YHA LTD

ANNUAL REPORT

2016

CONTENTS

COVER: THE FAÇADE AT MELBOURNE CENTRAL YHA HAD A FACELIFT

PLANNING THE NEXT TRIP ON THE ROOFTOP OF CANBERRA CITY YHA

INTRODUCTION


L TO R: ROB MCGUIRK (CHAIR) AND JULIAN LEDGER (CEO)

Dear Members & Friends

For YHA in Australia, 2016 was a year of integration, strategic planning and hostel development.

We integrated the former national body, Hostelling International Australia (HI-A) into YHA Ltd, and the members of YHA Tasmania voted to merge into YHA Ltd with effect from 1 January 2017. A Memorandum of Understanding was entered into with the Board of YHA WA, with the aim of merging into YHA Ltd in the second half of 2017 subject to a positive vote by WA members. At the 2016 AGM we made modifications to the Constitution to assist with modernising the organisation and improving its governance.

A National Strategic Planning conference was held in July 2016 in the Barossa Valley in South Australia, resulting in a new Strategic Plan to guide the organisation to 2020. We represented YHA Australia at the biennial Hostelling International conference held in the UK in September 2016 and provided input into the management of the global organisation.

We continued to provide a high quality network of hostels in NSW, Victoria, Queensland, South Australia, NT and the ACT. Our network of 57 hostels generated 1,434,136 overnight stays, with our guests coming from over 180 countries.

We currently have 35,262 individual and group members, and a further 19,909 international visitors who joined while travelling in Australia. During the year we undertook a creative refresh to revitalise YHA's brand and appeal to young 'Discovery Seekers'.

FINANCE

There was a significant improvement in the financial result in 2016 from that in 2015. This was primarily due to increased occupancy in the hostel network, particularly in Sydney. Overall, on an operating turnover of $45.3 million we generated a surplus of $2 million.

HOSTEL DEVELOPMENT

During the year, we commenced construction on an extension at Byron Bay YHA in NSW that is due to open in late 2017. We also completed the purchase of Newcastle Beach YHA in NSW (a former Associate hostel) and undertook a refurbishment of this property. In Surfers Paradise in Queensland, we purchased a very well-located block of land for a future hostel development.

YHA's Sustainable Hostels Fund contributed to the installation of solar power at Sydney Harbour YHA; and the sinking fund for this hostel's onsite Big Dig Archaeology Education Centre contributed to improvements that reflected the interpretation of artefacts uncovered during the hostel's construction, and to the planning for a documentary film about the site. We held celebrations to mark the 50,000th school student participating in a program at the Centre.

FUTURE FOCUS

In 2017 we will begin to implement the new Strategic Plan; make changes to our membership structure; plan for future network development; improve the quality and atmosphere of our hostels; further develop our IT and digital infrastructure, and nurture partnerships with like-minded organisations.

Throughout all this, YHA remains proudly a not-for-profit organisation. We have been delivering on our mission of providing the opportunity to young people for education through travel, to bring about friendships and an understanding of the world for over 75 years. We would like to thank all our members, staff, volunteers and industry partners for supporting us and our mission over the past year.

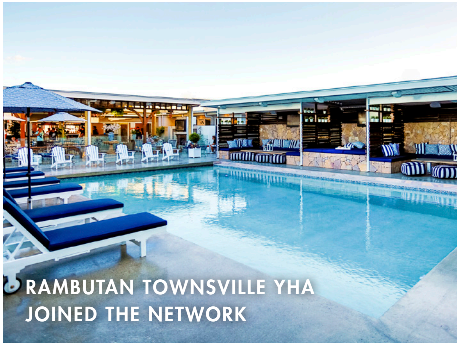
Julian Ledger
CEO

Rob McGuirk
Chair

2016 IN SUMMARY

PORT ELLIOT BEACH HOUSE YHA WAS RENOVATED


THE NEW NEWCASTLE BEACH YHA MURAL


RAMBUTAN TOWNSVILLE YHA JOINED THE NETWORK

HIGHLIGHTS

Successful integration of the former national body, Hostelling International Australia (HI-A) into YHA Ltd, which trades as YHA Australia and is now the Australian member of the International Youth Hostel Federation (trading as Hostelling International)

National Strategic Planning conference held – resulting in a new Strategic Plan to 2020

