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FairPlanner

Changes in USALI* - 12th Edition

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Table of Contents

Introduction	3
1 Uniform System of Accounts for the Lodging Industry (USALI*)	3
2 Summary Operating Statement (Hotel P&L)	3
3 Schedule 1 – Rooms Department	5
3.1 Expansion of the Rooms Revenue segmentation	5
3.2 Guest Loyalty Program Costs Tracking	5
3.2.1 Loyalty Program Member Benefits [New Account]	5
3.3 Executive Lounge Revenue	6
3.3.1 Executive Lounge Expenses [New Account]	6
3.3.2 Sub-Schedule 1-1 – Executive Lounge	6
4 Schedule 2 – Food & Beverage	7
4.1 Clarification on F&B Commissions and Reservations	7
4.2 Enhancement of China, Flatware, Glassware, etc.	7
4.3 Clarification for Conference Center Hotels	7
4.4 Minibar Changes	7
5 Schedule 3 – Other & Minor Operated Departments	8
5.1 Other Operated Departments Clarifications	8
5.2 Clarification for Minor Operated Departments	9
6 Schedule 5 – Administrative & General	9
6.1 New Accounts, Changes and Clarifications	9
7 Schedule 6 - Information and Telecommunication Systems	10
7.1 Changes and Clarifications	10
7.2 Extended System Cost items system Expenses Captions Enhanced	10
8 Schedule 7 – Sales & Marketing	11
9 Schedule 9 – Energy, Water and Waste	12
10 Schedule 11 – Non-Operating Income and Expenses	14
11 Contact Information	14

Introduction

Stay one step ahead of developments in the hotel industry with us. Fairmas provides you with the latest updates from the 12th edition of HFTP's USALI*. Detailed information on the changes are listed below.

If you have any questions, please do not hesitate to contact us.

Email: contact@fairmas.com

1 Uniform System of Accounts for the Lodging Industry (USALI*)

The Uniform System of Accounts for the Lodging Industry (USALI*) is a standardized accounting system and set of guidelines developed specifically for the hotel and lodging industry. It provides hotels and lodging establishments with a structured and uniform way to organize and report their financial information.

USALI* encompasses various aspects of financial reporting, including revenue, expenses and performance metrics, to ensure that financial data from different properties and companies within the industry can be effectively compared and analyzed. It helps ensure consistency and transparency in financial reporting practices and makes it easier for stakeholders, investors and industry professionals to understand and evaluate the financial performance of lodging properties.

USALI* is updated regularly to reflect changes in accounting standards and emerging trends in the hotel industry.

2 Summary Operating Statement (Hotel P&L)

The changes compared to the previous edition of the USALI* are written in **orange** and marked with **[New]** or **[Change]**.

Revenue

- Rooms **[Change]**
- Food and Beverage **[Change]**
- Other Operating Departments **[Change]**
 - Minor Operating Departments **[Change]**
- Miscellaneous Income **[Change]**

Total Operating Revenue

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Departmental Expenses

- Rooms
 - Guest Loyalty Program Costs [New]
 - Executive Lounge Cost [New Sub-Schedule 1-1]
- Food and Beverage
- Other Operating Departments

Total Department Expenses

Total Department Income (Gross Operating Income)

Undistributed Operating Expenses

- Administrative and General [New Accounts]
- Information and Telecommunications System [Change]
- Sales and Marketing [Change]
- Property Operations and Maintenance
- Energy, Water and Waste [New] (formerly known as “Utilities”)

Total Undistributed Expenses

Gross Operating Profit

Management Fees

Income before Non-Operating Income and Expenses [Change]

Non-Operating Income and Expenses

- Income [Change]
 - Lease Income
- Rent
- Property and Other Taxes [Change]
 - Business and Occupation Taxes
- Insurance
- Other [Change]
 - Pre-opening Expenses

- Unrealized Investment Gains or Losses

Total Non-Operating Income and Expenses

EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization)

3 Schedule 1 – Rooms Department

3.1 Expansion of the Rooms Revenue segmentation

The Rooms Revenue segment, the categories and the definitions will be expanded and improved. Further information will be announced soon. In addition, an optional channel mix schedule has been introduced, which can lead to better revenue management.

