

INVISIBLE CHILDREN, INC.  
FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

INVISIBLE CHILDREN, INC.

	<u>Pages</u>
I. Index	1
II. Independent Auditor's Report	2
III. Statements of Financial Position	3
IV. Statements of Activities and Changes in Net Assets	4 - 5
V. Statements of Functional Expenses	6 - 7
VI. Statements of Cash Flows	8
VII. Notes to the Financial Statements	9-13



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, 2007 and 2006, 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, 2007 and 2006, 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.

CONSIDINE & CONSIDINE  
An Accountancy Corporation

November 8, 2007

Earning Your Trust Since 1946

1501 FIFTH AVENUE, SUITE 400 • SAN DIEGO, CALIFORNIA 92101-3297  
TEL 619-231-1877 • FAX 619-231-8244 • [www.cecpa.com](http://www.cecpa.com)

**INVISIBLE CHILDREN, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2007 AND 2006**

**Page 3**

	2007	2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash (Note 3)	\$ 1,189,089	\$ 56,606
Program Materials Inventory	156,237	346,153
Accounts Receivable	12,207	209,067
Contributions Receivable	36,618	-
Pledges Receivable	-	69,250
Prepaid Expenses (Note 5)	37,406	24,826
	1,431,557	705,902
<b>PROPERTY &amp; EQUIPMENT (NOTE 6)</b>	520,518	125,466
<b>OTHER ASSETS</b>		
Investments (Note 4)	600,000	-
<b>TOTAL ASSETS</b>	2,552,075	831,368
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	113,512	184,385
Note Payable (Note 7)	-	70,000
Capital Leases - Current Portion (Note 8)	21,771	4,896
	135,283	259,281
<b>LONG-TERM LIABILITIES</b>		
Capital Leases (Note 8)	28,473	5,072
<b>TOTAL LIABILITIES</b>	163,756	264,353
<b>COMMITMENTS (NOTE 9)</b>		
<b>NET ASSETS</b>		
Unrestricted	2,388,319	567,015
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 2,552,075	\$ 831,368

See Accompanying Notes

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

**Page 4**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>SUPPORT AND REVENUE</b>				
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	2,862,906	(2,862,906)	-	-
	<u>7,055,776</u>	<u>-</u>	<u>-</u>	<u>7,055,776</u>
<b>FUNCTIONAL ALLOCATION OF EXPENSES</b>				
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>
<b>CHANGE IN NET ASSETS</b>	1,821,304	-	-	1,821,304
<b>NET ASSETS - BEGINNING OF YEAR</b>	567,015	-	-	567,015
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 2,388,319</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,388,319</u>

See Accompanying Notes

**INVISIBLE CHILDREN, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**Page 5**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>SUPPORT AND REVENUE</b>				
General Donations	\$ 1,222,700	\$ -	\$ -	\$ 1,222,700
Program Material Revenue	1,321,576	-	-	1,321,576
Speaking Honorarium	4,607	-	-	4,607
Grants	140,625	339,000	-	479,625
Direct Support	2,540	104,306	-	106,846
Funds Released from Restriction	443,306	(443,306)	-	-
	<u>3,135,354</u>	<u>-</u>	<u>-</u>	<u>3,135,354</u>
<b>FUNCTIONAL ALLOCATION OF EXPENSES</b>				
Program	2,254,099	-	-	2,254,099
General and Management	285,934	-	-	285,934
Fundraising	99,747	-	-	99,747
	<u>2,639,780</u>	<u>-</u>	<u>-</u>	<u>2,639,780</u>
<b>CHANGE IN NET ASSETS</b>	495,574	-	-	495,574
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>71,441</u>	<u>-</u>	<u>-</u>	<u>71,441</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 567,015</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 567,015</u>

See Accompanying Notes

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

Page 6

	PROGRAM	GENERAL AND MANAGEMENT	FUNDRAISING	TOTAL
<b>EXPENSES</b>				
Compensation Costs	\$ 933,589	\$ 286,454	\$ 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
<b>TOTAL EXPENSES BEFORE DEPRECIATION</b>	<b>4,414,677</b>	<b>646,653</b>	<b>102,635</b>	<b>5,163,965</b>
Depreciation	70,507	-	-	70,507
<b>TOTAL EXPENSES</b>	<b>\$ 4,485,184</b>	<b>\$ 646,653</b>	<b>\$ 102,635</b>	<b>\$ 5,234,472</b>

See Accompanying Notes

**INVISIBLE CHILDREN, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Page 7

	PROGRAM	GENERAL AND MANAGEMENT	FUNDRAISING	TOTAL
<b>EXPENSES</b>				
Compensation Costs	\$ 374,514	\$ 117,806	\$ 20,000	\$ 512,320
Direct Services	479,545	8,398	-	487,943
Direct Support Expense	143,937	2,884	-	146,821
Entertainment	343	570	403	1,316
Film Costs	70,980	-	-	70,980
Insurance	32,273	19,960	-	52,233
Interest	2,926	-	-	2,926
Office	22,913	20,986	566	44,465
Postage	221,976	23,248	-	245,224
Production Cost	390,564	-	43,396	433,960
Professional Services	41,834	12,171	9,126	63,131
Program Communication	117,406	-	3,238	120,644
Program Supplies	47,200	15,273	300	62,773
Rent	20,763	11,606	-	32,369
Retreat	-	1,316	-	1,316
Fees and Licenses	22,588	35,988	6,306	64,882
Travel and Transportation	236,824	3,490	16,362	256,676
Utilities	10,125	12,238	50	22,413
<b>TOTAL EXPENSES BEFORE DEPRECIATION</b>	<b>2,236,711</b>	<b>285,934</b>	<b>99,747</b>	<b>2,622,392</b>
Depreciation	17,388	-	-	17,388
<b>TOTAL EXPENSES</b>	<b>\$ 2,254,099</b>	<b>\$ 285,934</b>	<b>\$ 99,747</b>	<b>\$ 2,639,780</b>

