YHA LTD

ANNUAL REPORT

2018

YHA AUSTRALIA

HOSTELLING INTERNATIONAL

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

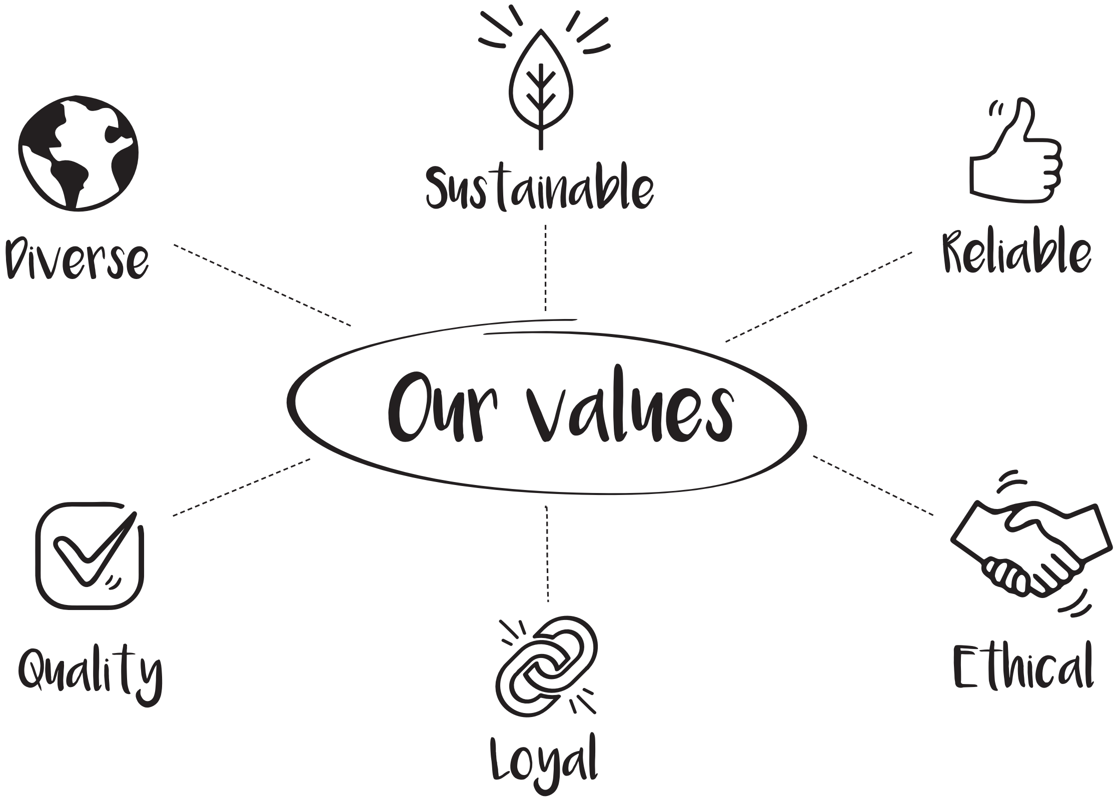
COVER: PERTH CITY YHA HAD AN INTERIOR REFRESH, THANKS TO A GENEROUS BEQUEST
INSIDE COVER: GUESTS LOVED THE NEW EXTENSION AND RENOVATION AT BYRON BAY YHA

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 71 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

The past year, 2018, was the first for YHA Australia as a fully merged, national organisation, enabling the provision of seamless services to our members across the country.

Overall, our network of 71 unique places to stay generated over 1.6 million overnight stays, bringing together guests from 186 countries to share accommodation and travel experiences throughout Australia.

YHA is proudly a not-for-profit organisation, continuously reinvesting in improving our properties and services. In April, a carefully designed new extension opened at Byron Bay YHA – located at the most easterly point in Australia – which immediately proved popular with guests from around the world.

Several hostels were honoured at the 2018 Adventure Tourism Awards, including Noosa Halse Lodge YHA winning 'Best Accommodation in Australia' and Queensland, whilst Adelaide Central YHA won the award for South Australia, Melbourne Central YHA for Victoria, and Fremantle Prison YHA – located in a UNESCO World Heritage convict site – won for WA.

Following the introduction of a new 'Simple Affordable Membership' model the year prior, we saw strong growth in the number of members, rising to 260,558 by year end. To assist members with booking their accommodation while travelling, a new YHA mobile app with booking functionality was launched at year end, with promising uptake.

