

# Corporate Annual Reports

## Learning Objectives

1. To understand the purposes of Corporate Annual Reports.
2. To understand the Message to Shareholders section of Corporate Annual Reports.
3. To understand the content of Corporate Annual Reports.
4. To be able to interpret and analyze the information contained in Corporate Annual Reports.

## Chapter Outline

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A Corporate Annual Report is the formal documentation of a company's operating and financial performance for a fiscal year. It contains a range of information that individual and institutional investors can read to understand the company's performance for the recent year. Although annual reports record historical operating results, they are also used to discuss operating strategies and expected financial performance in the future.

One of the reasons that the Corporate Annual Report is so valuable to investors is that it is governed by strict accounting reporting requirements. Each company must have the financial information in its annual report audited for compliance by an independent accounting company. These **Certified Public Accounting** (CPAs) companies audit and review all the financial information contained in a company's annual report and **attest** that the information is correct and accurate. The required auditor's opinion is intended to give investors confidence that the financial information presented is accurate and conforms to Generally Accepted Accounting Principles (GAAP).

Originally, Corporate Annual Reports contained primarily financial information about the corporation's operating performance. Over the years, annual reports have grown to include more information about the different operating divisions as well as about the entire corporation's financial performance. They also present the culture and core values of the corporation, the strategies for growth for the future, and a good amount of public relations that highlight the strengths and successes of the corporation.

Corporate Annual Reports are also available on company websites. The company home page will generally have a link for "company information" and a link on that page for the Corporate Annual Report. A note of caution: Do not download the annual report on your computer as most hotel companies have many color pictures and it will take a long time. If you have a fast computer, the download will be faster. Following are some websites for major hotel and restaurant companies. Go to at least two of them and scroll through to see what annual reports look like and what information they contain. It is much easier to read and browse the annual reports on your computer than it is to download or print them out because of their length.

[www.fourseasons.com](http://www.fourseasons.com)

[www.hyatt.com](http://www.hyatt.com)

[www.marriott.com](http://www.marriott.com)

[www.darden.com](http://www.darden.com)

[www.ge.com](http://www.ge.com)

# The Purpose of Corporate Annual Reports

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## Definition

A company's Corporate Annual Report is the formal document that reports the company's operating and financial results for the most recent **fiscal year**. A fiscal year is one year of business operations. Fiscal years generally end December 31, the same time as the calendar year, but can also end at other times, specifically the end of any quarter. Smaller, more concise quarterly operating reports can be issued to cover operations for the first quarter, March 31; the second quarter, June 30; the third quarter, September 30; and the fourth quarter, December 31. A company can choose when its fiscal year will end, but for convenience and consistency, most fiscal years end at the same time as the calendar year, December 31. Regardless of the fiscal year ending date, the annual reports will cover business operations for 365 days.

Shareholders elect a **Board of Directors** to represent them in overseeing the management of the company. A chairman of the Board is elected to lead the board. This is generally the most powerful position in a company's organization. The Board of Directors is also responsible for selecting the President or Chief Executive Officer (CEO) of the company. This position will have the direct responsibility for the day-to-day operations of the company.

## Regulations and Independent Auditors

To ensure that all the financial information contained in a Corporate Annual Report is accurate and reliable, several key regulations and requirements have been imposed on all publicly traded companies and the Corporate Annual Reports that they publish.

First, any company that is publicly traded on a stock exchange must meet the requirements established by the **Securities and Exchange Commission (SEC)**. The SEC is the government agency responsible for regulating the operations of companies publicly traded on major stock exchanges like the New York Stock Exchange or the NASDAQ. These regulations require consistency and reliability to the numbers contained in Corporate Annual Reports.

If a company is privately owned and has not issued any form of company stock, there is no need to issue an annual report. This is because there are no outside investors, therefore no financial information is made available to the public. Privately held companies are not subject to regulations of the SEC because they have no common stock and are not traded on any stock exchange.

Second, standards for the accurate and consistent collecting and reporting of company financial information must meet the standards and requirements established by the Accounting Standards Board. They have issued GAAP. These are policies and guidelines

that companies use in preparing their financial statements. This review ensures that the financial information is proper, consistent, and conforms to accounting policies and regulations.

Third, the **Independent Audit Report** provides an “audit opinion” of an outside, independent accounting firm. This opinion verifies that the financial information is correct and accurate and that any reader can rely on the financial information to make an investment decision regarding the company. Most opinions are favorable, but an audit opinion can also be “qualified,” meaning that there are a few issues and some of the financial information might be questionable. The qualified opinion alerts the reader to those questionable issues. On some occasions, the audit opinion will be unfavorable, and the accounting firm will not endorse or support the financial information in the annual report. This is a warning to readers that the financial information is not reliable and does not conform to GAAP or SEC standards.

