BUFFALO NIAGARA CONVENTION CENTER MANAGEMENT CORPORATION

FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION

December 31, 2017

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2017 and 2016, 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, 2017 and 2016, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Additional Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying additional information on pages 9 and 10 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 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 additional 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 28, 2018, 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, 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 28, 2018

Balance Sheets

December 31,	2017	2016
Assets		
Current assets:		
Cash	$ 1,097,581	$ 950,431
Accounts receivable, net of allowance of $9,000	435,361	408,659
Inventory (Note 2)	53,961	67,219
Prepaid expenses	75,700	34,460
	$ 1,662,603	$ 1,460,769
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 250,108	$ 290,791
Accrued expenses	153,136	130,591
Deferred revenue	145,935	123,680
	549,179	545,062
Net assets:		
Unrestricted	1,113,424	915,707
	$ 1,662,603	$ 1,460,769

See accompanying notes.

Statements of Activities

For the years ended December 31,	2017	2016
Revenue and support:		
Erie County grant (Note 1)	$ 1,751,250	$ 1,725,369
Revenue from in-house catering service	3,263,775	3,166,711
Rentals	989,479	1,019,144
Technology grant	-	28,196
Miscellaneous	286,014	217,462
Total revenue and support	6,290,518	6,156,882
Expenses:		
Program services	5,130,806	5,187,664
General and administrative	961,995	1,001,980
Total expenses	6,092,801	6,189,644
Change in net assets	197,717	(32,762)
Net assets - beginning	915,707	948,469
Net assets - ending	$ 1,113,424	$ 915,707

See accompanying notes.

Statements of Cash Flows

For the years ended December 31,	2017	2016
Operating activities:		
Change in unrestricted net assets	$ 197,717	$ (32,762)
Adjustments to reconcile change in unrestricted net assets to net operating activities:		
Changes in other current assets and current liabilities:		
Accounts receivable	(26,702)	102,393
Inventory	13,258	6,688
Prepaid expenses	(41,240)	27,036
Accounts payable	(40,683)	36,385
Accrued expenses	22,545	7,032
Deferred revenue	22,255	(38,127)
Net operating activities	147,150	108,645
Cash - beginning	950,431	841,786
Cash - ending	$ 1,097,581	$ 950,431

See accompanying notes.

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 (the County). 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 Convention and Visitors Bureau, Inc. (the CVB) is an entity related to the Center through shared administration and common board members.

Governmental Support:

Under the terms of annual public benefit services contracts (service contracts) with the County, the Center received subsidies for operations in 2017 and 2016 totaling $1,751,250 and $1,725,369, representing 28% of total revenue for each year. The service contracts also require the Center to 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 2017 or 2016.

Funding by the County for the year ending December 31, 2018 is expected to continue in the form of a subsidy to the Center with similar terms. Funding beyond December 31, 2018 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 accordance 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 through March 28, 2018, 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 the 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 the 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 net realizable value.

Property and Equipment:

The Center is operated for the County under a service concession arrangement, defined as an arrangement between a public sector entity grantor and an operating entity under which the operating entity operates the grantor's infrastructure. Consequently, capital expenditures are generally expensed as incurred.

Deferred Revenue:

Deferred revenue consists of rental deposits received in advance of scheduled events. Revenue is recognized when the events occur.

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.

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.

Income Taxes:

The Center is a 501(c)(3) organization exempt from income taxes under Section 501(a) of the Internal Revenue Code.

Reclassifications:

The 2016 financial statements have been reclassified to conform to the presentation adopted in 2017.

2. Inventory:

	2017	2016
Food	**$ 15,924**	$ 25,243
Beverage	**31,646**	33,964
Catering service supplies	**4,330**	6,829
Vending machine merchandise	**2,061**	1,183
	$ 53,961	$ 67,219

3. 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, 2017 and 2016.

4. 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 2017 and 2016. Total expense under this plan was $21,000 for 2017 and $17,600 for 2016.

The Center also contributes to a defined contribution pension plan covering eligible employees of one union group. Contributions are determined pursuant to the collective bargaining agreement between the Center and this union. Total expense under this plan was $3,800 for 2017 and $3,400 for 2016.

The Center's other 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:

a. Assets contributed to the multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.
b. If a participating employer stops contributing to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
c. 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, 2017 and 2016 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 2017 and 2016 are for the following plan year ends: December 31, 2016 and 2015 for Plan 1, and January 31, 2017 and 2016 for Plan 2. 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 2017	PPA Zone Status 2016	FIP/RP Status Pending/ Implemented	Company Contributions 2017	Company Contributions 2016	Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
Plan 1	16-0908576/001	Green	Green	Yes	$ 32,500	$ 34,800	Yes	December 31, 2017
Plan 2	36-6052390/001	Green	Green	No	29,100	24,200	No	December 31, 2017
					$ 61,600	$ 59,000		

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 December 31, 2016 and 2015 and January 31, 2017 and 2016. At the date the financial statements were issued, Forms 5500 were not available for the plan year ended December 31, 2017.

5. Contingencies:

The Center is involved in legal proceedings, which in the opinion of management, will not have a material adverse impact on the financial position of the Center.

Additional Information
Schedule of Functional Expenses

For the year ended December 31, 2017
With comparative summarized totals for the year ended December 31, 2016

	Program Services	General and Administrative	2017 Total	2016 Total
Salaries and wages	$ 1,175,374	$ 503,731	$ 1,679,105	$ 1,666,739
Payroll taxes	104,975	44,989	149,964	168,813
Employee benefits	247,827	106,211	354,038	322,947
Total non-catering personnel expenses	1,528,176	654,931	2,183,107	2,158,499
In-house catering expenses	2,359,110	-	2,359,110	2,334,095
Professional and contracted services	16,525	121,179	137,704	174,666
Property and equipment purchases	85,116	9,457	94,573	265,947
Supplies	242,767	39,520	282,287	243,061
Telephone	65,036	11,477	76,513	62,618
Postage	1,599	282	1,881	2,038
Occupancy	603,690	67,076	670,766	637,480
Rental and maintenance of equipment	96,324	10,702	107,026	111,337
Travel and entertainment	27,411	3,046	30,457	24,277
Promotion, printing and publications	98,005	-	98,005	111,963
Dues and subscriptions	-	8,935	8,935	5,302
Laundry, uniforms and cleaning	6,780	2,261	9,041	13,583
Interest	267	47	314	454
Miscellaneous	-	33,082	33,082	44,324
Total non-personnel expenses	3,602,630	307,064	3,909,694	4,031,145
Total	$ 5,130,806	$ 961,995	$ 6,092,801	$ 6,189,644

See independent auditors' report.

Additional Information
Schedule of Contracted Surplus

For the year ended December 31, 2017

Net assets	**$ 1,113,424**
Working capital, as defined in agreement with County of Erie dated February 9, 2017	**2,878,548**
Contractual surplus (deficit)	**$ (1,765,124)**

See independent auditors' report.

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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 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 financial statements of Buffalo Niagara Convention Center Management Corporation (the Center), which comprise the balance sheet as of December 31, 2017, 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 28, 2018.

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 28, 2018