

**BUFFALO NIAGARA CONVENTION CENTER
MANAGEMENT CORPORATION**

**FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION**

DECEMBER 31, 2013

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Buffalo Niagara Convention Center Management Corporation

We have audited the accompanying balance sheets of Buffalo Niagara Convention Center Management Corporation (the Center) as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 Center as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Center adopted new accounting guidance for Service Concession Arrangements. Our opinion is not modified with respect to that matter.

Additional Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying additional information on pages 9 to 11, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2014, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Lumsden & McCormick, LLP

March 5, 2014

BUFFALO NIAGARA CONVENTION CENTER MANAGEMENT CORPORATION

Balance Sheets

December 31,	2013	2012
Assets		
Current assets:		
Cash	\$ 1,002,022	\$ 1,233,384
Accounts receivable, net (Note 3)	434,726	270,644
Inventory (Note 4)	55,485	63,653
Prepaid expenses	51,174	48,114
	<u>1,543,407</u>	<u>1,615,795</u>
Property and equipment, net (Note 5)	-	655,110
	<u>\$ 1,543,407</u>	<u>\$ 2,270,905</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 419,315	\$ 198,490
Accrued expenses	114,366	127,684
Deferred revenue	173,783	594,471
	<u>707,464</u>	<u>920,645</u>
Unrestricted net assets	<u>835,943</u>	<u>1,350,260</u>
	<u>\$ 1,543,407</u>	<u>\$ 2,270,905</u>

See accompanying notes.

BUFFALO NIAGARA CONVENTION CENTER MANAGEMENT CORPORATION

Statements of Activities

For the years ended December 31,	2013	2012
Changes in unrestricted net assets:		
Revenue and support:		
Erie County grant (Note 1)	\$ 1,650,000	\$ 1,650,000
Technology grant	466,804	-
Revenue from in-house catering service	2,352,363	2,018,794
Rentals	844,336	790,169
Miscellaneous	124,747	121,039
Total revenue and support	5,438,250	4,580,002
Expenses:		
Program services	4,479,081	3,740,874
General and administrative	818,376	776,927
Total expenses	5,297,457	4,517,801
Change in unrestricted net assets	140,793	62,201
Net assets - beginning, as previously stated	1,350,260	1,288,059
Cumulative effect of change in accounting principle (Note 2)	(655,110)	-
Net assets - beginning, as restated	695,150	1,288,059
Net assets - ending	\$ 835,943	\$ 1,350,260

BUFFALO NIAGARA CONVENTION CENTER MANAGEMENT CORPORATION

Statements of Cash Flows

For the years ended December 31,	2013	2012
Operating activities:		
Change in unrestricted net assets	\$ 140,793	\$ 62,201
Adjustments to reconcile change in unrestricted net assets to net operating activities:		
Depreciation	-	117,466
Changes in other current assets and current liabilities:		
Accounts receivable	(164,082)	87,961
Inventory	8,168	10,304
Prepaid expenses	(3,060)	(4,371)
Accounts payable	220,825	(44,245)
Accrued expenses	(13,318)	(192,321)
Deferred revenue	(420,688)	510,823
Net operating activities	(231,362)	547,818
Investing activities:		
Property and equipment expenditures	-	(19,140)
Net change in cash	(231,362)	528,678
Cash - beginning	1,233,384	704,706
Cash - ending	\$ 1,002,022	\$ 1,233,384
Supplemental cash flows information:		
Interest paid (approximates expense)	\$ 539	\$ 336

Notes to Financial Statements

1. Summary of Significant Accounting Policies:

Organization:

Buffalo Niagara Convention Center Management Corporation (the Center) is a nonprofit corporation organized to operate, manage and promote a convention center facility located in the City of Buffalo, New York (the City) pursuant to an agreement with Erie County, New York (Erie County). The County and the Center are currently negotiating a 5 year extension of the management agreement. The membership of the Corporation consists of one class of members composed of the City and the County.

The Center grants credit to individuals, businesses and not-for-profit organizations located throughout the United States.

Buffalo Niagara and Visitors Bureau, Inc. (the CVB) is an entity related to the Center through shared administration. The Center reimbursed the CVB \$29,000 and \$105,000 in fees for shared administrative services in 2013 and 2012, of which \$3,000 and \$16,000 were included in accounts payable at December 31, 2013 and 2012.

Governmental Support:

Under the terms of annual public benefit services contracts (service contracts) with the County, the Center received subsidies for operations in 2013 and 2012 totaling \$1,650,000 each year, representing 30% and 36% of total revenue, respectively. The service contracts also provide the Center will repay the County any surplus funds at the end of the contract year, calculated as the excess of net assets over the 6 months average of operating expenses, based on actual expenses for the 36 months immediately preceding the current year. The Center had no calculated surplus funds for 2013 or 2012.

