YHA LTD

ANNUAL REPORT

2017

CONTENTS

ABN: 94 008 387 791
ACN: 008 387 791

Solicitors: Whitehead Cooper Williams
Auditor: Pitcher Partners
Bankers: Australia and New Zealand Banking Group Limited
Insurance Brokers: Allsopp Bunting

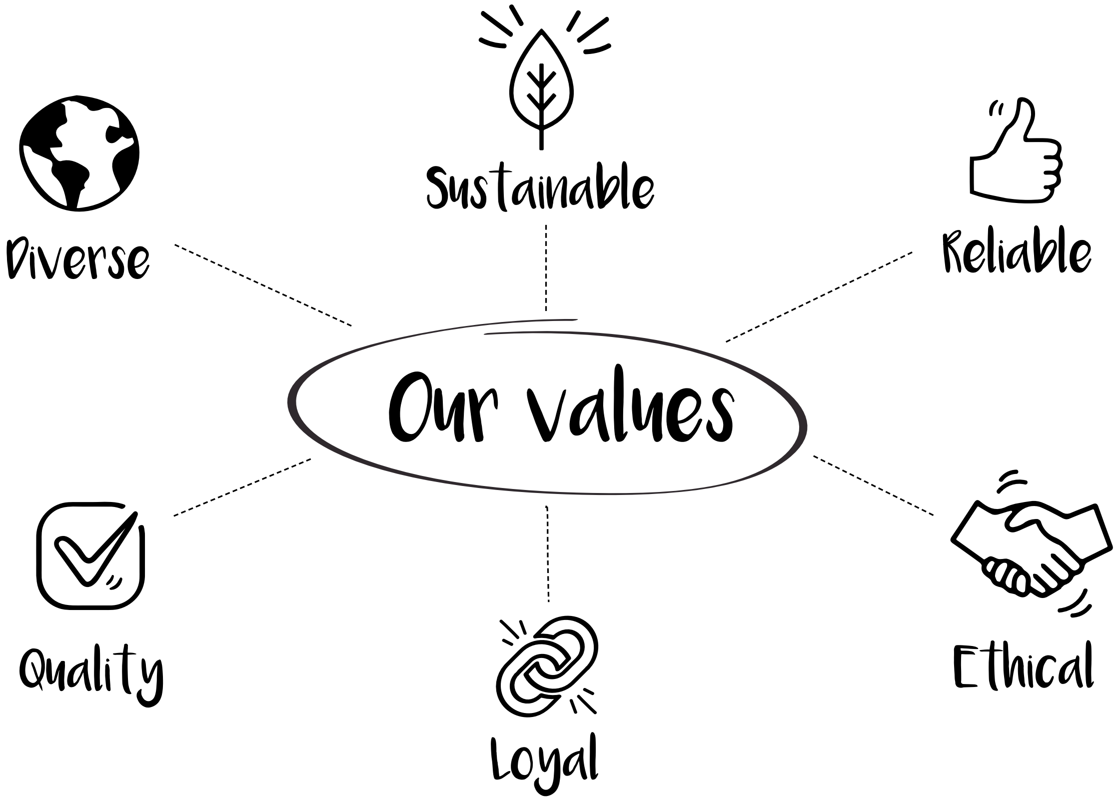
COVER: BYRON BAY YHA WAS EXTENDED
INSIDE COVER: SYDNEY CENTRAL YHA HAS A REFRESH

OUR BRAND

YHA is a not-for-profit, membership based organisation, with the mission to provide opportunity for all, but especially young people, for education by personal development, fostering friendship and bringing about a better understanding of others and the world around them.

THE HOUSE AND TREE SYMBOL

The house and tree originates from the first Hostelling International signs in Europe in 1934. The three messages used in the green Australian logo are the tree representing the environment, the house representing shelter and the open door representing just that, a welcoming open door.



YHA IN AUSTRALIA

The first youth hostel was established in Germany in 1909. In 1932 Hostelling International (HI) was formed and now has member associations in 90 countries that are operating more than 4,000 hostels. There are 75 hostels in Australia, in urban and regional areas.

The first YHA hostel in Australia was opened in 1939 in Warrandyte in Victoria. YHA hostels provide low cost short term accommodation for travellers. YHA hostels can be used by people, regardless of age, who are members of any of the Youth Hostels Associations throughout the world.

INTRODUCTION

Dear Members & Friends

2017 was a historic year for YHA in Australia. Originally established in 1939 as a federated structure, the organisation was finally unified into one national organisation, marking the end of a twelve year merger process. In 2017, the remaining state operations of YHA Tasmania and YHA WA merged into YHA Ltd (trading as YHA Australia), enabling us to more efficiently manage our business and provide our services nationally to our members.

The year also saw the active implementation of the first year of the 2017-2020 Strategic Plan, and YHA working more closely with Hostelling International and its international member organisations, as the representative for Australia.

As a proudly not-for-profit organisation, YHA continuously reinvests in improving our properties and services for our members across Australia. In 2017, we acquired our former associate hostel, Cape Byron YHA in the popular beach destination of Byron Bay in New South Wales. Meanwhile, construction continued on the extension of our other property there, Byron Bay YHA, which is due to open in early 2018.

Overall, our network of 75 hostels generated 1,620,799 overnight stays. We brought together guests from over 137 countries (67 of which have Hostelling International organisations), to explore and share accommodation and experiences throughout Australia.

During the year, we also launched a new 'Simple Affordable Membership' model to streamline our systems and access to membership. We currently have 158,258 individual and group members of YHA in Australia. Investment in IT and digital areas increased to ensure that we maintain smart, secure and robust systems, and to take advantage of cloud based technology.

Financially, on a turnover of $44.2 million, after one-off adjustments, we recorded an operating deficit of $1.11 million (2016 was a surplus of $1.6 million). Earnings before interest, tax, depreciation, and amortisation totalled $7.05 million (2016: $9.77 million). During the year, however, YHA's balance sheet grew with the consolidation of assets in the final mergers.

Throughout the year we placed a major focus on our mission of providing opportunity for young people for education through travel, to bring about friendships and a better understanding of the world.

We couldn't have done any of this without the support of our staff, volunteers, members and industry partners, so our thanks go to them all for their efforts throughout the year.

Julian Ledger
CEO

Rob McGuirk
Chair

L TO R: ROB MCGUIRK (CHAIR) AND JULIAN LEDGER (CEO) ON THE ROOFTOP OF SYDNEY HARBOUR YHA

OUR HIGHLIGHTS

Learn to travel. Travel to learn.

