

**HOTEL ROANOKE
CONFERENCE CENTER COMMISSION**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2015 AND 2014

CONTENTS

	PAGE
MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)	1-6
AUDITED FINANCIAL STATEMENTS:	
INDEPENDENT AUDITORS' REPORT	7-8
STATEMENTS OF NET POSITION	9
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	10
STATEMENTS OF CASH FLOWS	11-12
NOTES TO FINANCIAL STATEMENTS	13-21
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 <i>GOVERNMENT AUDITING STANDARDS</i>	22-23

Hotel Roanoke Conference Center Commission

Management's Discussion and Analysis

Years ended June 30, 2015 and 2014

The following discussion and analysis of the Hotel Roanoke Conference Center Commission's (the Commission's) financial performance provides an overview of the Commission's financial activities for the fiscal years ended June 30, 2015 and 2014. It should be read in conjunction with the basic financial statements.

Basic Financial Statements

The basic financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). This is the same basis of accounting employed by most private-sector enterprises.

The basic financial statements include the following components:

- Statements of Net Position, which present information on assets, liabilities and net position of the Commission. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.
- Statements of Revenues, Expenses, and Changes in Net Position, which reports both operating and non-operating activities of the Commission for the purpose of presenting the overall change in net position. Changes in net position are presented in conjunction with total net position.
- Statements of Cash Flows, which report the cash flows of the Commission from operating, financing, and investing activities. A reconciliation of cash flow activities to cash and cash equivalents is included to facilitate the reader's understanding of the relationship between the Statement of Cash Flows and the Statement of Net Position.
- Notes to Basic Financial Statements, which provide additional information on the data presented in the basic financial statements.

Commission Activities and Financial Highlights

The following are major financial highlights for the years ended June 30, 2015 and 2014:

Fiscal Year 2015

- Assets exceeded liabilities by \$12,659,381 (net position) as of June 30, 2015. Net position includes \$7,628,707 invested in capital assets, and \$5,030,674 available to meet ongoing and future obligations of the Commission.
- Net position decreased \$219,354 for the year ended June 30, 2015. The unrestricted portion of net position increased \$142,572 while the portion of net position invested in long-term capital assets decreased \$361,926 compared to the prior year.
- Operating revenues increased by \$574,587 or 15.9% compared to the previous year.
- Operating expenses increased \$261,065 or 6.3% compared to the previous year.

Fiscal Year 2014

- Assets exceeded liabilities by \$12,878,735 (net position) as of June 30, 2014. Net position includes \$7,990,633 invested in capital assets, and \$4,888,102 available to meet ongoing and future obligations of the Commission.
- Net position decreased \$531,816 for the year ended June 30, 2014. The unrestricted portion of net position increased \$10,304 while the portion of net position invested in long-term capital assets decreased \$542,120 compared to the prior year.
- Operating revenues decreased by \$79,806 or -2.3% compared to the previous year.
- Operating expenses increased \$91,539 or 2.2% compared to the previous year.
- Net non-operating revenues decreased \$12,545 or 6.5% compared to the previous year.

The following discussion and analysis is intended to serve as an introduction to the Commissions financial statements.

Net Position

Total net position of \$12,659,381 decreased \$219,354, or 1.7% for the year ended June 30, 2015. The decrease in net position was due to an increase in current assets of \$38,320, or 0.7%, plus a decrease of \$361,926, or 4.5% in capital assets, net, plus a decrease in liabilities of \$104,252, or 32.2%. Total net position of \$12,878,735 decreased \$531,816, or 4.0% for the year ended June 30, 2014. The decrease in net position was due to a decrease in current assets of \$188,551, or 3.5%, plus a decrease of \$542,120, or 6.4% in capital assets, net, plus a decrease in liabilities of \$198,855, or 38.0%.

A condensed summary of the major components of the Net Position as of June 30, 2015, 2014 and 2013 is as follows:

	2015	2014	2013	Fiscal year 2015 Increase (decrease)	Fiscal year 2014 Increase (decrease)
Current assets	\$5,250,730	\$5,212,410	\$5,400,961	\$38,320	\$(188,551)
Capital assets, net	7,628,707	7,990,633	8,532,753	(361,926)	(542,120)
Total assets	\$12,879,437	\$13,203,043	\$13,933,714	\$(323,606)	\$(730,671)
Current liabilities	203,929	304,923	507,952	(100,994)	(203,029)
Long-term liabilities	16,127	19,385	15,211	(3,258)	4,174
Total liabilities	\$220,056	\$324,308	\$523,163	\$(104,252)	\$(198,855)
Net assets invested in capital assets	7,628,707	7,990,633	8,532,753	(361,926)	(542,120)
Unrestricted net assets	5,030,674	4,888,102	4,877,798	142,572	10,304
Total net position	\$12,659,381	\$12,878,735	\$13,410,551	\$(219,354)	\$(531,816)

