

SQUAR MILNER

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Invisible Children, Inc.

We have audited the accompanying statement of financial position of Invisible Children, Inc. (the "Organization") as of June 30, 2012, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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. The financial statements of Invisible Children, Inc. as of June 30, 2011, were audited by other auditors whose report dated September 22, 2011 expressed an unqualified opinion on those statements.

This means that our finances are in good shape... not sure why accountants use such a confusing word to say the

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 provides 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles of the United States of America.

We got the "all clear"

(GAAP)

Squar Milner Peterson Miranda & Williamson, LLP

SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP

San Diego, California
November 28, 2012

SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP
Certified Public Accountants & Financial Advisors. Serving Clients Since 1951

3655 Nobel Drive, Suite 450 | San Diego, CA 92122 | Tel: 858-597-4100 | Fax: 858-597-4111

Encino Los Angeles Newport Beach San Diego Cayman Islands

INVISIBLE CHILDREN, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

*Invisible Children's
Fiscal Year (FY)
goes from July 1 - June 30*

	2012	2011
ASSETS		
Current Assets		
Cash	\$ 15,554,716	\$ 6,036,803
Receivables	553,186	167,772
Awareness product inventory, net	826,403	197,167
Prepaid expenses and other assets	209,440	123,771
Total Current Assets	17,143,745	6,525,513
Property and Equipment, Net	585,184	405,772
Total Assets	\$ 17,728,929	\$ 6,931,285
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 274,989	\$ 4,788
Other liabilities	363,511	341,686
Total Liabilities	638,500	346,474
Net Assets		
Unrestricted	16,968,889	5,468,718
Temporarily restricted	121,540	1,116,093
	17,090,429	6,584,811
Total Liabilities and Net Assets	\$ 17,728,929	\$ 6,931,285

FY 2012

The increase in assets has allowed us to extend & expand our program commitments. There is a whole lot to be done, and this makes it possible for us to do a little more than before.

INVISIBLE CHILDREN, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2012
(with comparative summarized totals for the year ended June 30, 2011)

*T-shirts
Action Kits
DVDs* →

	2012		2011	
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUES				
Awareness campaign fundraising	\$ 1,407,735	\$ 673,363	\$ 2,081,098	\$ 2,251,438
Awareness products	20,334,946	-	<u>20,334,946</u>	3,295,722
Foundation grants and partnerships	230,607	357,252	587,859	3,171,068
General donations	8,670,933	14,114	8,685,047	4,676,436
Other income	21,099	229,950	251,049	370,514
Net assets released from restriction	2,269,232	(2,269,232)	-	-
Total support and revenues	<u>32,934,552</u>	<u>(994,553)</u>	<u>31,939,999</u>	<u>13,765,178</u>
Cost of awareness products	(5,453,355)	-	<u>(5,453,355)</u>	(850,050)
NET SUPPORT AND REVENUES	<u>27,481,197</u>	<u>(994,553)</u>	<u>26,486,644</u>	<u>12,915,128</u>
EXPENSES				
Program services				
Media	1,455,585	-	1,455,585	1,404,423
Mobilization	5,629,706	-	5,629,706	1,605,683
Protection	1,658,079	-	1,658,079	422,730
Recovery	4,277,312	-	4,277,312	2,880,498
Total program services	<u>13,020,682</u>	<u>-</u>	<u>13,020,682</u>	<u>6,313,334</u>
Supporting services				
Fundraising	884,361	-	884,361	286,678
General and administrative	2,075,983	-	2,075,983	1,444,568
Total supporting services	<u>2,960,344</u>	<u>-</u>	<u>2,960,344</u>	<u>1,731,246</u>
TOTAL EXPENSE	<u>15,981,026</u>	<u>-</u>	<u>15,981,026</u>	<u>8,044,580</u>
CHANGE IN NET ASSETS	<u>11,500,171</u>	<u>(994,553)</u>	<u>10,505,618</u>	<u>4,870,548</u>
NET ASSETS - BEGINNING OF YEAR	<u>5,468,718</u>	<u>1,116,093</u>	<u>6,584,811</u>	<u>1,714,263</u>
NET ASSETS - END OF YEAR	<u>\$ 16,968,889</u>	<u>\$ 121,540</u>	<u>\$ 17,090,429</u>	<u>\$ 6,584,811</u>

*Numbers in parentheses mean negative, or minus.
For example: (994,553) means the same thing as -994,553*

81.48% →

↳ The \$ we spent on programs this year

18.52% →

INVISIBLE CHILDREN, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2012

(with comparative summarized totals for the year ended June 30, 2011)

