

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

**AMERICAN YOUTH HOSTELS, INC.
D/B/A
HOSTELLING INTERNATIONAL USA**

MARCH 31, 2010 AND 2009

American Youth Hostels, Inc.

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee and Board of Directors
American Youth Hostels, Inc.

We have audited the accompanying consolidated statement of financial position of American Youth Hostels, Inc. (AYH) as of March 31, 2010, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of AYH's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from AYH's 2009 financial statements and, in our report dated July 22, 2009, we expressed an unqualified opinion on those statements. The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with AYH's financial statements for the year ended March 31, 2009, from which the summarized information was derived.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AYH at March 31, 2010, and the changes in its consolidated net assets and its consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Reznick Group, P.C.

Bethesda, Maryland
July 20, 2010

American Youth Hostels, Inc.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

March 31, 2010 (with comparative totals for 2009)

ASSETS	2010			Total	2009
	Unrestricted	Temporarily restricted	Permanently restricted		
CURRENT ASSETS					
Cash					
Cash and cash equivalents	\$ 4,947,243	\$ -	\$ 6,234	\$ 4,953,477	\$ 4,796,360
Restricted cash - debt service	165,000	-	-	165,000	157,500
Total cash	5,112,243	-	6,234	5,118,477	4,953,860
Investments	2,168,176	654,867	125,301	2,948,344	3,473,909
Accounts, notes, grants and contributions receivable, net	305,801	12,536	-	318,337	264,425
Publications and materials inventory	146,669	-	-	146,669	179,564
Prepaid expenses and other	210,660	-	-	210,660	175,947
Total current assets	7,943,549	667,403	131,535	8,742,487	9,047,705
INVESTMENTS AND OTHER NONCURRENT ASSETS					
Long-term portion of notes, grants and contributions receivable, net	9,546	15,608	-	25,154	13,500
Equity investment in hostels	1,937,857	-	-	1,937,857	1,873,764
Hostel predevelopment deposits and project expenditures	1,008,226	-	-	1,008,226	-
Other assets	563,249	-	-	563,249	704,989
	3,518,878	15,608	-	3,534,486	2,592,253
PROPERTY AND EQUIPMENT - Net	31,021,432	-	-	31,021,432	30,670,516
TOTAL ASSETS	\$ 42,483,859	\$ 683,011	\$ 131,535	\$ 43,298,405	\$ 42,310,474
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	\$ 1,437,145	\$ -	\$ -	\$ 1,437,145	\$ 1,474,457
Current portion of long-term debt	613,313	-	-	613,313	580,310
Current portion of long-term capital lease obligations	36,130	-	-	36,130	38,824
Deferred income	1,344,321	-	-	1,344,321	1,401,961
Total current liabilities	3,430,909	-	-	3,430,909	3,495,552
LONG-TERM DEBT, net of current portion	19,434,121	-	-	19,434,121	20,047,433
LONG-TERM CAPITAL LEASE OBLIGATIONS, net of current portion	19,110	-	-	19,110	55,240
TENANT DEPOSITS AND OTHER	105,848	-	-	105,848	88,733
INTEREST RATE SWAP AGREEMENT	1,569,395	-	-	1,569,395	2,230,590
NON-CONTROLLING INTEREST IN CONSOLIDATED HOSTELS	1,038,362	-	-	1,038,362	911,062
Total liabilities	25,597,745	-	-	25,597,745	26,828,610
Commitments and contingencies					
NET ASSETS	16,886,114	683,011	131,535	17,700,660	15,481,864
TOTAL LIABILITIES AND NET ASSETS	\$ 42,483,859	\$ 683,011	\$ 131,535	\$ 43,298,405	\$ 42,310,474

See notes to consolidated financial statements

American Youth Hostels, Inc.

CONSOLIDATED STATEMENT OF ACTIVITIES

Years ended March 31, 2010 (with comparative totals for 2009)

	2010			Total	2009
	Unrestricted	Temporarily restricted	Permanently restricted		
OPERATING ACTIVITIES					
Revenue					
Hostel operations	\$ 15,706,253	\$ -	\$ -	\$ 15,706,253	\$ 16,909,299
Earnings from unconsolidated hostel operations	217,292	-	-	217,292	195,700
Membership dues	473,297	-	-	473,297	483,291
Sales of merchandise	940,624	-	-	940,624	1,097,690
Contributions	289,961	36,563	8,165	334,689	274,723
Investment income	487,817	38,468	-	526,285	(285,465)
Other income	99,717	-	-	99,717	109,554
Donated goods and services	28,458	-	-	28,458	4,030
Net assets released from restrictions	8,220	(8,220)	-	-	-
Total revenue	18,251,639	66,811	8,165	18,326,615	18,788,822
Expenses					
Program services					
Hostel operations	13,357,104	-	-	13,357,104	14,266,508
Program and education	497,909	-	-	497,909	606,617
Organizational development	318,530	-	-	318,530	313,944
Membership services	715,435	-	-	715,435	764,851
Supporting services					
General and administrative	1,020,646	-	-	1,020,646	853,909
Finance	524,395	-	-	524,395	485,509
Resource development	334,995	-	-	334,995	270,929
Total expenses	16,769,014	-	-	16,769,014	17,562,267
CHANGES IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	1,482,625	66,811	8,165	1,557,601	1,226,555
NONOPERATING ACTIVITIES					
Derivative valuation	661,195	-	-	661,195	(878,626)
CHANGES IN NET ASSETS	2,143,820	66,811	8,165	2,218,796	347,929
NET ASSETS, BEGINNING OF YEAR	14,742,294	616,200	123,370	15,481,864	15,133,935
NET ASSETS, END OF YEAR	\$ 16,886,114	\$ 683,011	\$ 131,535	\$ 17,700,660	\$ 15,481,864

See notes to consolidated financial statements

American Youth Hostels, Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended March 31, 2010 (with comparative totals for 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 2,218,796	\$ 347,929
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	1,302,060	1,249,947
Loss on disposals and write-off of assets	78,707	115,538
Realized (gain)/loss on short-term investments	(128)	378,085
Unrealized (gain)/loss on short-term investments	(439,131)	87,520
Derivative valuation	(661,195)	878,625
Undistributed equity in income of unconsolidated hostels	(117,925)	(126,527)
Distributions from unconsolidated hostels	90,000	120,000
Non-controlling interest in consolidated hostels	542,500	460,512
Changes in assets and liabilities		
Accounts, notes, grants and contributions receivable	(70,566)	259,734
Publications and materials inventory	32,895	(12,903)
Prepaid expenses and other	25,710	(57,047)
Accounts payable, accrued liabilities and tenant deposits	(37,312)	(163,435)
Deferred income	(57,640)	(25,687)
	<u>2,906,771</u>	<u>3,512,291</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of short-term investments	1,082,451	2,752,875
Purchases of short-term investments	(117,627)	(3,957,955)
Repayments of note receivable	5,000	6,341
Additions to property and equipment	(1,633,251)	(965,137)
Increase in hostel predevelopment deposits and expenditures	(1,008,226)	-
Contributions to unconsolidated hostels	(36,168)	(30,227)
	<u>(1,707,821)</u>	<u>(2,194,103)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of note payable and other obligations	(580,309)	(545,045)
Repayment of capital lease obligations	(38,824)	(36,935)
Distributions to minority interests in consolidated hostels	(415,200)	(547,800)
	<u>(1,034,333)</u>	<u>(1,129,780)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	164,617	188,408
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,953,860</u>	<u>4,765,452</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,118,477</u>	<u>\$ 4,953,860</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid during the year	<u>\$ 896,723</u>	<u>\$ 1,047,773</u>
SIGNIFICANT NONCASH INVESTING AND FINANCING ACTIVITIES:		
Disposal of fully depreciated equipment	<u>\$ 67,456</u>	<u>\$ 42,125</u>

See notes to consolidated financial statements

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010 and 2009

NOTE 1 - ORGANIZATION

Nature of Business

American Youth Hostels, Inc. (AYH), which does business as Hostelling International USA, is a national nonprofit membership organization headquartered in Silver Spring, Maryland, founded in 1934 and was organized to provide educational opportunities through hostelling. The financial statements of the National Office in Silver Spring, Maryland, are consolidated with the HI-Boston Hostel (HI-B), the HI-Washington, DC Hostel (HI-W), the HI-New York Hostel (HI-NY) and the HI-Chicago Hostel (HI-C). AYH's primary revenue sources are hostel operations, sales of merchandise, and membership dues. The accompanying financial statements do not include the operations of AYH local councils, which are separate organizations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

AYH's method of accounting for its investment in hostels is determined by the following criteria:

- For hostels in which AYH owns 20% or less and does not have significant influence over the operations of the hostel, the cost method of accounting is used.
- The equity method of accounting is used if AYH's ownership share in the hostel is 20% to 50%, unless AYH is the controlling 50% partner.
- For hostels in which AYH owns more than 50%, the consolidation method of accounting is used.