Following is an example of an audit opinion contained in the Marriott International 2003 Corporate Annual Report given by Ernst & Young, the independent audit company for Marriott International:

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Marriott International, Inc., as of January 2, 2004, and January 3, 2003, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended January 2, 2004, in conformity with accounting principles generally accepted in the United States.

## Public Relations

The Corporate Annual Report offers a great opportunity for a company to highlight achievements and results of the previous years. There are many pictures of “trophy” or new hotels, smiling employees with new products and happy customers, and lists of company achievements and recognition.

The report also provides an opportunity for the company to highlight significant achievements and results. Important operating results might be the acquisition of a company, the development of a new product or process, or exceeding an important company goal. Important financial results might include the highest revenue or profit levels that the company has ever achieved, the largest percentage increase in revenues or profits, or a large increase in the stock price or earnings per share.

**Public relations** focuses on the positive achievements of a company and makes sure that these achievements and results are made known to potential investors and others interested in the company. The Corporate Annual Report is the highlight, and it features an opportunity to present this positive information about the company.

## Uses of Corporate Annual Reports

The primary use of a company's Corporate Annual Report is to present the actual and audited financial information for the most recent year. The financial information also includes three- or five-year financial summaries so readers can see the trends and, the company hopes, improvements and growth in financial performance. It enables the readers to compare results from different time periods. The focus is on the three main financial reports: the Profit and Loss (P&L) Statement, the Balance Sheet, and the Statement of Cash Flow. There is also a great deal of accompanying documentation that provides more details and explanation to the key financial numbers. These are called Notes to Consolidated Financial Statements.

Since 2002, there has been a greater emphasis on the company senior officers signing off or attesting to the accuracy and reliability of the financial results. In addition to the independent auditor's "audit opinion," the SEC now requires that the Chief Executive Officer and the Chief Financial Officer of the company also endorse or "sign off" on the financial information contained in the annual report. This means that they know and understand the financial information and that they attest or confirm that the financial information has been prepared correctly and that the results accurately and fairly represent the operations of the company for the previous fiscal year.

Many companies have chosen to focus on the culture and core values of their company in their annual reports in addition to reporting the financial performance for the recent year. They take time to discuss the priorities and core values that the company wants to instill in its employees. They want the readers to be aware of how the company operates, where its priorities are centered, and how it expects to meet its operating and financial goals. General Electric is one organization that highlights its company culture first and then its financial performance in its annual report. Go to its website at [www.ge.com](http://www.ge.com) to see how GE's annual report is arranged and what the company's leaders would like the reader to learn about GE.

The third use of annual reports is to provide detailed operating information about the different divisions or components of a company. Hotel companies now include revenue information by brand that includes comparisons of the recent year's average rate, occupancy percentage, and revenue per available room (REVPAR) to the previous year. This is where new acquisitions or new product development is detailed and highlights of each division are presented. It is a brief review of the opportunities, challenges, and operating results of the division, brand, or concept.

## The Message to Shareholders

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### Performance for the Year

The Message to Shareholders is an opportunity for the senior management of a company to write a letter covering all the important aspects and achievements of the company for the year. Typically, the letter is written by the Chairman of the Board of Directors, the President of the Company, and the Chief Executive Officer of the Company. Generally there will be one person in each one of these positions, but sometimes one person holds all three titles and positions. Often the officer's picture will be included to personalize the message. It is nice to see a picture of who is in charge of the company that you have invested your money in.

The Message to Shareholders includes comments on corporate culture and operations, financial results, and goals and strategies for the future. Although most of these comments will be positive and offer a bright future, they should also address any disappointments and negative results. We will read some of these comments in the Darden Annual Report presented later in this chapter. Shareholders want to know the bad information as well as the good information. Whereas the operating and financial information highlights company performance in the past, the strategies and established goals set the path that the company expects to take in the future to overcome obstacles, meet challenges, and achieve established operating and financial goals.

It is important to address how a company is growing and improving operating and financial performance. The two main areas to examine are comparable (comp unit) performance and the growth of new units. **Comp unit** growth compares the performance of existing hotels, restaurants, or stores. This means comparing the operating and financial performance of existing hotels, restaurants, or stores from year to year. It is important to know if these existing units are improving sales and profits. The second area of growth is new unit growth. If a company is successful and customers are buying its products and services, there will be opportunities to open new units and continue to grow. A strong company will show growth in both comp units and new units. It is important for investors to understand where and how a company is growing.

