



American Hotel & Lodging Association

CELEBRATING 100 YEARS OF HOSPITALITY
CONTINUING THE LEGACY

American Hotel & Lodging Association
GOVERNMENTAL AFFAIRS

UNIFORM SYSTEM OF ACCOUNTS FOR THE LODGING INDUSTRY

Eleventh Revised Edition

HFTP Annual Convention
Dallas, Texas
October, 2013





Presentation Outline

- **The Process for Updating the USALI**
- **Summary Operating Statement**
 - Operating Departments
 - Undistributed Departments
 - Non-Operating Income and Expenses
 - Labor
- **Financial Statements**
- **Financial Ratios and Operating Metrics**
- **Revenue and Expense Guide**
- **Timeline for Implementation**
- **Questions and Answers**



Who is Responsible For Changes

- **Hotel Association of New York City**
Owns Copyright
- **American Hotel and Lodging Association**
Education Institute – Publisher
Financial Management Committee - Author
- **Hospitality Financial Technology Professionals**



Committee Membership

- **Hotel Industry Constituents**

- Individual Hotel Owners

- Hotel Chains

- Educators

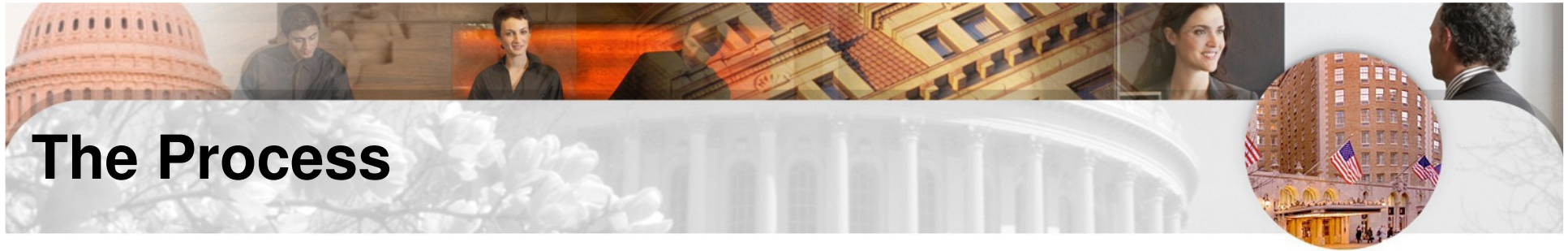
- Public Accounting

- Smith Travel Research / PKF Consulting

- Owner Representatives / Asset Managers

- Management Companies

- Consultants

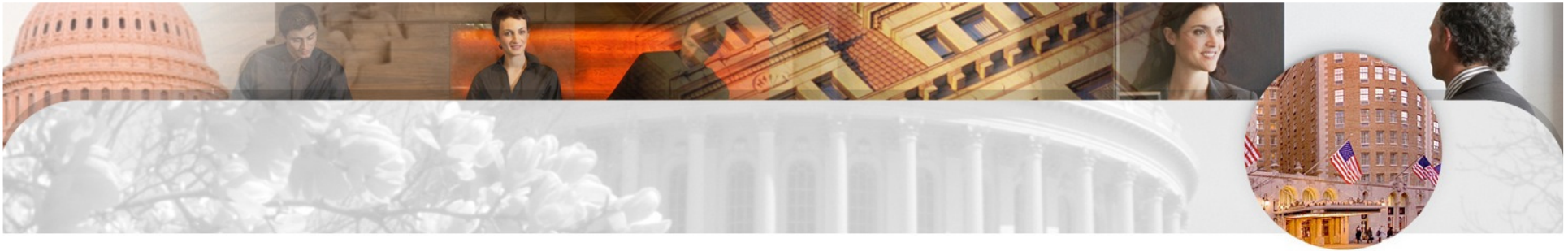


- **Financial Management Committee of the AH&LA**
- **First Meeting - November 2011**
 - Process started with a review of 2011 survey of HFTP members.
 - Each committee member added their own issues.
- **Sub-Committees Tasked With Different Sections of the Book**
- **Quarterly meetings**
 - Discussions
 - Research
 - Votes (simple majority)

