this plan. The plan is funded on a pay as you go basis.

During the year ended December 31, 2022, the Fund adopted provisions of GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB).

At December 31, 2022, the following employees were covered by the benefit terms:

Current retirees	3
Active employees	<u>1</u>
	<u>4</u>

The Fund's total OPEB liability of \$512,915 was measured as of December 31, 2022 and was determined by an actuary with valuation report dated January 18, 2023. The OPEB Plan is currently unfunded.

Actuarial valuations of an ongoing plan involve estimates of the value reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce semi-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**AGRICULTURE AND NEW YORK STATE
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Notes to Financial Statements (Continued)
December 31, 2022 and 2021

(10) Postemployment Benefits Other Than Pensions (OPEB) (continued)

In the December 31, 2022 actuarial valuation, the entry age normal method was used. The actuarial assumptions include annual healthcare cost trend of 5.50% initially, decreasing to an ultimate rate of 4.00%. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The amortization period used for the December 31, 2022 valuation was 1.0 year.

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.

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, 20 years of which remain on December 31, 2022. Some of the more significant assumptions used in the calculation are as follows:

Salary scale rate	3.53%
Discount Rate	4.40%
Mortality Rate	Scale MP-2021
Initial trend Rate	5.50%
Ultimate trend rate	4.00%
Year ultimate trend rate rendered	2022
Remaining amortization period	1.0 year

Based on the latest available actuarial valuation report as of December 31, 2022, information related to the Fund's annual OPEB cost, contributions and changes in total OPEB/GASB 75 obligations for the year ended December 31, 2022 is as follows:

Balance at December 31, 2021	\$ 866,004
Service Cost	90,817
Interest	20,112
Differences between expected and actual experience	(183,930)
Changes of assumption	(241,642)
Benefit payments	(38,446)
Balance at December 31, 2022	<u>\$ 512,915</u>

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

Notes to Financial Statements (Continued)
December 31, 2022 and 2021

(10) Postemployment Benefits Other Than Pensions (OPEB) (continued)

The following presents the total OPEB liability of the Fund, as well as what the Fund's total OPEB liability would be if it were calculated using a discount rate assumption that is 1- percentage-point lower or higher:

	1% Decrease (3.40%)	Current Discount (4.40%)	1% Increase (5.40%)
Total OPEB liability	\$553,829	\$512,915	\$477,333

The following presents the total OPEB liability of the Fund, as well as what the Fund's total OPEB liability would be if it were calculated using a change in healthcare cost trend rates that is 1-percentage point lower or higher:

	1% Decrease (4.50% to 3.00%)	Current Discount (5.50% to 4.00%)	1% Increase (6.50% to 5.00%)
Total OPEB liability	\$477,265	\$512,915	\$553,105

For the year ended December 31, 2022, the Fund recognized OPEB expense of (\$256,385). As of December 31, 2022, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 56,770	\$ 161
Changes of assumptions or other inputs	21,745	0
Total	\$ 78,515	\$ 161

Net deferred outflows and inflows will be recognized in future years consistent with the following schedule.

Year ending	
2023	49,145
2024	26,722
2025	2,487
Thereafter	-

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

Notes to Financial Statements (Continued)
December 31, 2022 and 2021

(11) Legal Proceedings and Claims

As of December 31, 2022, the Fund is not subject to any legal proceedings and claims.

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

(12) Subsequent Events

The Fund has evaluated subsequent events through April 24, 2023 which is the date the financial statements were available to be issued and have determined the following subsequent event requires disclosure under generally accepted accounting principles.

(13) Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 94 - "Public-Private and Public-Public Partnerships and Availability Payment Arrangements". The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and

**AGRICULTURE AND NEW YORK STATE
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Notes to Financial Statements (Continued)
December 31, 2022 and 2021

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

the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. The provisions of this Statement are effective for fiscal years beginning after June 15, 2022, which is the fiscal year beginning January 1, 2023 for the Fund. The effects of this Statement on the financial statements of the Fund are not presently determinable.

