



AFRICAN WILDLIFE FOUNDATION®

Financial Statements

For the Year Ended June 30, 2007

(With Summarized Financial Information for the Year Ended June 30, 2006)



and Report Thereon



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
African Wildlife Foundation, Inc.

CONSULTING
ACCOUNTING
TECHNOLOGY

*Certified Public
Accountants*

We have audited the accompanying statement of financial position of the African Wildlife Foundation, Inc. (AWF) as of June 30, 2007, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of AWF'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 AWF's 2006 financial statements and, in our report dated September 1, 2006, we expressed an unqualified opinion on those statements.

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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AWF as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Raffa, P.C.

RAFFA, P.C.

Washington, DC
September 18, 2007

AFRICAN WILDLIFE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2007
(With Summarized Financial Information as of June 30, 2006)

ASSETS	<u>2007</u>	<u>2006</u>
Current Assets		
Cash and cash equivalents (Note 2)	\$ 1,639,411	\$ 1,784,886
Investments (Note 3)	11,107,612	7,313,877
Accounts receivable	214,183	182,476
Public sector grants receivable	714,853	1,200,412
Pledges and bequests receivable, current portion (Note 4)	2,629,951	3,199,737
Advances to partners	135,921	421,920
Prepaid expenses	<u>156,613</u>	<u>540,272</u>
Total Current Assets	<u>16,598,544</u>	<u>14,643,580</u>
Non-Current Assets		
Long-term pledges and bequests receivable (Note 4)	1,457,191	1,056,502
Property and equipment, net (Note 6)	418,996	103,673
Office rental deposit	25,703	15,351
Beneficial interest in perpetual trusts (Notes 3 and 5)	<u>509,903</u>	<u>464,085</u>
Total Non-Current Assets	<u>2,411,793</u>	<u>1,639,611</u>
TOTAL ASSETS	<u><u>\$ 19,010,337</u></u>	<u><u>\$ 16,283,191</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 471,201	\$ 504,952
Refundable advances	696,349	548,865
Annuities payable, current portion (Note 7)	<u>9,015</u>	<u>9,934</u>
Total Current Liabilities	1,176,565	1,063,751
Annuities payable, non-current portion (Note 7)	<u>81,149</u>	<u>79,787</u>
TOTAL LIABILITIES	<u>1,257,714</u>	<u>1,143,538</u>
NET ASSETS		
Unrestricted (Note 9)	12,452,334	11,568,133
Temporarily restricted (Note 10)	3,027,974	2,713,339
Permanently restricted (Note 11)	<u>2,272,315</u>	<u>858,181</u>
TOTAL NET ASSETS	<u>17,752,623</u>	<u>15,139,653</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 19,010,337</u></u>	<u><u>\$ 16,283,191</u></u>

The accompanying notes are an integral part
of these financial statements.

AFRICAN WILDLIFE FOUNDATION, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