To share expertise, we hosted an Asia Pacific Marketing Forum in Sydney, which was well-attended by colleagues from several member countries and the international office of Hostelling International (HI) – the global organisation of which YHA is a member.

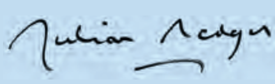
Financially, on a turnover of $45.7 million, after one-off adjustments, we recorded an operating deficit of $2.35 million (2017 was a deficit of $1.11 million). Earnings before interest, tax, depreciation and amortisation totalled $7.25 million (2017: $7.05 million).

L TO R: JULIAN LEDGER (CEO) AND EUAN PRENTICE (CHAIR)

During the year we welcomed a new Director to the Board, Simon Spicer, with specific finance and strategy expertise. Long-standing Director, Rob McGuirk, stood down as Chair after five years in the role (although remaining on the Board) to focus on his newly elected role as President of Hostelling International. The new Chair (Euan Prentice) is joined by new Vice Chair (Michael McPhail), who brings governance and marketing experience, and a youthful perspective.

Together with the management team, our Board is focussed on the strategy of providing quality, sustainable accommodation and associated activities at our network of youth hostels around Australia, with a particular emphasis on carrying out our mission of 'education through travel'.

Thanks go to all our Directors, staff, members and industry partners, for helping us to deliver on this mission throughout the past year.



Julian Ledger
CEO

Euan Prentice
Chair

OUR HIGHLIGHTS

UNIFICATION

First full year of merged, national organisation (trading as YHA Australia)

DEVELOPMENT

Opening of successful extension at Byron Bay YHA, with increased visitation

AWARDS

YHA honoured with several wins at the 2018 Adventure Tourism Awards, including Noosa Halse Lodge YHA for 'Best Accommodation in Australia'

MEMBERSHIP

Growth to 260,558 members under 'Simple Affordable Membership' model

ADVOCACY

Representations to State and Federal governments on issues of concern to travellers, including reciprocal Working Holiday Maker visa scheme

INTERNATIONAL

Election of YHA Australia Director, Rob McGuirk, to President of Hostelling International

YHA SCOOPED UP AT THE ADVENTURE TOURISM AWARDS

YHA ACCOMMODATION

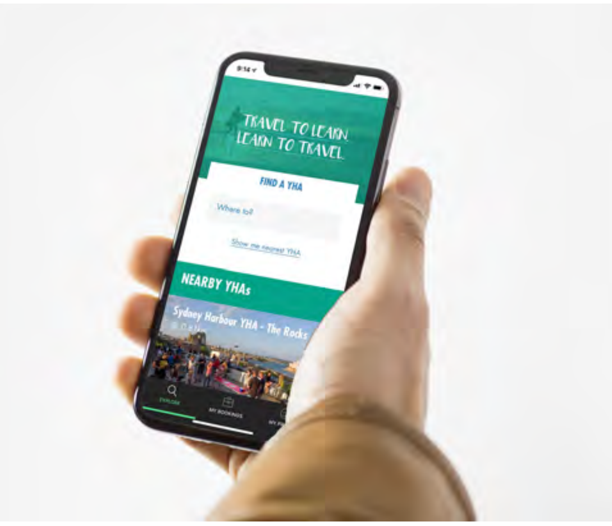
YHA won 'Best Accommodation' in the State at the 2018 Adventure Tourism Awards for Adelaide Central YHA (South Australia), Melbourne Central YHA (Victoria), Fremantle Prison YHA (WA) and Noosa Halse Lodge YHA (Queensland – also won the national award)

An average of 4,475 people accommodated across Australia each night

Total number of overnight stays of 1,633,552 (1,620,799 in 2017) across the country

Increase in number of guests from South America, with rise in visa caps

Historic Perth City YHA building given a design-focussed interior refresh using a bequest, and Bibbulmun Track Foundation co-located within the property providing marketing synergies



A NEW MOBILE APP WAS LAUNCHED

MARKETING AND DIGITAL

Launch of new YHA app with booking functionality with early take up promising

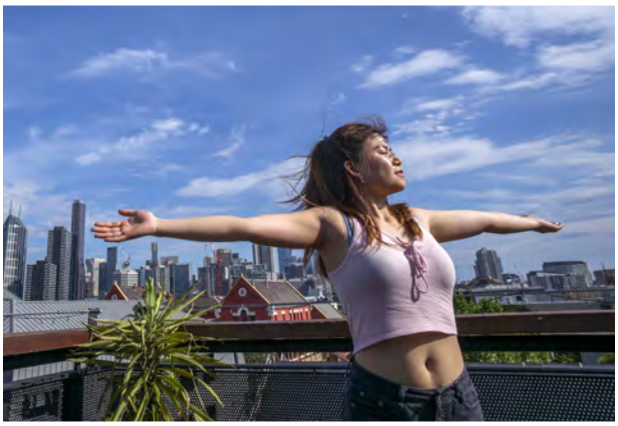
Partnerships with organisations, including tourism and student bodies