### Company Culture

As previously mentioned, many companies now choose to focus as much attention on their corporate culture and core values as they do on their financial results. These companies want to emphasize to the reader the strength of the company culture and core values, strong processes and favorable work environments, and all that is positive about the company. Companies value and recognize their employees in achieving superior operating and financial results. They show that good operating and financial results are achieved because of their outstanding and dedicated employees.

Refer to [www.ge.com](http://www.ge.com) and [www.jnj.com](http://www.jnj.com) to look at the priority placed on company culture by General Electric and Johnson & Johnson. Both companies have placed a high value on corporate culture for more than 50 years. Compare [www.marriott.com](http://www.marriott.com) and [www.fourseasons.com](http://www.fourseasons.com) and see the similarities that these two hospitality companies place on company culture. Both Marriott and Four Seasons make it clear that their employees are the most valuable part of their company and the main reason for the success of the company.

## Strategies for the Future

The final important element of the Message to Shareholders is to comment on the future of the company. All interested stakeholders, including bankers, individual and institutional investors, employees, and customers, want to know the plans and directions the company will take in the future. This will include discussing expectations of the company, commenting on the status of the industry, addressing major positive and negative issues on the horizon, and discussing any new opportunities that the company is exploring.

Let's outline the main themes and strategies of the message to shareholders in the most recent Corporate Annual Report for Marriott International, beginning with the introductory paragraph:

This historically challenging time in the lodging industry has truly served to demonstrate Marriott International's resilience, the strength of our business model, superior brands, strong management team, and dedicated associates.

We are optimistic about a stronger business climate in 2004. And with the final disposition of our senior living and distribution services businesses in 2003, we look forward to operating as a focused lodging management, franchise and timeshare company for the first time in our 76-year history.

The rest of the message to Marriott shareholders is outlined as follows:

- 2003 Performance Summary
- What's Ahead
- The Opportunity
  - Income and Revenue
  - Global Expansion
  - Brand Preference and Loyalty
  - Leisure Segment Growth
  - Timeshare Business
- Global Expansion
- Marriott's People: Our Most Important Asset
- Looking Forward

Now let's compare the Marriott comments and strategies with those of Darden Restaurants, the largest casual dining restaurant company in the world. Darden operates the Red Lobster, Olive Garden, Smokey Bones, and Bahama Breeze restaurant concepts and generates more than \$4.5 billion in annual revenue:

In fiscal 2003 we faced many challenges, including a difficult business environment, management transition within our organization, and the difficulty of trying to surpass exceptional prior-year results. Though we made progress in several key areas, we were disappointed with our overall results and are focused on regaining our strong, positive momentum.

Notice that Darden addressed subpar financial performance for fiscal 2003 including a difficult economy and business environment. The focus then went to the strengths that Darden has that will help the company correct these problems and return to expected levels of financial performance.

The rest of the message to Darden shareholders is outlined as follows:

- Results by Concept
- We Are in the Right Industry at the Right Time
- We Have a Solid Foundation
- Our Strategic Framework Is Sound and Working
- We Have Focused Priorities for Fiscal 2004
- We Are Well Positioned for Growth

Finally, let's look at the General Electric Message to Shareholders:

We made GE a stronger Company in 2003. Our Businesses performed solidly despite downturns in aviation and energy, high oil prices, and slack industrial demand. We grew operating cash flow 28% and strengthened our balance sheet. We invested more than \$4 billion in technology and launched dozens of leading-edge products. We grew our services revenues 10% and global revenues 14%. We reorganized our businesses around markets to simplify our operations and deepen our relationships with customers. And we committed more than \$30 billion to portfolio moves to create faster growth industrial businesses and improve our returns from financial services.

Pay particular attention to the first paragraph and the key elements of financial performance that GE highlights: grew cash flow 28% (invested \$4 billion in technology) and grew services revenue 10% and global revenues 14% (change, percentage increase, and

comparisons to last year). The first paragraph is probably one of the most read paragraphs in an report, so companies load it with key information on company culture, direction, and performance.

