
Part II

Operating Statements

The Operating Statements consist of a Summary Operating Statement and its supporting schedules. Together, they reflect the results of operations for a given period. While the terminology may not follow exact GAAP wording, the format and the methodology used in preparing the statements are, at the time of printing, generally consistent with GAAP.

The Summary Operating Statement is designed to serve three major purposes: (1) to provide management information regarding the results of operations; (2) to facilitate the comparison of results between different lodging properties; and (3) to enable comparison to a standard consisting of combined data from multiple properties. As a result, the Summary Operating Statement presentation is detailed through what is referred to as Adjusted Net Operating Income and does not include such items as Interest, Depreciation, Amortization, and Income Taxes. These items, normally found on a Statement of Income, vary based on ownership needs and decisions, and are not usually under the control of the management company.

The proper format for the Summary Operating Statement is shown on the next page. While properties may choose to delete some of the columns or to show them in a different order, the revenue and expenses lines, unless they are irrelevant, are to be included exactly as presented if the Summary Operating Statement is to be "in conformity with the *Uniform System*."

Summary Operating Statement¹

	CURRENT PERIOD				YEAR-TO-DATE			
	ACTUAL		FORECAST		PRIOR YEAR		FORECAST	
	\$	%	\$	%	\$	%	\$	%
REVENUE²								
Rooms								
Food and Beverage								
Other Operated Departments								
Rentals and Other Income								
Total Revenue								
DEPARTMENTAL EXPENSES³								
Rooms								
Food and Beverage								
Other Operated Departments								
Total Departmental Expenses								
TOTAL DEPARTMENTAL INCOME								
UNDISTRIBUTED OPERATING EXPENSES								
Administrative and General								
Sales and Marketing								
Property Operation & Maint.								
Utilities								
Total Undistributed Expenses								
GROSS OPERATING PROFIT								
MANAGEMENT FEES								
INCOME BEFORE FIXED CHARGES								
FIXED CHARGES								
Rent								
Property and Other Taxes								
Insurance								
Total Fixed Charges								
NET OPERATING INCOME								
LESS: REPLACEMENT RESERVES								
ADJUSTED NET OPERATING INCOME								

¹ For a complete Statement of Income, refer to page 18.

² Departmental Revenue is shown as a percentage of Total Revenue. 7

³ Departmental Expenses is the sum of Cost of Sales (when applicable) and Total Expenses. Departmental Expenses are shown as a percentage of their respective department revenue. 1

As shown on the previous page, the Summary Operating Statement is divided into six sections: Revenue, Departmental Expenses, Undistributed Operating Expenses, Management Fees, Fixed Charges, and Replacement Reserves. The following describes the content of each of these sections.

Revenue

The *Uniform System* includes only four revenue categories. The first two categories, Rooms and Food and Beverage, report the results of those departments. Revenue from any other department included in property operations—for example, telecommunications, a golf course, spa, or parking garage—is included in Other Operated Departments. The fourth revenue category is Rentals and Other Income, which includes items such as space rental, commissions, and interest income.

Total Revenue is determined by adding the amounts for all four categories of revenue. The Total Revenue line is considered to be 100 percent, and the percentage for each revenue category is determined by dividing the dollar amount for that revenue category by Total Revenue.

Departmental Expenses

There are three categories of departmental expenses, each of which relates to an operated department revenue category. In the schedules that accompany the Summary Operating Statement, departmental expenses are separated into four groups: cost of sales, cost of other revenue, payroll and related expenses, and other expenses. The total of these four groups of expenses for each category of revenue is the amount reported on the respective line of the Summary Operating Statement.

The percentage for each departmental expense is calculated by dividing the dollar amount of the expense by the corresponding revenue dollar amount.

Total Departmental Expenses is the sum of the amounts for all three categories of departmental expenses. The percentage for Total Departmental Expenses is calculated by dividing Total Departmental Expenses by Total Revenue.

Total Departmental Income is calculated by subtracting Total Departmental Expenses from Total Revenue. The Total Departmental Income percentage is calculated by dividing the dollar amount of Total Departmental Income by Total Revenue.

Undistributed Operating Expenses

The Undistributed Operating Expenses section reports expenses that are considered applicable to the entire property. In order to achieve uniformity, it is not appropriate to allocate these types of expenses to specific departments. The Undistributed Operating Expenses are separated into four categories: Administrative and General, Sales and Marketing, Property Operation and Maintenance, and Utilities.

