

**FINANCIAL STATEMENTS**

**CENTER FOR DEMOCRACY AND  
TECHNOLOGY**

**FOR THE YEAR ENDED DECEMBER 31, 2004  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2003**

# 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, 2004, 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 2003 financial statements and, in our report dated June 4, 2004, 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, 2004, 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 15, 2005

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**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, 2004**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2003**

<b>ASSETS</b>		<u>2004</u>	<u>2003</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents (Note 6)		\$ 1,111,631	\$ 362,279
Accounts receivable (Note 7)		62,013	190,607
Grants receivable (Note 2)		263,674	91,250
Contracts receivable		43,069	4,971
Prepaid expenses		<u>21,925</u>	<u>28,330</u>
Total current assets		<u>1,502,312</u>	<u>677,437</u>
<b>PROPERTY AND EQUIPMENT</b>			
Furniture, fixtures and equipment		95,758	90,228
Leasehold improvements		<u>28,478</u>	<u>28,478</u>
		124,236	118,706
Less: Accumulated depreciation and amortization		<u>(101,835)</u>	<u>(89,878)</u>
Net property and equipment		<u>22,401</u>	<u>28,828</u>
<b>OTHER ASSETS</b>			
Security deposit		4,700	4,700
Grants receivable - long-term portion (Note 2)		<u>190,024</u>	<u>-</u>
Total other assets		<u>194,724</u>	<u>4,700</u>
<b>TOTAL ASSETS</b>		<b><u>\$ 1,719,437</u></b>	<b><u>\$ 710,965</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities		\$ <u>59,861</u>	\$ <u>77,065</u>
Total liabilities		<u>59,861</u>	<u>77,065</u>
<b>NET ASSETS</b>			
Unrestricted		1,040,662	633,900
Temporarily restricted (Note 5)		<u>618,914</u>	<u>-</u>
Total net assets		<u>1,659,576</u>	<u>633,900</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b><u>\$ 1,719,437</u></b>	<b><u>\$ 710,965</u></b>

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, 2004**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2003**

	<u>2004</u>			<u>2003</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
<b>REVENUE</b>				
Grants and contributions	\$ 881,618	\$ 1,268,671	\$ 2,150,289	\$ 1,552,551
Settlement revenue (Note 8)	575,000	-	575,000	-
Contracts	63,850	-	63,850	85,043
Interest income	3,250	-	3,250	1,909
Other revenue	467	-	467	117
Net assets released from donor restrictions (Note 5)	<u>649,757</u>	<u>(649,757)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>2,173,942</u>	<u>618,914</u>	<u>2,792,856</u>	<u>1,639,620</u>
<b>EXPENSES</b>				
Program services:				
Data Privacy (IPWG)	164,820	-	164,820	216,635
4th Amendment Privacy (DP4A)	502,556	-	502,556	296,914
DNS Project	21,842	-	21,842	40,243
Free Speech	268,127	-	268,127	185,836
Global Internet Policy Initiative	39,356	-	39,356	160,949
Internet Education Foundation	85,950	-	85,950	64,935
Copyright	190,674	-	190,674	273,974
Standards	9,014	-	9,014	102,501
E-Democracy	15,494	-	15,494	58,181
E-Governance World Bank	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,634</u>
Total program services	<u>1,297,833</u>	<u>-</u>	<u>1,297,833</u>	<u>1,403,802</u>
Supporting services:				
Management and General	264,173	-	264,173	160,607
Fundraising	<u>205,174</u>	<u>-</u>	<u>205,174</u>	<u>124,836</u>
Total supporting services	<u>469,347</u>	<u>-</u>	<u>469,347</u>	<u>285,443</u>
Total expenses	<u>1,767,180</u>	<u>-</u>	<u>1,767,180</u>	<u>1,689,245</u>
Change in net assets	406,762	618,914	1,025,676	(49,625)
Net assets at beginning of year	<u>633,900</u>	<u>-</u>	<u>633,900</u>	<u>683,525</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 1,040,662</u></b>	<b><u>\$ 618,914</u></b>	<b><u>\$ 1,659,576</u></b>	<b><u>\$ 633,900</u></b>

See accompanying notes to financial statements.

