

**Erie County Gaming
Revenue Authority**

Financial Statements

Year Ended March 31, 2022
with Independent Auditor's Report

ERIE COUNTY GAMING REVENUE AUTHORITY

YEAR ENDED MARCH 31, 2022

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Independent Auditor's Report

**Board of Directors
Erie County Gaming Revenue Authority**

Report on the Audit of the Financial Statements**Opinion**

We have audited the accompanying financial statements of the Erie County Gaming Revenue Authority (Authority), a component unit of the County of Erie, Pennsylvania as of and for the year ended March 31, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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, 2022, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the Management 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 XX, 20XX

ERIE COUNTY GAMING REVENUE AUTHORITY

STATEMENT OF NET POSITION

MARCH 31, 2022

| Assets | |
|---|----------------------|
| Current assets: | |
| Cash and cash equivalents | \$ 16,655,467 |
| Prepaid expenses | 7,962 |
| Notes receivable | 124,080 |
| Total current assets | 16,787,509 |
| Noncurrent assets: | |
| Notes receivable, net | 6,134,635 |
| Total Assets | \$ 22,922,144 |
| Liabilities and Net Position | |
| Current liabilities: | |
| Unearned revenue | \$ 3,989,488 |
| Net Position: | |
| Restricted - economic development | 18,932,656 |
| Total Liabilities and Net Position | \$ 22,922,144 |

See accompanying notes to financial statements.

ERIE COUNTY GAMING REVENUE AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED MARCH 31, 2022

| | |
|--|------------------|
| Operating Revenues: | |
| Gaming revenue | \$ 6,277,937 |
| Governmental grant | 10,512 |
| Interest income - note receivable | 96,076 |
| | 6,384,525 |
| Total operating revenues | 6,384,525 |
| Operating Expenses: | |
| Economic Development: | |
| Grants awarded | 3,271,486 |
| Provision for uncollectible notes | - |
| Employee costs | 295,270 |
| Professional fees | 66,250 |
| Office space | 17,334 |
| Marketing and communications | 1,756 |
| Office expenses | 16,966 |
| Data processing | 17,007 |
| Insurance | 9,493 |
| General and meeting | 6,679 |
| | 3,702,241 |
| Total operating expenses | 3,702,241 |
| Operating Income (Loss) | 2,682,284 |
| Nonoperating Revenues (Expenses): | |
| Interest income | 5,049 |
| Change in Net Position | 2,687,333 |
| Net Position: | |
| Beginning of year | 16,245,323 |
| End of year | \$ 18,932,656 |

See accompanying notes to financial statements.

ERIE COUNTY GAMING REVENUE AUTHORITY

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2022

| | |
|--|---------------|
| Cash Flows From Operating Activities: | |
| Cash received from gaming revenue | \$ 6,277,937 |
| Cash received from governmental grant | 4,000,000 |
| Cash received from borrowers | 96,076 |
| Cash paid to borrowers as loan disbursements | (109,869) |
| Cash paid to employees and for employee benefits | (295,270) |
| Cash paid as grant awards | (3,271,486) |
| Cash paid for operating expenses | (136,548) |
| Net cash provided by (used in) operating activities | 6,560,840 |
| Cash Flows From Investing Activities: | |
| Interest income | 5,049 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 6,565,889 |
| Cash and Cash Equivalents: | |
| Beginning of year | 10,089,578 |
| End of year | \$ 16,655,467 |
| Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by (Used in) Operating Activities: | |
| Operating income (loss) | \$ 2,682,284 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | |
| Provision for uncollectible notes | - |
| Change in operating assets and liabilities: | |
| Prepaid expenses | (1,063) |
| Notes receivable | (109,869) |
| Unearned revenue | 3,989,488 |
| Total adjustments | 3,878,556 |
| Net cash provided by (used in) operating activities | \$ 6,560,840 |

See accompanying notes to financial statements.

ERIE COUNTY GAMING REVENUE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2022

1. General Information

The Erie County Gaming Revenue Authority (Authority) was established in 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 of Directors (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.

Under the guidelines for determining the definition of the reporting entity, the Authority has been determined to be includable as a component of the County, the primary government. These financial statements reflect only that portion of the activities and transactions which are attributable to the Authority. The accounts and operations of the County are addressed in separate general purpose financial statements.

The Authority is dependent on gaming revenues generated from the Presque Isle Downs and Casino. These revenues are passed on to the Authority from the County 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

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2022

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 entity operating a single government program. Non-operating revenue and expenses consist of those revenues and expenses that are related to the financing and investing type of activities.