The rest of the message to GE shareholders is outlined as follows:

- How Will We Grow in an Uncertain World?
- The Environment We See
- The GE Business Model
- GE's Growth Strategy
  - Technical Leadership
  - Services
  - Customer Focus
  - Globalization
  - Growth Platforms
- The GE Team
- Restoring Investor Trust
- The Future

The message to shareholders is a valuable part of the annual report and provides a framework and foundation to better understand the operating and financial results of the company. By examining excerpts from the three annual reports of Marriott, Darden, and General Electric, we can see how important the core values and corporate culture are to producing outstanding products and services that result in successful operating and financial results.

## The Content of the Corporate Annual Report

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### Operating and Financial Results by Brand, Concept, or Division

The next section of the Corporate Annual Report provides a mixture of operating results and financial results. This includes describing in more detail successes, growth, new product or service development, and any other significant operating achievements. Pictures of happy productive employees and happy satisfied customers are generally featured. There will also be financial highlights for that particular hotel **brand**, restaurant **concept**, or industrial **division**. We will again look at the organization of this section in the Marriott, Darden, and GE annual reports.

**Marriott**

The next section after the Message to Shareholders is Management's Discussion and Analysis of Financial Condition and Results of Operations. It is separated into a Business Overview and Consolidated Results sections including revenues and operating income. This information is divided into full-service, select-service, extended stay, and timeshare segments and compares results from 2003, 2002, and 2001.

The next major section details information on occupancy percentages, average room rates, and REVPAR results. Refer to pages 12 to 14 in the Marriott annual report. Any person interested in the details of Marriott's performance in 2003 can find a great deal of information on these pages. The pages that follow get into more detailed and complicated explanations of nonoperating activities that generally interest only accountants, financial advisors, and bankers and institutional investors. If you take the time to read and understand these pages, you will have a good understanding of Marriott's financing activities in addition to Marriott's financial performance. There is a difference between financing and financial performance. Financing activities refer to capitalization or how Marriott raises or obtains money (investments and loans). Financial performance refers to the revenues or income/profits generated by all of the operating activities of Marriott.

*At this point in time, if you can understand the operating and financial results, you are doing fine.* Focus on this information, because that is what the content of this book is about and it is also what you should be able to understand and use. Hospitality managers use these financial concepts in the daily operations of their hotels or restaurant. Consider all other information as above and beyond—good to know but probably hard to understand.

**Darden**

The next section in the Darden annual report is titled "Great Expectations—Operating Highlights." It is organized by the company's four main restaurant concepts and includes a discussion of operations, informative and basic financial graphs, and great pictures of happy people eating good food. The way Darden organizes the information is very user friendly, meaning it is easy to read and to understand in both written and graphic form. It is written this way to provide quick, useful, and concise information to the reader.

The last section is titled "New Business Opportunities." This is where Darden discusses the business opportunities and strategies that it is pursuing in the future to reach company goals and objectives. Refer to pages 12 to 16 in the online Darden Annual Report for details. This section is notably shorter than what Marriott includes, partly because Marriott is larger and has more brands and operations to discuss.

**General Electric**

The next section of the GE Annual Report takes a rather unique approach to the goals and strategies the company wants to pursue in the future. GE frames these goals with five questions stated as follows: "Five Questions, Five Answers, One Growth Strategy for Growing GE."

1. *How do you defeat the commodity threat?* This addresses GE's efforts to differentiate its products and services from similar products and services offered by competitors. GE does this by "investing in innovation at every point in the economic cycle."
2. *How do you make money for your customers?* This presents the strategy of providing GE products and services that will help GE customers maximize their profits. In GE's words the company is "making customers' businesses run better."
3. *What distinguishes a partner from a vendor?* This emphasizes the importance in the GE culture of "enduring relationships" with vendors and suppliers that enable both to win in the marketplace.
4. *Where do you draw your borders?* This focuses on "operating worldwide as one global team." It addresses the need to provide consistent GE culture and processes but also the need to adjust to and fit in with the different cultures of the world where GE has operations. Balance and a respect for both is the GE policy.
5. *Are you leading change or chasing it?* This emphasizes GE's ability to "swiftly evolve to seize new opportunities created by changes in technology and the economy." GE seeks to embrace and welcome change and the improvements that change will produce. This is a difficult task but one that GE is pursuing relentlessly.

Each of these five questions is discussed with examples and pictures of employees, customers, products, and services developed by GE that demonstrate how the company is addressing the five questions daily in its global operations. The GE vision and its strategies to live that vision around the globe are presented and illustrated in this section of the annual report.

These three companies provide a good range of examples of how companies report and discuss their operations and achievements. Each has its own personality and focus that is a result of its corporate culture and core values. The pictures and information provide an opportunity for readers to see and learn about company operations including the employees that produce the products and services and the customers that purchase or enjoy those products and services.

