

FINANCIAL STATEMENTS



**FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2016**

CENTER FOR DEMOCRACY AND TECHNOLOGY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Center for Democracy and Technology
Washington, D.C.

We have audited the accompanying financial statements of the Center for Democracy and Technology (CDT), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CDT as of December 31, 2017, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited CDT's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 4, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Freedman

April 6, 2018

CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 767,568	\$ 891,010
Investments - certificate of deposit	127,330	127,287
Grants receivable	2,179,083	424,926
Accounts receivable	357,063	79,633
Due from related parties	-	1,638
Prepaid expenses	<u>98,509</u>	<u>111,095</u>
Total current assets	<u>3,529,553</u>	<u>1,635,589</u>
PROPERTY AND EQUIPMENT		
Furniture, fixtures and equipment	739,094	725,826
Less: Accumulated depreciation	<u>(510,706)</u>	<u>(420,404)</u>
Net property and equipment	<u>228,388</u>	<u>305,422</u>
OTHER ASSETS		
Grants receivable, net of current portion	<u>-</u>	<u>250,000</u>
TOTAL ASSETS	<u>\$ 3,757,941</u>	<u>\$ 2,191,011</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 206,947	\$ 127,018
Deferred revenue	86,000	80,000
Current portion of deferred rent abatement	<u>2,363</u>	<u>-</u>
Total current liabilities	<u>295,310</u>	<u>207,018</u>
LONG-TERM LIABILITIES		
Deferred rent abatement, net of current portion	<u>547,792</u>	<u>496,028</u>
NET ASSETS		
Unrestricted	275,592	27,435
Temporarily restricted	<u>2,639,247</u>	<u>1,460,530</u>
Total net assets	<u>2,914,839</u>	<u>1,487,965</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,757,941</u>	<u>\$ 2,191,011</u>

CENTER FOR DEMOCRACY AND TECHNOLOGY

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE				
Grants and contributions	\$ 2,246,162	\$ 2,490,834	\$ 4,736,996	\$ 3,769,870
Contracts	-	-	-	50,457
Investment income	1,420	-	1,420	536
TechProm registration and sponsorship revenue	908,830	-	908,830	882,225
Other revenue	27,291	-	27,291	77,686
Net assets released from donor restrictions	<u>1,312,117</u>	<u>(1,312,117)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>4,495,820</u>	<u>1,178,717</u>	<u>5,674,537</u>	<u>4,780,774</u>
EXPENSES				
Program Services:				
Privacy and Data	820,738	-	820,738	802,267
Security and Surveillance	774,109	-	774,109	889,937
Free Expression	555,431	-	555,431	857,811
Internet Architecture	393,733	-	393,733	423,356
Communications	350,338	-	350,338	331,634
Open Internet	325,172	-	325,172	312,499
EU Office	461,126	-	461,126	370,337
Digital Fourth	7,583	-	7,583	30,607
Global Network Initiative	-	-	-	14,323
Internet Education Foundation	-	-	-	20,438
General and Other	-	-	-	11,970
Total program services	<u>3,688,230</u>	<u>-</u>	<u>3,688,230</u>	<u>4,065,179</u>
Supporting Services:				
Management and General	703,152	-	703,152	751,851
Fundraising	<u>703,052</u>	<u>-</u>	<u>703,052</u>	<u>793,226</u>
Total supporting services	<u>1,406,204</u>	<u>-</u>	<u>1,406,204</u>	<u>1,545,077</u>
Total expenses	<u>5,094,434</u>	<u>-</u>	<u>5,094,434</u>	<u>5,610,256</u>
Change in net assets before other item	(598,614)	1,178,717	580,103	(829,482)
OTHER ITEM				
Settlement income	<u>846,771</u>	<u>-</u>	<u>846,771</u>	<u>457,332</u>
Change in net assets	248,157	1,178,717	1,426,874	(372,150)
Net assets at beginning of year	<u>27,435</u>	<u>1,460,530</u>	<u>1,487,965</u>	<u>1,860,115</u>
NET ASSETS AT END OF YEAR	<u>\$ 275,592</u>	<u>\$ 2,639,247</u>	<u>\$ 2,914,839</u>	<u>\$ 1,487,965</u>

CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

	2017								
	Program Services								
	Privacy and Data	Security and Surveillance	Free Expression	Internet Architecture	Communications	Open Internet	EU Office	Digital Fourth	Total Program Services
Salaries	\$ 491,268	\$ 513,245	\$ 349,572	\$ 250,042	\$ 217,836	\$ 214,652	\$ 57,941	\$ 5,101	\$ 2,099,657
Payroll taxes	33,135	32,411	21,659	15,922	14,540	13,687	3,754	424	135,532
Pension expense	19,295	22,459	18,329	12,373	12,789	8,102	3,295	303	96,945
Employee benefits	36,785	40,559	15,816	19,704	9,430	9,441	3,403	169	135,307
Workers compensation	1,373	1,432	1,023	684	604	628	172	19	5,935
Consultants	820	756	435	385	10,342	12,742	314,025	3	339,508
Sub-grants	74,745	-	-	-	-	-	-	-	74,745
Travel and meetings	20,260	17,153	18,673	23,268	5,971	791	19,060	4	105,180
Events	4,662	2,102	30,148	1,256	9,382	893	4,361	75	52,879
Board expenses travel and meetings	-	-	-	-	-	-	-	-	-
Accounting and audit	-	-	-	-	-	-	-	-	-
Books, dues and subscriptions	3,308	3,082	2,003	1,378	4,247	4,975	222	14	19,229
Computer equipment expense	291	290	240	162	154	178	938	2	2,255
Contributions	158	193	120	68	43	92	87	14	775
Insurance	1,601	1,665	1,146	801	697	701	201	20	6,832
Depreciation and amortization	12,058	12,704	9,039	6,046	5,300	5,711	1,518	178	52,554
Network usage	4,139	4,328	3,175	2,111	4,977	1,896	226	49	20,901
Legal	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	25	-	-	-	25
Office equipment expense	874	895	583	470	393	297	80	-	3,592
Postage and delivery	128	141	102	130	73	64	15	1	654
Printing/Copying	1,376	1,411	1,022	700	685	537	3,107	11	8,849
Rent and storage	103,742	108,280	74,665	52,866	45,794	45,144	46,785	1,101	478,377
Office supplies and expense	6,379	6,538	4,610	3,214	5,118	2,728	1,254	54	29,895
Loss on disposal of equipment	-	-	-	-	-	-	-	-	-
Telephone/Fax	4,341	4,465	3,071	2,153	1,938	1,913	682	41	18,604
TOTAL	\$ 820,738	\$ 774,109	\$ 555,431	\$ 393,733	\$ 350,338	\$ 325,172	\$ 461,126	\$ 7,583	\$ 3,688,230

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

	2017 (Continued)			2016	
	Supporting Services				
	Management and General	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
Salaries	\$ 366,217	\$ 232,828	\$ 599,045	\$ 2,698,702	\$ 2,754,312
Payroll taxes	25,995	15,163	41,158	176,690	168,654
Pension expense	17,731	10,778	28,509	125,454	139,442
Employee benefits	18,512	10,805	29,317	164,624	186,761
Workers compensation	3,643	564	4,207	10,142	8,601
Consultants	2,519	66,598	69,117	408,625	692,670
Sub-grants	-	-	-	74,745	-
Travel and meetings	3,578	6,415	9,993	115,173	96,255
Events	7,101	282,046	289,147	342,026	370,162
Board expenses travel and meetings	4,803	-	4,803	4,803	3,448
Accounting and audit	127,053	2,296	129,349	129,349	106,582
Books, dues and subscriptions	4,562	5,093	9,655	28,884	32,859
Computer equipment expense	5,585	150	5,735	7,990	51
Contributions	147	78	225	1,000	1,001
Insurance	1,201	732	1,933	8,765	15,009
Depreciation and amortization	32,943	4,805	37,748	90,302	87,366
Network usage	5,354	1,652	7,006	27,907	27,217
Legal	1,500	-	1,500	1,500	187,462
Miscellaneous	3,447	-	3,447	3,472	375
Office equipment expense	(4,091)	565	(3,526)	66	3,856
Postage and delivery	1,916	76	1,992	2,646	4,701
Printing/Copying	3,284	632	3,916	12,765	9,387
Rent and storage	54,185	48,882	103,067	581,444	614,878
Office supplies and expense	12,660	10,983	23,643	53,538	54,717
Loss on disposal of equipment	-	-	-	-	16,660
Telephone/Fax	3,307	1,911	5,218	23,822	27,831
TOTAL	\$ 703,152	\$ 703,052	\$ 1,406,204	\$ 5,094,434	\$ 5,610,256