All significant intercompany transactions among the consolidated hostels have been eliminated.

Basis of Accounting and Presentation

AYH prepares its financial statements on the accrual basis of accounting.

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

AYH reports hostel operations revenue, mainly hostel overnights fees, when the services are provided. Overnight revenue and deposits received in advance are recorded as deferred income. Membership revenue is reported when directly sold to a member.

These financial statements present net assets, revenue, expenses, gains and losses based on the existence of donor-imposed restrictions. Accordingly, net assets and the changes therein are classified as follows:

- Unrestricted - Net assets that are not subject to donor-imposed stipulations. Revenue from sources other than contributions and investment income are reported as increases in unrestricted net assets.
- Temporarily Restricted - Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met by the actions of AYH and/or passage of time.
- Permanently Restricted - Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by AYH. Generally, the investment income is temporarily restricted until appropriated for expenditure.

AYH has elected to present temporarily restricted contributions whose restrictions are fulfilled in the same fiscal year the donation is received within the unrestricted net asset class.

Certain grants received are in the form of conditional promises to give. As such, grant revenue is recognized as unrestricted, temporarily restricted or permanently restricted when the conditions are substantially met.

Investments are recorded at fair value based upon quoted market prices. Investments held by AYH consist of mutual funds, commercial money market funds and certificates of deposits. Classification of investments between current and noncurrent designations is reevaluated annually by AYH. Investments in mutual funds are reported at market value with any related realized or unrealized gain or loss on investments reflected in the consolidated statement of activities. Investments in certificates of deposits and commercial money market funds are reported at cost. An investment in certificate of deposit is maturing during 2010 with an interest rate of 1.24%. Interest is recognized when earned.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

Non-cash and in-kind contributions are recorded as revenue at the fair market value of the items contributed.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with AYH's consolidated financial statements for the year ended March 31, 2009, from which the summarized information was derived.

Foreign Currency Translation

The functional currency of AYH is the U.S. dollar. The translation into U.S. dollars is performed for statement of financial position accounts using exchange rates in effect at the statement of financial position date. For revenues, expenses, gains and losses, the exchange rate at the date on which those elements are recognized is used. The resulting translation adjustments are recorded to unrestricted net assets in the year that the event occurs.

Cash and Cash Equivalents

AYH considers all highly-liquid debt investments, certificates of deposits, and money market savings accounts purchased with an original maturity of three months or less to be cash equivalents. Money market funds held as part of AYH's investment portfolio are not considered cash equivalents.

Concentration of Credit Risk

AYH maintains its cash and investment balances in multiple accounts in various banks. With the exception of an investment certificate of deposit, all other certificates of deposit are placed with a bank's Certificate of Deposit Registry Service (CDARS) and are fully insured by the Federal Deposit Insurance Corporation (FDIC). Other cash and investment balances are insured by the FDIC or The Securities Investor Protection Corporation (SIPC) up to \$250,000 and \$500,000, respectively. At times, these balances may exceed the federal insurance limits; however, AYH has not experienced any losses with respect to these balances in excess of provided insurance. As of March 31, 2010, AYH maintained \$2,875,196 in cash, cash equivalent and investment balances that was not covered under

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

these various programs. Management believes that no significant concentration of credit risk exists with respect to these cash and investment balances.

Restricted Cash

Restricted cash includes the current portion of funds held in a sinking fund for bond financing.

Fair Value of Financial Instruments

AYH conforms to the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification, ASC) Topic 820 on Fair Value Measurements and Disclosures. For securities held for investments purposes, fair values are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value:

Cash and cash equivalents: For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

Investments: For securities held for investments purposes, fair values are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Inventories: Fair value is based on lower of cost (first-in, first-out) or market.

Promises to give: Fair value is estimated based on the donor's verifiable pledge. For those due in greater than one year, fair value is estimated by discounting estimated future cash flows at rates approximating the current rate for risk free returns. Fair value is adjusted for the allowance for doubtful promises to give.

Bonds payable: The fair value of the bonds payable is the amount payable at the reporting date.

Interest rate swap agreements: The fair value of the interest rate swap agreements is estimated using valuation methodologies using current market interest rate data adjusted for credit default risk.

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

The FASB ASC defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels. The following summarizes the three levels of inputs and hierarchy of fair value AYH uses when measuring fair value:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that AYH has the ability to access;
- Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as interest rates and yield curves that are observable at commonly quoted intervals; and
- Level 3 inputs are unobservable inputs for the asset or liability that are typically based on an entity's own assumptions as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the fair value measurement will fall within the lowest level input that is significant to the fair value measurement in its entirety.

The carrying value of AYH's investments, which include mutual funds, is included in Level 1 of the fair value hierarchy. The carrying value of long-term pledges receivable are included in Level 2 of the fair value hierarchy. No other assets are measured at fair value as of March 31, 2010. The following table presents the financial assets measured at fair value as of March 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Index - equities	\$ 1,327,479	\$ -	\$ -	\$ 1,327,479
Index - bonds	889,127	-	-	889,127
Long-term pledges receivable	<u>-</u>	<u>15,608</u>	<u>-</u>	<u>15,608</u>
Total assets	<u>\$ 2,216,606</u>	<u>\$ 15,608</u>	<u>\$ -</u>	<u>\$ 2,232,214</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

Interest rate swap agreements are classified within level 2 of the fair value hierarchy. No other liabilities are measured at fair value. The following table presents the financial liability measured at fair value as of March 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest rate swap agreements	\$ -	\$ 1,569,395	\$ -	\$ 1,569,395

Financial Risk

AYH invests and manages a portfolio that may contain, at limits predetermined by the Board of Directors, corporate bonds, mutual funds, certificates of deposit, common shares of publicly-traded companies, alternative investments, exchange traded funds, fixed income securities, U.S. agency bonds/notes and governmental securities. Such investments are exposed to various risks such as interest rate, market volatility and credit risks. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Accounts, Notes, Grants and Contributions Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on the historical collection experience and a review of the current status of the receivables. It is reasonably possible that management's estimate of the allowance will change. The allowance for doubtful accounts is \$10,000 as of March 31, 2010 and 2009.

Property, Equipment and Depreciation

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed over the estimated useful lives by utilizing the straight-line method as follows:

Buildings and improvements	25-40 years
Furniture and equipment	3-15 years
Leasehold improvements	Shorter of life of lease or estimated useful life

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

Bond Issuance Costs and Deferred Financing Costs

Bond issuance costs incurred in connection with the issuance of bonds have been capitalized and are being amortized over the life of the bond. Deferred financing costs represent legal fees and other costs related to arranging for new financing and maintaining existing financing and are amortized over the period of the related instrument. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Accumulated amortization at March 31, 2010 and 2009 was \$507,419 and \$412,306, respectively. Amortization expense for years ending March 31, 2010 and 2009 was \$95,113 and \$95,113, respectively. Projected amortization expense for the next five years ending March 31, 2011, 2012, 2013, 2014 and 2015 is \$64,836, \$58,781, \$58,781, \$57,721 and \$57,721, respectively.

Derivative Financial Instruments

Interest rate swap agreements are accounted for under the FASB ASC Topic 815, "Derivatives and Hedging." Since AYH is a not-for-profit organization, cash flow hedging is not permitted under accounting principles generally accepted in the United States of America, therefore, the fair value of this derivative is reflected in the consolidated statement of financial position with the related gains and losses reflected in the consolidated statement of activities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

Income Taxes

AYH, HI-Chicago and HI-San Diego have applied for and have received determination letters from the Internal Revenue Service (IRS) to be treated as tax-exempt entities pursuant to Section 501(c)(3) of the Internal Revenue Code (IRC). AYH council partners in hostel joint ventures are covered under AYH's group exemption. AYH, HI-Chicago, HI-San Diego, and all other council partners in hostel joint ventures are subject to income taxes on revenue generated from other sources unrelated to their exempt purpose. Due to their tax-exempt status, these entities are not subject to income taxes on revenues that are generated related to their exempt purpose. AYH, HI-Chicago, HI-San Diego, and all council partners in joint venture hostels are required to file and do file tax returns with the IRS and other taxing authorities. Accordingly, these financial statements reflect provisions for unrelated business income taxes in note 13 and note 14.