THE POPULAR FORMER ASSOCIATE HOSTEL, CAPE BYRON YHA, WAS ACQUIRED

UNIFICATION

Completion of the national merger progress with successful integration of YHA Tasmania and YHA WA into YHA Ltd as a single national organisation (trading as YHA Australia)

NEW HOSTELS

Acquisition of the former associate hostel, Cape Byron YHA, and construction of extension at Byron Bay YHA

DEVELOPMENT

Contract for the sale and leaseback of Melbourne Metro YHA, to release capital for future development of a new Melbourne hostel

MEMBERSHIP

Development and launch of the 'Simple Affordable Membership' model

ADVOCACY

Representations to State and Federal governments on issues of concern to travellers, including safety, working conditions and visa reform

INTERNATIONAL

As the Australian member of Hostelling International participation in global events in Europe and Asia, and in an organisational governance review

CANBERRA CITY YHA WAS RENOVATED

YHA ACCOMMODATION

An average of 4,440 people accommodated across Australia each night

Total number of overnight stays of 1,620,799 (1,611,899 in 2016) across the country

Refresh at Sydney Central YHA including contemporary fit out, furnishings and murals

Addition of new ensuite bathrooms at Canberra City YHA, renovation of Hobart YHA exterior and interior

New Sustainability Action Plan implemented

Well-attended Hostel Managers' Conference held in Hobart

PLANNING THE NEXT TRIP

MARKETING AND DIGITAL

Launch of digital membership card and 'Simple Affordable Membership' pricing

New technology introduced for improved electronic communication with members

Partnerships with organisations, including state and national tourism bodies

Positive coverage in print, online, broadcast and social media

SLEEP IN A CELL AT FREMANTLE PRISON YHA!

FINANCE

Total operating turnover of $44.2M ($44.69M in 2016)

Earnings before interest, taxation, depreciation and amortisation (EBITDA) of $7.05M ($9.77M in 2016)

Operating surplus of $11.22M ($2M in 2016)

Normalised result of deficit of $1.11M ($1.6M surplus in 2016)

GOVERNANCE

Members of YHA WA voted to merge with YHA Ltd, effective 1 September 2017

YHA Tasmania merged with YHA Ltd, effective 1 January 2017

First year of implementation of the new Strategic Plan 2017 – 2020

The Board operated with nine volunteer Directors (including one appointed following the merger with YHA WA) and three sub committees, with meetings taking place in Brisbane, Hobart, Melbourne and Sydney

HOBART CENTRAL YHA HAD A FACELIFT

THE MANAGEMENT TEAM L to R: Julian Ledger (CEO); Stephen Lynch (CFO); Robert Henke (Operations/Eastern Region Manager); Marie Sahagun (Administration Manager); Rolf Duelks (Digital and Strategy Leader); Janet McGarry (Head of Marketing); Jonathan Kane (Northern Region Manager); Mark Hussien (Southern Region Manager); Domenic Pimpinella (Western Region Manager).

DIRECTORS' REPORT

The Directors present their report, together with the financial statements, of the consolidated entity (referred to hereafter as the 'consolidated entity' or 'group') consisting of YHA Ltd (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the year ended 31 December 2017.

1. THE NAMES AND OTHER INFORMATION OF THE DIRECTORS OF THE COMPANY IN OFFICE

The names, qualifications and experience of the Directors in office at any time during or since the end of the financial year are:

NAME	QUALIFICATIONS	EXPERIENCE	RESPONSIBILITIES	ELECTED TO
Robyn Joan Antill	BSc, MSc (Maths), MSc (Operations Research), PMP, GAICD	YHA member since 2014. Hostelling International member since 1990. Project Management Consultant.		April 2018
Leonie Isabelle Clark (formerly Thijssen)	BCom, CPA, GIA (Cert), GAICD	YHA member since 2000. Former member of YHA Queensland Board. Held roles of Treasurer YHA Queensland and Vice Chair of YHA Ltd. Finance and HR manager.	Chair of Audit & Risk Committee	April 2019
Bronwyn Teresse Dallow	M.International Management, Grad Dip Business, MAICD	YHA member since 2011. General Manager, business chamber.		Elected April 2017 to April 2020
Ross Peter McDougall	BA, LLB, GAICD	YHA member since 2012. Solicitor.		April 2020
Robert Anthony McGuirk	BA, LLB, F Fin, GAICD	YHA member since 1990. Former member of YHA Victoria Board, held roles of Chair & Vice Chair. Former Hostelling International Vice President. Lawyer, Property Manager, IT Consultant.	Chair, and Chair of Election Committee	April 2019
Matthew Craig McNeil	BArch (Hons), GAICD	YHA member since 1988. Architect.		April 2019
Michael James McPhail	BSc (Hons), AAICD	YHA member since 2011. Former member of YHA WA Inc. Board, held role of Vice Chair. Commercial property marketer.		Appointed 1 September 2017 to April 2019
Tracey Michelle Powell	BBus, GAICD	YHA member since 2000. Former member of YHA South Australia Board, held role of Chair. Associate Director, local government.	Chair of Nominations & Remuneration Committee	April 2018
Euan Gordon Prentice	BCom, A Fin	YHA member since 2009. Owner of capital markets research business.	Vice Chair	April 2018
Dana Denise Ghinzel	BCom, CPA, GAICD	YHA member since 1983. Accountant with public sector.		Ceased on 8 April 2017
David John Neish	BArch, FRAIA	YHA member since 1976. Former member of YHA Queensland Board. Architect.		Ceased on 27 February 2017

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

COMPANY SECRETARY

Julian Ledger has held the role of Company Secretary since 23 April 2003 and Stephen Lynch was also appointed as Company Secretary on 23 September 2009.

2. MEETINGS OF DIRECTORS

The following table sets out the Board and Committee meetings held during the year and the number attended by each Director where applicable. The Committees are: Audit and Risk, Nominations and Remuneration and Election Committee.

	BOARD OF DIRECTOR MEETINGS		COMMITTEE MEETINGS	
DIRECTOR	NUMBER HELD/ ELIGIBLE TO ATTEND	NUMBER ATTENDED	NUMBER HELD/ELIGIBLE TO ATTEND	NUMBER ATTENDED
Robyn Antill	9	9	6	5
Leonie Clark (formerly Thijssen)	9	9	6	6
Bronwyn Dallow	8	7	4	4
Ross McDougall	9	8	4	4
Robert McGuirk	9	8	6	6
Matthew McNeil	9	7	5	5
Michael McPhail	4	4	–	–
Tracey Powell	9	8	6	6
Euan Prentice	9	6	11	10
Dana Ghinzel	1	1	2	1
David Neish	–	–	–	–

The above meeting attendance is for YHA Ltd. Youth Hostels Association of Queensland (YHA Queensland) also held 2 Board meetings, YHA Victoria Limited held 1 Board meeting during the year and YHA WA Inc held 3 Board meetings since the merger with YHA Ltd on 1 September 2017. These were held on the same days at the same time and location as the above meetings reported for YHA Ltd.

