

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

**Financial Statements and
Compliance Report**

December 31, 2010 and 2009

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

Financial Statements

December 31, 2010 and 2009

Financial Statements

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INDEPENDENT AUDITORS' REPORT

To the Trustees of
Agriculture and New York State Horse Breeding Development Fund

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2011, on our consideration of Agriculture and New York State Horse Breeding Development Fund's internal control over financial reporting and our tests of its

compliance with certain provisions of laws, regulations, contracts and grants, including compliance with investment guidelines. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Management's Discussion and Analysis (MD&A) on pages 1 and 2 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Wojicki + Co CPAs, P.C.

East Greenbush, New York
April 18, 2011

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

Statements of Net Assets

	December 31,	
	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,276,538	\$ 13,497,140
Handle, breakage and VLT receivable, net	2,671,629	2,042,478
Accrued interest receivable	2,205	3,005
	<u>13,950,372</u>	<u>15,542,623</u>
TOTAL CURRENT ASSETS	<u>\$ 13,950,372</u>	<u>\$ 15,542,623</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
State, county and town fair obligations	\$ 326,000	\$ 240,000
Accounts payable and accrued expenses	237,062	238,595
Accrued payroll and related liabilities	38,228	55,210
	<u>601,290</u>	<u>533,805</u>
TOTAL CURRENT LIABILITIES	601,290	533,805
NET OPEB OBLIGATION	<u>245,990</u>	<u>220,932</u>
	847,280	754,737
TOTAL LIABILITIES	847,280	754,737
NET ASSETS		
Restricted for purses	9,060,381	9,949,976
Restricted for other purposes	3,037,354	3,919,024
Unrestricted	1,005,357	918,886
	<u>13,103,092</u>	<u>14,787,886</u>
TOTAL NET ASSETS	<u>13,103,092</u>	<u>14,787,886</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,950,372</u>	<u>\$ 15,542,623</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Assets

	For the Years Ended December 31,	
	2010	2009
OPERATING REVENUES		
Video lottery terminal (VLT) revenue	\$ 12,150,113	\$ 11,356,386
Handle and breakage	4,303,746	4,909,503
Nomination and sustaining fees	1,763,538	1,491,900
Other income	310	599
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	18,217,707	17,758,388
EXPENSES		
Racetrack purses	15,672,057	13,362,964
State, county and town fair purses	1,720,094	1,567,266
Breeders' awards	1,177,863	883,134
General and administrative	645,372	652,453
Zweig Memorial Fund	311,442	325,518
State, county and town fair repairs and construction expenses	251,000	240,000
Grants	110,000	35,000
4-H standardbred development	47,560	50,492
Bad debt expense	-	881,752
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	19,935,388	17,998,579
OPERATING INCOME (LOSS)	(1,717,681)	(240,191)
INTEREST INCOME	<hr/>	<hr/>
	32,887	52,847
CHANGES IN NET ASSETS	(1,684,794)	(187,344)
Net assets at beginning of year	<hr/>	<hr/>
	14,787,886	14,975,230
NET ASSETS AT END OF YEAR	<hr/> <hr/>	<hr/> <hr/>
	\$ 13,103,092	\$ 14,787,886

See accompanying notes to financial statements.

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

Statements of Cash Flows

	For the Years Ended December 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from handle, breakage, video lottery terminals and other fees	\$ 17,588,246	\$ 16,671,238
Proceeds from other income	310	599
Payments for racetrack purses	(15,872,057)	(13,562,964)
Payments for state, county and town fair purses	(1,520,094)	(1,367,266)
Payments for breeders' awards	(1,177,796)	(832,992)
Payments for general and administrative expenses	(634,016)	(597,977)
Payments for Zweig Memorial Fund	(316,322)	(318,208)
Payments for state, county and town fair repairs and construction expenses	(165,000)	(164,985)
Payments for grants	(110,000)	(35,000)
Payments for 4-H standardbred development	(47,560)	(50,492)
	<u> </u>	<u> </u>
NET CASH USED IN OPERATING ACTIVITIES	(2,254,289)	(258,047)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from interest income	33,687	57,890
	<u> </u>	<u> </u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	33,687	57,890
	<u> </u>	<u> </u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,220,602)	(200,157)
Cash and cash equivalents at beginning of year	13,497,140	13,697,297
	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 11,276,538</u>	<u>\$ 13,497,140</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows--Continued

	For the Years Ended December 31,	
	2010	2009
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES		
Operating income (loss)	\$ (1,717,681)	\$ (240,191)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Bad debt expense	-	881,752
Changes in operating assets and liabilities:		
Handle, breakage and VLT receivable	(629,151)	(1,086,551)
State, county and town fair obligations	86,000	78,524
Accounts payable and accrued expenses	(1,533)	62,209
Accrued payroll and related liabilities	(16,982)	(32,343)
Net OPEB obligation	25,058	78,553
	<u>25,058</u>	<u>78,553</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (2,254,289)</u>	<u>\$ (258,047)</u>

See accompanying notes to financial statements.

