



CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

AMERICAN YOUTH HOSTELS, INC.

MARCH 31, 2008 AND 2007

American Youth Hostels, Inc.

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INDEPENDENT AUDITORS' REPORT

Audit Committee and Board of Directors
American Youth Hostels, Inc.
Silver Spring, Maryland

We have audited the accompanying consolidated statement of financial position of American Youth Hostels, Inc. (AYH) as of March 31, 2008, 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 2007 financial statements and, in our report dated July 25, 2007, 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, 2007, 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, 2008, 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 29, 2008

American Youth Hostels, Inc.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

March 31, 2008 (with comparative totals for 2007)

ASSETS	2008			Total	2007
	Unrestricted	Temporarily Restricted	Permanently Restricted		
CURRENT ASSETS					
Cash					
Cash and cash equivalents	\$ 4,615,130	\$ 322	\$ -	\$ 4,615,452	\$ 5,391,126
Restricted cash - debt service	150,000	-	-	150,000	142,500
Total cash	4,765,130	322	-	4,765,452	5,533,626
Investments	1,899,731	719,448	115,255	2,734,434	2,663,658
Accounts, notes, grants and contributions receivable	479,463	44,696	-	524,159	439,006
Publications and materials inventory	166,661	-	-	166,661	175,724
Prepaid expenses and other	129,895	-	-	129,895	99,843
Total current assets	7,440,880	764,466	115,255	8,320,601	8,911,857
INVESTMENTS AND OTHER NONCURRENT ASSETS					
Long-term portion of notes, grants and contributions receivable	18,500	-	-	18,500	26,955
Equity investment in hostels	1,837,008	-	-	1,837,008	1,780,998
Other assets	793,768	-	-	793,768	777,061
	2,649,276	-	-	2,649,276	2,585,014
PROPERTY AND EQUIPMENT - Net	30,972,432	-	-	30,972,432	29,122,272
TOTAL ASSETS	\$ 41,062,588	\$ 764,466	\$ 115,255	\$ 41,942,309	\$ 40,619,143
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	\$ 1,642,842	\$ -	\$ -	\$ 1,642,842	\$ 1,342,924
Current portion of long-term debt	545,045	-	-	545,045	507,852
Current portion of long-term capital lease obligations	36,934	-	-	36,934	18,242
Deferred income	1,427,648	-	-	1,427,648	1,132,493
Total current liabilities	3,652,469	-	-	3,652,469	3,001,511
LONG-TERM DEBT, net of current portion	20,627,743	-	-	20,627,743	21,172,789
LONG-TERM CAPITAL LEASE OBLIGATIONS, net of current portion	94,065	-	-	94,065	56,914
TENANT DEPOSITS AND OTHER	83,783	-	-	83,783	85,346
INTEREST RATE SWAP AGREEMENT	1,351,965	-	-	1,351,965	207,460
MINORITY INTEREST IN CONSOLIDATED HOSTELS	998,349	-	-	998,349	1,011,930
Total liabilities	26,808,374	-	-	26,808,374	25,535,950
Commitments and contingencies	-	-	-	-	-
NET ASSETS	14,254,214	764,466	115,255	15,133,935	15,083,193
TOTAL LIABILITIES AND NET ASSETS	\$ 41,062,588	\$ 764,466	\$ 115,255	\$ 41,942,309	\$ 40,619,143

See notes to consolidated financial statements

American Youth Hostels, Inc.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended March 31, 2008 (with comparative totals for 2007)

	2008			Total	2007
	Unrestricted	Temporarily Restricted	Permanently Restricted		
OPERATING ACTIVITIES					
Revenue					
Hostel operations	\$ 15,505,398	\$ -	\$ -	\$ 15,505,398	\$ 14,770,930
Earnings from unconsolidated					
hostel operations	193,395	-	-	193,395	198,770
Membership dues	644,726	-	-	644,726	837,653
Sales of merchandise	1,067,572	-	-	1,067,572	1,228,388
Contributions	221,769	78,462	6,201	306,432	222,823
Investment income	183,271	33,543	-	216,814	367,775
Other income	131,907	-	-	131,907	175,198
Net assets released from restrictions	47,498	(47,498)	-	-	-
Total revenues	17,995,536	64,507	6,201	18,066,244	17,801,537
Expenses					
Program services					
Hostel operations	13,621,922	-	-	13,621,922	13,611,533
Program and education	616,345	-	-	616,345	715,196
Organizational development	359,489	-	-	359,489	379,901
Membership services	794,715	-	-	794,715	1,164,618
Supporting services					
General and administrative	918,730	-	-	918,730	721,418
Finance	459,354	-	-	459,354	582,035
Resource development	100,442	-	-	100,442	125,068
Total expenses	16,870,997	-	-	16,870,997	17,299,769
CHANGES IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	1,124,539	64,507	6,201	1,195,247	501,768
NONOPERATING ACTIVITIES					
Derivative valuation	(1,144,505)	-	-	(1,144,505)	(203,798)
Forgiveness of debt	-	-	-	-	(122,892)
CHANGES IN NET ASSETS	(19,966)	64,507	6,201	50,742	175,078
NET ASSETS, BEGINNING OF YEAR (NOTE 12)	14,274,180	699,959	109,054	15,083,193	14,908,115
NET ASSETS, END OF YEAR	\$ 14,254,214	\$ 764,466	\$ 115,255	\$ 15,133,935	\$ 15,083,193