3. SHORT AND LONG TERM OBJECTIVES

The objects of the company are:

a) represent the interests of the company and its Affiliated Entities internationally with Hostelling International and its Affiliated Entities;

b) promote youth hostelling internationally, including fostering an appreciation of a range of cultural values;

c) promote youth hostelling throughout Australia and its dependent territories, and to promote interstate and international friendship through the development of youth hostelling;

d) provide educational opportunities in Australia for all people, but especially young people, to:
   i) achieve personal development;
   ii) foster friendship; and
   iii) bring about a better understanding of others and the world around them;

e) facilitate education by providing, operating and assisting others to provide and operate, hostels or similar accommodation in which there are no distinctions of race, nationality, colour, religion, gender, sexual orientation, class or political opinion;

f) educate, by promoting and encouraging:
   i) travel;
   ii) healthy recreational activities;
   iii) environmental awareness; and
   iv) interstate and international friendships and understanding,

   particularly through the development and provision of facilities and services to assist travellers within and outside Australia;

g) actively promote Australia as a prime holiday destination for the members of overseas organisations affiliated with Hostelling International; and

h) provide information or advice to any government, company or any other organisation in relation to any of the foregoing.

DIRECTORS' REPORT
CONTINUED

4. STRATEGY FOR ACHIEVING OBJECTIVES

1) To be the market leader in the provision of low cost, quality accommodation in Australia and at least maintain current market share.
2) To be the market leader in providing services to free independent travellers (FITs).
3) To be a dynamic market driven organisation responsive to change.
4) To develop the business and activities of YHA in accordance with the national and international aims and objectives of the organisation.
5) To achieve the most effective structure for YHA in Australia.
6) To provide an annual operating surplus to reinvest in the further growth and development of YHA services and resources.
7) To continue to exercise the organisation's social, cultural, economic, educational and environmental responsibilities as a major international membership organisation.
8) To continue to develop YHA's human resources as a means of achieving the above objectives.
9) To manage risk through selected strategies and regular review.

5. PRINCIPAL ACTIVITIES

The principal activities of the group during the financial year were to provide secure, high quality, low cost accommodation to members in YHA hostels and, through affiliated organisations, enable access to such accommodation throughout the world. In addition, the company operates travel and tour desk services. These activities are directed at achieving the specific objectives of the group.

6. OPERATING RESULTS

The consolidated surplus for the financial year ended 31 December 2017 was $11,220,981 (2016 surplus of $2,008,645). The surplus includes recognition as income the net assets value of YHA Tasmania Inc. of $2,257,236, whose operations and property were integrated and transferred on 1 January 2017 to YHA Ltd as well as recognition as income the net assets of YHA WA Inc. of $11,796,522, whose operations and property were integrated on 1 September 2017 (2016: $619,583 from the integration of Hostelling International Australia Inc.). Adjusting for this recognition of income the consolidated surplus would become a consolidated deficit of $2,832,777 (2016: Surplus of $1,389,062), which includes an impairment expense of $960,000 for the year.

The group uses occupancy percentage or utilisation of the hostel beds as a measure of performance together with quality ratings from guests. The hostel bed occupancy in 2017 for operated hostels was 65.3% (2015 66.7%), ratings were in the desired range and several hostels achieved consistently high ratings.

7. REVIEW OF OPERATIONS

The annual report is prepared on a consolidated basis and includes the operations of YHA Ltd (hostel operations, membership, travel and tour sales), YHA Queensland (property owner), YHA Victoria (activities clubs in Victoria) and YHA WA Inc (property owner).

Revenue declined over the prior year due to lower numbers of backpackers particularly from the UK and the switch from a leased hostel operation in Darwin to a better quality associate hostel. Australian guest nights were also lower than last year although guest nights from groups improved on the prior year. The inclusion of new hostel operations in Hobart, Perth, Fremantle, Dunsborough and Esperance assisted in balancing this reduction as well as the additional operations from Cape Byron YHA (acquired associate hostel 26 August 2017). All hostels in these locations were already in operation. Membership sales reduced also as systems to enable all guests to join more easily and remain members were simplified and made more affordable.

Development work continued on the extension of the Byron Bay YHA. Despite the severe rain event following Cyclone Debbie, which contributed to a 3 month delay on the project, the new building is expected to open in March 2018. Contracts to sell and leaseback the Melbourne Metro YHA were exchanged in December 2017 and the sale will settle in the first quarter of 2018. Proceeds from the sale will be used to reduce borrowings.

8. DIVIDENDS

YHA Ltd is a not for profit company limited by guarantee and does not pay dividends. Every Member undertakes to contribute to the property of the company in the event of it being wound-up for payment of the debts and liabilities of the company, such amount as may be required, not exceeding $1.

9. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

As noted in the 2016 report the property, plant & equipment of YHA Victoria Limited was transferred to YHA Ltd in the first quarter of 2017. YHA Victoria no longer owns hostel property and continues as an entity that facilitates the YHA activities clubs in Victoria.

The Directors are not aware of any matter or circumstance not otherwise dealt with in this report or the financial report that has significantly or may significantly affect the operations of the Group, the result of those operations or the state of affairs of the Group for the year ended 31 December 2017.

10. SIGNIFICANT EVENTS SINCE THE END OF FINANCIAL YEAR

The Directors of the Company are not aware of any matter or circumstance that has arisen since the end of the financial year which is likely to significantly affect the operations of the group, the results of those operations or state of affairs of the group in future financial years.

11. LIKELY DEVELOPMENTS

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

12. DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has arranged a Directors' and Officers' Liability Insurance policy, which covers all the Directors and Officers of the Company against certain liabilities they may incur in carrying out their duties for YHA Ltd. The terms of the policy prohibit disclosure of details of the amount of the insurance cover, the nature thereof and the premium paid.

13. ENVIRONMENTAL REPORTING

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or State or Territory.

14. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

15. AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 37.

16. ROUNDING OF AMOUNTS

The Company is of a kind referred to in the ASIC Legislative Instrument 2016/191 relating to 'rounding off' of amounts in the Directors' Report. Amounts have been rounded off in accordance with the instrument to the nearest dollar.

Signed in accordance with a resolution of the Directors.

