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Administrative and General

1. We have just adopted the USALI; is there somewhere to get more detail on specific coding? For example, I cannot find water coolers.

> **A:** Internal Consumption; Part I, Operating Statements, Administrative and General - Schedule 5, Miscellaneous, p. 91
>
> Miscellaneous includes and Administrative and General Department expenses that do not apply to other line items discussed in this section.
>
> General Guest Consumption; Part I, Operating Statements, Rooms - Schedule 1, Complimentary Food and Beverage, p. 20
>
> Complimentary Food and Beverage includes the cost of food and beverage items and related supplies provided on a gratis basis….. This also includes complimentary coffee, often offered in the hotel lobby.

General Questions

1. Is there a published list of all of the changes (not just the highlights) between the 10th and 11th editions and if so, where can I find it? The preface in the book states "select changes" which I'm assuming is not the full inclusive list.

> **A:** No. There is no published list of all of the changes made in the preparation of the 11th Revised Edition of the USALI. The "select changes" identified in the preface set out all of the material changes, which may impact several operating departments. For example, the creation of the Information and Telecom Systems Department has collateral impacts in every operating department.

2. Can you comment on the restatement of prior year financials which are currently in the 10th edition format and whether we need to go back and state prior years in the new 11th format. If we do need to restate, how many years are we expected to go back?

> **A:** It is intended that adoption of the 11th Revised Edition of the USALI be prospective and that restatement of prior years is not required. The AH&LA Financial Management Committee noted in deliberation that some anomalies will occur in bench marking 2015 against 2014 due to non-comparable data; but the impact would largely dissipate after one business cycle. In most accounting systems, where GL Accounts are just redirected into a new reporting format, the history will naturally follow; however, for new GL Accounts there will not necessarily be detailed history easily available.

3. What is the mechanism of enforcement for non-implementation of the 11th edition by my comp set?

> **A:** The primary mechanism for enforcement is the Hotel Management Agreement, if that agreement requires compliance with the Uniform System of Accounts for the Lodging Industry. Failure to comply with the reporting requirements of USALI may be a default under the management agreement, so it is recommended that parties to the respective management agreement understand the requirements. Further to that, there will be a level of compliance checking done by certain data collection companies such as STR, PKF Consulting and HotStats although that will be predicated on the truthfulness of the data provider.

4. Please clarify the treatment of pre-opening expenses?

> **A:** Under US GAAP, pre-opening expenses must be expensed as incurred.

5. Will it be necessary to count all of our sheets, towels, dishes, glassware, etc. from time to time?

> **A:** Yes, it will be necessary to count the entire inventory in the storeroom that is being amortized. A change in the 10th edition of USALI required that Operating Equipment be amortized to the expense over its estimated period of consumption. The 11th edition committee was concerned that hotels generally were not making a subsequent determination as to the accuracy of the estimated period of consumption and therefore guidance was added that the consumption estimates should be verified by periodic physical inventory count.

6. Will "Management" payroll include exempt & non-exempt or only salaried employees?

> **A:** The 11th Revised Edition of the USALI anticipated that Management Payroll would include only salaried employees. Page 145 states "In general, the payroll titles listed under

"Management" reflect positions that typically manage & supervise other employees. These positions tend to be full-time and salaried."

7. Under the Cluster Services guidance: It is unclear whether it is permitted to record operating expenses to the corresponding line rather than to this line (which would lose the detail currently provided). Payroll continues to be broken out but expenses cannot

> **A:** The 11th Revised Edition of the USALI only identifies that Labor Costs be classified and charged to the appropriate labor cost category within the department. All other Cluster Service expenses should be recorded in the Cluster Services expense line in the appropriate department.

8. Are the PMS and POS vendors under obligation to make updates to align to the new reporting standards?

> **A:** he USALI has no authority over PMS and POS Vendors. Individual Hotels need to work through their management companies, franchisors, and ownership groups to engage their vendors to update the front of house systems.

9. Is there a compulsory date to comply with the standards?

> **A:** A.The 11th Revised Edition of the USALI is effective for fiscal years beginning on or after January 1, 2015

10. What would happen if the due date 1st of Jan 2015 would not be met? Please outline the impact for owner and management reporting and other stakeholders of a company.

> **A:** Initially review your management, franchise, mortgage, other loan and similar agreements to see if any of your contracts contain the phrase, "…in accordance with the most current edition of the USALI…". If your agreements contain this phrase, then failure to comply with the most recent edition of the USALI may be an event of default in respect of those agreements. In addition, Industry benchmarking firms (STR, PKF, etc…) will be reporting 2015 data in accordance with the 11th Revised Edition of the USALI; if you are not in compliance, your benchmark comparisons will be distorted.

11. In what section of the Earnings Statement would income tax expenses be placed?

> **A:** Part I, Operating Statement, provides specific line items for Income Taxes, below EBITDA on the Summary Operating Statement for Owners.

12. Is there any resource for Casino (in a hotel) accounting standards? Casino Hotels generally consider gaming, and not hotel operations, as the primary business; accordingly, page 72 of the 11th edition of the USALI sets out a Special Notice for Casino Hotels.

> **A:** The Uniform System of Accounts for the Lodging Industry is not recommended for use by casino hotels with significant gaming operations. It is recommended that casino hotels use accounting classification systems specific to the gaming industry. I would initially refer you to you to the Gaming Audit and Accounting Guide published by the AICPA. Please also note that state laws that govern accounting procedures for gaming operations should be taken into consideration as well. However, for hotels that operate a gaming facility as an amenity to the

hotel operations, guidance is provided in All Other Operated Departments, Sub-Schedule 3-X, page 70 - 79.

13. Do you have in online resources a suggested complete chart of accounts?

A: The on-line resources for the 11th Edition of the USALI provide downloadable Excel templates/formats for each of the schedules identified. However, there is no complete chart of accounts as every company seemed to prefer to follow their own specific format.

14. We are renewing all of the linen at the hotel; could be considered a Capital Expense? The total amount is over USD$ 200,000

A: Linen is generally considered to be Operating Equipment

Guest Room Linen expense is recorded in:

Part I, Operating Statements, Rooms - Schedule 1, Linen, p. 22

Linen includes the cost, whether purchased or rented, of towels, facecloths, bath mats, blankets, guest robes, pillowcases, sheets, comforters, duvets, and bed spreads used by the Rooms department. Also includes the cost of hand towels used in public washrooms.

Food & Beverage Linen expense is recorded in:

Part I, Operating Statements, Food and Beverage - Schedule 2, Linen, p. 36

Linen includes the cost, whether purchased or rented, of table cloths, napkins, table runners, table skirt clips, and skirting used by the Food and Beverage department.

However, a limited Balance Sheet deferral may be available

Part II, Section 1, Balance Sheet, Current Assets, Operating Equipment, p. 158

Operating Equipment includes linen, china, glassware, silver and uniforms. When a property purchases operating equipment items, it must determine the period of consumption and expense the purchase over that time period. If the estimates usage of the equipment is less than one year, the item is considered a current assets and expensed ratably to the appropriate department expense account over its estimated period of consumption, not to exceed 12 months. The reasonable useful life of linen, china, glassware, silver and uniforms is typically 12 months or less, and therefore should be expensed over this period to the department that has the benefit of the asset.

Operating equipment items with useful lives of more than one year are treated as long-term assets and recorded under Other Assets. Whether the items are categorized as current or long-term assets, operating equipment items are not depreciated, but are expensed to the appropriate department expense account. On a periodic basis, the property should verify the accuracy the accuracy of the estimated consumption by taking a physical inventory of the operating equipment that remains unissued in the storeroom and comparing the value to the

Balance Sheet value on the date of the inventory. Variances may result in an adjusting entry or a correction of the consumption estimate.

Part II, Section 1, Balance Sheet, Other Assets, Operating Equipment, p. 158

Operating Equipment includes linen, china, glassware, silver and uniforms. When a property purchases operating equipment items, it must establish the period of consumption. If the period of consumption of the operating equipment items is expected to be less than one year, the items are classified as current assets. Whether the items are classified as current or long-term assets, operating equipment items are not depreciated, but are expensed to the appropriate department expense account. Most purchases of operating equipment are expected to be consumed with in a period of one year or less. However, if a property makes a bulk purchase of china, for example, and the expected usage period is greater than one year, the usage period is appropriately stated at the longer time period and the items are expensed to the appropriate department expense accounts. On a periodic basis, the property should verify the accuracy the accuracy of the estimated consumption by taking a physical inventory of the operating equipment that remains unissued in the storeroom and comparing the value to the Balance Sheet value on the date of the inventory. Variances may result in an adjusting entry or a correction of the consumption estimate.

15. We have a situation where occasionally we will have a buyout of a facility or people pay extra for the exclusive use of the facility. I think this is two different situations; however we are looking for a definitive answer on how to handle those revenues. An example of a couple scenarios follows:

Group "buys-out" the hotel. The hotel has 30 rooms and they are only using 28, but are paying for the additional 2 rooms so that no one else can stay at the property. Should those 2 additional rooms be checked in and run as room revenue, or do you post a fee equal to what that room revenue is? If you post a fee, does the revenue go to Rooms Revenue or Miscellaneous income? If it goes to Rooms Revenue, I am assuming we would also be responsible for collecting and remitting lodging tax.

The other option may be that we offer the ability to buy exclusive use of a hotel. Say they are only renting 14 rooms of the 29 rooms available, but for a $5,000 fee, we will promise not to sell any of the other rooms. Same question, rooms revenue or miscellaneous income? In this situation, they are only committing to purchase 14 rooms … and as long as they are with the same group, there could be potentially be more rooms added, but the $5,000 fee would remain the same.