Well-attended Hostel Managers' Conference held in Cairns - with Backpacker & Adventure Tourism Industry Forum, open to wider industry, also hosted by YHA

Acquisition and refurbishment of Newcastle Beach YHA (NSW) – formerly a YHA Associate hostel

Purchase of well-located land in Surfers Paradise (QLD) for a future hostel

Construction commenced for expansion of Byron Bay YHA (NSW) on adjacent land

Representations to State and Federal governments on issues of concern to travellers, including short-term letting of residential accommodation, and 'backpacker tax'

YHA ACCOMMODATION

An average of 3,918 people accommodated each night

Increase in total number of guests to 1,434,136 overnight stays

Partnership with a major Working Holiday agency to have a presence in key hostels (Sydney Central, Melbourne Metro, Brisbane City and Cairns Central YHA's) to provide onsite services, such as job-seeking assistance, to working holiday makers

Small Hostels Development Fund was fully expended in the year with various projects including $172K spent on renovations at Port Elliot YHA (SA).

MARKETING AND DIGITAL

Creative refresh undertaken to revitalise YHA's brand and appeal to young 'Discovery Seekers'

Development of sales of Australian travel experiences to hostel guests through YHA Travel & Tours web-based system

Investment in yha.com.au and digital technology to enable stronger communication with members

Fully responsive website and two travel mobile apps launched

Positive media coverage in print, broadcast and online

FINANCE

Total operating turnover of $45.3M ($42.9M in 2015)

Earnings before interest, taxation, depreciation and amortisation (EBITDA) of $9.8M ($9.9M in 2015) after adjusting for HI-A contribution.

Operating surplus of $2M ($0.98M in 2015)

GOVERNANCE AND ADMINISTRATION

The Board operated with nine volunteer Directors and three sub committees, with meetings taking place in the Barossa Valley, Canberra, Melbourne, and Sydney

Changes to the Constitution enacted following approval by members at the AGM, including a new By-law on Director nomination and election

Members in YHA Tasmania voted to merge with YHA Ltd, effective 1 January 2017

A Memorandum of Understanding to merge YHA WA into YHA Ltd was entered into, subject to voting on by WA members (scheduled for June 2017, with potential merger in September 2017)

YHA Australia representation and presentations at Hostelling International global conference, with CEO invited to participate in Governance Review Committee

Adoption of a Workforce Development Plan for YHA's employees.

STREET ART WAS PAINTED AT CANBERRA CITY YHA

50,000 STUDENTS HAVE PARTICIPATED IN PROGRAMS AT THE BIG DIG ARCHAEOLOGY EDUCATION CENTRE AT SYDNEY HARBOUR YHA

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

DIRECTORS' REPORT

The Directors present their report, together with the financial statements, on 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 2016.

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
Dana Denise Ghinzel	BCom, CPA, GAICD	YHA member since 1983. Accountant with public sector.		April 2017
Ross Peter McDougall	BA, LLB, GAICD	YHA member since 2012. Solicitor.		April 2017
Robert Anthony McGuirk	BA, LLB, FFin, 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.	April 2019
Matthew McNeil	BArch(Hons)	YHA member since 1988. Architect.		April 2019
David John Neish	BArch Melb, FRAIA, MAICD	YHA member since 1976. Former member of YHA Queensland Board. Architect.		In office to February 2017
Tracey Michelle Powell	BBus, GAICD	YHA member since 2000. Former member of YHA South Australia Board, held role of Chair. Director and Principal of Business & Marketing Consultancy.	Chair Nominations & Human Resources Committee. Chair of Election Committee.	April 2018
Euan Gordon Prentice	BCom, A Fin	YHA member since 2009. Owner of capital markets research business.	Vice Chair.	April 2018
Leonie Isabelle 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 Audit & Risk Committee.	April 2019

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.

DIRECTORS' REPORT CONTINUED

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 Human Resources, and Election.