Further growth in usage by Australian and international groups through direct marketing

Hosting of Hostelling International Asia Pacific Marketing Forum in Sydney

Positive coverage in range of media including TV, print and digital

YHA Australia's Head of Marketing, Janet McGarry, named an 'Industry Legend' at the 2018 Adventure Tourism Awards



MORE GUESTS WERE HOSTED ACROSS THE NETWORK, INCLUDING AT MELBOURNE METRO YHA (PICTURED)

FINANCE

Total operating turnover of $45.8M ($44.2M in 2017)

Earnings before interest, taxation, depreciation and amortisation (EBITDA) of $7.25M ($7.05M in 2017)

Operating deficit of $0.8M ($11.22M surplus in 2017 – consideration received from merging entities contributed to result)

Normalised result of deficit of $2.35M ($2.64M normalised deficit in 2017)

GOVERNANCE

The Board operated with nine Directors (including two appointed) and three sub committees, with meetings taking place in Adelaide, Blue Mountains, Byron Bay, Melbourne and Sydney

Remuneration for Directors introduced from AGM in April 2018, which is appropriate for the national scale of the organisation and will assist with recruiting and retaining a skills-based Board

Rob McGuirk stood down after serving five years as Chair, with new Chair (Euan Prentice) and Vice Chair (Michael McPhail) elected in December 2018

YHA DIRECTOR ROB MCGUIRK WAS ELECTED PRESIDENT OF HOSTELLING INTERNATIONAL (HI) – THE GLOBAL NETWORK OF 4,000 YOUTH HOSTELS IN 90 COUNTRIES

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

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 2018.

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

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.		Term ended in April 2018
Leonie Isabelle Clark	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.		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. Current Hostelling International President (since October 2018) and former Vice President. Lawyer, Property Manager, IT Consultant.	Chair to December 2018, and Chair of Election Committee to April 2018	April 2019
Matthew Craig McNeil	BArch (Hons), GAICD	YHA member since 1988. Architect.		April 2019
Michael James McPhail	BSc (Hons), GAICD	YHA member since 2011. Former member of YHA WA Inc. Board, held role of Vice Chair. Management consultant.	Vice Chair from December 2018	Appointed on 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 and Chair of Election Committee from April 2018	April 2021
Euan Gordon Prentice	BCom, A Fin	YHA member since 2009. Owner of capital markets research business.	Vice Chair to December 2018, Chair from December 2018	April 2021
Simon Paul Spicer	BEc, CA, GAICD	YHA member since 2018. Finance and Strategy Executive.		Appointed on 1 September 2018 to April 2020

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
Leonie Clark	8	8	6	6
Bronwyn Dallow	8	7	10	10
Ross McDougall	8	8	6	6
Robert McGuirk	8	8	5	5
Matthew McNeil	8	7	5	5
Michael McPhail	8	8	4	4
Tracey Powell	8	5	5	3
Euan Prentice	8	6	7	4
Simon Spicer	3	2	1	–
Robyn Antill	1	1	1	1

The above meeting attendance is for YHA Ltd. Youth Hostels Association of Queensland (YHA Queensland) also held 2 Board meetings, YHA Victoria Limited held 2 Board meetings and YHA WA Pty Ltd (formerly YHA WA Inc.) held 1 Board meeting during the year. 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.

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 deficit after tax for the financial year ended 31 December 2018 was $818,723 (2017 surplus of $11,220,981). Revenue for the current year includes operations for Cape Byron Bay YHA and WA hostels for 12 months, whereas the prior year included only 4 months. The Byron Bay YHA extension was completed early in the year and opened in March 2018. The Melbourne Metro YHA was sold and leased back in March 2018 and the proceeds of the sale used to amortise borrowings by $10,000,000.

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 2018 for operated hostels was 64.2% (2017 65.3%), 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 Pty Ltd (formerly YHA WA Inc. and property owner).

