



CHARITY PROJECTS ENTERTAINMENT FUND

Financial Statements

December 31, 2007

(With Independent Auditors' Report Thereon)

CHARITY PROJECTS ENTERTAINMENT FUND

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Independent Auditors' Report

The Board of Directors
Charity Projects Entertainment Fund:

We have audited the accompanying statement of financial position of Charity Projects Entertainment Fund (CPEF), a Delaware not-for-profit public benefit corporation, as of December 31, 2007, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of CPEF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CPEF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Charity Projects Entertainment Fund as of December 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

June 13, 2008

CHARITY PROJECTS ENTERTAINMENT FUND

Statement of Financial Position

December 31, 2007

Assets:	
Cash and cash equivalents	\$ 47,201,478
Total assets	<u>\$ 47,201,478</u>
Liabilities:	
Accounts payable and accrued expenses	\$ 10,959
Grants payable	<u>41,581,251</u>
Total liabilities	<u>41,592,210</u>
Net assets:	
Unrestricted	5,392,727
Temporarily restricted	<u>216,541</u>
Total net assets	<u>5,609,268</u>
Total liabilities and net assets	<u>\$ 47,201,478</u>

See accompanying notes to financial statements.

CHARITY PROJECTS ENTERTAINMENT FUND

Statement of Activities

Year ended December 31, 2007

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Support and revenue:			
Contributions and grants raised	\$ 71,317,629	216,541	71,534,170
Less amounts raised on behalf of others (note 2)	(2,000,000)	—	(2,000,000)
Net contributions and grants raised	69,317,629	216,541	69,534,170
Contributed services	658,417	—	658,417
Interest and other income	1,667,744	—	1,667,744
Total support and revenue	<u>71,643,790</u>	<u>216,541</u>	<u>71,860,331</u>
Expenses:			
Program services	61,736,057	—	61,736,057
Supporting services:			
General and administrative	403,792	—	403,792
Fundraising	4,111,214	—	4,111,214
Total expenses	<u>66,251,063</u>	<u>—</u>	<u>66,251,063</u>
Change in net assets	5,392,727	216,541	5,609,268
Net assets at the beginning of the period	<u>—</u>	<u>—</u>	<u>—</u>
Net assets at the end of the period	<u>\$ 5,392,727</u>	<u>216,541</u>	<u>5,609,268</u>

See accompanying notes to financial statements.

CHARITY PROJECTS ENTERTAINMENT FUND

Statement of Functional Expenses

Year ended December 31, 2007

	<u>Program Services</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total</u>
Grants	\$ 60,868,751	—	—	60,868,751
Donation processing	—	—	3,722,699	3,722,699
Consultants	206,709	103,354	153,354	463,417
Film production	277,424	—	92,475	369,899
Legal fees	81,435	162,871	81,436	325,742
Education materials	159,300	—	—	159,300
Banking	—	45,235	—	45,235
Insurance	—	21,220	—	21,220
Project assessors	19,938	—	—	19,938
Board meetings	—	9,862	—	9,862
Personnel services	122,500	61,250	61,250	245,000
Total expenses	<u>\$ 61,736,057</u>	<u>403,792</u>	<u>4,111,214</u>	<u>66,251,063</u>

See accompanying notes to financial statements.

CHARITY PROJECTS ENTERTAINMENT FUND

Statement of Cash Flows

Year ended December 31, 2007

Cash flows from operating activities:	
Change in net assets	\$ 5,609,268
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Increase in accounts payable and accrued expenses	10,959
Increase in grants payable	<u>41,581,251</u>
Net cash provided by operating activities	<u>47,201,478</u>
Change in cash and cash equivalents	47,201,478
Cash and cash equivalents at beginning of period	<u>—</u>
Cash and cash equivalents at end of period	<u><u>\$ 47,201,478</u></u>

See accompanying notes to financial statements.

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Notes to Financial Statements

December 31, 2007

(1) Description of the Organization

Charity Projects Entertainment Fund (CPEF) is a Delaware nonprofit public benefit corporation incorporated in December of 2006 which had no activity until 2007. CPEF makes grants to other charitable organizations especially those groups working to end poverty and improve health in both the United States of America and in Africa.

On April 25, 2007, CPEF was the beneficiary of a telethon called "Idol Gives Back" produced by American Idol Productions on the Fox Channel. The event attracted over 27 million viewers and raised over \$71 million in charitable contributions to CPEF. Of the \$71 million, \$2 million was raised on behalf of others (\$1,000,000 each for Save the Children ("SCF") and America's Second Harvest ("ASH")). As explained in note 2(d), these amounts raised on behalf of others appear in the accompanying statement of activities in contributions and grants raised.