	BOARD OF DIRECTOR MEETINGS		COMMITTEE MEETINGS	
DIRECTOR	NUMBER HELD/ POSSIBLE TO ATTEND	NUMBER ATTENDED	NUMBER HELD/ POSSIBLE TO ATTEND	NUMBER ATTENDED
Robyn Antill	11	10	6	6
Dana Ghinzel	11	10	6	6
Ross McDougall	11	9	6	5
Robert McGuirk	11	11	6	4
Matthew McNeil	11	10	6	4
David Neish	11	10	6	6
Tracey Powell	11	10	6	6
Euan Prentice	11	11	6	4
Leonie Thijssen	11	11	6	6

The above meeting attendance is for YHA Ltd. Youth Hostels Association of Queensland (YHA Queensland) also held 2 Board meetings and YHA Victoria Limited held 2 Board meetings 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 were changed at the 2016 AGM by Members resolution and are now:

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 the ACT, NSW, the NT, Queensland, South Australia and Victoria 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 2016 was $2,008,645 (2015 surplus of $982,973). The surplus includes a recognition as revenue of the net assets value ($619,583) of HI Australia whose operations were integrated on 1 January 2016.

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 2016 for operated hostels was 66.7% (2015 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) and YHA Victoria (property owner).

Revenue improved over the prior year with an increase in international traveller visitation. Australian guest nights were lower than last year and group guest nights improved on the previous year.

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

YHA Ltd was endorsed as the Australian Member Affiliate of Hostelling International at the 2016 Conference held in Gatwick, UK in September 2016. YHA Ltd assumes this role as part of the integration with Hostelling International Australia Incorporated agreed to by its Member Organisations in 2015.

The Directors of the group 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 2016.

DIRECTORS' REPORT CONTINUED

10. SIGNIFICANT EVENTS SINCE THE END OF FINANCIAL YEAR

During the year the YHA Ltd Board decided and Members of Youth Hostels Association of Tasmania Inc. (YHA Tasmania) voted to merge. This merger was achieved on 1 January 2017. YHA Tasmania has applied for cancellation of its registration under the Associations Incorporations Act 1964 effective from this date and all the property and business assets have been transferred to YHA Ltd. The loans payable by YHA Tasmania to Commonwealth Bank of Australia as at 31 December 2016 were repaid. Title to the Hobart Central YHA was transferred to YHA Ltd and is secured by first mortgage to ANZ. The net assets of YHA Tasmania as at 31 December 2016 were $2,257,159.

The Victoria State Revenue Office has granted an exemption to YHA Ltd for stamp duty on the transfer of four properties from YHA Victoria Limited. These properties will be transferred to YHA Ltd in the first quarter of 2017.

The Directors of the Company are not aware of any other 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 31.

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
25 February 2017

Leonie Thijssen
Director
25 February 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	2016 $	2015 $
Revenue or other income			
Rendering of services		43,741,081	42,066,801
Other income		1,563,654	876,266
	3	**45,304,735**	**42,943,067**
Expenses			
Employee benefits expense	4	(18,825,043)	(17,165,506)
Depreciation & amortisation	4	(5,131,072)	(4,637,293)
Finance costs	4	(3,176,427)	(4,243,514)
Other expenses	4	(16,159,410)	(15,913,781)
		(43,291,952)	**(41,960,094)**
Surplus before income tax		**2,012,783**	**982,973**
Income tax (expense) / benefit	5	(4,138)	–
Surplus after income tax		2,008,645	982,973
Other comprehensive income		–	–
Total Comprehensive Income		**2,008,645**	**982,973**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	NOTE	2016 $	2015 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	3,085,709	5,462,676
Trade and other receivables	7	523,409	532,683
Inventories	8	71,307	93,357
Other current assets	9	711,470	301,597
Total Current Assets		4,391,895	6,390,313
Non-current Assets			
Property, plant and equipment	10	124,378,625	116,073,752
Intangible assets	11	2,814,401	1,507,685
Total Non-current Assets		127,193,026	117,581,437
TOTAL ASSETS		131,584,921	123,971,750
LIABILITIES			
Current Liabilities			
Trade and other payables	12	3,398,502	2,911,891
Derivative financial instruments	16	403,154	367,750
Provisions	14	2,131,928	1,861,702
Other liabilities	15	2,814,699	2,803,349
Total Current Liabilities		8,748,283	7,944,692
Non-current Liabilities			
Trade and other payables	12	63,359	62,505
Borrowings	13	80,000,000	75,000,000
Derivative financial instruments	16	709,882	932,690
Provisions	14	183,961	161,072
Total Non-current Liabilities		80,957,202	76,156,267
TOTAL LIABILITIES		89,705,485	84,100,959
NET ASSETS		41,879,436	39,870,791
Accumulated surplus		36,421,090	34,412,445
Revaluation reserve		5,458,346	5,458,346
TOTAL EQUITY		41,879,436	39,870,791