A: The rooms should not be checked in to the hotel if they are not occupied, as this may distort productivity and cost measures. Revenue collected to prevent rooms from being sold cannot be matched to any expenses of the Rooms department and therefore should be credited to Miscellaneous Income Schedule 4 in the "Other" category. The same would be true of collecting a flat fee for the purpose of replacing lost profits in rooms or food and beverage, as there are no expenses in either of those departments to match against the revenue. This should therefore be coded to Miscellaneous Income Schedule 4.

16. **Subject:** Labor Costs related to Training

The book show for each department the Training Account in Other Expenses. What about the hours for each associate assisting to the Training Classes? We will need to show like payroll expense or Other Expenses?

> **A:** In each department there is an expense classification for Training expenses, which includes the cost, other than payroll costs, that can be directly attributed to the training of employees in the "______" department. Examples include the cost of training materials, supplies, certification programs, and instructor fees. The cost of employee wages incurred during training is charged to salaries and wages.

17. **Subject:** Electronic Version of the USALI

I have purchased online version of Uniform System of Accounts for the Lodging Industry Eleventh Revised Edition - eText, but i cant see it on PDF version, could you please help me to get PDF version.

A: The E-Text version of the 11th Revised Edition of the USALI is intended for a single user. There is no PDF version available, as that would permit printing multiple copies.

18. **Subject:** Tax

What are the "Key" changes in the 11th edition that will affect taxes?

A: Taxes are determined on a jurisdiction by jurisdiction basis in accordance with prevailing tax laws, codes, and authorities. The USALI only provides recommendations for recording and reporting the various types of taxes generally experienced throughout the industry.

19. **Subject:** Pre-opening Costs

I am reviewing the 11th Edition of the Uniform System of Accounts for the Lodging Industry and note on page xviii under financial statements, "additional guidance is provided regarding the handling of inventories, operating equipment, and pre-opening expenses", however don't see any guidance in the Financial Statement section. Where in the book can I find this guidance? I am looking for clarification on whether certain costs, room supplies (Room amenity supplies, ice tongs, ice buckets, soap dish, tissue box covers, eating trays, coffee trays, wastebaskets, recycling baskets, waste basket liners, Bathroom vanity kits: shower caps, shower gel, soap bars, body lotions, sewing kit, shoe shining kit, shampoos, conditioners), and meeting room supplies (Meeting room supplies: table skirts, table cloths, and table covers) should be expensed as incurred if a hotel is yet to open (i.e. if cost were incurred in 2014, but hotel didn't open until 2015, should they be expensed as pre-opening in 2014, or recorded as a prepaid expense in 2014, and expensed once the hotel opens in 2015?

A: The items that you describe may be classified as guest supplies and operating supplies. Generally guest supplies and operating supplies are expensed as incurred. However, a Balance Sheet deferral may be available.

Part II, Section 1, Balance Sheet, Current Assets, Inventories, p. 158

Inventories include the cost of merchandise held for sale and the cost of supplies used in operating the property. The cost of merchandise held for sale includes such items as food, beverage, gift merchandise, and guest supplies. The cost of supplies used in operating the property includes such items as cleaning supplies and guest supplies.

Part II, Section 1, Balance Sheet, Current Assets, Operating Equipment, p. 158

Operating Equipment includes linen, china, glassware, silver and uniforms. When a property purchases operating equipment items, it must determine the period of consumption and expense the purchase over that time period. If the estimates usage of the equipment is less than one year, the item is considered a current assets and expensed rateably to the appropriate department expense account over its estimated period of consumption, not to exceed 12 months. The reasonable useful life of linen, china, glassware, silver and uniforms is typically 12 months or less, and therefore should be expensed over this period to the department that has the benefit of the asset.

Operating equipment items with useful lives of more than one year are treated as long-term assets and recorded under Other Assets. Whether the items are categorized as current or long-term assets, operating equipment items are not depreciated, but are expensed to the appropriate department expense account. On a periodic basis, the property should verify the accuracy the accuracy of the estimated consumption by taking a physical inventory of the operating equipment that remains unissued in the storeroom and comparing the value to the Balance Sheet value on the date of the inventory. Variances may result in an adjusting entry or a correction of the consumption estimate.

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Operating Equipment includes linen, china, glassware, silver and uniforms. When a property purchases operating equipment items, it must establish the period of consumption. If the period of consumption of the operating equipment items is expected to be less than one year, the items are classified as current assets. Whether the items are classified as current or long-term assets, operating equipment items are not depreciated, but are expensed to the appropriate department expense account. Most purchases of operating equipment are expected to be consumed with in a period of one year or less. However, if a property makes a bulk purchase of china, for example, and the expected usage period is greater than one year, the usage period is appropriately stated at the longer time period and the items are expensed to the appropriate department expense accounts. On a periodic basis, the property should verify the accuracy the accuracy of the estimated consumption by taking a physical inventory of the operating equipment that remains unissued in the storeroom and comparing the value to the Balance Sheet value on the date of the inventory. Variances may result in an adjusting entry or a correction of the consumption estimate.

20. **Subject:** Recovery for Guest Damage to Hotel Room

I am trying to determine where we would code money collected from guest for damage to their hotel guest room. I tried to look in USALI 11 th edition and couldn't locate it. Should it be revenue? If so, should it be taxable or is it a contract expense?

A: The first step is to determine whether any of the recovery for damage from the guest is being made in respect of individual capital assets, such as a night stands or televisions. For the loss of capital assets, GAAP would dictate that the damage recovery be treated as proceeds of disposition for the calculation of a gain or loss on disposal of a fixed asset. In this scenario any gain or loss on the disposal of the fixed asset item(s) would be recorded in Non-Operating Income and Expense - Schedule 11, Other, Gain/Loss on Fixed Assets.

Any recovery for damages made that does not related to individual capital assets, would be considered a surcharge if it met the definition as a ``mandatory, non-discretionary, or other charge automatically added to a customer account in respect of the service or use of an amenity``, and would be recorded in Rooms - Schedule 1, Other Rooms Revenue, Surcharges and Service Charges. Another related item that would be recorded as surcharges in the Rooms Department would include, the surcharge for smoking in a non-smoking room.

21. **Subject:** Profit & Loss Statement for Investors

Some Investor groups are requesting changes to the Profit & Loss Statement structure below EBITDA as follows: EBITDA FF&E Reserve EBITDA Less Replacement Reserve FF&E Reserve (Contra) Interest Depreciation Amortization Asset Management Fee Partnership Expenses TOTAL INTEREST, DEPR/AMORT & OTHER Income Before Income Taxes Income Tax Net Income. Is this format acceptable to use and still be considered in compliance with the 11th edition standards?

A: We confirm our understanding of the question; Is the following proposed format (below EBITDA) acceptable and in compliance with the 11 th Revised Edition of the USALI?

EBITDA	________
Replacement Reserve	(________)
EBITDA less Replacement Reserve	________
Add Back Replacement Reserve	________
EBITDA	________
Interest Expense	
Depreciation & Amortization	
Asset Management Fees	
Partnership Expenses	________
Income before Income Taxes	________
Income Taxes	________
Net Income	________

The 11 Revised Edition of the USALI provides two separate conclusions to the Summary Operating Statement, below the EBITDA line; one which is intended for operators, which includes a deduction for any required Replacement Reserve, to report EBITDA less Replacement Reserve; and one for Owners' which includes deductions for Interest, Depreciation & Amortization, and Income Taxes, to report Net income.

In addition, the 11 th Revised Edition of the UALI provides for Owner Expenses, including such items as asset management fees and partnership expenses, in Non-Operating Income and Expenses - Schedule 11; accordingly these costs are recorded in the determination of EBITDA.

Accordingly, we conclude that the proposed format (below EBITDA) is not in compliance with the 11 th Revised Edition of the USALI.

22. **Subject:** Expense Allocation

Where can we book the expense of a property visiting?

A: If such costs are incurred for property inspections by representatives of the Hotel Management Company, whether paid directly by the hotel or captured by the Hotel Management Company and charged back to the hotel, they should be recorded in Administrative and General - Schedule 5, Corporate Office Reimbursables.

If such costs are incurred for property inspections by Owner representatives or an Asset Manager, whether paid directly or recorded by the hotel or captured by the Owner representative or the Asset Manager and charged back to the hotel, they should be recorded in Non-Operating Income and Expenses - Schedule 11, Other, Owner Expenses.

23. **Subject:** USALI Query - Key Money

Hotel Management Company offers a hotel owner key money for a 20 year management contract. (Ex: $100,000). Management Company wants to book as intangible asset and amortize over the term of the contract. At the same time the management company considers the key money to be a discount on future base management fees.

A: <u>Hotel Management Company</u>

To obtain a contract, an entity may incur incremental costs (Key Money) that it would not have incurred it if had not obtained the contract. If the entity expects to recover the costs, they should be recorded as an asset and amortized as an expense over the term of the contract. If the amortization was to be for less than a year, or there is no expectation that the costs will be recovered, then they should be expensed as incurred.

The entity should recognize a contract asset for the Key money if the following three criteria are met:

- The costs are directly related to a contract or an anticipated contract
- The costs generate or enhance resources that will help satisfy future performance obligations
- The entity expects to recover the costs

The asset should be subject to impairment testing.

There are also documented examples where the Key Money is considered a discount on future fees and should be amortized as a reduction of future revenues as they are received. The treatment will depend on the contract language and the interpretation taken by the company and their auditors.

