May 28, 2020

During the COVID-19 pandemic, hotels have engaged in contracts outside of the ordinary course of business. For example providing lodging for first responders, being commandeered by local, state or national governments (Government Agency), operating partially or fully as medical facilities (Health Organizations) or taking on other temporary arrangements where the facility is not operating as it would under normal circumstances. For purposes of this discussion, all of these arrangements will be described as services provided to “Third Party(ies)”. This raises the question as to classification of related revenue and expense.

Q: During the Covid-19 pandemic, my hotel or a portion thereof was used by a contracted third party. How should we record revenue and expenses during this time?

A: *The decision to recognize lodging revenue as Rooms Revenue, Miscellaneous Income, or Non-Operating Income is based on an evaluation of whether the Hotel is acting as Principal in respect of the guest ultimately occupying the room.*

If the nature of the Hotel’s promise is to provide the specific service to the guest occupying the room, then the Hotel is operating as Principal to the transaction. If the nature of the Hotel’s promise is to provide a specific service to the Third Party (and not the guest occupying the room), then the Hotel is not operating as Principal to the guest occupying the room.

The determination of whether the Hotel is acting as Principal is based on a predominance of indicators describing the operating characteristics of individual components of the lodging facility, as well as the use and classification of the employees.

The evaluation of whether an indicator exists, may not result in a clear yes or no answer; rather, an indicator may be partially satisfied based on the specific facts and circumstances of the arrangement with the Third Party. None of the indicators should be considered presumptive or determinative, the relative strength of each indicator should be considered in the overall evaluation.

Q: Which indicators provide the best guidance for determining whether my hotel is acting as principal and how to report accommodation revenue?

A: *The following bullet statements summarize the indicators that provide guidance for the determination of whether the Hotel is acting as Principal in respect of the guest occupying the*
room, and the resulting reporting of accommodation revenue as Rooms Revenue (Schedule 1), Miscellaneous Income (Schedule 4), or Non-Operating Income (Schedule 11).

**Indicators of the Hotel acting as Principal for both Lodging and Food & Beverage Revenue.**
(Lodging Revenue to be reported as Contract Rooms Revenue, Rooms – Schedule 1; Food & Beverage Revenue reported in accordance with Schedule 2).

- The rental commitment to the Third Party may, or may not, be for a specific period.
- The rental commitment to the Third Party is for a portion or all of the hotel room inventory and may be on a “guaranteed revenue” or an “as occupied” basis.
- The Hotel is still selling guest rooms and food service to the public at large.
- The rental commitment to the Third Party provides for the Hotel to provide services (room cleaning, laundry, maintenance, food service, etc.) to rooms occupied by Third Party clients.
- Hotel employees continue to provide guest and accommodation services (check-in/check-out, cleaning rooms, in-room and public area maintenance, food service, etc.), to all room guests and the public at large.
- The Hotel remains the “prime contractor” or “employer of record”, ultimately responsible for worker occupational health & safety (education and training) matters, as well as workers’ compensation insurance.

**Indicators of the Hotel not acting as Principal for Lodging, but as Principal for Food & beverage Service**
(Lodging Revenue to be reported as Space Rental and Concessions, Miscellaneous Income – Schedule 4; Food & Beverage Revenue reported in accordance with Schedule 2).

- The rental commitment to the Third Party for a specific period.
- The rental commitment to the Third Party may, or may not, be for 100% of the hotel room inventory.
- The Hotel is not selling guest rooms to the public at large.
- The rental commitment to the Third Party provides for the Hotel to provide laundry and food service to rooms occupied by Third Party clients.
- Certain employees are retained to provide laundry and food service; the remainder of the Hotel employees are laid off or temporarily unemployed.
- The Third Party has their own patient service contractors (room cleaners, maintenance, etc.) to service the rooms occupied by Third Party clients.

**Indicators of the Hotel not acting as Principal**
(Lodging Revenue to be reported as Other Income (Rental Income), in the Non-Operating Income and Expenses – Schedule 11; there is no Food & Beverage Revenue).
- The rental commitment to the Third Party is for a specific period.
- The rental commitment to the Third Party is for the entire hotel property.
- The Hotel has effectively experienced a change in use.
- The hotel is not selling guest rooms to the public at large.
- The hotel employees have been laid-off or temporarily unemployed.
- The Third Party has their own patient service contractors (room cleaners, laundry service, food service, maintenance, etc.) to service rooms occupied by Third Party clients.
- The Third Party becomes the “prime contractor” or “employer of record”, ultimately responsible for worker occupational health & safety (education and training) matters, as well as workers’ compensation insurance.
- Any hotel employees on-site are only there to provide “insurance policy security”, to “preserve & protect” the Owners’ assets.