Fiscal Year 2015

Current assets increased \$38,320 or 0.7% as a result of a \$1,949,440 increase in cash and cash equivalents, a decrease of \$2,013,998 in investments, an increase of \$103,925 in receivables, a decrease of \$2,388 in accrued interest, and an increase of \$1,341 in other assets.

The increase in cash and decrease in investments was influenced by the fact that HRCCC participates in a consolidated account managed by the City of Roanoke Treasurer. This account always maintains a base level of liquidity through investments in cash and cash equivalents. Balances above the base amount are often invested in longer-term assets, however, due to the advantageous rates offered by more liquid investment pools, the City's cash consolidated account balances were higher in proportion to investments for FY15 compared to FY14

Capital assets net, along with the related component of net position invested in capital assets, decreased \$361,926 or 4.5%. Additional details regarding capital assets can be found in Note 4 of the financial statements.

Liabilities decreased \$104,252 compared to the previous year, primarily due to timing which decreased accrued payables.

Unrestricted net position increased \$142,572 as a result of a \$64,558 decrease in cash and investments, a \$822 decrease in Trade A/R, an increase of \$104,747 in Due from HR LLC, a decrease of \$2,388 in Accrued Interest, an increase of \$1,341 in other assets, a decrease of \$104,252 A/P, accrued expenses and compensated absences.

Fiscal Year 2014

Current assets decreased \$188,551 or 3.5% as a result of an \$802,850 increase in cash on hand, a decrease of \$994,515 in investments, an increase of \$7,464 in receivables, a decrease of \$5,250 in accrued interest, and an increase of \$900 in other assets.

The increase in cash and decrease in investments was influenced by the fact that HRCCC participates in a consolidated account managed by the City of Roanoke Treasurer. This account always maintains a base level of liquidity through investments in cash and cash equivalents. Balances above the base amount are often invested in longer-term assets, however, due to the advantageous rates offered by more liquid investment pools, the City's cash consolidated account balances were higher in proportion to investments for FY14 compared to FY13.

Capital assets net, along with the related component of net position invested in capital assets, decreased \$542,120 or 6.4%. Additional details regarding capital assets can be found in Note 4 of the financial statements.

Liabilities decreased \$198,855 compared to the previous year, primarily due to timing which decreased accrued payables, primarily in capital assets.

Unrestricted net position increased \$10,304 as a result of a \$191,665 decrease in cash and investments, a \$68,883 decrease in Trade A/R, an increase of \$76,347 in Due from HR LLC, a decrease of \$5,250 in Accrued Interest, an increase of \$900 in other assets, a decrease of \$141,524 A/P, accrued expenses and compensated absences and a decrease of \$57,331 due to HR LLC.

Changes in Net Position

A condensed summary and discussion of changes in net position, revenues, and expenses for the fiscal years ended June 30, 2015, 2014 and 2013 are as follows:

	2015	2014	2013	Fiscal year 2015 Increase (decrease)	Fiscal year 2014 Increase (decrease)
Operating revenues	\$4,030,974	\$3,456,387	\$3,536,193	\$574,587	\$(79,806)
Total operating expenses	4,428,721	4,167,656	4,076,117	261,065	91,539
Net nonoperating revenues	178,393	179,453	191,998	(1,060)	(12,545)
Change in net assets	(219,354)	(531,816)	(347,926)	312,462	(183,890)
Ending net assets	<u>\$12,659,381</u>	<u>\$12,878,735</u>	<u>\$13,410,551</u>	<u>\$(219,354)</u>	<u>\$(531,816)</u>

Fiscal Year 2015

Operating revenues consist of conference charges and commissions, which increased \$574,587 or 15.9% as a result of the following:

- Commissions from food and beverage sales increased by \$56,781 or 13.3% over the prior year due to increased Hotel Banquet and Catering Revenue.
- Commissions from parking fees increased by \$21,275 or 5.0% over the prior year, due to increased Hotel occupancy and events.
- Charges for telephone usage increased by \$1,297 or 62.1% as a result of the increased number of events.
- Cancellation and other income increased \$62,517 or 1,338.4% as a result of good sized cancellations, most notably Norfolk & Southern.
- Interest Income increased \$55 or 62.1% as a result of increased balances in the bank accounts.
- The remaining increase of \$432,661 or 15.7% was the result of a number of factors:
 - Increase of \$1,037 or 0.2% in meeting rents received.
 - Increase of \$56,862 or 183.7% in Service Charges retained. ** Please note, \$45,822 of this amount is due to accounting changes starting January 2015.
 - Decrease of \$2,873 or 12.1% in Internet Revenue.
 - Increase of \$16,801 or 25.1% in Other Revenue.
 - Decrease of \$21,091 or 19.9% in Day Meeting Packages.
 - Increase of \$102,475 or 22.1% in Complete Meeting Packages.
 - Increase of \$97,104 or 16.8% in Coffee Breaks.
 - Increase of \$182,346 or 28.0% in Audio Visual revenues.
- The Conference Center's revenues are largely driven by the number of group rooms booked into the Hotel Roanoke and most importantly, the number of those group rooms that are booked on conference packages. The various components of the conference package (conference fees, coffee breaks, audio visual fees) drive our primary revenues but revenues can also be generated through a la carte groups, room rentals and any other ancillary services purchased. Single Day Meeting packages also create revenue opportunities.

Group room nights booked at the Hotel Roanoke increased 16.8% from the previous fiscal year and the package conversion ratio increased to 58.7% from 50.5% during the previous fiscal year. With an increase of 6,039 in total group room bookings and an increase of 6,489 package rooms, the impact on the Conference Center's primary revenue source was significant. We saw increases in all of the segments. First SMERF (Social, Military, Educational, Religious and Fraternal) market had an increase of 12.5%, Company meetings market had an increase 17.2%, with Convention Association increasing 45.8%. University had an increase of 6.5%. This year we ended with conference services revenue per group room of \$71.99 per room versus the previous year's average of \$72.05 per room.

- Operating expenses totaled \$4,428,721, an increase of \$261,065 or 6.3% compared to the previous year. Within operating expenses, the following was of note:
 - Departmental expenses increased \$143,339 or 9.6% due to increased revenue plus the offset of \$45,822 due to accounting changes starting January 2015.
 - Undistributed overhead expenses increased \$95,804 or 5.4% due to higher wages and other operating expenses.
 - Contractual services decrease \$3,415 or 2.2% as a result of the types of expenses that were allocated to the Conference Center.
 - Depreciation expense increased \$25,336 or 3.4% due to an increase in the amount of depreciable assets.
- Net nonoperating revenues decreased \$1,060 or 0.6% from the prior year as a result of a decrease of interest income due to reduced interest rates and balances on investments.

Fiscal Year 2014

Operating revenues consist of conference charges and commissions, which decreased \$79,806 or 2.3% as a result of the following:

- Commissions from food and beverage sales increased by \$25,992 or 6.5% over the prior year due to increased Hotel Banquet and Catering Revenue.
- Commissions from parking fees increased by \$21,092 or 5.2% over the prior year, due to increased Hotel occupancy and events.
- Charges for telephone usage increased by \$556 or 22.4% as a result of the type of events needing telephones.
- Cancellation and other income decreased \$3,453 or 39.2% as a result of decreased cancellations over a better prior year.
- Interest Income decreased \$42 or 32.2% as a result of a decrease in interest rates and previous bank balances that were higher.
- The remaining decrease of \$123,952 or 4.3% was the result of a number of factors:
 - Increase of \$75,910 or 12.7% in revenue from Meeting Rents.
 - Decrease of \$16,615 or 34.9% in Service Charges retained.
 - Decrease of \$2,871 or 10.8% in Internet Revenue.
 - Increase of \$2,625 or 4.1% in Other Revenue.
 - Increase of \$6,116 or 6.1% in Day Meeting Packages.
 - Decrease of \$61,610 or 11.7% in Complete Meeting Packages.

- Decrease of \$69,463 or 10.7% in Coffee Breaks.
- Decrease of \$58,044 or 8.2% in Audio Visual revenues.
- The Conference Center's revenues are largely driven by the number of group rooms booked into the Hotel Roanoke and most importantly, the number of those group rooms that are booked on conference packages. The various components of the conference package (conference fees, coffee breaks, audio visual fees) drive our primary revenues but revenues can also be generated through a la carte groups, room rentals and any other ancillary services purchased. Single Day Meeting packages also create revenue opportunities.