<u>Hotel Owning Company</u>

The accounting treatment would be determined on the specifics of the contract, however, if the Key Money has been paid to the Owning Company to secure the contract and did not impact the amount of fees payable under the contract, since most hotel companies have fixed fee % schedules, then the Owning Company, should credit the amount to the balance sheet as deferred income and consistent with the matching principal, recognize it as revenue rateably over the length of the management contract.

24. **Subject:** RE: Question about USALI revenue recognition versus expense

We have members of a resort that are entitled to receive a 20% discount on their food purchases at the outlets. The manager has taken the approach of recording 100% of the revenue as revenue and then the 20% discount as an expense. We have searched the F&B department and there are no expense line items for this purpose. Moreover, we are not sure this is in compliance with GAAP since the customer is only charged 80% of the retail rate of the food.

Owners of homes at the resort also get a 50% discount on hotel rates. Again, manager is taking position that this is booked at 100% of retail and then expense 50% to owner expense. This doesn't at all sound like GAAP. Why would this discount rate be any different than a corporate rate? Are we missing something here too?

These member and home owner entitlements to the F&B and Room discounts originate from the original purchase of the membership or the home and the entitlements are enshrined in the Home Owner Association and Membership agreements. These entitlements do not have any limits or use restrictions; except that the plan can be modified from time to time (recently extended to include discounts on Beverage but discounting allowing homeowners to bring their own wine).

Additionally, the Owner of the Hotel and Commercial areas of the Resort is entitled to Discounts. The discounted amount is being charged by the Manager to Fixed Expense and the Revenue recorded at full retail. The percentage to be discounted off of retail and the owners/affiliates entitled to the discounts are specified in the Management Agreement but there are no specifics in the document on how the accounting is to be handled.

The Management Agreement does specify compliance with USALI and GAAP.

Can you help direct us?

A: The Financial Management Committee ("FMC") is not an adjudication body, and does not make rulings or provide opinions on compliance with Generally Accepted Accounting Principles ("GAAP"); rather the FMC provides guidance on the interpretation for financial reporting in accordance with the Uniform System of Accounts for the Lodging Industry ("USALI"). You may wish to consult your Certified public Accountants to obtain an opinion on whether the revenue recognition practice being followed is in accordance with GAAP.

That said, GAAP generally requires that revenue is measured at the fair value of the consideration received or receivable at the time of the transaction or the transaction measurement date. In short, revenues are recognized at the amount recoverable from the contracting party (usually the customer, but not always); the FMC believes that the USALI complies with GAAP revenue recognition principles.

There are a number of examples where this practice is followed in the hotel industry:

- when a hotel sells guest rooms to wholesalers, revenue is recorded on the basis of the agreement with the wholesaler (because this is the consideration received by the hotel) notwithstanding that the wholesaler is expected to resell the guest room to the customer at some other price;
- when a hotel participates in loyalty program redemptions, guest room revenue is recorded at the amount recoverable from the loyalty program administrator, notwithstanding that the recoverable amount is often lower that the then current market rate for the guest room; and
- when a hotel sells guest rooms to a group that is subject to a rebate or subsidy calculated on the basis of the number of guest rooms realized, any rebate or subsidies granted to the group is recorded as contra-revenue and effectively reduces the room revenue realized to the net amount recoverable from that group.

Generally, there is no gross up in revenue recognized with an offsetting expense.

In the food & beverage industry, when discounts or coupons are honored, the revenue is recognized at the amount recoverable from the customer; that is net of the coupon or discount. Again, generally there is no gross up of the revenue and recording of an offsetting expense.

An exception may exist, in the limited case, where the discount entitlement arose as a result of contractual obligations related to the purchase of an ownership interest. But only to the extent that, at the time of the purchase of the ownership interest, a portion of the ownership interest purchase price was set aside to recognize the future discount liability. In such case, revenue may be recognized at full market value with the difference between full market value and the discounted value charged against the future discount liability originally established for that particular owner. However, once the future discount liability for that particular owner is exhausted, any future revenues are recorded at the discounted amount.

If the management agreement specifies inclusions for the purpose of fee or performance test calculations, then the specific provisions need to be acknowledged for the specific purpose; however, that does not mean that reported revenue should be overstated for the purpose of financial reporting or industry standard benchmarking (average rate, RevPAR, etc.) analytics. Assuming that the resort in question is located in the USA, then US GAAP should prevail, independent of whether the management agreement is silent; if the resort is located in another jurisdiction, then it is likely that IFRS will prevail.

We reiterate that you may wish to consult your Certified public Accountants to obtain an opinion on whether the revenue recognition practice being followed by the resort is in accordance with GAAP.

25. **Subject:** Commission-type Expenses

I have a question about a commission-type expense we are paying some employees. The payout is based solely on the hotel exceeding budgeted room sales, and we then pay a 15% commission (bonus) of that amount to all employees in F&B and Housekeeping. (about a 65/35% split, respectively) I noticed that the newest blue book shows a Commissions account in F&B Other Expenses, and suggests charging the total amount to Rooms when both Rooms and F&B benefit. The employees don't have to do anything specific to earn the commission, it simply is paid when the hotel exceeds rooms budget, as part of the CBA. So I have some questions: Should this expense be charged to both F&B and to Rooms? Or just Rooms? Should the expense be shown in Bonus/Incentives or perhaps in another account? Alternatively, might this expense be properly classified as an A&G or Sales/Marketing expense, and not charged to the operating departments at all?

A: The 15% bonus that you pay employees for exceeding revenue targets should be equitably charged to; Rooms - Schedule 1, Labor Costs and Related Expenses, Bonuses and Incentives; and Food and Beverage - Schedule 2, Labor Costs and Related Expenses, Bonuses and Incentives.

Food and Beverage - Schedule 2, Commissions, includes remuneration paid to authorized agents for securing business strictly for the benefit of the food and beverage department.

26. **Subject:** Chart of Accounts

Is there an industry Chart of Accounts that can be imported from say Excel into a General Ledger package?

A: There is no industry standard chart of accounts that can be imported. However, all of the schedules identified in the 11 th Revised Edition if the USALI are available in downloadable Excel formats from the

AHLEI / USALI Portal. With these schedules it is quite easy to create a chart of accounts that will provide the recommended reporting.

27. **Subject:** Hiring Bonus

I am hiring a new manager with the stipulation that we will pay a portion (80%) of the bonus that he would have otherwise been paid had he stayed at his current employer through year end. I am interested in splitting the payment into two equal pieces, so we don't get too far ahead of ourselves, with the first payment due at year end 2015, and the remainder due six months later, when he will have "earned it" by still being actively employed by us and, therefore, ostensibly performing well.

My simple question: should the entire expense be captured in 2015, or is it acceptable to accrue for and expense the second payment during those six months in 2016?

A: For accounting purposes revenue and expense transactions are recognized on the basis of a triggering event.

The question is, is the agreement to pay the 80% of the bonus that the general manager would have earned, through his previous position contingent on any future event, other than showing up for work on October 15. (such as being contingent on; remaining an employee for at least 12 months, attaining a specified level of profitability, etc.).

If the answer above is no, then the entire expense needs to be recognized in the accounts on October 15; independent of any particular terms related to the settlement of the liability.

If the answer above is yes, then the expense recognition would depend on the specific terms and legal interruption of the relevant contingency. For example, what would be the position of the State Labor Board on the enforceability of a claim by the employee?

Based solely on the information which you provided, you have committed to a "Hiring Bonus" that does not appear to be contingent on anything meaningful.

28. **Subject:** Capital Replacement Reserve

1). Is the capital reserve a non-GAAP adjustment simply shown on the Operating Statement for internal management reporting purposes? Or, is the capital reserve an actual entry made to the financial statements?

A: The Capital Replacement Reserve is a non-GAAP adjustment shown on the Summary Operating Statement for Operators (where contractually required).

A Capital Replacement Reserve is usually required pursuant to a Management Agreement, Franchise Agreement, or lending agreements. In its simplest form, it is an allocation of cash flow to provide for the maintenance of physical capital, it is not a charge in the determination of Earnings before Interest, Taxes, Depreciation and Amortization or in the determination of Net Income.

2). If the reserve is actually recorded, what are the entries?

Dr. Expense
Cr. Reserve
- Monthly accrual

Dr. Reserve
Cr. Cash
- Capital expenses incurred to update rooms roughly every 7 years (i.e. new carpet, furnishings, etc.)

A: When the Capital Replacement Reserve is recorded, it is a reclassification of cash from the General Bank Account (Non-Restricted Cash) to the Capital Replacement Reserve Bank Account (Restricted Cash); where the cash is accumulated until needed to pay for Capital Replacements. GAAP requires that Restricted Cash be separately classified as current or non-current based on the nature of the restriction.

3). If the reserve is actually recorded, do the financial statements need to be adjusted to be in compliance with GAAP? To reflect the new assets (new carpet, furnishings, etc.) on the balance sheet?

A: When appropriate Capital Replacement costs are incurred, the new costs are capitalized to the appropriate Property and Equipment accounts and the payments are made through the Capital Replacement Reserve Bank Account. In addition, the appropriate Property and Equipment accounts need to be relieved of the original cost and accumulated depreciation for any older assets that are being replaced.

Rooms Department

1. Where are Cancellation/Attrition revenues to be booked?

> **A:** Should be recorded as Miscellaneous Income - Schedule 4

2. Are rebates and group commission expense ever recorded in S&M?

> **A:** No. There is an account in the Rooms Department specific to paying third party commissions on booked group business, as it is matched to the room revenues. Rebates negotiated in the group contract should reduce the revenue under GAAP rules. The rebates are now identified in the 11th edition as a reduction to revenue which will correctly reduce ADR and RevPAR.