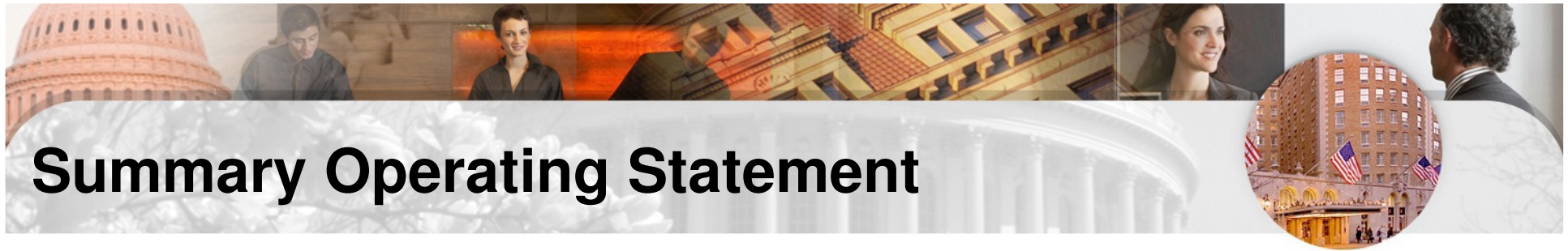


Reasons for Changes

- **Keep up with changes in industry practice**
 - Technology
 - Cluster Services
 - Sustainability
 - Distribution Channels
 - Globalization
 - Ratio Analysis
 - New Terminology
- **Keep up with changes in accounting practice**
 - IFRS
 - GAAP



Summary Operating Statement



Summary Operating Statement

Revenue

- Rooms
- Food and Beverage
- Other Operated Departments
- **Miscellaneous Income**
 - Total **Operating** Revenue

Departmental Expenses

- Rooms
- Food and Beverage
- Other Operated Departments
 - Total Departmental Expenses

Total Departmental Income



Summary Operating Statement (continued)

Undistributed Operating Expenses

- Administrative and General
- **Information and Telecommunications Systems**
- Sales and Marketing
- Property Operations and Maintenance
- Utilities
 - Total Undistributed Expenses

Gross Operating Profit

Management Fees

Income Before Non-Operating Income and Expenses




Summary Operating Statement (continued)

Non-Operating Income and Expenses

- Income
 - Rent
 - Property and Other Taxes
 - Insurance
 - Other
- Total Non-Operating Income and Expenses

EBITA (Earnings Before Interest, Taxes, Depreciation, and Amortization)



Summary Operating Statement

- For Operator

EBITA (Earnings Before Interest, Taxes, Depreciation, and Amortization)

Less: Replacement Reserve

EBITA Less Replacement Reserve



Summary Operating Statement

- For Owner

EBITA (Earnings Before Interest, Taxes, Depreciation, and Amortization)

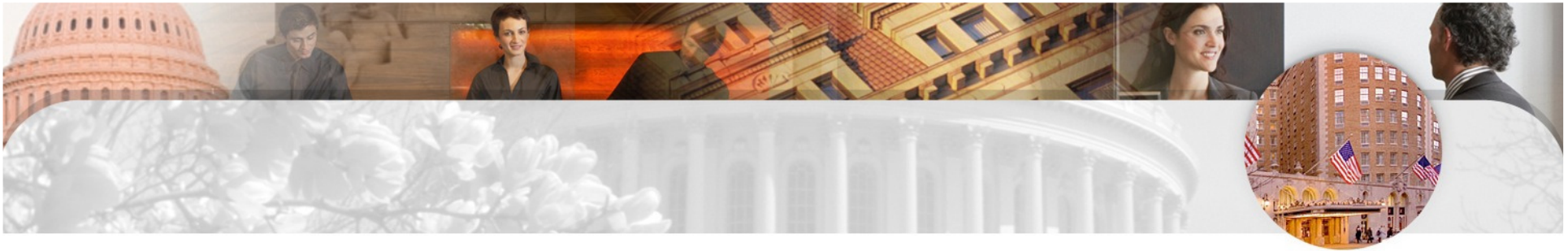
Interest, Depreciation, and Amortization

- Interest
- Depreciation
- Amortization
- Total Interest, Depreciation, and Amortization

Income Before Income Taxes

- Income Taxes

Net Income



Operating Departments



Summary of Rooms Department Changes

1. **Rooms Revenue segments** revised and listed on the face of Rooms department operating statement, and definitions added for each segment
2. **Package Revenue** language “tightened up” and package breakage treatment addressed
3. **Resort Fees** moved to Miscellaneous Income (Schedule 4)
4. Expanded **Labor Reporting** on the Rooms department operating statement to break out management vs non-management labor
5. **Rooms Service Charges** added as this is common outside the U.S.
6. **Rebates or subsidies granted directly to a group** moved to Contra Revenue vs. being treated as part of Commissions and Rebates – Group expense
7. Expanded **Complimentary Services and Gifts** expense item to three separate expense categories, to include Complimentary Food & Beverage and Complimentary In-Room/Media Entertainment



