Part I
Financial Statements

A complete set of financial statements includes a Balance Sheet, a Statement of Income, a Statement of Owners' Equity, a Statement of Cash Flows, and Notes to the Financial Statements that amplify the information presented in the basic statements. The Balance Sheet reflects the financial position of the business by detailing the assets, liabilities, and owners' equity as of a given date. The Statement of Income presents revenues and expenses associated with operations over a given period. The Statement of Owners' Equity summarizes transactions affecting equity over a given period. The Statement of Cash Flows presents information about the operating, investing, and financing activities that affected cash over a given period.

It should be noted that the financial statements discussed in Part I and the examples presented have been developed following generally accepted accounting principles (GAAP) in the United States. There are comprehensive bases of accounting other than GAAP under which financial statements can be prepared, principally the cash basis and the income tax basis. While the usefulness of such statements is recognized, the principles and practices relating to the preparation of financial statements under these other bases of accounting are beyond the scope of this book. Should a question arise related to financial statement presentation, the principles of GAAP prevail.

Section 1
Balance Sheet

The Balance Sheet presents a listing of a business's assets and the claims to those assets, called liabilities and owners' equity, as of a given date. Assets represent those items owned by the business; liabilities represent the claims to the assets by outsiders, and owners' equity represents the claims of the owners to the assets.

The accounts appearing on the Balance Sheet may be arranged in either an account format or a report format. The account format of the Balance Sheet lists the asset accounts on the left side of the page and the liability and the owners' equity accounts on the right side of the page. The report format of the Balance Sheet lists assets, liabilities, and owners' equity in a single column. These arrangements allow the form of the Balance Sheet to reflect that either assets equal liabilities plus owners' equity or that assets minus liabilities equal owners' equity.

An illustration of the account format of the Balance Sheet follows. This illustration includes accounts applicable to many types of lodging properties. Each line item appearing on the Balance Sheet is explained in the pages that follow.

The number and types of accounts that appear on the Balance Sheet will vary according to the needs and requirements of the business. Accordingly, appropriate modification should be made to the suggested format to accommodate the individual requirements of the business, while remaining consistent with GAAP. It is important to remember, however, that similar items should be appropriately grouped and that all significant items should be reflected separately. Significant items are those that are considered material for financial statement purposes.

BALANCE SHEET

Assets

	Current Year	Prior Year
CURRENT ASSETS		
Cash	$	$
House Banks		
Demand Deposits		
Temporary Cash Investments		
Total Cash		
Restricted Cash		
Short-Term Investments		
Receivables		
Accounts Receivable		
Notes Receivable		
Current Maturities of Non-current Receivables		
Other		
Total Receivables		
Less Allowance for Doubtful Accounts		
Net Receivables		
Due To/From Owner, Management Company, or Related Party		
Inventories		
Operating Equipment		
Prepaid Expenses		
Deferred Income Taxes—Current		
Other		
Total Current Assets		
NON-CURRENT RECEIVABLES, Net of Current Maturities		
INVESTMENTS		
PROPERTY AND EQUIPMENT		
Land		
Buildings		
Leaseholds and Leasehold Improvements		
Furnishings and Equipment		
Construction in Progress		
Total Property and Equipment		
Less Accumulated Depreciation and Amortization		
Net Property and Equipment		
OTHER ASSETS		
Intangible Assets		
Cash Surrender Value of Life Insurance		
Deferred Charges		
Deferred Income Taxes—Non-current		
Operating Equipment		
Restricted Cash		
Other		
Total Other Assets		
TOTAL ASSETS	$	$

BALANCE SHEET

Liabilities and Owners' Equity

	Current Year	Prior Year
CURRENT LIABILITIES		
Notes Payable		
Banks	$	$
Others		
Total Notes Payable		
Due To/From Owner, Management Company or Related Party		
Accounts Payable		
Accrued Expenses		
Advance Deposits		
Income Taxes Payable		
Deferred Income Taxes—Current		
Current Maturities of Long-Term Debt		
Other		
Total Current Liabilities		
LONG-TERM DEBT, Net of Current Maturities		
Mortgage Notes, other notes, and similar liabilities		
Obligations Under Capital Leases		
Total Long-Term Debt		
OTHER LONG-TERM LIABILITIES		
DEFERRED INCOME TAXES—Non-current		
COMMITMENTS AND CONTINGENCIES		
OWNERS' EQUITY—one of the formats found on the next page		
TOTAL LIABILITIES AND OWNERS' EQUITY	$	$