See notes to consolidated financial statements

American Youth Hostels, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 50,742	\$ 175,078
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	1,124,764	1,147,770
Loss on disposals and write-off of assets	14,720	22,569
Forgiveness of debt	-	122,892
Realized loss on short-term investments	12,061	7,900
Unrealized (gain) loss on short-term investments	16,959	(98,367)
Derivative valuation	1,144,505	203,798
Undistributed equity in income of unconsolidated hostels	(129,819)	(140,482)
Distributions from unconsolidated hostels	120,000	90,000
Minority interests in consolidated hostels	422,860	385,914
Changes in assets and liabilities		
Accounts, notes, grants and contributions receivable	(103,820)	403,189
Publications and materials inventory	9,063	36,200
Prepaid expenses and other	(132,859)	136,482
Accounts payable, accrued liabilities and tenant deposits	298,356	(288,832)
Deferred income	295,154	68,853
Net cash provided by operating activities	<u>3,142,686</u>	<u>2,272,964</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of short-term investments	413,735	2,520,345
Purchases of short-term investments	(513,531)	(3,017,045)
Repayments of note receivable	18,847	426,350
Issuances note receivable	-	(154,126)
Decrease in debt reserve fund	-	292,810
Additions to property and equipment	(2,810,963)	(1,151,065)
Contributions from minority interests in consolidated hostels	-	154,126
Contributions to unconsolidated hostels	(46,192)	(86,778)
Net cash used in investing activities	<u>(2,938,104)</u>	<u>(1,015,383)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable and other obligations	-	12,500,000
Repayment of note payable and other obligations	(507,853)	(8,539,549)
Repayment of capital lease obligations	(23,163)	(20,163)
Deferred financing costs	(5,300)	(428,398)
Adjustments to minority interests in consolidated hostels	(1,690)	-
Distributions to minority interests in consolidated hostels	(434,750)	(424,000)
Net cash (used in) provided by financing activities	<u>(972,756)</u>	<u>3,087,890</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(768,174)	4,345,471
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,533,626</u>	<u>1,188,155</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,765,452</u>	<u>\$ 5,533,626</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid during the year	<u>\$ 1,190,898</u>	<u>\$ 1,241,406</u>
SIGNIFICANT NONCASH INVESTING AND FINANCING ACTIVITIES:		
Fixed assets acquired by capital lease	79,006	95,319
Disposal of fully depreciated computer equipment	67,200	-
	<u>\$ 146,206</u>	<u>\$ 95,319</u>

See notes to consolidated financial statements

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008 and 2007

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), the HI-Seattle Hostel (HI-S) 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

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

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2008 and 2007

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, 2007, from which the summarized information was derived.

Cash and Cash Equivalents

AYH considers all highly-liquid debt investments purchased with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

AYH maintains its cash balances in several accounts in various banks. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. At times, these balances may exceed the federal insurance limits; however, AYH has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at March 31, 2008.

Restricted Cash

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

Investments

Investments are reported at market value with any related realized or unrealized gain or loss reflected in the statement of activities.

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

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2008 and 2007

allowance will change. The allowance for doubtful accounts is \$10,000 as of March 31, 2008 and 2007.

Publications and Materials Inventory

Publications and materials inventory are stated at the lower of cost (first-in, first-out) or market.

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

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, 2008 and 2007 was \$317,194 and \$253,862, respectively. Projected amortization expense for the next five years ending March 31, 2009, 2010, 2011, 2012, and 2013 is \$95,113, \$95,113, \$64,836, \$58,781, and \$58,781, respectively.

Derivative Financial Instruments

Interest rate swap agreements are accounted for under Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. Since AYH is a not-for-profit organization, cash flow hedging is not permitted

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2008 and 2007

under accounting principles generally accepted in the United States of America, therefore, the fair value of this derivative is reflected in the statement of financial position with the related gains and losses reflected in the statement of activities.

Income Taxes

AYH and all consolidated hostels are exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code.

Revenue Recognition

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. AYH reports pledged gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified in the consolidated statement of activities as net assets released from restrictions. Income on these net assets is classified as temporarily restricted or unrestricted in accordance with the donor's stipulation.

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.

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

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.

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2008 and 2007

Minority Interest in Consolidated Hostels

Minority interests in 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, 2008 and 2007, the partners' share of the net change in assets in the amounts of \$422,860 and \$385,914, respectively, are included in hostel operations expense.

Grants to Councils

Grants to councils are recorded on an accrual basis.

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 statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Impairment of Long-Lived Assets

Each year, management determines whether any property and equipment or other long-lived assets have been impaired based on the criteria established in SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." AYH made no adjustments to the carrying value of long-lived assets during the years ended March 31, 2008 and 2007.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation.

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2008 and 2007

NOTE 3 - INVESTMENTS

At March 31, 2008 and 2007, investments held in brokerage investment accounts consist of the following:

	<u>2008</u>	<u>2007</u>
Marketable equity securities	\$ 1,197,116	\$ 977,508
Corporate bonds	1,315,217	1,458,641
Commercial money market funds	<u>222,101</u>	<u>227,509</u>
	<u>\$ 2,734,434</u>	<u>\$ 2,663,658</u>

The following summarizes the investment return and its classification in the statement of activities for the years ended March 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Investment income, net of fees	\$ 245,834	\$ 277,308
Unrealized (loss) gain	(16,959)	98,367
Realized loss	<u>(12,061)</u>	<u>(7,900)</u>
	<u>\$ 216,814</u>	<u>\$ 367,775</u>

Investment fees as of March 31, 2008 and 2007 totaled \$20,780 and \$18,870, respectively.

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2008 and 2007

NOTE 4 - ACCOUNTS, NOTES, GRANTS AND CONTRIBUTIONS RECEIVABLE

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

	<u>2008</u>	<u>2007</u>
Contributions due in:		
Less than one year	\$ 44,696	\$ 17,508
Total contributions receivable	44,696	17,508
Loans to AYH local councils	24,842	43,689
Other accounts, notes and grants receivable, net of allowance of \$10,000	<u>473,121</u>	<u>404,764</u>
Total accounts, notes, grants, and contributions receivable	542,659	465,961
Less: Current portion	<u>524,159</u>	<u>439,006</u>
Long-term portion of accounts, notes, grants, and contributions receivable	<u>\$ 18,500</u>	<u>\$ 26,955</u>

Uncollectible contributions are considered to be insignificant.