Equity Investments in Hostels

Equity investments in hostels are accounted for under the equity method of accounting. Amounts contributed are carried at cost, adjusted for AYH's proportionate share of undistributed earnings or losses.

Non-controlling Consolidated Hostels

Non-controlling consolidated hostels represent ownership interests of other chartered AYH local councils in the net assets of the consolidated hostels. The gross revenue and expense from these hostels is included in hostel operations. For the years ended March 31, 2010 and 2009, the partners' share of the net change in assets in the amounts of \$542,500 and \$460,512, respectively, are included in hostel operations expense.

Hostel Predevelopment

Costs that clearly relate to a new facility are capitalized as incurred. Costs are allocated to project components by the specific identification method whenever possible. Otherwise, acquisition costs are allocated based on their relative fair value before development, and development costs are allocated based on their relative sales value. Interest costs are capitalized while development is in progress.

Grants to Councils

Grants to councils are recorded on an accrual basis.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Impairment of Long-Lived Assets

As required by the *Impairment or Disposal of Long-Lived Assets and Disclosures* Topic of the FASB ASC, AYH reviews its long-lived assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying value of an asset, an impairment loss is recognized for the difference. AYH did not record an impairment loss during the years ended March 31, 2010 and 2009.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation.

Recent Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance on mergers and acquisitions for not-for-profit entities. This guidance establishes the principles and requirements for accounting for a combination of not-for-profit entities, which is a transaction or other event that results in a not-for-profit entity initially recognizing another not-for-profit entity, a business, or a nonprofit activity in its financial statements. The new guidance also changes the manner in which not-for-profit entities account for changes in a parent's ownership interests in consolidated subsidiaries after control is obtained. This guidance applies to a combination that meets the definition of either a merger of not-for-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

profit entities or an acquisition by a not-for-profit entity. Mergers will be accounted for using the carryover method, which is based on the historical cost information of both entities. Acquisitions will be accounted for using the acquisition method, which follows the same rules used by for-profit entities with some notable exceptions. For existing consolidated subsidiaries with non-controlling interests, the new accounting guidance will require the non-controlling ownership interests to be included in net assets of AYH. It is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2009. The adoption of this new guidance would not have a material effect on AYH's financial statements to the extent of the disclosure of non-controlling interests within net assets.

In May 2009, the FASB issued guidance regarding subsequent events, which was subsequently updated in February 2010. This guidance established general standards of accounting for and disclosures of events that occur after the statement of financial position date but before the financial statements are issued or are available to be issued. In particular, this guidance sets forth the period after the statement of financial position date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the statement of financial position date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the statement of financial position date. This guidance was effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009, and was therefore adopted by AYH for the year ended December 31, 2009. The adoption did not have a significant impact on the subsequent events that AYH reports, either through recognition or disclosure, in the financial statements. In February 2010, the FASB amended its guidance on subsequent events for entities that are not SEC filers to disclose the date that the financial statements were available to be issued. This amendment was effective immediately. See note 15 regarding the date through which subsequent events have been evaluated.

In June 2009, the FASB issued the Accounting Standards Codification (Codification, ASC). Effective July 1, 2009, the Codification is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The Codification is intended to reorganize, rather than change, existing GAAP. Accordingly, all references to currently existing GAAP have been removed and have been replaced with plain English explanations of AYH's accounting policies. The adoption of the Codification did not have a material impact on AYH's financial position or activities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

NOTE 3 - INVESTMENTS

At March 31, 2010 and 2009, investments held in brokerage investment accounts consist of the following:

	<u>2010</u>	<u>2009</u>
Mutual Funds:		
Index - stocks	\$ 1,327,479	\$ 815,072
Index - bonds	889,127	806,716
Commercial money market funds	678,764	775,568
Certificates of deposits	<u>52,974</u>	<u>1,076,553</u>
	<u>\$ 2,948,344</u>	<u>\$ 3,473,909</u>

AYH's endowments consist of three funds: the permanently restricted endowment fund, the permanently restricted Clem Motten endowment fund and the board-designated endowment fund; all of which were established for specific purposes. These endowments include donor-restricted endowment funds and a fund designated by AYH to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by AYH to function as endowments, are classified and reported based on the existence of donor-imposed restrictions.

The following summarizes the investment return and its classification in the consolidated statement of activities for the years ended March 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Investment income, net of fees	\$ 87,026	\$ 180,140
Unrealized gain/(loss)	439,131	(87,520)
Realized gain/(loss)	<u>128</u>	<u>(378,085)</u>
	<u>\$ 526,285</u>	<u>\$ (285,465)</u>

Investment fees as of March 31, 2010 and 2009 totaled \$25 and \$14,506, respectively.

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

Funds with Deficiencies

The Investment Policy of AYH indicates that the corpus of any restricted donor or general endowment funds shall not be expended under any circumstances as it represents the endowment funds designated by donor-restricted contributions. Due to the significant stock market losses during the year ended March 31, 2009, the fair value of assets associated with individual donor-restricted endowment funds fell below the original contribution amount. As a result, AYH transferred \$8,674 of these endowment deficiencies from unrestricted net assets at March 31, 2009 to restore the endowment values to their full donor gift amount. During the year ended March 31, 2010, endowment deficiencies were recovered from gains on related investments.

Interpretation of Relevant Law

AYH complies with Maryland Prudent Uniform Management of Institutional Funds Act (UPMIFA). Unless there are explicit donor instructions, this law gives the Boards of non-profit organizations the flexibility to invest and manage institutional funds, and prudently spend realized and unrealized net appreciation in the assets of an endowment fund in excess of the specified "historic dollar value" of the fund. Boards should consider the following factors in determining a prudent use of investment income and endowment principal:

- 1) The duration and preservation of the fund
- 2) The purpose of the Organization and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Organization
- 7) The investment policies of the Organization

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

The changes in endowment net assets for the year ended March 31, 2010 and endowment net assets at March 31, 2010 are as follows:

	<u>Board- designated</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets beginning of the year	\$ 753,733	\$ -	\$ 123,370	\$ 877,103
Investment income	244,777	37,556	-	282,333
Uses	-	(1,932)	-	(1,932)
Contributions	<u>34,212</u>	<u>-</u>	<u>8,165</u>	<u>42,377</u>
Endowment net assets, end of year	<u>\$ 1,032,722</u>	<u>\$ 35,624</u>	<u>\$ 131,535</u>	<u>\$ 1,199,881</u>

As of March 31, 2010, amounts classified as permanently restricted net assets are permanently restricted either by explicit donor stipulation or by UPMIFA, and amounts classified as temporarily restricted net assets are subject to purpose restrictions only.

Return Objectives and Spending Policy

AYH has adopted investment and spending policies for donor-restricted endowment assets that attempt to generate a series of cash withdrawals that grow with inflation to programs supported by its endowment while seeking to maintain the purchasing power of the donor-restricted endowment assets. Donor-restricted endowment assets include those assets of donor-restricted funds that AYH must hold in perpetuity or for donor-specified period(s). The purpose of the AYH board-designated endowment fund is to generate long-term appreciation that can be used to fund future programs and to provide a reserve of money to AYH in the event of unforeseen economic conditions. Under both policies, AYH accepts a moderate level of risk in investment return comparable to the risk associated with the S&P 500 Equity Index.

Four percent (4%) of the asset value of the donor-restricted endowment funds at the end of the calendar year may be withdrawn each year for operating purposes, first from dividends and interest earned, and the remainder from liquidation of principal, leaving the remaining asset value to appreciate over time to increase the donor-restricted fund for future years.

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

Strategies Employed for Achieving Objectives

AYH targets a diversified asset allocation and in order to satisfy its cash withdrawal and long-term rate-of-return objectives. AYH relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

NOTE 4 - RESTRICTED AND BOARD DESIGNATED NET ASSETS

Temporarily Restricted

Net assets were released from restrictions by satisfying the necessary program restrictions. Temporarily restricted net assets consist of the following at March 31, 2010 are as follows:

	2009	Additions	Investment gains	Restrictions accomplished	2010
Hostel development - Rich Estate	\$ 431,544	\$ -	\$ 912	\$ (1,935)	\$ 430,521
Opening Doors, Opening Minds	84,423	675	-	(164)	84,934
Earnings - permanently restricted endowments	-	-	37,556	(1,932)	35,624
Other restricted gifts	100,233	35,888	-	(4,189)	131,932
	<u>\$ 616,200</u>	<u>\$ 36,563</u>	<u>\$ 38,468</u>	<u>\$ (8,220)</u>	<u>\$ 683,011</u>

Permanently Restricted

Permanently restricted net assets represent donor-restricted contributions in which the donor has stipulated that the principal be maintained intact. Unless otherwise stated by the donor, investment income is recorded into the temporarily restricted net assets to be used for specific purposes.