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	REVALUATION RESERVE $	ACCUMULATED SURPLUS $	TOTAL EQUITY $
Balance at 1 January 2015		5,458,346	33,429,472	38,887,818
Surplus after income tax		–	982,973	982,973
Other comprehensive income		–	–	–
Balance at 31 December 2015	10	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

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	2016 $	2015 $
Cash flows from operating activities			
Receipts from members and customers		48,732,124	47,601,540
Receipts from integration of HI Australia		136,675	–
Payments to employees		(17,423,608)	(15,451,949)
Payments to suppliers		(21,312,576)	(22,130,762)
Income taxes paid		(4,138)	–
Interest received		66,070	53,837
Finance costs paid		(3,360,287)	(3,503,307)
Net cash provided by operating activities	23	6,834,260	6,569,359
Cash flows from investing activities			
Purchase of plant, equipment & software		(3,827,278)	(2,670,441)
Purchase of property		(4,522,805)	–
Payment for purchase of business net of cash acquired	19	(3,697,000)	(203,000)
Development of property		(2,164,144)	–
Net cash (used in) investing activities		(14,060,227)	(2,873,441)
Cash flows from financing activities			
Proceeds from borrowings – bank		5,000,000	–
Net cash provided by financing activities		5,000,000	–
Net (decrease) increase in cash and cash equivalents		(2,376,967)	3,695,918
Cash and cash equivalents – beginning of period		5,462,676	1,766,758
Cash and cash equivalents – end of period	6	3,085,709	5,462,676

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016 comprises the company and its controlled entities which include Youth Hostels Association of Queensland and YHA Victoria Limited. YHA Ltd as an entity 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 25 February 2017.

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 company.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted by the group. The group is working through the impact of these new standards and interpretations.

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 2018

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.

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the recoverable amount from these assets. 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

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.

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.

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Cash and Cash Equivalents

Cash and cash equivalents include deposits at call which are readily convertible to cash on hand 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.

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

The Annual Membership Year runs from the month of Membership purchase for 1 year. Fees are payable yearly in advance or can be purchased for 2 year terms also. Membership Fees are recognised as revenue in the year that they are sold and are not refundable.

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.

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative Figures

Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

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.

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.
As such, the consolidated entity is not in a taxable position.

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 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 Company 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 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 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 3 – REVENUE

	2016 $	2015 $
Hostel	37,570,441	35,386,155
Catering	969,018	859,288
Other hostel	2,528,451	2,564,933
Membership	807,033	1,291,760
Travel & tours commission	833,447	920,933
Rent	1,032,691	1,043,732
Rendering of services	43,741,081	42,066,801
Sundry income	876,999	798,984
Contribution from HI Australia integration	619,583	–
Interest	67,072	77,282
Other Income	1,563,654	876,266
Total revenue and other income	45,304,735	42,943,067

Consideration received from the HI Australia integration represents the net assets of the HI Australia Association transferred to YHA Ltd as part of the HI Australia Integration agreement.

NOTE 4 – EXPENSES

Salaries and wages	16,230,175	14,721,548
Superannuation	1,672,893	1,566,288
Other benefits	921,975	877,670
Employee benefits	18,825,043	17,165,506
Depreciation of property plant & equipment	4,733,548	4,558,520
Amortisation of software	397,524	78,773
Depreciation and amortisation	5,131,072	4,637,293
Borrowing costs	50,625	520,861
Bank interest	3,313,206	3,467,355
Fair value (gain) loss on interest rate swaps	(187,404)	255,298
Finance costs	3,176,427	4,243,514
Cost of goods sold	1,083,533	1,135,227
Loss on disposal of assets	72,762	56,897
Operating expenses	6,907,142	6,402,391
Administration and marketing	4,847,324	5,710,418
Property expenses	3,153,455	2,535,508
Audit	95,194	73,340
Other expenses	16,159,410	15,913,781

NOTE 5 – INCOME TAX

	2016 $	2015 $
a) Reconciliation of effective tax rate		
Income tax expense using the domestic corporation tax rate of 30% (2015: 30%)	602,594	294,892
Tax effect amounts which are not deductible in calculating taxable income:		
Income and expenses exempt under principle of mutuality	(602,594)	(294,892)
Prior year under provision for income tax	4,138	–
Income tax expense	4,138	–

b) Principle of mutuality

The estimated amount of income subject to the mutuality principle is 95% (2015: 95%).