Alternative Owners' Equity Presentations in the Balance Sheet

CORPORATION
Stockholders' Equity

	Current Year	Prior Year
____% Cumulative Preferred Stock, $____ par value, authorized ____ shares; issued and outstanding ____ shares	$	$
Common Stock, $____ par value, authorized ____ shares; issued and outstanding ____ shares		
Additional Paid-In Capital		
Retained Earnings		
Accumulated Other Comprehensive Income (Loss), Net of Income Tax		
Less: Treasury Stock, ____ shares of Common Stock, at cost		
Total Stockholders' Equity	$	$

PARTNERSHIP
Partners' Equity

	Current Year	Prior Year
General Partners	$	$
Limited Partners		
Accumulated Other Comprehensive Income (Loss), Net of Income Tax		
Total Partners' Equity	$	$

LIMITED LIABILITY COMPANY

	Current Year	Prior Year
Members' Equity	$	$
Accumulated Other Comprehensive Income (Loss), Net of Income Tax		
Total Members' Equity	$	$

SOLE PROPRIETORSHIP

	Current Year	Prior Year
Owner's Equity	$	$
Accumulated Other Comprehensive Income (Loss), Net of Income Tax		
Total Owner's Equity	$	$

ASSETS

Current Assets

This section of the Balance Sheet includes accounts that are to be converted to cash or used in operations within 12 months of the Balance Sheet date. Non-current assets (such as Non-current Receivables, Property and Equipment, and Other Assets) refer to accounts that are not expected to be converted to cash or used in operations within 12 months of the Balance Sheet date. The accounts appearing under the Current Assets section of the Balance Sheet are commonly listed in the order of their liquidity.

Cash

Cash includes Cash on Hand (House Banks), Demand Deposits, and Temporary Cash Investments. Temporary Cash Investments are those investments of a demand nature or that have maturities within 90 days at the time of purchase.

Restricted Cash

Cash that is restricted should be separately classified as current or non-current based on the purpose of the restriction. If the purpose of the restriction is to pay for capital improvements, furniture and fixtures, or portions of the debt that would be classified as long term, the cash should be classified as long term. If the cash is restricted to pay portions of the debt that are classified as current or for current expenses such as real estate taxes, the cash should be classified as current.

Short-Term Investments

Short-Term Investments are not Temporary Cash Investments, but are intended to be converted to cash or cash equivalents within a year. Short-Term Investments are, essentially, trading securities and are reflected at market value with the unrealized gain or loss recognized in the Statement of Income. The basis for valuation of such securities is disclosed in Notes to the Financial Statements.

Receivables

This line item groups Accounts Receivable and Notes Receivable. Based on the needs of the property, a supporting schedule may accompany the Balance Sheet, detailing significant items included within current receivables.

Accounts Receivable. Consists of the total amount due to the property from accounts carried in the guest and city ledgers. Accounts not expected to be collected within the next 12 months are included under Non-current Receivables. Significant credit balances are included in current liabilities under Advance Deposits or Other Liabilities, depending on the nature of the credit balance.

Notes Receivable. Includes notes that are expected to be collected within the next 12 months. Notes that are not expected to be collected within the next 12 months are included under Non-current Receivables.

Current Maturities of Non-current Receivables. Includes amounts that are expected to be collected within the next 12 months. Amounts that are not expected to be collected within the next 12 months are included under Non-current Receivables.

Other. Includes those receivables that are not either Accounts or Notes Receivable, such as Accrued Interest Receivables.

Allowance for Doubtful Accounts. Represents an allowance for the portion of current accounts and notes receivable estimated to be uncollectible. The allowance is based on historical experience, specific appraisal of individual accounts, or other accepted methods. Accounts that become uncollectible are charged to this account and recoveries of accounts previously written off are credited to it. The balance at the end of any period, however, represents the best estimate of the portion of accounts and notes receivable that will not be collected.

Due To/From Owner, Management Company, or Related Party

Due to/from accounts contain the balances due to or from the owner, a management company, or other related entities for loans, advances for capital improvements, management fees, and other expenses or advances provided to a property. The accounts are classified as current or long term based on their payment terms. For example, if a management company has made advances for capital improvements that are being repaid over a period of years or are offset against future distributions, these amounts are reflected as long term. The various due to/ from accounts are not offset against each other unless there is a legal right to offset them.

Inventories

Inventories includes the cost of merchandise held for sale and the cost of supplies used in operating the property. The cost of merchandise held for sale includes such items as food, beverages, gift merchandise, and significant tobacco products. The cost of supplies used in operating the property includes such items as cleaning supplies and guest supplies. The basis for valuing inventory is disclosed in the Notes to the Financial Statements and, if individual inventory categories are significant, they are separately stated.

Operating Equipment

Operating equipment includes linen, china, glassware, silver, and uniforms. When a property purchases operating equipment items, it must determine the period of consumption and expense the purchase over that time period. If the estimated usage of the equipment is less than one year, the item is considered a current asset and expensed ratably to the appropriate department expense account over its estimated period of consumption, not to exceed 12 months. Operating equipment items with useful lives of more than one year are treated as long-term assets and recorded under Other Assets.