The percentage for each Undistributed Operating Expense is calculated by dividing the dollar amount of the expense by Total Revenue.

Total Undistributed Expenses is the sum of the amounts for all four categories of Undistributed Operating Expenses. The percentage for Total Undistributed

Expenses is calculated by dividing Total Undistributed Expenses by Total Revenue.

Gross Operating Profit is calculated by subtracting Total Undistributed Expenses from Total Departmental Income. The Gross Operating Profit percentage is calculated by dividing the dollar amount of Gross Operating Profit by Total Revenue.

Management Fees

Management Fees represents the cost for management services performed by a management company to operate the property as a whole. If a management fee is paid for the oversight of a department other than Rooms within the property, such as Food and Beverage, that fee is charged to the specific department for which the fee is incurred. The percentage for the Management Fees line is determined by dividing the dollar amount of Management Fees by Total Revenue.

Income Before Fixed Charges is calculated by subtracting Management Fees from Gross Operating Profit. The percentage for Income Before Fixed Charges is calculated by dividing the dollar amount of Income Before Fixed Charges by Total Revenue.

Fixed Charges

The items included under Fixed Charges include Rent, Property and Other Taxes, and Insurance. The percentage for each of these expenses is calculated by dividing the dollar amount of the expense by Total Revenue.

Total Fixed Charges is the sum of the amounts shown for Rent, Property and Other Taxes, and Insurance. The Total Fixed Charges percentage is calculated by dividing the dollar amount for Total Fixed Charges by Total Revenue.

Net Operating Income is determined by subtracting the Total Fixed Charges from Income Before Fixed Charges. The Net Operating Income percentage is calculated by dividing the dollar amount for Net Operating Income by Total Revenue.

Replacement Reserves

Many management contracts, loan agreements, and owners/operators specify the establishment of a reserve to accumulate the funds required for future replacements of furniture, fixtures, and equipment. These funds may also provide for certain capital improvements and the replacement of existing assets such as the major building systems. Replacement Reserves indicates the amount set aside for the period covered by the Summary Operating Statement, whether or not the reserve is actually funded. The percentage for Replacement Reserves is calculated by dividing the dollar amount of the reserve by Total Revenue.

Adjusted Net Operating Income

Adjusted Net Operating Income is determined by subtracting Replacement Reserves from Net Operating Income. The Adjusted Net Operating Income percentage is calculated by dividing the dollar amount for Adjusted Net Operating Income by Total Revenue.

ROOMS—SCHEDULE 1

	CURRENT MONTH			YEAR-TO-DATE		
	ACTUAL	FORECAST	PRIOR YEAR	ACTUAL	FORECAST	PRIOR YEAR
	\$ %	\$ %	\$ %	\$ %	\$ %	\$ %
REVENUE						
Transient Rooms Revenue						
Group Rooms Revenue						
Contract Rooms Revenue						
Other Rooms Revenue						
Less: Allowances						
Total Rooms Revenue						
EXPENSES						
Payroll and Related Expenses						
Salaries, Wages, and Bonuses						
Salaries and Wages						
Bonuses and Incentives						
Total Salaries, Wages, and Bonuses						
Payroll-Related Expenses						
Payroll Taxes						
Supplemental Pay						
Employee Benefits						
Total Payroll-Related Expenses						
Total Payroll and Related Expenses						
Other Expenses						
Cable/Satellite Television						
Cleaning Supplies						
Commissions						
Commissions and Rebates—Group						
Complimentary Services and Gifts						
Contract Services						
Corporate Office Reimbursables						
Decorations						
Dues and Subscriptions						
Equipment Rental						
Guest Relocation						
Guest Supplies						
Guest Transportation						
Laundry and Dry Cleaning						
Licenses and Permits						
Linen						
Miscellaneous						
Operating Supplies						
Printing and Stationery						
Reservations						
Royalty Fees						
Telecommunications						
Training						
Travel—Meals and Entertainment						
Travel—Other						
Uniform Laundry						
Uniforms						
Total Other Expenses						
TOTAL EXPENSES						
DEPARTMENTAL INCOME (LOSS)						

Rooms—Schedule 1 illustrates the proper format for reporting the Revenue, Payroll and Related Expenses, Other Expenses, and Income (Loss) amounts for the Rooms department. Individual properties may delete irrelevant line items, but the *Uniform System* does not provide for the addition or substitution of other revenue or expense line items. Rather, properties may choose to develop a sub-account/sub-schedule to provide more detail related to a particular revenue or expense item such as in the case of a mixed-ownership project where ownership of some of the hotel units rests with third parties, but revenues and expenses are properly reported in the operating results of the hotel. This sub-account/sub-schedule is then to be rolled into the appropriate line item. Additionally, properties may choose to delete some of the columns or to show them in a different order and remain "in conformity with the *Uniform System*."