c) Unrecognised tax losses

	2016	2015
The following tax losses from non-mutual income have not been brought to account as a deferred tax asset:		
YHA Ltd	9,350,445	9,006,008
YHA Queensland	2,407,075	2,299,947
YHA Victoria Limited	969,894	472,348
Tax losses	12,727,414	11,778,303

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

	2016	2015
Cash on hand	65,469	64,567
Cash at bank	2,919,224	5,167,249
Cash on deposit	101,016	230,860
	3,085,709	5,462,676

NOTE 7 – RECEIVABLES

	2016	2015
Trade receivables	523,409	532,683
	523,409	532,683

NOTE 8 – INVENTORIES

	2016	2015
Finished goods	71,307	93,357
	71,307	93,357

NOTE 9 – OTHER ASSETS

	2016	2015
Current		
Prepayments	711,470	300,442
Deferred expenditure	–	1,155
	711,470	301,597

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT

	2016 $	2015 $
Freehold Land and Building		
At cost	107,066,583	96,151,771
Less: Accumulated depreciation	(28,605,809)	(26,487,282)
	78,460,774	69,664,489
Leasehold Land and Buildings		
At cost	47,760,594	47,660,288
Less: Accumulated depreciation	(8,890,732)	(7,898,384)
	38,869,862	39,761,904
Plant and Equipment		
At cost	18,861,223	17,465,422
Less: Accumulated depreciation	(11,813,234)	(10,818,063)
	7,047,989	6,647,359
Total Property, Plant and Equipment	124,378,625	116,073,752
Independent valuations of interest in Land & Buildings		
2016	7,500,000	–
2015	10,625,000	10,625,000
2014	173,960,000	173,960,000
Total	192,085,000	184,585,000

The total independent valuation reports value of $192,085,000 represents 24 freehold and leasehold properties. The written down value of these properties, which are recorded at cost in the financial report is $121,041,745.

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.

Reconciliations	2016 $	2015 $
Freehold Land & Buildings		
Balance at the beginning of year	69,664,489	71,062,146
Additions	5,389,600	280,797
Additions through business combination (Note 19)	2,932,899	203,000
Development work in progress	2,164,144	–
Transfers	428,167	132,008
Depreciation expenses	(2,118,525)	(2,013,462)
Carrying amount at the end of year	78,460,774	69,664,489

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT continued

	2016 $	2015 $
Leasehold Land & Buildings		
Balance at the beginning of year	39,761,904	40,670,794
Additions	135,953	126,813
Disposal	(3,372)	6,159
Transfers	(681)	5,390
Depreciation expenses	(1,023,942)	(1,047,252)
Carrying amount at the end of year	38,869,862	39,761,904
Plant & Equipment		
Balance at the beginning of year	6,647,359	6,106,224
Additions	2,502,837	2,234,162
Disposal	(69,640)	(57,823)
Transfers	(441,486)	(137,398)
Depreciation expenses	(1,591,081)	(1,497,806)
Carrying amount at the end of year	7,047,989	6,647,359
Total		
Balance at the beginning of year	116,073,752	117,839,164
Additions	8,028,390	2,641,772
Additions through business combination (Note 19)	2,932,899	203,000
Development work in progress	2,164,144	–
Disposal	(73,012)	(51,664)
Transfers	(14,000)	–
Depreciation expenses	(4,733,548)	(4,558,520)
Carrying amount at the end of year	124,378,625	116,073,752

Revaluation Reserve

The hostel land and buildings of YHA Victoria Limited was adjusted to independent market value over the years 2000 to 2010 and the net balance of the revaluation reserve for these changes is $1,700,637. YHA South Australia Inc. was adjusted to independent market value over the years 2000 to 2013 and the net balance of the revaluation reserve for these changes is $3,757,709. The revaluation reserve now totals $5,458,346.

