

**INVISIBLE CHILDREN, INC.
FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

INVISIBLE CHILDREN, INC.

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To The Board of Directors
Invisible Children, Inc.
2705 Via Orange Way #B
Spring Valley, CA 91978

Independent Auditor's Report

We have audited the accompanying statements of financial position of Invisible Children, Inc. as of June 30, 2008 and 2007, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards of 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 misstatements. 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 audits 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 Invisible Children, Inc. as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles of the United States of America.

As described in Note 13 to the financial statements, Invisible Children, Inc. has restated the June 30, 2007 temporarily restricted net assets in the statements of activities and changes in net assets.

A handwritten signature in cursive script that reads "Considine & Considine".

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September 4, 2008

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INVISIBLE CHILDREN, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

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	2008	2007
ASSETS		
CURRENT ASSETS		
Cash (Note 3)	\$ 1,943,003	\$ 1,189,089
Program Materials Inventory (Note 4)	196,598	156,237
Accounts Receivable	39,733	12,207
Contributions Receivable	36,838	36,618
Pledges Receivable (Note 5)	308,782	-
Prepaid Expenses (Note 6)	41,696	37,406
	2,566,650	1,431,557
PROPERTY & EQUIPMENT (NOTE 7)	648,517	520,518
OTHER ASSETS		
Investments (Note 8)	-	600,000
TOTAL ASSETS	3,215,167	2,552,075
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	187,167	113,512
Capital Leases - Current Portion (Note 10)	17,277	21,771
	204,444	135,283
LONG-TERM LIABILITIES		
Line of Credit (Note 9)	300,000	-
Capital Leases (Note 10)	11,196	28,473
	311,196	28,473
TOTAL LIABILITIES	515,640	163,756
COMMITMENTS (NOTE 11)		
NET ASSETS (NOTE 12)		
Unrestricted	674,542	1,254,801
Temporarily Restricted	2,024,985	1,133,518
	2,699,527	2,388,319
TOTAL LIABILITIES AND NET ASSETS	\$ 3,215,167	\$ 2,552,075

See Accompanying Notes

INVISIBLE CHILDREN, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

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	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
General Donations	\$ 2,266,902	\$ -	\$ -	\$ 2,266,902
Program Material Revenue	1,976,404	-	-	1,976,404
Schools 4 Schools	-	1,776,953	-	1,776,953
Grants	-	1,115,700	-	1,115,700
Direct Support	-	195,924	-	195,924
Interest Income	45,326	-	-	45,326
Funds Released from Restriction	2,197,110	(2,197,110)	-	-
	<u>6,485,742</u>	<u>891,467</u>	<u>-</u>	<u>7,377,209</u>
FUNCTIONAL ALLOCATION OF EXPENSES				
Program	5,956,785	-	-	5,956,785
General and Management	977,353	-	-	977,353
Fundraising	131,863	-	-	131,863
	<u>7,066,001</u>	<u>-</u>	<u>-</u>	<u>7,066,001</u>
CHANGE IN NET ASSETS	(580,259)	891,467	-	311,208
NET ASSETS - BEGINNING OF YEAR	1,254,801	1,133,518	-	2,388,319
NET ASSETS - END OF YEAR	<u>\$ 674,542</u>	<u>\$ 2,024,985</u>	<u>\$ -</u>	<u>\$ 2,699,527</u>

See Accompanying Notes

INVISIBLE CHILDREN, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

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	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
General Donations	\$ 1,860,376	\$ -	\$ -	\$ 1,860,376
Program Material Revenue	2,317,805	-	-	2,317,805
Schools 4 Schools	-	1,552,028	-	1,552,028
Grants	-	991,600	-	991,600
Direct Support	-	319,278	-	319,278
Volunteer House Income	1,810	-	-	1,810
Interest Income	12,879	-	-	12,879
Funds Released from Restriction	1,729,388	(1,729,388)	-	-
	<u>5,922,258</u>	<u>1,133,518</u>	<u>-</u>	<u>7,055,776</u>
FUNCTIONAL ALLOCATION OF EXPENSES				
Program	4,485,184	-	-	4,485,184
General and Management	646,653	-	-	646,653
Fundraising	102,635	-	-	102,635
	<u>5,234,472</u>	<u>-</u>	<u>-</u>	<u>5,234,472</u>
CHANGE IN NET ASSETS	687,786	1,133,518	-	1,821,304
NET ASSETS - BEGINNING OF YEAR	567,015	-	-	567,015
NET ASSETS - END OF YEAR	<u>\$ 1,254,801</u>	<u>\$ 1,133,518</u>	<u>\$ -</u>	<u>\$ 2,388,319</u>

