

FINANCIAL STATEMENTS

**CENTER FOR DEMOCRACY
AND TECHNOLOGY**

**FOR THE YEAR ENDED DECEMBER 31, 2003
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2002**

CENTER FOR DEMOCRACY AND TECHNOLOGY

CONTENTS

	PAGE NO.
INDEPENDENT AUDITORS' REPORT	2
EXHIBIT A - Statement of Financial Position, as of December 31, 2003, with Summarized Financial Information for 2002	3
EXHIBIT B - Statement of Activities and Change in Net Assets, for the Year Ended December 31, 2003, with Summarized Financial Information for 2002	4
EXHIBIT C - Statement of Functional Expenses, for the Year Ended December 31, 2003, with Summarized Financial Information for 2002	5 - 6
EXHIBIT D - Statement of Cash Flows, for the Year Ended December 31, 2003, with Summarized Financial Information for 2002	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 as of December 31, 2003, 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 2002 financial statements and, in our report dated June 24, 2003, 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, 2003, 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

June 4, 2004

CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2003
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2002

ASSETS		<u>2003</u>	<u>2002</u>
CURRENT ASSETS			
Cash and cash equivalents (Note 5)	\$	362,279	\$ 415,229
Accounts receivable (Note 6)		190,607	90,179
Grants receivable (Note 2)		91,250	112,500
Contracts receivable		4,971	53,156
Prepaid expenses		<u>28,330</u>	<u>85</u>
Total current assets		<u>677,437</u>	<u>671,149</u>
PROPERTY AND EQUIPMENT			
Furniture, fixtures and equipment		90,228	113,306
Leasehold improvements		<u>28,478</u>	<u>28,478</u>
		118,706	141,784
Less: Accumulated depreciation and amortization		<u>(89,878)</u>	<u>(90,132)</u>
Net property and equipment		<u>28,828</u>	<u>51,652</u>
OTHER ASSETS - Deposits		<u>4,700</u>	<u>11,259</u>
TOTAL ASSETS	\$	<u>710,965</u>	\$ <u>734,060</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$	<u>77,065</u>	\$ <u>50,535</u>
Total liabilities		<u>77,065</u>	<u>50,535</u>
NET ASSETS			
Unrestricted		633,900	608,525
Temporarily restricted (Note 4)		<u>-</u>	<u>75,000</u>
Total net assets		<u>633,900</u>	<u>683,525</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>710,965</u>	\$ <u>734,060</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, 2003
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2002**

	<u>2003</u>			<u>2002</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUE				
Grants and contributions	\$ 852,201	\$ 700,350	\$ 1,552,551	\$ 1,695,234
Contracts	85,043	-	85,043	57,565
Interest income	1,909	-	1,909	1,715
Publications	-	-	-	740
Other	117	-	117	942
Net assets released from donor restrictions (Note 4)	<u>775,350</u>	<u>(775,350)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>1,714,620</u>	<u>(75,000)</u>	<u>1,639,620</u>	<u>1,756,196</u>
EXPENSES				
Program services:				
Data Privacy (IPWG)	216,635	-	216,635	184,228
4th Amendment Privacy (DP4A)	296,914	-	296,914	176,114
DNS Project	40,243	-	40,243	66,122
Free Speech	185,836	-	185,836	230,314
Global Internet Policy Initiative	160,949	-	160,949	-
International Activities	-	-	-	369,001
Internet Education Foundation	64,935	-	64,935	48,659
Copyright 2003	273,974	-	273,974	136,319
Standards	102,501	-	102,501	190,823
E-Democracy	58,181	-	58,181	3,674
Computers, Freedom and Privacy	-	-	-	8,372
DotGov	-	-	-	4,833
E-Governance World Bank	<u>3,634</u>	<u>-</u>	<u>3,634</u>	<u>42,152</u>
Total program services	<u>1,403,802</u>	<u>-</u>	<u>1,403,802</u>	<u>1,460,611</u>
Supporting services:				
Management and General	160,607	-	160,607	122,468
Fundraising	<u>124,836</u>	<u>-</u>	<u>124,836</u>	<u>87,944</u>
Total supporting services	<u>285,443</u>	<u>-</u>	<u>285,443</u>	<u>210,412</u>
Total expenses	<u>1,689,245</u>	<u>-</u>	<u>1,689,245</u>	<u>1,671,023</u>
Change in net assets	25,375	(75,000)	(49,625)	85,173
Net assets at beginning of year	<u>608,525</u>	<u>75,000</u>	<u>683,525</u>	<u>598,352</u>
NET ASSETS AT END OF YEAR	<u>\$ 633,900</u>	<u>\$ -</u>	<u>\$ 633,900</u>	<u>\$ 683,525</u>

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2003
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2002**

