IAAPA

Finance and Information Technology Committee

Accounting Standards for the Amusement Industry

Reporting Standards Document

Revised August 2007

Contents

1. Standardized Reporting

Last year a standardized Chart of Accounts was developed for amusement facilities. The Chart of Accounts is the foundation for all the financial information of your organization. It is the primary source of the historical data used to analysis, compare, report and forecast the operations.

Based upon this Chart of Accounts a standardized form of reporting was developed. The accompanying spreadsheet shows different reports. Five different reports have been developed:

- Balance Sheet
- Profit & Loss Statement
- Cash flow Statement
- Periodic Reporting
- Per Cap Reporting

Each report is shown with full details, i.e. with a breakdown and comparison per account and sub-account. For interim reporting purposes it might be sufficient to go into less detail. Each facility can make these adjustments based upon its own requirements.

For the definitions of each item on the reports we refer to the Chart of Accounts document which was issued in 2005.

2. Balance Sheet

A balance sheet is a statement of the total assets and liabilities of an organization at a particular date - usually the last date of an accounting period.

The balance sheet is split into two parts:

(1) A statement of **fixed assets** and **current assets**.;
(2) A statement showing how the assets have been financed, for example through share capital, retained profits and liabilities (debt, etc)

The balance of fixed and current assets minus the liabilities is sometimes referred to as **Net Assets**

A balance sheet is usually required to be included in the published financial accounts. In reality, all organizations that need to prepare accounting information for external users (e.g. banks, charities, clubs, partnerships) will also product a balance sheet since it is an important statement of the financial affairs of the organization.

A balance sheet does not necessary "value" a company, since assets and liabilities are shown at "historical cost" and some intangible assets (e.g. brands, quality of management, market leadership) are not included.

The examples used follow the U.S accounting standards for the presentation of financial statements. Users of this information outside the Untied States should be aware that the accounting requirements of their own jurisdictions will not necessarily follow those of the United States. The laws of other jurisdictions and the application of accounting standards may significantly affect the format and presentation of financial statements.

For example, countries that are Member States of the European Union must follow the layout prescribed for company accounts in the European Fourth Directive on company Accounts-a layout that is quite different from the U.S. standard. Other jurisdictions have no legal requirements and so whatever layout is considered most appropriate in those circumstances may be used.

A. Assets

An asset is any right or thing that is owned by a business. Assets include land, buildings, equipment and anything else a business owns that can be given a value in money terms for the purpose of financial reporting.

A.1 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.

A.2 Fixed Assets

A "fixed asset" is an asset which is intended to be of a permanent nature and which is used by the business to provide the capability to conduct its trade. Examples of "tangible fixed assets" include plant & machinery, land & buildings and motor vehicles. "Intangible fixed assets" may include goodwill, patents, trademarks and brands - although they may only be included if they have been "acquired". Investments in other companies which are intended to be held for the long-term can also be shown under the fixed asset heading.

B. Liabilities and Owners' Equity

To acquire its assets, a business may have to obtain money from various sources in addition to its owners (shareholders) or from retained profits. The various amounts of money owed by a business are called its liabilities.

B.1 Current Liabilities

This section of the Balance Sheet includes debt that has to be repaid within 12 months of the Balance Sheet date.

B.2 Long-Term Liabilities

This section of the Balance Sheet includes debt that will only need to be repaid after at least 12 months of the Balance Sheet date.

B.3 Owners' Equity

As well as borrowing from banks and other sources, all companies receive finance from their owners. This money is generally available for the life of the business and is normally only repaid when the company is "wound up". To distinguish between the liabilities owed to third parties and to the business owners, the latter is referred to as the "capital" or "equity capital" of the company.

In addition, undistributed profits are re-invested in company assets (such as stocks, equipment and the bank balance). Although these "retained profits" may be available for distribution to shareholders - and may be paid out as dividends as a future date - they are added to the equity capital of the business in arriving at the total "equity shareholders' funds"

At any time, therefore, the capital of a business is equal to the assets (usually cash) received from the shareholders plus any profits made by the company through trading that remain undistributed.

3. Profit & Loss Account

The Profit & Loss Account represents the portion of a company's financial statements that summarizes revenues and expenses during a specific period of time. This statement provides investors with information on the ability of a company to generate revenue and manage costs and is a measure of financial performance. It is also known as "income statement", or "income and expense statement."

The Profit & Loss account can be broken down is the following section

- Revenues: a summary of all revenues accounts from the Chart of Accounts
- Cost of Sales: a summary of all cost of sales accounts from the Chart of Accounts
- Gross Income: revenues minus cost of sales. Also called gross profit.
- Expenses: this summarizes all other costs except for depreciation/amortization, the financial expenses/income, extraordinary income and taxes;
- Earnings Before Interest, Taxes, Depreciation and Amortizations ("EBITDA"): this is the result of subtracting the Expenses from the Gross Income. Its is an approximate measure of a company's operating cash flow based on data from the company's income statement. This earnings measure is of particular interest in cases where companies have large amounts of fixed assets which are subject to heavy depreciation charges (such as amusement parks). Since the distortionary accounting and financing effects on company earnings do not factor into EBITDA, it is a good way of comparing companies within and across industries. This measure is also of interest to a company's creditors, since EBITDA is essentially the income that a company has free for interest payments. In general, EBITDA is a useful measure only for large companies with significant assets, and/or for companies with a significant amount of debt financing. It is rarely a useful measure for evaluating a small company with no significant loans. It is sometimes also called operational cash flow..
- Interest Expenses and Depreciation/amortization charges
- Earnings Before Taxes and Extraordinary Items: the result of subtracting interest expenses from EBITDA;
- Extraordinary items: gains or losses included in a company's financial statements, which are infrequent and unusual in nature. They are the result of unforeseen and atypical events. They are usually accounted for separately so they don't skew the company's regular earnings.
- Earnings before Taxes: result of subtracting Extraordinary items from Earnings Before Taxes and Extraordinary Items
- Taxes: taxes to be paid;
- Net Income or Earnings after Taxes