## **Other Corporate Themes and Information**

This section of an annual report provides the opportunity for the company to present and highlight other company priorities and activities. It can be located at the beginning, middle, or end of the narrative part of the annual report, and it highlights company culture, core values, initiatives, recognitions, and progress. This information is intended to provide readers with a feel for the company—where it places its priorities, the atmosphere and work environment that it seeks to create, the expectations for performance and achievement, and examples of projects and activities the company participates in to give back to the community and its members.

Marriott highlights its leadership and the power of its brands in the opening foldout of its annual report. Marriott's vision: To be the number one lodging company in the world. The goal of its brands: "It's the Marriott Way is our promise that guests can be assured of a consistent, tailored, quality hospitality experience at any Marriott International brand in the world." Marriott also has separate highlighted sections that present "Our Diverse Workplace," which lists the achievements and awards Marriott has received for having a quality workplace. "Our Communities" is a list that shows the involvement of Marriott employees in the communities where they are located and work. Corporate responsibility and community support are the key themes in this section.

Darden frames its culture and corporate vision with a series of comments that demonstrate "Great Expectations." "Every time guests walk through our doors, we aspire to greatness." For example:

- ambiance that makes it more than just a night out . . .
- service that presents food at just the right moment . . .
- attentiveness that anticipates a need before it becomes one . . .
- knowledge that can teach even a wine connoisseur something new . . .
- friendliness that's on a first-name basis whenever you come in . . .
- cleanliness that is measured by spotlessness, every hour of the day . . .

Another section in the annual report presents the Darden Core Purpose and Core Values:

Core Purpose—To nourish and delight everyone we serve.

Core Values—1) Integrity and fairness, 2) Respect and caring, 3) Diversity, 4) Always learning/Always teaching, 5) Being "of service," 6) Teamwork, 7) Excellence.

General Electric consistently mentions its corporate culture and core values throughout its annual report, so it only covers two other aspects of operations. The first is placing a high priority on corporate governance. "There is no question about governance." GE is a big company and therefore is the focus of many accusations and complaints. There is often controversy surrounding some of its activities. Therefore, the company makes it a point to emphasize how important integrity, honesty, and professionalism are to GE operations. In this section, GE provides pictures of the different committees of the Board of Directors and their specific responsibilities to ensure readers that GE complies with all rules and regulations. The second aspect of operations discusses GE's view that "A great company must also be a good company." This focuses on all of GE's activities to be good corporate citizens in the communities where GE operates.

## Financial Results for the Year

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This final section of the annual report contains all of the financial numbers including specific financial activities or results and the explanations of these activities.

### Independent Auditor's Report and Management Responsibilities Report

This is perhaps the most important part of any Corporate Annual Report. The fact that an independent public accounting firm has examined all of the financial reports and procedures of the company and then confirms that they conform to GAAP and SEC guidelines is intended to give credibility to the numbers and confidence to the reader that the numbers can be used to accurately analyze company operations.

As stated earlier, recently senior management has been required to “attest” or verify the correctness of the numbers and the procedures and processes that produced those numbers. The CEO (Chief Executive Officer) or Chairman of the Board now must also sign off to show that he or she concurs that all the operating activities and the financial position of the company as reported in the financial results are accurate and correctly represent both the capitalization of the company and the operating results of the company for the year.

### The Three Main Financial Statements

Generally, the first section of the financial results contains the official and audited Profit and Loss Statement, the Statement of Cash Flows for the year and the Balance Sheet as of the last day of the fiscal year.

The P&L Statement includes the current year's financial results compared to last year's results. Companies may also include three- or five-year comparisons so that the reader can see the trends and changes in financial performance from year to year. The P&L is a summary of the company's financial results that includes the totals of the main revenue and expense accounts and the different profit accounts. The P&L section can also include supporting documentation that breaks down some of the P&L results into more detail or by division, brand, or concepts.

The Balance Sheet includes the current year's balances and those of the previous year. This enables the reader to identify and compare the changes in assets, liabilities, and owner equity. The changes in the current accounts—assets and liabilities—represent how working capital was used during the year in the company's operations that produce products and services. The changes in the long-term accounts—assets, liabilities, and owner equity—represent how the company obtained capital via bank loans or raising equity and how it was used in the purchase of long-term assets. The Balance Sheet provides many numbers that are used in calculating important ratios used in financial analysis.