More detailed room revenue reporting, with segmentation more aligned with revenue management definitions

10 th Edition	11 th Edition
Transient <ul style="list-style-type: none"> - Commercial/ Corporate - Leisure - Government/ Military - Frequent Guest/ Preferred - Travel Packages, FIT - Hotel Packages - Internet 	Transient <ul style="list-style-type: none"> - <i>Retail</i> - <i>Discount</i> - <i>Negotiated</i> - <i>Qualified</i> - <i>Wholesale</i>
Group <ul style="list-style-type: none"> - Corporate - Association/ Convention - Government - Tour group - SMERF - Wholesale 	Group <ul style="list-style-type: none"> - Corporate - Association/ Convention - Government - Tour group / Wholesale - SMERF
Contract	Contract

**Material Change
in Transient
Segments; Added
Definitions**

**Minor Change in
Group Segments;
Added
Definitions**



Package Revenues

- **Established minimum frequency of once a year for setting ratios by which Package Revenues are allocated**
- **Encouraged more frequent ratios adjustment where needed (e.g., highly seasonal hotels like resorts)**
- **Changed allocation treatment for revenue components provided by third-party vendors to conform with GAAP, that is, to be part of the revenue allocation**
- **Added language to define “package breakage” and provided guidance to record this in Miscellaneous Income (Schedule 4), as a means of simplifying the process and causing less distortion in the other non-Rooms departments**



Resort Fees and Surcharges

Areas of Inconsistencies:

- Amount of fee (flat fee or % of room rate)
- “Allocation” of resort fees to proper revenue departments
 - Mandatory versus voluntary
- P&L statements used for benchmarking
- Reported ADR (Average Daily Rate) used for benchmarking

Therefore...



In the 11th Edition:

Resort fees now recorded in *Miscellaneous Income (Schedule 4)*

Service Charges and Surcharges include any mandatory, non-discretionary, or other charge automatically added to a customer account in respect of the use of a service or amenity, and may include, but are not restricted to, such items as:

Item :Revenue Recorded in Department

Resort fees

Miscellaneous

Income

Bag handling charges

Rooms Other

Revenue

Banquet service charge

F&B Other

Revenue



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Rooms Service Charge

Service Charge

Definition: A service charge is a mandatory amount billed to the customer's account for which the customer has no discretion as to payment, the amount of the charge, or its distribution to employees.

Treatment: Service charges must be treated as revenue and any corresponding payment of service charge to employees is treated as a wage expense.

While the 10th edition called for this treatment of service charge in the Food & Beverage department, it is recognized that many hotels generate service charge in other revenue departments (such as Rooms & Spa); therefore, this revenue category has been added to all operated departments.



Rebates or subsidies granted directly to a group

The 10th Edition had an expense category entitled, “Commissions and Rebates – Group”, which has been changed to “Commissions and Fees – Group”

- The expense category caption was changed to remove “rebates” and add “fees”
- Removed a portion of the last sentence stating, “This line item also includes rebates or subsidies granted directly to the group” to conform with GAAP, since these should be a reduction of revenue
- Added a sentence to reinforce the proper GAAP treatment of rebates or subsidies, “Rebates or subsidies granted directly to a group should be recorded as contra revenue.”



Complimentary Services and Gifts

Expanded “*Complimentary Services and Gifts*” into 3 departments:

1. Complimentary Food and Beverage
2. Complimentary In-Room/Media Entertainment (previously Cable/Satellite TV)
3. Complimentary Services and Gifts



Mixed Ownership Lodging Facilities

Mixed Ownership is reported in one of three ways depending upon the agreement between the property and the unit owner. Identifying the treatment includes a review of the Gross versus Net reporting.

Property assumes the predominant economic risk – long term. The units must be in the hotel inventory for sale throughout the entire year and the hotel has contractually assumed the predominant economic risk. The revenues, expenses and statistics are all included in the Rooms Department Operating statement.