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

Permanently restricted net assets consist of the following at March 31, 2010:

	<u>2009</u>	<u>Additions</u>	<u>2010</u>
Motten fund	\$ 48,281	\$ -	\$ 48,281
Endowment fund	<u>75,089</u>	<u>8,165</u>	<u>83,254</u>
	<u>\$ 123,370</u>	<u>\$ 8,165</u>	<u>\$ 131,535</u>

Board Designated

Funds designated by AYH represent the portion of unrestricted funds that have been set aside for specific purposes.

Board-designated net assets consist of the following at March 31, 2010:

	<u>2009</u>	<u>Additions</u>	<u>Investment gains</u>	<u>Uses</u>	<u>2010</u>
Insurance reserve fund	\$ 872,968	\$ -	\$ 212,334	\$ (4,656)	\$ 1,080,646
Endowment fund	<u>753,733</u>	<u>34,212</u>	<u>244,777</u>	<u>-</u>	<u>1,032,722</u>
	<u>\$ 1,626,701</u>	<u>\$ 34,212</u>	<u>\$ 457,111</u>	<u>\$ (4,656)</u>	<u>\$ 2,113,368</u>

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

NOTE 5 - ACCOUNTS, NOTES, GRANTS AND CONTRIBUTIONS RECEIVABLE

The following is a summary of accounts, notes, grants and contributions receivable at March 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Contributions due in:		
Less than one year	\$ 12,536	\$ 7,712
One to five years	16,410	-
Thereafter	<u>244</u>	<u>-</u>
Unconditional promises to give before unamortized discount and allowance for doubtful accounts	29,190	7,712
Less: Unamortized discounts (3.0% in 2010)	(1,046)	-
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
Net unconditional promises to give	28,144	7,712
Other accounts, notes and grants receivable, net of allowance of \$10,000	<u>315,847</u>	<u>270,213</u>
Total accounts, notes, grants, and contributions receivable	343,491	277,925
Less: Current portion	<u>318,337</u>	<u>264,425</u>
Long-term portion of accounts, notes, grants and contributions receivable	<u>\$ 25,154</u>	<u>\$ 13,500</u>

Uncollectible contributions are considered to be insignificant.

AYH

AYH has also advanced funds to certain AYH local councils under various terms and conditions.

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

NOTE 6 - EQUITY INVESTMENTS IN HOSTELS

AYH has entered into agreements with various local councils to own, operate and manage hostels. These agreements provide that AYH is to receive a percentage of the hostel's annual net income or loss.

Interests in unconsolidated hostels consisted of the following at March 31, 2010 and 2009:

	2010	2009
HI-Martha's Vineyard	\$ 96,572	\$ 103,638
HI-Los Angeles/Santa Monica	1,149,530	1,114,537
HI-San Francisco Downtown	53,785	53,786
HI-San Francisco City Center	554,162	517,995
HI-San Diego	83,808	83,808
	\$ 1,937,857	\$ 1,873,764

Pertinent information regarding the investments in unconsolidated hostels is summarized below:

HI-Martha's Vineyard (HI-MV)

In 1987 AYH entered into a joint venture agreement with the Eastern New England Council of AYH to form HI-MV. AYH has made investments of \$55,000 in HI-MV and receives 50% of the annual net income or loss of the joint venture. The joint venture is accounted for under the equity method.

HI-Los Angeles/Santa Monica (HI-LA/SM)

In 1987 AYH entered into a joint venture agreement with the Los Angeles Council of AYH (LAC) to form HI-LA/SM. AYH has made investments of \$27,940 in HI-LA/SM and receives 30% of the annual net income or loss of the joint venture. The joint venture is accounted for under the equity method.

HI-San Francisco Downtown (HI-SFD)

In 1994 AYH entered into a joint venture agreement with the Golden Gate Council of AYH (GGC). AYH has made investments of \$53,785 in HI-SFD and receives 11% of the annual

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

net income or loss of the joint venture. The joint venture is accounted for under the cost method. AYH recorded distributions in fiscal years 2010 and 2009 of \$99,365 and \$69,174, respectively.

HI-San Francisco City Center (HI-CC)

In 2004 AYH entered into a joint venture agreement with GGC under which AYH receives 11% of the annual net income or loss of the hostel. The joint venture is accounted for under the cost method. For the years ended March 31, 2010 and 2009, AYH recorded contributions to HI-CC of \$36,168 and \$30,227, respectively.

HI-San Diego (HI-SD)

In 1997 AYH entered into a Limited Liability partnership with the San Diego Council of AYH (SDC) and invested \$50,000 in HI-SD and receives 20% of the annual net income or loss of the partnership. The investment is accounted for under the cost method. AYH received no income distributions and made no contributions during 2010 and 2009.

During the years ended March 31, 2010 and 2009, the operations of the unconsolidated hostels accounted for under the equity method were as follows:

	2010			2009		
	Revenues	Expenses	Change in net assets	Revenues	Expenses	Change in net assets
HI-MV	\$ 176,573	\$ 190,704	\$ (14,131)	\$ 185,358	\$ 180,033	\$ 5,325
HI-LA/SM	\$ 2,495,873	\$ 2,079,235	\$ 416,638	\$ 2,429,590	\$ 2,013,528	\$ 416,062

Summarized financial position information of the unconsolidated hostels accounted for under the equity method was as follows at March 31, 2010 and 2009:

	2010			2009		
	Assets	Liabilities	Net assets	Assets	Liabilities	Net assets
HI-MV	\$ 591,495	\$ 398,351	\$ 193,144	\$ 498,672	\$ 291,397	\$ 207,275
HI-LA/SM	\$ 6,938,192	\$ 3,106,432	\$ 3,831,760	\$ 6,364,156	\$ 2,649,034	\$ 3,715,122

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

NOTE 7 - HOSTEL PREVELOPMENT DEPOSITS AND PROJECT EXPENDITURES

AYH jointly owns and operates the current HI-Boston Hostel (HI-B) at 12 Hemenway Street with its local affiliate the Eastern New England Council of Hostelling International - American Youth Hostels, Inc. (ENEC). AYH and ENEC have 65% and 35% ownership interests, respectively. AYH and ENEC have been actively seeking to develop a larger modern facility to replace the current property and have agreed to jointly operate the new facility with the same partnership interests.

In September of 2009, HI-B entered into a \$15,000,000 purchase and sales agreement for a building in downtown Boston to renovate and open as the replacement hostel. As of March 31, 2010, HI-B has made \$425,000 in nonrefundable deposits to the seller during the due diligence period and has spent an additional \$583,226 on related due diligence, project management, financing, architectural and engineering expenses. Under the terms of this agreement, HI-B has until January of 2011 to close on the property by making additional nonrefundable deposits of \$325,000 in May of 2010 and \$250,000 in September of 2010.

HI-B intends to utilize New Markets and Federal Historic Tax Credits in financing this project and have obtained commitments from tax credit allocatees and investors. In order to utilize the tax credits, HI-B will need to form new corporate entities to hold title and operate the hostel. Additional funding will come from the sale of the current hostel, bank debt and current liquid assets.

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at March 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Land	\$ 3,042,333	\$ 3,042,333
Buildings and improvements	36,803,440	35,622,319
Construction in progress	465,614	323,434
Furniture and equipment	3,512,599	3,370,962
Leased Equipment	<u>174,325</u>	<u>174,325</u>
	43,998,311	42,533,373
Less: Accumulated depreciation and amortization	<u>12,976,879</u>	<u>11,862,857</u>
Net property and equipment	<u><u>\$ 31,021,432</u></u>	<u><u>\$ 30,670,516</u></u>

NOTE 9 - LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at March 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
HI-New York	\$ 11,578,559	\$ 11,833,601
HI-Chicago	6,975,000	7,185,000
HI-Washington, DC	<u>1,493,875</u>	<u>1,609,142</u>
	20,047,434	20,627,743
Less: Current portion	<u>613,313</u>	<u>580,310</u>
Long-term portion	<u><u>\$ 19,434,121</u></u>	<u><u>\$ 20,047,433</u></u>

I. HI-New York

In May 2006 HI-NY entered into a \$12,500,000 mortgage loan agreement with a bank. Principal and interest are payable in monthly installments of \$81,937 beginning June 2006 with the balance due upon maturity in May 2016. Interest on outstanding

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

amounts is payable monthly based on the bank's daily LIBOR (0.23% and 0.50% as of March 31, 2010 and 2009) adjusted monthly, plus 1.05%. The loan is secured by a mortgage covering the New York hostel.