(With Summarized Financial Information for the Year Ended June 30, 2006)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>	<u>2006 Total</u>
OPERATING REVENUE AND SUPPORT					
Gifts from individuals (Note 4)	\$ 5,103,874	\$ 1,488,550	\$ 1,314,134	\$ 7,906,558	\$ 6,363,234
Legacy gifts	1,697,465	109,989	-	1,807,454	1,081,465
Corporation and foundation support	653,737	1,965,296	-	2,619,033	2,762,400
Public sector support	5,996,351	-	-	5,996,351	6,935,750
Royalties and other earned revenue	146,176	-	-	146,176	142,717
Payout from invested reserves	329,511	-	-	329,511	286,764
Net assets released from program restrictions	3,650,999	(3,650,999)	-	-	-
In-kind contributions	317,584	-	-	317,584	2,046,550
	<u>17,895,697</u>	<u>(87,164)</u>	<u>1,314,134</u>	<u>19,122,667</u>	<u>19,618,880</u>
TOTAL OPERATING REVENUE AND SUPPORT					
OPERATING EXPENSES					
Program Services					
Conservation programs	11,828,940	-	-	11,828,940	10,300,456
Public education	1,447,760	-	-	1,447,760	3,061,967
Membership programs	1,370,887	-	-	1,370,887	1,078,084
	<u>14,647,587</u>	<u>-</u>	<u>-</u>	<u>14,647,587</u>	<u>14,440,507</u>
Total Program Services					
Supporting Services					
Finance and administration	1,166,675	-	-	1,166,675	1,073,512
Fundraising	1,702,070	-	-	1,702,070	1,461,086
	<u>2,868,745</u>	<u>-</u>	<u>-</u>	<u>2,868,745</u>	<u>2,534,598</u>
Total Supporting Services					
TOTAL OPERATING EXPENSES	<u>17,516,332</u>	<u>-</u>	<u>-</u>	<u>17,516,332</u>	<u>16,975,105</u>
Change in Net Assets from Operating Activities	<u>379,365</u>	<u>(87,164)</u>	<u>1,314,134</u>	<u>1,606,335</u>	<u>2,643,775</u>
NON-OPERATING ACTIVITIES					
Investment earnings	230,625	83,135	-	313,760	235,314
Unrealized gains from investments	763,722	212,846	-	976,568	319,314
Unrealized gains on beneficial interest in perpetual trusts	-	45,818	-	45,818	50,438
Payout to operations	(329,511)	-	-	(329,511)	(286,764)
Transfer of net assets (Note 13)	(160,000)	60,000	100,000	-	-
	<u>504,836</u>	<u>401,799</u>	<u>100,000</u>	<u>1,006,635</u>	<u>318,302</u>
Change in Net Assets from Non-Operating Activities					
Change in Net Assets	884,201	314,635	1,414,134	2,612,970	2,962,077
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	<u>11,568,133</u>	<u>2,713,339</u>	<u>858,181</u>	<u>15,139,653</u>	<u>12,177,576</u>
NET ASSETS, END OF YEAR	<u>\$ 12,452,334</u>	<u>\$ 3,027,974</u>	<u>\$ 2,272,315</u>	<u>\$ 17,752,623</u>	<u>\$ 15,139,653</u>

The accompanying notes are an integral part
of these financial statements.

AFRICAN WILDLIFE FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2007

(With Summarized Financial Information for the Year Ended June 30, 2006)

	Program Services					Supporting Services			2007 Total	2006 Total	
	Conservation Programs	Program Management	Total Conservation Programs	Public Education	Membership Programs	Total Program Services	Finance and Administration	Fundraising			Total Supporting Services
Salaries and benefits	\$ 3,627,360	\$ 871,157	\$ 4,498,517	\$ 338,719	\$ 98,000	\$ 4,935,236	\$ 807,645	\$ 789,874	\$ 1,597,519	\$ 6,532,755	\$ 5,148,711
Professional fees and construction	2,370,688	44,272	2,414,960	222,222	285,172	2,922,354	109,418	213,893	323,311	3,245,665	3,649,431
Travel and meetings	1,167,830	223,995	1,391,825	73,224	2,623	1,467,672	61,752	119,886	181,638	1,649,310	1,010,222
Printing	24,118	13,828	37,946	147,389	425,533	610,868	8,685	208,151	216,836	827,704	586,779
Partner expenses	751,055	4,127	755,182	48,099	-	803,281	-	-	-	803,281	810,008
Vehicle operations	689,453	17,007	706,460	10,242	-	716,702	1,050	3,795	4,845	721,547	620,544
Postage and delivery	17,327	8,644	25,971	66,398	373,643	466,012	21,671	157,665	179,336	645,348	583,277
Supplies	424,400	29,240	453,640	38,675	3,223	495,538	32,737	23,172	55,909	551,447	350,566
Occupancy, maintenance and utilities	206,664	63,738	270,402	34	74	270,510	233,937	2,726	236,663	507,173	403,758
Equipment rental and maintenance	201,258	26,985	228,243	10,929	29,278	268,450	35,739	43,460	79,199	347,649	279,920
Communications	166,846	45,380	212,226	7,156	83	219,465	23,524	5,548	29,072	248,537	211,114
Advertising	5,143	3,927	9,070	19,109	126,258	154,437	5,886	76,603	82,489	236,926	244,388
Workshops	207,771	1,444	209,215	12,178	994	222,387	-	466	466	222,853	406,616
Scholarships and training	107,126	637	107,763	84,930	-	192,693	2,588	1,836	4,424	197,117	206,899
Administrative costs	80,163	16,185	96,348	4,973	5,947	107,268	14,082	14,787	28,869	136,137	100,294
Miscellaneous	108,063	8,048	116,111	1,541	-	117,652	4,133	8,775	12,908	130,560	160,897
Depreciation	334	26,250	26,584	23,380	19	49,983	19,317	9	19,326	69,309	33,510
Membership dues	35,871	6,986	42,857	6,008	502	49,367	11,887	7,166	19,053	68,420	27,029
Exchange rate fluctuations	22,349	34,681	57,030	-	-	57,030	(20)	-	(20)	57,010	94,592
In-kind expenses	-	-	-	311,920	-	311,920	5,664	-	5,664	317,584	2,046,550
Total Direct Expenses	10,213,819	1,446,531	11,660,350	1,427,126	1,351,349	14,438,825	1,399,695	1,677,812	3,077,507	17,516,332	16,975,105
Allocation of facilities expenses	147,673	20,917	168,590	20,634	19,538	208,762	(233,020)	24,258	(208,762)	-	-
TOTAL	\$ 10,361,492	\$ 1,467,448	\$ 11,828,940	\$ 1,447,760	\$ 1,370,887	\$ 14,647,587	\$ 1,166,675	\$ 1,702,070	\$ 2,868,745	\$ 17,516,332	\$ 16,975,105