3. Regarding Package Revenue, how is STR ensuring properties that are not public reporting packages correctly and reducing room revenue for package elements?

> **A:** STR will question hotels when their data does not appear to be correct, or is inconsistent with historical data, however this may not identify every instance of inaccurate coding by hotels.

4. Are rebates and group commission expense ever recorded in S&M?

> **A:** No. There is an account in the Rooms Department specific to paying third party commissions on booked group business, as it is matched to the room revenues. Rebates negotiated in the group contract should reduce the revenue under GAAP rules. The rebates are now identified in the 11th edition as a reduction to revenue which will correctly reduce ADR and RevPAR.

5. Recently, I've received a couple of inquiries about handling cancellation and attrition fees. The fact that these no longer influence ADR and RevPAR is a pretty big issue.

> **A:** The only change from the 10th edition is cancellation on transient guests. Attrition and group cancellation was previously in Miscellaneous Income.

6. Can we reclassify our Resort Fees as Rooms Service Charge to maintain our ADR?

> **A:** No for several reasons. Resort Fees are charged for the purpose of generating revenue to allow guests of the resort access to fitness facilities, spa, pool and other resort related facilities. Service Charges are assessed for the purpose of providing labor services to the clients specific to the department that charges the fee. Service Charges are common in many geographic areas around the world, however are not common in the Rooms Department in the United States. While both are mandatory charges to the customer, Service Charges in many US states (and the number seems to be increasing) must be paid to the employees of the hotel, whereas Resort Fees are not. Hotels should not change the characterization of the charge merely for the purpose of reporting ADR. It is recommended by the AH&LA Financial Management Committee that hotels which charge a Resort Fee continue to classify it as Resort Fee and credit the revenue to the Miscellaneous Income Department (Schedule 4). Fortunately, the 11th edition revision will give STR enforcement power of a clear policy to allocate ANY and ALL resort fees to Miscellaneous Income starting January 1, 2015.

7. For hotels that offer free breakfasts and cocktails, does the cost come out of the room rate unlike Embassy Suites and Hampton Inns?

A: The operating expenses associated with the routine offering of complimentary food and beverages, to all guests, are recorded in the Rooms Department under Complimentary Food and Beverage; they are NOT deducted from the room rate.

8. The fee paid to an organizer of a sports tournament i.e. hockey or soccer is this a rebate or commission? The fee is paid to the club hosting the tournament and not the room guest.

A: The Rooms Department of the 11th Revised Edition of the USALI identifies that; Commissions and Fees - Group, includes payments made to third party meeting planners who act as a liaison between the hotel and group in finding suitable meeting and accommodation space, as well as fees paid to third-party housing companies. Rebates or subsidies granted directly to a group should be recorded as contra revenue. Your question refers to a fee paid to an organizer, which is probably not a rebate or subsidy granted directly to the group; the fee should probably be recorded as a Commissions and Fees - Group expense within the Rooms Department.

9. How will Sales and Hotel taxes be handled with the change of rebates being a reduction of room revenue?

A: Sales and Hotel Taxes are dependent on the specific taxing jurisdiction's definition of the revenue being taxed.

10. Please clarify Airport Van Maintenance. The Expense by Department lists it under guest transportation in Rooms but the definition on page 21 states, "the costs of mechanical maintenance of vehicles used to transport guests are charged to Property Operation and Maintenance - Schedule 8". My question is what goes under airport van maintenance?

A: Guest Transportation, in the Rooms Department, Schedule 1, would include normal operating costs such as fuel costs, cost of washing and cleaning the vehicle. Vehicle Repair, in Property Operations and Maintenance - Schedule 8, would include costs related to vehicle maintenance such as oil changes, tune-up, tires, etc.

11. The new 11th edition just specifies that OTA Opaque goes into discount. It does not specify where the OTA Retail goes. Which of the five Transient Rooms Revenue categories or segments should OTA Retail go?

A: The 11th Revised Edition of the USALI provides detailed guidance for rooms revenue categories or segments; however, there is no consistent use of classifications or categories in the lodging industry beyond the five major categories identified. The examples we provided were vetted with the revenue management community and generally agreed upon. In the case of OTA retail, which is technically a channel rather than a segment, most companies reflect this channel in the discount category; depending on the room rate achieve.

12. Where are pet fees and smoke-cleaning fees recorded? I can't find them in the Revenue and Expense Guide?

A: Pet Fees and Smoke-Cleaning Fees are considered to be Surcharges and accordingly are recorded in Other Rooms Revenue.

13. Will historical Internet gross rates and Internet net rates both be mapped to Retail, or gross to Retail and net to Discount?

A: The 11th Revised Edition of the USALI provides detailed guidance for rooms revenue categories and segments; it is the classification of the revenue that is important not whether the internet (OTA) rate is gross or net of the selling commission. If the internet rate represents a market positioned, seasonally priced room rate for transient business, that is always available when the hotel has rooms to sell and the rate is not further discounted and has no qualifications; then classification as Retail is appropriate.

14. I cannot find anywhere to code expense related to guest relations and service recovery (something provided to an unhappy guest). We code loyalty program point purchases on behalf of guests to a service recovery account and anything else to guest relations, both accounts in rooms department. I'm not sure what to do with these accounts. I've reviewed all departments.

A: Recovery Costs related to customer service deficiencies should be captured as a Miscellaneous Expense item in the relevant department, or Entertainment-In House if the recovery involves purchasing Food & Beverage for the customer.

15. The 11th edition has changed the treatment for the third party portion of packages compared to the 10th edition, providing that "The third-party portion of a package should be recognized as a revenue in the appropriate department …". However, it is not clear how the revenue should be reported. Considering the emphasis given in the 11the edition to refer to Gross vs. Net reporting for any source of revenues, can we also assume that the treatment of the third party goods or services in relation to a package should require the same determination? This would be consistent with the wording provided for resort fees. Could you please advise?

A: The terminology and guidance of the Uniform System are intended to be consistent with accounting principles generally accepted in the United States of America (GAAP). It is the intent of the Financial Management Committee that all revenues would be treated as gross or net based on a determination of the factors outlined in Part V of the 11th edition. In this case the third-party portion of a package should be recognized as revenue, either gross (Other Operated or Minor Operated Departments) or net (Miscellaneous Income). Properties at their discretion should set up Other Operated departments which include revenue, labor and expenses, or Minor Operated departments, which contain both a revenue and expense component, but do not include labor costs.

16. **Subject:** Available Rooms

The definition of Extended Closed Rooms in the 10th edition of the USALI contained the phrase "on a non-discretionary basis". This was removed in the 11th edition, can you explain why?

If an owner purchases a property with the intent to fully renovate all of the guest rooms at the property, and the breadth of renovation work required is such that the guest rooms cannot be rented for a period of no less than 180 consecutive days, should these under-renovation rooms be removed from the RevPAR calculation?

A: It is the intention of the USALI 11th edition, that rooms removed from salable inventory for a period of six months or more would be done for non-discretionary reasons as described by the examples given on page 196 (damage due to hurricane, earthquake or fire). There should be NO adjustment in room availability if rooms are temporarily out of service for renovation.

17. **Subject:** Leasing Linen

Dear Financial Management Committee, One of our property is currently leasing (not renting) the linen from a third party company and is charging this under GOP (like photocopy machine). The laundry/cleaning cost is registered under room expense as normal. By allocating the lease below GOP, the hotel is generating a higher incentive fee. As it is a lease not a rental, the hotel is convinced they are correct but I would like to challenge their view.

> **A:** Operating equipment inclusive of linen is not to be depreciated, but is expensed to the appropriate department expense account (P. 159). Other property and equipment rent below the GOP line specifies that the rental is for other major items which, had they not been rented, would be purchased and capitalized as property and equipment (P. 122). The committee is of the opinion that regardless of the terminology of renting versus leasing, linen would not be capitalized and therefore is an expense to the appropriate department.

18. **Subject:** Room Cancellations vs Guaranteed No-Show

What is the main difference when GNS should be charged or a room cancellation be charged?

A: Cancellation Fees are included in Miscellaneous Income - Schedule 4, Cancellation Fees. Fee income received from transient guests and groups that cancel their reservations for guestrooms, food and beverage, and other services after a contracted or cut-off date.

No-Show Revenue is included in Rooms - Schedule 1, Other Rooms Revenue. No-Show Revenue is derived from a transient or group guest who has individually guaranteed payment to reserve a room, but has failed to occupy the room.

There main difference is that advance notice is usually supplied in respect of a cancellation and cancellation fees are determined in relation to the specific contract.

In an instance where a room was booked online and the cancellation policy at the time the reservation was made says you may cancel at no charge until 1 day before arrival that would be a GNS no matter what correct? Even if I contacted the hotel and let them know after the cut off.

For it to be a cancellation fee there has to be a contract which is separate from a individually guaranteed reservation?

A. Here is the best example I have; from my current hotel reservation for HITEC in Austin.

My reservation for June 14 to 17, 2015 was made on-line, is guaranteed by credit card and has the following Cancellation Policy

- If I cancel before May 15, 2015 there is no penalty;
- If I cancel between May 15 and up to 72 hours before my arrival date there is a $25.00 cancellation fee;
- If I cancel within 72 hours of my arrival date the hotel may charge up to the full deposit for one night room and tax; and
- If I do not check-in on June 14, I forfeit the full deposit of one night room and tax.