In addition to the \$2 million payments to SCF and ASH referred to above, \$61.4 million has been awarded as grants to beneficiaries. The amount shown in the financial statements is net of the discount of \$508,749, recorded to reflect the present value of future cash flows on multi-year grants. Total costs, excluding grants and including contributed services of \$658,417 (see note 7), were \$5.4 million. Fundraising and general and administrative expense, excluding the allocated contributed services of approximately \$329,000, totaled \$4.2 million for the year ended December 31, 2007, or 5.9% of CPEF's total support and revenue, excluding total contributed services revenue. The balance of funds available is due for further consideration by the board of directors.

The beneficiaries of "Idol Gives Back" included projects which were shown on-screen during the TV show and other nonprofit charitable organizations especially those groups working to end poverty and improve health both in the United States of America and in Africa.

CPEF assisted American Idol Productions with a similar event on April 9, 2008, but has not been responsible for collecting or distributing the money raised.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Net assets and changes in net assets are classified based on the existence or absence of donor-imposed restrictions. CPEF's net assets and changes in net assets are classified and reported as follows:

Unrestricted Net Assets – Unrestricted net assets include contributions received without any donor-imposed restrictions. All expenses are reported as decreases in unrestricted net assets. Revenues, expenses, gains, and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets – CPEF reports contributions of cash and other assets as temporarily restricted support if they are received with donor stipulations as to the specific timing or use of the donated asset. When a donor's restrictions expire, that is, when a stipulated time restriction

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ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities as net assets released from restrictions. Donor-restricted contributions that are received and expended in the same reporting period are reported as unrestricted in the accompanying financial statements.

(b) *Cash and Cash Equivalents*

Cash and cash equivalents consist of checking and commercial paper accounts. For purposes of the statement of cash flows, all highly liquid instruments with original maturities of three months or less are considered to be cash equivalents.

(c) *Grants and Contributions Revenue*

All grants and contributions are considered to be available for unrestricted use unless restricted by the donor. Amounts received that are designated for future periods or designated by the donor for specific purposes are reported as temporarily restricted support.

Since CPEF had received no promises to give, there is no accrual in the financial statements for pledges receivable at December 31, 2007.

(d) *Amounts Raised on Behalf of Others*

Amounts received from donors that are designated to specific beneficiaries under agreements wherein CPEF has no explicit variance power over the beneficiaries, are recorded as agency transactions in accordance with Statement of Financial Accounting Standards (SFAS) No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. Accordingly, such amounts, are recorded as amounts raised on behalf of others in the accompanying statement of activities.

(e) *Contributed Services*

Contributed services are reflected in the financial statements at the fair value of the services received. The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

(f) *Grants and Grants Payable*

All grants are taken under consideration and approved by the board of directors. Grant expense is recognized upon board approval. Grants that are expected to be paid in future years are discounted to reflect the present value of future cash flows. For the year ended December 31, 2007, multi-year grants payable were discounted using a 5% rate. Amortization of the discount on grants payable is recorded as additional grant expense.

(g) *Functional Allocation of Expenses*

Expenses that apply to more than one functional category have been allocated between program and supporting services, based on the time spent on these functions as estimated by senior management. The remaining costs are charged directly to the appropriate functional category.

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(h) Income Taxes

CPEF is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, CPEF is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

(i) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant items subject to such estimates and assumptions include the valuation of long-term grants and contributed services and allocation of expenses by function. Actual results could differ from those estimates.

(3) Grants Payable

Grants payable at December 31, 2007 consist of the following:

Gross grants payable	\$	42,090,000
Less discount to reflect grants payable at present value		<u>(508,749)</u>
	\$	<u><u>41,581,251</u></u>

The gross amounts payable at December 31, 2007 are to be paid as follows:

Less than one year	\$	31,590,000
One to five years		<u>10,500,000</u>
	\$	<u><u>42,090,000</u></u>

(4) Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2007 totaled \$216,541. This amount is purpose restricted for donor data base building and analysis and brand development.

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(5) Concentration of Credit Risk

CPEF maintains its cash at a financial institution, which may at times exceed federally insured limits. CPEF has not experienced any losses in such accounts and believes it is not exposed to any significant risk on its cash and cash equivalents. At December 31, 2007, CPEF had all of its cash in commercial paper.

(6) Related Party Transactions

CPEF paid companies, wherein certain members of the board of directors are employed, for legal, administrative, and other program-related services rendered during the year ended December 31, 2007 totaling \$999,383.

(7) Contributed Services

Comic Relief, a charity organized in the United Kingdom, donated staffing to the production of “Idol Gives Back” and the operation of CPEF. CPEF estimates that Comic Relief has contributed approximately 3,500 staffing hours with a value of \$245,000. Additionally, consulting services totaling \$413,417 were provided during the year ended December 31, 2007.