

**FINANCIAL STATEMENTS**

**CENTER FOR DEMOCRACY  
AND TECHNOLOGY**

**FOR THE YEAR ENDED DECEMBER 31, 2002  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2001**

# CENTER FOR DEMOCRACY AND TECHNOLOGY

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**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 as of December 31, 2002, 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 the Center for Democracy and Technology's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the organization's 2001 financial statements and, in our report dated July 12, 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, 2002, 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.

In accordance with Government Auditing Standards, we have also issued our report dated June 24, 2003 on our consideration of Center for Democracy and Technology's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with the report in considering the results of our audit.

*Gelman, Rosenberg & Freedman*

June 24, 2003

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**CENTER FOR DEMOCRACY AND TECHNOLOGY**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2002**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2001**

<b>ASSETS</b>	<u><b>2002</b></u>	<u><b>2001</b></u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 6)	\$ 415,229	\$ 70,812
Accounts receivable (Note 7)	90,179	60,549
Grants receivable (Note 2)	112,500	384,911
Contracts receivable	53,156	30,678
Prepaid expenses	<u>85</u>	<u>10,469</u>
Total current assets	<u>671,149</u>	<u>557,419</u>
<b>PROPERTY AND EQUIPMENT</b>		
Furniture, fixtures and equipment	113,306	131,721
Leasehold improvements	<u>28,478</u>	<u>28,478</u>
	141,784	160,199
Less: Accumulated depreciation and amortization	<u>(90,132)</u>	<u>(83,247)</u>
Net property and equipment	<u>51,652</u>	<u>76,952</u>
<b>OTHER ASSETS</b>		
Deposits	<u>11,259</u>	<u>11,259</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 734,060</b></u>	<u><b>\$ 645,630</b></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ <u>50,535</u>	\$ <u>47,278</u>
Total liabilities	<u>50,535</u>	<u>47,278</u>
<b>NET ASSETS</b>		
Unrestricted	608,525	478,238
Temporarily restricted (Note 5)	<u>75,000</u>	<u>120,114</u>
Total net assets	<u>683,525</u>	<u>598,352</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 734,060</b></u>	<u><b>\$ 645,630</b></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, 2002  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2001**

	2002			2001
	Unrestricted	Temporarily Restricted	Total	Total
<b>REVENUE</b>				
Grants and contributions	\$ 860,859	\$ 834,375	\$ 1,695,234	\$ 1,804,650
Contracts	57,565	-	57,565	101,976
Interest income	1,715	-	1,715	5,029
Membership	-	-	-	(1)
Publications	740	-	740	-
Other	942	-	942	4,738
Net assets released from donor restrictions (Note 5)	879,489	(879,489)	-	-
Total revenue	1,801,310	(45,114)	1,756,196	1,916,392
<b>EXPENSES</b>				
Program services:				
Data Privacy (IPWG)	184,228	-	184,228	190,368
4th Amendment Privacy (DP4A)	176,114	-	176,114	155,435
DNS Project	66,122	-	66,122	143,975
Free Speech	230,314	-	230,314	218,367
Open Access	-	-	-	75,337
International Activities	369,001	-	369,001	401,162
Internet Education Foundation	48,659	-	48,659	58,454
Copyright 2002	136,319	-	136,319	-
Standards	190,823	-	190,823	151,261
E-Democracy	3,674	-	3,674	3,403
Computers, Freedom and Privacy	8,372	-	8,372	-
DotGov	4,833	-	4,833	-
E-Governance World Bank	42,152	-	42,152	-
Total program services	1,460,611	-	1,460,611	1,397,762
Supporting services:				
Management and General	122,468	-	122,468	107,600
Fundraising	87,944	-	87,944	67,900
Total supporting services	210,412	-	210,412	175,500
Total expenses	1,671,023	-	1,671,023	1,573,262
Change in net assets	130,287	(45,114)	85,173	343,130
Net assets at beginning of year	478,238	120,114	598,352	255,222
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 608,525</b>	<b>\$ 75,000</b>	<b>\$ 683,525</b>	<b>\$ 598,352</b>

See accompanying notes to financial statements.