Robert McGuirk
Director
3 March 2018

Leonie Clark
Director
3 March 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTE	2017 $	2016 $
Revenue or other income			
Rendering of services	3	43,616,483	43,741,081
Other income	3	15,795,664	1,563,654
	3	59,412,147	45,304,735
Expenses			
Employee benefits expense	4	(19,518,406)	(18,825,043)
Depreciation & amortisation expense	4	(5,413,939)	(5,131,072)
Impairment expense	11,12	(960,000)	–
Finance costs	4	(3,325,225)	(3,176,427)
Other expenses	4	(17,725,027)	(16,159,410)
		(46,942,597)	(43,291,952)
Surplus before income tax		**12,469,550**	**2,012,783**
Income tax (expense) / benefit	5	(1,248,569)	(4,138)
Surplus after income tax		11,220,981	2,008,645
Other comprehensive income		–	–
Total Comprehensive Income		**11,220,981**	**2,008,645**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	NOTE	2017 $	2016 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	2,137,055	3,085,709
Trade and other receivables	7	611,799	523,409
Inventories	8	54,132	71,307
Other current assets	9	861,189	711,470
Non-current assets classified as held for sale	10	9,330,523	–
Total Current Assets		12,994,698	4,391,895
Non-current Assets			
Property, plant and equipment	11	145,832,597	124,378,625
Intangible assets	12	2,543,472	2,814,401
Total Non-current Assets		148,376,069	127,193,026
TOTAL ASSETS		161,370,767	131,584,921
LIABILITIES			
Current Liabilities			
Trade and other payables	13	4,469,685	3,398,502
Income tax payable	14	1,248,569	–
Derivative financial instruments	18	246,082	403,154
Provisions	16	2,328,902	2,131,928
Other liabilities	17	2,858,889	2,814,699
Total Current Liabilities		11,152,127	8,748,283
Non-current Liabilities			
Trade and other payables	13	61,181	63,359
Borrowings	15	96,237,000	80,000,000
Derivative financial instruments	18	716,010	709,882
Provisions	16	104,032	183,961
Total Non-current Liabilities		97,118,223	80,957,202
TOTAL LIABILITIES		108,270,350	89,705,485
NET ASSETS		53,100,417	41,879,436
EQUITY			
Accumulated surplus		49,342,708	36,421,090
Revaluation reserve		3,757,709	5,458,346
TOTAL EQUITY		53,100,417	41,879,436

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	REVALUATION RESERVE $	ACCUMULATED SURPLUS $	TOTAL EQUITY $
Balance at 1 January 2016	5,458,346	34,412,445	39,870,791
Surplus after income tax	–	2,008,645	2,008,645
Other comprehensive income	–	–	–
Balance at 31 December 2016	5,458,346	36,421,090	41,879,436
Surplus after income tax	–	11,220,981	11,220,981
Transfer to Accumulated Surplus	(1,700,637)	1,700,637	–
Other comprehensive income	–	–	–
Balance at 31 December 2017	3,757,709	49,342,708	53,100,417

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTE	2017 $	2016 $
Cash flows from operating activities			
Receipts from members and customers		48,527,045	48,732,124
Receipts from integration of YHA entities		277,111	136,675
Payments to employees		(19,570,049)	(17,423,608)
Payments to suppliers		(21,375,788)	(21,312,576)
Income taxes paid		–	(4,138)
Interest received		52,509	66,070
Finance costs paid		(3,368,517)	(3,360,287)
Net cash provided by operating activities	26	4,542,311	6,834,260
Cash flows from investing activities			
Purchase of plant, equipment & software		(4,853,853)	(3,827,278)
Purchase of property		–	(4,522,805)
Payment for purchase of businesses net of cash acquired	22	(10,850,000)	(3,697,000)
Development of property		(4,441,264)	(2,164,144)
Proceeds from sale of property, plant & equipment		1,168,464	–
Net cash (used in) investing activities		(18,976,153)	(14,211,227)
Cash flows from financing activities			
(Repayment) of bank borrowings – Westpac		(2,751,812)	–
Proceeds from bank borrowings – ANZ		16,237,000	5,000,000
Net cash provided by financing activities		13,485,188	5,000,000
Net (decrease) in cash and cash equivalents		(948,654)	(2,376,967)
Cash and cash equivalents at the beginning of the year		3,085,709	5,462,676
Cash and cash equivalents at the end of the year	6	2,137,055	3,085,709

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with the Australian Accounting Standards – Reduced Disclosure Requirements and Interpretations issued by the Australian Accounting Standards Board ('AASB'), as appropriate for not for profit orientated entities and the *Corporations Act 2001*. The consolidated financial report of the group as at and for the year ended 31 December 2017 comprises YHA Ltd (the company) and its controlled entities which include Youth Hostels Association of Queensland, YHA Victoria Limited and YHA WA Inc. YHA Ltd is a company limited by guarantee, incorporated and domiciled in Australia. The following is a summary of the material accounting policies adopted by YHA Ltd in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

The financial statements were authorised for issue by the Directors on 3 March 2018.

New, revised or amending Accounting Standards and Interpretations adopted

The group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. No other new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have been early adopted. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group during the year.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2017 reporting period and have not been early adopted by the group. The group is working through the impact of these new standards and interpretations, which include the following:

AASB 1058: Income of Not-for-Profit Entities applicable for financial years commencing on or after 1 January 2019

AASB 1058 replaces the income recognition requirements in AASB 1004: Contributions applicable to private sector not-for-profit entities with a model based on the principles of AASB 15: Revenue from Contracts with Customers. Consequently, AASB 1058 requires private sector not-for-profit entities to recognise all revenue from contracts with customers when the related performance obligations are satisfied, irrespective of whether the ultimate beneficiary of the goods or services provided by the not-for-profit entity is the grantor of the funds or another entity. An agreement involving a not-for-profit entity would be classified as a contract with a customer if the agreement:

– creates enforceable rights and obligations between the parties; and
– includes a promise by the not-for-profit entity to transfer a good or service that is sufficiently specific for the entity to determine when the obligation is satisfied.

For contracts with customers that comprise a donation component, AASB 1058 requires such components to be treated as part of the performance obligation(s) unless the entity can demonstrate that component is not related to the promised goods or services.

When an arrangement does not meet the criteria for a contract with a customer, the inflows are accounted for in accordance with AASB 1058, which requires:

– the asset received by the not-for-profit entity to be accounted for in accordance with the applicable Australian Accounting Standard; and
– any difference between the consideration given for the asset and its fair value to be recognised in accordance with its substance (such as a contract liability, a financial instrument and/or a contribution by owners), and any residual amount recognised as income.

AASB 1058 also permits a not-for-profit entity to recognise volunteer services as an asset or expense (as applicable) and any related contributions by owners or revenue as an accounting policy choice, provided that the fair value of the services can be measured reliably.

Although the directors do not anticipate that the adoption of AASB 1058 will have a material impact on the Group's reported revenue, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 9 Financial Instruments applicable for financial years commencing on or after 1 January 2018

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

AASB 15 Revenue from Contracts with Customers applicable for financial years commencing on or after 1 January 2019

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

AASB 16 Leases applicable for financial years commencing on or after 1 January 2019

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

BASIS OF PREPARATION

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

ACCOUNTING POLICIES

Property Plant & Equipment

Property, plant and equipment are brought to account at cost, less, where applicable, any accumulated depreciation and impairment losses. The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of its recoverable amount. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Profit or Loss and Other Comprehensive Income during the financial period in which they are incurred.

Depreciation

Buildings, plant and equipment are depreciated on a straight line basis over the estimated useful life of the asset to the Company.

