

**INVISIBLE CHILDREN, INC.
FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

INVISIBLE CHILDREN, INC.

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CERTIFIED PUBLIC ACCOUNTANTS

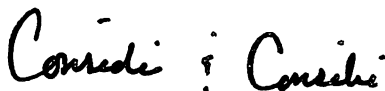
To The Board of Directors
Invisible Children, Inc.
1620 Fifth Avenue, Suite 400
San Diego, CA 92101-2738

Independent Auditor's Report

We have audited the accompanying statements of financial position of Invisible Children, Inc. as of June 30, 2010 and 2009, 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 audits.

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 audits 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, 2010 and 2009, 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.



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September 3, 2010

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INVISIBLE CHILDREN, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

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	2010	2009
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,113,663	\$ 1,078,034
Accounts Receivable	-	12,292
Pledges Receivable	204,255	153,737
Program Materials Inventory	117,290	194,571
Prepaid Expenses (Note 3)	93,994	83,295
	1,529,202	1,521,929
PROPERTY & EQUIPMENT (NOTE 4)	483,263	651,758
TOTAL ASSETS	2,012,465	2,173,687
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	298,202	337,743
Capital Leases - Current Portion (Note 6)	-	11,196
	298,202	348,939
LONG-TERM LIABILITIES		
Line of Credit (Note 5)	-	300,000
TOTAL LIABILITIES	298,202	648,939
COMMITMENTS (NOTE 7)		
NET ASSETS (NOTE 8)		
Unrestricted	1,254,056	105,070
Temporarily Restricted	460,207	1,419,678
	1,714,263	1,524,748
TOTAL LIABILITIES AND NET ASSETS	\$ 2,012,465	\$ 2,173,687

See Accompanying Notes

INVISIBLE CHILDREN, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUE				
General Donations	\$ 2,594,697	\$ -	\$ -	\$ 2,594,697
Program Material Revenue	1,900,466	-	-	1,900,466
Grants	-	1,739,568	-	1,739,568
Schools 4 Schools	-	1,000,814	-	1,000,814
Legacy Fund Giving	-	389,154	-	389,154
Direct Support	-	371,936	-	371,936
Better World Books Revenue	254,736	-	-	254,736
Interest Income	2,570	-	-	2,570
Funds Released from Restriction	4,460,943	(4,460,943)	-	-
	<u>9,213,412</u>	<u>(959,471)</u>	<u>-</u>	<u>8,253,941</u>
FUNCTIONAL ALLOCATION OF EXPENSES				
Program	6,771,209	-	-	6,771,209
General and Management	972,515	-	-	972,515
Development	320,702	-	-	320,702
	<u>8,064,426</u>	<u>-</u>	<u>-</u>	<u>8,064,426</u>
CHANGE IN NET ASSETS	1,148,986	(959,471)	-	189,515
NET ASSETS - BEGINNING OF YEAR	105,070	1,419,678	-	1,524,748
NET ASSETS - END OF YEAR	<u>\$ 1,254,056</u>	<u>\$ 460,207</u>	<u>\$ -</u>	<u>\$ 1,714,263</u>

See Accompanying Notes

INVISIBLE CHILDREN, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

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	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
Program Material Revenue	\$ 2,389,697	\$ -	\$ -	\$ 2,389,697
General Donations	2,081,860	-	-	2,081,860
Schools 4 Schools	-	1,535,897	-	1,535,897
Grants	-	1,203,000	-	1,203,000
Direct Support	-	355,437	-	355,437
BWB Revenue	251,654	-	-	251,654
Interest Income	18,331	-	-	18,331
Fundraising Event Sales	8,735	-	-	8,735
Funds Released from Restriction	3,699,641	(3,699,641)	-	-
	8,449,918	(605,307)	-	7,844,611
FUNCTIONAL ALLOCATION OF EXPENSES				
Program	7,695,159	-	-	5,936,755
General and Management	1,007,081	-	-	975,978
Development	317,150	-	-	153,268
	9,019,390	-	-	9,019,390
CHANGE IN NET ASSETS	(569,472)	(605,307)	-	(1,174,779)
NET ASSETS - BEGINNING OF YEAR	674,542	2,024,985	-	2,699,527
NET ASSETS - END OF YEAR	\$ 105,070	\$ 1,419,678	\$ -	\$ 1,524,748