Revenue

The primary source of revenue for a lodging property generally arises from the rental of rooms and suites to guests. Rooms Department Revenue is divided into four parts: Transient Rooms Revenue, Group Rooms Revenue, Contract Rooms Revenue, and Other Rooms Revenue.

Transient Rooms Revenue

Transient Rooms Revenue commonly includes revenue derived from rental of rooms and suites by individuals or groups occupying less than 10 rooms per night. It also includes rooms leased to guests who have established permanent residence, with or without a contract. Transient stays typically include the following categories:

- Commercial/Corporate
- Leisure
- Government/Military
- Frequent Guest or Preferred
- Travel Packages, FIT
- Hotel Packages
- Internet

Group Rooms Revenue

Group Rooms Revenue includes revenue derived from renting blocks of 10 or more rooms or suites per night to a group. A group is defined as a number of individuals (typically 10 or more) collected or traveling together. Group Rooms Revenue is recorded net of discounts to wholesalers for selling large blocks of rooms. To facilitate effective sales and marketing efforts, Group Rooms Revenue is generally segregated by market segment. Market segments typically include the following categories:

- Corporate

- Association/Convention
- Government
- Tour group
- SMERF (Social, Military, Educational, Religious, Fraternal)
- Wholesalers, including Internet providers

Contract Rooms Revenue

Contract Rooms Revenue includes revenue derived from a contract with another entity for a consistent block of rooms for an extended period over 30 days. Contract Rooms Revenue is recorded net of discounts. Examples include domiciled airline crews, ongoing corporate training seminars, and incentive-based benefit programs.

Other Rooms Revenue

Other Rooms Revenue is miscellaneous revenue associated with an occupied room. This revenue is included in determining Total Rooms Revenue and is used in the calculation of Average Daily Rate (ADR). Items associated with Other Rooms Revenue include:

- *No-shows.* This is revenue derived from a transient or group guest who has individually guaranteed payment to reserve a room, but has failed either to occupy the room or to cancel the reservation within the prescribed timeframe. No-show revenue is to be included only when collection is reasonably assured. Group Attrition and Cancellation is included in Rentals and Other Income, not Other Rooms Revenue.
- *Day use.* This is revenue derived from sources such as rooms used for hospitality suites, dressing rooms, employment interviews, movie auditions, and wholesale distributors (for example, clothing, toys, other merchandise).
- *Early departure fees.*
- *Late check-out fees.*
- *Rental of rollaway beds and cribs.*

Items placed in the guestroom for sale to guests are not included in the calculation of Other Rooms Revenue. For example, bottled water or packaged food items that are charged to guests if consumed are considered Mini Bar Food Revenue. Non-food and beverage items sold in the room are credited to Miscellaneous Other Revenue in the Food department. Properties without food and beverage operations would show commission income in Rentals and Other Income. However, if the property earns revenue and incurs expenses, the gross amounts should be reported in Other Operated Departments.

Other Rooms Department Considerations

This section discusses other issues affecting the Rooms Department. These include package revenues, resort fees and surcharges, barter transactions, sales

and excise taxes and transient occupancy taxes, frequent stay programs, and wholesaler revenues.

Package Revenues. Package revenues are lodging accommodations sold in conjunction with other services provided by either the property or third parties as part of a single transaction with the customer. For example, a guest could obtain accommodations, meals, golf, spa treatment, and a rental vehicle for a single price. Care needs to be taken to ensure that revenues are appropriately allocated among departments and/or third-party vendors.

When properties provide incidental (gratis) food and/or beverages to a guest, such as a free breakfast, or where the guest cannot opt out of the food program, or where meals are provided as part of a franchise company brand standard, the cost of the food and/or beverage item is charged to the Rooms department, and no allocation of revenues should be made to the Food and Beverage department. In all other situations, such as resorts, which market their room product on a Modified American Plan basis, it is appropriate to allocate the food and/or beverage revenue to the Food and Beverage department.