Group room nights booked at the Hotel Roanoke decreased 1.1% from the previous fiscal year and the package conversion ratio also decreased to 50.5% from 55.8% during the previous year. With a decrease of 391 in total group room bookings and a decrease of 2,118 package rooms, the impact on the Conference Center's primary revenue source was significant. We saw decreases in all of the segments but one. First SMERF (Social, Military, Educational, Religious and Fraternal) market had a decrease of 37.5%, Company meetings market had a decrease 21.6%, with Convention Association decreasing 12.5%. University had an increase of 14.4%. This year we ended with conference services revenue per group room of \$72.05 per room versus the previous year's average of \$74.68 per room.

- Operating expenses totaled \$4,167,656, an increase of \$91,539 or 2.2% compared to the previous year. Within operating expenses, the following was of note:
 - Departmental expenses decreased \$18,594 or 1.2% due to reductions in payroll and related expenses.
 - Undistributed overhead expenses increased \$47,119 or 2.7% due to higher wages and other operating expenses.
 - Contractual services increased \$18,301 or 13.6% as a result of increased Hotel revenues and allocated related expenses.
 - Depreciation expense increased \$44,713 or 6.5% due to an increase in the amount of depreciable assets.
- Net nonoperating revenues decreased \$12,545 or 6.5% from the prior year as a result of a decrease of interest income due to reduced interest rates and balances on investments.

Request for Information

This financial report is designed to provide interested parties with a general overview of the Hotel Roanoke Conference Center Commission's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director, Hotel Roanoke Conference Center Commission, 106 Shenandoah Avenue, Roanoke, Virginia 24016 or by e-mail to Debbie.Moses@roanokeva.gov.

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Hotel Roanoke Conference Center Commission
Roanoke, Virginia

We have audited the accompanying basic financial statements of Hotel Roanoke Conference Center Commission, as of and for the years ended June 30, 2015 and 2014 and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and specifications for *Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. 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 opinions.

A firm of CPAs and Financial Consultants

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Hotel Roanoke Conference Center Commission as of June 30, 2015 and 2014, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 6 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2016 on our consideration of the Hotel Roanoke Conference Center Commission'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 Hotel Roanoke Conference Center Commission's internal control over financial reporting and compliance.

Joti, Ilyna, Lauren & Company, P. C.

Roanoke, Virginia
January 25, 2016

**HOTEL ROANOKE
CONFERENCE CENTER COMMISSION**

STATEMENTS OF NET POSITION

JUNE 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,941,486	\$ 1,992,046
Investments	1,000,000	3,013,998
Trade accounts receivable	80,439	81,261
Due from Hotel Roanoke, LLC	181,094	76,347
Accrued interest receivable	21,979	24,367
Other assets	<u>25,732</u>	<u>24,391</u>
Total current assets	<u>5,250,730</u>	<u>5,212,410</u>
Capital assets, net	<u>7,628,707</u>	<u>7,990,633</u>
Total assets	<u><u>\$ 12,879,437</u></u>	<u><u>\$ 13,203,043</u></u>
LIABILITIES:		
CURRENT LIABILITIES -		
Accounts payable and accrued expenses	\$ 203,929	\$ 304,923
LONG-TERM LIABILITIES -		
Compensated absences	<u>16,127</u>	<u>19,385</u>
Total liabilities	<u>220,056</u>	<u>324,308</u>
NET POSITION:		
Net investment in capital assets	7,628,707	7,990,633
Unrestricted	<u>5,030,674</u>	<u>4,888,102</u>
Total net position	<u>12,659,381</u>	<u>12,878,735</u>
Total liabilities and net position	<u><u>\$ 12,879,437</u></u>	<u><u>\$ 13,203,043</u></u>

See notes to financial statements.

HOTEL ROANOKE
CONFERENCE CENTER COMMISSION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating revenues -		
Conference center charges and commissions	\$ 4,030,974	\$ 3,456,387
Operating expenses:		
Departmental expenses	1,640,190	1,496,852
Undistributed overhead expenses	1,878,508	1,782,703
Contractual services	149,748	153,163
Depreciation	<u>760,275</u>	<u>734,938</u>
Total operating expenses	<u>4,428,721</u>	<u>4,167,656</u>
Operating loss	(397,747)	(711,269)
Nonoperating revenues:		
Operating subsidies	160,000	160,000
Interest income	<u>18,393</u>	<u>19,453</u>
Total nonoperating revenues	<u>178,393</u>	<u>179,453</u>
Change in net position	(219,354)	(531,816)
Net position at beginning of year	<u>12,878,735</u>	<u>13,410,551</u>
Net position at end of year	<u>\$ 12,659,381</u>	<u>\$ 12,878,735</u>

See notes to financial statements.

