

A CLOSE LOOK AT THE USALI 11TH REVISED EDITION

Part I: The New Guidelines and Operating Statements for 2015

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With the new edition of the *Uniform System of Accounts for the Lodging Industry (USALI)* just taking effect on January 1, 2015, many hotels are looking at the new reporting guidelines. It is a new book, with a database online and updated FAQs all ready to go. However, it may also be useful to busy professionals to have an article and also the Q&A from The HFTP Research Center (page 6) in this issue of *The Bottomline* to summarize some of the major changes and also take a quick look back in time to appreciate the evolution of this system of accounts which has served us so well and which will also be celebrating its 90th birthday next year.

The Foundation: Brief History

Accountants are known to be organized, they follow rules and regulations well, and prefer order, transparency and comparability — all the qualities that match the principles of the *U.S. Generally Accepted Accounting Principles (GAAP)*. Hotel accountants are no exception. In fact, they took the lead by publishing the first edition of the *Uniform System of Accounts for Hotels* in 1926. The *Uniform System* turned out to be a seminal piece and so useful that clubs,



restaurants, and in the last decade, the spa segment of the hospitality industry, all now have their own uniform systems. The individuals, proprietors and accountants who were responsible for the first edition also had the foresight to form the Hotel Accountants Association of New York City, which later became the founding chapter of HFTP.

Over the years, from the second to the current 11th revised edition, the *Uniform System* strives and ensures to incorporate the changes of the lodging industry and the needs of the users. At one time, the *Uniform System* was split into two uniform systems, one for hotels and the other for small hotels and motels. The two were reunited in 1996 in the 9th revised edition, and the word “hotel” was replaced by “lodging” to include operations of all scales.

As stressed in the preface of the 11th revised edition, the publication stays true to the original intent of the *Uniform System*, to provide hotel owners, operators and other parties standardized operating statements and pertinent information within the unique setting of the hotel industry. While users are encouraged to delete irrelevant line items and add more details and develop

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sub-schedules as needed, tying them back to the operating statements, users are not to substitute nor add new line items so as to maintain consistency and comparability.

The Builders: Financial Management Committee of the AH&LA

The first edition builders represent three important groups, with nine individuals forming the proprietor's committee, 12 forming the accountants' committee and two representing the New York State Society of CPAs and the American Institute of Accountants. Fast forward to almost 90 years later, the Financial Management Committee (FMC) of the American Hotel & Lodging Association (AH&LA) is charged with the responsibility of maintaining the relevancy of the *Uniform System* and make appropriate changes to the document when needed.

The composition of the committee has also changed over the years, with the membership reflecting the landscape of the current lodging industry. Therefore, the current membership of the FMC includes academia, asset managers, brand franchising organizations, benchmark reporting firms, certified public accountants, consultants, hospitality management companies, hotel owners, independent proprietors and owner-operated hotels. In addition, industry trade associations worldwide also lend their expertise in developing the proper protocols.

The New Skyscraper: Major Contents

The 11th edition is presented in five main parts: Operating Statements, Financial Statements, Financial Ratios and Operating Metrics, Revenue and Expense Guide, and Gross vs. Net Reporting. While this article concentrates on the Operating Statements, it may be appropriate to briefly address the other four sections.

While the operating statements are mainly for internal users such as operators and owners, the financial statements are mainly for external users such as creditors, bankers,

stockholders and the like. The statements included in this section are the Balance Sheet, Statement of Income, Statement of Comprehensive Income, Statement of Owners' Equity, Statement of Cash Flows and the Notes to the Financial Statements. Regular users of the *Uniform System* would easily detect the new statement of Statement of Comprehensive Income, created to supplement the Income Statement. In addition, further guidance of the treatment of inventories, operating equipment and pre-opening expenses can also be found.

Ratios are quick indicators for operators and owners to assess the financial viability of the hotel. While this section is not totally new, more detailed and practical information is included in the 11th revised edition. For example, sample ratios are presented for both the operated departments and undistributed departments, with a recommended schedule of ratios that hotels should consider. Since labor cost is one of the prime costs, a recommended labor cost schedule is also included for each department.