Property assumes the predominant economic risk – short term. The units are only in the hotel inventory for sale for part of the year and the hotel has contractually assumed the predominant economic risk. The revenues and expenses are included in the Other Operated Departments section. The units are not included in room inventory or reported as rooms statistics.

Third Party Unit Owner assumes the predominant economic risk – The owner has assumed the economic risk and the commission paid to the hotel as Agent is recorded net in Rentals & Other Income. Any recovery of costs is also recorded as revenue in the same department. The units are not included in room inventory or reported as rooms statistics.



Summary of Food and Beverage Department Changes

1. Focus on *combined* Food and Beverage Operations.
2. Expanded discussion of revenue recognition in respect of Service Charges.
3. Expanded discussion in respect of Audio Visual revenue recognition.
4. Public room set-up charges added.
5. Gift certificate revenue recognition expanded.
6. Cover terminology dropped in favor of customer.
7. Some former indirect costs now charged directly to specific operating outlets; resulting in changes to expense categories.
8. Significant expansion of recommended Operating Metrics

Food and Beverage Format

Separate food and beverage summary statements are not an alternative in the 11th edition; rather, all properties must report a summary schedule that includes both food and beverage revenues. Line items for total food and total beverage revenues are presented in the new summary statement.

10 th Edition	11 th Edition
REVENUE Outlet Food Revenue Outlet Beverage Revenue In-Room Dining Food Revenue In-Room Dining Beverage Revenue Banquet/Catering Food Revenue Banquet/Catering Beverage Revenue Mini Bar Food Revenue Mini Bar Beverage Revenue Other Food Revenue Other Beverage Revenue Less: Allowances Total Food and Beverage Revenue	REVENUE Outlet Food Revenue In-Room Dining Food Revenue Banquet/Conference/Catering Food Revenue Mini Bar Food Revenue Other Food Revenue Total Food Revenue Outlet Beverage Revenue In-Room Dining Beverage Revenue Banquet/Conference/Catering Beverage Revenue Mini Bar Beverage Revenue Other Beverage Revenue Total Beverage Revenue Less: Allowances Total Food and Beverage Revenue

All food (beverage) revenue presented together

Food and beverage sub schedules optional



Food and Beverage Format

While the new summary statement reports on all activity in food and beverage operations, properties are encouraged to prepare supplemental schedules to report the operation for individual outlets or functions such as the Kitchen



Surcharges and Service Charges

Food and Beverage surcharges and service charges are consolidated in Other Revenue.

Surcharges and Service Charges generally include any mandatory, non-discretionary, or other charge automatically added to a customer account in respect of the use of a service or amenity, and may include, but are not restricted to, such items as:

Item	Revenue Recorded as
Banquet service charge	F&B Other Revenue
Restaurant service charge	F&B Other Revenue
Rooms service delivery charge	F&B Other Revenue
Corkage charge	F&B Other Revenue

The key determining factors for the recording of Surcharges and Service Charges are set out in the Appendix 1: Gross vs Net Reporting. The property must assess whether it is acting as an Agent or as Principal in the transaction in order to make a determination on reporting the revenue from that transaction on a gross or a net basis.



Public Room Rental Setup Charges

If Public Room Setup Charges are charged to guests in addition to, or instead of Public Room Rentals, and relate to the activities for the preparation of public rooms for the use intended by the guests. Such charges should be reported as Public Room Rentals and Setup Charges.



Gift Certificate Revenue

Included in Miscellaneous Other Revenue are unused or forfeited deposits related to gift certificates that are not otherwise required to be escheated to the state or local jurisdiction, or un-presented and expired prepaid food and beverage coupons.

Only the discounted value of the prepaid food and beverage coupons not redeemed, or the amount not required to be escheated to the state or local jurisdiction should be recorded as revenue.



The following accounts are added or deleted in the 11th edition.

11 th Edition Changes	
Additions	<ul style="list-style-type: none">•Cluster Services•Contract Services•Kitchen Smallwares•Reservation Expenses•Postage and Overnight Delivery
Deletions	<ul style="list-style-type: none">•Telecommunications



To be consistent with other reporting agencies the term cover, representing number of meals served, is replaced by number of customers served.



Summary of Other Operated Departments Changes

1. Gross vs Net Reporting

- Guidance regarding the reporting of revenues and expenses on a gross versus net basis has been moved to an Appendix. Additional detail provided to assist evaluation of method to record revenues, as well as more real world examples.