In 2006 HI-NY entered into an interest rate swap agreement, whereby it converted its variable rate liability into a fixed rate liability of 6.127%. The interest rate swap agreement matures in varying increments through May 2016. The interest rate swap qualifies as a derivative financial instrument, and is used to mitigate the effect of interest rate fluctuations. HI-NY accounts for the swap using accounting principles generally accepted in the United States of America. During the years ended March 31, 2010 and 2009, HI-NY recorded a gain/(loss) on the change in the derivative valuation in the amounts of \$586,553 and (\$875,599), respectively. Fair value at March 31, 2010 and 2009 is (\$1,401,727) and (\$1,988,280), respectively.

II. HI-Chicago

In December 1998 the Illinois Development Finance Authority (IDFA) issued \$8,500,000 in variable rate demand bonds on behalf of HI-C. The net proceeds of the bonds are restricted for the purchase and rehabilitation of the building, provide for interest costs on the bonds during construction, and pay letter of credit and issuance fees. To facilitate the issuance of the bonds, an irrevocable transferable letter of credit for principal and interest from a bank is maintained. The letter of credit is secured by the land and building and is guaranteed by AYH. At March 31, 2010, the amount of the letter of credit was \$6,975,000. The letter of credit, among other provisions, requires AYH and Hostel to meet certain financial ratio tests, restricts the acquisition of additional loans and expires in June 2010. In June of 2010, the letter of credit was extended through 2013.

Interest is payable monthly and the rates are variable based on the weekly interest rate as determined by the remarketing agent (0.24% and 0.49% as of March 31, 2010 and 2009, respectively). The interest rate may be converted to a different interest rate mode upon certain notification guidelines. The letter of credit requires the hostel to make quarterly sinking fund payments beginning September 1, 2001 in amounts ranging from \$26,250 in 2001 to \$170,000 in 2028. As of March 31, 2010 and 2009, the balances in the sinking fund were \$165,000 and \$157,500, respectively. Annual bond redemptions are required in amounts ranging from \$105,000 in 2001 to \$705,000 in 2028.

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

III. HI-Washington, D.C. Hostel

HI-Washington, D.C. has a mortgage note payable collateralized by the Washington, D.C. hostel. Principal and interest are payable in monthly installments of \$21,459 with the balance due upon maturity. Interest on outstanding amounts is payable monthly based on the day's LIBOR (0.23% and 0.50% as of March 31, 2010 and 2009, respectively), adjusted monthly, plus 1.2%. In March of 2008, the loan agreement was amended to extend the maturity date from March of 2009 to March of 2013.

HI-Washington, D.C. entered into an interest rate swap agreement in 2002, whereby it converted its variable rate liability into a fixed rate liability of 7.03 percent plus original prepayment rate differential of 2%. The interest rate swap agreement matures in varying increments through March 1, 2012. The interest rate swap qualifies as a derivative financial instrument, and is used to mitigate the effect of interest rate fluctuations. HI-W accounts for the swap using accounting principles generally accepted in the United States of America. During the years ended March 31, 2010 and 2009, HI-W recorded a gain/(loss) on the change in derivative valuation in the amounts of \$74,642 and (\$3,027), respectively. Fair value at March 31, 2010 and 2009 is (\$167,668) and (\$242,310), respectively.

Scheduled repayments of all long-term obligations listed in I through III are as follows:

Fiscal Years Ending:

March 31, 2011	\$	613,313
2012		653,786
2013		1,781,963
2014		581,687
2015		617,556
Thereafter		<u>15,799,129</u>
		<u>\$ 20,047,434</u>

Interest expense for all obligations for the years ended March 31, 2010 and 2009 was \$889,555 and \$1,029,267, respectively.

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

NOTE 10 - CAPITAL LEASE OBLIGATIONS

HI-New York is the lessee of office equipment under a capital lease that expires in 2011. As of March 31, 2010 and 2009, \$35,868 of equipment cost is being amortized over the lease term and such amortization is included in depreciation expense. Accumulated depreciation as of March 31, 2010 and 2009 totaled \$24,908 and \$12,952, respectively.

HI-Washington, D.C. is the lessee of office and laundry equipment under capital leases that expire in 2012 and 2014. As of March 31, 2010 and 2009, \$43,138 of equipment cost is being amortized over the lease terms and such amortization is included in depreciation expense. Accumulated depreciation as of March 31, 2010 and 2009 totaled \$18,605 and \$11,594, respectively.

HI-Chicago is the lessee of office equipment under a capital lease that expires in 2011. As of March 31, 2010 and 2009, \$95,319 of equipment cost is being amortized over the lease term, and such amortization is included in depreciation expense. Accumulated amortization as of March 31, 2010 and 2009 totaled \$79,432 and \$60,368, respectively.

Minimum future lease payments under the remaining terms of the capital leases as of March 31, 2010 are as follows:

2011	\$	37,973
2012		8,160
2013		5,640
2014		4,801
2015		1,999
		<hr/>
Total future minimum lease payments		58,573
Less amount represent interest		3,333
		<hr/>
Present value of net future minimum lease payments		55,240
Less current portion		36,130
		<hr/>
Long-term obligation under capital lease	\$	<u>19,110</u>

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Office and Equipment Leases

AYH leases office space and equipment under noncancelable operating leases expiring at various dates through 2017. Future minimum gross rental payments under these leases are as follows:

Fiscal Years Ending:

March 31, 2011	\$	109,584
2012		231,348
2013		238,316
2014		245,446
2015		252,802
Thereafter		<u>689,482</u>
	\$	<u><u>1,766,978</u></u>

Total consolidated rent expense for facilities for the years ended March 31, 2010 and 2009, totaled \$335,399 and \$383,960, respectively.

HI-C leases to Columbia College of Chicago dormitory and related educational facilities. The lease began August 2000 and continues until May, 2010. Additionally, the Hostel entered into lease agreements with restaurant and parking merchants. These leases continue through August 2017, September 2013 and September 2010, respectively.

HI-NY leases office and food service facilities to several tenants. These leases have varying expiration dates through March 2012.

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

Scheduled future minimum receipts under the leases are as follows:

March 31, 2011	\$	207,947
2012		131,016
2013		113,369
2014		96,638
2015		73,899
Thereafter		<u>178,589</u>
	\$	<u>801,458</u>

403(b) Defined Contribution Plan

All eligible AYH employees participate in the AYH contribution plan. For the years ended March 31, 2010 and 2009, total employer contributions for the plan were \$76,500 and \$82,134, respectively, which represents 2% of annual eligible payroll.

457(b) Executive Retirement Plan

AYH provides certain management employees the ability to elect to defer receipt of current compensation from AYH in order to provide retirement and other benefits on behalf of such employees. This Executive Retirement Plan is a nonqualified deferred compensation plan that complies with the provisions of Section 457(b) of the Internal Revenue Code. A contribution was made to this plan by AYH during the year ended March 31, 2010 in the amount of \$16,500. No amounts were deferred by the employees. Total plan assets and deferred compensation as of March 31, 2010 are \$17,115 and is included in other assets, with the related deferred compensation liability included in tenant deposits and other expenses on the consolidated statement of financial position.

Contingent Liabilities

Various lawsuits and claims against AYH have arisen in the ordinary course of business. In the opinion of management, any ultimate liability that could result from such litigation would not have a material effect on AYH's financial position or changes in net assets.

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

Letters of Credit

In addition to the letter of credit maintained by HI-C relating to bond financing (see note 9), AYH has secured a letter of credit for \$25,000 in connection with its office lease. The letter of credit is secured by a money market account.

Lines of Credit

AYH has a \$1,000,000 line of credit for working capital needs which expires September 30, 2010. There were no advances outstanding as of March 31, 2010 and 2009. Advances bear interest at the prime rate plus 0.25%. The line is secured by accounts receivable.

In March of 2010, HI-B opened a \$2,500,000 line of credit for predevelopment expenditures on a replacement Boston hostel (see notes 4 and 11). There were no advances outstanding as of March 31, 2010. Advances under the line require monthly payments of interest at the prime rate plus 0.5% or 5.00%, whichever is greater. The line is secured by a mortgage covering the Boston hostel.