3.2 Guest Loyalty Program Costs Tracking

New guidelines have been implemented to improve the monitoring of expenses related to services and amenities provided to members of a Guest Loyalty Program.

This aims to enhance the efficiency and accuracy of cost tracking for loyalty program services.

3.2.1 Loyalty Program Member Benefits [New Account]

- **On-Property Benefits**

This includes complimentary items and services provided to loyalty program members during their stay. These could range from simple amenities like water to more substantial perks like breakfast or access to exclusive areas like a concierge lounge. The costs associated with providing these benefits should be recorded within the loyalty program's accounting framework.

- **Points Redemption**

Some guests may opt to receive loyalty points instead of on-property benefits. The cost of these points, in terms of their redemption value, should also be accounted for within the loyalty program's financial records. This reflects the value of the benefits accrued by loyalty program members who choose to redeem their points for rewards.

- **Cost Allocation for Services Available to All Guests**

Not all services and amenities provided by the hotel are exclusive to loyalty program members. Basic items and services required by brand standards, such as standard room amenities or general hotel facilities, are available to all guests. The costs associated with

these services should be allocated to their relevant operating departments and accounts, rather than being solely attributed to the loyalty program.

By accurately tracking these costs and benefits, the hotel can effectively manage its loyalty program while ensuring transparency and accountability in its financial operations.

3.3 Executive Lounge Revenue

- **Executive Lounge Revenue**

This refers to the revenue earned from selling access to a designated private space within the hotel, often called a club, concierge, or executive lounge. If significant, this revenue is classified under "Other Rooms Revenue."

- **Revenue Calculation**

The revenue recorded equals the upcharge or premium charged for access to the space.

- **Ancillary Revenue**

Any additional revenue generated within the executive lounge, such as sales of alcohol or rental of meeting rooms, should be recorded within the relevant department rather than being included in the Executive Lounge revenue.

3.3.1 Executive Lounge Expenses [New Account]

The operating costs of the Executive Lounge attributable to guests who have paid for lounge access through a surcharge or room premium are recognized here.

The amount recorded here is an allocation from Executive Lounge – Sub-Schedule 1-1; the balance is recorded in Loyalty Program Member Benefits.

3.3.2 Sub-Schedule 1-1 – Executive Lounge

The Executive Lounge costs are allocated to either:

- Rooms – Schedule 1, Executive Lounge Expense (only if Executive Lounge Revenue is recorded), or
- Rooms – Schedule 1, Loyalty Program Member Benefits, the residual

New titles: Executive lounge manager, service staff such as attendant, server, bartender, bus person, runner, and guest relations for the executive lounge.

4 Schedule 2 – Food & Beverage

Significant changes are expected in the Food & Beverage area. Based on the latest information from HFTP, the changes will be as follows:

4.1 Clarification on F&B Commissions and Reservations

Clearer guidance on the allocation of costs associated with third party delivery systems has been added to improve the understanding of F&B commissions and reservation costs.

4.2 Enhancement of China, Flatware, Glassware, etc.

The definition of expenses such as China, Flatware, Glassware, Ice, and Linen has been improved to provide better clarity on how these costs should be treated when charged to banquet guests.

4.3 Clarification for Conference Center Hotels

The introduction to the schedule has been refined to provide more explicit instructions on how to report Conference Center hotels with a Conference Service Department, ensuring accurate reporting for establishments like Complete Meeting Package or Day Meeting Package.

4.4 Minibar Changes

The definitions and line items for Minibar Food and Minibar Beverage have been removed from Food & Beverage - Schedule 2 and are now categorized as a Minor Operated Department in the Other Operating Department - Schedule 3. This change can be visualized in the Market Place Scenario Flowchart designed by HFTP found on the next page.