*Vehicle registration
 event permits
 credit card transaction fees*

\$5,262,652 went to Protection & Recovery programs in E. & Central Africa

EXPENSE	PROGRAM SERVICES				Total program services	SUPPORTING SERVICES			Total 2012	Total 2011
	Media	Mobilization	Protection	Recovery		Fundraising	General and administrative	Total supporting services		
Communications	\$ 70,277	\$ 340,298	\$ 1,409	\$ 1,961	\$ 413,945	\$ 21,364	\$ 128,080	\$ 149,444	\$ 563,389	\$ 138,865
Direct support	-	96,629	-	29,909	126,538	10,588	-	10,588	137,126	146,603
Equipment	13,910	105,138	6,325	8,058	133,431	9,175	26,352	35,527	168,958	122,562
Fees and licenses	3,932	626,940	-	1,450	632,322	454,983	65,967	520,950	1,153,272	229,482
Film production	24,758	43,699	2,986	-	71,443	7,973	-	7,973	79,416	357,610
Insurance	30,504	44,786	2,911	50,783	128,984	7,083	91,712	98,795	227,779	157,567
International support	-	-	1,521,258	3,741,394	5,262,652	-	-	-	5,262,652	2,810,681
Office expenses	10,045	91,827	146	10,613	112,631	5,365	146,254	151,619	264,250	126,104
Professional services	237,583	294,770	1,014	22,569	555,936	34,337	107,273	141,610	697,546	243,141
Rent	60,939	212,284	-	5,082	278,305	22,767	194,956	217,723	496,028	398,729
Salaries	753,090	319,692	71,492	240,435	1,384,709	196,436	787,574	984,010	2,368,719	1,561,059
Shipping and handling	775	2,365,494	-	-	2,366,269	2,796	318,004	320,800	2,687,069	187,501
Taxes and employee benefits	67,375	33,148	5,259	18,124	123,906	10,692	83,662	94,354	218,260	163,932
Transportation	98,944	892,446	39,946	144,909	1,176,245	77,667	40,423	118,090	1,294,335	1,074,272
Utilities	1,243	77,849	5,333	2,025	86,450	7,622	56,378	64,000	150,450	108,454
TOTAL EXPENSES - BEFORE DEPRECIATION	1,373,375	5,545,000	1,658,079	4,277,312	12,853,766	868,848	2,046,635	2,915,483	15,769,249	7,826,562
Depreciation	82,210	84,706	-	-	166,916	15,513	29,348	44,861	211,777	218,018
TOTAL EXPENSES	\$ 1,455,585	\$ 5,629,706	\$ 1,658,079	\$ 4,277,312	\$ 13,020,682	\$ 884,361	\$ 2,075,983	\$ 2,960,344	\$ 15,981,026	\$ 8,044,580

[The cost of shipping 739,426 units. Well played, USPS]

90.88% of transportation expenses are program related

National Tour - Free screenings nationwide ~20 vans = lots of gas, lots of repairs to & from East & Central Africa

There's that number again \$ spent on programs 81.48% of expenses

Tip: This page will make a lot more sense if you read the definitions & explanations on page 8 first.

INVISIBLE CHILDREN, INC.
STATEMENTS OF CASH FLOWS
 For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 10,505,618	\$ 4,870,548
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	211,777	218,018
(Increase) Decrease in receivables	(385,414)	36,483
(Increase) in awareness product inventory	(629,236)	(79,877)
(Increase) in prepaid expenses and other assets	(85,669)	(29,777)
Increase in accounts payable and other liabilities	292,026	48,272
Net cash provided by operating activities	<u>9,909,102</u>	<u>5,063,667</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(391,189)	(140,527)
Net cash used in operating activities	<u>(391,189)</u>	<u>(140,527)</u>
Net increase in cash	9,517,913	4,923,140
CASH – Beginning of year	<u>6,036,803</u>	<u>1,113,663</u>
CASH – Ending of year	<u>\$ 15,554,716</u>	<u>\$ 6,036,803</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	<u>\$ —</u>	<u>\$ 365</u>

This page is basically explaining where the organization's cash & assets & investments are held. For example, there are awareness products (like t-shirts & DVDs) in our office that haven't been sold yet. That inventory is an asset because when the products are sold we will have cash. This page is keeping track of stuff like that.

INVISIBLE CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

1. ORGANIZATION

Joseph Kony and the Lord's Resistance Army (the "LRA") have been abducting, killing, and displacing civilians in East and Central Africa since 1987. The founders of Invisible Children were three young filmmakers from Southern California who first encountered these atrocities in northern Uganda in 2003 when they met a boy named Jacob who feared for his life and a woman named Jolly who had a vision for a better future. Together, Jolly and the three young filmmakers promised Jacob that they would do whatever they could to stop Joseph Kony and the LRA.

The three founders made a documentary about what they had seen called Invisible Children: *The Rough Cut*. The film sparked a youth-driven grassroots movement that led to the establishment of Invisible Children, Inc. (the "Organization") as a registered California 501(c) (3) in 2004. Today, Invisible Children focuses exclusively on the LRA conflict through an integrated four-part model that addresses the problems in their entirety: immediate needs and long-term effects.

Media

Invisible Children creates films to document LRA atrocities, introduce new audiences to the conflict, and inspire global action.

Mobilization

Invisible Children mobilizes massive groups of people to support and advance international efforts to end LRA atrocities.

Protection

Invisible Children works with regional partners to build and expand systems that warn remote communities of LRA attacks and encourage members of the LRA to peacefully surrender.

Recovery

Invisible Children works to rehabilitate children directly affected by the LRA and invest in education and economic recovery programs in the post-conflict region to promote lasting peace.

