

# Uniform System of Accounting for the Lodging Industry, 11<sup>th</sup> Edition

A Primer on Reading Hotel Financial Statements

<b>Operating Revenue</b>
Rooms
Food and Beverage
Other Operated Departments
Miscellaneous Income
<b>Total Operating Revenue</b>
Departmental Expenses
Rooms
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Other Operated Departments
<b>Total Departmental Expenses</b>
<b>Total Departmental Income</b>
Undistributed Expenses
Administrative & General
Information & Telecomm Systems
Sales & Marketing
Property Operations & Maintenance
Utilities
<b>Total Undistributed Expenses</b>
<b>Gross Operating Profit</b>
Management Fees
<b>Income Before Non-Operating Income/Expenses</b>
Non-Operating Income/Expenses
Income
Rent
Property and Other Taxes
Insurance
Other
<b>Total Non-Operating Income/Expenses</b>
<b>EBITDA</b>
Interest, Depreciation & Amortization
Interest
Depreciation & Amortization
<b>Total Interest, Depreciation &amp; Amortization</b>
<b>Income Before Income Taxes</b>
Income Taxes
<b>Net Income</b>

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} Expenses directly tied to revenue.

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Other daily expenses required to operate the hotel.

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Operator's scorecard. All revenues and expenses above this line can be controlled on property.

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Negotiated between owner and operator prior to the assumption of management by the operator.

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Other expenses required for the operation of the hotel. Management on property has no control over these expenses.

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Important indicator of hotel value. EBITDA less 4% of total revenue divided by the cap rate yields asset value.\*\*\*



\*\*\* EBITDA is reduced by 4% of total revenue because lenders will assume that a traditional capital expenditures (capex) reserve of 4% of total revenue is being held by the property. Many lenders require this and it helps protect against future capital outlays for maintenance and brand standard compliance. It is important to note that as an asset, the capex reserve sits on the balance sheet and it does not appear on hotel P&Ls. Also, whether or not ownership actually maintains a 4% capex reserve, the assumption will always be made for valuation purposes.

As an example of this calculation, if a hotel has total revenue of \$5 million and EBITDA of \$1.5 million, there is an assumption of a capex reserve of \$200,000 on an annual basis (4% of \$5 million). If cap rates in the local market for hotels are 7.0, then this hotel's value would be calculated as follows:

$$\frac{(\$1.5 \text{ million} - \$200,000)}{0.07} = \$18.6 \text{ million value}$$

0.07