2. Telecommunications

- No longer an Other Operated Department.
- Revenues and cost of sales moved to “Guest Communication” in Minor Operated Departments.
- Cost of administrative phone calls and internet connectivity moved to new “Information and Telecommunications Systems” department.
- Cost of complimentary phone calls and internet connectivity moved to new “Information and Telecommunications Systems” department.
- All other telecommunications related expenses (labor, maintenance, operating supplies) moved to new “Information and Telecommunications Systems” department.



Summary of Miscellaneous Income Changes

1. Name Change

- Department name changed from Rentals and Other Income to Miscellaneous Income.

2. Package Breakage

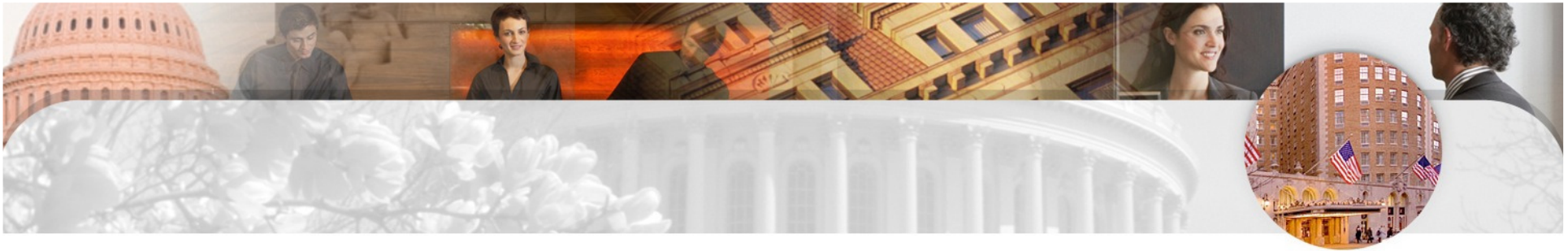
- Unused revenue from a package recorded in Miscellaneous Income.

3. Resort Fees

- The entire amount of a mandatory resort fee is recorded in miscellaneous income, even if the fee is described as covering services provided by multiple departments.

4. Additional Guidance

- Additional guidance provided regarding the definitions for Commissions, Business Interruption Insurance, Foreign Currency Exchange Unused or Forfeited Deposits Related to Gift Certificates and Gift Cards, and Interest Income.



Undistributed Departments



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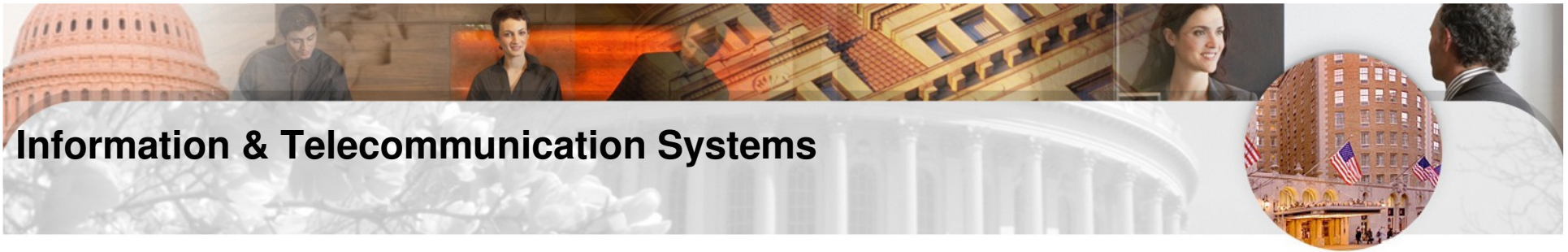
Summary of Overhead Departments Changes

1. Added fifth Undistributed Department
 - Information and Telecommunication Systems
2. Eliminated segregation of Sales and Marketing expenses
3. Eliminate or combine accounts
4. Add new applicable accounts
5. Clarify descriptions
6. Create relevant examples



Administrative & General

- Modified language and descriptions for relevancy
- Cluster Services category is added to address the current state of hotel operations.
- Combined Uniform and Laundry and Dry Cleaning categories
- Non-Guest Related Foreign Currency Exchange is added to better reflect these transactions



Information & Telecommunication Systems

- Consolidate all hotel expenses associated for information and telecommunication systems to provide better line of sight cost management
- Includes cost of cell phones, administrative call and internet services, and complimentary call and internet services.
- System expenses categorized by type of technology or by area benefiting from technology solution



Sales and Marketing

- Modified language and descriptions for relevancy
- Cluster Services category is added to address the current state of hotel operations.
- Combined Uniform and Laundry and Dry Cleaning categories
- Eliminated the segregation of Sales and Marketing sub-sections



Property Operation and Maintenance

- Modified language and descriptions for relevancy
- Cluster Services category is added to address the current state of hotel operations.
- Combined Uniform and Laundry and Dry Cleaning categories
- Eliminated Complimentary Services and Gifts as well as Decorations
- Add Vehicle Repair to address maintenance on hotel owned or leased vehicles.