HI-Chicago (HI-C)

HI-C received a \$3,530,000 grant from a City of Chicago Tax Incremental Financing program. Of this amount, \$2,530,000 represents funds available for project financing as expenses are incurred. At March 31, 2008 and 2007, HI-C had received \$2,456,882 in cash advances and had earned but not received an additional \$73,118. This amount is to be paid upon completion of future eligible building repairs and improvements. Repairs and improvements were completed during the year ending March 31, 2008. The final advance of \$73,118 was received in April 2008.

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2008 and 2007

The remaining \$1,000,000 of the grant was conditional depending upon the outcome of HI-C's application for a property tax exemption. A partial property tax exemption was received in 2002 for property taxes paid since 1999. During 2007, the HI-C paid back \$119,764. At March 31, 2007, the conditional grant had been repaid in full.

AYH

In 1988 AYH entered into a joint venture agreement with the Washington State Council of AYH (WSC) to operate the leased HI-Seattle hostel. Under the terms of the agreement, each party is responsible for an equal percentage of the hostel's net income or loss. The hostel's lease expired in March of 2007 and the hostel ceased operations. The hostel had accumulated operating losses of \$308,252 as of March 31, 2007. WSC's 50% share of these losses, \$154,126 became payable to AYH. AYH forgave \$122,892 of this debt and the balance of \$31,234 is payable in semi-annual installments through May of 2011.

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

NOTE 5 - 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,:

	<u>2008</u>	<u>2007</u>
HI-Martha's Vineyard	\$ 101,929	\$ 104,643
HI-Los Angeles/Santa Monica	1,109,719	1,097,187
HI-San Francisco Downtown	53,785	53,785
HI-San Francisco City Center	487,767	441,575
HI-San Diego	83,808	83,808
	<u>\$ 1,837,008</u>	<u>\$ 1,780,998</u>

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2008 and 2007

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 net income or loss of the joint venture. The joint venture is accounted for under the cost method. AYH recorded distributions in fiscal years 2008 and 2007 of \$63,575 and \$58,287, 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, 2008 and 2007, AYH recorded contributions to HI-CC of \$46,192 and \$80,535, 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

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2008 and 2007

received no income distributions during 2008 and 2007. AYH made contributions of \$0 and \$6,243 during 2008 and 2007, respectively.

During the years ended March 31, 2008 and 2007, the operations of the unconsolidated hostels accounted for under the equity method were as follows:

	2008			2007		
	Revenues	Expenses	Change in net assets	Revenues	Expenses	Change in net assets
HI-MV	\$ 182,333	\$ 187,761	\$ (5,428)	\$ 167,744	\$ 178,473	\$ (10,729)
HI-LA/SM	\$ 2,196,789	\$ 1,755,011	\$ 441,778	\$ 1,950,691	\$ 1,464,537	\$ 486,154

Summarized financial position information of the unconsolidated hostels accounted for under the equity method was as follows at March 31, 2008 and 2007:

	2008			2007		
	Assets	Liabilities	Net assets	Assets	Liabilities	Net assets
HI-MV	\$ 452,011	\$ 250,061	\$ 201,950	\$ 485,244	\$ 277,866	\$ 207,378
HI-LA/SM	\$ 6,459,253	\$ 2,760,191	\$ 3,699,062	\$ 6,572,541	\$ 2,915,257	\$ 3,657,284

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2008 and 2007

NOTE 6 - PROPERTY AND EQUIPMENT

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

	<u>2008</u>	<u>2007</u>
Land	\$ 3,042,333	\$ 3,042,333
Buildings and improvements	33,241,897	33,118,302
Construction in progress	3,083,977	948,159
Furniture and equipment	2,222,421	1,779,392
Leased Equipment	<u>174,325</u>	<u>95,319</u>
	41,764,953	38,983,505
Less: Accumulated depreciation and amortization	<u>10,792,521</u>	<u>9,861,233</u>
Net property and equipment	<u>\$ 30,972,432</u>	<u>\$ 29,122,272</u>

NOTE 7 - LONG-TERM OBLIGATIONS

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

	<u>2008</u>	<u>2007</u>
HI-New York	\$ 12,073,345	\$ 12,296,752
HI-Chicago	7,385,000	7,575,000
HI-Washington, DC	<u>1,714,443</u>	<u>1,808,889</u>
	21,172,788	21,680,641
Less: Current portion	<u>545,045</u>	<u>507,852</u>
Long-term portion	<u>\$ 20,627,743</u>	<u>\$ 21,172,789</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

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2008 and 2007

2006 with the balance due upon maturity in May 2016. Interest on outstanding amounts is payable monthly based on the bank's day LIBOR rate (3.11% and 5.32% as of March 31, 2008 and 2007) 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 under SFAS No. 133, as amended. During the years ended March 31, 2008 and 2007, HI-NY recorded a loss on the change in the derivative valuation in the amounts of \$1,056,646 and \$209,077, respectively. Fair value at March 31, 2008 and 2007 is (\$1,112,682) and (\$56,036), 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, 2008, the amount of the letter of credit was \$7,385,000. 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 2010.

