

WITNESS, INC.

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

JUNE 30, 2009

WITNESS, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
WITNESS, Inc.

We have audited the accompanying statements of financial position of WITNESS, Inc. (a not-for-profit corporation) as of June 30, 2009, and the related statements of activities 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 audits. The prior period summarized comparative information has been derived from the Organization's 2008 financial statements and, in our report dated March 2, 2009, we expressed an unqualified opinion on those financial statements.

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 WITNESS, Inc. as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Lutz + Carr, LLP

New York, New York
January 27, 2010

WITNESS, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2009 WITH COMPARATIVE TOTALS FOR 2008

	<u>2009</u>	<u>2008</u>
Assets		
Cash and cash equivalents (Notes 1b and 6)		
Unrestricted	\$ -	\$ 107,612
Restricted to future periods and programs	287,805	-
Investments (Notes 1c and 3)		
Unrestricted	-	155,806
Board designated reserve (Note 2a)	-	1,269,997
Restricted to future periods and programs	829,466	1,443,568
Reserve - emergency fund (Note 2b)	348,543	321,386
Unconditional promises to give (Notes 1d and 4)		
Unrestricted	313,167	45,500
Restricted to future periods and programs	679,602	1,555,690
Accounts receivable and other assets	30,329	23,929
Prepaid expenses	80,079	117,738
Property and equipment, at cost, net of accumulated depreciation (Notes 1e and 5)	529,234	670,273
Security deposit	27,927	27,927
	<u> </u>	<u> </u>
Total Assets	<u><u>\$3,126,152</u></u>	<u><u>\$5,739,426</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 234,238	\$ 334,199
Accrued vacation payable	-	47,282
Total Liabilities	<u>234,238</u>	<u>381,481</u>
Commitment (Note 7)		
Net Assets		
Unrestricted net assets		
Operating	188,029	82,083
Property and equipment	529,234	670,273
Board designated reserve (Note 2a)	-	1,271,819
	<u>717,263</u>	<u>2,024,175</u>
Temporarily restricted net assets (Note 2b)		
Reserve-emergency fund	348,543	334,512
Restricted to future periods and programs	1,826,108	2,999,258
Total Net Assets	<u>2,891,914</u>	<u>5,357,945</u>
	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u><u>\$3,126,152</u></u>	<u><u>\$5,739,426</u></u>

See notes to financial statements.

WITNESS, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009 WITH COMPARATIVE TOTALS FOR 2008