In the case where interdepartmental allocations are necessary (for example, where revenues have to be allocated between rooms and food and beverage or other departments), the allocation is made based on the theoretical "market" values for the separate services. The "market" values represent average realized amounts achieved by the property for similar services. The packaged revenue is then allocated based on the ratio among these market values. The ratio should be used on a consistent basis and modified only when the theoretical values are estimated to have changed materially.

As an example, consider the following spa package consisting of a guestroom for one night, four meals, and the use of the property's spa facilities at an inclusive price of \$240, not including taxes, gratuities, or service charges. Despite the fact that the fair market value of the package is \$320, only the \$240 total amount will show on the guest account plus sales, excise, and transient taxes as applicable to each category of revenue. Special attention must be taken to ensure that the taxes charged meet the requirements of the taxing authorities. The property computes the departmental allocations of the \$240 sales price as follows:

Department	Market Value	Ratio	Package Allocations
Rooms	\$160	50%	\$120
Food	112	35%	84
Spa	48	15%	36
Total	\$320	100%	\$240

In the case of packages that include a third-party vendor, the rate for the provision of the third-party service will likely be established by contractual arrangement. The third-party portion of a package is deducted from the price of the package before the allocation. Amounts to be paid to a third party are recorded to a liability account until paid and are not considered revenue.

Resort Fees and Surcharges. Resort fees and surcharges are mandatory fees charged at either a flat amount or a percentage of the room rate. They are charged per room night rather than per person and allow the guest to use services such as fitness facilities, spa, pool, local phone calls, Internet access, airport transportation, golf driving range, and other recreational facilities. These fees may also include gratuities. Resort fees and mandatory surcharges include any charges to offset expenses, such as an energy surcharge.

Resort fees and surcharges are recorded as revenue. Resort fees are allocated to other departments based on the relative value of the components normally supplied by those departments. If the surcharge cannot be allocated to a revenue-producing department, it is included in Other Rooms Revenue. If the surcharge to be allocated is related to an item normally recorded as revenue by the Rooms department, for example, a rollaway, the amount is recorded as Other Rooms Revenue.

Barter Transactions. Lodging properties often enter into barter transactions. Typically, these arrangements require the property to provide accommodations and possibly food, beverages, golf packages, and other services in exchange for other services, such as advertising. These are non-monetary transactions that are settled through the provision of goods and services. While the form and details of barter transactions vary, they typically occur during periods of low occupancy.

Generally accepted accounting principles require that revenue and expenses associated with barter transactions be recognized. Typically, this means that Prepaid Expenses will be charged with the value of the services to be received by the property and Other Liabilities will be credited with the value of the services to be provided by the property. As the property receives the services agreed to in the barter transaction, it expenses the value of those services, leaving in Prepaid Expenses only the unused value of the barter transaction. Likewise as the property provides the services agreed to in the barter transaction, it recognizes the revenue by writing down the liability, leaving only the unredeemed value of the services in Other Liabilities. The value assigned within the barter agreement to the services received should, accordingly, be a conservative average of the market rate for similar accommodations or services at the property. When rooms are part of a barter transaction, they are counted as occupied rooms and the corresponding statistics included.

Sales and Excise Taxes and Transient Occupancy Taxes. Most jurisdictions levy sales or excise taxes on revenues. In addition, many jurisdictions assess a transient occupancy, value added, accommodations or resort tax on certain lodging revenues. In these cases, the property merely acts as a conduit in the collection of taxes for the taxing authority. The property is required to pay the taxes to the taxing authority regardless of whether the tax is charged to the guest. No revenue is recognized. Special attention must be taken with regard to the treatment of complimentary rooms by the taxing authorities.

Frequent Stay Programs. In an attempt to build customer loyalty and repeat business, some properties and chains have implemented frequent stay programs where low priced or free accommodations or services are provided to frequent guests based on points earned at various levels of patronage. The value of the

frequent stay points is charged as a marketing expense when the points are issued with a corresponding credit to a liability account. When a guest redeems the points, the value of the points is credited to Rooms Revenue and debited to the liability account if the frequent stay program is solely at the property level, or to a receivable account if the program is operated at a chain level. In the latter case, the cost is passed on to the chain to reimburse the property. Special attention must be paid so that the value assigned to points issued covers the liability associated with the estimated redemption of points. When rooms are part of a Frequent Stay Program, they are counted as occupied rooms and included in the corresponding statistics.