Occancy taxes are imposed at the discretion of taxation jurisdictions (local, city, state, municipality, province, federal) and should not be considered in the determination of whether the Hotel is acting as Principal in a transaction.

Issues related to Brand, Management and/or booking fees are topics governed by specific contractual arrangements and should not play a role in the determination of whether the Hotel is acting as Principal or Agent.

Q: A third party rented my entire hotel property for six months and engaged their own patient service contractors for cleaning rooms, supplying clean linens, catering and maintenance. All hotel employees have been laid off except the general manager, building manager and certain maintenance staff who were retained to conduct insurance inspections and scheduled preventive building maintenance. The controller and sales director also work from home. How would we report revenue and expenses in this situation?

A: The rental arrangement provides for a monthly rent for the entire hotel facility.

In this situation we have a change in use of the hotel asset, this fact pattern would meet the criteria to determine that the Hotel was not acting as Principal in respect of the rooms occupied by Third Party clients.

The (lodging) rental revenue should be reported as Other Income (Rental Income), in the Non-Operating Income and Expenses – Schedule 11.

Reported available Guest Room Inventory = 0; Occupied Guest Rooms = 0.
Expenses related to labor costs, building maintenance, utilities, property taxes, and insurance, will all continue to be classified and expensed in their usual departments.

Q: A third party rented 80 percent of our hotel’s guest room inventory for three months and contracted with our hotel to provide catering and laundry services, while they engaged with a patient services contractor for non-medical patient services (room cleaning and maintenance). With the exception of certain laundry and food service employees, all non-essential hotel employees have been laid off except the general manager, building manager and certain maintenance staff who were retained to conduct insurance inspections and scheduled preventive building maintenance. The controller and sales director also work from home. How would we report revenue and expenses in this situation?

A: The rental arrangement provides for rent 80% of the guest rooms, monthly including laundry service, and for catering services on a per Head, per Diem basis.

The hotel decides that, for the sake of guest safety, it will not offer any of the remaining 20% of its guest room inventory for sale.

In this situation the fact pattern would meet the criteria to determine that the Hotel was not acting as Principal in respect of the rooms occupied by Third Party clients, but as Principal in respect of food service.

The (lodging) rental revenue should be reported as Space Rental and Concessions, Miscellaneous Income – Schedule 4.

Reported available Guest Room Inventory = 0; Occupied Guest Rooms = 0.

The laundry service revenue should be reported as Other Rooms Revenue and the expenses related to providing the laundry service, including labor and chemical costs, should be classified as Room Department – Schedule 1, expenses
Food & Beverage revenue should be reported as appropriate in Food and Beverage – Schedule 2, along with food & beverage departmental costs.

Expenses related to building maintenance, utilities, property taxes, and insurance, will all continue to be classified and expensed in their usual departments.

Q: A third party has rented 50 of the 100 available guest rooms at our property on a guarantee basis for three months. The hotel remains open to the public, actively selling the remaining 50 guest rooms into traditional market sectors. Catering services for the third-party patients is provided by the hotel in an area separate from non-third-party guests. The hotel provides non-
medical services (room cleaning, laundry and maintenance) in the normal course to all guest rooms. Most hotel employees remain on payroll. How would we report revenue and expenses in this situation?

A: The rental arrangement provides for monthly rent on the 50 guest rooms on a serviced basis; and for catering services for Third Party patients is provided on a per Head, per meal service basis.

In this situation the fact pattern would meet the criteria to determine that the Hotel was acting as Principal in respect of the rooms and food service operation.

The rental revenue for the 50 guest rooms contracted to the Third Party should be reported as Contract Rooms Revenue, Rooms – Schedule 1.

Room revenue associated with the remaining 50 guest rooms, should be recorded, as appropriate in Rooms – Schedule 1.

Reported available Guest Room Inventory = 100; Occupied Guest Rooms = Actual.

Expenses related to servicing all the guest room areas should appropriately be classified as expenses in Rooms – Schedule 1.

Food & Beverage revenue should be reported as appropriate in Food and Beverage – Schedule 2, along with food & beverage departmental costs.

Expenses related to Undistributed Departmental Expense and Non-Operating Income and Expense items will all continue to be classified in the usual departments.

Note: The above FAQ relates to the treatment of revenue/expenses where a Hotel or portion thereof is used by a Health Organization or Government Agency. This guidance has been prepared through interpretation of accounting principles and considers the existing guidance contained in the USALI pp. 85 and pp. 121, to assist users in the determination of the most appropriate classification for revenue and expenses.