Interest is payable monthly and the rates are variable based on the weekly interest rate as determined by the remarketing agent. 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, 2008 and 2007, the balances in the sinking fund were \$150,000 and \$142,500, 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, 2008 and 2007

III. HI-Washington DC Hostel

HI-Washington, D.C. has a mortgage note payable collateralized by the Washington, DC 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 rate (3.11% and 5.32% as of March 31, 2008 and 2007, 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-W 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 under SFAS No. 133, as amended. During the years ended March 31, 2008 and 2007, HI-W recorded a (loss)/gain on the change in derivative valuation in the amounts of (\$87,859) and \$5,279, respectively. Fair value at March 31, 2008 and 2007 is (\$239,283) and (\$151,424), respectively.

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

Fiscal Years Ending:

Year ending March 31, 2009	\$	545,045
2010		580,310
2011		613,313
2012		653,786
2013		1,781,962
Thereafter		<u>16,998,372</u>
	\$	<u><u>21,172,788</u></u>

Interest expense for all obligations for the years ended March 31, 2008 and 2007, was \$1,173,226 and \$1,227,502, respectively.

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2008 and 2007

NOTE 8 - CAPITAL LEASE OBLIGATIONS

HI-New York is the lessee of office equipment under a capital lease that expires in 2011. As of March 31, 2008 and 2007, \$35,868 and \$0 of equipment cost is being amortized over the lease term and such amortization is included in depreciation expense. Accumulated depreciation as of March 31, 2008 and 2007 totaled \$966 and \$0.

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, 2008 and 2007, \$43,138 and \$0 of equipment cost is being amortized over the lease terms and such amortization is included in depreciation expense. Accumulated depreciation as of March 31, 2008 totaled \$4,584.

HI-Chicago is the lessee of office equipment under a capital lease that expires in 2011. As of March 31, 2008 and 2007, \$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, 2008 and 2007 totaled \$41,305 and \$22,241, respectively.

Minimum future lease payments under the remaining terms of the capital leases as of March 31, 2008 are as follows:

Fiscal Years Ending

2009	\$	42,645
2010		42,645
2011		37,973
2012		8,160
2013		5,640
		<u>6,801</u>
Total future minimum lease payments		143,864
Less amount represent interest		<u>12,865</u>
Present value of net future minimum lease payments		130,999
Less current portion		<u>36,934</u>
Long-term obligation under capital lease	\$	<u><u>94,065</u></u>

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2008 and 2007

NOTE 9 - NET ASSETS

The Board has designated unrestricted net assets for the following purposes at March 31:

	<u>2008</u>	<u>2007</u>
Insurance reserve fund	\$ 1,069,920	\$ 1,109,125
Endowment fund	<u>829,811</u>	<u>810,097</u>
	<u>\$ 1,899,731</u>	<u>\$ 1,919,222</u>

As of March 31, temporarily restricted net assets are available for the following purposes, see note 12:

	<u>2008</u>	<u>2007</u>
Hostel development - Rich bequest	\$ 454,992	\$ 425,852
Opening Doors, Opening Minds	107,085	94,546
HI-Chicago programming	14,694	-
Endowment fund	-	13,298
Other restricted gifts	<u>187,695</u>	<u>166,263</u>
	<u>\$ 764,466</u>	<u>\$ 699,959</u>

As of March 31, permanently restricted net assets consisted of the following, see note 12:

	<u>2008</u>	<u>2007</u>
Motten fund	\$ 48,281	\$ 48,281
Endowment fund	<u>66,974</u>	<u>60,773</u>
	<u>\$ 115,255</u>	<u>\$ 109,054</u>

Net assets released from restrictions during the year ended March 31, 2008 and 2007, were \$47,498 and \$73,954, respectively, and related to HI-C programming, Houston hostel development, and other programming.

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2008 and 2007

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Office and Equipment Leases

AYH leases office space and equipment under noncancelable operating leases expiring at various dates through 2010. Future minimum gross rental payments under these leases are as follows:

Fiscal Years Ending:

March 31, 2009	\$	182,865
2010		186,660
2011		<u>15,769</u>
	\$	<u><u>385,294</u></u>

Total consolidated rent expense for facilities for the years ended March 31, 2008 and 2007, totaled \$381,529 and \$508,634, respectively.

HI-C leases to Columbia College of Chicago dormitory and related educational facilities. The lease began August, 2000, and continues until May, 2010. The lease contains options to extend for up to two more periods of five years. Additionally, the Hostel entered into lease agreements with restaurant and parking merchants. These leases continue through August 2017 and December 2010, respectively.

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

Subsequent to year end, HI-C entered into a lease with a tenant dated May 1, 2008. The lease term is for a period of 60 months with a base rent of \$39,600 annually and 5% rent escalations each year commencing on May 1, 2011.

American Youth Hostels, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

March 31, 2008 and 2007

Scheduled future minimum receipts under the leases are as follows:

March 31, 2009	\$	879,402
2010		904,145
2011		168,274
2012		131,016
2013		113,368
Thereafter		<u>349,126</u>
	\$	<u>2,545,331</u>

Defined Contribution Plan

All eligible AYH employees participate in the AYH contribution plan. For the years ended March 31, 2008 and 2007, total expenses for the plan were \$71,411 and \$42,172, respectively, which represents 2% of annual eligible payroll.

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.

Letters of Credit

In addition to the letter of credit maintained by HI-C relating to bond financing (note 7), 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.

Line of Credit

AYH has a \$1,000,000 line of credit for working capital needs which expires September 30, 2008. There were no advances outstanding as of March 31, 2008 and 2007. Advances bear interest at the prime rate plus 0.25%. The line is secured by accounts receivable.

SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors
American Youth Hostels, Inc.
Silver Spring, MD

We have audited the consolidated financial statements of American Youth Hostels, Inc., for the year ended March 31, 2008, 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 29, 2008

American Youth Hostels, Inc.