See Accompanying Notes

INVISIBLE CHILDREN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008

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	PROGRAM	GENERAL AND MANAGEMENT	FUNDRAISING	TOTAL
EXPENSES				
Compensation Costs	\$ 1,396,670	\$ 428,422	\$ 110,401	\$ 1,935,493
Direct Services	2,418,887	-	-	2,418,887
Direct Support Expense	90,359	32,693	-	123,052
Entertainment	10,108	540	2,404	13,052
Film Costs	62,700	-	-	62,700
Insurance	91,218	65,624	-	156,842
Interest	-	1,375	-	1,375
Office	55,347	20,095	-	75,442
Postage	8,844	136,651	855	146,350
Production Cost	458,377	-	-	458,377
Professional Services	247,950	21,065	-	269,015
Program Communication	76,653	26,547	3,106	106,306
Program Supplies	53,292	13,978	-	67,270
Rent	148,671	36,962	-	185,633
Fees and Licenses	6,859	109,586	-	116,445
Travel and Transportation	658,841	19,611	15,097	693,549
Utilities	21,696	58,187	-	79,883
Miscellaneous	330	6,017	-	6,347
TOTAL EXPENSES BEFORE DEPRECIATION	5,806,802	977,353	131,863	6,916,018
Depreciation	149,983	-	-	149,983
TOTAL EXPENSES	\$ 5,956,785	\$ 977,353	\$ 131,863	\$ 7,066,001

See Accompanying Notes

INVISIBLE CHILDREN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007

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	PROGRAM	GENERAL AND MANAGEMENT	FUNDRAISING	TOTAL
EXPENSES				
Compensation Costs	\$ 933,589	\$ 286,484	\$ 83,065	\$ 1,303,138
Direct Services	1,278,685	-	-	1,278,685
Direct Support Expense	139,315	493	-	139,808
Entertainment	1,332	439	34	1,805
Film Costs	32,582	-	-	32,582
Insurance	59,128	29,257	-	88,385
Interest	-	2,037	-	2,037
Office	42,114	26,780	4,044	72,938
Postage	90,860	29,224	2,852	122,936
Production Cost	574,470	-	1,775	576,245
Professional Services	223,568	19,589	-	243,157
Program Communication	171,271	6,905	5,633	183,809
Program Supplies	281,050	27,354	-	308,404
Rent	135,712	33,682	-	169,394
Retreat	109	-	-	109
Fees and Licenses	66,896	128,170	-	195,066
Travel and Transportation	364,435	7,807	5,232	377,474
Utilities	19,561	48,432	-	67,993
TOTAL EXPENSES BEFORE DEPRECIATION	4,414,677	646,653	102,635	5,163,965
Depreciation	70,507	-	-	70,507
TOTAL EXPENSES	\$ 4,485,184	\$ 646,653	\$ 102,635	\$ 5,234,472

See Accompanying Notes

INVISIBLE CHILDREN, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

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	2008	2007
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Increase in Net Assets	\$ 311,208	\$ 1,821,304
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	149,983	70,507
(Increase)/Decrease in Accounts Receivable	(27,526)	196,860
Increase in Contributions Receivable	(220)	(36,618)
(Increase)/Decrease in Pledges Receivable	(308,782)	69,250
(Increase)/Decrease in Inventory	(40,361)	189,916
Increase in Prepaid Expenses	(4,290)	(12,581)
Increase/(Decrease) in Accounts Payable and Accrued Expenses	73,655	(70,872)
	157,541	(406,462)
NET CASH PROVIDED BY OPERATING ACTIVITIES	153,667	2,227,766
CASH FLOWS PROVIDED/(USED) BY INVESTING ACTIVITIES		
Purchase of Property and Equipment	(277,983)	(465,559)
Investment in Mutual Funds	600,000	(600,000)
	322,017	(1,065,559)
CASH FLOWS PROVIDED/(USED) BY FINANCING ACTIVITIES		
Principal Payments on Note Payable	-	(70,000)
Borrowings on Line of Credit	300,000	-
Borrowings on Capital Leases	-	51,194
Principal Payments on Capital Leases	(21,770)	(10,918)
	278,230	(29,724)
NET INCREASE IN CASH	753,914	1,132,483
CASH, BEGINNING OF YEAR	1,189,089	56,606
CASH, ENDING OF YEAR	\$ 1,943,003	\$ 1,189,089
SUPPLEMENTAL DISCLOSURES		
Interest Paid	\$ 1,375	\$ 2,037
Taxes Paid	\$ -	\$ -