My interpretation of the USALI

- If I cancel between May 15 and before midnight on June 10 (23:59), the $25 penalty is a cancellation fee.
- If I cancel after midnight on June 11 (00:01), the first night's room charge is a cancellation fee.
- If I do not cancel, but do not arrive to check-in on June 14, the first night's charge is No Show Revenue.

Although the room block arrangements were established separately between the group and the hotel; my contract with the hotel for this reservation includes all of the cancellation and GNS options, and as I have guaranteed to a credit card the credit risk has been mitigated.

19. **Subject:** Package Allocation / Breakage

I'm wondering if you can help me understanding better the concept of Package Breakage as described in the 11 th edition.

"In some circumstances, the guests will either not consume all of the components that are included in the package or will spend more than the market value allocated to the non-rooms component of the package. If the hotel elects not to charge or refund the guest, the residual value that remains is commonly referred to as package breakage. Package breakage should be recorded to Miscellaneous"

While I'm very familiar with the logic of a guest not consuming all elements (i.e. breakfast) I struggle to understand the situation of over spending. In particular it is not clear to me what should be the reference amount to calculate the over spend.

To clarify my doubts, let me give you a quick example:

Let's assume that I have a package including only room and breakfast: total package price is $100 and my package allocation based on market value is $80 room and $20 breakfast

The amount of $20 for breakfast is clearly lower of the breakfast full price which is $30 (market value used for the package allocation). So if I have to calculate the overspend of a guest should I refer to $20 or to $30?

If I compare to $20 essentially every time I sell a package the guest is consuming for $30 but charged $20 so the over spend is $10 that I should book in Miscellaneous as a breakage

If I compare to $30 I should probably checking if the guest get a much larger breakfast for a total value over $30 and the additional amount should be booked as breakage in Miscellaneous

My confusion is driven by the sentence above where we say: Spend More than the Market Value Allocated to the non-rooms component…….

Can you help me out understanding what the meaning of this sentence is?

A. The components of the package are each discounted by an equal percentage. In the example provided, if the market value of the breakfast is $30 and the package value is $20, then the discount is 33.3%. This would mean that the market value of the room is $120 discounted to $80 for the package. The market values represent "the average realized amounts achieved by the property for similar services". If the guests purchasing packages are consistently consuming a breakfast in this example that has a market value greater than $30, they will be creating the negative breakage. The market value of the breakfast consumed discounted by 33.3% exceeds the package allocation amount of $20. It is for this reason that the USALI 11th edition prescribes that ratios should be analyzed at least annually and modified more frequently if there are material changes to the market values.

19. **Subject:** Contacted Rooms Cleaning Services

Our hotel has a contract with an outsourced supplier to provide their services to clean the hotel rooms on a daily basis. • Supplier is paid on a "room cleaned" basis and not per employee or hours spend. The invoice states number of rooms cleaned x agreed price per room. The agreement clearly states that cleaning supplies are of their own responsibility and are included in the price. • Our hotel doesn't bear any obligation for social security, wages etc. against the contractor's used personnel for this service. • Our hotel informs supplier about the rooms that need to be cleaned each day rather than staff or hours to achieve the result. Please advise if this kind of expense should be considered as "contracted cleaning services" in "other room expenses" or should be under "payroll expenses"?

A: The 11 th Revised Edition of the USALI intended to capture the costs, associated with using a third party supplier that performs duties customarily performed by hotel employees, in Labor Costs and Related Expenses; Contracted, Leased and Outsourced Labor.

If the contractor supplies employees based on time worked and who are supervised by hotel managers and the time worked can be captured, then they are implicitly performing the job of a hotel employee and would be charged to Labor Costs and Related Expenses; Contracted, Leased and Outsourced Labor. However, if the hotel is contracting for a "whole service", where the price charged is a fixed price or per unit price inclusive of labor and supplies and the employees are not directly supervised by hotel personnel that "whole service" is being contracted, and as a result should be recorded as Rooms Department, Contract Services. Benchmarking statistic for the departmental operating results against published industry operating metrics may be invalid due to the lack of productivity statistics.

20.**Subject:** Guest Supplies

Definition for Guest Supplies

A: USALI 11 th Revised Edition, p 21
Guest Supplies includes the cost of consumables supplies and amenities provided for guests in the guest room, such as soaps, shampoos, lotions, toilet tissue, shoemitts, shower caps, and writing materials. The cost of complimentary or hotel/brand - required offerings provided at no charge to all guests, such as bottled water and coffee provided in guest rooms, are also included in Guest Supplies.

21. **Subject:** Room upsell charges question

We'd like clarification from the FMC regarding Room Upsell charges, I am hoping you can help.

The 11 th edition includes guidance to record Room Upsells in Other Rooms Revenue only in the Revenue guide (pgs. 239 & 244 hardcover) and does not include Room Upsells in the Other Rooms Revenue section or examples listed in the Rooms chapter of the 11th edition. Since there is a reasonable argument for recording upsell revenue in Rooms Revenue, as the higher rate would have been recorded in the applicable Rooms Revenue if the guest had booked the view room (or similar) at the time of reservation, we'd appreciate any information used to determine Other Rooms Revenue. We are discussing these revenue issues with our hotel management and ownership and want to ensure we have all the relevant information.

A: Thank you for observing that the Revenue and Expense Guide (page 239 and page 244) references that Room Upsells should be recorded as part of Other Rooms Revenue. The Revenue and Expense Guide appears to be in error, thank you for bringing the matter to our attention we will document the issue for correction in future edition.

For clarity, Room Upsell Revenue should be recorded as a part of Rooms Revenue, appropriately classified as Transient (sub-category), or Group (sub-category).

22. **Subject:** Accounting for minimum stay rooms

At certain times of the year, we will require a 3 day minimum stay on a reservation. If a guest physically occupies the room on only 2 of the 3 days, how do you account for the 3rd day of the stay? Is it considered an occupied room? Is it considered a No Show room?

A: Recording the transaction will depend on the actions of your guest.

- If the guest does not check-out, but rather is just missing-in-action for some of the time during the registered stay, then we have a guest occupied room until the stay is complete; guest room revenue is recorded in the appropriate Transient (Subcategory), Group (Subcategory), or Contract Rooms Revenue.
- If the guest checks-out after staying two night of a three night minimum, then we do not have a guest occupied room for the third night, the recovery for the 3 rd night of minimum stay would appropriately be recorded as an Early Departure Fee, in Other Rooms Revenue. The guest room is brought back into inventory and may be sold to another guest for the 3 rd night of the previous minimum stay.

23. **Subject:** Pet and Smoking fees

Where are Pet Fees and smoke-cleaning fees recorded?

A: Pet Fees and Smoke-Cleaning Fees are considered to be surcharges and accordingly recorded in Other Rooms Revenue.

There seems to be in conflict with the guidance from STR on how this should be recorded.

"STR guidance on Pet Fees: If a pet or smoking room is offered as a "room type" it's reported as any other room type (beach view, suite, sitting room, high floor) in room revenue (ADR). If the charges are included as a penalty, cleaning, or damages those fees are included as Misc./Other Income (not room or other room revenue)"

A: FMC Revised Guidance, May 2017

Pet & Cleaning Fees - Rooms revenue or Other Misc. Revenue

The FMC has updated the guidance related to Pet & Cleaning Fees, as there is a discrepancy between the FAQ previously released on the matter and the guidance given by STR.

When the Pet & Cleaning Fee is quoted to the guest in advance of they stay, then it is a rate code and is considered Rooms Revenue, included in Schedule 1. In this case the hotel receives payment regardless of whether additional cleaning is required or not.

When the Pet & Cleaning Fee is charged as a penalty at the end of the stay, then the penalty is considered Miscellaneous Revenue in Schedule 4. Although matching of revenue and expenses was discussed, it was decided that (a) the amounts should not be material and (b) the amount of the penalty will most likely exceed the cost incurred to remediate.

The above guidance is consistent with the guidance provided by STR.

Food and Beverage Department

1. Open Table is reflected in F&B and also in IT under F&B - is the intent for transaction fees in operating and system costs in IT?

> **A:** Yes. If you have system, hosting, license or subscription costs, they should go to the Information and Telecommunications department. Any transaction fees/commissions for booking the reservation would be a reservations expense in the F&B reservations line.

2. Would "mandatory" include auto-grats for large parties in restaurants in your explanation of service charges?

> **A:** Yes, the charge for large parties is a service charge, if it was mandatory for the client and the client did not have any discretion. For US based hotels, the IRS gives very good guidance in the following publication . To avoid the inclusion of this type of charge as service charge, restaurants may want to consider providing tip options on the check presented to the client (e.g.: 15%, 18% or 20%).

3. I have an urban hotel with one (1) hotel operated restaurant and three (3) leased out restaurants. Does the 11th Edition of the USALI require that the lease revenue from the restaurants be recorded on a net basis, and should the restaurant lease revenue be reported in Non-Operating Income and Expense.

> **A:** The determination for recording the lease revenue on a gross vs. net basis is set out in Part V, of the 11th Edition of the USALI, Gross vs. Net Reporting, which identifies the applicable revenue recognition criteria. The reporting of the restaurant lease revenue, either as part of Miscellaneous Income (Space Rentals and Concessions, Schedule 4) or below the GOP line in Non-Operating Income and Expense (Schedule 11) is determined by the specific provisions of any hotel management agreement and the extent of involvement by the hotel operator in managing the rental arrangement. For example, if the Owner of the hotel rents a billboard on the side of the building and the Owner owns and administers the rental agreement; the hotel operator has almost no involvement, and as a result, the rental revenue would likely be reported in Non-Operating Income and Expense (Schedule 11). Whereas, if a hotel operator leases out a retail space adjacent to the hotel lobby, and the hotel operator administers and manages the rental agreement, then the rental revenue would likely be reported in Miscellaneous Income (Schedule 4) as Space Rentals and Concessions.