**HOTEL ROANOKE
CONFERENCE CENTER COMMISSION**

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from conference center charges and commissions	\$ 3,927,049	\$ 3,391,592
Cash payment for goods and services	<u>(3,773,065)</u>	<u>(3,393,752)</u>
Net cash provided (used) by operating activities	<u>153,984</u>	<u>(2,160)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES -		
Operating subsidies	<u>160,000</u>	<u>160,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES -		
Acquisitions of capital assets	<u>(399,323)</u>	<u>(374,208)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	20,781	24,703
Change in investments	<u>2,013,998</u>	<u>994,515</u>
Net cash provided by investing activities	<u>2,034,779</u>	<u>1,019,218</u>
Net increase (decrease) in cash and cash equivalents	1,949,440	802,850
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,992,046</u>	<u>1,189,196</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u><u>\$ 3,941,486</u></u>	<u><u>\$ 1,992,046</u></u>

**HOTEL ROANOKE
CONFERENCE CENTER COMMISSION**

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (397,747)	\$ (711,269)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	760,275	734,938
Changes in assets and liabilities:		
(Increase) decrease in:		
Trade accounts receivable	822	68,883
Other assets	(1,341)	(900)
Due to/from Hotel Roanoke LLC	(104,747)	(133,678)
Increase (decrease) in accounts payable and accrued expenses	<u>(103,278)</u>	<u>39,866</u>
Net cash provided (used) by operating activities	<u>\$ 153,984</u>	<u>\$ (2,160)</u>
Supplemental disclosure of noncash capital and related financing activities, and noncash investing activities -		
Purchases of capital assets included in accounts payable and accrued expenses	<u>\$ 9,466</u>	<u>\$ 10,440</u>

See notes to financial statements.

HOTEL ROANOKE CONFERENCE CENTER COMMISSION

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General

The financial statements have been prepared to incorporate all fund groups utilized by Hotel Roanoke Conference Center Commission. These statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board (GASB). The operations of the Commission are proprietary in nature and as a result these financial statements are prepared to conform to proprietary type governmental financial statements.

Reporting Entity

The Hotel Roanoke Conference Center Commission (the Commission) was created by the Virginia General Assembly under the provisions of Chapter 440 of the 1991 Virginia Acts of Assembly. As a chartered political subdivision of the Commonwealth of Virginia, the Commission owns, operates, maintains, manages, and regulates a modern publicly-owned Conference Center and related facilities adjacent to the Hotel Roanoke to promote and further the educational missions of Virginia Polytechnic Institute and State University (Virginia Tech) and for the public convenience, welfare, and economic development of the entire Roanoke Valley. The Conference Center opened on April 3, 1995. The Conference Center is operated and managed by D.T. Management, Inc. (Doubletree) and certain employees of the City of Roanoke on behalf of the Commission.

Basis of Accounting

The commission follows the economic resources measurement focus and accrual basis of accounting, recognizing revenue when earned and expenses when incurred.

Cash and Cash Equivalents

Cash and cash equivalents are held in accounts in the name of the Commission and in the consolidated accounts of the City of Roanoke, acting as an agent for the Commission. The cash accounts held in the consolidated accounts of the City of Roanoke are covered by Federal depository insurance or collateralized pursuant to agreements with all participating financial institutions to pledge assets on a pooled basis to secure public deposits according to the Virginia Security for Public Deposits Act Regulations of the Code of Virginia. Such collateralization qualifies as state depository insurance.

For purposes of the statements of cash flows, the Commission considers all highly liquid debt instruments with maturities of three months or less at the time of acquisition to be cash equivalents. As of June 30, 2015 and 2014, cash and cash equivalents consisted of \$3,941,486 and \$1,992,046, respectively, of which \$3,353,692 and \$1,774,287 were cash and cash equivalents held in a pooled account maintained by the City of Roanoke. At June 30, 2015 and 2014, 94% and 100% of all cash and cash equivalents were insured or collateralized with securities held by the Commission or by its agent in the Commission's name. The Commission is in the process of revising a depository account agreement at a financial institution to help insure that all deposit balances are insured or collateralized.