AGRICULTURE AND NEW YORK STATE HORSE BREEDING DEVELOPMENT FUND

Notes to Financial Statements

December 31, 2010 and 2009

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Agriculture and New York State Horse Breeding Development Fund (the Fund) was established in July 1965 as a public benefit corporation pursuant to Section 8040 (Article IV), Title 21, Chapter 2 of the Laws of New York State (the Act). The Fund's Board of Trustees is, by law, comprised of the Chairman of the New York State Racing and Wagering Board, the New York State Commissioner of Agriculture and Markets, and the Chairman and two other members of the New York State Harness Racing Commission. 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.

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.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles for government entities, as prescribed by the Governmental Accounting Standards Board (GASB). In accordance with the provisions promulgated by GASB, the Fund has elected not to apply Financial Accounting Standards Board (FASB) pronouncements and interpretations issued after November 30, 1989.

The operations of the Fund are reported as a proprietary fund and, as such, are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. Within this measurement focus, all assets and liabilities associated with operations are included on the balance sheet with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

Accounts Receivable

All receivables are reported net of estimated uncollectible amounts. Receivable balances are periodically reviewed by management for collectability based on past history and current economic conditions. The Fund has established an allowance for uncollectible accounts of approximately \$0 and \$882,000 as of December 31, 2010 and 2009, respectively.

AGRICULTURE AND NEW YORK STATE HORSE BREEDING DEVELOPMENT FUND

Notes to Financial Statements--Continued

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES-- Continued

Restricted Net Assets

Restricted net assets consist of restrictions placed on net asset use through external constraints, such as those imposed under law (see Note C). The Fund has restricted certain cash and receivables in the approximate amount of \$12,098,000 and \$13,869,000 at December 31, 2010 and 2009, respectively, to fund future purses and breeders awards and for other restricted purposes.

Revenue and Expense Recognition

Handle, breakage and video lottery terminal (VLT) revenues are recognized, on the accrual basis, based on a percentage of total wagering during the year at all harness tracks and off-track betting (OTB) operations in New York State, including the handle revenues from simulcasting out-of-state thoroughbred racing. Nomination and sustaining fees are paid by participating horsemen. Expenses are paid or accrued based on commitments, contractual arrangements or on events held during the year.

Use of Estimates

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities and disclosure of contingent assets and liabilities to prepare these financial statements in accordance with generally accepted accounting principles. Actual results could differ from those estimates.

Reclassifications

Certain amounts for the year ended December 31, 2009 have been reclassified to conform to the presentation for the year ended December 31, 2010. These reclassifications have no effect on the changes in net assets.

Accounting Standards Issued Not Yet Effective

The Governmental Accounting Standards Board (GASB) recently issued GASB Statement No. 59 *Financial Instruments Omnibus* effective for the Fund's 2011 fiscal year. The objective of the statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The Fund does not expect the adoption of this guidance to have a material impact on its financial statements.

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

Notes to Financial Statements--Continued

NOTE B--CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, the Fund considers cash in operating bank accounts and funds invested in the "New York State Short Term Investment Pool" to be cash and cash equivalents.

The Fund has adopted the guidelines established by the State of New York Office of the State Comptroller ("OSC") as its investment policy. These guidelines describe the administration of an investment program and are intended to represent minimum standards for most investment situations. The Fund also has a written investment policy approved by the Board of Trustees that establishes its own investment policies and procedures relative to the investment activities of the Fund.

At December 31, 2010 and 2009, all of the Fund's investments were held in the "New York State Short Term Investment Pool" and are available upon demand. The interest rate, which fluctuates during the year, was approximately 0.234% at December 31, 2010. New York State ensures that the deposits held in the Short Term Investment Pool are fully collateralized.

Cash and cash equivalents consist of the following as of December 31:

	2010	2009
Cash held at a bank	\$ 49,800	\$ 69,422
Cash held in the New York State Short Term Investment Pool	11,226,738	13,427,718
	<u>\$ 11,276,538</u>	<u>\$ 13,497,140</u>

NOTE C--RESTRICTED ASSETS AND NET ASSETS

Restricted cash and receivables, and the related restricted net assets, reflect certain anticipated future cash expenditures, substantially all of which are encumbered under Law. As more fully described in Note E, 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.