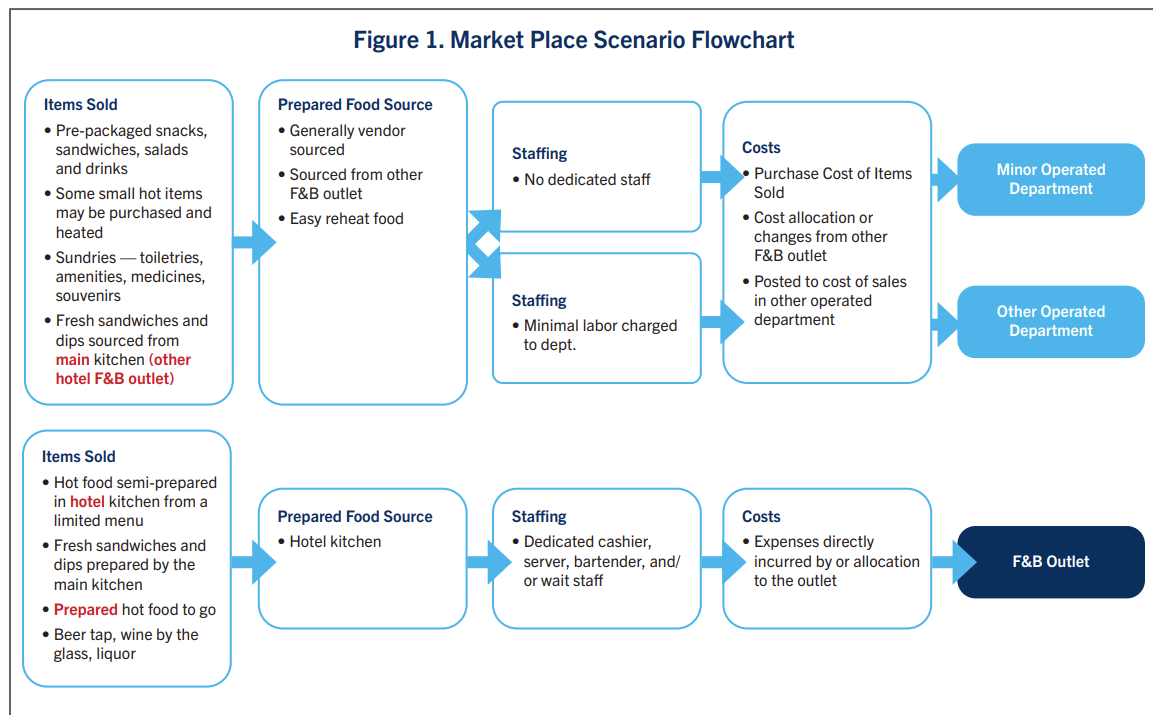


Figure 1. Market Place Scenario Flowchart

5 Schedule 3 – Other & Minor Operated Departments

The notable changes to the Other Operated Departments and Minor Operated Departments within the Operating Statement are as follows:

5.1 Other Operated Departments Clarifications

- Other Operated Department is defined by its ability to generate revenue, possess direct payroll costs, direct product costs, and other direct operating expenses. This department operates with the intention of achieving a profit or minimizing losses.
- If a department solely generates revenues without corresponding expenses or if the majority of property income is "net revenue," it falls under Miscellaneous Income - Schedule 4.
- Departments offering complimentary guest services with no revenue are not categorized as Other Operated Departments. Expenses of such departments are allocated to those benefiting most from the service.
- Detailed examples illustrating these principles will be provided in the final version once released by HFTP.

5.2 Clarification for Minor Operated Departments

Until now, there was no concrete definition explaining ‘Minor Operated Departments’, however, USALI*12 defines Minor Operated Departments as follows:

- Minor Operated Departments generate income meeting gross revenue and expense presentation criteria outlined in Part V. These departments incur direct operating expenses but typically lack direct payroll costs. They are expected to yield a property profit.
- Minor Operated Departments involve lower levels of revenue and expenses, which do not warrant a fully operated department sub-schedule. Departments with Labor Costs and Related Expenses should not be classified as Minor Operated Departments.

These revisions provide greater clarity on the characteristics of **Other Operated Departments and Minor Operated Departments**, ensuring accurate classification and reporting.

6 Schedule 5 – Administrative & General

6.1 New Accounts, Changes and Clarifications

- **Human Resources – Recruitment/Relocation**

This category includes all expenses related to the recruitment and assignment of personnel, including recruitment, relocation, background checks, expatriate visa costs (excluding legal costs), temporary accommodation, medical costs and employee activities. If necessary, a hotel may prepare a detailed partial P&L, but the total amount must be summarized in this line item.