However, we note that a significant amount of judgment and interpretation is required in the application of the principles and examples below, and the outcome is dependent on all of the factors in a particular circumstance when considered together, not driven by one individual factor versus another.
May 11, 2020

Q: As a result of the current economic situation, the entity that owns or leases my hotel is eligible to apply for and receive a loan under a government loan assistance program. The government loan assistance program requires the hotel to meet certain eligibility requirements to apply, and the funds are restricted for specific uses (for example, labor costs, utilities, rent, debt payments, etc.). Under certain circumstances all or a portion of the loan may be forgiven. Please advise as to the appropriate accounting treatment for the receipt of the loan proceeds and any forgiveness thereafter.

A: The borrower should account for these funds as either a loan or a grant depending upon an assessment at the time of receipt of whether it is probable that (1) it will comply with the relevant conditions of the loan program and (2) some or all of the loan will be forgiven.

- **Grant Treatment:** If at the time that the loan agreement is entered into, the borrower concludes it is probable that (1) it will comply with the relevant conditions of the loan program and (2) some or all of the loan will be forgiven, then the portion of funds received that meet this criteria should be accounted for within profit or loss as a reduction of the borrower’s specific expenses that were provided for by the loan and subsequently forgiven (i.e. contra salaries, benefits, utilities, rent, debt service, etc.). The loan forgiveness should be recognized on a systematic basis in line with its recognition of the expenses that the loan is intended to compensate. Any portion of the loan which is not probable of being forgiven at the inception of the loan should be accounted for as a loan as discussed below. Given that the guidance provided by the government as to eligibility of the loan and requirements for loan forgiveness is often changing and subject to evolving interpretations, we believe that it will be rare for an entity to conclude that conditions are probable at loan inception.

- **Loan Treatment:** If at the time that the loan agreement is entered into, the borrower cannot conclude it is probable that (1) it will comply with the relevant conditions and (2) some or all of the loan will be forgiven, then the recipient should account for the portion of the funds that do not meet these criteria as a loan. Upon receipt of loan proceeds, the borrower should account for the loan as required according to GAAP in the same manner as it would for any other loan. The loan should not be subsequently derecognized until the recipient has been legally released from the loan (partially or in full). At such time, the loan balance should be accounted for pursuant to GAAP with the portion of the loan amount forgiven recorded as a credit (increase) to non-operating Income within the Non-Operating Income and Expenses section of the Operating Statement. Since the forgiveness is not accounted for until the borrower has been legally released, the original expense for which the loan proceeds were intended to compensate and the subsequent forgiveness will likely be recorded in different accounting periods.

- **Note that treatment as a loan is permitted in all instances, that is, even if the recipient can conclude that it is probable that it will meet the conditions of forgiveness.**
Note: The above FAQ relates to accounting treatment for hotels that receive loans under any government-sponsored program that has been established to provide assistance/relief to hotels which have been impacted by COVID-19 (for example, under the Paycheck Protection Program established by the CARES Act in the United States). Such guidance is only applicable to the borrower, which is frequently the owner, and not the hotel.
Q: As a result of Covid-19 my hotel is eligible under a government assistance program to receive a wage subsidy for labor costs incurred. The government assistance program requires the hotel to fund employee payroll costs, a portion of which will be subsequently reimbursed by the government agency. Please advise as to the appropriate accounting treatment for the receipt of the government assistance.

A: A wage subsidy is assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Typical examples include: R&D funding, forgivable or interest-free loans, grants of land or facilities and expense waivers. ‘Government’ includes government agencies and similar bodies, at a local, national or international level. For the purposes of this FAQ, expense is defined as the form of direct funding of labor during a period of significant business loss. The receipt of a grant or subsidy is assumed to be taxable income to the business entity receiving the funds.

Wage subsidy funds received should follow net presentation on the income statement.

- Salaries and wages for those employees who are paid to perform services / productive work should be recorded in the appropriate Salaries and Wages account within the respective department. The corresponding hours worked by these employees should also be tracked and reported.
- Salaries and wages for those employees who are paid but are not performing services / productive work should be recorded in Supplemental Pay – Other Pay. No hours worked for these employees should be tracked and reported.
- 100% of the wage subsidy received should be recorded in Supplemental Pay – Other Pay.

The wage subsidy should be recorded when it is earned, not necessarily when the funds are deposited. If there are Grant/Subsidy conditions, then it should be recorded when those conditions are substantially met and a receivable recorded if there is a delay in receiving the funds.

NOTE: The above FAQ above relates to accounting treatment for hotels that receive a government wage grant/subsidy. During the COVID-19 Global Pandemic, some governments have decided to support industries with significant revenue losses and offer wage grants/subsidies to keep workers employed during the crisis. Please refer to your local, state or federal governments for details on eligibility, claim process and payment terms.