See Accompanying Notes



**INVISIBLE CHILDREN, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

**Page 8**

	2007	2006
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>		
Increase in Net Assets	\$ 1,821,304	\$ 495,574
<b>ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Depreciation	70,507	17,388
Decrease / (Increase) in Accounts Receivable	196,860	(209,067)
Increase in Contributions Receivable	(36,618)	-
Decrease / (Increase) in Pledges Receivable	69,250	(69,250)
Decrease / (Increase) in Inventory	189,916	(346,153)
Increase in Prepaid Expenses	(12,581)	(24,826)
(Decrease) / Increase in Accounts Payable and Accrued Expenses	(70,872)	184,385
	(406,462)	(447,523)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	2,227,766	48,051
<b>CASH FLOWS USED BY INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(465,559)	(103,188)
Investment in Mutual Funds	(600,000)	-
	(1,065,559)	(103,188)
<b>CASH FLOWS USED/PROVIDED BY FINANCING ACTIVITIES</b>		
Borrowings on Note Payable	-	70,000
Principal Payments on Note Payable	(70,000)	-
Borrowings on Capital Leases	51,194	15,485
Principal Payments on Capital Leases	(10,918)	(5,517)
	(29,724)	79,968
<b>NET INCREASE IN CASH</b>	1,132,483	24,831
<b>CASH, BEGINNING OF YEAR</b>	56,606	31,775
<b>CASH, ENDING OF YEAR</b>	\$ 1,189,089	\$ 56,606
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest Paid	\$ 2,037	\$ 2,926
Taxes Paid	\$ -	\$ -

See Accompanying Notes

INVISIBLE CHILDREN, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

Page 9

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 for Schools Program, the Displace Me National Awareness Event, and a grassroots political action campaign. Their programs in Uganda include an Education Campaign, the implementation of Schools for 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, 2007 AND 2006

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 it's 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:

	2007	2006
Unrestricted Accounts:		
SEI Investments - Money Market Fund	\$ 600,000	\$ -
Wells Fargo Savings	452,929	(15)
Wells Fargo Operating	135,340	54,042
Petty Cash	287	1,216
Bank of America Checking	286	212
Wells Fargo Checking	247	1,151
Total Unrestricted Cash	\$ 1,189,089	\$ 56,606

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, 2007 and 2006, the Organization had approximately \$997,000 and \$0 in excess of the FDIC limit, respectively.

INVISIBLE CHILDREN, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 4 INVESTMENTS

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

	Cost	Fair Value
Unrestricted:		
Mutual Funds - SEI Investments	\$ 600,000	\$ 600,000

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

NOTE 5 PREPAID EXPENSES

Prepaid expenses consist of:

	2007	2006
Insurance	\$ 25,606	\$ 23,244
Rent	11,800	1,582
	\$ 37,406	\$ 24,826

NOTE 6 PROPERTY AND EQUIPMENT

Major categories of property and equipment are summarized as follows:

	2007	2006
Computer Equipment	\$ 370,159	\$ 89,473
Transportation Equipment	126,660	-
Video Equipment	109,764	57,788
Office Equipment	3,423	-
Furniture	2,814	-
	612,820	147,261
Accumulated Depreciation	(92,302)	(21,795)
	\$ 520,518	\$ 125,466

NOTE 7 NOTE PAYABLE

The Organization had a note payable with a related party for \$70,000 with an interest rate of 5.0%. The note required interest only payments on the debt outstanding as of the first month beginning on January 1, 2007. Interest of \$2,042 incurred before January 1, 2007 was recorded as contribution revenue and interest expense. The note payable did not have a maturity date and was not secured by any business assets. The note payable was paid in full as of June 30, 2007.

INVISIBLE CHILDREN, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

NOTE 8 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 two to three years. Included in property and equipment on the accompanying statement of financial position as of June 30, 2007 and 2006 is equipment acquired under capital leases with capitalized costs of \$51,194 and \$15,485, less accumulated depreciation of \$9,968 and \$3,097, respectively. Interest expense on the outstanding obligations under the capital leases was \$883 and \$443 for the years ended June 30, 2007 and 2006, respectively.

Capital Leases consist of the following:

	2007	2006
Apple Financial Services		
Principal & Interest payments of \$431 per month; 3.54% interest Due June, 2008	\$ 5,072	\$ 9,968
Apple Financial Services		
Principal & Interest payments of \$356 per month; 3.57% interest Due September, 2009	9,230	-
Apple Financial Services		
Principal & Interest payments of \$1,142 per month; 3.36% interest Due March, 2010	35,942	-
	50,244	9,968
Less: Current Portion	(21,771)	(4,896)
	\$ 28,473	\$ 5,072

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

	2008	\$ 23,146
	2009	17,976
	2010	11,345
		52,467
Less: Amount Representing Interest		(2,223)
		50,244
Less: Current Portion		(21,771)
		\$ 28,473

INVISIBLE CHILDREN, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006

Page 13

NOTE 9 COMMITMENTS

The Organization leases office space 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 Ocean Beach office lease is a non-cancelable lease that began in August 2006. The Organization extended the Ocean Beach office lease an additional six months until February 2008.

The Organization leased three locations in the San Diego area under month-to-month lease agreements.

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

2008	\$ 126,000
2009	114,000
2010	<u>28,000</u>
	<u>\$ 268,000</u>

The total rent expense for the years ended June 30, 2007 and 2006 was \$169,394 and \$32,369, respectively.