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, approximately \$4.3 million represents notes receivable (net) from various borrowers as described in Note 6, and approximately \$2.5 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 \$1,540,000 as of March 31, 2022. As of March 31, 2022, none of the notes receivable are in default.

ERIE COUNTY GAMING REVENUE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2022

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.

Unearned Revenue

The Authority received grant funding from the American Rescue Plan Act of 2021 (ARPA) in the amount of \$4,000,000. During the year ended March 31, 2022, the Authority spent \$10,512 of this amount. Amounts received prior to incurring qualifying expenditures, are reported as unearned revenue for the year ended March 31, 2022. Unearned revenues will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting.

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.

Pending Pronouncements

The Governmental Accounting Standards Board (GASB) has issued statements that will become effective in future years, including Statement Nos. 87 (Leases), 91 (Conduit Debt Obligations), 92 (Omnibus 2020), 93 (Interbank Offered Rates), 94 (Public-Private and Public-Public Partnerships), 96 (Information Technology Arrangements), and 97 (Deferred

ERIE COUNTY GAMING REVENUE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2022

Compensation Plans). Management has not yet determined the impact of these statements on the financial statements.

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, 2022, \$16,405,967 of the Authority's bank balance of \$16,655,967 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, 2022 of \$16,655,467, 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 \$1,457. This will be charged monthly. The total expenditures for the year ended March 31, 2022 were \$17,334.

Minimum future rentals to be paid as of March 31, 2022 are as follows:

| | | |
|------|----|--------------|
| 2023 | \$ | <u>2,913</u> |
|------|----|--------------|

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, 2022 was approximately \$16.2 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

ERIE COUNTY GAMING REVENUE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2022

13, 2010 (Erie County Lead Regional Assets). During the fiscal year, \$528,979 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, 2022. 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 loan 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 \$4,635 as of March 31, 2022.

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, 2022.

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, 2022.

ERIE COUNTY GAMING REVENUE AUTHORITY

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YEAR ENDED MARCH 31, 2022

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, 2022.

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, 2022.

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, 2022.

In March 2020, the Authority entered into a loan agreement with Bridgeway Capital to develop two separate coronavirus COVID-19 emergency loan funds, one to provide loans to small businesses within Erie County that have demonstrated actual negative economic impact due to effects of coronavirus COVID-19 in the amount of \$520,000, and one to provide loans to small Erie County nonprofit organizations for the purpose of providing the nonprofit organization with resources to aid in their mission based on local response to the pandemic in the amount of \$100,000. The loan bears zero interest. The entire outstanding balance is due in October of 2026, unless the forgiveness clause is exercised. The loan has an outstanding principal balance of \$620,000 as of March 31, 2022.

In August 2020, the Authority entered into a loan agreement with Erie Center for Arts & Technology for \$500,000. The purpose of the loan was to rehabilitate Wayne School building in support of workforce development, educational, and healthcare programming anchoring a distressed neighborhood. Minimum Interest, as that term is defined in the loan agreement, is due to the Authority quarterly. 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 August of 2027, unless

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2022

extensions are exercised. The loan has an outstanding principal balance of \$500,000 as of March 31, 2022.

In January 2022, the Authority entered into a loan agreement with Youth Leadership Institute of Erie for \$188,000. The purpose of the loan was to create the Community Enterprise Financing Loan as a funding stream to make mission-related investments within Erie County for the purpose of assisting established community-based entrepreneurs that do not have access to available bank financing to provide upfront and startup capital to fund startup costs related to the receipt of a grant or service contract to provide a community enriching program. The Authority has designed this program as a means for gap financing, as banks often require collateral to make lines of credit available, leaving small budget or undercapitalized organizations no alternatives but to use high-interest loans. This is a zero-percent interest rate loan with a maturity date of February of 2023. The loan has an outstanding principal balance of \$124,080 as of March 31, 2022.

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. The Authority does not match the employee's wages. All contributions and earnings are vested immediately. Contributions made from April 1, 2021 through March 31, 2022 by employees were \$6,500. Effective January 2021, the Authority entered into a Benefit Plan for the Authority's match with the Pennsylvania Municipal Retirement System (PMRS), as documented in Note 8.

8. Cash Benefit Plan

The Authority established a defined contribution Benefit Plan (Plan), which is administered by PMRS, on January 1, 2021. All employees of the Authority are required to participate in the Plan. Members are eligible for retirement at 65 years of age or early retirement at 60 years of age with the benefit being actuarially reduced for each year or partial year prior to the attainment of age 65. The Authority contributes 8% of each member's compensation. Contributions made from April 1, 2021 through March 31, 2022 by the Authority were \$17,359.