

**ERIE COUNTY GAMING
REVENUE AUTHORITY**

AUDITED FINANCIAL STATEMENTS

MARCH 31, 2012

ERIE COUNTY GAMING REVENUE AUTHORITY
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FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

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 major fund of the Erie County Gaming Revenue Authority as of and for the year ended March 31, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Erie County Gaming Revenue Authority's management. Our responsibility is to express an opinion 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Erie County Gaming Revenue Authority as of March 31, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted Management's Discussion and Analysis and budgetary comparison information that accounting principles generally accepted in the United States of America requires 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part of financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical content. Our opinion on the basic financial statements is not affected by this missing information.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

July 12, 2012
Erie, Pennsylvania

ERIE COUNTY GAMING REVENUE AUTHORITY

Statement of Net Assets

March 31, 2012

	<u>Governmental Activities</u>
Current assets	
Cash and cash equivalents	\$ 11,181,595
Prepaid expenses	<u>10,523</u>
Total assets	<u>\$ 11,192,118</u>
Current liabilities	
Accounts payable	\$ 55,000
Grants payable	<u>21,767</u>
Total liabilities	<u>76,767</u>
Net assets	
Unrestricted	<u>11,115,351</u>
Total net assets	<u>11,115,351</u>
Total liabilities & net assets	<u>\$ 11,192,118</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, 2012

Functions/Programs	Expenses	Charges For Services	Capital Grants and Contributions	Net (Expense)/ Revenue and Changes in Net Assets
Governmental activities:				
Grants awarded	\$ 5,305,870	\$ -	\$ -	\$ (5,305,870)
Grant administration	300,792	-	-	(300,792)
Total governmental activities	\$ 5,606,662	\$ -	\$ -	(5,606,662)
General revenues:				
Gaming revenue				6,053,809
Interest income				92,554
Investment income				182,090
Total revenues				6,328,453
Other items:				
Irrevocable gift to Erie Community Foundation				(5,437,604)
Change in net assets				(4,715,813)
Net assets, beginning of year				15,831,164
Net assets, end of year				\$ 11,115,351

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

ERIE COUNTY GAMING REVENUE AUTHORITY

Balance Sheet - Governmental Funds

March 31, 2012

Assets

Cash and cash equivalents	\$ 11,181,595
Prepaid expenses	<u>10,523</u>
Total assets	<u>\$ 11,192,118</u>

Liabilities

Accounts payable	\$ 55,000
Grants payable	<u>21,767</u>
Total liabilities	<u>76,767</u>

Fund Balance

Nonspendable	10,523
Unassigned	<u>11,104,828</u>
Total fund balance	<u>11,115,351</u>

Total liabilities and fund balance	<u>\$ 11,192,118</u>
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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, 2012

Revenues		
Gaming revenue	\$	6,053,809
Interest income		92,554
Investment income		<u>182,090</u>
Total revenues		<u>6,328,453</u>
Expenditures		
Grants awarded		5,305,870
Employee costs		131,746
Professional fees		82,784
Office space		14,174
Marketing and communications		16,854
Office expenses		16,623
Data processing and accounting		955
Investment fees		20,216
Insurance		8,865
General and meeting		<u>8,575</u>
Total expenditures		<u>5,606,662</u>
Excess of revenues over expenditures		721,791
Other financing sources (uses)		
Irrevocable gift to Erie Community Foundation		<u>(5,437,604)</u>
Change in fund balance		(4,715,813)
Fund balance, beginning of year		<u>15,831,164</u>
Fund balance, end of year	\$	<u><u>11,115,351</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, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. The members include the Chairman of County Council or designee, the County Executive or designee, and 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. In 2012, there were new casinos opening in Ohio which could have a negative impact on the amount of revenues generated for the Authority.

B. Government-wide and Fund Financial Statements

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

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 properly included among program revenues are reported instead as *general revenues*.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 does not prepare legally appropriated budgets. Budgetary control for the Authority is achieved through bond indenture provisions, note agreements, and contract agreements.

E. Cash and Cash Equivalents

Cash and cash equivalents are cash on hand, as well as demand deposits, with original maturities of three months or less.

F. Fund Balance

In the fund financial statements, governmental funds report the following:

- Nonspendable - Includes amounts that are not in a spendable form or are to be maintained intact. The Authority's nonspendable balance consists of prepaid expenses.
- Unassigned - The residual classification includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. The Authority does not currently have a minimum fund balance policy. The Authority policy is that assigned funds will be reduced first and then unassigned amounts.

G. Risk Management

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; error and omission, and natural disasters.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. 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 will first distribute twenty-five percent of all gaming revenues received to these specific municipalities. The funds received during the calendar year are restricted and distributed based on the settlement agreement. After December 31st 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.

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, 2012, \$10,939,390 of the Authority's bank balance of \$11,189,390 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>\$10,939,390</u>
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Reconciliation to Financial Statements

Insured amount	\$ 250,000
Uninsured amount	10,939,390
Less: Outstanding checks	<u>(7,795)</u>
Total cash and cash equivalents per financial statements	<u>\$11,181,595</u>

NOTE 4 - OPERATING LEASES

The Authority entered into an agreement with an Organization for rental of office space, which commenced in January 2011 and shall continue for a period of four years.

The Authority's base rent will be at a rate of \$7.50 per square foot per year for a total annual payment of \$5,887.50 payable in equal monthly installments of \$490.63. In addition to the base rent, the Authority will pay prorated charges of the utilities and taxes. This will be charged monthly. The total expenditures for the year ended March 31, 2012 were \$14,174.

NOTE 4 - OPERATING LEASES (CONTINUED)

Minimum future rentals to be received as of March 31, 2012 are as follows:

2013	5,887.50*
2014	5,887.50*

* Only represents base rent, does not include prorated charges for utilities and taxes.

NOTE 5 - COMMITMENTS

The Authority entered into an agreement in December 2009 with an Organization to provide professional services to assist in administration of its programs related to grant administration and economic development. This agreement was amended in September, 2011.

The agreement will continue until December 31, 2013 and will automatically extend twice to December 31, 2016 and December 31, 2019 unless one of the parties gives the other party ninety days advance written notice.

Services will be billed monthly based on services provided. Total expenditures for the year ended March 31, 2012 were \$23,606.

NOTE 6 - IRREVOCABLE GIFT TO ERIE COMMUNITY FOUNDATION

The Authority has entered into an agreement with the Erie Community Foundation (the Foundation) to establish a Lead Asset Endowment Fund. The Fund is established to perpetually provide financial assistance to designated organizations (Erie County Lead Regional Assets) selected by the Authority. The Foundation shall grant awards to the designated organizations at least annually based on the amounts determined by the Authority. The Authority granted \$5,437,604 to the Foundation to establish the Fund for the year ended March 31, 2012.

