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**INVISIBLE CHILDREN, INC.**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

## INVISIBLE CHILDREN, INC.

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# CONSIDINE CONSIDINE

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, 2011 and 2010, 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 auditing standards generally accepted in 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 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 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, 2011 and 2010, 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

September 22, 2011

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**INVISIBLE CHILDREN, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2011 AND 2010**

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	2011	2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 6,036,803	\$ 1,113,663
Accounts Receivable	37,084	-
Pledges Receivable	130,688	204,255
Program Materials Inventory	197,167	117,290
Prepaid Expenses (Note 3)	123,771	93,994
	6,525,513	1,529,202
<b>PROPERTY AND EQUIPMENT (NOTE 4)</b>	405,772	483,263
	6,931,285	2,012,465
	6,931,285	2,012,465
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	346,474	298,202
	346,474	298,202
<b>TOTAL LIABILITIES</b>	346,474	298,202
<b>NET ASSETS (NOTE 7)</b>		
Unrestricted	5,468,718	1,254,056
Temporarily Restricted	1,116,093	460,207
	6,584,811	1,714,263
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 6,931,285	\$ 2,012,465
	\$ 6,931,285	\$ 2,012,465

See Accompanying Notes

**INVISIBLE CHILDREN, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>SUPPORT AND REVENUE</b>				
General Donations	\$ 4,676,436	\$ -	\$ -	\$ 4,676,436
Program Material Revenue	3,295,722	-	-	3,295,722
Grants	-	3,043,439	-	3,043,439
Schools 4 Schools	-	1,175,080	-	1,175,080
Legacy Fund Giving	-	1,076,358	-	1,076,358
Direct Support	-	362,747	-	362,747
Better World Books Revenue	127,629	-	-	127,629
Interest Income	7,769	-	-	7,769
Funds Released from Restriction	5,001,738	(5,001,738)	-	-
	<u>13,109,294</u>	<u>655,886</u>	<u>-</u>	<u>13,765,180</u>
<b>FUNCTIONAL ALLOCATION OF EXPENSES</b>				
Program	7,163,384	-	-	7,163,384
General and Management	1,444,570	-	-	1,444,570
Development	286,678	-	-	286,678
	<u>8,894,632</u>	<u>-</u>	<u>-</u>	<u>8,894,632</u>
<b>CHANGE IN NET ASSETS</b>	4,214,662	655,886	-	4,870,548
<b>NET ASSETS - BEGINNING OF YEAR</b>	1,254,056	460,207	-	1,714,263
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 5,468,718</u>	<u>\$ 1,116,093</u>	<u>\$ -</u>	<u>\$ 6,584,811</u>

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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	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>SUPPORT AND REVENUE</b>				
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>
<b>FUNCTIONAL ALLOCATION OF EXPENSES</b>				
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>
<b>CHANGE IN NET ASSETS</b>	1,148,986	(959,471)	-	189,515
<b>NET ASSETS - BEGINNING OF YEAR</b>	105,070	1,419,678	-	1,524,748
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 1,254,056</u>	<u>\$ 460,207</u>	<u>\$ -</u>	<u>\$ 1,714,263</u>

See Accompanying Notes

**INVISIBLE CHILDREN, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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	PROGRAM	GENERAL AND MANAGEMENT	DEVELOPMENT	TOTAL
<b>EXPENSES</b>				
Compensation Costs	\$ 1,074,725	\$ 549,840	\$ 100,428	\$ 1,724,993
Direct Services	2,810,681	-	-	2,810,681
Direct Support Expense	138,763	7,690	150	146,603
Entertainment	8,380	8,001	-	16,381
Fees and Licenses	27,339	201,195	948	229,482
Film Costs	357,610	-	-	357,610
Insurance	74,225	74,118	9,224	157,567
Interest	-	365	-	365
Office	42,673	64,505	677	107,855
Postage	153,551	33,395	555	187,501
Production Cost	851,552	-	-	851,552
Professional Services	205,395	38,996	-	244,391
Program Communication	79,600	35,227	24,038	138,865
Program Supplies	99,413	21,899	-	121,312
Rent	151,159	217,430	30,140	398,729
Travel and Transportation	852,820	119,933	101,520	1,074,273
Utilities	37,662	53,973	16,819	108,454
<b>TOTAL EXPENSES BEFORE DEPRECIATION</b>	<b>6,965,548</b>	<b>1,426,567</b>	<b>284,499</b>	<b>8,676,614</b>
Depreciation	197,836	18,003	2,179	218,018
<b>TOTAL EXPENSES</b>	<b>\$ 7,163,384</b>	<b>\$ 1,444,570</b>	<b>\$ 286,678</b>	<b>\$ 8,894,632</b>