NOTE 12 - RELATED PARTY TRANSACTIONS

The Eastern New England Council of AYH provides management services for HI-Boston. Management fees for the years ended March 31, 2010 and 2009 were \$100,811 and \$125,240, respectively.

Board members and staff of AYH made contributions of \$65,208 and \$39,863 during the fiscal years ended March 31, 2010 and 2009, respectively.

NOTE 13 - INCOME TAXES

During the years ended March 31, 2010 and 2009, the unrelated business taxable income for American Youth Hostels, Inc., net of expenses was \$115,109 and \$54,142, respectively. Cash paid for income taxes during the year ended March 31, 2010 and 2009 was \$1,863 and \$2,567, respectively.

American Youth Hostels - Chicago, Inc., which files a separate unrelated business income tax return due to their filing status, has a NOL carry forward of \$288,801 and \$289,539, as of March 31, 2010 and 2009, respectively. There is no resulting deferred tax asset for this NOL carry forward as of March 31, 2010 and 2009, as management has established a valuation

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

allowance equal to the deferred tax asset since future reversal of existing taxable temporary differences is unlikely.

NOTE 14 - ACCOUNTING FOR UNCERTAINTIES IN INCOME TAXES

AYH has adopted the provisions of FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*. As of March 31, 2010, no material unrecognized tax provision or benefit exists.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of a tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits in the accompanying statement of financial position, along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Management believes there are no positions that would result in additional tax assets or liabilities.

NOTE 15 - SUBSEQUENT EVENTS

Events that occur after the statement of financial position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the AYH through July 20, 2010 (the date the financial statements were available to be issued) and concluded that the following subsequent events have occurred that would require disclosure in the financial statements:

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2010 and 2009

In conjunction with its plans to develop a replacement hostel facility in Boston (see note 7), HI-B has signed a letter of intent in May of 2010 to sell the current Boston hostel property for \$4,750,000 and to lease back the property while the new facility is under construction. Negotiations to develop a purchase and sales agreement and lease are underway with the prospective buyer. The sale of this property will be contingent upon the closing of the purchase on the new property.

In May of 2010, an additional \$325,000 nonrefundable deposit was made to extend the due diligence period on the replacement Boston hostel property under contract. An additional \$250,000 deposit will be due September 1, 2010 to extend the contract period until January of 2010. AYH anticipates closing on the purchase of the new facility by October of 2010.

HI-B continues to spend on project management and due diligence costs while the new property is under contract and has drawn on its predevelopment line of credit (see note 11) to cover these outlays. As of July 20, 2010, advances on the line of credit were \$1,357,599.

SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTAL INFORMATION

To the Board of Directors
American Youth Hostels, Inc.

We have audited the consolidated financial statements of American Youth Hostels, Inc., for the year ended March 31, 2010, and our report thereon appears on page 3. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The additional information and the additional supplemental consolidating information as outlined in the Table of Contents are presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position and changes in net assets of the individual hostels and are not a required part of the basic consolidated financial statements. This additional information and the additional supplemental consolidating information are the responsibility of the management of American Youth Hostels, Inc. Such information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

Reznick Group, P.C.

Bethesda, Maryland
July 20, 2010

American Youth Hostels, Inc.

SCHEDULE OF FUNCTIONAL EXPENSES

Year ended March 31, 2010 (with comparative totals for 2009)

	Program services						Supporting services				Total expenses		
	Hostels	National	Hostels department	Program and education		Membership services	Total program services	General and administrative		Resource development	Total supporting services	2010 Total	2009 Total
				and education	development			Finance					
Salaries	\$ 4,068,312	\$ 428,015	\$ 4,496,327	\$ 76,161	\$ 179,870	\$ 182,974	\$ 4,935,332	\$ 281,525	\$ 315,859	\$ 153,927	\$ 751,311	\$ 5,686,643	\$ 5,803,296
Benefits and payroll taxes	1,159,562	85,938	1,245,500	16,688	42,046	45,505	1,349,739	65,591	58,706	33,283	157,580	1,507,319	1,467,167
Cost of sales	363,476	5,562	369,038	-	-	53,399	422,437	-	-	-	-	422,437	610,068
Professional fees	374,243	195,046	569,289	28,637	15,094	141,965	754,985	314,094	66,403	39,581	420,078	1,175,063	1,545,478
Dues and taxes	207,630	1,394	209,024	389	208	-	209,621	52,271	7,058	370	59,699	269,320	234,947
Supplies	100,348	5,164	105,512	952	1,934	8,163	116,561	1,794	3,189	1,157	6,140	122,701	116,193
Telephone	93,990	15,254	109,244	2,453	5,599	5,044	122,340	2,870	3,578	1,008	7,456	129,796	124,902
Mailing and preparation	30	16,771	16,801	404	1,461	60,170	78,836	8,057	3,146	21,583	32,786	111,622	95,858
Occupancy	2,109,260	56,123	2,165,383	12,434	28,288	31,015	2,237,120	27,183	38,559	9,580	75,322	2,312,442	2,493,500
Office equipment	5,275	6,238	11,513	873	1,734	7,908	22,028	4,140	2,708	673	7,521	29,549	36,731
Printing	10	54,684	54,694	53	903	107,581	163,231	10,312	113	38,581	49,006	212,237	219,052
Travel	37,182	88,766	125,948	7,404	9,088	3,425	145,865	45,735	3,723	3,006	52,464	198,329	233,382
Meetings	-	41,736	41,736	2,115	4,535	1,163	49,549	202,029	-	1,591	203,620	253,169	173,214
Interest	977,668	-	977,668	-	-	-	977,668	-	-	-	-	977,668	1,121,609
Advertising	290,465	65,604	356,069	-	-	30,629	386,698	29	395	3,768	4,192	390,890	375,535
Professional development	26,290	4,072	30,362	520	340	400	31,622	845	-	-	845	32,467	72,545
Insurance	212,456	59,753	272,209	646	1,293	1,609	275,757	1,508	2,020	491	4,019	279,776	257,604
Grants to councils	-	31,315	31,315	323,870	18,277	-	373,462	-	-	-	-	373,462	375,527
Other expenses	297,935	2,957	300,892	91	1,249	16,097	318,329	390	15,714	13,701	29,805	348,134	365,988
Minority interests	542,500	-	542,500	-	-	-	542,500	-	-	-	-	542,500	460,512
Depreciation and amortization	1,285,373	4,692	1,290,065	1,040	2,064	2,593	1,295,762	2,273	3,224	801	6,298	1,302,060	1,249,947
Program expenses	35,799	216	36,015	23,179	4,547	15,795	79,536	-	-	11,894	11,894	91,430	129,212
	<u>\$ 12,187,804</u>	<u>\$ 1,169,300</u>	<u>\$ 13,357,104</u>	<u>\$ 497,909</u>	<u>\$ 318,530</u>	<u>\$ 715,435</u>	<u>\$ 14,888,978</u>	<u>\$ 1,020,646</u>	<u>\$ 524,395</u>	<u>\$ 334,995</u>	<u>\$ 1,880,036</u>	<u>\$ 16,769,014</u>	<u>\$ 17,562,267</u>

American Youth Hostels, Inc.