See Accompanying Notes

INVISIBLE CHILDREN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

	PROGRAM	GENERAL AND MANAGEMENT	DEVELOPMENT	TOTAL
EXPENSES				
Compensation Costs	\$ 982,782	\$ 335,895	\$ 114,749	\$ 1,433,426
Direct Services	3,326,566	-	-	3,326,566
Direct Support Expense	217,830	5,959	-	223,789
Entertainment	6,370	702	391	7,463
Fees and Licenses	19,058	113,891	9,374	142,323
Film Costs	53,349	1,000	-	54,349
Insurance	63,879	58,902	9,526	132,307
Interest	149	2,594	-	2,743
Office	29,412	23,547	2,408	55,367
Postage	47,355	82,624	12,680	142,659
Production Cost	714,111	-	-	714,111
Professional Services	231,478	6,062	14,467	252,007
Program Communication	69,091	16,932	30,434	116,457
Program Supplies	53,208	8,366	1,105	62,679
Rent	134,269	196,439	27,241	357,949
Travel and Transportation	606,570	52,698	82,975	742,243
Utilities	26,507	45,320	15,269	87,096
TOTAL EXPENSES BEFORE DEPRECIATION	6,581,984	950,931	320,619	7,853,534
Depreciation	189,225	21,584	83	210,892
TOTAL EXPENSES	\$ 6,771,209	\$ 972,515	\$ 320,702	\$ 8,064,426

See Accompanying Notes

INVISIBLE CHILDREN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009

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	PROGRAM	GENERAL AND MANAGEMENT	DEVELOPMENT	TOTAL
EXPENSES				
Compensation Costs	\$ 1,478,088	\$ 371,224	\$ 60,644	\$ 1,909,956
Direct Services	2,972,283	-	-	2,972,283
Direct Support Expense	190,344	1,190	700	192,234
Entertainment	6,762	2,367	906	10,035
Fees and Licenses	75,159	135,214	2,460	212,833
Film Costs	76,763	-	8,529	85,292
Insurance	90,126	51,326	8,308	149,760
Interest	4,993	-	555	5,548
Loss on Disposal of Asset	5,360	-	-	5,360
Office	48,776	31,365	830	80,971
Postage	80,220	169,174	12,420	261,814
Production Cost	975,534	-	-	975,534
Professional Services	294,890	42,950	79,252	417,092
Program Communication	140,973	18,314	27,843	187,130
Program Supplies	212,461	14,074	272	226,807
Rent	152,992	95,907	31,083	279,982
Travel and Transportation	689,463	19,471	52,931	761,865
Utilities	28,605	54,505	11,377	94,487
TOTAL EXPENSES BEFORE DEPRECIATION	7,523,792	1,007,081	298,110	8,828,983
Depreciation	171,367	-	19,040	190,407
TOTAL EXPENSES	\$ 7,695,159	\$ 1,007,081	\$ 317,150	\$ 9,019,390

See Accompanying Notes

INVISIBLE CHILDREN, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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	2010	2009
CASH FLOWS PROVIDED/(USED) BY OPERATING ACTIVITIES		
Increase/(Decrease) in Net Assets	\$ 189,515	\$ (1,174,779)
ADJUSTMENTS TO RECONCILE INCREASE/(DECREASE) IN NET ASSETS TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES		
Depreciation	210,892	190,407
Decrease in Accounts Receivable	12,292	27,441
(Increase)/Decrease in Pledges Receivable	(50,518)	191,883
Decrease in Inventory	77,281	2,027
Increase in Prepaid Expenses	(10,701)	(41,598)
(Decrease)/Increase in Accounts Payable and Accrued Expenses	(39,541)	150,575
Loss on Sale of Asset	-	5,360
	(199,705)	(526,095)
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	389,220	(648,684)
CASH FLOWS USED BY INVESTING ACTIVITIES		
Purchase of Property and Equipment	(42,395)	(199,008)
CASH FLOWS USED BY FINANCING ACTIVITIES		
Payment of Line of Credit	(300,000)	-
Principal Payments on Capital Leases	(11,196)	(17,277)
	(311,196)	(17,277)
NET INCREASE/(DECREASE) IN CASH	35,629	(864,969)
CASH, BEGINNING OF YEAR	1,078,034	1,943,003
CASH, ENDING OF YEAR	\$ 1,113,663	\$ 1,078,034
SUPPLEMENTAL DISCLOSURES		
Interest Paid	\$ 2,743	\$ 5,547

See Accompanying Notes

INVISIBLE CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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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. Invisible Children uses film, creativity and social action to end the use of child soldiers in Joseph Kony's rebel war and restore Northern Uganda to peace and prosperity. Invisible Children's programs in the United States include production of a feature version of Invisible Children, a semi-annual national tour, the Schools 4 Schools Program and a grassroots awareness campaign. The Organization's programs in Uganda include the Visible Child Scholarship Program, the implementation of Schools 4 Schools funds raised, and micro-economic programs including the Cotton Initiative, MEND, the Bracelet Campaign and the Village Savings and Loan Initiative.

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 Financial Accounting Standards Board.

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

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

The Organization maintains its cash accounts at two national commercial banks, which at times exceed the federally insured deposit limits. The Organization has not experienced any losses in such accounts and management believes it is not exposed to any significant risk on cash.

Fair Value Measurement - The Organization follows accounting standards consistent with the FASB codification which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements for all financial assets and liabilities. The adoption of fair value measurements has no material financial effects on the Organization's financial statements.