Prepaid Expenses

Prepaid Expenses generally represents payments for items that will benefit future operating periods. Normally, the amounts are charged to operations based upon when the benefits are received. Examples include insurance, property taxes, rent, interest, maintenance, the unused net benefit under barter contracts, and other similar items.

Deferred Income Taxes—Current

Deferred Income Taxes—Current represents the tax effects of temporary differences between the bases of current assets and current liabilities for financial and income tax reporting purposes. For example, only the direct write-off of a bad debt is deductible for tax purposes; therefore, a provision for an Allowance for Doubtful Accounts will result in a current deferred tax asset. Deferred Income Taxes—Current is presented as net current assets or net current liabilities as circumstances dictate. The deferred tax asset must be evaluated for realization and a valuation allowance established for any portion that is not to be realized.

Other

Other current assets include items not shown elsewhere that are reasonably expected to be realized in cash or otherwise in the next 12 months. The category is normally used to capture minor items that are not separately disclosed.

Non-current Receivables

Non-current Receivables represents accounts and notes that are not expected to be collected during the next 12 months. Amounts due from owners, officers, employees, and affiliated entities are shown separately, unless insignificant. If any Non-current Receivables are estimated to be uncollectible, an Allowance for Doubtful Non-current Receivables is established using procedures similar to those described under the caption Allowance for Doubtful Accounts.

Investments

Investments generally includes debt or equity securities, whether or not they are traded in recognized markets, and ownership interests that are expected to be held on a long-term basis. Investments in marketable equity securities and debt securities, where there is not the intent and ability to hold such securities to maturity, are considered "available for sale" and are reflected at market value with unrealized gains and losses being shown, net of tax effects, as a separate component of equity. Investment in debt securities where there is the intent and ability to hold such securities to maturity are considered "held to maturity" and reflected at amortized cost. Investments in affiliated entities are shown separately, unless insignificant. Investments in entities over which the reporting entity has the ability to exercise significant influence (generally by ownership of more than 20 percent) are recorded using the equity method. The equity method requires the recording of the investor's share of the investee's operations in the income statement and an adjustment in the carrying value of the investment. The method of accounting for and the basis for valuing investments is dictated by GAAP and disclosed in the Notes to the Financial Statements.

Property and Equipment

This grouping of accounts includes owned Land; Buildings; Furnishings and Equipment; the cost of Leaseholds and Leasehold Improvements; and construction in progress. It also includes similar assets held under capital leases. If material, assets held under capital leases are separately presented on the Balance Sheet or in the Notes to the Financial Statements.

Depreciation is a method of allocating the net cost (after reduction for expected salvage value) of the individual assets or classes of assets to operations over their anticipated useful lives. There are several different methods used for depreciation, including straight-line, declining balance, and other variants. Under GAAP, the straight-line method of depreciation is preferred. Declining balance is a method of depreciation usually used for tax depreciation. The number of years chosen for the life of an asset or class of assets also varies somewhat in practice for similar items; however, the methods and the lives used should result in a reasonable allocation of the cost of the assets to operations over their useful lives.

Amorization is a method of ratably charging off to income intangible assets with a life greater than one year.

The total Accumulated Depreciation and Amortization should appear as a separate line item. This amount is subtracted from the Total Property and Equipment line to arrive at the Net Property and Equipment line. The methods of depreciation and amortization used are identified in the Notes to the Financial Statements.

GAAP requires that a long-lived asset (group) be tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The recoverability test is based on the estimated future cash flows that are directly associated with, and that are expected to arise as a direct result of the use and eventual disposition of, the long-lived asset (group) that is being tested. GAAP pronouncements describe how the test is to be performed. An impairment loss is recognized only if the carrying amount of a long-lived asset (group) is not recoverable and is reflected as a loss on impairment (difference between the value and the cost) in the Income Statement. The carrying amount of the asset (group) is generally not recoverable when the sum of the cash flows expected to be generated from the use of a long-lived asset (group) and its value upon disposition (undiscounted and without interest charges) is less than the carrying amount of the asset (group). If the test is not met, impairment does not exist and, therefore, no loss is recognized, even if the net book value of the asset (group) exceeds its fair value.

If a lodging operation has property and equipment held for sale, the classification of the assets and the related operations should be reflected in accordance with GAAP.

Other Assets

Intangible Assets

Intangible assets are assets that lack physical substance. Many intangible assets are readily identifiable, such as patents, trademarks, customer lists, etc. Goodwill is an unidentifiable intangible asset.

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in the purchase of a business. Goodwill is evaluated periodically for impairment and an impairment loss recognized, if necessary, based on such evaluation.

