

**ERIE COUNTY GAMING
REVENUE AUTHORITY**

Financial Statements

Year Ended March 31, 2017
with Independent Auditor's Report

MaherDuessel

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ERIE COUNTY GAMING REVENUE AUTHORITY

YEAR ENDED MARCH 31, 2017

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Independent Auditor's Report

**Members of the Erie
County Gaming
Revenue Authority
Erie, Pennsylvania**

We have audited the accompanying financial statements of the Erie County Gaming Revenue Authority (Authority) as of and for the year ended March 31, 2017, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

Board of Directors
Erie County Gaming Revenue Authority
Independent Auditor's Report

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of March 31, 2017, and the changes in its 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.

Mahe Duessel

Pittsburgh, Pennsylvania
August 25, 2017

ERIE COUNTY GAMING REVENUE AUTHORITY

STATEMENT OF NET POSITION

MARCH 31, 2017

Assets	
Current assets:	
Cash and cash equivalents	\$ 13,521,348
Prepaid expenses	8,127
Notes receivable, net	<u>1,858,846</u>
Total Assets	<u><u>\$ 15,388,321</u></u>
Liabilities and Net Position	
Liabilities	<u>\$ -</u>
Net Position:	
Restricted - economic development	<u>15,388,321</u>
Total Liabilities and Net Position	<u><u>\$ 15,388,321</u></u>

See accompanying notes to financial statements.

ERIE COUNTY GAMING REVENUE AUTHORITY

STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2017

Operating Revenues:

Gaming revenue	5,412,123
Contributions	772,069
Interest income	43,558
Interest income - note receivable	76,891
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Total revenues	6,304,641

Operating Expenses:

Economic Development	
Grants awarded	5,462,062
Provision for uncollectible notes	460,000
Employee costs	203,626
Professional fees	76,926
Office space	16,643
Marketing and communications	26,398
Office expenses	22,757
Data processing	18,226
Insurance	9,513
General and meeting	38,842
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Total expenses	6,334,993

Change in Net Position (30,352)

Net Position:

Beginning of year	15,418,673
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End of year	\$ 15,388,321

See accompanying notes to financial statements.

ERIE COUNTY GAMING REVENUE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2017

1. General Information

The Erie County Gaming Revenue Authority (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 (County). 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 the 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 3 for how monies are distributed.

2. Summary of Significant Accounting Policies

The financial statements of the 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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The 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.

ERIE COUNTY GAMING REVENUE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2017

The Authority is considered a special purpose government operating a single government program; as such, the government-wide and fund financial statements have been combined into a single, combining presentation.

Net Position

The Authority only reports restricted net position which represents constraints placed on net position used through external restrictions, reduced by liabilities related to those assets. The Authority's net position is restricted for economic development grants and loans. Of the total restricted net position, \$1.8 million represents notes receivable (net) from various borrowers as described in Note 7, and \$5.1 million represents grant funding committed via award agreements but not yet spent.

The Authority's policy is to use funds in the order of the most restricted to the least restrictive.

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.

Notes Receivable

As described in Note 7, the Authority has issued various economic development related notes. Notes receivable are written off when they are determined to be uncollectible. It is the Authority's policy to provide for future losses on notes based on an evaluation of the current portfolio, current economic conditions, and such other factors which, in the Authority's judgement, may impact collectability for specific notes. The allowance for uncollectible notes totaled \$460,000 as of March 31, 2017 and the provision for uncollectible related to notes receivable for the year ended March 31, 2017 was \$460,000.

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 for which the Authority carries

ERIE COUNTY GAMING REVENUE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2017

commercial insurance. There have been no significant changes in insurance coverage since the prior year.

Estimates

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

3. Grants Awarded

In accordance with an agreement dated December 13, 2010 between the Authority and the eligible governmental entities, which includes Summit Township, the 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. 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.