The estimated useful lives are:

Freehold Buildings	17 – 50 years
Leasehold Buildings	lesser of the term of the lease agreement and 40 years (except Thredbo where the carrying value is written down over 50 years.)
Plant and Equipment	3 – 8 years
Intangible assets	term of the lease if applicable

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains or losses are included in the Statement of Profit or Loss and Other Comprehensive Income.

Non-current assets or disposal groups classified as held for sale

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below:

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost.

Financial Liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments.

Derivative financial liabilities are recognised at the fair value of interest rate swaps and are calculated as the present value of the estimated future cash flows based on observable yield curves. Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging criteria, they are classified as 'held for trading' for accounting purposes.

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Impairment of Non-Financial Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the assets, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of Profit or Loss and Other Comprehensive Income. Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with maturity dates of six months or less and which are used in the cash management function on a day to day basis. The bank overdraft is excluded from cash because it is part of a term facility.

Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the period in which they are incurred.

Inventories

Inventories are measured at the lower of cost and net realisable value, using the first in first out basis.

Intangibles

Liquor Licence

Liquor licence is tested annually for impairment and is carried at cost less accumulated impairment losses, if any.

Software

Software is recorded at cost. Software has a finite life and is carried at cost less any accumulated amortisation and impairment losses. It has an estimated useful life of between 3 and 5 years. It is assessed annually for impairment.

Goodwill

Goodwill is initially recorded at the amount by which the purchase price for a business exceeds the fair value attributed to its net assets at date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Revenue

Revenue from the provision of services and sale of goods is recognised upon providing the service or on delivery of goods to customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Membership Revenue

Membership Fees are payable on a guest's first stay with YHA in Australia and are either perpetual or expire after a term of 2 years or resignation. Membership Fees are recognised as revenue in the year that the Memberships are sold and are not refundable. Membership fees are also payable for Australians travelling overseas who have not yet stayed at a YHA hostel in Australia.

Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of GST, except where GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST. Cash flows are presented in the Statement of Cash Flows on a gross basis and GST component of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the Taxation Authority, are classified as operating cash flow.

Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred. For each business combination, the non-controlling interest in the acquiree is measured at fair value. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred is recognised as goodwill.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of i) 12 months from the date of the acquisition or ii) when the acquirer receives all the information possible to determine fair value.

Principles of consolidation

Subsidiaries

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax is recognised in profit or loss.

Due to the principle of mutual income, a significant portion of the receipts recognised as income represents amounts received from members and does not represent income of the consolidated entity for income tax purposes.

Employee benefits

i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations
in the balance sheet.

Employee benefits

ii) Other long-term employee benefit obligations

The liabilities for long service leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

Rounding of amounts

The Company is of a kind referred to in the ASIC legislative Instrument 2016/191 relating to 'rounding off' of amounts in the financial report. Amounts have been rounded off in accordance with the instrument to the nearest dollar.

NOTE 2 – CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of property prices, technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives of assets are less than previously estimated or technically obsolete. Non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy earlier stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Deferred Tax Assets

Recovery of tax losses

The consolidated entity does not regard it as appropriate to recognise in its financial statements any possible future income tax benefit arising from the aforementioned tax losses and other timing differences as there is no probability of recovery of these benefits.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

NOTE 3 – REVENUE	2017 $	2016 $
Hostel	37,566,778	37,570,441
Catering	889,276	969,018
Other hostel	2,299,294	2,528,451
Membership	925,223	807,033
Travel & tours commission	705,624	833,447
Rent	1,230,288	1,032,691
Rendering of services	43,616,483	43,741,081
Sundry income	584,579	876,999
Gain on disposal of assets	1,104,818	–
Contribution from integration of YHA entities	14,053,758	619,583
Interest	52,509	67,072
Other Income	15,795,664	1,563,654
Total revenue and other income	59,412,147	45,304,735

Consideration received from the YHA entities in 2017 and 2016 represents the net assets of the YHA Tasmania Inc. of $2,257,236 and YHA WA Inc. of $12,946,522; and in 2016 the net assets of Hostelling International Australia Inc. These net assets have been transferred to YHA Ltd as part of the merger of YHA Tasmania and YHA WA Inc. has been consolidated as a controlled entity of YHA Ltd.

NOTE 4 – EXPENSES

Salaries and wages	16,785,945	16,230,175
Superannuation	1,731,373	1,672,893
Other benefits	1,001,088	921,975
Employee benefits	19,518,406	18,825,043
Depreciation of property plant & equipment	5,003,589	4,733,548
Amortisation of software	410,350	397,524
Depreciation and amortisation	5,413,939	5,131,072
Borrowing costs	130,452	50,625
Bank interest	3,345,717	3,313,206
Fair value (gain) loss on interest rate swaps	(150,944)	(187,404)
Finance costs	3,325,225	3,176,427
Cost of goods sold	951,311	1,083,533
Loss on disposal of assets	43,709	72,762
Operating expenses	7,363,052	6,907,142
Administration, marketing and insurance	5,857,106	4,847,324
Property expenses	3,394,547	3,153,455
Audit	115,302	95,194
Other expenses	17,725,027	16,159,410

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

NOTE 5 – INCOME TAX	2017 $	2016 $
a) Reconciliation of effective tax rate		
Income tax expense using the domestic corporation tax rate of 30% (2016: 30%)	3,366,294	602,594
Add / (subtract) tax effect of:		
Income and expenses exempt under principle of mutuality	(3,472,138)	(602,594)
Recognition of previously unrecognised tax losses	(286,655)	–
Income tax losses not recognised as deferred tax asset	61,821	–
Assessable gain on disposal of property, plant and equipment	1,579,247	–
Prior year under provision for income tax	–	4 ,138
Income tax expense	1,248,569	4,138
b) Principle of mutuality		
The estimated amount of income subject to the mutuality principle is 95% (2016: 95%).		
c) Unrecognised tax losses		
The following tax losses from non-mutual income have not been brought to account as a deferred tax asset:		
YHA Ltd	9,485,144	9,350,445
YHA Queensland	2,478,445	2,407,075
YHA Victoria Limited	–	969,894
Tax losses	11,963,589	12,727,414

The consolidated entity does not regard it as appropriate to recognise in its financial statements any possible future income tax benefit arising from the aforementioned tax losses and other timing differences as there is no probability of recovery of this benefit.