As for the Revenue and Expense Guide, the major advantage of the 11th revised edition is that this is now available in electronic form.

For Further Review

More details on the 11th edition are ahead.

The Bottomline, Spring 2015

Part II will detail the new guidance on metrics, especially labor metrics as they affect all areas of a hotel.

The Bottomline, Summer 2015

Part III will detail the new section of Gross v. Net

Access the 11th Edition

The *USALI* 11th edition is available for purchase at www.ahlei.org. To get the HFTP member discount, enter promo code HFTP.

In addition, as an HFTP member, you have the access to the **Global Hospitality Accounting Common Practices** (GHACP) database where you can access the *USALI* 11th revised edition and compare it to the 10th revised edition and other common practices in other regions of the world (access at www.ghacp.org).

Each *Uniform System* comes with an access code which can be logged on to the AH&LA Educational Institute to access this database, sort, search and even download the information. As a member of HFTP, you also have the access to the *Global Hospitality Accounting Common Practices* (GHACP) database where you can again access the *USALI* 11th revised edition and compare it to the 10th revised edition and other common practices in other regions of the world (access at www.ghacp.org). However, it is viewable only. Therefore, the best of both worlds is to be an HFTP member where you can access the GHACP site and also have a hard copy of the 11th revised edition handy.

Finally, the last part of the *Uniform System* examines gross versus net reporting, including the treatment of surcharges, service charges and gratuities. Due to how management contracts and other legal documents are specified, it is prudent for all to follow the same way in the calculation of both gross and net amounts. And, with the relatively new legislation in the U.S. regarding certain tips as service charges and that service charges are to be included as income and are taxable, this is an important section for all.

Internal and External Statements

The newly revised *USALI* contains statements for internal and external users. The financial statements primarily for external users (bankers, creditors, etc.) are contained in Part II of the book and comply with U.S. GAAP. The statements with internal interest consist of operating statements for both operators (Exhibit 1, right) and owners see Exhibit 2, page 33). In addition, 14 supporting schedules are provided, as well as sub-schedules. On the face of the operating statement, operating revenue and related departmental expenses are shown for rooms, food and beverage, and other operated departments. The related schedules provide the details. For example, Exhibit 3 (page 34) is the rooms schedule from *USALI*.

Comparing and Contrasting Two Operating Statements

Exhibits 1 and 2 are the two operating statements as previously mentioned. Both statements are the same from the metrics at the top of the statements through EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). Thereafter, the statements differ. For statements for operators, replacement reserve is subtracted to equal EBITDA less replacement reserve. The replacement reserve reflects the cash transfer for the accounting period to the restricted cash as required by the management contract.

The operating statement for owners has several items subtracted after EBITDA prior to determining net income. These include interest expense, depreciation, amortization and income taxes.

Thus, the two statements are the same for operating revenues, department expense, undistributed operating expenses, gross operating profit, management fees, and non-operating income and expenses.

Discussion of the Operating Statements

The 11th revised edition provides an operating statement for owners while the 10th revised edition provided an

Exhibit 1. Summary Operating Statement (For Operators)

Period of:	Current Period			Year-to-Date								
	Actual	Forecast/ Budget	Prior Year	Actual	Forecast/ Budget	Prior Year						
Rooms Available												
Rooms Sold												
Occupancy												
ADR												
Rooms RevPAR												
Total RevPAR												
Period of:	Current Period						Year-to-Date					
	Actual		Forecast/ Budget		Prior Year		Actual		Forecast/ Budget		Prior Year	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Operating Revenue												
Rooms												
Food and Beverage												
Other Operated Depts.												
Miscellaneous Income												
Total Operating Revenue												
Departmental Expenses												
Rooms												
Food and Beverage												
Other Operated Depts.												
Total Departmental Expenses												
Total Departmental Profit												
Undistributed Operating Expenses												
Admin. and General												
Info and Telecommunications Systems												
Sales and Marketing												
Property Oper. and Maintenance												
Utilities												
Total Undistributed Expenses												
Gross Operating Profit												
Management Fees												
Income Before Non-operating Income and Expenses												
Non-operating Income and Expenses												
Income												
Rent												
Property and Other Taxes												
Insurance												
Other												
Total Non-operating Income and Expenses												
Earnings Before Interest, Taxes, Depreciation and Amortization												
Replacement Reserve												
EBITDA Less Replacement Reserve												

Notes:

- For a complete Statement of Income, refer to Part II.
- All revenues and expenses should be shown as a percentage of total operating revenue, except departmental expenses, which should be shown as a percentage of their respective departmental revenue.

