

FINANCIAL STATEMENTS



**FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2011**

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) (a non-profit organization), which comprise the statement of financial position as of December 31, 2012, 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.

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

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, 2012, 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.

Report on Summarized Comparative Information

We have previously audited CDT's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 23, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

Bethesda, Maryland
March 6, 2013

CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents (Note 8)	\$ 2,438,372	\$ 3,600,380
Investments, certificates of deposit (Notes 2 and 11)	1,231,109	-
Grants receivable	622,113	608,989
Accounts receivable	117,358	157,352
Due from related parties (Note 10)	11,678	6,158
Prepaid expenses	<u>40,747</u>	<u>13,800</u>
Total current assets	<u>4,461,377</u>	<u>4,386,679</u>
PROPERTY AND EQUIPMENT		
Furniture, fixtures and equipment	302,896	269,734
Leasehold improvements	<u>151,218</u>	<u>151,218</u>
	454,114	420,952
Less: Accumulated depreciation and amortization	<u>(339,886)</u>	<u>(299,301)</u>
Net property and equipment	<u>114,228</u>	<u>121,651</u>
OTHER ASSETS		
Security deposits	<u>17,004</u>	<u>17,004</u>
TOTAL ASSETS	<u>\$ 4,592,609</u>	<u>\$ 4,525,334</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ <u>80,127</u>	\$ <u>85,852</u>
NET ASSETS		
Unrestricted:		
Undesignated	2,631,915	2,721,670
Board-designated (Note 5)	<u>1,150,000</u>	<u>1,125,000</u>
Total unrestricted	3,781,915	3,846,670
Temporarily restricted (Note 3)	<u>730,567</u>	<u>592,812</u>
Total net assets	<u>4,512,482</u>	<u>4,439,482</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,592,609</u>	<u>\$ 4,525,334</u>

CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

	<u>2012</u>			<u>2011</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUE				
Grants and contributions	\$ 2,391,789	\$ 1,829,020	\$ 4,220,809	\$ 3,962,242
Cy Pres awards (Note 9)	86,199	-	86,199	1,077,803
Contracts	92,115	-	92,115	86,833
Interest and dividends (Note 2)	7,663	-	7,663	7,668
Other revenue	5,645	-	5,645	3,778
Net assets released from donor restrictions (Note 4)	<u>1,691,265</u>	<u>(1,691,265)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>4,274,676</u>	<u>137,755</u>	<u>4,412,431</u>	<u>5,138,324</u>
EXPENSES				
Program Services:				
Campaign for CDT's Future	328	-	328	9,691
Communications	145,404	-	145,404	35,987
Privacy	377,920	-	377,920	369,385
4th Amendment	709,974	-	709,974	611,395
Health Privacy Policy	578,403	-	578,403	443,242
Net Neutrality	180,619	-	180,619	141,665
1st Amendment	221,033	-	221,033	196,473
International Human Rights	790,045	-	790,045	360,222
Global Network Initiative	30,989	-	30,989	104,488
Internet Education Foundation	57,188	-	57,188	86,285
Copyright	267,428	-	267,428	257,706
Standards	1,975	-	1,975	15,986
Markle Capacity	<u>-</u>	<u>-</u>	<u>-</u>	<u>171,254</u>
Total program services	<u>3,361,306</u>	<u>-</u>	<u>3,361,306</u>	<u>2,803,779</u>
Supporting Services:				
Management and General	463,389	-	463,389	498,050
Fundraising	<u>514,736</u>	<u>-</u>	<u>514,736</u>	<u>525,627</u>
Total supporting services	<u>978,125</u>	<u>-</u>	<u>978,125</u>	<u>1,023,677</u>
Total expenses	<u>4,339,431</u>	<u>-</u>	<u>4,339,431</u>	<u>3,827,456</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, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

	2012			2011
	Unrestricted	Temporarily Restricted	Total	Total
Change in net assets before other items	\$ (64,755)	\$ 137,755	\$ 73,000	\$ 1,310,868
OTHER ITEMS				
Transfer of net assets	-	-	-	(271,435)
Funds returned to donor	-	-	-	(4,012)
Change in net assets	(64,755)	137,755	73,000	1,035,421
Net assets at beginning of year	<u>3,846,670</u>	<u>592,812</u>	<u>4,439,482</u>	<u>3,404,061</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,781,915</u>	<u>\$ 730,567</u>	<u>\$ 4,512,482</u>	<u>\$ 4,439,482</u>

CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

	<u>2012</u>				
	<u>Program Services</u>				
	<u>Campaign for</u>			<u>4th</u>	<u>Health</u>
	<u>CDT's Future</u>	<u>Communications</u>	<u>Privacy</u>	<u>Amendment</u>	<u>Privacy</u>
					<u>Policy</u>
Salaries	\$ -	\$ 97,012	\$ 227,128	\$ 383,139	\$ 377,879
Payroll taxes	-	7,112	14,992	22,487	23,197
Pension expense	-	5,629	11,260	19,391	16,896
Employee benefits	-	8,075	16,337	36,331	17,032
Workers compensation	-	236	568	943	902
Consultants	-	585	28,780	158,740	39,354
Travel and meetings	327	3,101	31,159	12,515	25,751
Board expenses travel and meetings	-	-	-	-	-
Accounting and audit	-	-	-	-	-
Books, dues and subscriptions	-	943	2,474	5,774	6,968
Computer equipment expense	-	754	1,801	2,829	2,928
Contributions	-	5	11	15	18
Insurance	-	828	1,689	3,332	2,973
Depreciation and amortization	-	1,619	3,851	6,478	6,256
Network usage	-	547	1,364	2,191	2,254
Legal	-	-	-	-	-
Miscellaneous	-	1,720	3,089	102	150
Office equipment expense	-	497	480	791	760
Postage and delivery	-	-	25	36	-
Printing/Copying	-	93	233	42	296
Rent and storage (Note 6)	-	11,594	27,458	46,011	46,314
Office supplies and expense	1	1,128	1,862	3,181	2,976
Telephone/Fax	-	3,926	3,359	5,646	5,499
TOTAL	\$ 328	\$ 145,404	\$ 377,920	\$ 709,974	\$ 578,403

See accompanying notes to financial statements.

Net Neutrality	1st Amendment	International Human Rights	Global Network Initiative	Internet Education Foundation	Copyright	Standards	Total Program Services
\$ 121,205	\$ 158,601	\$ 400,600	\$ 15,948	\$ 18,652	\$ 192,554	\$ -	\$ 1,992,718
6,511	9,970	24,861	1,124	1,230	11,104	-	122,588
6,383	5,647	19,807	896	1,079	11,230	-	98,218
6,068	6,892	25,936	1,560	1,787	11,567	-	131,585
275	368	955	39	45	473	-	4,804
12,080	1,109	106,705	94	111	1,408	-	348,966
1,479	4,431	133,278	12	10,340	3,165	-	225,558
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,124	4,154	3,873	155	182	2,869	1,975	30,491
947	1,219	3,090	117	139	1,420	-	15,244
5	7	18	1	1	7	-	88
1,052	1,353	3,222	136	159	1,752	-	16,496
2,067	2,591	6,609	265	312	3,321	-	33,369
739	946	2,350	91	106	1,101	-	11,689
-	-	-	-	-	-	-	-
30	47	1,127	5	6	48	-	6,324
3,234	319	812	32	38	89	-	7,052
-	29	33	-	-	-	-	123
83	824	163	-	1	38	-	1,773
14,625	18,938	47,253	10,150	22,575	23,322	-	268,240
960	1,235	3,494	125	147	1,611	-	16,720
1,752	2,353	5,859	239	278	349	-	29,260
\$ 180,619	\$ 221,033	\$ 790,045	\$ 30,989	\$ 57,188	\$ 267,428	\$ 1,975	\$ 3,361,306

CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

	2012 (Continued)			2011	
	Supporting Services			Total Expenses	Total Expenses
	Management and General	Fundraising	Total Supporting Services		
Salaries	\$ 207,965	\$ 220,362	\$ 428,327	\$ 2,421,045	\$ 2,229,112
Payroll taxes	13,361	12,177	25,538	148,126	140,992
Pension expense	11,996	13,161	25,157	123,375	121,014
Employee benefits	16,438	7,156	23,594	155,179	149,585
Workers compensation	504	533	1,037	5,841	7,950
Consultants	5,605	49,933	55,538	404,504	185,396
Travel and meetings	23,803	163,392	187,195	412,753	324,621
Board expenses travel and meetings	1,759	-	1,759	1,759	214
Accounting and audit	87,502	-	87,502	87,502	87,616
Books, dues and subscriptions	3,232	2,134	5,366	35,857	35,483
Computer equipment expense	1,836	1,655	3,491	18,735	20,934
Contributions	4,509	9	4,518	4,606	12,250
Insurance	1,748	1,867	3,615	20,111	10,160
Depreciation and amortization	3,502	3,714	7,216	40,585	45,788
Network usage	1,330	1,280	2,610	14,299	13,775
Legal	2,838	-	2,838	2,838	2,360
Miscellaneous	1,325	3,160	4,485	10,809	7,711
Office equipment expense	5,938	447	6,385	13,437	15,081
Postage and delivery	4,767	24	4,791	4,914	5,043
Printing/Copying	51	25	76	1,849	8,624
Rent and storage (Note 6)	43,823	26,419	70,242	338,482	333,941
Office supplies and expense	10,388	4,052	14,440	31,160	37,203
Telephone/Fax	9,169	3,236	12,405	41,665	32,603
TOTAL	\$ 463,389	\$ 514,736	\$ 978,125	\$ 4,339,431	\$ 3,827,456

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 73,000	\$ 1,035,421
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	40,585	45,788
Loss on disposal of fixed assets	-	21
(Increase) decrease in:		
Grants receivable	(13,124)	1,289,870
Accounts receivable	39,994	(143,848)
Due from related parties	(5,520)	(3,120)
Prepaid expenses	(26,947)	6,752
Increase (decrease) in:		
Accounts payable and accrued liabilities	(5,725)	(62,026)
Deferred income	<u>-</u>	<u>(30,000)</u>
Net cash provided by operating activities	<u>102,263</u>	<u>2,138,858</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture, fixtures and equipment	(33,162)	(4,799)
Purchase of investments	(1,231,109)	-
Sale of investments	<u>-</u>	<u>251,618</u>
Net cash (used) provided by investing activities	<u>(1,264,271)</u>	<u>246,819</u>
Net (decrease) increase in cash and cash equivalents	(1,162,008)	2,385,677
Cash and cash equivalents at beginning of year	<u>3,600,380</u>	<u>1,214,703</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,438,372</u>	<u>\$ 3,600,380</u>

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012

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 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, 2011, 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.

