

**Erie County Gaming
Revenue Authority**

Financial Statements

Year Ended March 31, 2021
with Independent Auditor's Report

MaherDuessel

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ERIE COUNTY GAMING REVENUE AUTHORITY

YEAR ENDED MARCH 31, 2021

TABLE OF CONTENTS

Independent Auditor's Report

Financial Statements:

Statement of Net Position	1
Statement of Revenues, Expenses, and Changes in Net Position	2
Statement of Cash Flows	3
Notes to Financial Statements	4

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), a component unit of the County of Erie, Pennsylvania as of and for the year ended March 31, 2021, and the related notes to the financial statements.

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, 2021, 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.

Maker Duessel

Pittsburgh, Pennsylvania
June 28, 2021

ERIE COUNTY GAMING REVENUE AUTHORITY

STATEMENT OF NET POSITION

MARCH 31, 2021

Assets	
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Current assets:	
Cash and cash equivalents	\$ 10,089,578
Prepaid expenses	<u>6,899</u>
Total current assets	10,096,477
Noncurrent assets:	
Notes receivable, net	<u>6,148,846</u>
Total Assets	<u><u>\$ 16,245,323</u></u>
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Liabilities and Net Position	
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Liabilities	<u>\$ -</u>
Net Position:	
Restricted - economic development	<u>16,245,323</u>
Total Net Position	<u><u>\$ 16,245,323</u></u>

See accompanying notes to financial statements.

ERIE COUNTY GAMING REVENUE AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED MARCH 31, 2021

Operating Revenues:

Gaming revenue	\$ 4,432,299
COVID-19 revenue	250,000
Contributions	25,000
Interest income - note receivable	98,494
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Total operating revenues	4,805,793

Operating Expenses:

Economic Development:	
Grants awarded	3,858,915
Provision for uncollectible notes	230,000
Employee costs	256,727
Professional fees	71,486
Office space	17,471
Marketing and communications	3,400
Office expenses	13,476
Data processing	17,502
Insurance	3,474
General and meeting	3,482
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Total operating expenses	4,475,933

Operating Income (Loss) 329,860

Nonoperating Revenues (Expenses):

Interest income	<u>35,614</u>
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Change in Net Position 365,474

Net Position:

Beginning of year	<u>15,879,849</u>
End of year	<u><u>\$ 16,245,323</u></u>

See accompanying notes to financial statements.

ERIE COUNTY GAMING REVENUE AUTHORITY

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2021

Cash Flows From Operating Activities:	
Cash received from gaming revenue	\$ 4,432,299
Cash received from COVID-19 revenues	250,000
Cash received from donors	25,000
Cash received from borrowers	98,494
Cash paid to borrowers as loan disbursements	(1,120,000)
Cash paid to employees and for employee benefits	(256,727)
Cash paid as grant awards	(3,858,915)
Cash paid for operating expenses	(136,831)
Net cash provided by (used in) operating activities	(566,680)
Cash Flows From Investing Activities:	
Interest income	35,614
Net Increase (Decrease) in Cash and Cash Equivalents	(531,066)
Cash and Cash Equivalents:	
Beginning of year	10,620,644
End of year	\$ 10,089,578
Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by (Used in) Operating Activities:	
Operating income (loss)	\$ 329,860
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Provision for uncollectible notes	230,000
Change in operating assets and liabilities:	
Prepaid expenses	(6,540)
Notes receivable	(1,120,000)
Total adjustments	(896,540)
Net cash provided by (used in) operating activities	\$ (566,680)

See accompanying notes to financial statements.

ERIE COUNTY GAMING REVENUE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2021

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.

ERIE COUNTY GAMING REVENUE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2021

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, \$6.1 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 \$1,540,000 as of March 31, 2021. As of March 31, 2021, 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.

ERIE COUNTY GAMING REVENUE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2021

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), 89 (Accounting for Interest Costs), 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 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, 2021, \$9,848,605 of the Authority's bank balance of \$10,098,605 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, 2021 of \$10,089,578, which are reported as cash and cash equivalents in the statement of net position.

ERIE COUNTY GAMING REVENUE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2021

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, 2021 were \$17,471.

Minimum future rentals to be paid as of March 31, 2021 are as follows:

2022	\$	<u>2,913</u>
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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, 2021 was \$15.2 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 13, 2010 (Erie County Lead Regional Assets). During the fiscal year, \$505,216 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, 2021. 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

ERIE COUNTY GAMING REVENUE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2021

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, 2021.

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, 2021.

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, 2021.

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, 2021.

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, 2021.

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

ERIE COUNTY GAMING REVENUE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2021

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, 2021.

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, 2021.

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 extensions are exercised. The loan has an outstanding principal balance of \$500,000 as of March 31, 2021.

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 from April 1, 2020 through December 31, 2020 by employees and the Authority were \$6,650 and \$4,726, respectively. Effective January 2021, the Authority entered into a Pension Plan for the Authority's match with the Pennsylvania Municipal Retirement System (PMRS), as documented in Note 8.

ERIE COUNTY GAMING REVENUE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2021

8. Cash Benefit Plan

The Authority established a defined contribution Pension 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 January 1, 2021 through March 31, 2021 by employees and the Authority were \$1,750 and \$4,734, respectively

9. COVID-19

In early 2020, an outbreak of a novel strain of COVID-19 was identified, and infections have been found in a number of countries around the world, including the United States. COVID-19 and its associated impacts on supply chains, travel, employee productivity, and other economic activities has had, and may continue to have, a material effect on financial markets and economic activity. The extent of the impact of COVID-19 on the Authority's operational and financial performance is currently uncertain and cannot be predicted. There has been no immediate impact to the Authority's operations. A future potential impact may include disruptions or restrictions on the Authority's employees' ability to work. Operating revenues are not expected to change, as the Pennsylvania Race Horse Development and Gaming Act dictates that the Authority receive one percent of slot machine gross revenues or \$10 million a year. The future effects of these issues are unknown.