Funding by the County for the year ending December 31, 2014 is expected to continue in the form of a subsidy to the Center with similar terms. Funding beyond December 31, 2014 is contingent upon actions taken by the County. The Board and management of the Center believe the funding arrangements will be made timely so uninterrupted operations will continue beyond that time.

Use of 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 the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent Events:

Management has evaluated events and transactions for potential recognition or disclosure in the financial statements through March 5, 2014, the date the financial statements were available to be issued.

Cash:

At various times, cash in financial institutions may exceed federally insured limits and subject the Center to concentrations of credit risk.

Accounts Receivable:

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management provides for probable uncollectible amounts through a charge to bad debts expense and a credit to allowance for doubtful accounts based on its assessment of the current status of individual accounts and historical trends. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to allowance for doubtful accounts and a credit to accounts receivable.

Inventory:

Inventory consists primarily of food and beverage products and is valued at the lower of first-in, first-out cost or market.

Deferred Revenue:

Deferred revenue consists of rental deposits received in advance of scheduled events and advances on certain grants. Revenue will be recognized when the events occur or when the Center has incurred expenditures in compliance with the specific grant requirements.

Sales Tax:

Certain jurisdictions impose a sales tax on the Center sales to nonexempt customers. The Center collects these taxes from customers and remits the entire amount accordingly. The Center excludes from revenues and expenses the tax collected and remitted.

Contributions:

Contributions are recorded at fair value at the date the contribution is made. Contributions are recorded as restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same reporting period are shown as unrestricted revenue.

Functional Allocation of Expenses:

The costs of providing program and supporting services have been summarized in the statements of activities. Certain costs have been allocated among program and supporting services based on management estimates.

Tax Status:

The Center is a 501(c)(3) organization exempt from income taxes under Section 501(a) of the Internal Revenue Code. Management believes that the Center is no longer subject to examination by Federal and State taxing authorities for years prior to 2010.

2. Change in Accounting Principle:

Effective January 1, 2013, the Center adopted new accounting guidance surrounding service concession arrangements. The new guidance defines a service concession arrangement as an arrangement between a public sector entity grantor and an operating entity under which the operating entity operates the grantor's infrastructure, subject to certain terms. It specifies when infrastructure operated under such an arrangement should not be recognized as property and equipment of the operating entity. The Center's building and original equipment as well as certain improvements were constructed or purchased by the County and maintained by the Center. Improvements and equipment purchased by the Center were capitalized prior to 2013, however based on the guidance, the agreement with the County meets the definition of a service concession arrangement. Accordingly, opening net assets in the year of adoption (2013) have been restated to remove net property and equipment balances on a modified retrospective basis. The effect of this adjustment was to decrease net property and equipment and net assets totaling \$655,110 at January 1, 2013.

3. Accounts Receivable:

	2013	2012
Trade receivables	\$ 444,726	\$ 279,644
Less allowance for doubtful accounts	10,000	9,000
	<u>\$ 434,726</u>	<u>\$ 270,644</u>

4. Inventory:

	2013	2012
Food	\$ 32,929	\$ 34,774
Beverage	14,002	21,652
Catering service supplies	8,063	6,398
Vending machine merchandise	491	829
	<u>\$ 55,485</u>	<u>\$ 63,653</u>

5. Property and Equipment:

	2013	2012
Leasehold improvements	\$ -	\$ 792,840
Catering service equipment	-	412,106
Other furniture, fixtures and equipment	-	830,567
	-	2,035,513
Less accumulated depreciation	-	1,380,403
	<u>\$ -</u>	<u>\$ 655,110</u>

6. Short-Term Borrowings:

The Center has available a \$400,000 bank demand line of credit for working capital financing with interest payable at prime plus 1½%. The line is secured by essentially all assets of the Center. There were no outstanding borrowings under this line at December 31, 2013 and 2012.

7. Retirement Plans:

The Center maintains a noncontributory, defined contribution profit sharing plan covering essentially all nonunion employees. Employer contributions are a percentage of qualifying compensation for 2013 and 2012. Total expense under this plan was \$15,100 for 2013 and \$11,300 for 2012.

The Center's union employees are covered by defined benefit multi-employer plans pursuant to the terms of collective bargaining agreements. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Center chooses to stop participating in a multiemployer plan, the Center may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Center's participation in the plans for the years ended December 31, 2013 and 2012 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number (EIN) and the three-digit plan number. The most recent Pension Protection Act (PPA) zone statuses available in 2013 and 2012 are for the following plan year ends: December 31, 2012 and 2011 for Plan 1, December 31, 2012 and 2011 for Plan 2, and January 31, 2013 and 2012 for Plan 3. The zone status is based on information that the Center received from the plans and is certified by the plans' actuaries. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreement to which the plan is subject.