4. 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, 2017, \$13,283,113 of the Authority's bank balance of \$13,533,113 was collateralized with securities held by the pledging financial institution and \$250,000 was covered by FDIC insurance.

ERIE COUNTY GAMING REVENUE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2017

Uninsured and collateral held by the pledging banks' trust department not in the Authority's name	<u>\$ 13,283,113</u>
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Reconciliation to the Financial Statements

Insured amount	\$ 250,000
Uninsured amount	13,283,113
Less outstanding checks	<u>(11,765)</u>

Total cash and cash equivalents per financial statements	<u>\$ 13,521,348</u>
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5. 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. This will be charged monthly. The total expenditures for the year ended March 31, 2017 were \$16,643.

Minimum future rentals to be paid as of March 31, 2017 are as follows:

2018	<u>\$ 16,488</u>
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6. Irrevocable Gifts to Erie Community Foundation

The Authority has entered into irrevocable gift agreements with the Erie Community Foundation (ECF). These funds are under the control of the ECF and subject to their policies and, as such, are not recorded on the books of the Authority. The combined marked value of the funds as reported by the ECF as of March 31, 2017 was \$12.8 million. A donor designated fund, called the Lead Asset Endowment Fund was established to perpetually provide financial assistance to organizations designated

ERIE COUNTY GAMING REVENUE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2017

by the settlement dated December 13, 2010 (Erie County Lead Regional Assets). During 2017, ECGRA received \$298,290 in distributions from this fund which are reported as contributions and the market value as reported by the ECF as of March 31, 2017 was \$9,005,941.

The Lead Asset Endowment Fund II was established for the same purpose as the Lead Asset Endowment Fund. During 2017, ECGRA contributed \$1,000,000 to this fund which is reported as grants awarded, received \$473,779 in distributions from this fund which are reported as contributions and the market value as reported by the ECF as of March 31, 2017 was \$3,846,542.

7. Notes Receivable

On September 13, 2012 and August 13, 2013, the Authority entered into loan agreements with the Enterprise Development Fund of Erie County, Inc. (Fund) for \$500,000 and \$800,000, respectively. The purpose of the loan was to provide loans to various entities in the County area to create and retain jobs. The loan agreements require interest only payments at a rate of 3% per annum, until November 2018 and September 2018, respectively, unless the Authority defers the principal payments. The loan has an outstanding principal balance of \$1,300,000 as of March 31, 2017. During 2017, the Fund requested consideration of forgiveness of its notes payable which the Authority is currently deliberating. Additionally, the Authority was notified in 2016 that an entity related to the Fund, The Greater Erie Industrial Development Corporation (GEIDC), filed for Chapter 7 bankruptcy. The Authority has considered the uncertainty surrounding the ultimate collectability of the loans in its determination of the overall allowance for uncollectible notes. The Authority staff and Board will continue to monitor this dynamic situation to confirm ongoing viability of the Fund.

In September 2014, the 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 the Authority when CIBA has issued a loan to an individual and CIBA receives principal payments. The loan has an outstanding principal balance of \$18,846 as of March 31, 2017.

ERIE COUNTY GAMING REVENUE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2017

In January 2016, the 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% per annum. The entire principal is due January 2026. The loan has an outstanding principal balance of \$1,000,000 as of March 31, 2017.

8. Simple IRA

In September 2014, the Authority's SIMPLE IRA Plan (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, 2017 by employees and the Authority were \$5,479 and \$4,864, respectively.

9. Contingencies

Local share gaming (LSG) funds from the Commonwealth is the Authority's primary source of revenue. In September 2016, the Commonwealth Supreme Court declared the LSG clause of the PA Horse Race and Gaming Act unconstitutional. At that time the Court granted a stay and gave the Legislature time to amend the Act. Despite a subsequent extension to that stay, the Legislature was unable to pass amending legislation. If the legislation is not amended to reinstate the amount of LSG that the Authority has historically received, then the future viability of the Authority will be in peril.