- **Human Resources – Employee Relations**

This includes expenses for employee retention and motivation, such as employee awards, events and activities to improve relationships and morale. If necessary, detailed breakdowns can be provided in a partial P&L, but the total must be summarized in this item.

- **Provision for Doubtful Accounts**

This includes charges made to anticipate probable losses on accounts and notes receivable, including credit card chargebacks. Additionally, if a customer disputes a charge on their credit card that the hotel intends to collect, the resulting revenue loss is recorded here. However, if the hotel reverses a no-show charge, whether as a courtesy or due to an error,

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that adjustment is considered a revenue reversal and is managed within the Rooms Department.

- **Service Recovery**

This includes costs for resolving guest service issues, including compensation such as complimentary services, loyalty points, brand complaint fees and credits for future stays. If the revenue for the current stay is reduced, this is recorded as a revenue reversal in the respective department account for allowances.

7 Schedule 6 - Information and Telecommunication Systems

7.1 Changes and Clarifications

- **In-room Entertainment Systems**

This expense was previously listed under Rooms and has now been moved to Information and Telecommunication Systems.

- **Cost of Complimentary In-Rooms/ Media Entertainment**

This includes expenses for the provision of free media services (e.g. cable, music, games, satellite video) in guest rooms. Costs for paid media are excluded and, depending on the situation, are offset in other operating departments or against income in Other income.

7.2 Extended System Cost items system Expenses Captions Enhanced

- **System Expenses**

This includes systems not specified elsewhere in the Information and Telecommunications Systems department but primarily benefiting the noted area. It includes costs such as software license fees, maintenance, software as a service (SAAS) fees, handheld devices, hosting and storage fees (including cloud storage), and technical support fees.

However, it excludes leased IT equipment, which is recorded under Non-Operating Income and Expenses. Additionally, expenses that can be capitalized, like system development costs, are excluded from System Expenses.

- **Administrative and General**

Includes any expenses related to accounting systems, security systems (such as forecast and budgeting systems, and business intelligence (BI) fees) for the property.

- **Hardware**

Includes any expenses for non-capitalized equipment, such as keyboards, computer mice, and credit card machines.

- **Human Resources**

Includes any expenses related to a human resources system, including payroll, HRIS (Human Resources Information System), time clocks, labor management systems, and electronic timecards for the property.

- **Information Security**

Includes any expenses from the Information and Telecommunications Systems department aimed at securing information data. This includes costs for PCI compliance software, GDPR compliance, and associated expenses.

- **Other**

Includes any expenses of a guest-related point-of-sale or reservation systems for other facilities on the property, excluding transaction costs or commissions related to venue-specific third-party reservation or booking systems.

Additionally, it excludes expenses related to the operation of a mobile app, with the exception of text messaging charges for guest feedback and e-check-in, which are included in the cost of cellphone usage.

- **Sales and Marketing**

Includes any expenses of sales, revenue management, catering, and marketing systems at the property, such as software licensing fees and SAAS applications.

Sales related website expenses are recorded to Website in Sales and Marketing – Schedule 7.

8 Schedule 7 – Sales & Marketing

The Sales and Marketing – Schedule 7 has been updated to modernize and adapt to recent changes and emerging trends in marketing systems, tools, customer relationship management, and sales channels.

Notable updates include the addition of:

- New accounts to reflect the use of digital tools in hotel marketing, expanded accounts for tracking guest loyalty program costs
- Clarifications for emerging expenses

- Changes to some line-item names for clarity
- Inclusion of new job titles related to digital marketing roles

The updated schedule also provides clarifications based on user questions and feedback and incorporates conforming changes for common expense categories across different department schedules. In addition, new accounts have been introduced in the Rooms – Schedule 1 and Administrative & General – Schedule 5 for member benefits and service recovery, respectively, leading to their removal from the Sales & Marketing schedule.

Additional ratios/statistics are still being developed by HFTP, especially for Sales & Marketing performance metrics. Additional metrics will be included in the final publication.