**CENTER FOR DEMOCRACY AND TECHNOLOGY**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2002  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2001**

								<b>Program</b>
	<b>4<sup>th</sup></b>							
	<b>Data</b>	<b>Amendment</b>	<b>DNS</b>	<b>Free</b>	<b>International</b>	<b>Internet</b>	<b>Copyright</b>	
	<b>Privacy</b>	<b>Privacy</b>	<b>Project</b>	<b>Speech</b>	<b>Activities</b>	<b>Education</b>	<b>2002</b>	<b>Standards</b>
	<b>(IPWG)</b>	<b>(DP4A)</b>				<b>Foundation</b>		
Salaries	\$109,993	\$ 99,840	\$40,461	\$ 95,642	\$175,391	\$41,350	\$102,276	\$150,270
Employee benefits	6,205	5,639	2,182	5,538	10,230	2,379	5,669	8,694
Pension (Note 4)	5,628	5,125	1,914	5,003	9,000	2,129	5,073	7,754
Payroll taxes	6,545	5,956	2,738	5,954	11,196	2,551	7,441	9,607
Printing/copying	-	670	19	361	58	-	-	-
Professional fees	6,793	7,032	-	15,005	1,196	1,196	-	-
Rent and storage (Note 3)	20,738	20,738	-	20,738	21,259	(3,479)	-	77
Insurance	136	136	-	137	96	-	-	-
Depreciation and amortization	6,781	6,781	-	6,780	-	-	-	-
Telephone	3,984	4,572	2,494	4,405	5,592	-	575	64
Consultants	100	2,550	3,300	56,289	2,550	-	10,200	2,500
Postage and delivery	846	188	227	489	85	22	369	26
Maintenance	188	188	237	188	84	-	-	-
Supplies	2,172	2,160	25	2,226	818	49	466	-
Books, subscriptions and dues	3,101	1,635	-	367	314	-	101	2,060
Meetings and travel	1,951	3,301	12,519	2,125	7,184	32	2,776	8,731
Bank charges	-	-	-	-	-	-	-	-
Office equipment	2,161	2,161	6	2,161	1,136	-	-	-
Temporary help and interns	671	1,172	-	671	2,733	2,430	-	-
Licenses and fees	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-
Computer equipment	1,371	1,371	-	1,371	-	-	1,373	145
Furniture and fixtures	8	8	-	8	-	-	-	-
Network usage	4,622	4,657	-	4,622	6,851	-	-	895
Loss on disposal of assets	234	234	-	234	-	-	-	-
Overhead	-	-	-	-	76,352	-	-	-
Allocation of management and general	-	-	-	-	36,876	-	-	-
<b>TOTAL</b>	<b>\$184,228</b>	<b>\$176,114</b>	<b>\$66,122</b>	<b>\$230,314</b>	<b>\$369,001</b>	<b>\$48,659</b>	<b>\$136,319</b>	<b>\$190,823</b>