	2009					2008 *
	Operating	Unrestricted Property and Equipment	Board- Designated	Total	Temporarily Restricted	
Changes in Unrestricted Net Assets						
Revenue and Other Support						
Contributions	\$ 933,902	\$ -	\$ -	\$ 933,902	\$ 381,912	\$1,315,814
Donated services and materials (Note 8)	592,233	-	-	592,233	-	592,233
Fundraising benefits, including donated services of \$26,643 (2009) and \$26,709 (2008) (Note 8)	943,974	-	-	943,974	-	943,974
Less: Donated direct benefit services and materials	(26,643)	-	-	(26,643)	-	(26,643)
Less: Direct benefit expense	(106,014)	-	-	(106,014)	-	(106,014)
Video and merchandise sales, net of cost of sales of \$2,812 (2009) and \$7,982 (2008)	25,137	-	-	25,137	-	25,137
Video licensing fees	3,923	-	-	3,923	-	3,923
Teaching and partnerships	7,480	-	-	7,480	-	7,480
Net investment income (loss) (Note 3)	456	-	(342,163)	(341,707)	14,031	(327,676)
Other income	24,199	-	-	24,199	-	24,199
	<u>2,398,647</u>	<u>-</u>	<u>(342,163)</u>	<u>2,056,484</u>	<u>395,943</u>	<u>2,452,427</u>
Net assets released from restrictions						
Satisfaction of program and time restrictions (\$1,772,786) for 2008)	1,406,737	148,325	-	1,555,062	(1,555,062)	-
	<u>3,805,384</u>	<u>148,325</u>	<u>(342,163)</u>	<u>3,611,546</u>	<u>(1,159,119)</u>	<u>2,452,427</u>
Total Revenue and Other Support						
Less: Expenses						
Program Services	3,345,741	297,867	-	3,643,608	-	3,643,608
Supporting Services						
Management and general	440,770	14,271	-	455,041	-	455,041
Fundraising	799,369	20,440	-	819,809	-	819,809
Total Supporting Services	<u>1,240,139</u>	<u>34,711</u>	<u>-</u>	<u>1,274,850</u>	<u>-</u>	<u>1,274,850</u>
Total Expenses	<u>4,585,880</u>	<u>332,578</u>	<u>-</u>	<u>4,918,458</u>	<u>-</u>	<u>4,918,458</u>
Increase (Decrease) in Net Assets Before Transfers	(780,496)	(184,253)	(342,163)	(1,306,912)	(1,159,119)	(2,466,031)
Transfer for fixed asset additions (\$85,694 for 2008)	(43,214)	43,214	-	-	-	-
Transfer from board designated reserves (Note 2a)	929,656	-	(929,656)	-	-	-
Increase (decrease) in net assets	105,946	(141,039)	(1,271,819)	(1,306,912)	(1,159,119)	(2,466,031)
Net assets, beginning of year	82,083	670,273	1,271,819	2,024,175	3,333,770	5,357,945
Net Assets, End of Year	<u>\$ 188,029</u>	<u>\$ 529,234</u>	<u>\$ -</u>	<u>\$ 717,263</u>	<u>\$2,174,651</u>	<u>\$2,891,914</u>

* Certain amounts have been reclassified for comparative purposes.

See notes to financial statements.

WITNESS, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2009 WITH COMPARATIVE TOTALS FOR 2008

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities		
Decrease in net assets	\$(2,466,031)	\$ (171,775)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Depreciation	332,578	234,042
Loss on fixed assets	-	2,999
Realized gain on sale of investments	433,766	47,868
Unrealized (gain) loss on investments	(75,031)	122,482
(Increase) decrease in:		
Unconditional promises to give	608,421	(330,567)
Accounts receivable and other assets	(6,400)	(6,176)
Prepaid expenses	37,659	(48,642)
Increase (decrease) in:		
Accounts payable and accrued expenses	(99,961)	213,161
Accrued vacation payable	(47,282)	27,977
Net Cash Provided (Used) By Operating Activities	<u>(1,282,281)</u>	<u>91,369</u>
Cash Flows From Investing Activities		
Purchase of investments	(697,372)	(1,714,612)
Proceeds from sale of investments	2,351,385	2,148,828
Purchase of property and equipment	(191,539)	(622,621)
Net Cash Provided (Used) By Investing Activities	<u>1,462,474</u>	<u>(188,405)</u>
Net increase (decrease) in cash and cash equivalents	180,193	(97,036)
Cash and cash equivalents, beginning of year	<u>107,612</u>	<u>204,648</u>
Cash and Cash Equivalents, End of Year	<u>\$ 287,805</u>	<u>\$ 107,612</u>

See notes to financial statements.

WITNESS, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2009****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

WITNESS, Inc. ("Witness") uses video and online technologies to open the eyes of the world to human rights violations. WITNESS empowers people to transform personal stories of abuse into powerful tools for justice, promoting public engagement and policy change.

WITNESS partners with 12-15 non-governmental organizations around the world to integrate video into issue-specific, high-impact campaigns to achieve heightened visibility and change. Video is used: as evidence before national courts, regional bodies and international tribunals; as reports before the United Nations treaty body, special rapporteurs and working groups; as presentations to key decision-makers; to organize communities and allies; on the Internet; and as a source for news broadcasts. WITNESS makes presentations and conducts training on video advocacy reaching 1,000 persons annually. The WITNESS Media Archive with 3,000 hours of rare footage is a leading repository of human rights video.