See Accompanying Notes

INVISIBLE CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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NOTE 1 ORGANIZATION

Invisible Children, Inc. is a California nonprofit corporation, formed September 9, 2004. The Organization is classified by the Internal Revenue Service as a tax-exempt 501 (c)(3) organization and is recognized as a public charity rather than a private foundation. It is the vision of Invisible Children to change culture, policy, and lives through collisions of power and poverty. Invisible Children's programs in the United States include production of a feature version of Invisible Children, a National Tour, the Schools 4 Schools Program, the Displace Me National Awareness Event, and a grassroots political action campaign. The Organization's programs in Uganda include an Education Campaign, the implementation of Schools 4 Schools funds raised, and a micro-economic Bracelet Campaign.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported in compliance with SFAS No. 117.

Cash - The Organization considers financial instruments with a fixed maturity date of less than three months to be cash equivalents.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Prepaid Expenses - Expense items of a nature which will benefit future periods are charged to the prepaid expense account and are amortized over actual periods benefited.

Property and Equipment - Property and equipment are carried at cost. Depreciation is computed using the straight-line method of depreciation over the assets' estimated useful lives of five to seven years. Maintenance and repairs are charged to the expense as incurred; major renewals and betterments are capitalized. When items of property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is included in income.

Contributions - Contributions received are considered to be unrestricted and available for general use unless designated by the donor for a specific purpose. All donor-restricted support is reported as an increase in temporarily restricted net assets. When a 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.

INVISIBLE CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services - The Organization recognizes the value of donated services in accordance with SFAS 116 by recording the services at their fair value. All donated services recognized must create a non-financial asset or must require specialized skills that would have been purchased if they were not donated. During the year the Organization had many individuals volunteer substantial time and effort in order to perform a variety of tasks in the United States and Africa to assist the Organization in its mission. However, these services do not meet the criteria for recognition as contributed services.

Income Taxes - Invisible Children is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and did not conduct unrelated business activities. Therefore, no provision has been made for federal income taxes in the accompanying financial statements.

Functional 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.

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

NOTE 3 CASH

Cash consists of the following:

	2008	2007
Unrestricted Accounts:		
Lincoln Financial Advisors - Money Market Fund	\$ 1,528,329	\$ -
Wells Fargo Savings	379,504	452,929
Wells Fargo Operating	34,775	135,340
Bank of America Checking	257	286
Wells Fargo Checking	84	247
Petty Cash	54	287
SEI Investments - Money Market Fund	-	600,000
Total Unrestricted Cash	\$ 1,943,003	\$ 1,189,089

The Organization maintains its cash accounts at two commercial banks and one investment company located in California. The total balances in the accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. At June 30, 2008 and 2007, the Organization had approximately \$1,742,000 and \$997,000 in excess of the FDIC limit, respectively.

INVISIBLE CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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NOTE 4 PROGRAM MATERIALS INVENTORY

Management has determined the allowance for obsolete inventory to be \$0 at June 30, 2008 and 2007.

NOTE 5 PLEDGES RECEIVABLE

Management has determined the allowance for doubtful pledges to be \$0 at June 30, 2008.
Management expects to receive all pledges by June 30, 2009.