Wholesaler Revenues. Many lodging properties use the services of a wholesaler in connection with the sale and distribution of guestrooms. In turn, wholesalers generally market the rooms on behalf of the properties to retail travel agents. To entice wholesalers to perform the marketing function, they are offered a block or a set number of rooms at a discounted price. The rate offered to the wholesaler is typically a discount off of the rack or posted room rate for the rooms in the block. The block is typically non-binding, which means that the wholesaler is not obligated to purchase any of the allotted rooms in the block. The marketing and packaging efforts carried out by wholesalers are at no direct cost to the property. From the property's perspective, the marketing efficiency that a wholesaler represents justifies the lower rate charged to the wholesaler. The property does not exercise control over the pricing a wholesaler charges its customer.

With the growth in importance of the Internet as a marketing channel, a new breed of wholesaler has appeared on the scene. These new wholesalers focus not on travel agents, but rather on the end consumer whom they reach by marketing over the Internet. However, dot.com wholesalers are no different than traditional wholesalers, and therefore the accounting for a dot.com wholesaler is unchanged from the accounting treatment previously afforded to traditional wholesalers.

The fact that a wholesaler or a dot.com wholesaler resells a room product either in combination with other travel services or alone is irrelevant to the way a property records the revenue received from a wholesaler. Guestroom sales to wholesalers and other similar entities are recorded at the net rate received by the property for the room, exclusive of any taxes or other charges, such as portage, which may be added to the sale. It is not appropriate for a property to record a sale to a wholesaler at rack rates, which would have the effect of overstating revenues, daily average rate, RevPAR, and expenses, by virtue of recording an artificial expense, or commission, which would be implicit if the sale were grossed up. From a property's perspective, the sale occurs not to the end user, the consumer, but to the wholesaler. It is at this point in the revenue cycle that the sale occurs, and it is with the wholesaler that the property bears the risk of collection. Hence, it is at this time that the sale is recorded on the books of the property, and at the contracted price with the wholesaler. What happens beyond that initial sale is not part of the revenue cycle for the property, and is therefore not reflected on the books of the property.

Commissions paid to travel agents and meeting planners are not synonymous with the marketing services performed by a wholesaler. Travel agents are not afforded special rates for individual bookings, as there is no marketing efficiency

brought to the hotel by a travel agent, unlike a wholesaler. Accordingly, commissions are not treated as reductions in room rates, but are charged to the appropriate commissions account in the Rooms department.

Mixed-Ownership Lodging Facilities. Properties of all types and sizes are building or converting rooms into condominiums, creating "mixed-ownership" entities. These facilities may be timeshares, fractional use, or whole ownership. Merely operating these mixed-ownership projects as a lodging operation does not in and of itself qualify the revenue stream to be recorded in the Rooms department. Consideration must be given to the individual facts and circumstances of each project.

Generally, if the property has assumed the economic risk associated with operating the third-party-owned units pursuant to a contractual relationship that extends beyond one year, the associated revenue stream is recorded in the Rooms department within the Transient, Group, Contract, and Other revenue categories as described previously in this section. Alternately, a property could create a sub-schedule for "mixed ownership" revenue and roll up the individual revenues and expenses into the appropriate revenue and expense categories in the Rooms department.

Conversely, if the third-party owner of the unit shares in the risk associated with the operation of the unit, a management relationship exists. In such situations, revenues and expenses are not recorded in the Rooms department. In this circumstance, the revenues received directly by the property, and expenses paid directly by the property (if any), for the third-party-owned units are recorded in either Other Operated Departments or Rentals and Other Income. If the facts and circumstances of the relationship between a property and the third-party owners of the units dictate that the revenues and associated expenses of the condominium operation incurred directly by the property are to be recorded separately, then a Condominium Department is established within Other Operated Departments and the revenues and expenses are reported on a gross basis. (A discussion of gross and net basis reporting is presented under Schedule 3, beginning on page 77.) On the other hand, if the facts and circumstances of the relationship between a property and the third-party owners of the units dictate that the revenue received by the property is a fixed dollar amount, a percent of revenue, or net of expenses, then the revenue received by the property is recorded in Rentals and Other Income. Further discussion is contained under *Other Operated Departments—Schedule 3*.

Average rate and occupancy statistics are affected depending upon the facts and circumstances. If the relationship between property and owner qualifies for inclusion in the Rooms department, then it is appropriate to record the available and occupied third-party-owned units in the total rooms available and total occupied rooms statistics of the property. Failing to meet the criteria set forth with respect to inclusion of such rental revenue in the Rooms department warrants the exclusion of the third-party-owned units from the Rooms department operating statistics. Instead, such statistics are recorded on a supplemental basis as discussed in Part III.