The accompanying notes are an integral part
of these financial statements.

AFRICAN WILDLIFE FOUNDATION, INC.

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2007

(With Summarized Financial Information for the Year Ended June 30, 2006)

Increase (Decrease) in Cash and Cash Equivalents

	<u>2007</u>	<u>2006</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,612,970	\$ 2,962,077
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	69,309	33,524
Bad debt expense on pledges and bequests	48,000	29,760
Donated stock	(1,279,550)	(461,641)
Realized gains on sales of investments	(2,999)	(4,103)
Unrealized gains on investments	(976,568)	(319,314)
Unrealized gains on beneficial interest in perpetual trusts	(45,818)	(50,438)
Contributions restricted for long-term investment	(1,414,134)	(150,000)
Changes in assets and liabilities		
Accounts receivables	(31,707)	(108,515)
Public sector grants receivable	485,559	(508,260)
Pledges and bequests receivable	121,097	(1,345,145)
Advances to partners	285,999	(100,602)
Prepaid expenses	383,659	2,248
Office rental deposit	(10,352)	(2,410)
Accounts payable and accrued expenses	(33,751)	2,131
Refundable advances	147,484	12,939
Annuities payable	443	4,163
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>359,641</u>	<u>(3,586)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(384,632)	(45,677)
Proceeds from sales of investments	1,318,864	510,682
Purchases of investments	<u>(2,853,482)</u>	<u>(692,281)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,919,250)</u>	<u>(227,276)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investments	<u>1,414,134</u>	<u>150,000</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>1,414,134</u>	<u>150,000</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(145,475)	(80,862)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	<u>1,784,886</u>	<u>1,865,748</u>
CASH AND CASH EQUIVALENTS, AT END OF YEAR	<u>\$ 1,639,411</u>	<u>\$ 1,784,886</u>
NONCASH INVESTING ACTIVITIES		
Donated stock	<u>\$ 1,279,550</u>	<u>\$ 461,641</u>

The accompanying notes are an integral part
of these financial statements.

AFRICAN WILDLIFE FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

1. Organization and Summary of Significant Accounting Policies

Organization

The African Wildlife Foundation, Inc. (AWF), together with the people of Africa, works to ensure the wildlife and wild lands of Africa will endure forever. To accomplish this mission, AWF approaches its work at the landscape level, implementing a variety of efforts that conserve land, protect species and empower people. The African Wildlife Foundation, Inc. is a nonprofit organization incorporated in the District of Columbia.

Cash and Cash Equivalents

Cash includes funds in checking accounts. Cash and cash equivalents held in certain board-designated investment reserves are considered investments as such amounts are not to be used for general operating purposes.

Investments

Investments consist of money market funds, equities, fixed income securities, and an investment in a limited partnership. Investments are reflected in the financial statements at fair value. Quoted market prices are used to value marketable debt and equity securities. The estimated fair value for AWF's investment in a limited partnership, which is subject to certain withdrawal restrictions, are provided by the general partner and external investment manager and are based on historical cost, appraisals, obtainable prices for similar assets, or other estimates. Because of the inherent uncertainty of valuation for AWF's investment in the partnership and in certain of the underlying investments held by the partnership, values for those investments may differ significantly from values that would have been used had a ready market for the investments existed. Unrealized gains or losses are determined by comparison of cost to fair value at the beginning and end of the reporting period and any resulting increase or decrease in the fair value of investments is reflected in the statement of activities and change in net assets under non-operating activities.