Revenue increased over the prior year with the additional hostel capacity, though like for like revenue was lower with lower average bed rates compared to last year due to keen price competition in a soft market for international visitors including working holiday makers. Australian guest nights were higher than last year mostly from improvements in group stays. Membership sales reduced as expected as systems to enable all guests to join more easily and remain members were simplified and membership was made more affordable.

Development of the larger Byron Bay YHA was completed according to plan and opened slightly behind the project schedule in March 2018. Melbourne Metro YHA was sold and leased back in accordance with the development strategy for the Melbourne location. Two regional hostels at Esperance and Port Elliot changed from a lease operation to a service contract model of operations.

DIRECTORS' REPORT

CONTINUED

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

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 2018.

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 36.

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.

Euan Prentice	Leonie Clark
Director	Director
23 February 2019	23 February 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTE	2018 $	2017 $
Revenue or other income			
Rendering of services	3	45,084,616	43,616,483
Other income	3	2,274,592	15,795,664
	3	47,359,208	59,412,147
Expenses			
Employee benefits expense	4	(20,580,943)	(19,518,406)
Depreciation & amortisation expense	4	(5,702,458)	(5,413,939)
Impairment expense	11,12	–	(960,000)
Finance costs	4	(3,904,221)	(3,325,225)
Other expenses	4	(17,985,391)	(17,725,027)
		(48,173,013)	(46,942,597)
Deficit / (surplus) before income tax		**(813,805)**	**12,469,550**
Income tax (expense)	5	(4,918)	(1,248,569)
Deficit / (surplus) after income tax		(818,723)	11,220,981
Other comprehensive income		–	–
Total Comprehensive Income		(818,723)	11,220,981

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	NOTE	2018 $	2017 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	2,053,494	2,137,055
Trade and other receivables	7	635,274	611,799
Inventories	8	52,452	54,132
Other current assets	9	957,679	861,189
Non-current assets classified as held for sale	10	–	9,330,523
Total Current Assets		3,698,899	12,994,698
Non-current Assets			
Property, plant and equipment	11	144,733,694	145,832,597
Intangible assets	12	2,570,325	2,543,472
Total Non-current Assets		147,304,019	148,376,069
TOTAL ASSETS		151,002,918	161,370,767
LIABILITIES			
Current Liabilities			
Trade and other payables	13	3,789,763	4,469,685
Income tax payable	14	–	1,248,569
Derivative financial instruments	18	429,070	246,082
Provisions	16	2,164,376	2,328,902
Other liabilities	17	3,045,129	2,858,889
Total Current Liabilities		9,428,338	11,152,127
Non-current Liabilities			
Trade and other payables	13	45,192	61,181
Borrowings	15	88,237,000	96,237,000
Derivative financial instruments	18	862,327	716,010
Provisions	16	148,367	104,032
Total Non-current Liabilities		89,292,886	97,118,223
TOTAL LIABILITIES		98,721,224	108,270,350
NET ASSETS		52,281,694	53,100,417
EQUITY			
Accumulated surplus		48,523,985	49,342,708
Revaluation reserve		3,757,709	3,757,709
TOTAL EQUITY		52,281,694	53,100,417

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	REVALUATION RESERVE $	ACCUMULATED SURPLUS $	TOTAL EQUITY $
Balance at 1 January 2017	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
Deficit after income tax	–	(818,723)	(818,723)
Other comprehensive income	–	–	–
Balance at 31 December 2018	3,757,709	48,523,985	52,281,694

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTE	2018 $	2017 $
Cash flows from operating activities			
Receipts from members and customers		52,082,340	48,527,045
Receipts from integration of YHA entities		–	277,111
Other receipts		135,040	–
Payments to employees		(20,719,566)	(19,570,049)
Payments to suppliers		(25,022,497)	(21,375,788)
Income taxes paid		(1,253,487)	–
Interest received		51,926	52,509
Finance costs paid		(3,597,716)	(3,368,517)
Net cash provided by operating activities	25	1,676,040	4,542,311
Cash flows from investing activities			
Purchase of plant, equipment & software		(4,793,854)	(4,853,353)
Payment for purchase of businesses, net of cash acquired	21	–	(10,850,000)
Development of property		–	(4,441,264)
Proceeds from sale of property, plant & equipment		11,034,253	1,168,464
Net cash provided by / (used in) investing activities		6,240,399	(18,976,153)
Cash flows from financing activities			
(Repayment) of bank borrowings		(10,000,000)	(2,751,812)
Proceeds from bank borrowings		2,000,000	16,237,000
Net cash (used in) / provided by financing activities		(8,000,000)	13,485,188
Net (decrease) in cash and cash equivalents		(83,561)	(948,654)
Cash and cash equivalents at the beginning of the year		2,137,055	3,085,709
Cash and cash equivalents at the end of the year	6	2,053,494	2,137,055

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018 comprises YHA Ltd (the company) and its controlled entities which include Youth Hostels Association of Queensland, YHA Victoria Limited and YHA WA Pty Ltd (formerly 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 23 February 2019.