**CENTER FOR DEMOCRACY AND TECHNOLOGY**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2004  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2003**

	<b>Program Services</b>						
	<b>4<sup>th</sup></b>				<b>Global</b>	<b>Internet</b>	
	<b>Data</b>	<b>Amendment</b>	<b>DNS</b>	<b>Free</b>	<b>Internet</b>	<b>Internet</b>	<b>Copyright</b>
	<b>Privacy</b>	<b>Privacy</b>	<b>Project</b>	<b>Speech</b>	<b>Policy</b>	<b>Education</b>	
	<b>(IPWG)</b>	<b>(DP4A)</b>			<b>Initiative</b>	<b>Foundation</b>	
Salaries	\$109,367	\$332,561	\$13,894	\$102,561	\$24,609	\$58,716	\$128,622
Payroll taxes	6,893	20,958	876	6,465	1,551	3,700	8,106
Pension expense (Note 4)	6,274	19,079	797	5,884	1,412	3,368	7,379
Employee benefits	6,752	20,533	858	6,332	1,519	3,625	7,941
Workers compensation insurance	239	728	30	224	54	128	281
Consultants	2,156	12,068	-	88,409	2,000	-	-
Travel and meetings	4,694	15,569	1,999	25,446	2,612	850	7,066
Board expenses - travel and meeting	-	-	-	-	-	-	253
Temporaries	1,283	90	5	38	6	2,562	1,293
Accounting and audit	-	-	-	-	-	-	-
Books, dues and subscriptions	1,262	4,282	124	8,137	239	543	1,120
Computer equipment expense	231	230	15	140	33	43	318
Contribution	-	-	-	-	-	-	-
Depreciation expense	1,806	6,158	266	1,089	371	1,246	2,453
Furniture and fixtures	-	-	-	-	-	-	-
Network usage	2,207	6,805	288	2,073	522	1,191	2,599
Legal	-	-	-	-	-	-	-
Office equipment expense	1,331	4,001	166	1,344	299	705	1,559
Postage and delivery	537	1,788	178	650	91	184	616
Printing/copying	29	385	3	2,534	4	12	1,699
Rent and storage (Note 3)	13,019	38,992	1,636	12,768	2,994	6,833	15,023
Office supplies and expense	1,811	5,030	211	1,790	593	1,326	2,051
Telephone/fax	4,929	13,299	496	2,243	447	918	2,295
Loss on disposal of assets	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>\$164,820</b>	<b>\$502,556</b>	<b>\$21,842</b>	<b>\$268,127</b>	<b>\$39,356</b>	<b>\$85,950</b>	<b>\$190,674</b>

See accompanying notes to financial statements.

2004						2003	
Supporting Services							
Standards	E-Democracy	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total	Total
\$4,030	\$ 4,666	\$ 779,026	\$121,998	\$ 93,972	\$215,970	\$ 994,996	\$ 976,022
254	294	49,097	7,689	5,922	13,611	62,708	63,317
231	268	44,692	6,999	5,391	12,390	57,082	52,254
249	288	48,097	12,961	5,802	18,763	66,860	75,757
9	10	1,703	267	206	473	2,176	1,857
2,156	8,250	115,039	-	65,515	65,515	180,554	132,255
800	82	59,118	8,428	7,243	15,671	74,789	57,841
-	-	253	3,379	-	3,379	3,632	5,431
4	1	5,282	3,532	347	3,879	9,161	8,336
-	-	-	55,570	-	55,570	55,570	52,966
526	41	16,274	2,778	808	3,586	19,860	27,085
6	4	1,020	104	92	196	1,216	3,495
-	-	-	1,000	-	1,000	1,000	-
-	79	13,468	2,365	1,431	3,796	17,264	22,844
-	-	-	3,957	-	3,957	3,957	-
62	94	15,841	-	1,935	1,935	17,776	19,271
-	-	-	1,669	-	1,669	1,669	232
58	56	9,519	2,561	1,166	3,727	13,246	14,203
10	574	4,628	1,385	406	1,791	6,419	6,684
-	1	4,667	2,449	717	3,166	7,833	12,570
509	554	92,328	14,383	11,280	25,663	117,991	109,487
56	159	13,027	8,183	1,450	9,633	22,660	23,742
54	73	24,754	2,277	1,491	3,768	28,522	21,682
-	-	-	-	-	-	-	1,914
-	-	-	239	-	239	239	-
<b>\$9,014</b>	<b>\$15,494</b>	<b>\$1,297,833</b>	<b>\$264,173</b>	<b>\$205,174</b>	<b>\$469,347</b>	<b>\$1,767,180</b>	<b>\$1,689,245</b>