4. Where would beverage assessments (gross receipts taxes not passed on to customer, i.e. Texas) be placed in the financial statement?

> **A:** Within the 11th Revised Edition of the USALI, Beverage Assessments, like other gross receipts taxes not passed on to a customer are recorded in Property and Other Taxes under Non-Operating Income and Expenses

5. Did the F&B schedule in USALI take into consideration the Uniform System of Accounts for Restaurants?

> **A:** The Food & Beverage Sub-Committee considered all reporting standards in the food & beverage industry and the activities of the F&B Council of the AH&LA. As you are aware, the Uniform System of Accounts for Restaurants anticipates internal financial reporting for a single

stand-alone business operation, whereas the USALI anticipates internal financial reporting in the multi-faceted business operations of the lodging industry.

6. Where does food spoilage rollup now? I do not see a reference.

A: 11th Revised Edition USALI, P. 30, Cost of Food Sales; "Spoilage, waste, and spillage are included in Cost of Food Sales."

7. **Subject:** F&B Minimums

Do F&B minimums that are not meet go to attrition in the misc other dept? Our operations teams argues that since our contracts list this as a F&B Minimum instead of a F&B Attrition, and in many cases our contracts read that missing the minimum would cause additional meeting room rental to be charged to make up the difference, that this revenue should stay in F&B and wouldn't be included in the F&B Attrition clause. How would you rule on this?

A: The Financial Management Committee is not an adjudication body, and accordingly does not make rulings; rather we provide advice on the interpretation for reporting in accordance with the Uniform System of Accounts for the Lodging Industry.

Attrition fee is defined in Miscellaneous Income - Schedule 4 as, income received from groups that do not fulfill their guaranteed number of reservations for guestrooms, food and beverage, and other services.

The determination should be based on the economic substance of the transaction and not the form or how it is calculated; it is after all the liquidated damages for the customer not fulfilling a term in the booking agreement.

8.**Subject:** Beverage

Why do drinks (e.g. soft drinks, water) go to Food cost of sales? Please tell me the rationale. Also, if it is a mixture of soft and alcoholic drinks, does it go automatically to beverage cost?

A: Non-alcoholic beverage revenue (from the sale of coffee, milk, tea, juices, soft drinks, and water) has traditionally been recorded as part of food revenue. The 10 th Revised Edition of the USALI included an exemption, allowing that non-alcoholic beverage revenue be included as beverage revenue only in the limited instance where non-alcoholic beverages were served in a "beverage only" outletwhere no other food is sold . In preparing the 11 th Revised Edition of the USALI, the Financial Management Committee was unable to identify any "beverage only" outlet where no other food was sold, and accordingly eliminated the exemption.

The Cost of Food Sales includes the cost of non-alcoholic beverages, using the matching principle; however the cost of food sales does not include the cost of food items transferred to other departments for use in preparation of products sold.

Specifically the Cost of Beverage Sales also includes the cost of food items (including non-alcoholic beverages) transferred form the food department and used in alcoholic beverage preparation and service.

9. **Subject:** Loyalty Programs

Loyalty members are eligible to receive free breakfast as a program benefit and the hotel is not reimbursed by the program for the cost. Where do I record the food costs and payroll?

A: The food cost is recorded in Rooms - Complimentary Food and Beverage which is typically done by recording a food cost credit to the Food and Beverage department. If payroll costs associated with providing loyalty member complimentary breakfast are considered material, an allocation of Food and Beverage payroll should be made to Rooms payroll expense.

Other Operated Departments

1. Spa unclaimed gift certificates breakage should now be recorded not in the Spa page but in Misc. Income?

> **A:** Correct. Unused Gift Certificates are shown as Other Breakage in Miscellaneous income - Schedule 4

2. **Subject:** Loss and Damage Account (Parking)

The Department of Parking not shown under the heading of other expenses, damage and loss account, this becomes important when a third company to which is paid at the end of the year an incentive based on the gain is used. Please indicate whether it is possible to incorporate this concept!

> **A:** The USALI cannot possibly be expected to specifically identify every possible revenue and expense item that may enter into the calculation of all possible management fees or incentives. Damage and loss amounts related to the operation of the Parking department, and for which the property is responsible should be reported in Other Operated Departments, Parking - Sub-Schedule 3-3, Other expenses, Miscellaneous, which includes any expense of the Parking department that does not apply to the other line items discussed in this section.
>
> Unless such costs relate to payment of a deductible amount in respect of an insurance claim, in which case the amount of the deductible should be recorded in Non-Operating Income and Expenses - Schedule 11, Insurance, and Deductible, which includes amounts expended as a result of deductible provisions of insurance policies or self-insured retention's.

3. **Subject:** Guest Transport Vehicle Fixed Lease Cost

Referring to page 121-122, Rent - Other Property & Equipment includes operating leases for vehicles. Is this just meant to be for house use vehicles that don't generate revenue? We have a new guest limousine contract where the hotel pays a 3rd party limousine provider 30% of revenue + a monthly fixed rental amount. I would like to see both the 30% and fixed rental in Cost of Sales Transport (page 73) so I can see the profit/loss for Guest Transport including all operating expenses.

a) Should the 30% of revenue fee be charged to Rent - Other Property & Equipment or Guest Transport - Cost of Sales?

b) Should the fixed rent fee be charged to Rent - Other Property & Equipment or Guest Transport - Cost of Sales?

Also on the topic of guest transport and just to note, we have a fleet of owned cars, which are depreciated and that depreciation is an owner expenses as per page 4. We show the depreciation as a footnote on the Guest Transport P&L. I don't see any other options for this, but would prefer the depreciation as an Operating Expense on the Guest Transport P&L so I can see the profit/loss for Guest Transport including all expenses. If it is not there the hotel management team doesn't feel the pressure to generate sufficient revenue to cover all costs and depreciation.

A: Terminology is critical to determining the correct accounting treatment.

It is apparent that you have a Guest Transportation Department, set up as an Other Operating Department. As you operate a fleet of guest transportation vehicles and generally charge your guests for the chauffeur service, there is no issue with reporting revenues on a gross basis.

For the New Guest Limousine Contract

- If the third party limousine contractor is providing a whole service, with the contractor responsible for employment and training of drivers, ongoing vehicle fuel and maintenance costs, licensing and insurance, etc.; and
- The third party contract fee is 30% of monthly revenue + a fixed monthly amount (being very careful in a distinction between a fixed monthly amount and a fixed monthly rent); and
- The hotel's only real involvement with managing the contractor is the scheduling of guest transportation needs;

Then the entire third party limousine contract cost may be considered a to be a Contract Service within the Guest Transportation Department

If the third party limousine contract specifies the fixed monthly amount as RENT, then the monthly rent component should be recorded as rent expense in the Non-Operating Income and Expenses - Schedule 11. Assuming that the third party contractor was still responsible for all of the operating costs, then the 30% of revenue would be recorded as a cost of sales.

As it relates to the depreciation of the hotel owned fleet, depreciation is reported below EBITDA on the Summary Operating Statement for Owners, and is not generally considered to be an operating cost.

We note that you report the depreciation of the hotel owned fleet as a footnote in the Operating Statement for the Guest Transportation Department. The USALI does provide some flexibility for users to develop a sub-schedule to provide additional information and detail, but the additional information and detail would not necessarily roll-up to the Summary Operating Statement.

Property Operations and Maintenance

1. We have just adopted the USALI; is there somewhere to get more detail on specific coding? For example, I cannot find pool paint, we painted both the pool and deck.

> **A:** Part I, Operating Statements, Other Operated Departments, Health Club/Spa - Sub-Schedule 3-2, Swimming Pool, p60
>
> Swimming Pool includes the cost of materials, supplies, pool chemicals, and contracts related to the maintenance and repair of swimming pools when the Health Club/Spa department is responsible for managing the pool. If the Health Club/Spa department is not responsible for managing the pool, then these costs are recorded on Property Operations and Maintenance - Schedule 8.
>
> OR
>
> Part I, Operating Statements, Property Operations and Maintenance - Schedule 8, Swimming Pool, p. 115
>
> Swimming Pool includes the cost of materials, supplies, pool chemicals, and contracts related to the maintenance and repair of swimming pools when a separate Other Operated Department does not exist.

2. **Subject:** Unplanned Major Repairs

Does an account exist "below the line" for unplanned major repairs/emergency repairs?

A: The short answer is no, all repair and maintenance costs should flow through Property Operations and Maintenance - Schedule 8.

However we would advise that you consider whether any of the unplanned major repairs / emergency repairs constitute capital expenditures which should appropriately be recorded on the balance sheet.

Sales and Marketing

1. Are ALL catering sales and revenue management labor is now considered labor expense and recorded in the S&M dept.?

> **A:** Yes. It was determined that Revenue Managers and Catering Sales personnel were actually performing sales and revenue enhancement tasks for the majority of their job duties and therefore should be charged to the Sales & Marketing Department. When major hotel companies were surveyed, it was apparent that Catering Sales people were predominantly sales oriented and should be in Sales & Marketing and Conference Services were predominantly service oriented and therefore should be in the F&B Department. At hotels where the Revenue Manager and the Reservation Manager are a combined position, or where the Catering Sales and Conference Services staff perform both roles, the hotel should make a determination as to the selling versus servicing nature of their work, when determining where to charge their labor cost.