Property and Equipment and Depreciation

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. AWF purchases property and equipment under certain of its Federal grants for use in its foreign field offices. Under the terms of the grant agreement, the Federal government retains the right to property and equipment purchased with Federal funds. Accordingly, AWF expenses such purchases in the period they are incurred. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred.

Continued

AFRICAN WILDLIFE FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

1. Organization and Summary of Significant Accounting Policies (continued)

Classification of Net Assets

Unrestricted net assets include unrestricted revenue and contributions received without donor imposed restrictions. These net assets are available for the operations of AWF.

Temporarily restricted net assets represent amounts that are specifically restricted by the donor for specific programs.

Permanently restricted net assets represent amounts received with donor stipulations that require the gift to be held in perpetuity and permit only the income to be used for the purposes designated by the donors.

Revenue Recognition

Public sector support is recognized as revenue as allowable costs are incurred in accordance with the grant terms. Accordingly, costs incurred but not yet reimbursed are reflected as grants receivable on the accompanying statement of financial position. Refundable advances represent the portion of payments receivable that have not yet been expended. Public sector support include grants from various world governments, including the United States.

Contributions and gifts are recognized as temporarily restricted support if they are received with donor or grantor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Gifts and contributions not designated for specific purposes by the donor are recorded as unrestricted revenue when received.

In-Kind Contributions

In-kind contributions reflect services donated to AWF and are recorded at the estimated fair market value as of the date of the gift. In-kind contributions relate to an ongoing advertising campaign and are classified within AWF's public education program.

AFRICAN WILDLIFE FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

1. Organization and Summary of Significant Accounting Policies (continued)

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 functional expenses. Accordingly, certain costs have been allocated from supporting services to the programs benefited based on total direct expenses.

Transactions in Foreign Currencies

Foreign currency transactions are translated into U.S. dollars at current exchange rates except revenues and expenses that are translated at average exchange rates during each reporting period. Exchange gains and losses resulting from foreign currency transactions are reported in the statement of functional expenses.

Advances to Partners

AWF advances grant funds to partners under the terms of its various cost reimbursable grant agreements and records these amounts as advances to partners. Upon submission of the required financial reports by the partners detailing the amount of funds expended under these grant agreements during each quarter and upon the approval of such reports by AWF, AWF recognizes grant expense to the extent of allowable direct and indirect expenses incurred by the partners. Any amount advanced by AWF in excess of expenses incurred by the partners is reflected in advances to subcontractors in the accompanying statement of financial position

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Measure of Operations

In its statement of activities, AWF includes in its definition of operations all revenues that are an integral part of its programs and supporting activities. Investment income, including realized and unrealized gains and losses, earned in excess of AWF's aggregate authorized payout to operations are recognized as non-operating activities.

AFRICAN WILDLIFE FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

2. Restricted Cash and Cash Equivalents

Under the terms of various grants agreements, AWF is required to maintain separate cash accounts for activity related to these grants. As of June 30, 2007, \$441,480 of AWF's cash balance as reported in the accompanying statement of financial position is restricted as required in the terms of these agreements.

3. Investments

AWF's investments as of June 30, 2007 were comprised of the following:

	<u>Cost</u>	<u>Market</u>
Equity mutual funds	\$ 4,559,012	\$ 6,489,017
Fixed income mutual funds	2,385,479	2,328,240
Alternative investment	850,000	1,412,329
Money market funds	<u>878,026</u>	<u>878,026</u>
Total	<u>\$ 8,672,517</u>	<u>\$11,107,612</u>

AWF's alternative investment consists of a limited partnership with the principal objective of achieving maximum capital appreciation while minimizing volatility. The limited partnership allows AWF the opportunity to invest in foreign and domestic investment managed accounts, partnerships and other entities, which in turn, invest in U.S. and foreign securities and derivatives. Additionally, the limited partnership invests with hedge fund managers who enter into short/long transactions, option contracts, future contracts, forward contracts and swap contracts. As part of their risk management and control procedures, the partnership may hold derivatives and certain other financial instruments to hedge or manage risks associated with foreign currency fluctuations, interest rate changes, commodity price fluctuations and equity market movements.

Because the liability associated with these financial investments has the potential to exceed the amount that the partnership recognizes as a liability in the statement of financial position, off-balance sheet risk exists. Future confirming events will also affect the estimates of fair value, including the ultimate liquidation of the investments.