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,426,874	\$ (372,150)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	90,302	87,366
Loss on disposal of fixed assets	-	16,660
(Increase) decrease in:		
Investments - certificate of deposit	(42)	(380)
Grants receivable	(1,504,157)	245,074
Accounts receivable	(277,429)	721
Due from related parties	1,638	8,020
Prepaid expenses	12,586	(27,666)
Increase (decrease) in:		
Accounts payable and accrued liabilities	79,927	17,313
Deferred revenue	6,000	(105,000)
Deferred rent abatement	<u>54,127</u>	<u>496,028</u>
Net cash (used) provided by operating activities	<u>(110,174)</u>	<u>365,986</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(13,268)	(174,053)
Proceeds from sale of property and equipment	<u>-</u>	<u>1,004</u>
Net cash used by investing activities	<u>(13,268)</u>	<u>(173,049)</u>
Net (decrease) increase in cash and cash equivalents	(123,442)	192,937
Cash and cash equivalents at beginning of year	<u>891,010</u>	<u>698,073</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 767,568</u>	<u>\$ 891,010</u>

CENTER FOR DEMOCRACY AND TECHNOLOGY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Center for Democracy and Technology (CDT) works to strengthen individual rights and freedoms by defining, promoting, and influencing technology policy and the architecture of the internet that impacts our daily lives. CDT preserves the unique nature of the Internet, enhances freedom of expression globally, protects the fundamental right to privacy, limits government surveillance and defines the boundaries of technology in our daily lives.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. 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 CDT's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Cash and cash equivalents -

CDT considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, CDT maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments - certificate of deposit -

Investments - certificate of deposit is recorded at its readily determinable fair value. Interest earned is included in investment income in the Statement of Activities and Change in Net Assets.

Grants and accounts receivable -

Grants and accounts receivable approximate fair value. Grants and accounts receivable that are expected to be collected in future years are recorded at their fair value, measured as the present value of their future cash flows. All grants and accounts receivable are considered by management to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Property and equipment -

Property and equipment in excess of \$1,000 are capitalized and stated at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to ten years. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation expense, included in the accompanying Statement of Functional Expenses for the year ended December 31, 2017, totaled \$90,302.

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for CDT's operations and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires (when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

Grants and contributions -

Grants and contributions are recorded as revenue in the year notification is received from the donor. Temporarily restricted grants and contributions are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions. Such grants and contributions received in excess of expenses are shown as temporarily restricted net assets in the accompanying financial statements.

TechProm registration and sponsorship revenue -

TechProm registration and sponsorship revenue is recognized at the time of the event and amounts received in advance are recorded as deferred revenue.

Settlement income -

Settlement income is recorded at the time the funds are received. Settlement income represents funding awarded from indirect lawsuits.

Income taxes -

CDT is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. CDT is not a private foundation.

Uncertain tax positions -

For the year ended December 31, 2017, CDT has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Deferred revenue -

Deferred revenue consists of conference and meeting registrations. CDT recognizes conference and meeting revenue when the related event has occurred.