Current GAAP literature provides guidelines on the amortization of all other intangible assets.

Cash Surrender Value of Life Insurance

Some organizations purchase life insurance on the lives of key individuals. Many of these policies have a cash surrender value that is recorded as an asset. Changes in the amount of the Cash Surrender Value are reflected as adjustments to Insurance Expense.

Deferred Charges

Deferred Charges typically relates to financing activities and represents direct costs of obtaining financing such as loan fees and bond issuance costs. Such costs are usually amortized over the life of the related financing. The method and period of amortization is disclosed in the Notes to the Financial Statements.

Deferred Income Taxes—Non-current

Deferred Income Taxes—Non-current represents the tax effects of temporary differences between the bases of non-current assets and non-current liabilities for financial and income tax reporting purposes. For example, if a liability is accrued that will not be paid for an extended period and the expense is deductible only when paid for tax purposes, the accrual will result in a non-current deferred income tax asset. Deferred Income Taxes—Non-current is presented as net non-current assets or net non-current liabilities as circumstances dictate. The deferred tax asset must be evaluated for realization and a valuation allowance established for any portion that is more likely than not to be realized.

Operating Equipment

Operating equipment includes linen, china, glassware, silver, and uniforms. When a property purchases operating equipment items, it must establish the period of consumption. If the period of consumption of the operating equipment items is expected to be less than one year, the items are classified as current assets. Whether the items are categorized as current or long-term assets, operating equipment items are not depreciated, but are expensed to the appropriate department expense account. Most purchases of operating equipment are expected to be consumed within a period of one year or less. However, if a property makes a bulk purchase of china, for example, and the expected usage period is greater than one year, the usage period is appropriately stated at the longer time period.

Restricted Cash

Cash that is restricted should be separately classified as current or non-current based on the nature of the restriction. For example, if the restriction is to pay for capital improvements, furniture and fixtures, or portions of the debt that would be classified as long term, the cash should be classified as long term.

Other

Non-current items that cannot be included under other groupings, such as security deposits, initial franchise costs, and other miscellaneous or individually immaterial assets, are included under this caption. Restricted cash balances that are restricted to, for example, the acquisition of property and equipment (e.g., FF&E reserves) could also be included in this classification when such amounts are not material. The nature of these items, if material, is to be clearly indicated on the Balance Sheet or in the Notes to the Financial Statements. Amortization policies are also disclosed in the Notes to the Financial Statements.

LIABILITIES

Current Liabilities

Notes Payable

Notes Payable includes short-term notes that are payable within the next 12 months, classified on the Balance Sheet as notes due to banks and notes due to other creditors.

Due To/From Owner, Management Company, or Related Party

Due to/from accounts contain the balances due to or from the owner, a management company, or other related entities for loans, advances for capital improvements, management fees, and other expenses or advances provided to a property. The accounts are classified as current or long term based on their payment terms. For example, if a management company has made advances for capital improvements that are being repaid over a period of years or are offset against future distributions, these amounts are reflected as long term. The various due to/from accounts are not offset against each other unless there is a legal right to offset them.

Accounts Payable

Accounts Payable represents amounts due to vendors. Amounts due to concessionaires for guest charges collected by the property may be included with Accounts Payable or shown separately.

Accrued Expenses

Accrued Expenses represents expenses incurred, but not payable until after the Balance Sheet date. Each item of Accrued Expense, if material, is listed separately, either on the Balance Sheet or in the Notes to the Financial Statements. Examples include salaries and wages and related benefits, vacation pay, interest, management fees, rent, taxes other than on income, and utilities.

Advance Deposits

Advance Deposits represents amounts received that are to be applied as part of the payment for future sales of rooms, food and beverage, or other goods and services.

Income Taxes Payable

Income Taxes Payable represents the estimated obligations for income taxes.

Deferred Income Taxes—Current

Deferred Income Taxes—Current represents the tax effects of temporary differences between the bases of current assets and current liabilities for financial and income tax reporting purposes. For example, revenue recognized in the financial statements before it is taxable will result in Deferred Income Taxes—Current if it will be taxable in the next year. Deferred Income Taxes—Current is presented as net current assets or net current liabilities as circumstances dictate.

Current Maturities of Long-Term Debt

Current Maturities of Long-Term Debt includes the principal payments of mortgage notes, other notes, and similar liabilities, and the installments on capital leases due within the next 12 months.

Other

Current liabilities not included under other captions are shown here. The category is normally used to capture minor items that are not separately disclosed. Examples include the unearned portion of amounts received or charged to non-guests for the use of recreational facilities, unredeemed gift certificate sales, unclaimed wages, and the net liability under barter contracts.

Long-Term Debt

This category includes mortgage notes, other notes, and similar liabilities and obligations under capital leases that are not payable during the next 12 months.