SCHEDULE OF FUNCTIONAL EXPENSES

Year ended March 31, 2007 (with comparative totals for 2006)

	Program services						Supporting services				Total expenses		
	Hostels	National	Hostels department	Program and education	Organizational development	Membership services	Total program services	General and administrative	Finance	Resource development	Total supporting services	2008 Total	2007 Total
Salaries	\$ 3,829,957	\$ 464,547	\$ 4,294,504	\$ 114,991	\$ 189,228	\$ 181,921	\$ 4,780,644	\$ 208,841	\$ 258,744	\$ 48,385	\$ 515,970	\$ 5,296,614	\$ 5,450,802
Benefits and payroll taxes	1,023,558	257,487	1,281,045	23,388	39,719	56,637	1,400,789	32,845	54,077	9,691	96,613	1,497,402	1,381,679
Cost of sales	622,960	20,423	643,383	-	-	87,363	730,746	-	-	-	-	730,746	929,291
Professional fees	646,658	256,030	902,688	5,617	64,254	156,554	1,129,113	246,536	69,887	17,919	334,342	1,463,455	1,257,527
Dues and taxes	163,739	135	163,874	-	-	-	163,874	190,289	6,867	-	197,156	361,030	256,346
Supplies	86,600	5,940	92,540	1,644	2,305	6,682	103,171	2,709	3,669	903	7,281	110,452	146,030
Telephone	96,869	20,211	117,080	1,628	4,198	5,007	127,913	2,683	2,737	727	6,147	134,060	139,650
Mailing and preparation	76	16,484	16,560	3,612	950	59,709	80,831	8,287	3,426	4,581	16,294	97,125	102,276
Occupancy	1,872,256	52,167	1,924,423	14,390	23,093	28,782	1,990,688	26,984	28,782	8,994	64,760	2,055,448	2,314,366
Office equipment	24,624	16,494	41,118	1,748	2,404	11,686	56,956	4,440	3,496	1,093	9,029	65,985	83,062
Printing	-	48,184	48,184	3,161	350	97,863	149,558	7,166	-	3,899	11,065	160,623	168,099
Travel	25,041	122,178	147,219	10,041	5,631	7,747	170,638	28,197	1,729	-	29,926	200,564	194,242
Meetings	-	19,003	19,003	826	1,674	1,307	22,810	141,567	323	-	141,890	164,700	177,035
Interest	1,266,646	-	1,266,646	-	-	-	1,266,646	-	5,758	-	5,758	1,272,404	1,379,331
Advertising	168,596	104,195	272,791	-	14	18,716	291,521	356	850	837	2,043	293,564	165,590
Professional development	48,831	2,479	51,310	2,485	-	-	53,795	-	-	-	-	53,795	49,789
Insurance	250,549	206,304	456,853	-	10,315	12,894	480,062	12,894	12,894	2,579	28,367	508,429	564,130
Grants to councils	-	18,792	18,792	393,270	6,394	-	418,456	-	-	-	-	418,456	446,145
Other expenses	294,623	(3,242)	291,381	100	164	38,456	330,101	2,256	3,516	22	5,794	335,895	453,675
Minority interests	422,860	-	422,860	-	-	-	422,860	-	-	-	-	422,860	385,914
Depreciation and amortization	1,101,721	11,517	1,113,238	1,299	1,787	2,599	1,118,923	2,430	2,599	812	5,841	1,124,764	1,147,767
Program expenses	36,430	-	36,430	38,145	7,009	20,792	102,376	250	-	-	250	102,626	107,023
	<u>\$ 11,982,594</u>	<u>\$ 1,639,328</u>	<u>\$ 13,621,922</u>	<u>\$ 616,345</u>	<u>\$ 359,489</u>	<u>\$ 794,715</u>	<u>\$ 15,392,471</u>	<u>\$ 918,730</u>	<u>\$ 459,354</u>	<u>\$ 100,442</u>	<u>\$ 1,478,526</u>	<u>\$ 16,870,997</u>	<u>\$ 17,299,769</u>

American Youth Hostels, Inc.