NOTE 11 – INTANGIBLE ASSETS

	2016 $	2015 $
Licences – at cost	116,681	116,681
Goodwill – at cost	1,378,965	1,378,965
Goodwill – acquired through business combination (Note 19)	764,101	–
Less: accumulated amortisation	(78,965)	(78,965)
	2,064,101	1,300,000
Computer software – at cost	3,056,451	250,078
Less: accumulated amortisation	(2,422,832)	(159,074)
	633,619	91,004
Total intangible assets	2,814,401	1,507,685

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 year	116,681	1,300,000	91,004	1,507,685
Additions	–	–	926,138	926,138
Additions through business combinations (Note 19)	–	764,101	–	764,101
Transfers	–	–	14,000	14,000
Amortisation charge	–	–	(397,523)	(397,523)
Carrying amount at the end of year	116,681	2,064,101	633,619	2,814,401

NOTE 12 – TRADE AND OTHER PAYABLES

	2016 $	2015 $
Current		
Trade creditor	448,248	249,382
Accrued expenses	2,218,320	1,727,346
BAS payable	281,288	506,096
Other payables	303,670	416,494
Deferred revenue	146,976	12,573
	3,398,502	2,911,891
Non-current		
Rental bonds	63,359	62,505
	63,359	62,505

NOTE 13 – BORROWINGS

	2016 $	2015 $
Non-current		
Bank loans	80,000,000	75,000,000
Total Borrowings	80,000,000	75,000,000

1. The ANZ facility consists of a Cash Advance Facility of $80,000,000 for YHA Ltd borrowings for a term of four and a half years to June 2019. The facility allows prepayment and with any prepayment a permanent reduction in the facility. An additional 12 month facility for development is also financed amounting to one million dollars though this is not drawn as at the balance date. 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.
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 22 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 2016 and 2015 reporting periods.

The bank facilities as at the balance date are:

	2016 $	2015 $
Credit facilities	81,875,000	77,875,000
Amount utilised	80,000,000	75,000,000
	1,875,000	2,875,000

The unused credit facilities consist of cash advance facility of $1,000,000 (2015: $2,000,000), bank overdraft $750,000 (2015: $750,000) and corporate card facility $125,000 (2015: $125,000).

Assets Pledged as Security

The carrying amounts of assets pledged as security are:

	2016 $	2015 $
First mortgage and floating charges		
Total assets	131,584,921	123,971,750

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 14 – PROVISIONS

	2016 $	2015 $
Current		
Employee benefits	2,077,928	1,777,702
Onerous contract	54,000	84,000
	2,131,928	1,861,702
Non-current		
Employee benefits	183,961	161,072
	183,961	161,072

The provision for onerous contract is for the 2016 cost of fulfilling the obligations for the hosting of computer technology in the data centre for the property management system which is no longer in use.

Aggregate liability for employee benefits provision including on-costs

Employee benefits	2,261,889	1,938,774

	EMPLOYEE ENTITLEMENTS $
Movements in provisions	
Balance at the beginning of year	1,938,774
Additions	1,731,785
Transfers	145,550
Amounts used	(1,554,220)
Balance at the end of year	2,261,889

NOTE 15 – OTHER LIABILITIES

Current		
Bookings in advance	2,814,699	2,803,049
Unexpired other membership income	–	300
	2,814,699	2,803,349

NOTE 16 – DERIVATIVE FINANCIAL INSTRUMENTS

	2016 $	2015 $
The group has the following derivative financial instruments:		
Current		
Interest rate swap contracts – non-hedging	403,154	367,750
Non-current		
Interest rate swap contracts – non-hedging	709,882	932,690
	1,113,036	1,300,440

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 2016 the fair value has been determined by reference to the ANZ value of the interest rate swap agreements as at 31 December 2016. 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 17 – COMMITMENTS

a) Capital commitments

	2016	2015
Capital expenditure commitments contracted for:		
– Capital expenditure projects	515,923	308,182
– Acquisition of Newcastle Beach YHA	–	3,952,500
– Development of Byron Bay YHA	3,799,942	–
	4,315,865	4,260,682

Commitments for capital expenditure projects will be payable not later than 1 year.
The development commitment for Byron Bay YHA represents a commitment for works that will be completed in 2017.

b) Operating leases

	2016	2015
Payable not later than 1 year	1,314,067	2,140,165
Later than 1 year but not later than 5 years	1,780,411	1,644,615
Later than 5 years	3,559,467	3,544,930
	6,653,945	7,329,710

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 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 $500,000 with annual CPI adjustments to the contribution per overnights from 2009.

NOTE 18 – RELATED PARTY DISCLOSURES

Three directors of the parent entity are also directors of an affiliated body HI Australia which in 2015 provided goods and services on terms and conditions no more favourable than those applying to any other affiliated bodies and in 2016 whose HI Australia activities were integrated into YHA Ltd.