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

Notes to Financial Statements--Continued

NOTE D--REVENUES

Handle revenues are authorized under the Act, for collection by the Fund, from each harness racing track licensed to conduct pari-mutuel betting within the State in an amount equal to one percent of 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 simulcasting of out-of-state thoroughbred races conducted at licensed harness tracks within the State.

Additionally, the Act provides for similar revenues, at the same rate, from each regional OTB corporation designated to accept off-track bets on harness racing in New York State. Handle revenues earned approximated \$3,114,000 and \$3,450,000 during the years ended December 31, 2010 and 2009, respectively. Beginning in 1994, breakage revenues were authorized under the Act, for collection by the Fund, from each regional OTB corporation. The Fund's portion of breakage revenue is an amount equal to fifty percent of all breakage monies from pari-mutuel betting pools from both thoroughbred and harness racing. Breakage revenue earned approximated \$1,189,000 and \$1,459,000 for the years ended December 31, 2010 and 2009, respectively.

Beginning in 2004, video lottery terminal (VLT) revenue was authorized for collection by the Fund from each harness track that has installed video gaming machines. The Fund's portion of VLT revenues was equal to 1.25% of the net hold from participating harness tracks. In 2005 the law was amended to require the Fund to negotiate the amounts of VLT revenues with the participating tracks. Through 2010 the Fund has continued to receive 1.25% of the net hold from the participating harness tracks.

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. These fees are collected directly by the Fund.

AGRICULTURE AND NEW YORK STATE HORSE BREEDING DEVELOPMENT FUND

Notes to Financial Statements--Continued

NOTE E--EXPENSES

Racetrack purses and breeders' awards are provided for in the Act under the designation "New York State Breeding Farms." The Act (as amended) further defines that expenditures made for the purpose of race track purses shall not be less than 75% of the fund (handle revenue), and that of this amount, an amount not less than 10%, nor more than 20%, may be 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.

Expenditures for the purposes of State, County and Town fair purses, repair 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.

Contributions to the Zweig Memorial Fund are authorized in the Act under the designation of equine research and funded in an amount equal to 2% of handle revenues. In addition, the Fund also contributes 2% of breakage and VLT revenues.

General and administrative expenses are funded under the Act in an amount not to exceed 4% of handle revenues. Additionally, a decision of the New York State Attorney General allows the Fund to use a portion of nomination and sustaining fees to defray the administrative costs of organizing and promoting Fund sponsored activities. Due to a lack of legislative guidance, the Board of Trustees has decided to allow 4% of breakage and VLT revenues to be spent on general and administrative expenses.

The Act provides for the allocation and distribution of interest income, within the aforementioned expense categories, at the discretion of the Trustees of the Fund.

NOTE F--SERVICES AGREEMENT

In 2009, the Fund contracted with the Harness Horse Breeders of New York State, Inc., a not-for-profit membership organization, for purposes of obtaining consulting, advisory and other services regarding the breeding of standardbred horses in New York State. Amounts paid under the agreement amounted to \$125,000 and \$62,496 for the years ended December 31, 2010 and 2009, respectively. The amounts were included in general and administrative expenses on the Fund's statement of revenues, expenses, and changes in net assets. The contract expires December 31, 2011.

AGRICULTURE AND NEW YORK STATE HORSE BREEDING DEVELOPMENT FUND

Notes to Financial Statements--Continued

NOTE G--RETIREMENT PLAN

The Fund provides a pension benefit to employees through New York State Employees' Retirement System ("ERS"). The ERS is a cost-sharing multiple-employer defined benefit plan administered by the New York State and Local Retirement Systems. Plan benefits, including retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries are provided under the provisions of the New York State Retirement and Social Security Law and are guaranteed under the State Constitution. The ERS issues a financial report that includes financial statements and required supplementary information for the ERS that is available to the public.

The Fund and certain employees are required to contribute annually to ERS based on a percentage rate of payroll. The rates, which vary according to the employees' date of hire, include normal, administrative, supplemental pension contributions and prior service cost. At December 31, 2010 and 2009, all Fund employees were covered by this plan.

Total pension contributions were approximately \$21,000 for each of the years ended December 31, 2010 and 2009.

NOTE H--OTHER POSTEMPLOYMENT BENEFITS OBLIGATION

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 for New York State Employees, retirees and their eligible dependents. The NYSHIP is an agent multiple-employer plan 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.