	Program Services						
	4th						
	Data	Amendment	DNS	Free	Global	Internet	Copyright
	Privacy	Privacy	Project	Speech	Internet	Education	2003
	(IPWG)	(DP4A)			Policy	Foundation	
					Initiative		
Salaries	\$132,266	\$205,752	\$26,865	\$117,005	\$108,908	\$42,568	\$141,372
Payroll taxes	9,107	12,730	1,969	7,867	7,993	3,265	8,332
Pension expense	7,829	7,691	1,625	6,543	6,641	2,523	7,397
Employee benefits	8,599	14,243	2,755	5,322	10,738	6,301	12,632
Workers compensation insurance	248	384	56	236	229	89	249
Consultants	9,550	-	-	80	-	-	56,000
Travel and meetings	6,721	7,834	107	7,070	1,417	49	16,047
Board expenses - travel and meeting	-	-	-	-	-	-	-
Temporaries	406	618	86	352	345	140	436
Accounting and audit	-	-	-	-	-	-	-
Books, dues and subscriptions	4,339	4,078	377	10,837	1,394	537	1,667
Computer equipment expense	409	623	86	824	348	142	440
Depreciation expense	3,089	4,704	650	2,677	2,627	1,069	3,322
Furniture and fixtures	-	-	-	-	-	-	-
Network usage	2,551	4,036	598	2,406	2,170	883	2,743
Legal	-	-	-	-	-	-	-
Office equipment expense	1,609	2,451	339	1,394	1,367	557	1,730
Postage and delivery	1,068	682	96	854	390	145	487
Printing/copying	6,806	124	576	4,173	-	-	75
Rent and storage	14,803	22,554	3,120	12,832	12,591	5,124	15,919
Office supplies and expense	1,993	3,425	419	2,345	1,691	688	2,293
Telephone/fax	4,984	4,592	465	2,796	1,881	765	2,556
Loss on disposal of assets	258	393	54	223	219	90	277
TOTAL	\$216,635	\$296,914	\$40,243	\$185,836	\$160,949	\$64,935	\$273,974

2003							2002	
							Supporting Services	
Standards	E-Democracy	E-Governance World Bank	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total	Total
\$ 67,521	\$ 1,819	\$2,495	\$ 846,570	\$49,718	\$ 79,734	\$129,452	\$ 976,022	\$1,017,916
4,718	138	198	56,316	3,116	3,885	7,001	63,317	64,892
4,078	98	156	44,581	2,925	4,748	7,673	52,254	52,401
687	183	136	61,596	8,256	5,905	14,161	75,757	59,380
138	4	5	1,638	99	120	219	1,857	-
2,875	51,750	-	120,255	-	12,000	12,000	132,255	103,329
7,845	2,711	-	49,801	7,857	183	8,040	57,841	63,796
-	-	-	-	5,431	-	5,431	5,431	-
198	441	14	3,036	5,058	242	5,300	8,336	11,081
-	-	-	-	52,966	-	52,966	52,966	47,497
757	22	30	24,038	1,552	1,495	3,047	27,085	13,177
200	6	8	3,086	165	244	409	3,495	7,878
1,508	-	103	19,748	1,252	1,844	3,096	22,844	27,123
-	-	-	-	-	-	-	-	34
1,245	35	49	16,717	1,032	1,522	2,554	19,271	27,713
-	-	-	-	118	114	232	232	-
785	23	31	10,285	2,958	960	3,918	14,203	14,436
274	249	7	4,252	2,088	344	2,432	6,684	6,257
46	159	-	11,959	611	-	611	12,570	4,811
7,226	208	284	94,662	5,989	8,836	14,825	109,487	100,891
990	304	68	14,216	8,341	1,185	9,526	23,742	20,329
1,276	31	42	19,390	971	1,321	2,292	21,682	27,146
134	-	8	1,656	104	154	258	1,914	936
\$102,501	\$58,181	\$3,634	\$1,403,802	\$160,607	\$124,836	\$285,443	\$1,689,245	\$1,671,023

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2003
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2002

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (49,625)	\$ 85,173
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	22,844	27,123
Loss on disposal of fixed assets	1,914	936
(Increase) decrease in:		
Accounts receivable	(100,428)	(29,630)
Grants receivable	21,250	272,411
Contracts receivable	48,185	(22,478)
Prepaid expenses	(28,245)	10,384
Security deposit	6,559	-
Increase (decrease) in:		
Accounts payable and accrued liabilities	<u>26,529</u>	<u>3,258</u>
Net cash provided (used) by operating activities	<u>(51,017)</u>	<u>347,177</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(1,933)</u>	<u>(2,760)</u>
Net cash used by investing activities	<u>(1,933)</u>	<u>(2,760)</u>
Net increase (decrease) in cash and cash equivalents	(52,950)	344,417
Cash and cash equivalents at beginning of year	<u>415,229</u>	<u>70,812</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 362,279</u>	<u>\$ 415,229</u>

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2003

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 communications media.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Statement of Financial Accounting Standards 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, 2003

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

At December 31, 2003, the future minimum rental payments required under the leases are as follows:

<u>Year Ended December 31,</u>	
2004	\$ 56,400
2005	<u>41,700</u>
	<u>\$ 98,100</u>

CENTER FOR DEMOCRACY AND TECHNOLOGY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003**

4. TEMPORARILY RESTRICTED NET ASSETS

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.

Global Internet Policy Initiative	\$ 156,000
Standards	100,000
Copyright 2003	270,000
DNS Project	25,000
4th Amendment Privacy (DP4A)	149,350
E-Governance World Bank	5,000
Privacy	<u>70,000</u>
	<u>\$ 775,350</u>

5. 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.

6. 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 2003, CDT received payments from IEF totaling \$41,746 as reimbursement for rent and other administrative expenses. At December 31, 2003, \$23,819 is due from IEF and is included in accounts receivable.