See accompanying notes to financial statements.

**CENTER FOR DEMOCRACY AND TECHNOLOGY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2003**

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,025,676	\$ (49,625)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	17,264	22,844
Loss on disposal of fixed assets	-	1,914
(Increase) decrease in:		
Accounts receivable	128,594	(100,428)
Grants receivable	(362,448)	21,250
Contracts receivable	(38,098)	48,185
Prepaid expenses	6,405	(28,245)
Security deposit	-	6,559
Increase (decrease) in:		
Accounts payable and accrued liabilities	<u>(17,204)</u>	<u>26,529</u>
Net cash provided (used) by operating activities	<u>760,189</u>	<u>(51,017)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(10,837)</u>	<u>(1,933)</u>
Net cash used by investing activities	<u>(10,837)</u>	<u>(1,933)</u>
Net increase (decrease) in cash and cash equivalents	749,352	(52,950)
Cash and cash equivalents at beginning of year	<u>362,279</u>	<u>415,229</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 1,111,631</u></b>	<b><u>\$ 362,279</u></b>

See accompanying notes to financial statements.



## CENTER FOR DEMOCRACY AND TECHNOLOGY

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

#### 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 -

CDT capitalizes furniture and equipment costing more than \$1,000. 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, 2004

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 nine 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, except for the MacArthur Foundation Grant to donate \$600,000. The first payment of \$200,000 was received in 2004, and the remaining balance of the grant will be paid in annual installments of \$200,000 until the final installment in 2006. The grant has been discounted to its present value as of December 31, 2004 using a discount rate of 4.25%.

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 (IEF) 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. All leases end December 1, 2005. Rent expense for 2004 was \$117,991.

At December 31, 2004, the future minimum rental payments required under the leases are as follows:

**Year Ended December 31,**

2005

**\$ 102,872**

**CENTER FOR DEMOCRACY AND TECHNOLOGY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**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, 2004 was \$57,082.

**5. TEMPORARILY RESTRICTED NET ASSETS**

Microsoft	\$ 75,000
John D. and Catherine T. MacArthur Foundation	465,024
Open Society Institute	53,890
The Open Society Policy Center	<u>25,000</u>
	<b><u>\$ 618,914</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.

John D. and Catherine T. MacArthur Foundation	\$ 375,000
Markle Foundation	174,757
Open Society Institute	75,000
The Herb Block Foundation	<u>25,000</u>
	<b><u>\$ 649,757</u></b>

**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. An agreement was made between the two parties in 2002 whereby IEF reimbursed CDT for its support of IEF program and administrative activities. During 2004, CDT received payments from IEF totaling \$41,746 as reimbursement for rent and other administrative expenses. At December 31, 2004, \$45,994 is due from IEF and is included in accounts receivable.

**8. SETTLEMENT REVENUE**

The settlement revenue in the amount of \$575,000 represents the full settlement of all fee and expense claims made by all plaintiffs in the CDT v. Pappert case in Philadelphia. Under the agreement, CDT received the full fee settlement from the Commonwealth of Pennsylvania, and is to disburse payments to co-counsel and others to whom expense or expert witness payments are due.