Exhibit 2. Summary Operating Statement (For Owners)

Period of:	Current Period			Year-to-Date		
	Actual	Forecast/ Budget	Prior Year	Actual	Forecast/ Budget	Prior Year
Rooms Available						
Rooms Sold						
Occupancy						
ADR						
Rooms RevPAR						
Total RevPAR						
Period of:	Current Period			Year-to-Date		
	Actual	Forecast/ Budget	Prior Year	Actual	Forecast/ Budget	Prior Year
	\$	%	\$	\$	%	\$
Operating Revenue						
Rooms						
Food and Beverage						
Other Operated Departments						
Miscellaneous Income						
Total Operating Revenue						
Departmental Expenses						
Rooms						
Food and Beverage						
Other Operated Departments						
Total Departmental Expenses						
Total Departmental Profit						
Undistributed Operating Expenses						
Administrative and General						
Information and Telecommunications Systems						
Sales and Marketing						
Property Operation and Maintenance						
Utilities						
Total Undistributed Expenses						
Gross Operating Profit						
Management Fees						
Income Before Non-operating Income and Expenses						
Non-operating Income and Expenses						
Income						
Rent						
Property and Other Taxes						
Insurance						
Other						
Total Non-operating Income and Expenses						
Earnings Before Interest, Taxes, Depreciation and Amortization						
Interest, Depreciation and Amortization						
Interest						
Depreciation						
Amortization						
Total Interest, Depreciation and Amortization						
Income Before Income Taxes						
Income Taxes						
Net Income						

operating statement only for operators. Thus, the guidance for owners should be helpful in understanding the operations of their lodging operations through net income.

New to the operating statements in the 11th revised edition is the metrics at the top of the statement which includes rooms available, rooms sold, occupancy, ADR, Rooms RevPAR and Total RevPAR. How each of these are determined is discussed in the financial ratios and operating metrics section of the book. Owners' representatives on the FMC strongly encouraged the placement of this information on the operating statement to provide the statement reader with the major metrics at a glance.

The miscellaneous income line as part of the total operating revenue replaces the rental and other income line of the 10th revised edition. The supporting schedules for this line item are somewhat different. The miscellaneous income schedule for the 11th revised edition shows net revenue from renting mixed ownership units, package breakage, other breakage, and resort fees not included on the rentals and other income schedule for the 10th revised edition. In addition, descriptions of some schedule line items differ in the 11th revised edition from the 10th revised edition. For example, interest earned from capital reserve accounts and any restricted funds accounts should be reported as non-operating income and expenses rather than miscellaneous income. Such guidance was not provided in the 10th revised edition. This mention of interest earned is meant only to show that there are changes beyond the simple line items on the operating statement.

The total revenue line on the 10th revised edition has been changed to total operating revenues. Any ratio that historically was measured as a percent of total revenue is no longer compatible with the 11th revised edition ratios, measured as a percent of total operating revenue. This could be significant for any hotel with a large amount of non-operating income.

The 10th revised edition’s operating schedule included four undistributed operating expenses (UOE), namely Administrative and General, Sales and Marketing, Property Operations and Maintenance, and Utilities. With the 11th revised edition, a fifth line, information and telecommunications systems department, has been added as an UOE. This department has been created to consolidate all system-related technology expenses. In the 10th revised edition schedules telecommunications and information were shown in various schedules. For example, two line items on the administrative and general schedule in the 10th revised edition related to this new department were information systems and telecommunications. These now will be shown as a separate department.

The section titled fixed charges in the 10th revised edition has been changed to non-operating income and expenses. This newly titled section also includes new items not addressed in the 10th revised edition. Income generated by ownership that is not managed by the hotel operators is recorded as non-operating income. Examples of this income include cost recovery income, interest income (mentioned previously) and income generated from antennas and billboards on the hotel building.