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Use of estimates -

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

CDT invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

Fair value measurement -

CDT adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. CDT accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

In accordance with FASB ASC 820, Fair Value Measurement, CDT has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market CDT has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

CENTER FOR DEMOCRACY AND TECHNOLOGY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Fair value measurement (continued) -

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

For disclosure of inputs and valuation techniques, see Note 2.

New accounting pronouncements -

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of CDT's financial statements, it is not expected to alter CDT's reported financial position.

In 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

CDT plans to adopt the new ASUs at the respective required implementation dates.

2. INVESTMENTS

Investments consisted of the following at December 31, 2017:

	Fair Value
Certificate of Deposit	\$ <u>127,330</u>

Included in investment income is the following:

Interest Income	\$ <u>1,420</u>
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The table below summarizes, the investments measured at fair value on a recurring basis, by level within the fair value hierarchy. CDT's investments as of December 31, 2017 were as follows:

	Level 1	Level 2	Level 3	Total December 31, 2017
Asset Class:				
Certificate of Deposit	\$ <u>-</u>	\$ <u>127,330</u>	\$ <u>-</u>	\$ <u>127,330</u>

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

2. INVESTMENTS (Continued)

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes to the methodology during the year ended December 31, 2017.

There were no transfers between levels in the fair value hierarchy during the year ended December 31, 2017. Transfers between levels are recorded at the end of the reporting period, if applicable.

Certificate of deposit - Generally valued at original cost plus accrued interest, which approximates fair value.

3. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2017, temporarily restricted net assets consisted of the following:

Privacy and Data	\$ 2,087,070
Internet Architecture	368,844
Time restricted	<u>183,333</u>
	<u>\$ 2,639,247</u>

4. NET ASSETS RELEASED FROM RESTRICTIONS

The following is a summary of net assets which were released from donor-imposed and time restrictions, at December 31, 2017, by incurring expenses which satisfied the restricted purposes specified by the donors or the passage of time:

Privacy and Data	\$ 390,332
Security and Surveillance	241,339
Architecture	305,446
Passage of Time	<u>375,000</u>
	<u>\$ 1,312,117</u>

5. BOARD-DESIGNATED NET ASSETS

CDT's Board of Directors designates funds for CDT's future operations. These funds can only be drawn upon with the approval of the Board of Directors. Board-designated net assets for the year ended December 31, 2017 totaled \$494,127.

6. LEASE COMMITMENT

On November 6, 2015, CDT entered into an eleven-year agreement to lease new office space, commencing February 1, 2016. Base rent is \$518,332 per year, increasing by a factor of 2.5% per year.

The lease agreement includes provisions whereas the base rent was abated during the first twelve months.

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

6. LEASE COMMITMENT (Continued)

During the year ended December 31, 2016, CDT obtained a letter of credit totaling \$125,803. The terms under the lease that began during that year stipulate that CDT maintain this letter of credit in lieu of a security deposit.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent on the Statement of Financial Position.

The following is a schedule of future minimum rental payments under all leases:

Year Ending December 31,

2018	\$ 543,484
2019	557,084
2020	570,980
2021	585,263
2022	599,851
Thereafter	<u>2,608,677</u>
	<u>\$ 5,465,339</u>

Rent and storage expense, included in the accompanying Statement of Functional Expenses, totaled \$581,444 for the year ended December 31, 2017. The deferred rent liability was \$550,155 as of December 31, 2017.

7. RETIREMENT PLAN

CDT maintains a 403(b) retirement plan covering all employees who have completed one year of service. CDT contributes up to six percent of compensation on behalf of each active participant. Pension expense, included in the accompanying Statement of Functional Expenses, totaled \$125,454 for the year ended December 31, 2017.

8. SUBSEQUENT EVENTS

In preparing these financial statements, CDT has evaluated events and transactions for potential recognition or disclosure through April 6, 2018, the date the financial statements were issued.