CONSOLIDATING SCHEDULES OF FINANCIAL POSITION INFORMATION

March 31, 2007 and 2006

	HI-Boston		HI-Washington		HI-New York		HI-Seattle		HI-Chicago	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
ASSETS										
CURRENT ASSETS										
Cash and cash equivalents	\$ 803,716	\$ 496,155	\$ 1,141,733	\$ 1,212,533	\$ 600,438	\$ 1,261,595	\$ -	\$ 41,846	\$ 653,694	\$ 318,651
Restricted cash - debt service	-	-	-	-	-	-	-	-	150,000	142,500
Investments	-	-	-	-	-	-	-	-	-	-
Accounts, notes, grants and contributions receivable	1,020	4,086	-	-	57,398	15,852	-	-	104,285	101,600
Publications and materials inventory	1,216	7,607	11,087	21,376	20,233	26,217	-	-	14,342	13,351
Prepaid expenses and other	5,950	-	4,152	7,416	25,565	47,347	-	-	5,688	4,803
Total current assets	811,902	507,848	1,156,972	1,241,325	703,634	1,351,011	-	41,846	928,009	580,905
INVESTMENTS AND OTHER NONCURRENT ASSETS										
Long-term portion of notes, grants and	-	-	-	-	-	-	-	-	-	-
Equity investments in hostels	-	-	-	-	-	-	-	-	-	-
Other assets	-	3,990	5,300	3,684	371,238	411,032	-	-	417,230	358,355
PROPERTY AND EQUIPMENT - Net	700,910	788,619	2,711,672	2,685,187	14,074,682	12,061,303	-	-	13,349,332	13,522,135
TOTAL ASSETS	\$ 1,512,812	\$ 1,300,457	\$ 3,873,944	\$ 3,930,196	\$ 15,149,554	\$ 13,823,346	\$ -	\$ 41,846	\$ 14,694,571	\$ 14,461,395
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES										
Accounts payable and accrued liabilities	\$ 143,587	\$ 102,161	\$ 95,776	\$ 93,795	\$ 490,596	\$ 420,470	\$ -	\$ 38,462	\$ 322,521	\$ 238,533
Current portion of long-term obligations	-	-	105,301	94,446	239,744	223,406	-	-	200,000	190,000
Current portion of capital lease obligations	-	-	6,347	-	11,412	-	-	-	19,175	18,242
Notes payable	-	-	-	-	-	-	-	-	33,334	33,334
Deferred income	269,975	190,652	126,887	98,883	573,703	463,091	-	-	406,436	324,515
Total current liabilities	413,562	292,813	334,311	287,124	1,315,455	1,106,967	-	38,462	981,466	804,624
LONG-TERM DEBT, net of current portion	-	-	1,609,142	1,714,443	11,833,601	12,073,346	-	-	7,485,001	7,718,334
LONG-TERM CAPITAL LEASE OBLIGATIONS, net of current portion	-	-	32,795	-	23,531	-	-	-	37,739	56,914
TENANT DEPOSITS AND OTHER	-	-	-	-	3,428	9,346	-	-	80,355	76,000
INTEREST RATE SWAP AGREEMENT	-	-	239,283	151,424	1,112,682	56,036	-	-	-	-
MINORITY INTERESTS IN CONSOLIDATED HOSTELS	-	-	-	-	-	-	-	-	-	-
Total liabilities	413,562	292,813	2,215,531	2,152,991	14,288,697	13,245,695	-	38,462	8,584,561	8,655,872
NET ASSETS	1,099,250	1,007,644	1,658,413	1,777,205	860,857	577,651	-	3,384	6,110,010	5,805,523
TOTAL LIABILITIES AND NET ASSETS	\$ 1,512,812	\$ 1,300,457	\$ 3,873,944	\$ 3,930,196	\$ 15,149,554	\$ 13,823,346	\$ -	\$ 41,846	\$ 14,694,571	\$ 14,461,395

(continued)

American Youth Hostels, Inc.

CONSOLIDATING SCHEDULES OF FINANCIAL POSITION INFORMATION - CONTINUED

March 31, 2007 and 2006

	Hostel Total		AYH - National		Combined Total		Eliminations		Consolidated Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
ASSETS										
CURRENT ASSETS										
Cash and cash equivalents	\$ 3,199,581	\$ 3,330,780	\$ 1,415,871	\$ 2,060,346	\$ 4,615,452	\$ 5,391,126	\$ -	\$ -	\$ 4,615,452	\$ 5,391,126
Restricted cash - debt service	150,000	142,500	-	-	150,000	142,500	-	-	150,000	142,500
Investments	-	-	2,734,434	2,663,658	2,734,434	2,663,658	-	-	2,734,434	2,663,658
Accounts, notes, grants and contributions receivable	162,703	121,538	505,058	460,936	667,761	582,474	(143,602)	(143,468)	524,159	439,006
Publications and materials inventory	46,878	68,551	119,783	107,173	166,661	175,724	-	-	166,661	175,724
Prepaid expenses and other	41,355	59,566	88,840	40,876	130,195	100,442	(300)	(599)	129,895	99,843
Total current assets	3,600,517	3,722,935	4,863,986	5,332,989	8,464,503	9,055,924	(143,902)	(144,067)	8,320,601	8,911,857
INVESTMENTS AND OTHER NONCURRENT ASSETS										
Long-term portion of notes, grants and equity investments in hostels	-	-	318,501	360,289	318,501	360,289	(300,001)	(333,334)	18,500	26,955
Other assets	793,768	777,061	-	-	793,768	777,061	-	-	793,768	777,061
PROPERTY AND EQUIPMENT - Net	30,836,596	29,057,244	135,836	65,028	30,972,432	29,122,272	-	-	30,972,432	29,122,272
TOTAL ASSETS	\$ 35,230,881	\$ 33,557,240	\$ 16,883,864	\$ 16,710,709	\$ 52,114,745	\$ 50,267,949	\$(10,172,436)	\$ (9,648,806)	\$ 41,942,309	\$ 40,619,143
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES										
Accounts payable and accrued liabilities	\$ 1,052,480	\$ 893,421	\$ 700,635	\$ 559,635	\$ 1,753,115	\$ 1,453,056	\$ (110,273)	\$ (110,132)	\$ 1,642,842	\$ 1,342,924
Current portion of long-term obligations	545,045	507,852	-	-	545,045	507,852	-	-	545,045	507,852
Current portion of capital lease obligations	36,934	18,242	-	-	36,934	18,242	-	-	36,934	18,242
Notes payable	33,334	33,334	-	-	33,334	33,334	(33,334)	(33,334)	-	-
Deferred income	1,377,001	1,077,141	50,947	55,952	1,427,948	1,133,093	(300)	(600)	1,427,648	1,132,493
Total current liabilities	3,044,794	2,529,990	751,582	615,587	3,796,376	3,145,577	(143,907)	(144,066)	3,652,469	3,001,511
LONG-TERM DEBT, net of current portion	20,927,744	21,506,123	-	-	20,927,744	21,506,123	(300,001)	(333,334)	20,627,743	21,172,789
LONG-TERM CAPITAL LEASE OBLIGATIONS, net of current portion	94,065	56,914	-	-	94,065	56,914	-	-	94,065	56,914
TENANT DEPOSITS AND OTHER	83,783	85,346	-	-	83,783	85,346	-	-	83,783	85,346
INTEREST RATE SWAP AGREEMENT	1,351,965	207,460	-	-	1,351,965	207,460	-	-	1,351,965	207,460
MINORITY INTERESTS IN CONSOLIDATED HOSTELS	-	-	998,349	1,011,930	998,349	1,011,930	-	-	998,349	1,011,930
Total liabilities	25,502,351	24,385,833	1,749,931	1,627,517	27,252,282	26,013,350	(443,908)	(477,400)	26,808,374	25,535,950
NET ASSETS	9,728,530	9,171,407	15,133,933	15,083,192	24,862,463	24,254,599	(9,728,528)	(9,171,406)	15,133,935	15,083,193
TOTAL LIABILITIES AND NET ASSETS	\$ 35,230,881	\$ 33,557,240	\$ 16,883,864	\$ 16,710,709	\$ 52,114,745	\$ 50,267,949	\$(10,172,436)	\$ (9,648,806)	\$ 41,942,309	\$ 40,619,143