Pension Plan	EIN/Pension Plan Number	PPA Zone Status		FIP/RP Status Pending/Implemented	Company Contributions		Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
		2013	2012		2013	2012		
Plan 1	16-0908576/001	Yellow	Red	Yes	\$ 21,700	\$ 23,200	Yes	December 31, 2014
Plan 2	13-6130178/001	Yellow	Red	Yes	2,800	3,000	Yes	December 31, 2014
Plan 3	36-6052390/001	Green	Green	No	25,900	20,500	No	December 31, 2014
					<u>\$ 50,400</u>	<u>\$ 46,700</u>		

The Center was not listed in any of the Forms 5500 as providing more than 5 percent of the total contributions for the plan years ended January 31, 2013 and 2012 and December 31, 2012 and 2011. At the date the financial statements were issued, Forms 5500 were not available for the plan years ended January 31, 2014 and December 31, 2013.

BUFFALO NIAGARA CONVENTION CENTER MANAGEMENT CORPORATION

Additional Information
Schedule of Functional Expenses

For the year ended December 31, 2013

With comparative summarized totals for the year ended December 31, 2012

	Program Services	General and Administrative	2013 Total	2012 Total
Salaries and wages	\$ 948,200	\$ 406,371	1,354,571	\$ 1,241,472
Payroll taxes	101,273	43,403	144,675	128,892
Employee benefits	167,316	71,707	239,023	192,239
Total non-catering personnel expenses	<u>1,216,788</u>	<u>521,481</u>	<u>1,738,269</u>	<u>1,562,603</u>
In-house catering expenses	1,887,916	-	1,887,916	1,642,150
Professional and contracted services	17,096	125,374	142,470	200,864
Property and equipment purchases	508,154	56,462	564,615	-
Supplies	136,832	22,275	159,107	155,818
Telephone	24,526	4,328	28,854	25,444
Postage	2,505	442	2,947	3,548
Occupancy	477,737	53,082	530,819	552,823
Depreciation	-	-	-	117,466
Rental and maintenance of equipment	100,268	11,141	111,409	109,436
Travel and entertainment	18,589	2,065	20,654	20,551
Promotion, printing and publications	79,176	-	79,176	93,902
Dues and subscriptions	-	4,863	4,863	4,310
Laundry, uniforms and cleaning	6,173	2,058	8,231	5,498
Bad debts	2,863	-	2,863	9,467
Interest	458	81	539	336
Miscellaneous	-	14,725	14,725	13,585
Total non-personnel expenses	<u>3,262,293</u>	<u>296,895</u>	<u>3,559,188</u>	<u>2,955,198</u>
Total	<u>\$ 4,479,081</u>	<u>\$ 818,376</u>	<u>\$ 5,297,457</u>	<u>\$ 4,517,801</u>

BUFFALO NIAGARA CONVENTION CENTER MANAGEMENT CORPORATION

Additional Information
Schedules of In-House Catering Service Operations

For the years ended December 31,	2013	2012
Gross sales	\$ 2,352,363	\$ 2,018,794
Cost of sales	790,230	666,657
Gross profit	<u>1,562,133</u>	<u>1,352,137</u>
Operating expenses:		
Salaries and wages	682,503	608,380
Payroll taxes	121,699	109,017
Employee benefits	44,446	29,544
Total personnel expenses	<u>848,648</u>	<u>746,941</u>
Professional and contracted services	40,285	18,605
Supplies	62,278	68,747
Occupancy	54,671	63,211
Rental and maintenance of equipment	23,653	16,225
Promotion, printing and publications	62,945	55,058
Miscellaneous	5,206	6,706
	<u>249,038</u>	<u>228,552</u>
Total operating expenses	<u>1,097,686</u>	<u>975,493</u>
Net revenue from in-house catering service operations	<u>\$ 464,447</u>	<u>\$ 376,644</u>

BUFFALO NIAGARA CONVENTION CENTER MANAGEMENT CORPORATION

Additional Information
Schedule of Contracted Surplus

For the year ended December 31, 2013

Net assets	\$ 835,943
Working capital, as defined in agreement with County of Erie dated April 16, 2013	<u>2,170,101</u>
Contractual surplus (deficit)	<u>\$ (1,334,158)</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Buffalo Niagara Convention Center Management Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the balance sheet of Buffalo Niagara Convention Center Management Corporation (the Center), as of December 31, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 5, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lumsden & McCormick, LLP

March 5, 2014