During the fiscal year ended June 30, 2008, WITNESS launched the Hub, the first participatory Web site for human rights media <http://hub.witness.org> where anyone, anywhere can upload and view human rights media, and act to create change. WITNESS also inaugurated an annual Video Advocacy Institute, a two-week intensive global program that trains 30 human rights defenders to integrate video into their campaigns.

WITNESS is widely honored for its success in creating and advancing new approaches to human rights advocacy. During the year ended June 30, 2008, WITNESS received the first Emmy Humanitarian Award from the National Academy of Television Arts and Sciences, among others.

In 2009, WITNESS received approximately 30% of its total revenue and other support from two donors.

b - Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments, purchased with a maturity of three months or less, to be cash equivalents, except for those managed by the Organization's investment managers as part of its long-term investment strategies.

c - Investments

The Organization reflects investments at fair value in the statement of financial position. Unrealized gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Income earned on investments that is restricted by the donor is reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the income is recognized.

WITNESS, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2009****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****c - Investments (continued)**

The Organization was required to adopt Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"), effective July 1, 2008.

SFAS 157 clarifies that fair value is an estimate of the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., the exit price at the measurement date). SFAS 157 provides for use of a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three levels.

Unadjusted quoted prices in active markets for identical assets or liabilities are referred to as Level 1 inputs. Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available are referred to as Level 2 inputs. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the assumptions developed by the Organization based on available information about what market participants would use in valuing the asset or liability and are referred to as Level 3.

An asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors. Level 3 assets and liabilities involve greater judgment than Level 1 or Level 2 assets or liabilities.

All of the Organization's investments are classified within Level 1 of the fair value hierarchy. Fair value is determined using quoted market values. The values assigned to these investments and any unrealized gains or losses are reported based on available information and do not necessarily represent amounts that might be realized and such differences could be material. The ultimate realization of such amounts depends on future events and circumstances and therefore valuation estimates may differ from the value realized upon disposition of individual positions.

d - Unconditional Promises to Give and Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are classified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

WITNESS, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2009****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****e - Property and Equipment**

Property and equipment acquired are recorded at cost and are depreciated using the straight-line method over the estimated useful life of the related asset.

f - Financial Statement Presentation

The Organization reports 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.

g - Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

h - Subsequent Events

The Organization has evaluated subsequent events through January 27, 2010, the date that the financial statements are considered available to be issued.

i - Tax Status

WITNESS, Inc. is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

Note 2 - Restrictions on Net Assets**a - Board Designated Reserves**

The Board of Directors designated certain amounts of its unrestricted cash and investment balances to comprise a reserve fund to be used at its discretion. During the year, these reserves were reduced by \$342,163 in investment losses, and remaining reserves totaling \$926,656 were used to fund operations. At June 30, 2008, these reserved totaled \$1,271,819.

b - Temporarily Restricted Net Assets

Temporarily restricted net assets includes an Emergency Reserve fund established with funds donated by the Organization's co-founder and Board Chairman, Peter Gabriel, to provide emergency cash reserve and long-term financial stability, subject to his approval. Investment income is retained in the reserve. During the periods ended June 30, 2009 and 2008, net investment income totaling \$14,031 (2009) and \$32,953 (2008) changed the balance of the reserve. For the year ended June 30, 2008, the donor authorized an appropriation of \$265,000 from this reserve to be released from restriction for funding operating costs. The balance of this reserve at June 30, 2009 and 2008 was \$348,543 and \$334,512, respectively.

Other temporarily restricted net assets are restricted for future periods and programs, as indicated by the donors.