Most of the Organization's programs in Central Africa are carried out by independent regional partners.

The Organization experienced a significant increase of revenues near fiscal year end 2012, which is reflected in unrestricted net assets at June 30, 2012. The Organization's management is working with its Board of Directors to develop a plan for how the funds can best be used to amplify the future impact of programs and help ensure medium to long-term sustainability.

AKA KONY 2012

Not exactly
the kind of
decisions you
want to
rush through

INVISIBLE CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 accounting principles generally accepted in the United States of America.

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 applicable to 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.

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, 2012, there were no permanently restricted net assets.

INVISIBLE CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative Information

The accompanying statement of activities and changes in net assets and statement of functional expenses for the year ended June 30, 2011 include certain prior-year comparative information in total, but not by net asset class or functional expense category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Cash

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.

Receivables

Receivables consist of contributions receivable and pledges receivable.

- Contributions receivable consist of amounts initiated by donors that have not been realized as cash by the Organization. Contributions receivable were \$490,172 as of June 30, 2012.
- Pledges receivable consist of unconditional promises to give, which are recorded at the net realizable value at the time the promises are received. Pledges receivable were \$63,014 as of June 30, 2012.

Management assesses the collectability of all receivables at the close of each period and records an allowance for doubtful accounts based on specific identification. Management has determined all receivables to be collectible at June 30, 2012.

Awareness Product Inventory, net

- Awareness product inventory consists of awareness products and is valued at lower of cost or market, determined using the first in, first out method. Management has recorded an allowance for obsolete awareness product inventory of \$488,854 at June 30, 2012.

INVISIBLE CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

↳ amortized - to write off an expenditure by prorating over a certain period

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.

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. To qualify for recognition, donated services must create a nonfinancial asset or must require specialized skills that would have been purchased if not donated. During the year ending June 30, 2012, 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.

Film Production

Costs related to the production of films to raise awareness are expensed as incurred.

INVISIBLE CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising **For example: mass emails, posters, phone calls & fliers**

The Organization expenses advertising costs as incurred. Advertising expenses for the year ended June 30, 2012 were \$329,821.

Shipping and Handling

The Organization includes costs related to shipping and handling of awareness products on the Statement of Functional Expenses as shipping and handling. These costs totaled \$2,366,269 for the year ended June 30, 2012. **The cost of mailing 739,426 units around the world. Who knew?**

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. 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 which prescribe 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. They also provide 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, 2012, 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.

Reclassifications

Certain reclassifications have been made to prior years financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported activities or net assets.

INVISIBLE CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

3. PROPERTY AND EQUIPMENT

Major categories of property and equipment as of June 30, 2012 are summarized as follows:

Computer equipment	\$	886,960	}	<i>the initial cost whenever we purchased it 2007 or 2012</i>
Transportation equipment		390,506		
Video and camera equipment		180,280		
Work in progress		148,330		
Furniture and fixtures		48,005		
		1,654,081		
Accumulated depreciation		(1,068,897)		<i>→ depreciation</i>
	\$	585,184		<i>→ current value of all the equipment & property we've ever purchased</i>

4. JOINT COSTS

The Organization conducts activities that include both fundraising appeals and program components. The costs of conducting these joint activities are included in the total program services and supporting services expenses in the statement of functional expenses. These joint costs were allocated between fundraising and program costs as follows for the year ended June 30, 2012:

	Program	Fundraising	Total Cost
National Tour	\$ 1,038,235	\$ 106,409	\$ 1,144,644
Kony 2012	\$ 2,807,905	\$ 19,314	\$ 2,827,219
4th Estate	\$ 278,647	\$ 11,307	\$ 289,954
Film	\$ 75,226	\$ 4,189	\$ 79,415
Web	\$ 356,373	\$ 17,488	\$ 373,861

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2012 were \$121,540 and relate to the Organization's Legacy Fund. The Legacy Fund consists of funds raised to provide scholarships and mentoring programs in Central Africa.

INVISIBLE CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

6. COMMITMENTS

The Organization has various agreements to lease office space and residential properties. These leases are non-cancelable and expire between August 2012 and July 2013.

Subsequent to year end, the Organization signed a lease for new office space commencing in January 2013 and ending in January 2018. During July 2012, the Organization paid \$119,630 and \$34,041 at lease signing for the security deposit and first month's rent, respectively.

The Organization has 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:

2013	\$ 481,932
2014	384,905
2015	437,190
2016	451,422
2017	469,278
Thereafter	<u>279,138</u>
	<u>\$ 2,503,865</u>

The total expense for facilities and equipment rentals for the year ended June 30, 2012 was \$524,157.

7. RETIREMENT PLAN

The Organization sponsors a 401(K) retirement plan which covers all eligible employees. Contributions to the profit sharing plan are at the discretion of the employees. The Organization may make a discretionary contribution. No contributions were made by the Organization during the year ended June 30, 2012.

While the Organization expects to continue the plan indefinitely, it has reserved the right to modify, amend, or terminate the plan. In the event of termination, the entire amount contributed under the plan must be applied to the payment of benefits to the participants or their beneficiaries.

8. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through November 28, the date which the financial statements were available to be issued.