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.

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.

Going concern

Notwithstanding the Group's net deficiency of current assets, the financial report has been prepared on a going concern basis. The Directors believe that the group is a going concern and is able to pay its debts as and when they fall due. This is supported by cashflow forecasts and bank facilities currently in place.

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

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

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.

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 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 2018 (CONTINUED)

NOTE 3 – REVENUE	2018 $	2017 $
Hostel	39,176,776	37,566,778
Catering	976,509	889,276
Other hostel	2,245,376	2,299,294
Membership	606,180	925,223
Travel & tours commission	667,898	705,624
Rent	1,411,877	1,230,288
Rendering of services	45,084,616	43,616,483
Sundry income	650,613	584,579
Gain on disposal of property, plant & equipment	1,572,053	1,104,818
Contribution from integration of YHA entities	–	14,053,758
Interest	51,926	52,509
Other income	2,274,592	15,795,664
Total revenue and other income	47,359,208	59,412,147

The gain on disposal of property was from the sale of Melbourne Metro YHA, the hostel was leased back for 5 years. Consideration received from the YHA entities in 2017 represents the net assets of the YHA Tasmania Inc. of $2,257,236 and YHA WA Inc. of $11,796,522. 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	17,585,493	16,785,945
Superannuation	1,779,228	1,731,373
Other benefits	1,216,222	1,001,088
Employee benefits	20,580,943	19,518,406
Depreciation of property plant & equipment	5,301,833	5,003,589
Amortisation of software	400,625	410,350
Depreciation and amortisation	5,702,458	5,413,939
Borrowing costs	43,755	130,452
Bank interest	3,531,161	3,345,717
Fair value loss / (gain) on interest rate swaps	329,305	(150,944)
Finance costs	3,904,221	3,325,225
Cost of goods sold	973,915	951,311
Loss on disposal of property, plant & equipment	31,767	43,709
Operating expenses	7,814,068	7,363,052
Administration, marketing and insurance	5,506,847	5,857,106
Property expenses	3,553,642	3,394,547
Audit	105,152	115,302
Other expenses	17,985,391	17,725,027

NOTE 5 – INCOME TAX

	2018 $	2017 $
a) Reconciliation of effective tax rate		
Income tax expense using the domestic corporation tax rate of 30% (2017: 30%)	(245,617)	3,366,294
Add / (subtract) tax effect of:		
Income and expenses exempt under principle of mutuality	245,617	(3,472,138)
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
Income tax expense	–	1,248,569

b) Principle of mutuality

The estimated amount of income subject to the mutuality principle is 95% (2017: 95%).

c) Unrecognised tax losses

The following tax losses from non-mutual income have not been brought to account as a deferred tax asset:

	2018 $	2017 $
YHA Ltd	11,919,071	9,485,144
YHA Queensland	2,541,771	2,478,445
YHA WA Pty Ltd	1,777,771	–
Tax losses	16,238,613	11,963,589

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

	2018 $	2017 $
Cash on hand	72,803	73,848
Cash at bank	1,920,339	1,995,892
Cash on deposit	60,352	67,315
	2,053,494	2,137,055

NOTE 7 – TRADE & OTHER RECEIVABLES

	2018 $	2017 $
Trade receivables	635,274	611,799
	635,274	611,799

NOTE 8 – INVENTORIES

	2018 $	2017 $
Finished goods	52,452	54,132
	52,452	54,132

NOTE 9 – OTHER ASSETS

	2018 $	2017 $
Current		
Prepayments	957,679	861,189
	957,679	861,189

NOTE 10 – NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE	2018 $	2017 $
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 in 2017 represented 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	124,122,764	121,883,580
Less: Accumulated depreciation	(28,208,989)	(24,573,190)
	95,913,775	97,310,390
Leasehold Land and Buildings		
At cost	51,282,421	50,815,198
Less: Accumulated depreciation	(11,672,779)	(10,423,951)
	39,609,642	40,391,247
Plant and Equipment		
At cost	21,998,760	19,571,485
Less: Accumulated depreciation	(12,788,483)	(11,440,525)
	9,210,277	8,130,960
Total Property, Plant and Equipment	144,733,694	145,832,597