**HOTEL ROANOKE
CONFERENCE CENTER COMMISSION**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT POLICIES - (Continued):

Investments

Investments include Certificates of Deposit Account Registry Service (CDARS) and are carried at estimated fair values. Net realized and unrealized gains and/or losses are reflected as interest income in the statements of revenue, expenses and changes in net position.

Fair Value Measurements

The Commission measures fair value based on a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs, other than the quoted prices in active markets, are observable either directly or indirectly, and Level 3 unobservable inputs in which there is little or no market data, which requires the Commission to develop its own assumptions. The Commission uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Commission measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Board-Designated Cash and Cash Equivalents and Investments

5% of total gross revenues during each fiscal year is designated by the Commission's Board of Commissioners for furniture, fixtures, and equipment replacement expenditures only. In addition, on November 20, 1997, the Commission adopted the policy of providing for repairs, replacements, alterations, and improvements by setting aside amounts in excess of current working capital requirements to be used for such designated expenditures.

Trade Accounts Receivables

Trade accounts receivable are recorded at the invoiced amount net of allowance for doubtful accounts of \$-0- for 2015 and 2014. The Commission does not have any off-balance-sheet credit exposure related to its customers.

Capital Assets

The Commission defines capital assets as assets with an estimated useful life of at least three years. Major additions, including those that significantly prolong a capital asset's economic life or expand usefulness, are capitalized. Normal repairs that merely maintain the capital asset in its present condition are recorded as expenses and are not capitalized. Capital assets are stated at cost less accumulated depreciation computed by the straight-line method over the estimated lives of the respective assets as follows:

Buildings and structures	40 years
Equipment and other capital assets	3 to 10 years

**HOTEL ROANOKE
CONFERENCE CENTER COMMISSION**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT POLICIES - (Continued):

Revenue Recognition

Revenues are recognized when earned.

Operating Revenues and Expenses

Operating revenues consist of charges for convention center usage and related services. Operating expenses consist of departmental overhead expenses, undistributed overhead expenses, fixed charges and depreciation. All other revenues and expenses are classified as nonoperating revenues and expenses.

Accrued Compensated Absences

The Conference Center is operated and managed by Doubletree; therefore, the Commission itself has no employees. However, the Commission is allocated salary expenses and accordingly has recorded accrued compensated absences when earned. The liability and expense are recorded as part of accounts payable and accrued expenses in the Statements of Net Position, and as a component of various operating expenses in the Statements of Revenues, Expenses, and Changes in Net Position.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consist of capital assets, net of accumulated depreciation. A restricted portion is reported when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The remaining portion is reported as unrestricted. The Commission applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Income Taxes

As a political subdivision of the Commonwealth of Virginia, the Commission is exempt from federal and state income taxes.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**HOTEL ROANOKE
CONFERENCE CENTER COMMISSION**

NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS:

The Commission follows the City of Roanoke's investment policy and accordingly may invest in the following approved investment vehicles:

- Direct obligations of the federal government backed by the full faith and credit of the United States;
- Obligations unconditionally guaranteed as to the payment by the Commonwealth of Virginia;
- Bankers' acceptances from institutions with a short-term debt rating no less than Standard & Poor's A-1 or equivalent;
- Commercial paper where the issuing corporation, or its guarantor, has a short-term debt rating no less than Standard & Poor's A-1 or equivalent;
- Corporate and Municipal bonds with a rating of at least AA by Moody's and Standard & Poor's;
- Money market funds that are FDIC registered and have a Standard & Poor's rating of at least AAAm or equivalent;
- Savings accounts, certificates of deposits, demand and time deposits that do not exceed the maximum Security for Public Deposits Act;
- Repurchase agreements collateralized by U.S. Treasury agency securities;
- Local Government Investment Pool (LGIP) administered by the Treasury Board of the Commonwealth of Virginia;
- Certificates of Deposits at institutions that are members of the Certificate of Deposit Account Registry Service (CDARS);
- Virginia Investment Pool (VIP) administered by the Virginia Municipal League/Virginia Association of Counties is an alternative investment pool for assets held six months or longer

Interest Rate Risk

The Commission's investment policy requires maturities on debt securities not to exceed five years in duration from the date of purchase in order to manage its exposure to fair value losses arising from increasing interest rates.