AFRICAN WILDLIFE FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

3. Investments (continued)

Investment income, including \$26,505 of interest earnings on cash and cash equivalents, for the year ended June 30, 2007 was comprised of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Unrealized gains	\$ 763,722	\$ 212,846	\$ 976,568
Interest and dividends	255,814	86,652	342,466
Realized gains	-	2,999	2,999
Investment fees	<u>(25,189)</u>	<u>(6,516)</u>	<u>(31,705)</u>
Investments earnings	<u>230,625</u>	<u>83,135</u>	<u>313,760</u>
Total Investment Income	<u>\$ 994,347</u>	<u>\$ 295,981</u>	<u>\$ 1,290,328</u>

4. Pledges and Bequest Receivable

As of June 30, 2007, pledges and bequest receivable consist of \$3,339,950 in pledges and \$1,209,788 in bequests and are promised as follows:

Due in less than one year	\$ 2,763,981
Due in one to five years	1,585,757
Due in more than five years	<u>200,000</u>
Subtotal	4,549,738
Less: Discount of pledges and bequests (3% - 5.25%)	(239,278)
Allowance for uncollectable pledges and bequests	<u>(223,318)</u>
Total Pledges and Bequests Receivable	<u>\$ 4,087,142</u>

5. Beneficial Interest in Perpetual Trusts

AWF is the beneficiary of perpetual trusts held and administered by third parties. The present value of the estimated future cash flows (as measured by the fair value of the underlying investment) was recognized as an asset and contribution revenue at the date the trusts were established. The discount rate used is 5.20%. Distributions of annual earnings of the trusts are recorded as investment income.

Continued

AFRICAN WILDLIFE FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

5. Beneficial Interest in Perpetual Trusts (continued)

The beneficial interest in perpetual trust is \$509,903 as of June 30, 2007. Periodically, AWF re-measures its beneficial interest at fair value. The resulting adjustment is included on the statement of activities as temporarily restricted unrealized gains on perpetual trusts and totaled \$45,818 for the year ended June 30, 2007.

6. Property and Equipment and Accumulated Depreciation

AWF held the following property and equipment as of June 30, 2007:

Property and equipment	\$ 716,361
Land	<u>135,000</u>
Total Property and Equipment	851,361
Less: Accumulated depreciation	<u>(432,365)</u>
Property and Equipment, net	<u>\$ 418,996</u>

7. Annuities Payable

AWF administers fifteen gift annuities with a total market value of \$188,000. In return, AWF has agreed to pay the donors annual annuities totaling \$15,439.

At June 30, 2007, the present value of all annuities is \$90,164 of which \$9,015 is a current liability and \$81,149 is a long-term liability as included in the statement of financial position.

8. Commitments, Contingencies and Risks

Concentration of Credit Risk

AWF's cash is held in accounts at various domestic and foreign financial institutions. Amounts held in foreign accounts and balances held in domestic accounts that exceed the FDIC insurable limit are uninsured. AWF has never experienced nor anticipates any losses on its funds. As of June 30, 2007 uninsured amounts totaled \$1,437,411.

AFRICAN WILDLIFE FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

8. Commitments, Contingencies and Risk (continued)

Foreign Operations

AWF has field offices in various African countries for the purpose of conserving the wildlife and wild lands of Africa. The future results of AWF's programs could be adversely affected by a number of potential factors such as currency fluctuations or changes in the political climate.

Lease Commitments

AWF has entered into a noncancelable operating lease for its Washington office as well as its offices throughout Africa through June 2010. The Washington annual base rent is adjusted annually for increases in the Consumer Price Index. As of June 30, 2007, the future minimum rental payments required under the lease are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2008	\$ 460,568
2009	308,593
2010	319,707
2011	<u>243,597</u>
Total	<u>\$1,332,465</u>

Total rent expense for the year ended June 30, 2007 is \$447,973.

OMB Circular A-133

AWF has instructed its independent auditors to audit its Federal programs for the year ended June 30, 2007 in compliance with Circular A-133 issued by the U.S. Office of Management and Budget (OMB). Until such audit is finalized, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that matters arising from the federal agency's review of the independent auditor's reports for 2007 will not have a material effect on the financial position of AWF.