WITNESS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Note 3 - Investments

Investments, all of which are classified as Level 1 in the fair value hierarchy, consist of the following at June 30:

	<u>2009</u>		<u>2008</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Invested cash	\$ 655,915	\$ 655,904	\$ 440,102	\$ 440,102
Corporate stock	-	-	1,426,078	1,366,766
Corporate bonds	391,422	379,921	1,193,358	1,174,100
U.S. Government bonds and mortgage backed securities	<u>139,029</u>	<u>142,184</u>	<u>206,137</u>	<u>209,789</u>
	<u>\$1,186,366</u>	<u>\$1,178,009</u>	<u>\$3,265,675</u>	<u>\$3,190,757</u>

Investment income is summarized as follows:

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 41,738	\$ 139,890
Realized loss on sale of investments	(433,766)	(47,868)
Unrealized gain (loss) on investments	<u>75,031</u>	<u>(122,482)</u>
	(316,997)	(30,460)
Less: Investment fees	<u>(10,679)</u>	<u>(27,463)</u>
	<u>\$(327,676)</u>	<u>\$ (57,923)</u>

Note 4 - Unconditional Promises to Give

Unconditional promises to give are due as follows:

	<u>2009</u>	<u>2008</u>
Within one year	\$ 834,039	\$1,018,500
One to five years	<u>175,000</u>	<u>642,416</u>
	1,009,039	1,660,916
Less: Discount to present value	<u>(16,270)</u>	<u>(59,726)</u>
	<u>\$ 992,769</u>	<u>\$1,601,190</u>

Unconditional promises to give due after one year are discounted to net present value using a discount rate of 5%. Uncollectible promises to give are expected to be insignificant.

WITNESS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Note 5 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2009</u>	<u>2008</u>
Leasehold improvements	Life of lease	\$ 228,448	\$ 228,448
Furniture and fixtures	5-7 years	61,679	57,845
Computers and equipment	3 years	357,506	324,551
Hub website and development costs	3 years	685,252	536,927
Video and editing equipment	5 years	<u>157,967</u>	<u>151,542</u>
		1,490,852	1,299,313
Less: Accumulated depreciation		<u>(961,618)</u>	<u>(629,040)</u>
		<u>\$ 529,234</u>	<u>\$ 670,273</u>

Depreciation expense for the years ended June 30, 2009 and 2008 was \$332,578 and \$234,042, respectively.

Note 6 - Concentration of Credit Risk

The Organization maintains its cash and cash equivalent balances at JP Morgan Chase and RBC Wealth Management. Balances often exceed insured limits, however, the Organization believes that these institutions are reputable and that possibility of loss is remote.

Note 7 - Commitment

The Organization occupies its office space under a lease agreement which expires April 30, 2012.

Minimum rental payments under the lease are as follows:

<u>Year Ending June 30,</u>	
2010	\$122,681
2011	126,375
2012	107,918

The rent expense for the years ended June 30, 2009 and 2008 was \$149,516 and \$117,374, respectively.

WITNESS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Note 8 - Donated Services and Materials

The Organization received donated services and materials in connection with its activities that are recorded at fair value as follows:

	<u>2009</u>	<u>2008</u>
Legal	\$155,774	\$166,403
Public relations	-	15,000
Design	156,504	201,241
Fundraising direct benefit expenses	26,644	26,709
Other event expenses	39,828	-
Accounting services	12,303	16,377
Other consulting	25,431	-
Advertising	71,642	146,991
Technology and information systems	125,300	109,853
Program-related fundraising and organizational planning consultancy	-	8,345
Video production	5,450	-
Photography	-	13,000
	<u>\$618,876</u>	<u>\$703,919</u>

Note 9 - Functional Allocation of Expenses

The cost of providing the various programs and the supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

ADDITIONAL INFORMATION



**INDEPENDENT AUDITORS' REPORT ON
ADDITIONAL INFORMATION**

To the Board of Directors of
WITNESS, Inc.