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:

	2018 $	2017 $
Freehold Land & Buildings		
Balance at the beginning of the year	97,310,390	78,460,774
Additions	1,388,520	1,454,948
Additions through business combination (Note 21)	–	25,177,335
Additions development work in progress	–	4,441,264
Disposals	–	(18,827)
Transfers to intangibles	(293,300)	96,306
Transfer to non-current assets held for sale	–	(9,330,523)
Impairment expense	–	(560,000)
Depreciation expense	(2,491,835)	(2,410,886)
Carrying amount at the end of the year	95,913,775	97,310,390
Leasehold Land & Buildings		
Balance at the beginning of the year	40,391,247	38,869,862
Additions	467,223	579,837
Additions through business combination (Note 21)	–	2,037,148
Transfers	–	11,520
Depreciation expense	(1,248,828)	(1,107,120)
Carrying amount at the end of the year	39,609,642	40,391,247
Plant & Equipment		
Balance at the beginning of the year	8,130,960	7,047,989
Additions	2,522,528	2,281,146
Additions through business combination (Note 21)	–	438,620
Disposals	(163,445)	(43,387)
Transfers to intangibles	281,405	(107,826)
Depreciation expense	(1,561,171)	(1,485,582)
Carrying amount at the end of the year	9,210,277	8,130,960

NOTE 11 – PROPERTY, PLANT AND EQUIPMENT CONTINUED	2018 $	2017 $
Total		
Balance at the beginning of the year	145,832,597	124,378,625
Additions	4,378,271	4,315,931
Additions through business combination (Note 21)	–	27,653,103
Additions development work in progress	–	4,441,264
Disposals	(163,445)	(62,215)
Transfers to intangibles	(11,895)	–
Transfer to non-current assets held for sale	–	(9,330,523)
Impairment expense	–	(560,000)
Depreciation expense	(5,301,834)	(5,003,589)
Carrying amount at the end of the year	144,733,694	145,832,597

NOTE 12 – INTANGIBLE ASSETS

	2018 $	2017 $
Licences – at cost	116,681	116,681
Licences	116,681	116,681

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.

	2018 $	2017 $
Goodwill – at cost	2,064,101	2,064,101
Goodwill – impairment expense	(400,000)	(400,000)
	1,664,101	1,664,101

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.

	2018 $	2017 $
Computer software – at cost	4,021,640	3,593,983
Less: accumulated amortisation	(3,232,097)	(2,831,293)
	789,543	762,690
Total intangible assets	2,570,325	2,543,472

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	1,664,101	762,690	2,543,472
Additions	–	–	415,583	415,583
Transfers from property, plant and equipment	–	–	11,895	11,895
Amortisation charge	–	–	(400,625)	(400,625)
Carrying amount at the end of the year	116,681	1,664,101	789,543	2,570,325

NOTE 13 – TRADE AND OTHER PAYABLES

	2018 $	2017 $
Current		
Trade creditors	494,769	1,131,178
Accrued expenses	2,152,642	2,460,158
BAS payable	352,910	167,730
Other payables	665,303	552,843
Deferred revenue	124,139	157,776
	3,789,763	4,469,685
Non-current		
Rental bonds	45,192	61,181
	45,192	61,181

NOTE 14 – INCOME TAX PAYABLE

	2018 $	2017 $
Income tax payable	–	1,248,569
	–	1,248,569

NOTE 15 – BORROWINGS

	2018 $	2017 $
Non-current		
Bank loans	88,237,000	96,237,000
Total Borrowings	88,237,000	96,237,000

1. The ANZ facility consists of a Cash Advance Facility of $93,387,000 for YHA Ltd borrowings which has four years until termination in January 2023. 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; a facility for corporate credit cards of $200,000, a facility for electronic payments ($500,000) and bank guarantees ($700,000) for security of leasehold hostel and office properties. There is an undrawn development facility for $3,000,000.
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 23 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 2018 and 2017 reporting periods.

The bank facilities as at the balance date are:	2018 $	2017 $
Credit facilities	92,187,000	97,112,000
Amount utilised	88,237,000	96,237,000
Amount unutilised	3,950,000	875,000

The unused credit facilities consist of cash advance facility of $3,000,000 (2017: $Nil), bank overdraft $750,000 (2017: $750,000) and corporate card facility $200,000 (2017: $125,000).