AFRICAN WILDLIFE FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

8. Commitments, Contingencies and Risk (continued)

Provisional Indirect Cost Rates

Billings under cost reimbursable United States government grants and contracts are calculated using provisional rates that permit recovery of indirect costs in accordance with AWF's negotiated indirect cost rate agreement with USAID. These rates are subject to final determination by USAID six months after the end of each calendar year. AWF's rates have been finalized for the year ended June 30, 2003, however USAID has not yet finalized indirect cost recovery rates for the years ended June 30, 2004, 2005 and 2006. In the opinion of management, adjustments, if any, from the final determination by USAID will not have a material effect on the AWF's financial position as of June 30, 2007 or results of operations for the year then ended.

9. Unrestricted Net Assets

Unrestricted net assets include an operating reserve intended to fund the future endeavors of AWF. The Board of Trustees has stipulated that all unrestricted legacy gifts received by AWF be directed into this operating reserve, and be invested upon receipt. As of June 30, 2007, the operating reserve totals \$11,499,046, of which \$8,555,600 is invested, and \$2,754,257 is receivable on pledges and bequests.

The Board has approved a policy for an annual earnings payout from the invested operating reserve equal to five percent of the three-year weighted average value of the invested operating reserve. The payout of \$329,511 for the year ended June 30, 2007 is included in the statement of activities as payout from invested reserves.

10. Temporarily Restricted Net Assets

As of June 30, 2007, the temporarily restricted net assets were for the support of the conservation program and consisted of the following:

African Heartlands	\$ 342,004
Conservation Enterprise	526,427
Capacity Building	1,217,241
Species Conservation	396,259
Other	<u>546,043</u>
Total	<u>\$ 3,027,974</u>

Continued

AFRICAN WILDLIFE FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

11. Permanently Restricted Net Assets

Permanently restricted net assets represent the following endowment funds established by donors:

Conservation Training and Education	\$ 1,099,574
Species Conservation	1,072,741
General Endowment	<u>100,000</u>
Total	<u>\$ 2,272,315</u>

Earnings on the general endowment are unrestricted. Earnings on purpose-specific endowment funds are temporarily restricted.

12. Transfer of Net Assets

During the year ended June 30, 2007, AWF received notification of a donor's wish to alter the purpose of a gift made in a prior year. AWF accepted the donor's revised wishes and transferred the related net assets as follows:

Decrease in unrestricted net assets	\$ (160,000)
Increase in temporarily restricted net assets	60,000
Increase in permanently restricted net assets	<u>100,000</u>
Net Change in Net Assets	<u>\$ -</u>

13. Prior Period Adjustment

During the year ended June 30, 2007, AWF obtained documentation relating to certain gifts classified as permanently restricted in prior years. Based on a review of the documentation, AWF determined that certain amounts were incorrectly reported as permanently restricted net assets. Accordingly, the net assets balances as of June 30, 2006 have been restated. The effect of the restatement is as follows:

Decrease in permanently restricted net assets	\$ (140,873)
Increase in temporarily restricted net assets	103,631
Increase in unrestricted net assets	<u>37,242</u>
Net Change in Net Assets	<u>\$ -</u>

Continued

AFRICAN WILDLIFE FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

14. Retirement Plan

AWF has a retirement plan under Internal Revenue Code Section 401(k) that covers all Washington-based salaried employees. AWF's Africa-based employees participate in a separate retirement plan located outside the United States. In both plans, employees are eligible to participate upon incurring 1,000 hours of service and are fully vested in all employer contributions upon entering the plan. Retirement expense relating to both plans for the year ended June 30, 2007 totaled \$349,709.

15. Allocation of Joint Costs

During the year ended June 30, 2007, AWF incurred joint costs of \$2,098,836 from direct mail campaigns that included both educational materials and fundraising appeals. Of those costs, \$632,621 was allocated to fundraising expenses, \$1,351,349 to membership programs and \$114,866 to public education.

16. Income Taxes

AWF is exempt from the payment of taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to AWF's tax-exempt purpose is subject to taxation as unrelated business income. AWF currently generates unrelated business income on only debt-financial investments within hedge funds. For the year ended June 30, 2007, no provision for income taxes was required, as AWF had no significant unrelated business income.

17. Reclassifications

Certain 2006 amounts have been reclassified to conform to the 2007 financial statement presentation.

18. Prior Period Summarized Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class and functional area. 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 AWF's financial statements for the year ended June 30, 2006, from which the summarized information was prepared.