Our report on our audit of the basic financial statements of WITNESS, Inc. for 2009 and appears on page 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses for the year ended June 30, 2009 with comparative totals for 2008 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lutz + Carr, LLP

New York, New York
January 27, 2010

WITNESS, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2009 WITH COMPARATIVE TOTALS 2008

	Program Services					Supporting Services			2009	2008
	Partner Training and Video Production	Outreach and Education	Archives	Technology	Total	Management and General	Fundraising	Total	Total Expenses	Total Expenses
Salaries, payroll taxes and employee benefits	\$ 615,605	\$ 436,569	\$280,630	\$ 500,486	\$1,833,290	\$ 155,646	\$ 509,704	\$ 665,350	\$2,498,640	\$1,870,631
Advisors and professional fees	-	162,124	25,935	55,089	243,148	100,295	25,859	126,154	369,302	693,158
Partner and staff training	87,082	65,562	5,273	10,696	168,613	4,226	11,316	15,542	184,155	168,897
Grants	-	-	-	-	-	-	-	-	-	19,100
Video production	9,353	20,752	12,155	3,258	45,518	-	81,319	81,319	126,837	56,993
Travel	218,000	39,708	6,862	10,123	274,693	-	30,207	30,207	304,900	291,832
Printing and Translation	2,884	21,507	4,232	24	28,647	773	14,953	15,726	44,373	17,091
Materials and supplies	7,494	3,819	4,515	4,542	20,370	2,546	2,978	5,524	25,894	25,617
Website	23	-	25	13,816	13,864	-	385	385	14,249	20,014
Equipment rentals and maintenance	4,664	3,109	8,733	3,973	20,479	863	2,372	3,235	23,714	25,870
Software and peripherals	138	65,400	4,869	25,747	96,154	2,130	5,400	7,530	103,684	62,097
Insurance	11,696	7,929	8,421	9,842	37,888	11,514	5,651	17,165	55,053	45,429
Rent and utilities	49,382	24,748	19,097	35,976	129,203	7,649	14,308	21,957	151,160	146,493
Telecommunications	18,084	4,988	4,107	21,654	48,833	5,151	4,120	9,271	58,104	47,395
Shipping and postage	12,649	5,804	10,474	1,831	30,758	435	8,988	9,423	40,181	42,019
Legal fees	54,645	22,260	21,092	36,856	134,853	17,055	10,968	28,023	162,876	167,610
Financial management and audit	40,491	31,633	18,980	31,633	122,737	111,349	18,980	130,329	253,066	41,813
Event expense	802	12,867	-	-	13,669	7,803	42,479	50,282	63,951	31,092
Promotion and events	371	77,524	-	-	77,895	169	5,120	5,289	83,184	128,441
Bank charges	198	-	87	433	718	9,580	1,841	11,421	12,139	11,386
Disposal of assets	-	-	-	-	-	-	-	-	-	2,999
Miscellaneous	1,609	348	1,853	601	4,411	3,586	2,421	6,007	10,418	37,397
Total expenses before depreciation	1,135,170	1,006,651	437,340	766,580	3,345,741	440,770	799,369	1,240,139	4,585,880	3,953,374
Depreciation	104,426	47,511	25,240	120,690	297,867	14,271	20,440	34,711	332,578	234,042
Total Expenses, 2009	<u>\$1,239,596</u>	<u>\$1,054,162</u>	<u>\$462,580</u>	<u>\$ 887,270</u>	<u>\$3,643,608</u>	<u>\$ 455,041</u>	<u>\$ 819,809</u>	<u>\$1,274,850</u>	<u>\$4,918,458</u>	
Total Expenses, 2008	<u>\$1,163,401</u>	<u>\$ 998,542</u>	<u>\$469,673</u>	<u>\$ 520,750</u>	<u>\$3,152,366</u>	<u>\$ 502,141</u>	<u>\$ 532,909</u>	<u>\$1,035,050</u>		<u>\$4,187,416</u>

See independent auditors' report on additional information.