The Fund's OPEB under the plan is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to provide sufficient resources to fund both the normal cost each year and to amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed thirty years.

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

Notes to Financial Statements--Continued

NOTE H--OTHER POSTEMPLOYMENT BENEFITS OBLIGATION

Information related to the Fund's annual OPEB cost, ARC, actual contributions and changes in net OPEB Obligation for the years ending December 31 are as follows:

	2010	2009
Annual Required Contribution	\$ 52,330	\$ 91,548
Interest on Net OPEB Obligation from prior year	9,942	7,118
Actuarial adjustment	(21,882)	(6,306)
Annual OPEB Cost	<u>\$ 40,390</u>	<u>\$ 92,360</u>
Net OPEB Obligation at the beginning of the year	\$ 220,932	\$ 142,379
Annual OPEB Cost	40,390	92,360
Current year contributions	(15,332)	(13,807)
Net OPEB Obligation at the end of the year	<u>\$ 245,990</u>	<u>\$ 220,932</u>

The Fund's annual OPEB costs, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for the years ending December 31, 2010 and 2009 are as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/10	\$ 40,390	37.96%	\$ 245,990
12/31/09	\$ 92,360	14.95%	\$ 220,932

Actuarial valuations of an ongoing plan involve estimates of the value of 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, which is presented below, presents multiyear 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.

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

Notes to Financial Statements--Continued

NOTE H--OTHER POSTEMPLOYMENT BENEFITS OBLIGATION--Continued

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2010	12/31/10	\$ 0	\$ 344,046	\$ 344,046	0.00%	\$ 149,500	230.13%
2009	12/31/08	\$ 0	\$ 424,986	\$ 424,986	0.00%	\$ 245,960	172.79%
2008	12/31/08	\$ 0	\$ 424,986	\$ 424,986	0.00%	\$ 236,500	179.70%

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and 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 short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2010 actuarial valuation (the most recent available) the entry age normal method was used. The actuarial assumptions include a 4.5% investment rate of return and an annual healthcare cost trend rate of 4.3% initially, increasing to an ultimate rate of 5% after 10 years. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period used for the December 31, 2010 valuation was 11 years.

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

Notes to Financial Statements--Continued

NOTE I--LEASES

The Fund leases office space under a non-cancelable operating lease expiring on January 31, 2014. Minimum future lease payments under the lease as of December 31, 2010 are as follows:

Year Ended December 31:	
2011	\$ 11,014
2012	11,078
2013	11,078
2014	923
	<u>\$ 34,093</u>

Rent expense, which included charges for utilities and building operations, was approximately \$14,000 and \$13,000 for the years ended December 31, 2010 and 2009, respectively.

NOTE J--CONTINGENCIES

On December 3, 2009, New York City Off Track Betting Corporation (NYC OTB) filed for protection under Chapter 9 of the United States Bankruptcy Code and subsequently ceased its operations in December 2010. NYC OTB accounted for approximately 6% and 11% of the Fund's revenue during the years ending December 31, 2010 and 2009, respectively, and owed the Fund approximately \$882,000 in handle and breakage payments for the months of June through November 2009 as of December 31, 2010. The entire amount owed to the Fund, which had been reserved for as an allowance for bad debts in the year ended December 31, 2009, was written off as uncollectible on December 31, 2010.

NOTE K--SUBSEQUENT EVENTS

The Fund has evaluated subsequent events between the balance sheet date of December 31, 2010 and April 18, 2011, the date the financial statements were available to be issued.

COMPLIANCE REPORT



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

We have audited the financial statements of Agriculture and New York State Horse Breeding Development Fund (the Fund) as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated April 18, 2011. 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.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the audit committee and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Wojaski + Co. CPAs, P.C.

East Greenbush, New York
April 18, 2011

SUPPLEMENTARY INFORMATION

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

Investment Information for New York State

December 31, 2010

INVESTMENTS:

At December 31, 2010, total Fund investments consisted of deposits with the “New York State Short Term Investment Pool” in the total amount of \$11,226,738. The deposits were third party collateralized at December 31, 2010.

INVESTMENT EARNINGS:

Investment earnings totaled \$32,887 for the year ended December 31, 2010 and consisted of interest earned on deposits with the “New York State Short Term Investment Pool.” The average yield on the Fund’s investments for the year ended December 31, 2010 was approximately 0.27%.

INVESTMENT REPORT:

The Independent Auditors’ report on compliance, including compliance with Investment Guidelines, for 2010 indicated that there were no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

FEES AND COMMISSIONS:

There were no direct fees, commissions or other charges paid for investment related services for the year ended December 31, 2010.