Utilities

- Modified language and descriptions for relevancy
- Eliminated Utility Taxes as a stand alone expense category
- Added Contract Services to incorporate energy audits and other services to reduce consumption



Non-Operating Income and Expenses



Non-Operating Income and Expenses

- Previously known as the “Fixed Charges Section”.
- Changed title from “*Rent, Property & Other Taxes and Insurance*” to reflect that there are other items affecting the property income statement that are not from hotel operations.
- Revenue includes income from other parts of the facility that are not controlled or directed by hotel operations, such as interest income, antenna or billboard leases.



Non-Operating Income and Expenses

- Added category for owner specific expenses associated with the property not related to operations including asset manager fees and unrealized foreign exchange gains and losses.
- Added clarification that rent of buildings used for employee housing should be included herein. However, rent reimbursement to employees and the cost of operating employee housing is a Payroll Related Benefit.



Non-Operating Income and Expenses

- Clarified that Beverage Assessment (such as those charged in Texas) that cannot be passed on to the consumer should be included in F&B, not Other Assessments herein.
- Removed non-capital IT and telecommunication equipment rental (to be located in new IT schedule).
- Reiterated that rent for miscellaneous equipment, tables or chairs related to a specific function or to meet peak demand for a short-term period is not charged to Rent, but instead charged to the appropriate department.



Labor



Labor Costs and Related Expenses

Migration from Payroll Costs to Labor Costs

- Considers the growing impact of 'Outsourced Labor' in hotel operations
- Includes payroll costs plus outsourced labor in metric analysis and benchmarking



Payroll – Related Expenses

- Modified language and descriptions for relevancy
- Goal to broaden categories for payroll taxes and benefits to reflect global needs
- Added Supplemental Pay to consolidate these types of items from all departments
- Added category to consolidate benefits for ex-pats



Labor Costs and Related Expenses

New Format For Presentation in Department Schedules

Labor Costs and Related Expenses

Salaries, Wages, Contracted Labor and Bonuses

Salaries and Wages

Management

Non-Management

Subtotal: Salaries and Wages

Contracted, Leased or Outsourced Labor

Bonuses and Incentives

Total Salaries, Wages, Contract Labor and Bonuses



Labor Costs and Related Expenses

New Format For Presentation in Department Schedules (cont.)

Payroll-Related Expenses

Payroll Taxes

Supplemental Pay

Employee Benefits

Total Payroll-Related Expenses

Total Labor Costs and Related Expenses



Summary of Changes Financial Ratios and Operating Metrics

- Name changes to Financial Ratios and Operating Metrics
- The section is divided into two major categories: Financial Ratios and Operating Metrics
- In the Operating Metrics section, enhanced statistics will be provided for operated and undistributed departments, as well as labor.
- A recommended schedule for the presentation of important statistics will be provided for operated and undistributed departments.
- A recommended schedule will be provided to present labor statistics for all departments.



Summary of Changes Financial Ratios and Operating Metrics

- Average Room Rate calculation is based on “rooms sold” instead of “rooms occupied”.
- Utilities Ratios have been expanded to include: Electric cost ratios, Gas cost ratios, Steam cost ratios, Chilled Water cost ratios, Total Energy cost, Total Utilities cost ratios. In addition, energy usage ratios have been added.
- While detailed calculations about a hotel’s carbon footprints have not been approved, this edition has laid a foundation for tracking and monitoring a hotel’s environmental impact.



Revenue and Expense Guide



Revenue and Expense Guide

- Guide for reporting revenues added.
- User-friendly format – sortable and searchable



What's Next?



Implementation and Next Steps

- Industry feedback.
- Distribute book in early 2014 for implementation effective January 1, 2015.
- Deliverables (in the works)
 - Bound book
 - On-line document with search capabilities and “interactive” schedules
 - Updates provided electronically on a periodic basis



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