**HOTEL ROANOKE
CONFERENCE CENTER COMMISSION**

NOTES TO FINANCIAL STATEMENTS

3. FAIR VALUE MEASUREMENTS:

Fair values of assets measured on a recurring basis at June 30, 2015 and 2014 are as follows:

<u>Description</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	
	<u>2015</u>	<u>2014</u>
Investments - CDARS	<u>\$ 1,000,000</u>	<u>\$ 3,013,998</u>

4. CAPITAL ASSETS:

The following summarizes the changes in capital assets, net for the year ended June 30, 2015:

	<u>Balances June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances June 30, 2015</u>
Capital assets not being depreciated:				
Construction in progress	<u>\$ 93,779</u>	<u>\$ 3,727</u>	<u>\$ 12,791</u>	<u>\$ 84,715</u>
Capital assets being depreciated:				
Buildings and structures	13,295,949	10,980	-	13,306,929
Equipment and other capital assets	<u>3,556,376</u>	<u>396,433</u>	<u>182,793</u>	<u>3,770,016</u>
Total capital assets being depreciated	<u>16,852,325</u>	<u>407,413</u>	<u>182,793</u>	<u>17,076,945</u>
Less accumulated depreciation:				
Building and structures	6,717,868	380,418	-	7,098,286
Equipment and other capital assets	<u>2,237,603</u>	<u>379,857</u>	<u>182,793</u>	<u>2,434,667</u>
Total accumulated depreciation	<u>8,955,471</u>	<u>760,275</u>	<u>182,793</u>	<u>9,532,953</u>
Capital assets, net	<u>\$ 7,990,633</u>	<u>\$ (349,135)</u>	<u>\$ 12,791</u>	<u>\$ 7,628,707</u>

**HOTEL ROANOKE
CONFERENCE CENTER COMMISSION**

NOTES TO FINANCIAL STATEMENTS

4. CAPITAL ASSETS - (Continued):

The following summarizes the changes in capital assets, net for the year ended June 30, 2014:

	Balances June 30, 2013	Increases	Decreases	Balances June 30, 2014
Capital assets not being depreciated:				
Construction in progress	\$ 93,417	\$ 13,113	\$ 12,751	\$ 93,779
Capital assets being depreciated:				
Buildings and structures	13,273,394	22,555	-	13,295,949
Equipment and other capital assets	3,408,140	169,901	21,665	3,556,376
Total capital assets being depreciated	16,681,534	192,456	21,665	16,852,325
Less accumulated depreciation:				
Building and structures	6,313,590	404,278	-	6,717,868
Equipment and other capital assets	1,928,608	330,660	21,665	2,237,603
Total accumulated depreciation	8,242,198	734,938	21,665	8,955,471
Capital assets, net	<u>\$ 8,532,753</u>	<u>\$ (529,369)</u>	<u>\$ 12,751</u>	<u>\$ 7,990,633</u>

5. COMPENSATED ABSENCES:

Compensated absences as of June 30, 2015 and 2014, are included in the Statements of Net Position are as follows:

	2015	2014
Compensated absences - current, <u>included in accounts payable</u> and accrued expenses	\$ 73,508	\$ 62,092
Compensated absences - long-term	16,127	19,385
	<u>\$ 89,635</u>	<u>\$ 81,477</u>

**HOTEL ROANOKE
CONFERENCE CENTER COMMISSION**

NOTES TO FINANCIAL STATEMENTS

6. RELATED-PARTY TRANSACTIONS:

Pursuant to the amended and restated Commission Agreement (Commission Agreement) between the City of Roanoke, Virginia Tech, Virginia Tech Real Estate Foundation, Inc. (VTREF), and the Commission, the City of Roanoke issued and will repay general obligation bonds in the amount of \$12,800,000 to finance the construction of the Conference Center. These proceeds were recognized in prior years as capital contributions by the Commission.

Additionally, pursuant to the Commission Agreement, the Commission must submit an operating budget to Roanoke City Council and the Board of Visitors of Virginia Tech prior to April 15 of each year. If the budget is approved, the City of Roanoke and Virginia Tech are obligated to pay the excess of budgeted expenditures over budgeted revenues as an operating subsidy each year. The City of Roanoke and Virginia Tech each contributed \$80,000 to the Commission for the years ended June 30, 2015 and 2014. The contributions from the City of Roanoke and Virginia Tech are recorded on the Statements of Revenues, Expenses, and Changes in Net Position as nonoperating revenues.