2. To confirm, at a franchised location, both the royalty fee and the marketing fee should be recording in marketing department?"

> **A:** Within the Sales and Marketing Department, separate expense line items are provided for Franchise and Affiliation Marketing and Franchise and Affiliation Fees - Royalties.

3.**Subject:** Upgrades Incentives Sales (Drakes Beil)

My question is about various types of expenses: It's clear for me that the incentive which we will pay to the employees, but we have another part of expenses for this program: A) We will create a reserve account called Contest and Recognition Fund. The hotel will use this fund on gifts, pizza parties, etc.). Is a percentage, of the Upgrades Sales B) Also we need to pay a percentage to Drakes Beil monthly, based on Upgrades Sales Which accounts we will need to use for A) and B)?

A: Any incentive remuneration paid to the employees will be captured as part of Labor Costs and Related Expenses, Bonus and Incentives, and charged to the relevant department(s). The costs of employee recognition gifts, pizza parties, etc., will be captured as part of Labor Costs and Related Expenses, Payroll Related Expenses - Schedule 14, Employee Benefits, Miscellaneous, and charged to the relevant department(s).

To the extent that Drakes Beil is not an employee, the percentage payable to Drakes Beil would likely be considered a commission and charged to Rooms - Schedule 1, Commissions. To the extent that Drakes Beil is an employee, the percentage payable to Drakes Beil would be considered as part of Labor Costs and Related Expenses, Bonus and Incentives, and charged to the relevant department(s).

Information and Telecommunication Systems

1. With the elimination of the Telecommunications department, where would phone revenues be booked? Re: Package Revenue third party

> **A:** Phone revenue from guests (together with cost of sales) are recorded in Minor Operated Departments - Sub-schedule 3-xx

2. For Information and Telecom, where do we show Internet Support fees for guests?

> **A:** The 11th Revised Edition of the USALI identifies that the cost of providing the service be recorded in the Information and Telecommunications Systems Department; as a result, these Internet Support Fees (for guest access) would normally be recorded as a Cost of Internet Services or Other Cost of Services. Assuming that the Internet Support is provided by a third party contractor, then if the hotel: •provides complimentary guest internet access, then the Internet Support Fees (for guest access) would be recorded as a Cost of Internet Services; •charges guests for internet access and the cost associated with the Internet Support (Guest Access) is a fixed rate contract and costs are independent of use volume, the Internet Support Fees (for guest access) would be recorded as Other Cost of Services; and •charges guests for internet access and the cost associated with the Internet Support (Guest Access) is variable with and can be specifically identified to a particular guest use, then the variable component of the Internet Support Fees (for guest access) would be recorded as Guestroom Internet Cost of Sale in the Minor Operated Department (to match with the Guestroom Internet Revenue also recorded in the Minor Operated Department). If the Internet Support is provided by hotel employees, then all of the labor costs should be recorded in the appropriate line of the Information and Telecommunications Systems Department Labor Costs and Related Expenses.

3. We currently charge management cell phones in the department in which the manager works. For instance, the housekeeping manager's cell phone is charged to the rooms department. Does this need to change to be compliant with the 11th edition?

> **A:** The 11th Revised Edition of the USALI identifies that the cost of all cell phones (plans and equipment) for hotel employees should be recorded in the Information and Telecommunications Systems Department.

4. The description of "Telecommunications" indicates that it should include expenses for VOIP and T1 service. These expenses are more of a cost of service. Should the cost of long distance include the long distance voice T1 expense and the cost of local service include?

> **A:** The 11th Revised Edition of the USALI identifies that the cost of providing the service infrastructure be recorded in the Information and Telecommunications Systems Department; as a result, these T1 and other infrastructure costs should be recorded in the Information and Telecommunications Systems Department. Only the direct cost of sale associated with a call paid for by a guest should be recorded as an expense in the Minor Operated Department.

5. Should telecommunications include monthly recurring costs for hosted/cloud based PBX systems? What else?

> **A:** The 11th Revised Edition of the USALI identifies that the cost of providing the service infrastructure be recorded in the Information and Telecommunications Systems Department; as

a result, these system costs should be recorded in the Information and Telecommunications Systems Department.

6. Should other cost of services include telephone system repairs and upgrades that are non-capex? i.e. service calls/break and fix costs.

> **A:** The 11th Revised Edition of the USALI identifies that the cost of providing the system maintenance be recorded in the Information and Telecommunications Systems Department; accordingly, these costs should be recorded in the appropriate labor and supply cost sub-categories, or Contract Services, within the Information and Telecommunications Systems Department.

7. The T1 includes the admin telecommunications long distance and guest telecommunications long distance, as well as possibly the guest and admin internet. How do you allocate?

> **A:** The 11th Revised Edition of the USALI identifies that the cost of providing the service infrastructure be recorded in the Information and Telecommunications Systems Department; as a result there is no allocation for the T1 service costs. The total T1 expense should be recorded in the Information and Telecommunications Systems Department. Only the direct cost of sale associated with a call paid for by a guest should be recorded as an expense in the Minor Operated Department.

8. I see Telecommunication department cost and expenses have moved to Information and Telecommunications Systems department. Where is revenue generated through guest calls and Cost of Sales recorded now?

> **A:** Please refer to 11th Revised Edition of the USALI, Minor Operated Departments, Sub-Schedule 3-XX, Page 80 - 81. Guest Communications includes revenues received from guests' use of telephone, fax machines, and in-room internet. Only the direct cost of sales associated with guest room generated communications revenue should be included in the Minor Operated Department Expenses.

9. Where to code Repairs and Parts of Minibar handhelds; POM or F&B Expenses? Which Account?

> **A:** The 11th Revised Edition of the USALI created the Information and Telecommunications Systems department, a new undistributed expense department
>
> Please reference Information and Telecommunications Systems - Schedule 6, System Expenses, Food and Beverage, p. 98
>
> System Expenses, Food and Beverage includes any expenses of a point of sale system or reservation system for the Food and Beverage department except transaction costs or commissions related to a venue specific third party reservation or booking system.

10. **Subject:** Telephone Device Replacement

We crashed a telephone device on Room Dispatch Area! The input of this expense is for Rooms? Which Account? Regards

A: In the 11th Revised Edition of the USALI, all non-capitalized equipment costs and expenses related to information and telecommunications systems will be recorded in the new Information and Telecommunication Systems - Schedule 6, System Expenses, Hardware; which includes any expense for non-capitalized equipment (e.g. key-board, computer mouse, etc.).

If the telephone device represents a capital item, then it would be recorded as set out in Part II, Financial Statements, Section 1 Balance Sheet, Property and Equipment, Furnishings and Equipment, P. 160.

11. **Subject:** Software Licenses

Are software licenses i.e. Microsoft, for servers, computers operational expenses part of the IT department?

A: Information and Telecommunications Systems - Schedule 6, reports information and telecommunication system expenses in four (4) major categories: Labor costs and Related Expenses, Cost of Services, System Expenses, and Other Expenses.

System Expenses includes items such as software licenses and maintenance, software as a service fees, hosting storage fees, and technical support fees, in sixteen (16) categories identified on pages 98 and 99.

Miscellaneous Income

1. In what department would a hotel record revenue for Sea World Tickets (for example) included in a package?

> **A:** The gross versus net principles should be applied first. If it is determined that reporting would be gross, then it would go into one of the "Minor Operated" departments, however if it is reported net, then any profit on the ticket would go to Miscellaneous Income (Schedule 4).

2. Recently, I've received a couple of inquiries about handling cancellation and attrition fees. The fact that these no longer influence ADR and RevPAR is a pretty big issue.

> **A:** The only change from the 10th edition is cancellation on transient guests. Attrition and group cancellation was previously in Miscellaneous Income.

3. "With regards to Resort Fees, the new guidance requires a hotel to post the revenues in Miscellaneous Income. I cannot find any guidance with respect to the allocation of the costs associated with the services provided by the property and included in the Resort fees."

> **A:** The 11th edition doesn't contemplate matching revenues and expenses for Resort Fees. There is no language to cover this situation specifically, although many of the "costs" that the resort fee was designed to cover like "pool access" and "other recreational activities" were already undistributed costs of the hotel before resort fees were charged.
>
> We did address third party costs such as cost of telephone calls by referencing third party charges and allowing those reported net as a pass through. For many operators, few hotels actually distributed the revenue outside of Rooms Department and the intent of the 11th edition is to absorb the costs in the departments that generate them going forward.
>
> To ensure consistent reporting of revenues, and consistent calculations of ADR and RevPAR, the entirety of Resort Fees should be reported in Miscellaneous Income. No allocations are made to any other departments.

4. Subject: Pet and Smoking fees

Where are Pet Fees and smoke-cleaning fees recorded?

A : Pet Fees and Smoke-Cleaning Fees are considered to be surcharges and accordingly recorded in Other Rooms Revenue.

There seems to be in conflict with the guidance from STR on how this should be recorded.

"STR guidance on Pet Fees: If a pet or smoking room is offered as a "room type" it's reported as any other room type (beach view, suite, sitting room, high floor) in room revenue (ADR). If the charges are included as a penalty, cleaning, or damages those fees are included as Misc./Other Income (not room or other room revenue)"

A: FMC Revised Guidance, May 2017

Pet & Cleaning Fees - Rooms revenue or Other Misc. Revenue

The FMC has updated the guidance related to Pet & Cleaning Fees, as there is a discrepancy between the FAQ previously released on the matter and the guidance given by STR.