NOTE 6 PREPAID EXPENSES

Prepaid expenses consists of:

	2008	2007
Insurance	\$ 21,664	\$ 25,606
Rent	15,771	11,800
Other Prepaid Expenses	4,261	-
	\$ 41,696	\$ 37,406

NOTE 7 PROPERTY AND EQUIPMENT

Major categories of property and equipment are summarized as follows:

	2008	2007
Computer Equipment	\$ 600,912	\$ 370,159
Video Equipment	154,493	109,764
Transportation Equipment	126,660	126,660
Furniture	5,314	2,814
Office Equipment	3,423	3,423
	890,802	612,820
Accumulated Depreciation	(242,285)	(92,302)
	\$ 648,517	\$ 520,518

INVISIBLE CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 8 INVESTMENTS

Equity investments are stated at fair value and consist of the following at June 30, 2007:

Unrestricted:	<u>Cost</u>	<u>Fair Value</u>
Mutual Funds - SEI Investments	<u>\$ 600,000</u>	<u>\$ 600,000</u>

Due to the Organization purchasing the investments at year-end, there were no investment gains or losses at June 30, 2007.

In August 2007 the Organization transferred the investment account balance to Lincoln Financial Advisors money market fund. The Organization realized a loss of \$1,488 on the transfer of the investment. The loss was included with interest income on the statement of activities.

NOTE 9 LINE OF CREDIT

A line of credit agreement was entered into with Wells Fargo Bank, National Association in January 2008. The line accrues interest at 1.0% above the Prime rate. The interest rate at June 30, 2008 was 7.75%. The amount borrowed at June 30, 2008 was \$300,000. The line is secured by personal property. As of July 2008 the Organization settled this line of credit.

INVISIBLE CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 10 CAPITAL LEASES

The Organization has three non-cancellable leases that are recorded as capital leases. The leases are for three computer servers, two laptops and a computer monitor with remaining terms of one to two years. Included in property and equipment on the accompanying statements of financial position as of June 30, 2008 and 2007 is equipment acquired under capital leases with capitalized costs of \$66,679 and \$66,679, less accumulated depreciation of \$23,304 and \$9,968, respectively. Interest expense on the outstanding obligations under the capital leases was \$1,375 and \$883 for the years ended June 30, 2008 and 2007, respectively.

Capital Leases consists of the following:

	2008	2007
Apple Financial Services Principal & Interest payments of \$356 per month; 3.57% interest Due September, 2009	\$ 5,219	\$ 9,230
Apple Financial Services Principal & Interest payments of \$1,142 per month; 3.36% interest Due March, 2010	23,254	35,942
Apple Financial Services Principal & Interest payments of \$431 per month; 3.54% interest Retired June, 2008	-	5,072
	28,473	50,244
Less: Current Portion	(17,277)	(21,771)
	\$ 11,196	\$ 28,473

Minimum future obligations on the capital leases for the years ended June 30 are as follows:

	2009	\$ 17,976
	2010	11,345
		29,321
Less: Amount Representing Interest		(848)
		28,473
Less: Current Portion		(17,277)
		\$ 11,196

INVISIBLE CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 11 COMMITMENTS

The Organization leases a office space and a residential care facility at two different locations. The Spring Valley office lease is a non-cancelable lease that began in October 2006 and expires in three years. The La Mesa residential lease is a non-cancelable lease that began in November 2007 and expires in one year.

The Organization leased one location in the San Diego area under month-to-month lease agreement.

Minimum future payments under the non-cancelable leases for the years ended June 30 are approximately as follows:

2009		\$ 127,800
2010		27,800
		\$ 155,600

The total rent expense for the years ended June 30, 2008 and 2007 was \$185,409 and \$169,394, respectively.

NOTE 12 NET ASSETS

Net assets consists of the following at June 30, 2008 and 2007:

	2008	2007
Unrestricted	\$ 674,542	\$ 1,254,801
Temporarily Restricted:		
Schools 4 Schools	1,657,703	1,133,518
Grants	367,282	-
	2,024,985	1,133,518
Total Net Assets	\$ 2,699,527	\$ 2,388,319

Schools 4 Schools campaign consist of funds raised for the purpose of rebuilding schools in Northern Uganda.

Grants consist of funds primarily received from private foundations and individuals for the purpose specified by the donor.

The net assets of Invisible Children, Inc. at the end of June 30, 2007 have been reclassified to reflect temporarily restricted net assets of \$1,133,518 at June 30, 2007 related to the Schools 4 Schools Program (see Note 13).

INVISIBLE CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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NOTE 13 PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2008, management determined that funds related to the Schools 4 Schools program for the year ended June 30, 2007 should have been classified as temporarily restricted. The net effect related to the correction increased temporarily restricted net assets by \$1,133,518 and decreased unrestricted net assets by \$1,133,518 at June 30, 2007.