NOTE 19 – BUSINESS COMBINATIONS

	2016 $
On 29 January 2016 the Newcastle Beach YHA freehold property and business was purchased by YHA Ltd. Details of the acquisition are as follows:	
Land & Buildings	3,135,899
Net assets acquired	3,135,899
Goodwill	764,101
Acquisition-date fair value of the total consideration transferred	3,900,000
Representing:	
Cash paid or payable to vendor	3,900,000
Acquisition costs expensed to profit or loss	200,648

A deposit of $203,000 was paid in 2015 with the balance paid in 2016.

NOTE 20 – 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 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.

NOTE 20 – FINANCIAL INSTRUMENTS continued

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 21 – 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 and Southern Region Manager.

	SALARY $	SUPERANNUATION $	TOTAL $
2016	1,453,247	132,879	1,586,126
2015	1,329,238	118,024	1,447,262

NOTE 22 – PARENT ENTITY INFORMATION

	PARENT ENTITY	
	2016 $	2015 $
Set out below is the supplementary information about the parent entity.		
Statement of comprehensive income		
Surplus after income tax	2,520,283	494,500
Total current assets	4,322,008	6,317,230
Total assets	119,566,379	111,414,671
Total current liabilities	8,673,410	7,842,922
Total Liabilities	89,630,612	83,999,189
Equity		
Total equity	29,935,767	27,415,482

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2016.

Capital commitments

The parent entity had capital commitments for property, plant & equipment as at 31 December 2016 of $4,315,865 and 31 December 2015 of $4,260,682.

Significant accounting policies

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

NOTE 23 – RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	CONSOLIDATED ENTITY	
	2016 $	2015 $
Surplus after income tax	2,008,645	982,973
Non-cash flow in profit		
Depreciation and amortisation	5,131,072	4,637,294
Fair value adjustment to derivatives	(187,404)	255,298
Loss on sale or disposal of property, plant & equipment	72,762	56,898
Contribution from HI Australia recognised as plant and equipment and software	(604,197)	–
Changes in assets and liabilities		
Decrease (Increase) in receivables	9,274	(53,494)
Decrease (increase) in inventory	22,050	8,184
(Increase) decrease in other assets	(409,872)	562,730
Increase (decrease) in payables	487,465	139,208
Increase in provisions	293,115	51,438
Increase (decrease) in other liabilities	11,350	(71,170)
Net cash provided by operating activities	6,834,260	6,569,359

NOTE 24 – EVENTS AFTER REPORTING PERIOD

Merger with Youth Hostels Association of Tasmania Incorporated

During the year the YHA Ltd Board decided and Members of Youth Hostels Association of Tasmania Inc. (YHA Tasmania) voted to merge on 1 January 2017. This merger was achieved on 1 January 2017. YHA Tasmania has applied for cancellation of its registration under the Associations Incorporations Act 1964 effective from this date and all the property and business assets have been transferred to YHA Ltd. The loans payable by YHA Tasmania to CBA as at 31 December 2016 were repaid. Title to the Hobart Central YHA was transferred to YHA Ltd and will be secured by first mortgage to ANZ. The net assets of YHA Tasmania as at 31 December 2016 were $2,257,159.

Transfer of property from YHA Victoria Limited to YHA Ltd

The Victoria State Revenue Office has granted an exemption to YHA Ltd for stamp duty payable on the transfer of four properties from YHA Victoria Limited. These properties will be transferred to YHA Ltd in the first quarter of 2017.

No other matter or circumstance has arisen since 31 December 2016 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 2016, 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

25 February 2017

DIRECTORS' DECLARATION

The Directors of YHA Ltd declare that:

1. The financial statements and notes, as set out on pages 10 to 30, 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 2016 and of its performance for the 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.

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

On behalf of the Directors.

Robert McGuirk Director 25 February 2017	Leonie Thijssen Director 25 February 2017

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 2016, 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 2016 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.*

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 Group's annual report for the year ended 31 December 2016, 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

- 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 Company'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 Company 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

25 February 2017

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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SOLICITORS

Whitehead Cooper Williams

AUDITOR

Pitcher Partners

BANKERS

Australia and New Zealand Banking Group Limited

INSURANCE BROKERS

Acumen Insurance

THE BEST VALUE SLEEP ON THE SLOPES – THREDBO YHA