Mortgage Notes, Other Notes, and Similar Liabilities

For this caption, the following information is disclosed either on the Balance Sheet or in the Notes to the Financial Statements:

- Interest rates
- Payment or sinking fund requirements
- Maturity dates
- Collateralization and assets pledged
- Financial restrictive covenants
- Payment and sinking fund payments required for each of the five years subsequent to the Balance Sheet date

Obligations Under Capital Leases

For Obligations Under Capital Leases, disclosure is made with regard to the future minimum lease payments for each of the five years subsequent to the Balance Sheet date and the total future minimum lease obligations, with a deduction for the imputed interest necessary to reduce the net minimum lease payments to present value.

Other Long-Term Liabilities

Long-term liabilities that do not require satisfaction within a year and are not included under other captions are included here. Examples include deferred compensation, deferred management fees, tenants' lease deposits, and accrued obligations for pension and other post-employment benefits. The nature of these items, if material, should be clearly indicated on the Balance Sheet or in the Notes to the Financial Statements.

Deferred Income Taxes—Non-current

Deferred Income Taxes—Non-current represents the tax effects of temporary differences between the bases of non-current assets and non-current liabilities for financial and income tax reporting purposes. For example, the use of accelerated depreciation for tax purposes and straight-line depreciation for financial reporting purposes will result in non-current deferred income taxes. Deferred Income Taxes—Non-current is presented as net non-current assets or net non-current liabilities as circumstances dictate.

Commitments and Contingencies

The Commitments and Contingencies caption is indicated on the Balance Sheet only to bring the reader's attention to such items. No dollar amounts are shown on the Balance Sheet. Adequate disclosure of all significant commitments and contingencies is made in the Notes to the Financial Statements. Examples include commitments for purchase contracts, employment contracts, long-term leases, management agreements, contingencies for pending or threatened litigation, and certain guarantees of indebtedness of others.

OWNERS' EQUITY

The Owners' Equity section of the Balance Sheet is presented differently for corporations, partnerships, limited liability companies, and sole proprietorships, depending upon the type of equity ownership. Balance Sheet presentation formats are shown on page 6. Examples of detailed presentations of Statements of Owners' Equity are shown in Section 3.

Corporation

Stockholders' Equity

Capital Stock. Capital Stock denotes the shares of ownership of a corporation that have been authorized by its articles of incorporation. The most prevalent classes of Capital Stock are Preferred and Common Stock. The par or stated value and the number of shares authorized and issued for each class of stock is presented on the Balance Sheet. Changes during the period should be shown in the Statement of Stockholders' Equity.

Additional Paid-In Capital. Additional Paid-In Capital includes cash, property, and other capital contributed to a corporation by its shareholders in excess of the stated or par value of Capital Stock. Changes during the period are shown in the Statement of Stockholders' Equity.

Retained Earnings. Retained Earnings represents the accumulated Net Income not distributed as dividends but retained in the business. Changes during the period are shown in the Statement of Stockholders' Equity. Negative retained earnings are generally referred to as deficits.

Treasury Stock. Treasury Stock represents the cost of the company's stock acquired by the company and not retired, and is reflected as a reduction in total Stockholders' Equity. Changes during the period are shown in the Statement of Stockholders' Equity.

Partnership

Partners' Equity

Partners' Equity represents the net equity of the partners in the partnership and is classified where appropriate as general and limited partners' equity. Changes during the period are shown in the Statement of Partners' Equity.

Contributions. Contributions include the amount of any additional assets that are invested in the business by the partners during the period just ended.

Withdrawals. Withdrawals include the amount of any assets that are taken out of the business and distributed to the partners during the period just ended.

Limited Liability Company

Members' Equity

Members' Equity represents the net equity of the members in the limited liability company and is classified where appropriate as general and limited partners' equity. Changes during the period are shown in the Statement of Members' Equity.

Contributions. Contributions include the amount of any additional assets that are invested in the business by the partners during the period just ended.

Withdrawals. Withdrawals include the amount of any assets that are taken out of the business and distributed to the partners during the period just ended.

Sole Proprietorship

Owner's Equity

The Owner's Equity of a sole proprietorship is similar to the equity of a partnership except that it represents the interest of one individual as opposed to a number of partners. Changes during the period should be shown in the Statement of Owner's Equity.

Contributions. Contributions include the amount of any additional assets that are invested in the business by the owner during the period just ended.

Withdrawals. Withdrawals include the amount of any assets that are taken out of the business and distributed to the owner during the period just ended.