GASB Statement No. 96 - "Subscription-Based Information Technology Arrangements". The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset an intangible asset and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The provisions of this Statement are effective for fiscal years beginning after June 15, 2022, which is the fiscal year beginning January 1, 2023 for the Fund. The effects of this statement on the financial statements of the Fund are not presently determinable.

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

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

<u>Valuation date</u>	<u>Value of assets</u>	<u>Accrued liability</u>	<u>Unfunded liability</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>Unfunded liability as a percentage of covered payroll</u>
1/1/2022	-	\$ 512,915	\$ 512,915	0%	\$ 51,433	997%
1/1/2021	-	866,004	866,004	0%	231,521	374%
1/1/2020	-	707,899	707,899	0%	223,822	316%
1/1/2019	-	574,201	574,201	0%	216,840	265%
1/1/2018	-	447,681	447,681	0%	216,840	207%
1/1/2017	-	453,733	453,733	0%	145,000	313%
1/1/2016	-	444,769	444,769	0%	145,000	307%
1/1/2013	-	265,076	265,076	0%	100,257	264%
1/1/2013	-	223,812	223,812	0%	138,390	162%
1/1/2012	-	223,812	223,812	0%	138,390	162%

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

Required Supplementary Information
Balances - Budget and Actual Year ended
December 31, 2022

	BUDGET	ACTUAL	VARIANCE
OPERATING REVENUE			
Handle and breakage revenue	\$ 2,700,000	\$ 1,350,582	\$ (1,349,418)
Advance deposit wagering revenue	-	1,086,449	1,086,449
Stallion Reg Fees / Supp Payments	30,000	-	(30,000)
VLT commissions	13,000,000	14,097,119	1,097,119
Statutory Adjustment	-	3,185,658	3,185,658
Net nomination and sustaining fees	1,100,000	1,076,175	(23,825)
Total operating revenue	<u>\$ 16,830,000</u>	<u>\$ 20,795,983</u>	<u>\$ 3,965,983</u>
OPERATING EXPENSES			
Racetrack purses	\$ 12,050,000	\$ 10,473,200	\$ (1,576,800)
State, county and town fair purses	1,300,000	604,414	(695,586)
Breeder awards	750,000	797,798	47,798
State, county and town fair repairs and maintenance	-	69,950	69,950
Drug testing program	65,000	67,250	2,250
General and administrative	1,000,000	604,418	(395,582)
4-H Standardbred Dev Grants	200,000	198,473	(1,527)
Harry M. Zweig Memorial Fund	300,00	416,204	116,204
Total operating expenses	<u>\$ 15,665,000</u>	<u>\$ 13,231,707</u>	<u>\$ (2,433,293)</u>
Operating income	\$ 1,165,000	\$ 7,564,276	\$ 6,399,276
Nonoperating revenue			
Interest income	\$ 25,000	\$ 73,683	\$ 48,683
Other income	10,000	14,211	4,211
Total nonoperating revenue	<u>\$ 35,000</u>	<u>\$ 87,894</u>	<u>\$ 52,894</u>
Changes in net position	<u>\$ 1,200,000</u>	<u>\$ 7,652,170</u>	<u>\$ 6,452,170</u>

**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**

The Board of Trustees
Agriculture and New York State Horse Breeding Development Fund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Agriculture and New York State Horse Breeding Development Fund (the Fund) as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated April 24, 2023.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the fund's investment guidelines, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Valles Vendola LLP

New York, New York

April 24, 2023

**REPORT ON INVESTMENT COMPLIANCE WITH SECTION 201.3 OF TITLE TWO
OF THE OFFICIAL COMPILATION OF CODES, RULES AND REGULATIONS OF
THE STATE OF NEW YORK**

The Board of Trustees
Agriculture and New York State Horse Breeding Development Fund

Report on Investment Program Compliance

We have audited the Agriculture and New York State Horse Breeding Development Fund's (the Fund) compliance with the types of compliance requirements described in the Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York related to its investment program during the years ended December 31, 2022 and 2021.

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 years ended December 31, 2022 and 2021.

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.

Valles Vendola LLP

New York, New York
April 24, 2023