The Statement of Cash Flow shows how cash was generated and used in company operations for the year. It starts with cash flow generated from the operations for the year, and that amount is adjusted by operating activities that increase or decrease the operating cash flow. The result is net operating cash flow. The next two sections are cash flows that resulted from investing and cash flows that resulted from financing activities. The final section compares cash at the beginning of the year to cash at the end of the year. These changes are identified and show how cash is generated and used in company operations.

## Notes to Consolidated Financial Statements

This is the section of the annual report that explains and details important financial activities of the company for the year. There are many complicated transactions and activities, and the notes are expected to clearly explain the details of these complicated transactions. The idea is to explain each of the transactions and to ensure that they are legitimate and conform to required and accepted accounting policies and procedures.

## Summary

The Corporate Annual Report is the most important report or publication that a company makes available to all individual or institutional investors. It is published each year and includes detailed operating and financial information for the past year. This includes the three main financial statements: Profit and Loss Statement, Balance Sheet, and Statement of Cash Flow. The annual report also includes many other supporting financial documents and notes explaining the financial transactions or account balances.

One of the most important parts of an annual report is the Audit Opinion issued by an independent accounting firm that attests or verifies that the financial information contained in the annual report was prepared according to GAAP, that the financial information is correct, and that it accurately portrays the financial condition of the company. Since 2002, the company Chairman of the Board or Chief Executive Officer also has to confirm that the financial information is accurate and correct.

The annual report also contains a Message to Shareholders where the Chairman of the Board, CEO, and President report on the activities and achievements of the company for the year. Another important section describes each operating division, brand, or concept and provides a brief discussion of the operations and achievements of the past year.

Companies take advantage of the annual report to make it an important public relations document. It offers an opportunity for the company to feature and recognize dedicated employees, satisfied customers, new products or services, and any awards and achievements that the company has received. The Corporate Annual Report is a thorough document, and companies make a great effort to ensure that it is complete and detailed.



## Hospitality Manager Takeaways

1. A **Corporate Annual Report** is the formal yearly report of a company's operating and financial results for the most recent fiscal year.
2. The financial results include the consolidated results of all the divisions, brands, and concepts of the company.
3. The Corporate Annual Report must include an audit opinion of the correctness and accuracy of the financial information presented by an independent Certified Public Accounting firm.
4. The **Message to Shareholders** is a key component of the annual report; it provides the Chairman of the Board or Chief Executive Officer of the company an opportunity to present and discuss the company's performance and plans for the future.



## Key Terms

**Attest**—To confirm or verify the accuracy of operating and financial information.

**Board of Directors**—The group that is responsible for overseeing all operational aspects of a company. The Chief Executive Officer of a company reports to the Board of Directors and is also a member of the Board of Directors.

**Brand**—The lodging term that identifies different types of hospitality properties that serve specific hospitality market segments.

**Certified Public Accountant**—An independent accounting firm that is responsible for examining and verifying the correctness and accuracy of a company's financial information. It issues an audit opinion stating that the company meets or does not meet established reporting and accounting guidelines.

**Comp Unit**—Stores, units, hotels, or restaurants in a company that have been operating for more than two years.

**Concept**—The restaurant term that identifies different types of restaurant operations that provide specific dining experiences and serve specific market segments.

**Division**—The manufacturing term that identifies the different types of products produced by a company, including the markets that it serves.

**Fiscal Year**—The financial year for reporting a company’s financial results. It can be the same as or different from the calendar year ending December 31.

**Independent Audit Report**—The section of the Corporate Annual Report that contains the audit opinion presented by an independent and certified public accounting company.

**Management Responsibility Report**—The section of the Corporate Annual Report that contains the senior management opinion that the operating and financial information contained in the annual report is accurate and correctly portrays the financial condition of the company.

**Notes to Consolidated Financial Statements**—The detailed financial explanation of accounting and financial information contained in the annual report.

**Public Relations**—Information and news releases prepared by the company.

**Securities and Exchange Commission**—The government agency responsible for regulating the public stock exchanges (New York Stock Exchange, NASDAQ, and several other exchanges).



## Review Questions

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1. Name two types of agencies or organizations that monitor the financial information contained in Corporate Annual Reports.
2. The company financial information is verified by an internal body and an external body. Name them.
3. Define division, brand, and concept, and explain why they are important in discussing company operations.
4. Why is a company’s core values and culture important to mention in its annual report?
5. What is the current P&L information for the year compared to?
6. What is the Balance Sheet information for the year compared to?
7. What is the Statement of Cash Flow information compared to?
8. Why are notes to the consolidated financial statements important?