NOTE 6 – CASH AND CASH EQUIVALENTS		
Cash on hand	73,848	65,469
Cash at bank	1,995,892	2,919,224
Cash on deposit	67,315	101,016
	2,137,055	3,085,709

NOTE 7 – TRADE & OTHER RECEIVABLES		
Trade receivables	611,799	523,409
	611,799	523,409

NOTE 8 – INVENTORIES		
Finished goods	54,132	71,307
	54,132	71,307

NOTE 9 – OTHER ASSETS		
Current		
Prepayments	861,189	711,470
	861,189	711,470

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

NOTE 10 – NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE	2017 $	2016 $
Freehold Land and Building		
At cost	9,373,044	–
Less: Accumulated depreciation	(42,521)	–
Total non-current assets classified as held for sale	9,330,523	–

The non-current assets held for sale represents the carrying value of the Melbourne Metro YHA land & buildings for which a contract of sale and lease back was executed in December 2017. The lease is for a 5 year term with two further 5 year options, though the lease includes a termination clause (two years notice) after the first term at the discretion of both the lessor and lessee.

NOTE 11 – PROPERTY, PLANT AND EQUIPMENT

Freehold Land and Buildings		
At cost	121,883,580	107,066,583
Less: Accumulated depreciation	(24,573,190)	(28,605,809)
	97,310,390	78,460,774
Leasehold Land and Buildings		
At cost	50,815,198	47,760,594
Less: Accumulated depreciation	(10,423,951)	(8,890,732)
	40,391,247	38,869,862
Plant and Equipment		
At cost	19,571,485	18,861,223
Less: Accumulated depreciation	(11,440,525)	(11,813,234)
	8,130,960	7,047,989
Total Property, Plant and Equipment	145,832,597	124,378,625
Independent valuations of interest in Land & Buildings		
2017	220,305,000	–
2016	7,500,000	7,500,000
2015	6,025,000	10,625,000
2014	7,700,000	173,960,000
Total	241,530,000	192,085,000

The total independent valuation reports value of $241,530,000 representing 29 freehold and leasehold properties and including the 2017 additions of Cape Byron YHA, Hobart Central YHA and WA hostels excluding Fremantle Prison YHA. The written down value of these properties, which are recorded at cost or deemed cost as at transfer date in the financial report is $145,790,661 and excludes the development in progress at Byron Bay YHA.

NOTE 11 – PROPERTY, PLANT AND EQUIPMENT CONTINUED

The following are movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	2017 $	2016 $
Freehold Land & Buildings		
Balance at the beginning of the year	78,460,774	69,664,489
Additions	1,454,948	5,389,600
Additions through business combination (Note 20)	25,177,335	2,932,899
Additions development work in progress	4,441,264	2,164,144
Disposals	(18,827)	–
Transfers	96,306	428,167
Transfer to non-current assets held for sale	(9,330,523)	–
Impairment	(560,000)	–
Depreciation expense	(2,410,888)	(2,118,525)
Carrying amount at the end of the year	97,310,390	78,460,774
Leasehold Land & Buildings		
Balance at the beginning of the year	38,869,862	39,761,904
Additions	579,837	135,953
Additions through business combination (Note 20)	2,037,148	–
Disposals	–	(3,372)
Transfers	11,520	(681)
Depreciation expense	(1,107,120)	(1,023,942)
Carrying amount at the end of the year	40,391,247	38,869,862
Plant & Equipment		
Balance at the beginning of the year	7,047,989	6,647,359
Additions	2,281,146	2,502,837
Additions through business combination (Note 20)	438,620	–
Disposals	(43,387)	(69,640)
Transfers	(107,826)	(441,486)
Depreciation expense	(1,485,582)	(1,591,081)
Carrying amount at the end of the year	8,130,960	7,047,989

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

NOTE 11 – PROPERTY, PLANT AND EQUIPMENT CONTINUED	2017 $	2016 $
Total		
Balance at the beginning of the year	124,378,625	116,073,752
Additions	4,315,931	8,028,390
Additions through business combination (Note 20)	27,653,103	2,932,899
Additions development work in progress	4,441,264	2,164,144
Disposals	(62,213)	(73,012)
Transfers	–	(14,000)
Transfer to non-current assets held for sale	(9,330,523)	–
Impairment	(560,000)	–
Depreciation expense	(5,003,590)	(4,733,548)
Carrying amount at the end of the year	145,832,597	124,378,625

Revaluation Reserve

The hostel land and buildings of YHA Victoria Limited were adjusted to independent market value over the years 2000 to 2010 and the net balance of the revaluation reserve for these changes was $1,700,637. As the YHA Victoria Limited hostels were transferred to YHA Ltd in 2017 this revaluation reserve has been transferred to accumulated earnings. The hostel land and buildings of YHA South Australia Inc. were adjusted to independent market value over the years 2000 to 2013 and the net balance of the revaluation reserve for these changes was $3,757,709.

NOTE 12 – INTANGIBLE ASSETS

	2017 $	2016 $
Licences – at cost	116,681	116,681
Licences	116,681	116,681
Goodwill – at cost	2,064,101	1,378,965
Goodwill – acquired through business combination (Note 20)	–	764,101
Goodwill – impairment expense	(400,000)	–
Less: accumulated amortisation	–	(78,965)
	1,664,101	2,064,101
Computer software – at cost	3,593,983	3,056,451
Less: accumulated amortisation	(2,831,293)	(2,422,832)
	762,690	633,619
Total intangible assets	2,543,472	2,814,401

The recoverable amount of the Liquor Licence is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 10-year period with the period extending beyond five years extrapolated using an estimated growth rate.

The recoverable amount of the Goodwill is determined together with the cash-generating unit which includes property, plant and equipment and is based on value-in-use calculation.

The following are movements in the carrying amounts for each class of liquor licence, goodwill and computer software between the beginning and the end of the current financial year.

	LICENCES $	GOODWILL $	COMPUTER SOFTWARE $	TOTAL $
Carrying amount at the beginning of the year	116,681	2,064,101	633,619	2,814,401
Additions	–	–	537,421	537,421
Additions through business combinations (Note 20)	–	–	2,000	2,000
Impairment	–	(400,000)	–	(400,000)
Amortisation charge	–	–	(410,350)	(410,350)
Carrying amount at the end of the year	116,681	1,664,101	762,690	2,543,472

NOTE 13 – TRADE AND OTHER PAYABLES

	2017 $	2016 $
Current		
Trade creditors	1,131,178	448,248
Accrued expenses	2,460,158	2,218,320
BAS payable	167,730	281,288
Other payables	552,843	303,670
Deferred revenue	157,776	146,976
	4,469,685	3,398,502
Non-current		
Rental bonds	61,181	63,359
	61,181	63,359

NOTE 14 – INCOME TAX PAYABLE

	2017 $	2016 $
Income tax payable	1,248,569	–
	1,248,569	–

NOTE 15 – BORROWINGS

	2017 $	2016 $
Non-current		
Bank loans	96,237,000	80,000,000
Total Borrowings	96,237,000	80,000,000

1. The ANZ facility consists of a Cash Advance Facility of $98,112,000 for YHA Ltd borrowings which has one and a half years until termination in June 2019. The facility allows prepayment and with any prepayment a permanent reduction in the facility. Prepayments are not required. The ANZ facility includes an overdraft of $750,000 though this is only available during the slower trading months from March to October each year. Also included in this facility amount is a corporate credit card faciltiy of $125,000, facility for electronic payments ($500,000) and bank guarantees ($500,000) for security of leasehold hostel and office properties.
2. The bank facilities are secured by a first ranking fixed and floating charge over all the assets of the group and first ranking mortgages over 24 hostel properties. The covenants within the bank borrowings require the group to maintain the loan to value ratio at less than or equal to 55% and an interest cover ratio of earnings before interest, tax, depreciation and amortisation (EBITDA) less provision for capital expenditure of 4% of hostel revenue over interest expense greater than or equal to 1.4 times. The group complied with the financial covenants of its borrowing facilities during the 2017 and 2016 reporting periods.