See Accompanying Notes

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

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	PROGRAM	GENERAL AND MANAGEMENT	DEVELOPMENT	TOTAL
<b>EXPENSES</b>				
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
<b>TOTAL EXPENSES</b>				
<b>BEFORE DEPRECIATION</b>	6,581,984	950,931	320,619	7,853,534
Depreciation	189,225	21,584	83	210,892
<b>TOTAL EXPENSES</b>	<b>\$ 6,771,209</b>	<b>\$ 972,515</b>	<b>\$ 320,702</b>	<b>\$ 8,064,426</b>

See Accompanying Notes



**INVISIBLE CHILDREN, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

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	2011	2010
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>		
Increase in Net Assets	\$ 4,870,548	\$ 189,515
<b>ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Depreciation	218,018	210,892
(Increase)/Decrease in Accounts Receivable	(37,084)	12,292
Decrease/(Increase) in Pledges Receivable	73,567	(50,518)
(Increase)/Decrease in Program Materials Inventory	(79,877)	77,281
Increase in Prepaid Expenses	(29,777)	(10,701)
Increase/(Decrease) in Accounts Payable and Accrued Expenses	48,272	(39,541)
	(193,119)	(199,705)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	5,063,667	389,220
<b>CASH FLOWS USED BY INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(140,527)	(42,395)
<b>CASH FLOWS USED BY FINANCING ACTIVITIES</b>		
Payment of Line of Credit	-	(300,000)
Principal Payments on Capital Leases	-	(11,196)
	-	(311,196)
<b>NET INCREASE IN CASH</b>	4,923,140	35,629
<b>CASH, BEGINNING OF YEAR</b>	1,113,663	1,078,034
<b>CASH, ENDING OF YEAR</b>	\$ 6,036,803	\$ 1,113,663
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest Paid	\$ 365	\$ 2,743

See Accompanying Notes

**INVISIBLE CHILDREN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

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**NOTE 1 ORGANIZATION**

The story of Invisible Children began in 2003, when three young filmmakers traveled to East Africa and filmed a documentary, *Invisible Children: The Rough Cut*, about the ongoing civil war and child soldier phenomenon in northern Uganda. Upon showing this documentary in the United States, the story of the child soldiers sparked a youth-oriented grassroots movement driven by the desire to transform apathy into activism.

This movement led to the establishment of Invisible Children, Inc. (the "Organization") as a registered California 501(c)(3) in 2004. The Organization's programs include educational and microeconomic initiatives in Central Africa benefiting over 11,000 people as well as biannual tours, awareness events, and fundraising campaigns stateside.

Recently, the Organization has expanded its operations to Central Africa to address the plight of the most recent victims of the Lord's Resistance Army's (LRA) reign of terror who live in some of the most remote regions of the world. The Invisible Children Protection Plan is a comprehensive, five-step strategy that takes direct action to ensure stability by 1) building an early warning radio network to facilitate twice daily security broadcast and early warning communications; 2) educating local communities and facilitating safe LRA surrenders; 3) deploying search and rescue teams; 4) providing rehabilitation and family reunification; and 5) promoting the arrest of Joseph Kony and top LRA commanders.

**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.

**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.

**Basis of Presentation** - Under accounting standards on Financial Statements of Not-for-profit Organizations, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

**Unrestricted Net Assets** - Unrestricted amounts consist of assets which are fully available, at the discretion of management and the Board of Directors, for the Organization to utilize in any of its programs or supporting services. Unrestricted net assets also include amounts designated for certain purposes by the Board of Directors.

**Temporarily Restricted Net Assets** - Temporarily restricted amounts are those which are restricted by donors for specific operating purposes and are not currently available for use in the organization's operations until commitments regarding their use have been fulfilled.