Allowances

Allowances refers to a reduction in revenue due to a service problem, and not an error in posting. Errors in posting, such as posting an incorrect rate, are treated as an adjustment to revenue, regardless of the accounting period in which the error occurred.

Total Rooms Revenue

Total Rooms Revenue is calculated by adding together Transient Rooms Revenue, Group Rooms Revenue, Contract Rooms Revenue, and Other Rooms Revenue and subtracting Allowances. Total Rooms Revenue is the same amount that appears on the Summary Operating Statement under Revenue—Rooms.

In completing the revenue section of Schedule 1, consider the Total Rooms Revenue line to be 100 percent. The percentage for each source of revenue is determined by dividing the dollar amount for that revenue source by Total Rooms Revenue.

Expenses

Rooms department expenses are separated into two major categories: Payroll and Related Expenses and Other Expenses.

Payroll and Related Expenses

Payroll and Related Expenses for the Rooms department comprises the expenses associated with Salaries, Wages, and Bonuses and Payroll-Related Expenses for employees of the Rooms department. A list of the positions typically included in the Rooms department is shown on page 174.

Salaries, Wages, and Bonuses. This grouping includes (1) Salaries and Wages and (2) Bonuses and Incentives. Salaries and Wages includes only earnings paid to an employee for duties that relate to the operation of the property, such as regular pay, overtime pay, and shift differential pay. If an employee works in a department other than his or her regular home department, his or her earnings are charged as Salaries and Wages in that other department, regardless of the duties being performed. For example, if a Rooms department employee works as a server for an employee awards banquet, his or her earnings are charged to Salaries and Wages in Administrative and General, and not to this line item. Payroll-Related Expenses (described below) for the above example are treated similarly and charged as Payroll-Related Expenses in Administrative and General.

Salaries and Wages also includes contract or leased labor. Contract or leased labor refers to those situations in which a property enters into an agreement with an outside service to provide employees to fill positions that would normally be held by individuals paid on the regular payroll. In these situations, the property usually supervises the individuals and records or tracks their hours worked and pays them on an hourly basis. A typical example is the use of individuals brought into the property to fill in for a shortage of housekeeping staff. This situation differs from a contract service in which a property has an agreement with an outside

company to provide some type of service, such as cleaning public area space during the early morning hours. In this case, the contracted organization typically provides the supervision and ensures that the work is performed. The costs associated with this type of agreement are charged under Contract Services for the department receiving the service.

Bonuses and Incentives includes bonuses, incentive pay, and other types of performance pay designed to drive revenue through sales, profit, or guest satisfaction measures.

Total Salaries, Wages, and Bonuses. Calculated by adding together Salaries and Wages and Bonuses and Incentives.

Payroll-Related Expenses. Payroll-Related Expenses includes amounts paid for an employee for duties that relate to the operation of the property and amounts paid for an employee who works in a department other than his or her regular home department regardless of the duties being performed. Payroll-Related Expenses includes the following items:

- **Payroll Taxes.** Includes Federal Retirement and Medicare (FICA), Federal and State Unemployment Taxes (FUTA and SUTA), State Disability Insurance (SDI), and other mandated payroll-related taxes or social insurance items. (See *Payroll-Related Expenses—Schedule 13.*)
- **Supplemental Pay.** Includes personal days, vacation pay, sick pay, holiday pay, jury duty pay, relocation pay, paid time off, and severance pay. Supplemental Pay also includes bonuses and incentive payments that are discretionary and not determined by results from operations.
- **Employee Benefits.** Includes all other payroll-related expenses, such as employer-paid health insurance expenses, cost of meals furnished to employees, pension contributions, and union fees. (See *Payroll-Related Expenses—Schedule 13.*) The distribution of employee meal costs from *Employee Cafeteria—Schedule 12* is charged to this line.

Total Payroll-Related Expenses. Calculated by adding together Payroll Taxes, Supplemental Pay, and Employee Benefits.

Total Payroll and Related Expenses

Total Payroll and Related Expenses is calculated by adding together Total Salaries, Wages, and Bonuses and Total Payroll-Related Expenses. The percentage for each payroll and related expense line item as well as Total Payroll and Related Expenses is calculated by dividing the line item amount by Total Rooms Revenue.