The new accounts can be found below:

- Advertising – Print, Radio, and TV
- Digital - Paid Search
- Digital - Display
- Digital - Social
- Loyalty Program Cost
- Loyalty Program - Promotion Costs
- Marketing Agency Fees
- Photography and Videography
- Printed Collateral

9 Schedule 9 – Energy, Water and Waste

To cater to the changing demands of the hospitality industry, USALI*12 has reinvented Schedule 9 which now consists of Energy, Water, and Waste, formerly known as Utilities.

Businesses worldwide are increasingly addressing the need for improved reporting of environmental costs and liabilities. This effort, driven by a desire to lessen environmental impact, offers advantages beyond social responsibility. It can yield a competitive advantage in the expanding sustainable goods market, safeguard brand reputation, mitigate risks, boost employee retention, and reduce costs. The hospitality industry, like others, is facing growing demands from stakeholders to quantify the environmental effects of guest stays and overall hotel operations.

USALI*'s 12th edition emphasizes guidance for both large and small lodging properties to assess efficiency and respond to stakeholder information requests. The introduction of new metrics assists in calculating a hotel's environmental impact, catering to requests from meeting planners, cities, and third parties. Efficient management of EWW costs, usage, and environmental impact can enhance profitability, regulatory compliance, and reduce the hotel's ecological footprint.

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While not providing detailed calculations for carbon footprint or greenhouse gas emissions, the USALI* 12th edition offers a framework for consistent measurement of energy usage, water consumption, and waste production. Brands often support these calculations within their global databases, streamlining efforts and ensuring consistency.

Given the diversity in hotel ownership and operations, it is recommended that all hotels monitor key components to understand and mitigate their environmental impact. Metrics like energy and water consumption per occupied room and waste production are vital for comprehending utilities costs and environmental effects.

Despite challenges in obtaining EWW information regularly, its calculation and benchmarking can offer insights into financial and environmental impacts, identifying opportunities for cost and usage reduction.

Overall, these updates and reconfiguration of Schedule 9 (Figure 2 below) reflects a broader industry shift toward environmental responsibility and sustainability therefore, it is not only the perfect next step but will also help the hospitality industry stay one step ahead.

Energy, Water & Waste P&L
Energy
Electricity
Fuels, Gases & District Energy
Renewable Energy
Vehicle Fuels
Water and Sewer
Municipal Water
Other Water
Sewer
Waste
Landfill or Incinerated
Recycled Waste
Composted Waste
Other Diverted
Profit/(Loss)

Figure 2. Reconfiguration of Schedule 9

Cost Metrics

- Energy Cost per kWh
- Water Cost per gal or m³
- Waste Cost per lb or kg

Consumption Metrics

- Energy (kWh) used per sq. ft./m. (“Energy PSF” or “Energy PSM”)

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- Water (gal or m3) consumed per available room night ("Water PAR")
- Water (gal or m3) consumed per occupied room night ("Water POR")
- Waste (lb or kg) per available room night ("Waste lb PAR" or "Waste kg PAR")
- Waste (lb or kg) per occupied room night ("Waste lb POR" or "Waste kg POR")

10 Schedule 11 – Non-Operating Income and Expenses

The Non-Operating Income and Expenses—Schedule 11 is unique in having both revenue and expenses aside from operated departments. The 12th Edition introduces six significant changes to this schedule, each with its rationale, as detailed below:

1. "**Lease Income**" now includes lease income linked to Owner-managed leasing activities, ensuring proper classification separate from property operations.
2. "**Cost Recovery Income**" and "**Cost Recovery Expense**" have been clarified to specify expenses recoverable under operator-managed leases, addressing prior discrepancies.
3. "**Business and Occupation Taxes**" now encompasses gross receipts taxes and other direct taxes, emphasizing their inclusion in this section.
4. "**Pre-opening Expenses**" is newly added as an 'Other Expense', consistent with U.S. GAAP, to record relevant expenses when incurred.
5. "**Unrealized Investment Gains or Losses**" is introduced to record associated unrealized gains/losses for Investment properties under IFRS and U.S. GAAP requirements.
6. "**Rent**" is updated to reflect lease accounting changes under U.S. GAAP and IFRS, covering operating and finance leases, with detailed attention to Right of Use (ROU) assets and Lease Liabilities.

Please note that consideration was given to the classification of leasing costs for employee housing complexes and no changes were required in the 12th Edition.

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