

**ERIE COUNTY GAMING  
REVENUE AUTHORITY**

**AUDITED FINANCIAL STATEMENTS**

**MARCH 31, 2016**

**DRAFT**

**ERIE COUNTY GAMING REVENUE AUTHORITY**  
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## **Independent Auditors' Report**

Members of the Erie County Gaming  
Revenue Authority  
Erie, Pennsylvania

We have audited the accompanying financial statements of the governmental activities and the major fund of the Erie County Gaming Revenue Authority as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the Erie County Gaming Revenue Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

**Independent Auditors' Report**  
**(Continued)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Erie County Gaming Revenue Authority as of March 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

*Felix and Gloekler, P.C.*

Felix and Gloekler, P.C.

June 9, 2016  
Erie, Pennsylvania

**ERIE COUNTY GAMING REVENUE AUTHORITY**

**Statement of Net Position**

**March 31, 2016**

	<u>Governmental Activities</u>
Current assets	
Cash and cash equivalents	\$ 13,060,773
Prepaid expenses	<u>7,900</u>
Total current assets	<u>13,068,673</u>
Noncurrent assets	
Notes receivable	<u>2,350,000</u>
Total noncurrent assets	<u>2,350,000</u>
Total assets	<u><u>\$ 15,418,673</u></u>
Net position	
Unrestricted	<u>15,418,673</u>
Total net position	<u><u>\$ 15,418,673</u></u>

The notes to the financial statements are an integral part of these statements.

# ERIE COUNTY GAMING REVENUE AUTHORITY

## Statement of Activities

For the Fiscal Year Ended March 31, 2016

Functions/Programs	Expenses	Charges For Services	Operating Grants and Contributions	Net (Expense)/ Revenue and Changes in Net Position
Governmental activities:				
Grants awarded	\$ 4,316,920	\$ -	\$ -	\$ (4,316,920)
Grant administration	394,875	-	-	(394,875)
Total governmental activities	<u>\$ 4,711,795</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(4,711,795)</u>
General revenues:				
Gaming revenue				5,505,961
Investment income				31,392
Interest income-note receivable				<u>39,577</u>
Total revenues				<u>5,576,930</u>
Change in net position				865,135
Net position, beginning of year				<u>14,553,538</u>
Net position, end of year				<u>\$ 15,418,673</u>

The notes to the financial statements are an integral part of these statements.

**ERIE COUNTY GAMING REVENUE AUTHORITY**

**Balance Sheet - Governmental Funds**

**March 31, 2016**

Assets	
Cash and cash equivalents	\$ 13,060,773
Prepaid expenses	7,900
Notes receivable	<u>2,350,000</u>
Total assets	<u><u>\$ 15,418,673</u></u>
Fund Balance	
Nonspendable	7,900
Committed	5,131,561
Unassigned	<u>10,279,212</u>
Total fund balance	<u><u>\$ 15,418,673</u></u>

The notes to the financial statements are an integral part of these statements.

**ERIE COUNTY GAMING REVENUE AUTHORITY**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance -**  
**Governmental Funds**

For the Fiscal Year Ended March 31, 2016

Revenues	
Gaming revenue	\$ 5,505,961
Investment income	31,392
Interest income-note receivable	<u>39,577</u>
Total revenues	<u>5,576,930</u>
Expenditures	
Grants awarded	4,316,920
Employee costs	165,500
Professional fees	91,924
Office space	18,840
Marketing and communications	30,679
Office expenses	26,230
Data processing	23,636
Insurance	9,332
General and meeting	<u>28,734</u>
Total expenditures	<u>4,711,795</u>
Excess of revenues over expenditures	865,135
Fund balance, beginning of year	<u>14,553,538</u>
Fund balance, end of year	<u><u>\$ 15,418,673</u></u>

The notes to the financial statements are an integral part of these statements.



**ERIE COUNTY GAMING REVENUE AUTHORITY**  
**Notes to Financial Statements**  
**For the Fiscal Year Ended March 31, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Erie County Gaming Revenue Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

A. Reporting Entity

The Erie County Gaming Revenue Authority (the Authority) was established February, 2008. The Authority was formed pursuant to the provisions of the Economic Development Financing Law, the Pennsylvania Race Horse Development and Gaming Act, and the Home Rule Charter of the County of Erie. The purpose of the Authority is to administer municipal grants and otherwise perform the functions of the County's Economic Development Authority.

The Authority's Board consists of nine Board members. Two of the members are ex-officio, non-voting members, namely, the Chairman of County Council or designee, and the County Executive or designee. The remaining members consist of one resident from each of the seven districts within Erie County who shall be appointed by the County Executive with the consent of County Council.

The Authority is dependent on gaming revenues generated from the Presque Isle Downs and Casino. These revenues are passed on to the Authority as restricted funds. See Note 2 for how monies are distributed.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. *Governmental activities* are supported by gaming revenues received from the Commonwealth of Pennsylvania passed through the County of Erie.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) allocations for applicant's benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Gaming revenues not included among program revenues are reported instead as *general revenues*.

### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

### D. Budgets and Budgetary Accounting

The Authority is not required to adopt a budget; however, a budget is adopted to monitor operational costs.

### E. Cash and Cash Equivalents

Cash and cash equivalents are cash on hand, as well as demand deposits in checking and savings accounts at a local financial institution.