7. COMMITMENTS:

The Conference Center is operated and managed by Doubletree pursuant to a management agreement; therefore, the Commission itself has no employees. The Commission has the right to terminate the agreement with sixty days notice. Total management fees of \$110,000 were earned by Doubletree for each of the years ended June 30, 2015 and 2014 under the terms of the management agreement. Management fees of \$9,167 were earned but not paid as of June 30, 2015 and 2014. This amount is included in accounts payable and accrued expenses in the accompanying Statements of Net Position.

In addition, the Commission paid Doubletree Hotel Corporation and affiliated companies for marketing, accounting, and data processing services, which are reimbursed at cost. A summary of these transactions for the years ended June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Accounting/data processing fees	\$ 18,950	\$ 18,950
Marketing	\$ 154,364	\$ 146,909

At June 30, 2015 and 2014 the Commission owed \$1,579 and \$1,579, respectively to Doubletree Hotel Corporation and affiliated companies related to the costs stated above, which is included in accounts payable and accrued expenses in the accompanying statements of net position.

**HOTEL ROANOKE
CONFERENCE CENTER COMMISSION**

NOTES TO FINANCIAL STATEMENTS

7. COMMITMENTS - (Continued):

On November 8, 1993, the Commission and Hotel Roanoke LLC (HRLLC), as lessees, entered into a lease with the Roanoke Redevelopment and Housing Authority (RRHA) as lessor, for property to be used as a parking lot for the Hotel and Conference Center. The term of the lease is for 50 years starting February 1, 1995. Annual lease payments are \$50,000 adjusted annually by 50% of the percentage increase in the consumer price index. However, rent payments are only due and accruable to the extent net revenues of the Hotel exceed debt service. All obligations of the tenancy are joint and several between the Commission and HRLLC except for the payment of rent which is the obligation of HRLLC. The Commission is not responsible for the payment of any rent.

On November 8, 1993, the Commission, as lessee, entered into an agreement with RRHA, as lessor, for property to be used for the construction of a public conference center. The term of the lease is for 50 years starting February 1, 1995. Annual lease payments are \$1.

On October 15, 1994, the Commission entered into an agreement with HRLLC in which the Commission granted HRLLC the exclusive right and privilege to perform and provide catering services to the Conference Center for a period of ten years from the date the Conference Center was opened. The agreement has been extended through March 2016. Pursuant to the agreement, the Commission receives 12% of gross banquet, catering, and conference revenues. Income earned under this agreement totaled \$482,552 and \$425,770 for the years ended June 30, 2015 and 2014, respectively.

On September 28, 1994, the Commission and HRLLC entered into a deed of easements agreement, subsequently amended on October 18, 2002, which states that conference service fees are generated through the use of meeting rooms in both facilities. Therefore, conference service fees are shared by the Commission and HRLLC in an equitable proportion. Under the amended agreement, HRLLC will receive 16% of the Conference Service Fees. For the years ended June 30, 2015 and 2014 contractual services includes \$95,200 and \$91,252 respectively that the Commission incurred from HRLLC's portion of conference service fees. In addition, the Commission received \$674,117 and \$510,655 from the Hotel for the years ended June 30, 2015 and 2014 respectively, for Public Room Rental.

8. RISK MANAGEMENT

The Commission carries commercial insurance to mitigate potential risks of loss related to torts; theft of, damage to, and destruction of assets; officers' liability; injuries to personnel and natural disasters. There have been no reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**HOTEL ROANOKE
CONFERENCE CENTER COMMISSION**

NOTES TO FINANCIAL STATEMENTS

9. SUBSEQUENT EVENTS:

The Commission has reviewed the financial statements as of January 25, 2016, which is the date the financial statements were available to be issued.

The Commission entered a five year management agreement with The Benchmark Management Company to operate and manage the Conference Center starting January 1, 2016. The management agreement with Doubletree was terminated effective December 31, 2015.

**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**

Board of Commissions
Hotel Roanoke Conference Center Commission
Roanoke, Virginia

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 and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Hotel Roanoke Conference Center ("the Commission"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated January 25, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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*. However our tests disclosed one instance of noncompliance that is required to be reported under *Specification of Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our test disclosed that the Commissions's cash deposits are not reported as public deposits and collateralized by the Commission's public depository in accordance with the Security for Public Deposits Act. The Commission is aware of this and in the process of revising a depository account agreement at a financial institution to help insure that all deposit balances are insured or collateralized.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Joti, Ilyna, Louisa & Company, P. C.

Roanoke, Virginia
January 25, 2016