The bank facilities as at the balance date are:	2017 $	2016 $
Credit facilities	97,112,000	81,875,000
Amount utilised	96,237,000	80,000,000
Amount unutilised	875,000	1,875,000

The unused credit facilities consist of cash advance facility of $Nil (2016: $1,000,000), bank overdraft $750,000 (2016: $750,000) and corporate card facility $125,000 (2016: $125,000).

Assets Pledged as Security

The carrying amounts of assets pledged as security are:

	2017 $	2016 $
First mortgage and floating charges		
Total assets	161,370,767	131,584,921

NOTE 16 – PROVISIONS

	2017 $	2016 $
Current		
Employee benefits	2,328,902	2,077,928
Onerous contract	–	54,000
	2,328,902	2,131,928
Non-current		
Employee benefits	104,032	183,961
	104,032	183,961
Aggregate liability for employee benefits provision including on-costs		
Employee benefits	2,432,934	2,261,889

	EMPLOYEE ENTITLEMENTS $
Movements In Provisions	
Balance at the beginning of the year	2,261,889
Additions	1,961,309
Transfers	128,827
Amounts utilised	(1,919,091)
Balance at the end of the year	2,432,934

NOTE 17 – OTHER LIABILITIES

	2017 $	2016 $
Current		
Bookings in advance	2,858,889	2,814,699
	2,858,889	2,814,699

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

NOTE 18 – DERIVATIVE FINANCIAL INSTRUMENTS	2017 $	2016 $
The group has the following derivative financial instruments:		
Current		
Interest rate swap contracts – non-hedging	246,082	403,154
Non-current		
Interest rate swap contracts – non-hedging	716,010	709,882
	962,092	1,113,036

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. This classifies them as Level 2 financial instruments. In 2017 the fair value has been determined by reference to the ANZ value of the interest rate swap agreements as at 31 December 2017. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

Derivatives are classified as held for trading and accounted for at fair value through the Statement of Profit or Loss and Other Comprehensive Income unless they are designated as hedges. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period.

NOTE 19 – CONTNGENT LIABILITIES

During the year the Cyclone in Queensland caused damage to the retaining wall at the rear of the Airlie Beach YHA hostel building and an insurance claim will be lodged for the rectification of this wall and other damage caused. If the retaining wall portion of the claim is not accepted YHA will have a contingent liability to complete these works in the order of $300,000 and the hostel may need to adjust its operations during the rectification works.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

NOTE 20 – COMMITMENTS

	2017 $	2016 $
a. Capital commitments		
Capital expenditure commitments contracted for:		
Capital expenditure projects	377,368	515,923
Development of Byron Bay YHA	327,955	3,799,942
	705,323	4,315,865

Commitments for capital expenditure projects will be payable not later than 1 year. The development commitment for Byron Bay YHA represents the remaining commitment for works that will be completed in early 2018 including an estimation for any claims for variations from the contracted amounts as well as an estimation for furniture and fitout not included in the construction contract.

	2017 $	2016 $
b. Operating leases		
Payable not later than 1 year	1,241,782	1,314,067
Later than 1 year but not later than 5 years	4,442,719	1,780,411
Later than 5 years	3,683,358	3,559,467
	9,367,859	6,653,945

Operating leases pertain to properties leased for the provision of accommodation to members, the administration of the entity and IT infrastructure services. The leases typically run for periods up to 5 years with varying terms and renewal options except for Thredbo YHA (to 2057) and Sydney Harbour YHA (to 2108).

c. Other commitments

The Company entered into a Lease Agreement with the Sydney Harbour Foreshore Authority to develop and operate a Youth Hostel and Education Centre is in The Rocks, Sydney. The lease requires a contribution to a sinking fund to be used for the maintenance of The Rocks Big Dig archaeology site which the hostel sits over. This sinking fund is capped at $594,000 with annual CPI adjustments to the contribution per overnights from 2009.

NOTE 21 – RELATED PARTY DISCLOSURES

All transactions between the company and the controlled entities are eliminated on consolidation. There are no other related party transaction occurring during the year. The directors of the company are all directors of the controlled entities. Directors are reimbursed for expenses incurred in attending meetings in accordance with directors' expense policy but are not remunerated, in accordance with the constitution. Disclosures relating to key management personnel are set out in Note 24.

NOTE 22 – BUSINESS COMBINATIONS

On 1 January 2017, YHA Ltd merged with YHA Tasmania resulting in the operations and property assets transferring to YHA Ltd for nil consideration. On 1 September 2017, YHA Ltd merged with YHA WA Inc resulting in YHA Ltd becoming a member of YHA WA Inc. and YHA WA Inc.'s operations were transferred to YHA Ltd. YHA Ltd took effective control of the property, assets and liabilities. On 26 August 2017, YHA Ltd acquired the Cape Byron YHA hostel and 5 retail shops. The 2016 business combination was the acquisition of the Newcastle Beach YHA. Details of the business combinations are as follows:

	CAPE BYRON YHA	YHA TASMANIA	YHA WA	2017 $	2016 $
Cash and cash equivalents	–	267,233	9,878	277,111	–
Trade receivables	–	13,390	52,772	66,162	–
Inventories	–	–	4,898	4,898	–
Prepayments	–	31,585	22,469	54,054	–
Plant and equipment	200,000	19,054	219,566	438,620	–
Land & Buildings	10,650,000	2,427,378	14,137,105	27,214,483	3,135,899
Computer software	–	–	2,000	2,000	–
Trade payables and advance deposits	–	(98,693)	(152,810)	(251,503)	–
Employee benefits	–	(21,428)	(128,827)	(150,255)	–
Borrowings	–	(381,283)	(2,370,529)	(2,751,812)	–
Net assets acquired	10,850,000	2,257,236	11,796,522	24,903,758	3,135,899
Goodwill	–	–	–	–	764,101
Acquisition-date fair value of the total consideration transferred	10,850,000	2,257,236	11,796,522	24,903,758	3,900,000
Representing:					
Cash paid or payable to vendor	10,850,000	–	–	10,850,000	3,900,000
Gain on bargain purchase – balance	–	2,257,236	11,796,522	14,053,758	–
Acquisition costs expensed to profit or loss	493,331	77,985	–	571,316	200,648

NOTE 23 – FINANCIAL INSTRUMENTS

Financial risk management objectives

The consolidated entity's activities expose it to financial risks including interest rate risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses financial instruments such as fixed interest rate contracts to reduce certain interest rate risk exposures. These contracts are exclusively used to minimise interest rate risk, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk and cash flow forecasting for liquidity risk.