CONSOLIDATING SCHEDULES OF FINANCIAL POSITION INFORMATION

March 31, 2010 and 2009

	HI-Boston		HI-Washington		HI-New York		HI-Chicago	
	2010	2009	2010	2009	2010	2009	2010	2009
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	\$ 148,753	\$ 434,047	\$ 1,149,085	\$ 655,383	\$ 1,882,202	\$ 1,808,551	\$ 1,664,130	\$ 566,960
Restricted cash - debt service	-	-	-	-	-	-	165,000	157,500
Investments	52,974	51,944	-	515,052	-	-	-	509,557
Accounts, notes, grants and contributions receivable, net	1,000	694	6,160	1,449	5,801	10,458	18,495	771
Publications and materials inventory	764	3,212	9,934	8,571	35,215	59,169	6,352	5,429
Prepaid expenses and other	2,723	6,926	5,008	9,043	22,749	22,118	15,663	6,235
Total current assets	206,214	496,823	1,170,187	1,189,498	1,945,967	1,900,296	1,869,640	1,246,452
INVESTMENTS AND OTHER NONCURRENT ASSETS								
Long-term portion of notes, grants and notes receivable contributions receivable, net	-	-	-	-	-	-	-	-
Equity investments in hostels	-	-	-	-	-	-	-	-
Hostel predevelopment deposits and project expenditures	1,008,226	-	-	-	-	-	-	-
Other assets	-	-	3,180	4,240	280,166	329,157	262,788	371,592
PROPERTY AND EQUIPMENT - Net	598,728	667,248	2,609,285	2,656,242	14,973,983	14,279,877	12,763,867	13,004,069
TOTAL ASSETS	\$ 1,813,168	\$ 1,164,071	\$ 3,782,652	\$ 3,849,980	\$ 17,200,116	\$ 16,509,330	\$ 14,896,295	\$ 14,622,113
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Accounts payable and accrued liabilities	\$ 604,711	\$ 110,317	\$ 114,443	\$ 156,336	\$ 457,202	\$ 459,764	\$ 257,263	\$ 319,647
Current portion of long-term obligations	-	-	125,839	115,267	267,474	255,043	220,000	210,000
Current portion of capital lease obligations	-	-	7,013	6,672	11,535	11,996	17,582	20,156
Notes payable	-	-	-	-	-	-	-	-
Deferred income	103,691	193,378	219,204	160,935	609,954	612,992	385,514	389,591
Total current liabilities	708,402	303,695	466,499	439,210	1,346,165	1,339,795	880,359	939,394
LONG-TERM DEBT, net of current portion	-	-	1,368,036	1,493,875	11,311,085	11,578,558	6,755,000	6,975,000
LONG-TERM CAPITAL LEASE OBLIGATIONS, net of current portion	-	-	19,110	26,123	-	11,535	-	17,582
TENANT DEPOSITS AND OTHER	-	-	-	-	3,428	3,428	85,305	85,305
INTEREST RATE SWAP AGREEMENT	-	-	167,668	242,310	1,401,727	1,988,280	-	-
NON-CONTROLLING INTEREST IN CONSOLIDATED HOSTELS	-	-	-	-	-	-	-	-
Total liabilities	708,402	303,695	2,021,313	2,201,518	14,062,405	14,921,596	7,720,664	8,017,281
NET ASSETS	1,104,766	860,376	1,761,339	1,648,462	3,137,711	1,587,734	7,175,631	6,604,832
TOTAL LIABILITIES AND NET ASSETS	\$ 1,813,168	\$ 1,164,071	\$ 3,782,652	\$ 3,849,980	\$ 17,200,116	\$ 16,509,330	\$ 14,896,295	\$ 14,622,113

American Youth Hostels, Inc.

CONSOLIDATING SCHEDULES OF FINANCIAL POSITION INFORMATION - CONTINUED

March 31, 2010 and 2009

	Hostel Total		AYH - National		Combined total		Eliminations		Consolidated total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
ASSETS										
CURRENT ASSETS										
Cash and cash equivalents	\$ 4,844,170	\$ 3,464,941	\$ 109,307	\$ 1,331,419	\$ 4,953,477	\$ 4,796,360	\$ -	\$ -	\$ 4,953,477	\$ 4,796,360
Restricted cash - debt service	165,000	157,500	-	-	165,000	157,500	-	-	165,000	157,500
Investments	52,974	1,076,553	2,895,370	2,397,356	2,948,344	3,473,909	-	-	2,948,344	3,473,909
Accounts, notes, grants and contributions receivable, net	31,456	13,372	714,189	342,590	745,645	355,962	(427,308)	(91,537)	318,337	264,425
Publications and materials inventory	52,265	76,381	94,404	103,183	146,669	179,564	-	-	146,669	179,564
Prepaid expenses and other	46,143	44,322	164,517	131,775	210,660	176,097	-	(150)	210,660	175,947
Total current assets	5,192,008	4,833,069	3,977,787	4,306,323	9,169,795	9,139,392	(427,308)	(91,687)	8,742,487	9,047,705
INVESTMENTS AND OTHER										
NONCURRENT ASSETS										
Long-term portion of notes, grants and notes contributions receivable, net	-	-	25,154	13,500	25,154	13,500	-	-	25,154	13,500
Equity investments in hostels	-	-	15,117,304	12,575,171	15,117,304	12,575,171	(13,179,447)	(10,701,407)	1,937,857	1,873,764
Hostel predevelopment deposits and project expenditures	1,008,226	-	-	-	1,008,226	-	-	-	1,008,226	-
Other assets	546,134	704,989	17,115	-	563,249	704,989	-	-	563,249	704,989
PROPERTY AND EQUIPMENT - Net	30,945,863	30,607,436	75,569	63,080	31,021,432	30,670,516	-	-	31,021,432	30,670,516
TOTAL ASSETS	\$ 37,692,231	\$ 36,145,494	\$ 19,212,929	\$ 16,958,074	\$ 56,905,160	\$ 53,103,568	\$ (13,606,755)	\$ (10,793,094)	\$ 43,298,405	\$ 42,310,474
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES										
Accounts payable and accrued liabilities	\$ 1,433,619	\$ 1,046,064	\$ 430,836	\$ 519,930	\$ 1,864,455	\$ 1,565,994	\$ (427,310)	\$ (91,537)	\$ 1,437,145	\$ 1,474,457
Current portion of long-term obligations	613,313	580,310	-	-	613,313	580,310	-	-	613,313	580,310
Current portion of capital lease obligations	36,130	38,824	-	-	36,130	38,824	-	-	36,130	38,824
Notes payable	-	-	-	-	-	-	-	-	-	-
Deferred income	1,318,363	1,356,896	25,958	45,215	1,344,321	1,402,111	-	(150)	1,344,321	1,401,961
Total current liabilities	3,401,425	3,022,094	456,794	565,145	3,858,219	3,587,239	(427,310)	(91,687)	3,430,909	3,495,552
LONG-TERM DEBT, net of current portion	19,434,121	20,047,433	-	-	19,434,121	20,047,433	-	-	19,434,121	20,047,433
LONG-TERM CAPITAL LEASE OBLIGATIONS, net of current portion	19,110	55,240	-	-	19,110	55,240	-	-	19,110	55,240
TENANT DEPOSITS AND OTHER	88,733	88,733	17,115	-	105,848	88,733	-	-	105,848	88,733
INTEREST RATE SWAP AGREEMENT	1,569,395	2,230,590	-	-	1,569,395	2,230,590	-	-	1,569,395	2,230,590
NON-CONTROLLING INTEREST IN CONSOLIDATED HOSTELS										
	-	-	1,038,362	911,062	1,038,362	911,062	-	-	1,038,362	911,062
Total liabilities	24,512,784	25,444,090	1,512,271	1,476,207	26,025,055	26,920,297	(427,310)	(91,687)	25,597,745	26,828,610
NET ASSETS	13,179,447	10,701,404	17,700,658	15,481,867	30,880,105	26,183,271	(13,179,445)	(10,701,407)	17,700,660	15,481,864
TOTAL LIABILITIES AND NET ASSETS	\$ 37,692,231	\$ 36,145,494	\$ 19,212,929	\$ 16,958,074	\$ 56,905,160	\$ 53,103,568	\$ (13,606,755)	\$ (10,793,094)	\$ 43,298,405	\$ 42,310,474

American Youth Hostels, Inc.

