

FINANCIAL STATEMENTS

**CENTER FOR DEMOCRACY AND
TECHNOLOGY**

**FOR THE YEAR ENDED DECEMBER 31, 2001
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2000**

CENTER FOR DEMOCRACY AND TECHNOLOGY

CONTENTS

	PAGE NO.
INDEPENDENT AUDITORS' REPORT	2
EXHIBIT A - Statement of Financial Position, as of December 31, 2001, with Summarized Financial Information for 2000	3
EXHIBIT B - Statement of Activities and Change in Net Assets, for the Year Ended December 31, 2001, with Summarized Financial Information for 2000	4
EXHIBIT C - Statement of Functional Expenses, for the Year Ended December 31, 2001, with Summarized Financial Information for 2000	5 - 6
EXHIBIT D - Statement of Cash Flows, for the Year Ended December 31, 2001, with Summarized Financial Information for 2000	7
NOTES TO FINANCIAL STATEMENTS	8 - 10



GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of the Center for Democracy and Technology (CDT) as of December 31, 2001, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of CDT's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized information has been derived from CDT's 2000 financial statements and, in our report dated January 18, 2002, we expressed an unqualified opinion on those 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 the Center for Democracy and Technology as of December 31, 2001, and its change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Gelman Rosenberg & Freedman

July 12, 2002

4550 MONTGOMERY AVENUE · SUITE 650 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · FAX (301) 951-3570 · WWW.GRF CPA.COM

MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF HORWATH INTERNATIONAL
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2001
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2000

	ASSETS	
	<u>2001</u>	<u>2000</u>
CURRENT ASSETS		
Cash and cash equivalents (Note 6)	\$ 70,812	\$ 102,416
Accounts receivable (Note 7)	60,549	12,874
Grants receivable (Note 2)	384,911	38,750
Contracts receivable	30,678	-
Prepaid expenses	<u>10,469</u>	<u>3,311</u>
Total current assets	<u>557,419</u>	<u>157,351</u>
PROPERTY AND EQUIPMENT		
Furniture, fixtures and equipment	131,721	193,096
Leasehold improvements	<u>28,478</u>	<u>28,478</u>
	160,199	221,574
Less: Accumulated depreciation and amortization	<u>(83,247)</u>	<u>(127,949)</u>
Net property and equipment	<u>76,952</u>	<u>93,625</u>
OTHER ASSETS		
Deposits	<u>11,259</u>	<u>11,259</u>
TOTAL ASSETS	<u>\$ 645,630</u>	<u>\$ 262,235</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ <u>47,278</u>	\$ <u>7,013</u>
Total current liabilities	<u>47,278</u>	<u>7,013</u>
NET ASSETS		
Unrestricted	478,238	222,750
Temporarily restricted (Note 5)	<u>120,114</u>	<u>32,472</u>
Total net assets	<u>598,352</u>	<u>255,222</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 645,630</u>	<u>\$ 262,235</u>

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2001
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2000

	<u>2001</u>			<u>2000</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUE				
Grants and contributions	\$ 998,138	\$ 806,511	\$ 1,804,649	\$ 1,405,191
Indirect support (CFC/United Way)	-	-	-	65,000
Contracts	101,976	-	101,976	-
Interest income	5,029	-	5,029	5,394
Other	4,738	-	4,738	-
Net assets released from donor- imposed restrictions (Note 5)	<u>718,869</u>	<u>(718,869)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>1,828,750</u>	<u>87,642</u>	<u>1,916,392</u>	<u>1,475,585</u>
EXPENSES				
Program services:				
Data Privacy	190,368	-	190,368	304,512
DNS Project	143,975	-	143,975	120,049
Free Speech	218,367	-	218,367	195,181
Government Privacy	155,435	-	155,435	253,779
International Activities	401,162	-	401,162	56,285
Internet Education Foundation	58,454	-	58,454	53,327
Open Access	75,337	-	75,337	127,549
Standards	151,261	-	151,261	100,306
EGOV	<u>3,403</u>	<u>-</u>	<u>3,403</u>	<u>-</u>
Total program services	<u>1,397,762</u>	<u>-</u>	<u>1,397,762</u>	<u>1,210,988</u>
Supporting services:				
Management and General	107,600	-	107,600	185,304
Fundraising	<u>67,900</u>	<u>-</u>	<u>67,900</u>	<u>43,172</u>
Total supporting services	<u>175,500</u>	<u>-</u>	<u>175,500</u>	<u>228,476</u>
Total expenses	<u>1,573,262</u>	<u>-</u>	<u>1,573,262</u>	<u>1,439,464</u>
Change in net assets	255,488	87,642	343,130	36,121
Net assets at beginning of year	<u>222,750</u>	<u>32,472</u>	<u>255,222</u>	<u>219,101</u>
NET ASSETS AT END OF YEAR	<u>\$ 478,238</u>	<u>\$ 120,114</u>	<u>\$ 598,352</u>	<u>\$ 255,222</u>