Through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") provided temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) insured depository institutions (the "Dodd-Frank Deposit Insurance Provision"). CDT maintained a portion of its cash balance at a financial institution in a non-interest bearing account; thereby, all of this cash balance was protected by the FDIC under this Act. Beginning January 1, 2013, funds deposited in non-interest bearing accounts will no longer receive unlimited deposit insurance coverage. Bank deposit accounts at one institution will be insured by the FDIC up to a limit of \$250,000. Management considers the risk of uninsured deposits to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are 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. All amounts are due within one year and management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Property and equipment -

CDT capitalizes furniture and equipment costing more than \$500. Significant expenditures for property and equipment are capitalized and depreciated on a 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 the life of the lease.

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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.

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 -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the year ended December 31, 2012, CDT has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

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.

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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

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.

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.

2. **INVESTMENTS**

Investments consisted of the following at December 31, 2012:

	<u>Market Value</u>
Certificates of Deposit	\$ <u>1,231,109</u>

Included in investment income are the following:

Interest and Dividends	\$ <u>7,663</u>
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3. **TEMPORARILY RESTRICTED NET ASSETS**

At December 31, 2012, temporarily restricted net assets consisted of the following:

4th Amendment	\$ 350,000
Health Privacy Policy	79,750
International Human Rights	178,572
Privacy	62,245
Time restricted	<u>60,000</u>
	\$ <u>730,567</u>

CENTER FOR DEMOCRACY AND TECHNOLOGY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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, 2012, by incurring expenses which satisfied the restricted purposes specified by the donors or the passage of time:

4th Amendment	\$ 312,431
Health Privacy Policy	593,009
Net Neutrality	12,500
Global Internet Policy Initiative	245,813
Privacy	301,981
International Human Rights	71,429
Markle Capacity	144,102
Passage of time	<u>10,000</u>
	<u>\$ 1,691,265</u>

5. BOARD-DESIGNATED NET ASSETS

In 2006, CDT's Board of Directors designated \$1 million for CDT's future operations and to make an annual transfer of \$25,000 to the fund. 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, 2012 totaled \$1,150,000.

6. LEASE COMMITMENT

Effective December 1, 2005, CDT renewed its lease for general office space for a ten year period. Rent and storage expense for the year ended December 31, 2012 totaled \$338,482. CDT shares office space with IEF, and is reimbursed by IEF for a portion of rent (Note 10).

At December 31, 2012, the future minimum rental payments required under the lease are as follows:

<u>Year Ending December 31,</u>	
2013	\$ 264,156
2014	272,021
2015	<u>272,228</u>
	<u>\$ 808,405</u>

7. 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, 2012 totaled \$123,375.

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012

8. CAMPAIGN FOR THE FUTURE

During 2011, the CDT Board of Directors approved "The Campaign for CDT's Future" (the Campaign) to raise core funds for the organization. The goal of the Campaign is to raise \$5,000,000 by 2013. During 2012, CDT received approximately \$500,000 towards the Campaign.

9. CY PRES AWARDS

During 2012, CDT received \$86,199 of Cy Pres awards from legal settlements. These awards have been classified as unrestricted support and are shown separately in the accompanying Statement of Activities and Change in Net Assets.

10. INTERNET EDUCATION FOUNDATION AND GLOBAL NETWORK INITIATIVE

CDT shares personnel, office space and other administrative expenses with the Internet Education Foundation (IEF) and Global Network Initiative (GNI). An agreement was made between the two parties in 2010 and 2011, respectively, whereby IEF and GNI reimbursed CDT for its support of IEF and GNI program and administrative activities. During 2012, CDT received payments from IEF and GNI totaling \$92,115, as reimbursement for rent and other administrative expenses.

11. FAIR VALUE 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.

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

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2012.

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

CENTER FOR DEMOCRACY AND TECHNOLOGY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

11. FAIR VALUE MEASUREMENTS (Continued)

The table below summarizes, by level within the fair value hierarchy, CDT's investments as of December 31, 2012:

Asset Category:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of Deposit	\$ <u> -</u>	\$ <u> 1,231,109</u>	\$ <u> -</u>	\$ <u> 1,231,109</u>

12. SUBSEQUENT EVENTS

In preparing these financial statements, CDT has evaluated events and transactions for potential recognition or disclosure through March 6, 2013, the date the financial statements were issued.