American Youth Hostels, Inc.

CONSOLIDATING SCHEDULES OF ACTIVITIES AND CHANGES IN NET ASSETS INFORMATION

Years ended March 31, 2007 and 2006

	HI-Boston		HI-Washington		HI-New York		HI-Seattle		HI-Chicago	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
REVENUES										
Hostel operations	\$ 2,949,490	\$ 2,595,465	\$ 1,931,061	\$ 1,778,441	\$ 7,015,693	\$ 6,278,212	\$ -	\$ 936,797	\$ 3,144,325	\$ 2,770,060
Earnings from unconsolidated hostel operations	-	-	-	-	-	-	-	-	-	-
Membership dues	6,338	7,166	7,701	9,556	18,126	16,618	-	21,202	8,806	8,908
Sales of merchandise	105,433	127,677	59,814	103,672	635,863	671,145	-	62,055	96,516	122,654
Contributions	-	-	869	28	37,800	200	-	55	83,832	97,548
Investment income	18,973	21,565	44,760	53,754	46,542	50,014	-	119	13,736	8,401
Other income	209	21,617	(1,329)	(11,507)	15,006	12,888	-	1,600	3,560	22,430
Total revenue	3,080,443	2,773,490	2,042,876	1,933,944	7,769,030	7,029,077	-	1,021,828	3,350,775	3,030,001
EXPENSES										
Salaries	674,794	675,560	593,109	572,370	1,700,063	1,667,124	-	389,661	849,476	787,612
Benefits and payroll taxes	185,721	164,328	146,207	142,508	434,565	411,882	-	119,469	248,420	260,407
Cost of sales	87,549	111,364	75,794	66,092	561,725	545,606	-	64,425	99,967	130,485
Professional fees	304,702	138,329	67,490	77,628	206,144	195,899	-	12,851	84,925	114,209
Dues and taxes	4,319	4,404	95,066	94,250	22,892	25,809	-	8,471	50,892	33,321
Supplies	10,220	10,963	20,318	29,391	33,176	33,847	-	15,570	22,553	30,449
Telephone	10,953	11,922	20,015	19,098	28,598	18,651	-	11,877	35,865	44,698
Mailing and preparation	-	-	-	-	-	-	-	-	-	-
Occupancy	448,934	461,371	279,020	309,139	627,930	564,077	-	233,913	511,240	560,857
Office equipment	499	550	8,335	7,076	13,475	762	-	4,734	2,316	156
Printing	-	-	-	-	-	-	-	-	-	-
Travel	10,095	3,995	8,997	2,270	1,916	4,388	-	4,372	3,964	4,905
Meetings	-	-	-	-	-	-	-	-	-	-
Interest	-	-	162,339	168,926	750,586	828,294	-	278	375,058	402,417
Advertising	158,509	113,072	91,500	87,984	267,929	232,537	-	88,993	184,374	104,247
Professional development	2,480	4,939	8,192	3,170	28,100	22,590	-	4,331	10,509	2,926
Insurance	41,067	36,219	31,432	29,864	115,032	96,174	-	14,782	61,739	68,344
Grants to councils	-	-	-	-	-	-	-	-	-	-
Other expenses	40,678	55,014	49,744	42,540	150,730	231,364	-	20,667	53,376	44,429
Minority interests in consolidated hostel operations	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	78,467	96,648	112,718	105,277	466,720	448,667	-	1,565	443,206	433,144
Program expenses	4,850	3,441	3,533	6,640	19,597	2,217	-	497	8,408	13,325
Total expenses	2,063,837	1,892,119	1,773,809	1,764,223	5,429,178	5,329,888	-	996,456	3,046,288	3,035,931
CHANGES IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	1,016,606	881,371	269,067	169,721	2,339,852	1,699,189	-	25,372	304,487	(5,930)
NONOPERATING ACTIVITIES										
Derivative valuation	-	-	(87,859)	5,279	(1,056,646)	(209,077)	-	-	-	-
Forgiveness of debt	-	-	-	-	-	-	-	-	-	-
CHANGES IN NET ASSETS	1,016,606	881,371	181,208	175,000	1,283,206	1,490,112	-	25,372	304,487	(5,930)
NET ASSETS, BEGINNING OF YEAR	1,007,644	1,126,273	1,777,205	1,802,205	577,651	4,687,539	3,384	(330,242)	5,805,523	5,811,453
CONTRIBUTIONS	-	-	-	-	-	-	-	308,254	-	-
DISTRIBUTIONS	(925,000)	(1,000,000)	(300,000)	(200,000)	(1,000,000)	(5,600,000)	(3,384)	-	-	-
NET ASSETS, END OF YEAR	\$ 1,099,250	\$ 1,007,644	\$ 1,658,413	\$ 1,777,205	\$ 860,857	\$ 577,651	\$ -	\$ 3,384	\$ 6,110,010	\$ 5,805,523

(continued)

American Youth Hostels, Inc.