4. Cash flow Statement

The Cash flow Statement is a financial report detailing the exchange of cash between a business and the outside world. The flow is categorized as:

- flow "in" from Operations
  (cash the company made by selling goods and services)
- flow "in" from Financing
  (cash the company raised by selling stocks and bonds)
- flow "out" to Investing
  (cash the company spent investing in its future growth)

Each of these flows can actually flow both ways. Banks and investors like to see that the company can cover its spending with cash from operations, without having to turn to financing.
The cash flow statement also has to reconcile the net effect of these flows with the difference in its cash holdings at the beginning and end dates of the reporting period

A typical cash flow statement will consist of 3 categories:

A. Cash flow from operating activities

The cash generated from the operations of a company, generally defined as Net Income plus all non-cash expenses (such as depreciation/amortization, provisions, etc). This is then adjusted for Extraordinary items and changes in the working capital of the company.

The working capital is the balance of current assets minus current liabilities. It measures how much in liquid assets a company has available to build its business. The number can be positive or negative, depending on how much debt the company is carrying. In general, companies that have a lot of working capital will be more successful since they can expand and improve their operations. Companies with negative working capital may lack the funds necessary for growth.

Cash flow from operating activities is also known as "operating cash flow". The operating cash flow is the cash generated in the course of a company running its business.

It can be a better measure of a business's profits than earnings because a company can show positive net earnings (on the income statement) and still not be able to pay its debts. It's cash flow that pays the bills!

B. Cash flow from investing activities

This is an item on the cash flow statement that reports the aggregate change in a company's cash position resulting from any gains (or losses) from investments and changes resulting from amounts spent on investments in capital assets such as amusement rides.

When analyzing a company's cash flow statement, it is important to consider each of the various sections which contribute to the overall change in cash position. In many cases, a firm may have negative overall cash flow for a given quarter, but if the company can generate positive cash flow from its business operations, the negative overall cash flow may be a result of heavy investment expenditures, which is not necessarily a bad thing.

C. Cash flow from financing activities

A category in the cash flow statement that accounts for external activities such as issuing cash dividends, adding or changing loans, or issuing and selling more stock. The formula for cash flow from financing activities is as follows:

Cash Received from Issuing Stock or Debt - Cash Paid as Dividends and for Re-Acquisition of Debt/Stock

This section of the statement of cash flows measures the flow of cash between a firm and its owners and creditors. Negative numbers can mean the company is servicing debt, but it can also mean the company is making dividend payments and stock repurchases, which investors might be glad to see.

The results of the first three calculations are used to determine the total change in cash and marketable securities caused by fluctuations in operating, investing and financing cash flow. This number is then checked against the change in cash reflected on the balance sheet from period to period to verify that the calculation has been done correctly.

5. Periodic Reporting

The previous 3 reports are usually generated on a regulate basis (monthly, quarterly, or annually). In between periods it will be useful to compare a company's results to a budget or to a previous period's result.

This comparison is usually done for the profit & loss account only, although the same can be done for the balance or cash flow statement as well.

This type of reporting compares the revenues and expenses of a certain period (e.g. second quarter of the year) to the budget for the same period (i.e. second quarter in the above example).

It will also show the total year to date (YTD) numbers. In the example above this would mean the first plus the second quarter of the year. This can then be compared to the YTD budget and to the full year's budget.

For each column in the report the percentage of that category (e.g. Food & Beverage revenue, or Personnel expenses) in relation to total revenue is shown. For each comparison to another period or budget the percentage change is also calculated.

The example in the spreadsheet shows a comparison in full detail. Each revenue or expense category is broken down in sub accounts. It might be sufficient for interim reporting purposes to only compare totals of categories.

This type of comparison can be down on a company level, e.g. total food and beverage revenue compared to budget, but it also possible to compare these numbers on a site by site basis. The revenue and/or expense numbers of an individual Food & Beverage stand in a park can be compared to its own numbers of last year

6. Per Cap Reporting

The previous reports all are about aggregate numbers, either for the total company or for a certain site/ride within the company.

In our industry and additional type of reporting is often used. This type of reporting calculates the average revenues or expenses per visitor to your amusement facility. The resulting numbers are called ‘per caps’.

For example: if your total revenue from admissions is USD 10,000,000 and your facility has 500,000 visitors, the per cap from admission revenue would be USD 20 (10,000,000 divided by 500,000).

This exercise can be down both for revenues and expenses although most facilities only make these calculations for their revenue numbers.

Per Cap reporting can produce interesting information. By calculating your per cap from admission for example you can calculate your admission yield. If in the example above, your ticket price is USD 30, this means that your admission yield is 67% (USD 20 divided by USD 30). This is almost never 100% because you will have complementary admissions and season pass holders visiting your park.

The per cap reporting can also be compared to previous period’s and/or budgeted numbers.

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