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2001
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2000**

	2001					
	Program Services					
	Data Privacy	DNS Project	Free Speech	Government Privacy	International Activities	Internet Education Foundation
Salaries	\$ 121,846	\$ 98,900	\$ 91,068	\$ 88,681	\$ 175,389	\$ 46,468
Employee benefits	6,647	5,151	5,219	5,209	9,373	2,509
Pension (Note 4)	5,889	4,771	4,415	3,995	8,604	2,250
Payroll taxes	8,361	6,576	6,217	5,125	12,109	3,123
Printing/copying	588	(792)	461	102	(160)	-
Professional fees	1,960	-	1,960	1,960	-	-
Rent and storage (Note 3)	15,186	-	15,186	15,186	17,190	-
Insurance	465	-	465	465	528	-
Depreciation and amortization	4,201	-	4,201	4,201	-	-
Telephone	3,493	2,662	3,446	4,432	6,185	-
Consultants	3,578	700	73,863	10,141	8,649	-
Postage and delivery	162	262	382	221	215	-
Maintenance	-	-	-	-	20	-
Supplies	1,821	55	1,821	1,967	1,238	-
Books, subscriptions and dues	3,434	44	618	1,048	439	-
Meetings and travel	5,682	25,596	2,228	5,966	27,505	-
Bank charges	-	-	-	-	-	-
Office equipment	1,384	-	1,384	1,384	976	-
Temporary help and interns	37	-	37	19	-	4,104
Licenses and fees	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Computer equipment	(226)	-	(226)	(226)	8,976	-
Furniture and fixtures	181	-	181	181	41	-
Network usage	5,679	50	5,441	5,378	11,094	-
Loss on disposal of assets	-	-	-	-	-	-
Allocation of management and general	-	-	-	-	112,791	-
TOTAL	<u>\$ 190,368</u>	<u>\$ 143,975</u>	<u>\$ 218,367</u>	<u>\$ 155,435</u>	<u>\$ 401,162</u>	<u>\$ 58,454</u>

See accompanying notes to financial statements.

								2000
			Supporting Services					
Open Access	Standards	EGOV	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
\$ 30,596	\$ 111,865	\$ 3,028	\$ 767,841	\$ 76,176	\$ 58,070	\$ 134,246	\$ 902,087	\$ 828,667
1,953	5,540	84	41,685	6,711	2,965	9,676	51,361	45,654
1,480	5,252	125	36,781	2,621	2,766	5,387	42,168	72,325
2,147	6,928	149	50,735	3,059	3,930	6,989	57,724	52,311
2,400	262	-	2,861	4,966	-	4,966	7,827	15,245
1,960	-	-	7,840	6,439	-	6,439	14,279	12,653
13,937	-	-	76,685	15,346	-	15,346	92,031	88,545
465	-	-	2,388	1,130	-	1,130	3,518	2,942
-	4,201	-	16,804	9,929	-	9,929	26,733	31,740
3,736	609	-	24,563	7,525	20	7,545	32,108	29,767
5,310	-	-	102,241	10,271	-	10,271	112,512	38,717
154	86	6	1,488	5,431	141	5,572	7,060	7,205
-	-	-	20	861	-	861	881	5,570
1,812	90	-	8,804	11,050	-	11,050	19,854	37,111
517	2,500	-	8,600	7,090	-	7,090	15,690	14,180
2,092	13,928	-	82,997	25,365	8	25,373	108,370	106,321
-	-	11	11	1,845	-	1,845	1,856	2,473
1,384	-	-	6,512	3,185	-	3,185	9,697	7,779
56	-	-	4,253	537	-	537	4,790	-
-	-	-	-	-	-	-	-	1,726
-	-	-	-	3,136	-	3,136	3,136	2,048
(226)	-	-	8,072	5,973	-	5,973	14,045	3,555
181	-	-	765	930	-	930	1,695	2,731
5,383	-	-	33,025	10,535	-	10,535	43,560	30,199
-	-	-	-	280	-	280	280	-
-	-	-	112,791	(112,791)	-	(112,791)	-	-
\$ 75,337	\$ 151,261	\$ 3,403	\$ 1,397,762	\$ 107,600	\$ 67,900	\$ 175,500	\$ 1,573,262	\$ 1,439,464