Other Expenses

This expense grouping includes the significant Rooms department expenses approved as Other Expenses in the *Uniform System*. Individual properties may delete irrelevant line items, but the *Uniform System* does not provide for the addition or substitution of other expense line items. Rather, properties may choose to develop a sub-account/sub-schedule to provide more detail related to a particular

expense item. This sub-account/sub-schedule is then to be rolled into the appropriate line item listed below.

Cable/Satellite Television. Includes the cost of providing cable, satellite video services, and other related services (DVD, VHS players etc.) to guestrooms. It does not include the cost associated with pay-per-view movies, which is charged to Other Operated Departments or netted against revenue in Rentals and Other Income, whichever is appropriate.

Cleaning Supplies. Includes the cost of products used in cleansing, sweeping, polishing, waxing, and disinfecting areas associated with the Rooms department.

Commissions. Includes the remuneration paid to authorized agents for securing rooms business for the property, such as travel agent commissions. Travel agent commissions are generally reflected as an expense of the Rooms department regardless of whether the commission relates to accommodations only or to other services as well. This practice is generally followed because allocations of these commissions to other departments would not be cost-effective.

In some properties, blocks of rooms are provided to travel agents, wholesalers, and consolidators at a negotiated rate. These rooms are subsequently remarketed to the eventual guest. Revenue from these transactions is to be recorded at the negotiated rate and no attempt made to record additional revenue based on a rack or normal rate with an offset to commission expense.

Commissions also includes remuneration paid to rental agents for permanent rooms business that may involve leases. In the case of leases, the remuneration is prorated over the term of the lease.

Commissions and Rebates—Group. Includes payments made to third-party meeting planners who act as a liaison between a hotel and a group in finding suitable meeting and accommodation space for the group. This line item also includes rebates or subsidies granted directly to the group or fees paid to third-party housing companies.

Complimentary Services and Gifts. Includes the cost of providing gift items used in gratis presentations for promotional purposes to guests and vendors of the Rooms department, such as the cost of newspapers provided to guests on a complimentary basis or a complimentary fruit basket sent to the room of a frequent guest. This line item also includes the cost of providing food and beverage items on a gratis basis, such as a breakfast or an evening reception. The costs of bottled water and coffee provided at no charge to the guest are included in Guest Supplies.

Contract Services. Includes expenses for activities performed for the Rooms department by outside companies rather than hotel employees. The costs of contracting outside companies to clean carpets and rugs or to disinfect areas associated with the Rooms department are typical examples. If supplies are purchased for contract companies to use, the supplies are charged to the appropriate supply account. The cost of contracts for Rooms department laundry and dry cleaning is charged to Laundry and Dry Cleaning.

Corporate Office Reimbursables. Includes the allocations of salaries and expenses of corporate or management company Rooms department personnel billed to the property by the regional or corporate office or by the management company. Travel expenses of corporate or management company Rooms department personnel that are incurred while visiting the property, including the costs of meals and other applicable services or amenities provided to corporate or management company staff while on business in the property for the benefit of the property, are also charged to this account.

Decorations. Includes the cost of decorative items used in Rooms department areas for holidays and special events. Decorations also includes the cost of fresh floral arrangements used in the public areas.

Dues and Subscriptions. Includes the cost of representation of the Rooms department, or of members of the staff when authorized to represent the Rooms department, in business or professional organizations. Dues and Subscriptions is also charged with the cost of subscriptions to newspapers, magazines, and books for use by the staff of the Rooms department.

Equipment Rental. Includes the cost of renting any type of equipment that may be used either sporadically in the Rooms department or as a replacement for equipment out of service on a temporary basis. Equipment that is rented on a continuous basis and, if purchased, would qualify as a capital purchase is charged to Other Property and Equipment under the Rent section of *Rent, Property and Other Taxes, and Insurance—Schedule 10*.

Guest Relocation. Includes the cost of renting accommodations in other properties when a decision is made to move a guest (usually on arrival) to another property because of a lack of available rooms. This item also includes any incidental costs, gratuities, or compensation paid in connection with these circumstances.

Guest Supplies. Includes the cost of consumable supplies and amenities provided for guests on a gratis basis in the guestroom, such as soaps, shampoos, lotions, toilet tissue, shoeshine mitts, shower caps, and writing materials. The costs of bottled water and coffee provided at no charge to the guest are also included in Guest Supplies.