Comprehensive Income (Loss)

Comprehensive Income refers to net income plus "other comprehensive income," which includes certain revenues, expenses, gains, and losses that are reported as separate components of equity instead of net income. Other comprehensive income currently includes:

- Unrealized gains and losses on available-for-sale marketable securities.
- Unrealized gains and losses that result from a transfer of a debt security to the available-for-sale category from the held-to-maturity category.
- Foreign currency translation adjustments.
- Gains and losses on foreign currency transactions that are designed and are effective as economic hedges on a net investment in a foreign entity.
- A change in the fair value of a derivative instrument that qualifies as the hedging instrument in a cash flow derivative.
- Gains and losses on inter-company foreign currency transactions that are of a long-term investment nature when the entities to the transaction are consolidated, combined, or accounted for under the equity method.
- Minimum pension liability adjustments.

Section 2
Statement of Income

The Statement of Income reflects the results of operations for a period of time. The time covered by this statement usually ends at the Balance Sheet date. When the statement reflects a net loss, the title is generally changed to a Statement of Operations.

Hospitality organizations prepare income statements for both external users (e.g., potential investors, creditors, and owners not active in managing the business) and internal users (i.e., managers of the business). These statements differ in the amount of information presented. The statement presented to external users is typically relatively brief, providing only summary detail about the results of operations.

A sample GAAP income statement for external users follows. The degree of detail presented in the statement is somewhat discretionary, although captions for revenue, expenses, interest, depreciation, and income taxes are included unless the amounts are insignificant. To the extent that any individual revenue or expense item is significant, separate disclosures are made. A format useful for analytical users such as managers operating the property, asset managers, and similarly involved parties is discussed in Part II.

STATEMENT OF INCOME

	Period	
	Current Year	Prior Year
REVENUE		
Rooms	$	$
Food and Beverage		
Other Operated Departments		
Rentals and Other Income		
Total Revenue		
EXPENSES		
Rooms		
Food and Beverage		
Other Operated Departments		
Administrative and General		
Sales and Marketing		
Property Operation and Maintenance		
Utilities		
Management Fees		
Rent, Property Taxes, and Insurance		
Interest Expense		
Depreciation and Amortization		
Loss or (Gain) on the Disposition of Assets		
Total Expenses		
INCOME BEFORE INCOME TAXES		
INCOME TAXES		
Current		
Deferred		
Total Income Taxes		
NET INCOME	$	$

Section 3
Statement of Owners' Equity

A separate Statement of Owners' Equity should be presented if there is significant activity in the accounts during the period. If net income or loss is the only change to the equity accounts in the period, it is permissible to reconcile the change in retained earnings at the bottom of the Statement of Income and exclude presentation of the separate owners' equity statement. The format of the owners' equity statement will depend on the type of entity. The following pages show examples of the type of presentation for corporations, partnerships, limited liability companies, and sole proprietorships.

STATEMENT OF STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock				Treasury Stock			
	Number of Shares Outstanding	Amount	Number of Shares Outstanding	Amount	Additional Paid-in Capital	Retained Earnings	Number of Shares	Amount	Accumulated Other Comprehensive Income (Loss), Net of Income Taxes	Total Stockholders' Equity
BALANCE AT BEGINNING OF PRIOR YEAR		$		$	$	$		$	$	$
Add (Deduct)										
Net Income										
Dividends Declared										
Change in Unrealized Gains (Losses)										
Net Proceeds from Sale of Stock										
Treasury Stock Acquired										
Other										
BALANCE AT END OF PRIOR YEAR		$		$	$	$		$	$	$
Add (Deduct)										
Net Income										
Dividends Declared										
Change in Unrealized Gains (Losses)										
Net Proceeds from Sale of Stock										
Treasury Stock Acquired										
Other										
BALANCE AT END OF CURRENT YEAR		$		$	$	$		$	$	$

Cumulative foreign currency translation adjustments should also be reflected in this statement.

STATEMENT OF PARTNERS' EQUITY

	General Partners	Limited Partners	Accumulated Other Comprehensive Income (Loss), Net of Income Taxes	Total
Balance at Beginning of Prior Year	$	$	$	$
Add (Deduct)				
Net Income				
Contributions				
Change in Unrealized Gains (Losses)				
Withdrawals				
Other				
Balance at End of Prior Year	$	$	$	$
Add (Deduct)				
Net Income				
Contributions				
Change in Unrealized Gains (Losses)				
Withdrawals				
Other				
Balance at End of Current Year	$	$	$	$

Cumulative foreign currency translation adjustments should also be reflected in this statement.

STATEMENT OF MEMBERS' EQUITY

	Members	Accumulated Other Comprehensive Income (Loss), Net of Income Taxes	Total
BALANCE AT BEGINNING OF PRIOR YEAR	$	$	$
Add (Deduct)			
Net Income			
Contributions			
Change in Unrealized Gains (Losses)			
Withdrawals			
Other			
BALANCE AT END OF PRIOR YEAR	$	$	$
Add (Deduct)			
Net Income			
Contributions			
Change in Unrealized Gains (Losses)			
Withdrawals			
Other			
BALANCE AT END OF CURRENT YEAR	$	$	$

Cumulative foreign currency translation adjustments should also be reflected in this statement.

