

INVISIBLE CHILDREN, INC.
FINANCIAL STATEMENTS
JUNE 30, 2006

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 statement of financial position of Invisible Children, Inc. as of June 30, 2006, 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.

We conducted our audit 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 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, 2006, 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.

CONSIDINE & CONSIDINE
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December 21, 2006

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INVISIBLE CHILDREN
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2006

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ASSETS

CURRENT ASSETS

Cash (Note 3)	\$ 56,606
Program Materials Inventory	346,153
Accounts Receivable	209,067
Pledges Receivable	69,250
Prepaid Expenses (Note 4)	24,826
	<hr/>
	705,902

PROPERTY & EQUIPMENT (NOTE 5)

125,466

TOTAL ASSETS

831,368

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	184,385
Note Payable (Note 6)	70,000
Capital Lease- Current Portion (Note 7)	4,896
	<hr/>
	259,281

LONG-TERM LIABILITIES

Capital Lease (Note 7)	5,072
	<hr/>
	264,353

COMMITMENTS (NOTE 8)

NET ASSETS

Unrestricted	567,015
	<hr/>

TOTAL LIABILITIES AND NET ASSETS

\$ 831,368

See Accompanying Notes

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

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	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
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>
FUNCTIONAL ALLOCATION OF EXPENSES				
Program	2,254,099	-	-	2,254,099
General and Administration	285,934	-	-	285,934
Fundraising	99,747	-	-	99,747
	<u>2,639,780</u>	<u>-</u>	<u>-</u>	<u>2,639,780</u>
CHANGE IN NET ASSETS	495,574	-	-	495,574
NET ASSETS - BEGINNING OF YEAR	71,441	-	-	71,441
NET ASSETS - END OF YEAR	<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, 2006

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	PROGRAM	GENERAL AND MANAGEMENT	FUNDRAISING	TOTAL
EXPENSES				
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
Tax and License	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
TOTAL EXPENSES BEFORE DEPRECIATION	<u>2,236,711</u>	<u>285,934</u>	<u>99,747</u>	<u>2,622,392</u>
Depreciation	17,388	-	-	17,388
TOTAL EXPENSES	<u><u>\$ 2,254,099</u></u>	<u><u>\$ 285,934</u></u>	<u><u>\$ 99,747</u></u>	<u><u>\$ 2,639,780</u></u>

See Accompanying Notes

**INVISIBLE CHILDREN, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006**

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CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	
Increase in Net Assets	\$ 495,574
 ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation	17,388
Increase in Accounts Receivable	(209,067)
Increase in Pledges Receivable	(69,250)
Increase in Inventory	(346,153)
Increase in Prepaid Expenses	(24,826)
Increase in Accounts Payable	184,385
	48,051
 CASH PROVIDED BY OPERATING ACTIVITIES	
 CASH USED BY INVESTING ACTIVITIES	
Purchase of Property and Equipment	(103,188)
 NET CASH PROVIDED BY FINANCING ACTIVITIES	
Borrowings on Note Payable	70,000
Borrowings on Capital Lease	15,485
Principal Payments on Capital Lease	(5,517)
	79,968
 NET INCREASE IN CASH	 24,831
CASH, BEGINNING OF YEAR	 31,775
 CASH, ENDING OF YEAR	 \$ 56,606

See Accompanying Notes

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

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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 of the Rough Cut Documentary, the Global Night Commute Awareness Event, and a grassroots political action campaign. Their programs in Uganda include a Volunteer Program, Education Program, 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.

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, 2006

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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:

Unrestricted Accounts:

Wells Fargo Operating	\$ 54,042
Petty Cash	1,216
Wells Fargo Checking	1,151
Bank of America Checking	212
Wells Fargo Savings	(15)
Total Unrestricted Cash	<u>\$ 56,606</u>

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

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NOTE 4 PREPAID EXPENSES

Prepaid expenses consists of:

Prepaid Insurance	\$ 23,244
Prepaid Rent	1,582
	<u>\$ 24,826</u>

NOTE 5 PROPERTY AND EQUIPMENT

Major categories of property and equipment are summarized as follows:

Computer Equipment	\$ 89,473
Video Equipment	57,788
	<u>147,261</u>
Accumulated Depreciation	(21,795)
	<u>\$ 125,466</u>

NOTE 6 NOTE PAYABLE

The Organization has a note payable with a related party for \$70,000 with an interest rate of 5.0%. The note requires interest only payments based on the debt outstanding as of the first of the month beginning on January 1, 2007. Interest of \$2,042 incurred before January 1, 2007 is recorded as contribution revenue and interest expense. The note payable does not have a maturity date and is not secured by any business assets. Due to the receipt of a substantial contribution, the Organization plans to repay the note payable in full in 2007.

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

NOTE 7 CAPITAL LEASE

The Organization has one non-cancellable lease that is recorded as a capital lease. The lease is for a computer server with a remaining term of less than three years. Included in property and equipment on the accompanying statement of financial position as of June 30, 2006, is equipment acquired under a capital lease with a capitalized cost of \$15,485, less accumulated depreciation of \$3,097. Interest expense on the outstanding obligation under the capital lease was \$443 for the year ended June 30, 2006.

Capital Lease consist of the following:

Apple Financial Services	
Principal & Interest payments of	
\$431 per month; 3.54% interest	
Due June, 2008	\$ 9,968
	<u>9,968</u>
Less: Current Portion	(4,896)
	<u>\$ 5,072</u>

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

2007	\$	5,170
2008		5,170
		<u>10,340</u>
Less: Amount Representing Interest		(372)
		<u>9,968</u>
Less: Current Portion		(4,896)
	\$	<u>5,072</u>

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

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NOTE 8 COMMITMENTS

The Organization leases office space at two different locations. The Spring Valley office lease is a non-cancelable lease that begins in October 2006 and expires in three years. The Ocean Beach office lease is a non-cancelable lease that begins in August 2006 and expires in one year. After June 30, 2006, the Organization has the option to sign a two year extension on the Ocean Beach lease.

The Organization leased three locations in the San Diego area under month-to-month lease agreements. The total rent expense for the year ended June 30, 2006 was \$32,369.

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

2007	\$ 113,600
2008	113,200
2009	110,400
2010	<u>27,600</u>
	<u>\$ 364,800</u>