Erie County Gaming Revenue Authority

Financial Statements

Year Ended March 31, 2019
with Independent Auditor's Report

DRAFT 06/17/2019

ERIE COUNTY GAMING REVENUE AUTHORITY

YEAR ENDED MARCH 31, 2019

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Independent Auditor's Report

Board of Directors
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, 2019, 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.

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, 2019, and the changes in its financial position, and cash flows thereof, 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.

Pittsburgh, Pennsylvania
DATE, 2019

ERIE COUNTY GAMING REVENUE AUTHORITY

STATEMENT OF NET POSITION

MARCH 31, 2019

Assets		
Current assets:		
Cash and cash equivalents	$	9,765,003
Prepaid expenses		7,164
Notes receivable, net		5,258,846
Total Assets	$	15,031,013
Liabilities and Net Position		
Liabilities	$	-
Net Position:		
Restricted - economic development		15,031,013
Total Liabilities and Net Position	$	15,031,013

See accompanying notes to financial statements.

ERIE COUNTY GAMING REVENUE AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED MARCH 31, 2019

Operating Revenues:	
Gaming revenue	$ 4,450,567
Interest income - note receivable	67,756
Total operating revenues	4,518,323
Operating Expenses:	
Economic Development:	
Grants awarded	6,130,627
Provision for uncollectible notes	550,000
Employee costs	206,811
Professional fees	113,601
Office space	17,393
Marketing and communications	13,867
Office expenses	9,718
Data processing	15,695
Insurance	3,572
General and meeting	12,517
Total operating expenses	7,073,801
Operating Income (Loss)	(2,555,478)
Nonoperating Revenues (Expenses):	
Interest income	102,514
Change in Net Position	(2,452,964)
Net Position:	
Beginning of year	17,483,977
End of year	$ 15,031,013

See accompanying notes to financial statements.

ERIE COUNTY GAMING REVENUE AUTHORITY

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2019

Cash Flows From Operating Activities:		
Cash received from gaming revenue	$	4,450,567
Cash received from borrowers		67,756
Cash paid to borrowers as loan disbursements		(2,750,000)
Cash paid to employees and for employee benefits		(206,811)
Cash paid as grant awards		(6,130,627)
Cash paid for operating expenses		(192,366)
Net cash provided by (used in) operating activities		(4,761,481)
Cash Flows From Investing Activities:		
Interest income		102,514
Net Increase (Decrease) in Cash and Cash Equivalents		(4,658,967)
Cash and Cash Equivalents:		
Beginning of year		14,423,970
End of year	$	9,765,003
Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by (Used in) Operating Activities:		
Operating income (loss)	$	(2,555,478)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Provision for uncollectible notes		550,000
Change in operating assets and liabilities:		
Prepaid expenses		(6,003)
Notes receivable		(2,750,000)
Total adjustments		(2,206,003)
Net cash provided by (used in) operating activities	$	(4,761,481)

See accompanying notes to financial statements.

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.

On October 26, 2017, the Pennsylvania Race Horse Development and Gaming Act was amended, changing, among other things, how gaming revenues were distributed to counties and entities like the Authority. One clause specifically effecting the Authority diverted $1,000,000 of restricted gaming revenue each year for use by the Erie County Land Bank.

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.

The Authority is considered a special purpose government operating a single government program.

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, $5.3 million represents notes receivable (net) from various borrowers as described in Note 6, and $3.1 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 6, 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 uncollectable notes totaled $1,310,000 as of March 31, 2019 and the annual provision for uncollectable notes (bad debt expense) for the year ended March 31, 2019 was $550,000. As of March 31, 2019, none of the notes receivable are in default.

From time to time, the Authority awards convertible loans to organizations ("Awardee") which are required to loan those funds to third parties ("Recipient"). If the Recipient defaults on the loans to the Awardee, the Authority's loan to the Awardee converts to a grant. If the Recipient pays the loan back to the Awardee, the Authority will continue to receive its payments from the Awardee. Based on the convertible nature of these provisions, the Authority recognizes these awards as grants, since the likelihood of receiving funds cannot be determined, nor can they be quantified, at the time the grants are awarded.

Risk Management

The Authority is exposed to various risks of loss related to torts (mitigated through the Pennsylvania Political Subdivision Tort Claims Act), theft of, damage to and destruction of assets; error and omission, and natural disasters for which the Authority carries 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. 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, 2019, $9,539,428 of the Authority's bank balance of $9,789,428 was collateralized with securities held by the pledging financial institution and $250,000 was covered by the Federal Deposit Insurance Corporation (FDIC). These deposits include amounts with a book balance as of March 31, 2019 of $9,765,003, which are reported as cash and cash equivalents in the statement of net position.

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 $1,452. This will be charged monthly. The total expenditures for the year ended March 31, 2019 were $17,393.

Minimum future rentals to be paid as of March 31, 2019 are as follows:

2020	$	17,428
2021		17,428
2022		2,905
	$	37,761

5. Irrevocable Gifts to Erie Community Foundation

The Authority has entered into an irrevocable gift agreement with the Erie Community Foundation (ECF). This fund is under the control of the ECF and subject to their policies and, as such, is not recorded on the books of the Authority. The market value of this fund as reported by the ECF as of March 31, 2019 was $13.5 million. A donor-designated fund, called the Lead Asset Endowment Fund was established to perpetually provide financial assistance to organizations designated by the settlement dated December 13, 2010 (Erie County Lead Regional Assets). During the fiscal year, $454,833 in distributions from this fund were awarded directly to Erie County Lead Assets.

6. 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. In March 2018, the loans were restructured and combined into one loan agreement. The loan agreement requires quarterly interest-only payments at a rate of 1% per annum, until March 31, 2028. The loan has an outstanding principal balance of $1,300,000 as of March 31, 2019. 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, 2019.

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, 2019.

In April 2017, the Authority entered into a loan agreement with The Progress Fund for $1,000,000. The purpose of the loan was to provide capital to rural businesses that create jobs and invest in Erie County. The loan requires interest-only quarterly payments at a rate of 2% per annum. The entire principal is due January 2026. The loan has an outstanding principal balance of $1,000,000 as of March 31, 2019.

In December 2017, the Authority entered into a loan agreement with 1855 Capital Fund for $500,000. The purpose of the loan was to provide capital to technology-based businesses that create jobs and invest in Erie County. Minimum Interest, as that term is defined in the loan agreement, is due to ECGRA semiannually. Outstanding Minimum Interest, Fixed Interest, Participating Interest, and Principal are due on the Maturity Date, as that term is defined in the loan agreement. The entire principal is due December 2027. The loan has an outstanding principal balance of $500,000 as of March 31, 2019.

In September 2018, the Authority entered into a loan agreement with Bridgeway Capital for $2,500,000. The purpose of the loan was to create the Erie Inclusive Fund. The loan requires interest-only quarterly payments at a rate of 1% per annum. The entire principal is due December 2028. The loan has an outstanding principal balance of $2,500,000 as of March 31, 2019.

In January 2019, the Authority entered into a loan agreement with Blue Highway Capital for $250,000. The purpose of the loan was to provide capital to rural businesses throughout Erie County. Minimum Interest, as that term is defined in the loan agreement, is due to ECGRA semiannually. Outstanding Minimum Interest, Fixed Interest, Participating Interest, and Principal are due on the Maturity Date, as that term is defined in the loan agreement.

The entire principal is due in January of 2029, unless extensions are exercised. The loan has an outstanding principal balance of $250,000 as of March 31, 2019.

7. 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, 2019 by employees and the Authority were $7,476 and $4,583, respectively.