### F. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### G. Fund Balance Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the government fund financial statements, a flow consumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

### H. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The balance of committed fund balance at March 31, 2016 was \$5,131,561 and consists of grants approved prior to the fiscal year-end.

### I. Risk Management

The Authority is exposed to various risks of loss related to torts (mitigated through the Pennsylvania Municipal Torts Claim Act), theft of, damage to and destruction of assets; error and omission, and natural disasters.

### J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## NOTE 2 – GRANTS AWARDED

In accordance with an agreement dated December 13, 2010 between the Authority and the eligible governmental entities, which includes Summit Township, Erie County, Greene Township, McKean Township, Millcreek Township and Waterford Township, the Authority is to first distribute twenty-five percent of all gaming revenues received to these specific municipalities.

In addition, the Authority distributed at least thirty percent of the gaming revenues received to the Dedicated Regional Assets (Lead Assets) for the calendar years 2010, 2011, 2012, 2013 and 2014. The funds received during the calendar year are restricted and distributed based on the settlement agreement. After December 31<sup>st</sup> each year, the funds are considered uncommitted and are distributed in accordance with program guidelines established by the Authority's Board of Directors and management. The Authority's obligation to make payments on the category of Lead Assets pursuant to the Settlement Agreement expired in 2014. The Authority has received a Release and Acknowledge from each Lead Asset indicating that each of the Lead Assets have acknowledged the Authority's full compliance with this aspect of the Settlement Agreement.

## NOTE 3 – CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk. As of March 31, 2016, \$12,847,290 of the Authority's bank balance of \$13,097,290 was collateralized with securities held by the pledging financial institution and \$250,000 was covered by FDIC insurance.

Uninsured and collateral held by the pledging banks' trust department not in the Authority's name	<u>\$ 12,847,290</u>
<u>Reconciliation to Financial Statements</u>	
Insured amount	\$ 250,000
Uninsured amount	12,847,290
Less: Outstanding checks	<u>(36,517)</u>
Total cash and cash equivalents per financial statements	<u>\$ 13,060,773</u>

## NOTE 4 – OPERATING LEASES

The Authority entered into an agreement with an Organization for rental of office space, which commenced in April 2015.

The Authority's base rent will be payable in equal monthly installments of \$1,371.46. This will be charged monthly. The total expenditures for the year ended March 31, 2016 were \$18,840.

#### NOTE 4 – OPERATING LEASES (CONTINUED)

Minimum future rentals to be paid as of March 31, 2016 are as follows:

2017	\$ 16,488
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#### NOTE 5 – IRREVOCABLE GIFT TO ERIE COMMUNITY FOUNDATION

The Authority has entered into an agreement with the Erie Community Foundation (the Foundation) to establish a donor designated fund, called the Lead Asset Endowment Fund. The Fund is established to perpetually provide financial assistance to organizations designated by the settlement dated December 13, 2010 (Erie County Lead Regional Assets). The Authority granted \$1,659,714 to the Foundation for the year ended March 31, 2016. This was the final payment in accordance with the agreement. Currently the Authority is determining whether or not new funds will be invested in the current endowment.

#### NOTE 6 – NOTE RECEIVABLE

On September 13, 2012 and August 13, 2013, the Erie County Gaming Revenue Authority entered into loan agreements with the Enterprise Development Fund of Erie County, Inc. (the Fund) for \$500,000 and \$800,000, respectively. The purpose of the loan was to provide loans to various entities in the Erie County area to create and retain jobs. The loan agreements require interest only payments at a rate of 3% annum, until November 2018 and September 2018, respectively, unless ECGRA defers the principal payments. The loan has an outstanding principal balance of \$1,300,000 as of March 31, 2016.

The Authority was notified on April 22, 2016, an entity related to the Fund, The Greater Erie Industrial Development Corporation (GEIDC), has filed for Chapter 7 bankruptcy. The Fund and GEIDC currently pay the Economic Development Corporation of Erie County for day-to-day management of the Fund and GEIDC and for all staffing needs. Management has considered the collectability of the note receivables with the Fund and determined that the balance is collectible as of March 31, 2016. The Authority staff and Board should consider to monitor this dynamic situation to confirm ongoing viability of the Fund.

In September 2014, the Erie County Gaming Revenue Authority entered into a loan agreement with the Corry Industrial Benefit Association (CIBA) for \$50,000. The purpose of the loan was to provide loans to low income individuals for energy efficient improvements for their homes. Payments are due to ECGRA when CIBA has issued a loan to an individual and CIBA receives principal payments. The loan has an outstanding principal balance of \$50,000 as of March 31, 2016.

In January 2016, the Erie County Gaming Revenue Authority entered into a loan agreement with Bridgeway Capital for \$1,000,000. The purpose of the loan was to create the Erie Growth Fund. The loan requires interest only quarterly payments at a rate of 3% annum. The entire principal is due January 2026. The loan has an outstanding principal balance of \$1,000,000 as of March 31, 2016.

## NOTE 7 – SIMPLE IRA

In September 2014, the Erie County Gaming Revenue Authority SIMPLE IRA Plan was established with Fidelity Advisors to provide retirement benefits to their employees. The provisions of the Plan were established by the Board of Directors who can also amend the Plan. Employees can contribute up to the IRS limits and the Authority will match up to 3% of the employee's wages. All contributions and earnings are vested immediately. Contributions made for the year ended March 31, 2016 by employees and the Authority were \$4,131 and \$3,854, respectively.

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