**INVISIBLE CHILDREN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Permanently Restricted Net Assets - Permanently restricted amounts are those which are restricted by donors that neither expire by the passage of time nor can be fulfilled or removed by the actions of the Organization. At June 30, 2011 and 2010, there were no permanently restricted net assets.

The Organization maintains its cash accounts at three 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.

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. All pledges receivable are expected to be collected within one year. Included in pledges receivable are website donations and receivables from a collaboration with Better World Books. Pledges receivable related to website donations that are due to the Organization totaled approximately \$26,000 and \$107,000 as of June 30, 2011 and 2010, respectively. Pledges receivable related to the Better World Books collaboration totaled approximately \$21,000 and \$38,000 as of June 30, 2011 and 2010, 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 all accounts receivable and pledges receivable to be collectible at June 30, 2011 and 2010.

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, 2011 and 2010.

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, 2011 AND 2010**

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Support and Revenue Recognition - Support and revenue is recognized when earned, which may be when cash is received, unconditional promises made, in-kind donations received or when products are sold.

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. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted use unless specifically restricted by the donor or subject to other legal restrictions.

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, 2011 and 2010, 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.

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 years ended June 30, 2011 and 2010 were approximately \$139,000 and \$117,000, 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.

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 on the Organization. As of June 30, 2011, the Organization has not accrued interest or penalties related to uncertain tax positions. The Organization files tax returns in the U.S. Federal jurisdiction and the State of California. The Organization is no longer subject to examination by U.S. and California tax authorities for years before 2007 and 2006, respectively.

**INVISIBLE CHILDREN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

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**NOTE 3 PREPAID EXPENSES**

Prepaid expenses consists of:

	2011	2010
Insurance	\$ 50,050	\$ 33,179
Materials Deposit	36,250	-
Security Deposit	23,647	22,647
Other	10,813	10,768
Rent	3,011	-
Website	-	27,400
	\$ 123,771	\$ 93,994

**NOTE 4 PROPERTY AND EQUIPMENT**

Major categories of property and equipment are summarized as follows:

	2011	2010
Computer Equipment	\$ 751,000	\$ 685,475
Transportation Equipment	288,762	220,053
Video and Camera Equipment	177,769	173,643
Furniture and Fixtures	45,361	43,194
	1,262,892	1,122,365
Accumulated Depreciation	(857,120)	(639,102)
	\$ 405,772	\$ 483,263

**NOTE 5 CAPITAL LEASES**

The Organization had two non-cancelable leases for computers and computer accessories that expired during the year ending June 30, 2010. Interest expense on the outstanding obligations under the capital leases was \$149 for the year ended June 30, 2010.

**NOTE 6 COMMITMENTS**

In November 2010, the Organization renewed its agreement to lease office space. The lease is non-cancelable and expires in January 2013.

In June 2010, the Organization entered into an agreement to lease additional office space. The lease is non-cancelable and expires in January 2013.

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

**INVISIBLE CHILDREN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 6 COMMITMENTS (Continued)**

In July 2010, the Organization entered into an agreement to lease office equipment. The operating lease is non-cancelable and expires in June 2015.

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

2012		\$ 242,899
2013		159,470
2014		4,230
2015		4,230
		\$ 410,829

The total rent expense for facilities and equipment for the years ended June 30, 2011 and 2010 was \$402,959 and \$357,949, respectively.

**NOTE 7 NET ASSETS**

Net assets consists of the following at June 30, 2011 and 2010:

	2011	2010
Unrestricted	\$ 5,468,718	\$ 1,254,056
Temporarily Restricted:		
Schools 4 Schools	733,183	453,846
Legacy Fund	297,878	6,361
Grants	85,032	-
Total Net Assets	\$ 6,584,811	\$ 1,714,263

Schools 4 Schools campaign consists of funds raised for the purpose of rebuilding schools in Central Africa.

Legacy Fund consists of funds raised to provide scholarships and mentoring programs in Central Africa.

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

The Organization experienced very strong and unexpected revenue near fiscal year end 2011, which is reflected in unrestricted net assets at June 30, 2011. As a result of this surge in revenue, the Organization's management is working with the Board of Directors to develop a plan for how the funds can be a catalyst to future program impact as well as helping to assure medium to long term sustainability through the development of a reserve fund.

**NOTE 8 SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through September 22, 2011, the date which the financial statements were available to be issued.