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2001
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2000

	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 343,130	\$ 36,121
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	26,733	31,740
(Increase) decrease in:		
Accounts receivable	(47,675)	(9,969)
Grants receivable	(346,161)	(38,750)
Contracts receivable	(30,678)	-
Prepaid expenses	(7,158)	569
Increase (decrease) in:		
Accounts payable and accrued liabilities	<u>40,265</u>	<u>(8,883)</u>
Net cash provided (used) by operating activities	<u>(21,544)</u>	<u>10,828</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(10,060)</u>	<u>(49,410)</u>
Net cash used by investing activities	<u>(10,060)</u>	<u>(49,410)</u>
Net decrease in cash and cash equivalents	(31,604)	(38,582)
Cash and cash equivalents at beginning of year	<u>102,416</u>	<u>140,998</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 70,812</u>	<u>\$ 102,416</u>

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Center for Democracy and Technology (CDT) works to promote democratic values and Constitutional liberties in the digital age. With expertise in law, technology and policy, CDT seeks practical solutions to enhance free expression and privacy in global communications technologies. CDT is dedicated to building consensus among all parties interested in the future of the Internet and other new media.

Basis of presentation -

The accompanying financial statements have been prepared on the accrual basis of accounting, and in accordance with Statements of Financial Accounting Standard No. 117, "Financial Statements of Not-for-Profit Organizations".

Net assets -

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.

Contributions and grants -

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

Property and equipment -

Significant expenditures for property and equipment are capitalized and depreciated on the straight-line basis over the estimated useful lives of the assets, which range from three to ten years. Leasehold improvements are recorded at cost and are amortized over five years.

Income taxes -

CDT is exempt from Federal and state income taxes as a nonprofit organization 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.

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

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

Cash and cash equivalents -

Cash and cash equivalents include cash on hand and other highly liquid instruments with maturities of less than three months.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. 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 program and supporting services benefited.

2. **GRANTS RECEIVABLE**

All grants receivable are considered to be collectible within one year.

3. **LEASE COMMITMENTS**

CDT leases office space under an operating lease which commenced on October 31, 1995. The lease provides for base rent with annual adjustments for increases in the Consumer Price Index and operating expenses. On October 29, 1999, CDT leased additional space with the agreement providing for base rent with increases based on rentable square feet. CDT shares office space with the Internet Education Foundation and is reimbursed by IEF for a portion of rent (Note 7).

At December 31, 2001, the future minimum rental payments required under the leases are as follows:

<u>Year Ended December 31,</u>	<u>CDT</u>	<u>IEF</u>	<u>Amount</u>
2002	\$ 135,106	\$ (41,746)	\$ 93,360
2003	89,194	-	89,194
2004	56,400	-	56,400
2005	<u>51,700</u>	<u>-</u>	<u>51,700</u>
	<u>\$ 332,400</u>	<u>\$ (41,746)</u>	<u>\$ 290,654</u>

CENTER FOR DEMOCRACY AND TECHNOLOGY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

4. RETIREMENT PLAN

CDT maintains a 403(b) retirement plan covering all employees who have completed one year of service. CDT contributes six percent of compensation on behalf of each active participants.

Retirement plan expense for the year ended December 31, 2001 was \$42,168.

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2001:

International Activities	\$ 5,799
Standards	102,941
DNS Project	6,024
Data Privacy	5,000
Free Speech	<u>350</u>
	<u>\$120,114</u>

The following is a summary of net assets which were released from donor imposed and time restrictions by incurring expenses which satisfied the restricted purposes specified by the donors or the passage of time.

International Activities	\$401,161
Standards	147,059
DNS Project	143,976
Internet Education Foundation	<u>26,673</u>
	<u>\$718,869</u>

6. CONCENTRATION OF CREDIT RISK

At times during the year, CDT maintains cash balances in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. Management believes the risk in these situations to be minimal.

7. INTERNET EDUCATION FOUNDATION

CDT shares personnel, office space and other administrative expenses with the Internet Education Foundation (IEF). An agreement was made between the two parties in 2001 where IEF reimbursed CDT for its support of IEF program and administrative activities. During 2001, CDT received payments from IEF totaling \$46,270 as reimbursement for rent and other administrative expenses. An additional \$86,976 was billed to IEF for program support and consulting on IEF program activities. At December 31, 2001, \$31,674 is due from IEF and is included in accounts receivable.