2002							2001		
Services				Supporting Services					
E-Democracy	Computers, Freedom and Privacy	DotGov	E-Governance World Bank	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
\$3,029	\$5,337	\$ -	\$27,139	\$ 850,728	\$ 94,123	\$73,065	\$167,188	\$1,017,916	\$ 902,087
166	292	-	1,495	48,489	6,695	4,196	10,891	59,380	51,361
158	276	-	1,397	43,457	5,188	3,756	8,944	52,401	42,168
249	422	-	1,765	54,424	5,921	4,547	10,468	64,892	57,724
-	-	42	2,262	3,412	1,399	-	1,399	4,811	7,827
-	-	84	-	31,306	15,473	718	16,191	47,497	14,279
-	-	-	-	80,071	20,820	-	20,820	100,891	92,031
-	-	-	-	505	1,287	-	1,287	1,792	3,518
-	-	-	-	20,342	6,781	-	6,781	27,123	26,733
-	-	(397)	-	21,289	5,857	-	5,857	27,146	32,108
-	450	3,450	7,929	89,318	14,011	-	14,011	103,329	112,512
-	-	(49)	49	2,252	4,005	-	4,005	6,257	7,060
-	-	-	-	885	3,116	-	3,116	4,001	881
-	-	-	-	7,916	7,795	-	7,795	15,711	19,854
-	-	(117)	-	7,461	5,716	-	5,716	13,177	15,690
72	1,595	1,694	6	41,986	21,788	22	21,810	63,796	108,370
-	-	-	-	-	2,826	-	2,826	2,826	1,856
-	-	139	40	7,804	2,631	-	2,631	10,435	9,697
-	-	-	-	7,677	1,764	1,640	3,404	11,081	4,790
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	3,136
-	-	-	-	5,631	2,247	-	2,247	7,878	14,045
-	-	-	-	24	10	-	10	34	1,695
-	-	(13)	70	21,704	6,009	-	6,009	27,713	43,560
-	-	-	-	702	234	-	234	936	280
-	-	-	-	76,352	(76,352)	-	(76,352)	-	-
-	-	-	-	36,876	(36,876)	-	(36,876)	-	-
<b>\$3,674</b>	<b>\$8,372</b>	<b>\$4,833</b>	<b>\$42,152</b>	<b>\$1,460,611</b>	<b>\$122,468</b>	<b>\$87,944</b>	<b>\$210,412</b>	<b>\$1,671,023</b>	<b>\$1,573,262</b>

See accompanying notes to financial statements.

**CENTER FOR DEMOCRACY AND TECHNOLOGY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2001**

	<u>2002</u>	<u>2001</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 85,173	\$ 343,130
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	27,123	26,733
Loss on disposal of fixed assets	936	-
(Increase) decrease in:		
Accounts receivable	(29,630)	(47,675)
Grants receivable	272,411	(346,161)
Contracts receivable	(22,478)	(30,678)
Prepaid expenses	10,384	(7,158)
Increase (decrease) in:		
Accounts payable and accrued liabilities	<u>3,258</u>	<u>40,265</u>
Net cash provided (used) by operating activities	<u>347,177</u>	<u>(21,544)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(2,760)</u>	<u>(10,060)</u>
Net cash used by investing activities	<u>(2,760)</u>	<u>(10,060)</u>
Net increase (decrease) in cash and cash equivalents	344,417	(31,604)
Cash and cash equivalents at beginning of year	<u>70,812</u>	<u>102,416</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 415,229</u></b>	<b><u>\$ 70,812</u></b>

See accompanying notes to financial statements.



# CENTER FOR DEMOCRACY AND TECHNOLOGY

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2002

### 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 are presented 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 -

The Center for Democracy and Technology 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.

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002

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 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.

2. **GRANTS RECEIVABLE**

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

3. **LEASE COMMITMENT**

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). This reimbursement is netted against Rent and Storage expense on the Statement of Functional Expenses.

At December 31, 2002, the future minimum rental payments required under the leases are as follows:

**Year Ended December 31,**

2003	\$ 89,194
2004	56,400
2005	<u>41,700</u>
	<b><u>\$ 187,294</u></b>

**CENTER FOR DEMOCRACY AND TECHNOLOGY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**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 participant. Retirement plan expense for the year ended December 31, 2002 was \$52,401.

**5. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes at December 31, 2002:

Data Privacy	\$ 60,000
Free Speech	20,000
Standards	<u>20,000</u>
	<b><u>\$ 100,000</u></b>

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	\$ 305,799
Standards	202,941
Free Speech 2002	84,375
DNS Project	131,024
Data Privacy	5,000
Free Speech 2001	350
Digital Privacy	<u>150,000</u>
	<b><u>\$ 879,489</u></b>

In the fiscal year 2002 Open Access projects were absorbed by Free Speech.

**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 2002 where IEF reimbursed CDT for its support of IEF program and administrative activities. During 2002, CDT received payments from IEF totaling \$55,473 as reimbursement for rent and other administrative expenses. An additional \$51,250 was billed to IEF for program support and consulting on IEF program activities. At December 31, 2002, \$46,723 is due from IEF and is included in accounts receivable.