When the Pet & Cleaning Fee is quoted to the guest in advance of they stay, then it is a rate code and is considered Rooms Revenue, included in Schedule 1. In this case the hotel receives payment regardless of whether additional cleaning is required or not.

When the Pet & Cleaning Fee is charged as a penalty at the end of the stay, then the penalty is considered Miscellaneous Revenue in Schedule 4. Although matching of revenue and expenses was discussed, it was decided that (a) the amounts should not be material and (b) the amount of the penalty will most likely exceed the cost incurred to remediate.

The above guidance is consistent with the guidance provided by STR.

Non-Operating Income and Expense

1. Where does money collected for employee housing go?

> **A:** Any subsidies for the cost of renting the housing paid by employees would be credited to rent expense in Non-Operating Income and Expense.

2. Where would beverage assessments (gross receipts taxes not passed on to customer, i.e. Texas) be placed in the financial statement?

> **A:** Beverage Assessments, like other gross receipts taxes not passed on to a customer are recorded in Property and Other Taxes under Non-Operating Income and Expenses

3. Do the amounts in the Insurance Deductible line include payments made for guest property lost or stolen in excess of the amounts recovered from insurance, and also if the amount is less than the deductible?

> **A:** Payments made for guest property lost or damaged in excess of amounts recovered from insurance companies (or where the cost of the loss to the property is less than the deductible) is charged to the Loss and Damage account in Administrative and General.

4. My question relates to the following statement found in the 11th Edition with respect to the classification of rental revenue in non-operating income vs. operating revenue (misc. income) specifically as it relates to rental revenue that may not necessarily be related to hotel operations, but the lease terms are administered by hotel management (i.e. hotel management bills and collects rent) and such revenue is used to calculate a portion of the hotel management fee expense: "Rental revenue earned from commercial leases not directly associated with the operations of the hotel and not managed or maintained by hotel management should be reported on Non-Operating Income and expenses - Schedule 11. Examples include owner-directed office leases, billboards, and cell towers." Question: If we have a space or area that we are leasing (such as signage) and hotel management is responsible for administering the terms of the lease (i.e. billing and collecting the rent), but perhaps not responsible for maintaining the space and the hotel management fee is calculated off of revenue that includes such rental revenue, would that require the rental revenue to be included in operating revenues or would such rental revenue be required to be reported within non-operating income because it is not directly related to hotel operations (such as signage revenue)? Said another way, if a portion of the hotel management fee is based off of such rental revenue (and management fee expense gets reporting in operating expenses), does that mean such rental revenue stays within operating revenues (in misc. income) even though it is not directly related to hotel operations? One interpretation would be to only report such rental revenue in non-operating income if the space and terms of the lease are managed and administered by someone other than hotel management. If the rental revenue (even for signage) generates a portion of the hotel management fee and the terms of the lease are administered by hotel management (i.e. hotel management bills and collects the rent), than we should report that rental revenue (even for signage) within operating revenue (in misc. income). However, we are unclear whether this is the correct interpretation per the 11th edition and need guidance in this area.

> **A:** The determination of whether rental revenue is reported as part of Schedule 11, Non-Operating Income and Expense is a two part test : (1) the rental revenue must be earned from commercial leases not directly associated with the operation of the hotel; and (2) the rental revenue must not be managed or maintained by hotel management. Failure to meet both parts

> of the test will result in the rental revenues being reported as part of Schedule 4, Miscellaneous Income. If the rental revenue is actively managed by the hotel management (negotiating and administering agreements, maintaining the space, billing and collecting rents, etc.), then the rental revenue should be reported in Schedule 4. The inclusion of the rental revenue for the purpose of your management fee calculation is a contractual arrangement between the hotel owner and hotel manager, however it is not relevant for the purpose of determining the proper recording of the rental revenue by the hotel.

5. In the Insurance Section, will any settlements paid to claimants against liability insurance be included in the "Deductible" line? Thanks!

> **A:** The deductible account includes amounts expended as a result of deductible provisions of insurance policies and self-insured retentions. Settlements paid to claimants by the Insurers(s) will generally not be recorded in the accounts of the hotel. To the extent that the insurance policy includes deductible provisions, which require that the hotel fund the a portion of any claim settlement, only the portion of the claim settlement paid by the hotel pursuant to the deductible provision would be recorded in the deductible account. Other amounts incurred by the hotel in respect of legal or settlement costs are appropriately classified and included in either Building & Contents or Liability insurance expense accounts.

6. I cannot find in the new 11th edition where to code tax collection variances. I used to record to a tax variance account in each related department, but I'm not sure if I can keep those accounts. Or should they go in the non-op section. I cannot find any reference at all. Please help.

> **A:** The 11th Revised Edition of the USALI, provides that gross receipts taxes not passed on to a customer are recorded in Other Taxers and Assessments; Property and Other Taxes; Non-Operating Income and Expenses.

7. The copier lease should be in Non-Operating Income/Expense. Should the annual maintenance on this also be coded to Non-Operating Income/Expense?

> **A:** Annual maintenance costs for photocopier machines are an operating expense which should be coded to Contract Services, in the relevant department.

8. **Subject:** Employee housing facility/complex expenses

We'd like clarification regarding expenses related to employee housing facilities. The 11th edition identifies that lease expense would be recorded to Land and Building expense in Non-Operating Income and Expenses, as well as any employee payments paid to the property to subsidize the cost. This is a change from the 10th edition, where A&G Human Resource expense included expenses related to employee housing, whether temporary or permanent. In some geographic areas, providing employee housing as an employee benefit is the industry standard, and a property will lease and operate an offsite housing complex. In cases where the housing facility/complex is managed and staffed by the hotel property (not the property lessor), we'd like clarification regarding where the following costs would be recorded, as they are often significant: • Utilities related to the housing facility • Labor Costs and related expenses for employees hired by the hotel (so technically employees of the hotel) whose primary or sole job is to staff the housing facility (perform maintenance, staff facility general store, etc.) • Operating supplies specific to the housing complex (paper supplies, etc) Many thanks for clarification!

A: If an employee housing facility is a requirement in a particular market and the facility is not provided as part of the property, then the cost of leasing the real estate for the employee housing is considered to be rent in the Non-operating Income and Expenses section Schedule 11. The costs to operate that facility would be incurred whether the employee housing is owned or leased and therefore are an operating expense to the property. Since the sole purpose for the facility is to house employees, the all inclusive operating costs should be charged to Employee Benefits in the respective departments of the occupants of the facility.

9. **Subject:** Insurance

If a hotel has a virus outbreak and incurs guest medical expense (emergency room visits, etc.).

IF the event is covered by insurance, is it coded to Non-Operating Income & Exp under Insurance-Liability, both the expense and insurance payments?

A: The insurance premiums related to the liability policies are coded to the Non-Operating Income and Expense -Schedule 11, Insurance, Liability.

If the event is a covered occurrence then the deductible costs and the cost of any self-insured retentions is coded to the Non-Operating Income and Expense -Schedule 11, Insurance, Deductible.

Any legal settlement costs are coded to the Non-Operating Income and Expense -Schedule 11, Insurance, Liability.

If the event is not a covered occurrence, then presumably the hotel is self-insuring for such losses. In this case the costs should be coded to the Non-Operating Income and Expense -Schedule 11, Insurance, Deductible.

(b) If the event is not covered by insurance, is it coded to A&G-Loss & Damages?

A: If the event is not a covered occurrence, then presumably the hotel is self-insuring for such losses. In this case the costs should be coded to the Non-Operating Income and Expense -Schedule 11, Insurance, Deductible.

The Administrative and General - Schedule 5, Loss and Damage account is intended for payments related to loss or damage to guest property in excess of insured amounts, and not intended for liability claims.

Subject: Employee Housing

It is clear that when a housing benefit is provided to an employee and they are reimbursed, this is part of "Housing & Educational" expenses in Employee Benefits (page 143). In China and HK, the employee enters the lease agreement with a landlord. However, for control purposes, our hotels choose to pay the landlord direct rather than reimburse the employee. To me this doesn't change the way this is reported on the P&L - i.e. it should still be charged to "Housing & Educational" expenses in the relevant departmental P&L's Payroll Benefits. However, others do not agree and feel that in this case the cost should be charged to "Land & Buildings" expense. Would you please advise whether individual employee housing costs should be charged to "Housing & Educational" expenses in the relevant departmental P&L's Payroll Benefits OR to "Land & Buildings" expense?

A: The party that bears the real estate risk would drive the expense characterization. If the employee has contracted directly with the landlord and is responsible for the payment regardless of whether the employment with the property continues or not, then the payment made on the employees behalf would be a benefits expense, not a rent expense under Land and Buildings. Effectively the hotel could pay either the employee or the landlord during the course of the employment, but has no obligation to the landlord once employment ceases, making it an employee compensation matter.

Subject: S&M Representation Office in another City

Based on a potential a city within the same country or in a different country than the hotel is located, if the S&M department needs to set-up a representation office and locates its own personnel there (one or more), wouldn't the rent paid for this office be part of the S&M departmental expenses?

A: The office rent would be charged to Non-Operating Income and Expenses - Schedule 11, Rent, Land and Building. This treatment is consistent with Sales and Marketing - Schedule 7, Equipment Rental where equipment lease payments made under a qualified operating lease are charged to Other Property and Equipment under the Rent section of Non-Operating Income and Expenses - Schedule 11.