NOTE 15 – BORROWINGS CONTINUED	2018 $	2017 $
Assets Pledged as Security		
The carrying amounts of assets pledged as security are:		
First mortgage and floating charges		
Total assets	151,002,918	161,370,767
Independent valuations of interest in Land & Buildings		
2018	29,455,000	–
2017	206,405,000	220,305,000
2016	4,200,000	7,500,000
2015	825,000	6,025,000
2014	–	7,700,000
Total	240,885,000	241,530,000

The total independent valuation reports value of $240,885,000 representing 28 freehold and leasehold properties and including the 2018 updates for the extended Byron Bay YHA, Newcastle Beach YHA, Pittwater YHA, Thredbo YHA, Alice Springs YHA and Airlie Beach YHA. A value for WA hostel at Fremantle Prison YHA has been included. The written down value of these properties, which are recorded at cost or deemed cost as at transfer date in the financial report is $140,056,820.

NOTE 16 – PROVISIONS

	2018 $	2017 $
Current		
Employee benefits	2,164,376	2,328,902
	2,164,376	2,328,902
Non-current		
Employee benefits	148,367	104,032
	148,367	104,032
Aggregate liability for employee benefits provision including on-costs:		
Employee benefits	2,312,743	2,432,934

	EMPLOYEE ENTITLEMENTS $
Movements in provisions	
Balance at the beginning of the year	2,432,934
Additions	1,946,792
Amounts utilised	(2,066,983)
Balance at the end of the year	2,312,743

NOTE 17 – OTHER LIABILITIES	2018 $	2017 $
Current		
Bookings in advance	3,045,129	2,858,889
	3,045,129	2,858,889

NOTE 18 – DERIVATIVE FINANCIAL INSTRUMENTS

The group has the following derivative financial instruments:

	2018 $	2017 $
Current		
Interest rate swap contracts – non-hedging	429,070	246,082
Non-current		
Interest rate swap contracts – non-hedging	862,327	716,010
	1,291,397	962,092

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 2018 the fair value has been determined by reference to the ANZ Bank value of the interest rate swap agreements as at 31 December 2018. 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

NOTE 19 – COMMITMENTS	2018 $	2017 $
a. Capital commitments		
Capital expenditure commitments contracted for:		
Capital expenditure projects	356,455	377,368
Development of Byron Bay YHA	–	327,955
	356,455	705,323

Commitments for capital expenditure projects will be payable not later than 1 year.

b. Operating leases

Payable not later than 1 year	1,253,788	1,241,782
Later than 1 year but not later than 5 years	3,720,675	4,442,719
Later than 5 years	3,317,109	3,683,358
	8,291,572	9,367,859

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), Sydney Harbour YHA (to 2108) and Fremantle Prison YHA (to 2024).

c. Other commitments

The Company has a Lease Agreement with the Sydney Harbour Foreshore Authority to operate a Youth Hostel and Education Centre 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 $605,000 and increases annually by CPI adjustment as does the contribution per overnight since 2009.

NOTE 20 – RELATED PARTY DISCLOSURES

All transactions between the company and its controlled entities are eliminated on consolidation. There were no other related party transactions 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 and from the April 2018 Annual General Meeting have been remunerated, in accordance with the constitution. Disclosures relating to key management personnel are set out in Note 23.

NOTE 21 – BUSINESS COMBINATIONS

There were no business combinations in 2018. The 2017 business combinations were: 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 resulting in YHA Ltd becoming a member of YHA WA and YHA WA'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.

	2018 $	2017 $
Cash and cash equivalents	–	277,111
Trade receivables	–	66,162
Inventories	–	4,898
Prepayments	–	54,054
Plant and equipment	–	438,620
Land & Buildings	–	27,214,483
Computer software	–	2,000
Trade payables and advance deposits	–	(251,503)
Employee benefits	–	(150,255)
Borrowings	–	(2,751,812)
Net assets acquired	–	24,903,758
Goodwill	–	–
Acquisition-date fair value of the total consideration transferred	–	24,903,758
Representing:		
Cash paid or payable to vendor	–	10,850,000
Gain on bargain purchase – balance	–	14,053,758
Acquisition costs expensed to profit or loss	–	571,316

NOTE 22 – 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.

NOTE 23 – KEY MANAGEMENT PERSONNEL COMPENSATION

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:

Key management personnel – excluding directors

	SALARY $	SUPERANNUATION $	TOTAL $
2018	1,621,969	152,327	1,774,296
2017	1,526,697	142,376	1,669,073

Directors

2018	54,792	5,205	59,998
2017	–	–	–

All directors are members of the company and from the April 2018 Annual General Meeting began receiving remuneration for their services. They are also entitled to receive, upon application, discounts no more favourable than those available to all members and expense reimbursements for travel costs for attending meetings and training approved by the Company.