Other expenses included in this section but not included in the fixed charges section of the 10th revised edition are: cost recovery expenses, gain/loss on (disposal) fixed assets, owner expenses, and unrealized foreign exchange gains or losses. By placing these revenues and other expenses after gross operating profit on the operating statement, management fees will be impacted less as the incentive portion of management fees is often based on GOP. The thinking of FMC members is that management fees should not be impacted by revenues and expenses that the operators do not control.

Without question there are many changes to supporting schedules. The rooms schedule is shown in Exhibit 3. Some examples of the changes include

Exhibit 3. Rooms — Schedule 1

Period of:	Current Period			Year-to-Date		
	Actual	Forecast/ Budget	Prior Year	Actual	Forecast/ Budget	Prior Year
	\$	%	\$	%	\$	%
REVENUE						
Transient Rooms Revenue						
Retail						
Discount						
Negotiated						
Qualified						
Wholesales						
<i>Total Transient Rooms Revenue</i>						
Group Rooms Revenue						
Corporate						
Association/Convention						
Government						
Tour/Wholesalers						
SMERF						
<i>Total Group Rooms Revenue</i>						
Contract Rooms Revenue						
Other Rooms Revenue						
Less: Allowances						
<i>Total Rooms Revenue</i>						
EXPENSES						
Labor Costs and Related Expenses						
Salaries, Wages, Service Charges, Contracted Labor and Bonuses						
Salaries and Wages						
Management						
Non-management						
Complimentary F&B						
Front Office						
Guest Services						
Housekeeping						
Laundry						
Reservations						
Transportation						
<i>Subtotal: Salaries and Wages</i>						
Service Charge Distribution						
Contracted, Leased and Outsourced Labor Bonuses and Incentives						
<i>Total Salaries, Wages, Service Charges, Contracted Labor and Bonuses</i>						

Exhibit 3 continued: Expenses

Payroll-related Expenses						
Payroll Taxes						
Supplemental Pay						
Employee Benefits						
<i>Total Payroll-Related Expenses</i>						
<i>Total Labor Costs and Related Expenses</i>						
Other Expenses						
Cleaning Supplies						
Cluster Services						
Commissions						
Commissions and Fees – Group						
Complimentary F&B						
Complimentary In-Room/ Media Entertainment						
Complimentary Services and Gifts						
Contract Services						
Corporate Office Reimbursables						
Decorations						
Dues and Subscriptions						
Entertainment – In-house						
Equipment Rental						
Guest Relocation						
Guest Supplies						
Guest Transportation						
Laundry and Dry Cleaning						
Licenses and Permits						
Linen						
Miscellaneous						
Operating Supplies						
Postage and Overnight Delivery Charges						
Printing and Stationery						
Reservations						
Royalty Fees						
Training						
Travel – Meals and Entertainment						
Travel – Other						
Uniform Costs						
Uniform Laundry						
<i>Total Other Expenses</i>						
<i>Total Expenses</i>						
Departmental Profit						

the expansion of this revenue section schedule to reflect greater detail and definitions and to align with industry practices. Resort fees have been moved to Miscellaneous Income from the Rooms department as mentioned previously. Some other changes include additional information regarding labor costs and related expenses:

- The aggregated salaries and wages of management and non-management personnel are presented on the department schedule.
- Service Charge Distribution is presented as a distinct cost category within Salaries, Wages, Service Charges, Contracted Labor and Bonuses. It has been moved from Payroll-related Expenses: Supplemental Pay.
- Contracted, leased and outsourced labor costs are presented independently.

These detailed changes in labor costs and related expenses is shown in other schedules other than rooms as well.

Conclusion

The 11th revised edition is 353 pages long, which is an expansion of 78 pages from the 10th revised edition so clearly the 11th revised edition is a major expansion for the prior edition. This article focuses primarily on the operating statements and is not intended to provide all-inclusive coverage of the many changes. Interested readers are strongly encouraged to obtain a copy of the 11th revised edition and study it with care. ■

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