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

Years ended March 31, 2007 and 2006

	Hostel Total		AYH-National		Combined Total		Eliminations		Consolidated Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
REVENUES										
Hostel operations	\$ 15,040,569	\$ 14,358,975	\$ 947,483	\$ 869,027	\$ 15,988,052	\$ 15,228,002	\$ (482,654)	\$ (457,072)	\$ 15,505,398	\$ 14,770,930
Earnings from unconsolidated hostel operations	-	-	2,978,903	2,764,693	2,978,903	2,764,693	(2,785,508)	(2,565,923)	193,395	198,770
Membership dues	40,971	63,450	658,821	845,231	699,792	908,681	(55,066)	(71,028)	644,726	837,653
Sales of merchandise	897,626	1,087,203	333,289	342,421	1,230,915	1,429,624	(163,343)	(201,236)	1,067,572	1,228,388
Contributions	122,501	97,831	229,368	159,992	351,869	257,823	(45,437)	(35,000)	306,432	222,823
Investment income	124,011	133,853	114,140	283,623	238,151	417,476	(21,337)	(49,701)	216,814	367,775
Other income	17,446	47,028	174,678	211,436	192,124	258,464	(60,217)	(83,266)	131,907	175,198
Total revenue	16,243,124	15,788,340	5,436,682	5,476,423	21,679,806	21,264,763	(3,613,562)	(3,463,226)	18,066,244	17,801,537
EXPENSES										
Salaries	3,817,442	4,092,327	1,479,172	1,358,475	5,296,614	5,450,802	-	-	5,296,614	5,450,802
Benefits and payroll taxes	1,014,913	1,098,594	482,489	283,085	1,497,402	1,381,679	-	-	1,497,402	1,381,679
Cost of sales	825,035	917,972	108,811	276,451	933,846	1,194,423	(203,100)	(265,132)	730,746	929,291
Professional fees	663,261	538,916	800,194	739,611	1,463,455	1,278,527	-	(21,000)	1,463,455	1,257,527
Dues and taxes	173,169	166,255	197,396	100,336	370,565	266,591	(9,535)	(10,245)	361,030	256,346
Supplies	86,267	120,220	24,185	25,810	110,452	146,030	-	-	110,452	146,030
Telephone	95,431	106,246	38,629	33,404	134,060	139,650	-	-	134,060	139,650
Mailing and preparation	-	-	97,125	102,276	97,125	102,276	-	-	97,125	102,276
Occupancy	1,867,124	2,129,357	188,324	185,009	2,055,448	2,314,366	-	-	2,055,448	2,314,366
Office equipment	24,625	13,278	41,360	69,784	65,985	83,062	-	-	65,985	83,062
Printing	-	-	160,623	168,099	160,623	168,099	-	-	160,623	168,099
Travel	24,972	19,930	175,742	174,637	200,714	194,567	(150)	(325)	200,564	194,242
Meetings	-	-	164,700	177,035	164,700	177,035	-	-	164,700	177,035
Interest	1,287,983	1,399,915	5,758	29,117	1,293,741	1,429,032	(21,337)	(49,701)	1,272,404	1,379,331
Advertising	702,312	626,833	125,305	47,075	827,617	673,908	(534,053)	(508,318)	293,564	165,590
Professional development	49,281	37,956	4,964	12,283	54,245	50,239	(450)	(450)	53,795	49,789
Insurance	249,270	245,383	259,159	318,747	508,429	564,130	-	-	508,429	564,130
Grants to councils	-	-	463,893	481,145	463,893	481,145	(45,437)	(35,000)	418,456	446,145
Other expenses	294,528	394,014	55,361	66,793	349,889	460,807	(13,994)	(7,132)	335,895	453,675
Minority interests in consolidated hostel operations	-	-	422,860	385,914	422,860	385,914	-	-	422,860	385,914
Depreciation and amortization	1,101,111	1,085,301	23,653	62,466	1,124,764	1,147,767	-	-	1,124,764	1,147,767
Program expenses	36,388	26,120	66,238	80,903	102,626	107,023	-	-	102,626	107,023
Total expenses	12,313,112	13,018,617	5,385,941	5,178,455	17,699,053	18,197,072	(828,056)	(897,303)	16,870,997	17,299,769
CHANGES IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	3,930,012	2,769,723	50,741	297,968	3,980,753	3,067,691	(2,785,506)	(2,565,923)	1,195,247	501,768
NONOPERATING ACTIVITIES										
Derivative valuation	(1,144,505)	(203,798)	-	-	(1,144,505)	(203,798)	-	-	(1,144,505)	(203,798)
Forgiveness of debt	-	-	-	(122,892)	-	(122,892)	-	-	-	(122,892)
CHANGES IN NET ASSETS	2,785,507	2,565,925	50,741	175,076	2,836,248	2,741,001	(2,785,506)	(2,565,923)	50,742	175,078
NET ASSETS, BEGINNING OF YEAR	9,171,407	13,097,228	15,083,192	14,908,116	24,254,599	28,005,344	(9,171,406)	(13,097,229)	15,083,193	14,908,115
CONTRIBUTIONS	-	308,254	-	-	-	308,254	-	(308,254)	-	-
DISTRIBUTIONS	(2,228,384)	(6,800,000)	-	-	(2,228,384)	(6,800,000)	2,228,384	6,800,000	-	-
NET ASSETS, END OF YEAR	\$ 9,728,530	\$ 9,171,407	\$ 15,133,933	\$ 15,083,192	\$ 24,862,463	\$ 24,254,599	\$ (9,728,528)	\$ (9,171,406)	\$ 15,133,935	\$ 15,083,193