Guest Transportation. Includes all costs associated with transporting guests to and from the property, such as fuel costs, costs of washing and cleaning vehicles, the occasional rental of vehicles for transporting large groups, or the costs of contracting guest transportation services. The costs of mechanical maintenance of vehicles used to transport guests are charged to Property Operation and Maintenance. If a vehicle used to transport guests is leased, the cost of the lease is charged to Rent under *Rent, Property and Other Taxes, and Insurance—Schedule 10*.

Laundry and Dry Cleaning. Includes the cost of laundry and dry cleaning services applicable to the Rooms department, whether the services are performed by an in-house facility or are contracted to an outside company. If the services are performed by an in-house laundry, an allocation from House Laundry is charged

to Laundry and Dry Cleaning. If the services are performed by an outside company, the amount charged to Laundry and Dry Cleaning should be based on invoices sent by the outside laundry. The cost of cleaning employee uniforms is charged to the Uniform Laundry account.

Licenses and Permits. Includes the cost of federal, state, and local licenses, including costs of inspections needed for licensing, for all activities of the Rooms department.

Linen. Includes the cost, whether purchased or rented, of towels, face cloths, bath mats, blankets, guest robes, pillowcases, sheets, comforters, duvets, and bedspreads used by the Rooms department.

Miscellaneous. Includes any expenses of the Rooms department that do not apply to the other line items discussed in this section.

Operating Supplies. Includes the cost of items needed to operate the Rooms department that are not included in the descriptions of specific supply accounts such as Guest Supplies, Cleaning Supplies, and Printing and Stationery. Examples of items included in Operating Supplies are clock radios, irons, keycards, "Do-Not-Disturb" signs, ice buckets, drinking glasses, and all general office supplies. The cost of firewood for lobby and/or guestrooms is charged to this line item. The cost of consumable supplies and amenities provided in guestrooms is charged to Guest Supplies.

Printing and Stationery. Includes the cost of printed forms used in the Rooms department, whether they are purchased from an outside source or produced internally. The costs associated with providing a guestroom or service directory, including the binder and the contents pages, are included in Printing and Stationery. The cost of writing materials provided in guestrooms is charged to Guest Supplies.

Reservations. Includes the costs associated with participating in an internal or external central reservation system, such as any fees paid for chain reservation services. Reservations also includes the cost of any communication lines, including Internet site communications costs, that are dedicated to generating reservations.

Royalty Fees. Includes all costs associated with the right to use a brand name in connection with a Rooms department activity. The fees paid for the use of a hotel brand name are charged to Franchise Fees in *Sales and Marketing—Schedule 6*.

Telecommunications. Includes any telecommunications expenditures that can be directly related to the Rooms department, including the costs of local, long distance, and Internet communications. Telecommunications includes not only traditional telephone systems, but also the cost of cellular phones, including the equipment and periodic service charges, used in the Rooms department. Telecommunications charged to room guests is recorded in the Telecommunications department.

Training. Includes the cost, other than time, that can be directly attributed to the training of employees in the Rooms department. Examples include the costs of

training materials, supplies, and instructor fees. The cost of employee wages incurred during training is charged to Salaries and Wages.

Travel—Meals and Entertainment. Includes the reimbursable cost of food and beverage expenditures for travel and entertainment by employees of the Rooms department traveling on property business.

Travel—Other. Includes the cost of travel and reimbursable expenditures, other than food, beverage, and entertainment, by employees of the Rooms department traveling on property business

Uniform Laundry. Includes the cost of cleaning uniforms for employees of the Rooms department whether performed by an in-hotel facility or contracted to an outside company.

Uniforms. Includes the cost of employee uniforms used in the Rooms department, whether purchased or rented. Repair costs are also included in this line item. The cost of cleaning uniforms is charged to the Uniform Laundry account.

Total Other Expenses

Total Other Expenses is calculated by adding all items listed under Other Expenses. The percentage for each line item expense as well as Total Other Expenses is calculated by dividing the line item amount by Total Rooms Revenue.

Total Expenses

Total Expenses is calculated by adding Total Payroll and Related Expenses to Total Other Expenses. Total Expenses is the same amount that appears on the Summary Operating Statement under Departmental Expenses—Rooms. The percentage for Total Expenses is calculated by dividing the dollar amount of Total Expenses by Total Rooms Revenue.

Departmental Income (Loss)

Departmental Income (Loss) is calculated by subtracting Total Expenses from Total Rooms Revenue. The percentage for Departmental Income (Loss) is calculated by dividing Departmental Income (Loss) by Total Rooms Revenue.