CONSOLIDATING SCHEDULES OF ACTIVITIES AND CHANGES IN NET ASSETS INFORMATION

Years ended March 31, 2010 and 2009

	HI-Boston		HI-Washington		HI-New York		HI-Chicago	
	2010	2009	2010	2009	2010	2009	2010	2009
REVENUE								
Hostel operations	\$ 2,806,670	\$ 3,197,309	\$ 2,427,746	\$ 2,250,153	\$ 6,649,948	\$ 7,507,624	\$ 3,304,306	\$ 3,458,388
Earnings from unconsolidated hostel operations	-	-	-	-	-	-	-	-
Membership dues	6,622	6,364	13,479	7,007	19,480	17,446	18,606	14,870
Sales of merchandise	92,979	73,521	82,008	85,403	510,868	651,520	83,843	81,546
Contributions	22,128	23,650	1,000	2,000	900	14,506	46,140	54,244
Investment income	1,719	15,861	8,922	29,634	7,031	13,665	7,039	23,412
Other income	4	2,838	596	(1,108)	6,485	5,669	(73)	(219)
Donated goods and services	28,458	630	-	-	-	-	-	-
Total revenue	2,958,580	3,320,173	2,533,751	2,373,089	7,194,712	8,210,430	3,459,861	3,632,241
EXPENSES								
Salaries	777,736	797,001	683,720	673,858	1,749,296	1,827,888	874,413	933,515
Benefits and payroll taxes	177,835	209,715	185,372	179,848	532,278	501,667	267,227	290,393
Cost of sales	73,094	58,503	68,953	91,545	445,395	536,633	73,298	64,693
Professional fees	208,823	465,778	28,504	20,989	90,059	78,745	47,379	86,446
Dues and taxes	4,509	4,764	114,910	102,832	49,767	28,008	46,993	34,812
Supplies	13,882	17,598	25,147	21,499	36,168	30,507	25,491	26,194
Telephone	14,539	13,584	15,252	15,434	24,809	32,273	38,069	28,796
Mailing and preparation	-	-	-	-	-	-	-	-
Occupancy	394,353	505,026	329,606	340,523	751,367	821,651	627,481	629,368
Office equipment	857	500	-	221	3,500	1,105	918	2,453
Printing	-	-	-	-	-	-	-	-
Travel	10,085	19,567	8,953	10,415	8,497	16,678	9,224	9,732
Meetings	-	-	-	-	-	-	-	-
Interest	-	-	143,237	153,658	727,929	743,883	106,502	232,397
Advertising	165,599	183,896	192,758	121,875	241,533	298,600	174,884	200,433
Professional development	4,036	4,705	6,498	16,882	11,602	23,282	4,454	19,674
Insurance	35,027	45,312	27,051	25,196	97,003	95,678	52,211	51,977
Grants to councils	-	-	-	-	-	-	-	-
Other expenses	44,036	44,559	57,049	35,818	153,576	138,255	55,228	53,650
Minority interests in consolidated hostel operations	-	-	-	-	-	-	-	-
Depreciation and amortization	72,904	76,291	139,358	121,183	603,988	556,954	468,769	458,388
Program expenses	16,875	12,248	9,148	8,237	4,521	26,147	16,521	14,498
Total expenses	2,014,190	2,459,047	2,035,516	1,940,013	5,531,288	5,757,954	2,889,062	3,137,419
CHANGES IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	944,390	861,126	498,235	433,076	1,663,424	2,452,476	570,799	494,822
NONOPERATING ACTIVITIES								
Derivative valuation	-	-	74,642	(3,027)	586,553	(875,599)	-	-
CHANGES IN NET ASSETS	944,390	861,126	572,877	430,049	2,249,977	1,576,877	570,799	494,822
NET ASSETS, BEGINNING OF YEAR	860,376	1,099,250	1,648,462	1,658,413	1,587,734	860,857	6,604,832	6,110,010
DISTRIBUTIONS	(700,000)	(1,100,000)	(460,000)	(440,000)	(700,000)	(850,000)	-	-
NET ASSETS, END OF YEAR	\$ 1,104,766	\$ 860,376	\$ 1,761,339	\$ 1,648,462	\$ 3,137,711	\$ 1,587,734	\$ 7,175,631	\$ 6,604,832

American Youth Hostels, Inc.

CONSOLIDATING SCHEDULES OF ACTIVITIES AND CHANGES IN NET ASSETS INFORMATION - CONTINUED

Years ended March 31, 2010 and 2009

	Hostel Total		AYH-National		Combined total		Eliminations		Consolidated total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
REVENUE										
Hostel operations	\$ 15,188,670	\$ 16,413,474	\$ 1,004,635	\$ 1,032,448	\$ 16,193,305	\$ 17,445,922	\$ (487,052)	\$ (536,623)	\$ 15,706,253	\$ 16,909,299
Earnings from unconsolidated hostel operations	-	-	4,555,330	3,558,576	4,555,330	3,558,576	(4,338,038)	(3,362,876)	217,292	195,700
Membership dues	58,187	45,687	481,216	496,276	539,403	541,963	(66,106)	(58,672)	473,297	483,291
Sales of merchandise	769,698	891,990	414,483	388,798	1,184,181	1,280,788	(243,557)	(183,098)	940,624	1,097,690
Contributions	70,168	94,400	385,357	303,294	455,525	397,694	(120,836)	(122,971)	334,689	274,723
Investment income	24,711	82,572	501,574	(359,708)	526,285	(277,136)	-	(8,329)	526,285	(285,465)
Other income	7,012	7,180	93,005	171,746	100,017	178,926	(300)	(69,372)	99,717	109,554
Donated goods and services	28,458	630	-	3,400	28,458	4,030	-	-	28,458	4,030
Total revenue	16,146,904	17,535,933	7,435,600	5,594,830	23,582,504	23,130,763	(5,255,889)	(4,341,941)	18,326,615	18,788,822
EXPENSES										
Salaries	4,085,165	4,232,262	1,601,478	1,571,034	5,686,643	5,803,296	-	-	5,686,643	5,803,296
Benefits and payroll taxes	1,162,712	1,181,623	344,607	285,544	1,507,319	1,467,167	-	-	1,507,319	1,467,167
Cost of sales	660,740	751,374	60,399	84,513	721,139	835,887	(298,704)	(225,819)	422,435	610,068
Professional fees	374,765	651,958	800,298	893,520	1,175,063	1,545,478	-	-	1,175,063	1,545,478
Dues and taxes	216,179	170,416	61,911	74,321	278,090	244,737	(8,770)	(9,790)	269,320	234,947
Supplies	100,688	95,798	22,013	20,395	122,701	116,193	-	-	122,701	116,193
Telephone	92,669	90,087	37,127	34,815	129,796	124,902	-	-	129,796	124,902
Mailing and preparation	-	-	111,622	95,858	95,858	111,622	-	-	111,622	95,858
Occupancy	2,102,807	2,296,568	209,635	196,932	2,312,442	2,493,500	-	-	2,312,442	2,493,500
Office equipment	5,275	4,279	24,274	32,452	29,549	36,731	-	-	29,549	36,731
Printing	-	-	212,237	212,237	212,237	219,052	-	-	212,237	219,052
Travel	36,759	56,392	161,570	177,140	198,329	233,532	-	(150)	198,329	233,382
Meetings	-	-	253,194	183,048	253,194	183,048	(25)	(9,834)	253,169	173,214
Interest	977,668	1,129,938	-	-	977,668	1,129,938	-	(8,329)	977,668	1,121,609
Advertising	774,774	804,804	97,489	159,640	872,263	964,444	(481,371)	(588,909)	390,892	375,535
Professional development	26,590	64,543	6,177	8,452	32,767	72,995	(300)	(450)	32,467	72,545
Insurance	211,292	218,163	68,484	39,441	279,776	257,604	-	-	279,776	257,604
Grants to councils	-	-	494,298	498,498	494,298	498,498	(120,836)	(122,971)	373,462	375,527
Other expenses	309,889	272,282	46,090	106,516	355,979	378,798	(7,845)	(12,810)	348,134	365,988
Minority interests in consolidated hostel operations	-	-	542,500	460,512	542,500	460,512	-	-	542,500	460,512
Depreciation and amortization	1,285,019	1,212,816	17,041	37,131	1,302,060	1,249,947	-	-	1,302,060	1,249,947
Program expenses	47,065	61,130	44,365	68,082	91,430	129,212	-	-	91,430	129,212
Total expenses	12,470,056	13,294,433	5,216,809	5,246,896	17,686,865	18,541,329	(917,851)	(979,062)	16,769,014	17,562,267
CHANGES IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	3,676,848	4,241,500	2,218,791	347,934	5,895,639	4,589,434	(4,338,038)	(3,362,879)	1,557,601	1,226,555
NONOPERATING ACTIVITIES										
Derivative valuation	661,195	(878,626)	-	-	661,195	(878,626)	-	-	661,195	(878,626)
CHANGES IN NET ASSETS	4,338,043	3,362,874	2,218,791	347,934	6,556,834	3,710,808	(4,338,038)	(3,362,879)	2,218,796	347,929
NET ASSETS, BEGINNING OF YEAR	10,701,404	9,728,530	15,481,867	15,133,933	26,183,271	24,862,463	(10,701,407)	(9,728,528)	15,481,864	15,133,935
DISTRIBUTIONS	(1,860,000)	(2,390,000)	-	-	(1,860,000)	(2,390,000)	1,860,000	2,390,000	-	-
NET ASSETS, END OF YEAR	\$ 13,179,447	\$ 10,701,404	\$ 17,700,658	\$ 15,481,867	\$ 30,880,105	\$ 26,183,271	\$ (13,179,445)	\$ (10,701,407)	\$ 17,700,660	\$ 15,481,864