STATEMENT OF OWNER'S EQUITY

	Owner	Accumulated Other Comprehensive Income (Loss), Net of Income Taxes	Total
Balance at Beginning of Prior Year	$	$	$
Add (Deduct)			
Net Income			
Contributions			
Change in Unrealized Gains (Losses)			
Withdrawals			
Other			
Balance at End of Prior Year	$	$	$
Add (Deduct)			
Net Income			
Contributions			
Change in Unrealized Gains (Losses)			
Withdrawals			
Other			
Balance at End of Current Year	$	$	$

Cumulative foreign currency translation adjustments should also be reflected in this statement.

Section 4
Statement of Cash Flows

The Statement of Cash Flows summarizes the change in Cash and Temporary Cash Investments over the same period of time as that covered by the Statement of Income. Temporary Cash Investments are readily convertible investments with a maturity of less than three months at the time of purchase. The change in Cash and Temporary Cash Investments is classified as being derived from three activities: operating, investing, and financing.

Cash flows from operating activities represent the amount of cash generated by property operations. Operating activities include transactions involving acquiring, selling, and delivering goods for sale, as well as providing services. Cash flows from operating activities for a property include cash collected from customers, cash paid to employees and other suppliers, interest paid and received, taxes paid, and other operating payments and receipts. Cash from operating activities measures the amount that net income would have been if the cash method were used for measuring revenues and expenses.

Cash flows from investing activities represent changes in cash arising from transactions related to asset accounts that do not affect operations. Transactions include acquisition and disposal of property and facilities as well as the purchase and sale of investments, whether they are current or noncurrent.

Cash flows from financing activities represent cash changes related to liability and equity accounts that do not affect operations. These include obtaining and repaying debt (whether current or noncurrent), issuing and repurchasing stock, and dividend payments.

Cash flows from operating activities can be computed using either the direct or indirect approach. The direct method identifies the operating cash receipts and cash disbursements. The indirect approach determines the cash from operations by adjusting net income for noncash items. The indirect approach is useful for identifying why net income differs from cash from operating activities. The direct approach is easier to interpret, as it specifically identifies the cash inflows and outflows from operations.

If the direct method of presentation is used, a summarized reconciliation of the significant items comprising the difference between net income and cash flows from operating activities should also be presented.

While the Statement of Cash Flows summarizes all significant sources and uses of cash, there is also a requirement to disclose significant non-cash investing and financing activities. This information is generally presented in narrative form immediately below the Statement. Items that should be disclosed include the purchase of capital assets by incurring debt or through capital lease transactions. Transactions involving the sale of assets where the seller provides financing is another example requiring disclosure.

Direct Method

Statement of Cash Flows

	Period	
	Current Year	**Prior Year**
CASH FLOWS FROM OPERATING ACTIVITIES		
Guest Receipts	$	$
Other Receipts		
Payroll Disbursements		
Other Operating Disbursements		
Interest Paid		
Income Taxes Paid		
Net Cash Provided By (Used In) Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures		
Decrease (Increase) in Restricted Cash		
Proceeds from Asset Dispositions		
Proceeds from Sale of Investments		
Purchases of Investments		
Net Cash Provided By (Used In) Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Debt or Equity Financing		
Debt Repayments		
Dividends Paid		
Distribution to Owners/Partners		
Net Cash Provided By (Used In) Financing Activities		
INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS		
CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD		
CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD	$	$

SUPPLEMENTAL INFORMATION RELATED TO NONCASH INVESTING AND FINANCING ACTIVITIES (DISCLOSE SIGNIFICANT ITEMS SEPARATELY.)

Indirect Method

Statement of Cash Flows

	Period	
	Current Year	**Prior Year**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$	$
Adjustments to Reconcile Net Income To Cash Provided By (Used In) Operating Activities:		
Depreciation and Amortization		
Loss (Gain) on Sale of Property and Equipment		
Deferred Taxes		
Decrease (Increase) in Accounts Receivable		
Decrease (Increase) in Inventory		
Decrease (Increase) in Prepaids		
Increase (Decrease) in Payables		
Increase (Decrease) in Accruals		
Net Cash Provided By (Used In) Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures		
Decrease (Increase) in Restricted Cash		
Proceeds from Asset Dispositions		
Proceeds from Sale of Investments		
Purchases of Investments		
Net Cash Provided By (Used In) Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Debt or Equity Financing		
Debt Repayments		
Dividends Paid		
Distribution to Owners/Partners		
Net Cash Provided By (Used In) Financing Activities		
INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS		
CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD		
CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD	$	$
CASH PAID FOR INTEREST		
CASH PAID FOR INCOME TAXES		
SUPPLEMENTAL INFORMATION RELATED TO NONCASH INVESTING AND FINANCING ACTIVITIES (DISCLOSE SIGNIFICANT ITEMS SEPARATELY)		

Cash Flows from Operating Activities

Guest Receipts

Guest Receipts includes all receipts from guest-related activities including those applicable to unearned income.