Risk management is carried out by senior management, finance executives ('finance') and the Audit & Risk Committee under policies approved by the Board. These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and mitigates financial risks within the consolidated entity and reports to the Board on a monthly basis.

Interest rate risk

The consolidated entity's main interest rate risk arises from long-term borrowings with variable rates, which expose the consolidated entity to cash flow interest rate risk. The policy is to maintain at least 50% and up to 95% of its borrowings at a fixed rate using interest rate swaps to achieve this when necessary.

The consolidated entity manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Under these swaps, the consolidated entity agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Generally, the consolidated entity raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the consolidated entity borrowed at fixed rates directly.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Foreign currency risk

The consolidated entity is not exposed to any significant foreign currency risk.

Price risk

The consolidated entity is not exposed to any significant price risk.

Credit risk

The consolidated entity is not exposed to any significant credit risk.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

NOTE 24 – KEY MANAGEMENT PERSONNEL COMPENSATION

All directors are members of the company and do not receive any remuneration for their services. They are entitled to receive, upon application, discounts no more favourable than those available to all members.

Key management personnel include the directors listed in the Directors' Report, the Chief Executive Officer, Operations (Eastern Region) Manager, Head of Marketing, Chief Financial Officer, Digital and Strategy Leader, Northern Region Manager, Southern Region Manager and Western Region Manager. Total compensation is shown as follows:

	Salary $	Superannuation $	Total $
2017	1,526,697	142,376	1,669,073
2016	1,453,247	132,879	1,586,126

NOTE 25 – PARENT ENTITY INFORMATION

	PARENT ENTITY	
	2017 $	2016 $
Set out below is the supplementary information about the parent entity.		
Statement of comprehensive income		
Surplus after income tax	23,166,840	2,520,283
Total current assets	12,926,281	4,322,008
Total assets	160,079,147	114,326,546
Total current liabilities	9,858,318	3,433,578
Total Liabilities	106,976,541	84,390,780
Equity		
Total equity	53,102,606	29,935,766

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2017.

Capital commitments

The parent entity had capital commitments for property, plant & equipment as at 31 December 2017 of $705,323 and 31 December 2016 of $4,315,865.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed at Note 1.

Subsequent Events

The parent entity has a loan amount receivable from a subsidiary (YHA Victoria Ltd) included in the total assets value disclosed above. Subsequent to year end the parent entity has forgiven the loan balance receivable from YHA Victoria Ltd through a formal deed of forgiveness of debt executed on 3 March 2018. We note that the loan balances are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

NOTE 26 – RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	CONSOLIDATED ENTITY	
	2017 $	2016 $
Surplus after income tax	11,220,981	2,008,645
Non-cash flow in profit		
Depreciation and amortisation	5,413,939	5,131,072
Impairment of property, plant & equipment	560,000	–
Impairment of goodwill	400,000	–
Fair value adjustment to derivatives	(150,944)	(187,404)
(Profit) on sale of property, plant & equipment	(1,104,818)	–
Loss on sale or disposal of property, plant & equipment	43,709	72,762
Contribution from merging YHA entities	(13,776,647)	(604,197)
Changes in assets and liabilities		
(Increase) decrease in receivables	(22,228)	9,274
Decrease (increase) in inventory	71,229	22,050
(Increase) decrease in other assets	(144,821)	(409,872)
Increase (decrease) in payables	772,362	487,465
Increase in provision for income tax payable	1,248,569	–
Increase in provisions	(33,210)	293,115
Increase (decrease) in other liabilities	44,190	11,350
Net cash provided by operating activities	4,542,311	6,834,260

NOTE 27 – INFORMATION TO BE FURNISHED UNDER CHARITABLE FUNDRAISING ACTS

The Company is authorised to fundraise under the Charitable Fundraising Act 1991 (NSW). YHA Queensland is authorised under the Collections Act 1966 (QLD) and YHA Victoria Limited under the Fundraising Appeals Act 1998 (VIC). No charitable fundraising appeals were conducted during the year and as such the Company did not utilise this authority in order to meet its charitable fundraising purposes.

NOTE 28 – EVENTS AFTER REPORTING PERIOD

No matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF YHA LTD
ABN 94 008 387 791

In relation to the independent audit for the year ended 31 December 2017, to the best of my knowledge and belief there have been:

i. no contraventions of the auditor's independence requirements of the *Corporations Act 2001*; and

ii. no contraventions of any applicable code of professional conduct.

This declaration is in respect of YHA Ltd and the entities it controlled during the year.

Melissa Alexander

M A ALEXANDER
Partner

PITCHER PARTNERS
Sydney

3 March 2018

DIRECTORS' DECLARATION

The Directors of YHA Ltd declare that:

1. The financial statements and notes, as set out on pages 12 to 36, are in accordance with the Corporations Act 2001:
   a. Comply with Accounting Standards – Reduced Disclosure Requirements and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   b. Give a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the financial year ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. Charitable Fundraising Act 1991 (New South Wales (NSW))

   The financial operations of the Group are in accordance with the Charitable Fundraising Act 1991 (the Act), Including:

   i. the financial report of the Group shows a true and fair view of the financial results of fundraising appeals for the year ended 31 December 2017;
   ii. the financial report and associated records of the Group have been properly kept during the year in accordance with the Act;
   iii. money received as a result of fundraising appeals conducted during the year ended 31 December 2017 has been properly accounted for and applied in accordance with the Act; and
   iv. as at the date of this statement there are reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due.

This declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Directors.

Robert McGuirk	Leonie Clark
Director	Director
3 March 2018	3 March 2018

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF YHA LTD
ABN 94 008 387 791

Report on the Financial Report

Opinion

We have audited the financial report of YHA Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors declaration.

In our opinion, the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the year ended on that date; and

b) complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulations 2001.*

Also in our opinion, the financial report gives a true and fair view with the provisions of the *Charitable Fundraising Act 1991 (NSW),* the *Fundraising Appeals Act 1998 (VIC)* and the *Collections Act 1966 (QLD)*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Directors report for the year ended 31 December 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially consistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Melina Alexander
M A ALEXANDER
Partner

Pitcher Partners
PITCHER PARTNERS
Sydney

3 March 2018

OUR MISSION

To provide opportunity for all, but especially young people, for education by personal development, fostering friendship and bringing about a better understanding of others and the world around them.

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