INVISIBLE CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory - Inventory consists of program materials and is valued at lower of cost or market, determined using the first in, first out method. Management has determined the allowance for obsolete inventory to be \$0 at June 30, 2010 and 2009.

Accounts Receivable - Accounts receivable consist of receivables on sales of merchandise.

Pledges Receivable - Pledges receivable consist of unconditional promises to give, which are recorded at the net realizable value at the time the promises are received. Included in pledges receivable are website donations and receivables from a collaboration with Better World Books. All pledges receivable are expected to be collected within one year. Pledges receivable related to website donations that are deposited bi-monthly totaled approximately \$107,000 and \$54,000 as of June 30, 2010 and 2009, respectively. Pledges receivable related to the Better World Book collaboration totaled approximately \$38,000 and \$100,000 as of June 30, 2010 and 2009, respectively.

Management assesses the collectability of all accounts and pledges receivable at the close of each period and records an allowance for doubtful accounts based on specific identification. Management has determined Accounts Receivable and Pledges Receivable allowance for doubtful accounts to be \$0 at June 30, 2010 and 2009.

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.

INVISIBLE CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donor Imposed Restrictions - All contributions are considered available for the Organization's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increase the respective class of net assets. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets.

Revenue Recognition - Revenue is recognized when earned, which may be when cash is received, unconditional promises made, in-kind donations received or services rendered. The Organization records in-kind donations at fair value at the date of the donation.

Donated Services - The Organization recognizes the value of donated services by recording the services at fair value. All donated services recognized must create a non-financial asset or must require specialized skills that would have been purchased if not donated. During the years ending June 30, 2010 and 2009, 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.

Production and Film Costs - Costs related to the production of a documentary to raise awareness are being expensed as incurred.

Advertising - The Organization expenses advertising costs as incurred. Advertising expenses for the year ended June 30, 2010 and 2009 were approximately \$117,000 and \$171,000, respectively.

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.

INVISIBLE CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The Organization has adopted accounting standards which clarify the accounting for uncertainty in income taxes recognized in the financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition and measurement of a tax position taken or to be taken in a tax return. The adoption of these standards did not have a material effect. As of June 30, 2010, the Organization has not accrued interest or penalties to uncertain tax positions.

NOTE 3 PREPAID EXPENSES

Prepaid expenses consists of:

	2010	2009
Insurance	\$ 33,179	\$ 32,002
Website	27,400	-
Security Deposit	22,647	22,647
Other	10,768	6,850
Rent	-	21,796
	<u>\$ 93,994</u>	<u>\$ 83,295</u>

NOTE 4 PROPERTY AND EQUIPMENT

Major categories of property and equipment are summarized as follows:

	2010	2009
Computer Equipment	\$ 685,475	\$ 651,569
Transportation Equipment	220,053	220,053
Video and Camera Equipment	173,643	168,289
Furniture and Fixtures	43,194	40,058
	<u>1,122,365</u>	<u>1,079,969</u>
Accumulated Depreciation	(639,102)	(428,211)
	<u>\$ 483,263</u>	<u>\$ 651,758</u>

INVISIBLE CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 5 LINE OF CREDIT

The Organization had a line of credit for \$300,000 with Wells Fargo Bank. The line matured in August 2009 and was secured by general business property.

NOTE 6 CAPITAL LEASES

The Organization had two non-cancellable leases for computers and computer accessories that expired during the year ending June 30, 2010. Included in property and equipment on the accompanying statements of financial position as of June 30, 2009 is equipment acquired under these capital leases with capitalized costs of \$51,193, less accumulated depreciation of \$24,252. Interest expense on the outstanding obligations under the capital leases was \$149 and \$699 for the years ended June 30, 2010 and 2009, respectively.

Capital Leases consists of the following:

	2010	2009
Apple Financial Services Principal & Interest payments of \$356 per month; 3.57% interest Due September, 2009	\$ -	\$ 1,063
Apple Financial Services Principal & Interest payments of \$1,142 per month; 3.36% interest Due March, 2010	-	10,133
	-	11,196
Less: Current Portion	-	(11,196)
	\$ -	\$ -

NOTE 7 COMMITMENTS

In January 2009, the Organization entered into an agreement to lease office space. The lease is non-cancelable and expires in January 2011.

Throughout the year, the Organization leases residential properties on a month-to-month basis.

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

2011	\$ 143,718
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The total rent expense for the years ended June 30, 2010 and 2009 was \$357,949 and \$279,983, respectively.

INVISIBLE CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 8 NET ASSETS

Net assets consists of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Unrestricted	\$ 1,254,056	\$ 105,070
Temporarily Restricted:		
Legacy Fund	6,361	-
Schools 4 Schools	<u>453,846</u>	<u>1,419,678</u>
Total Net Assets	<u>\$ 1,714,263</u>	<u>\$ 1,524,748</u>

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.

NOTE 9 SUBSEQUENT EVENTS

The Company has evaluated subsequent events through September 3, 2010, the date which the financial statements were available to be issued.