The directors remuneration is $10,000 per annum plus superannuation per director and is paid pro-rata for Directors who join after the AGM. Additional remuneration of $2,500 plus superannuation is also paid to Directors who hold the office of Vice Chair and Committee Chairs. Additional remuneration of $5,000 plus superannuation for the Chair (note: the Chair chose to forego the remuneration to December 2018).

Key management personnel – including directors

2018	1,676,761	157,532	1,834,293
2017	1,526,697	142,376	1,669,073

NOTE 24 – PARENT ENTITY INFORMATION

	PARENT ENTITY 2018 $	2017 $
Set out below is the supplementary information about the parent entity.		
Statement of comprehensive income		
Surplus after income tax	(18,491,155)	23,166,840
Total current assets	3,625,260	12,926,281
Total assets	133,302,300	160,079,147
Total current liabilities	9,397,927	9,858,318
Total Liabilities	98,693,180	106,976,541
Equity		
Total equity	34,609,120	53,102,606

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2018.

Capital commitments

The parent entity had capital commitments for property, plant & equipment as at 31 December 2018 of $356,455 and 31 December 2017 of $705,323.

Significant accounting policies

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

NOTE 25 – RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	CONSOLIDATED ENTITY	
	2018 $	2017 $
(Deficit) / surplus after income tax	(818,723)	11,220,981
Non-cash flow in (deficit) / surplus		
Depreciation and amortisation	5,702,280	5,413,939
Impairment of property, plant & equipment	–	560,000
Impairment of goodwill	–	400,000
Fair value adjustment to derivatives	329,305	(150,944)
(Profit) on sale of property, plant & equipment	(1,572,053)	(1,104,818)
Loss on sale or disposal of property, plant & equipment	31,767	43,709
Contribution from merging YHA entities	–	(13,776,647)
Changes in assets and liabilities		
(Increase) decrease in receivables	(23,475)	(22,228)
Decrease (increase) in inventory	1,680	71,229
(Increase) decrease in other assets	(96,490)	(144,821)
(Decrease) increase in payables	(822,976)	772,362
(Decrease) increase in provision for income tax payable	(1,248,569)	1,248,569
(Decrease) increase in provisions	(120,186)	(33,210)
Increase (decrease) in other liabilities	313,479	44,190
Net cash provided by operating activities	1,676,040	4,542,311

NOTE 26 – INFORMATION TO BE FURNISHED UNDER CHARITABLE FUNDRAISING ACTS

The Company is authorised to fundraise under the Charitable Fundraising Act 1991 (NSW). 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 27 – EVENTS AFTER REPORTING PERIOD

No matter or circumstance has arisen since 31 December 2018 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 2018, 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.

Melina Alexander

M A ALEXANDER
Partner

PITCHER PARTNERS
Sydney

23 February 2019

DIRECTORS' DECLARATION

The Directors of YHA Ltd declare that:

1. The financial statements and notes, as set out on pages 16 to 35, are in accordance with the Corporations Act 2001, and:
    a. Comply with Australian 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 2018 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 Company are in accordance with the Charitable Fundraising Act 1991 (the Act), including:

    i. the financial report shows a true and fair view of the financial results of fundraising appeals for the year ended 31 December 2018;
    ii. the financial report and associated records 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 2018 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.

Euan Prentice
Director
23 February 2019

Leonie Clark
Director
23 February 2019

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 2018, 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 2018 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.

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

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 2018, 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.

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

- 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

23 February 2019

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.

YHA LTD
Level 3, 9 Castlereagh Street, Sydney NSW 2000
Tel: (02) 9261 1111 Fax: (02) 9261 1969 Email: yha@yha.com.au

NORTHERN REGION OFFICE
Level 3, Bowman House,
276 Edward Street
Brisbane, Queensland 4000
Tel: (07) 3236 4999

SOUTHERN REGION OFFICE
562 Flinders Street
Melbourne VIC 3000
Tel: (03) 9670 3802

WESTERN REGION OFFICE
300 Wellington St
Perth WA 6000
Tel: (08) 9366 3000

YHA.COM.AU

FREMANTLE PRISON YHA (PICTURED) WON 'BEST ACCOMMODATION IN WA' AT THE ADVENTURE TOURISM AWARDS