Other Receipts

Other Receipts includes proceeds from transactions other than with guests; for example, from casual sales of furnishings, salvage, interest and dividends received, and other activities.

Payroll Disbursements

Payroll Disbursements includes salary and wage payments as well as related payments for employee benefits.

Other Operating Disbursements

Other Operating Disbursements includes payments for food and beverage, other merchandise and supplies, energy, rent, taxes other than income, franchise and other management fees, and other expenditures incurred by operations.

Interest Paid

Interest Paid includes cash payments to lenders and other creditors for interest. The amount should be shown net of interest capitalized.

Income Taxes Paid

Income Taxes Paid includes all payments for taxes based on income. It does not include amounts paid for sales or occupancy taxes.

Cash Flows from Investing Activities

Capital Expenditures

Capital Expenditures represents payments to purchase property, buildings, equipment, and other productive assets. These payments include interest payments capitalized as part of the cost of those assets. A separate disclosure may be appropriate for the portion of the capital expenditures that results in an increase in the revenue-generating capacity of the lodging property. Separating cash payments that represent an increase in revenue-generating capacity from cash payments that are required to maintain operating capacity is helpful in enabling users to determine whether the lodging property is investing adequately in the maintenance of its operating capacity.

Decrease (Increase) in Restricted Cash

The change in the noncurrent restricted cash is included in this item. The change represents the difference between the additional cash set aside or restricted and the use of those funds for the restricted purpose.

Proceeds from Asset Dispositions

The Proceeds from Asset Dispositions, reduced by selling cost payments, are included in this item. This item should not include any amount of the sales consideration that has been financed by the seller.

Proceeds from Sale of Investments

The net Proceeds from the Sale of Investments, after deduction of selling expenses, should be included in this item.

Purchases of Investments

The purchase price paid for investments, including the transaction costs paid, should be included in this item.

Cash Flows from Financing Activities

Proceeds from Debt or Equity Financing

The net proceeds after deduction of transaction costs should be included in this item. Separate captions are shown if amounts are significant. This item includes long- and short-term financing.

Debt Repayments

Aggregate principal repayments on indebtedness should be included in this item.

Dividends and Distributions Paid

The amount of Dividends Paid to owners should be included. Other distributions to owners should be included, with appropriate modification of the caption, if the entity is not a corporation.

Section 5
Notes to the Financial Statements

In order for a financial presentation to be complete, the financial statements are accompanied by explanatory notes. The notes should describe all significant accounting policies followed by the organization. Commonly required disclosures include, but are not limited to, policies regarding the following:

- Description of business
- Earnings per share
- Stock-based compensation
- Basis of consolidation
- Use of estimates
- Cash and temporary cash investments
- Inventory methods and valuation
- Accounting for investments, including the valuation of marketable securities
- Property, plant, and equipment
- Depreciation and amortization policies
- Intangibles—Goodwill
- Accounting for deferred charges
- Advertising costs
- Accounting for pensions
- Revenue recognition
- Accounting for income taxes
- Fair value of financial instruments
- Capitalization
- Lease disclosure
- Computation of net income (loss) per share (only public companies)
- Foreign currency translation
- Concentration of credit risk

Disclosure of accounting policy-related footnotes should be followed by such additional notes as are necessary to provide for full disclosure of all significant events or conditions reflected in the financial statements, or as otherwise required by the rules of professional accounting or regulatory organizations. Typical events and conditions which are disclosed in the notes accompanying financial statements include the following:

- Changes in accounting methods
- Long-term debt agreements
- Pension and/or profit-sharing plans
- Other post-retirement and post-employment benefits
- Income taxes
- Long-term contracts
- Extraordinary items of income or expense
- Significant long-term commitments, including leases
- Foreign operations
- Related party transactions
- Contingent liabilities, including pending litigation
- Subsequent events
- Stockholders' equity transactions
- Financial instruments (including derivatives)
- Impairment or disposal of long-lived assets
- Restructuring costs
- Extinguishment of debt
- Discontinued operations
- Business combinations
- Accumulated other comprehensive income (loss)
- Business segment information (public companies only)
- Quarterly financial information (public companies only)
- Organization (geographic and nature of business)
- Subsequent events
- Major customers