

**FINANCIAL STATEMENTS**

**CENTER FOR DEMOCRACY AND  
TECHNOLOGY**

**FOR THE YEAR ENDED DECEMBER 31, 2005  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2004**

**CENTER FOR DEMOCRACY AND TECHNOLOGY**

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**GELMAN, ROSENBERG & FREEDMAN**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**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, 2005, 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 2004 financial statements and, in our report dated June 15, 2005, 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, 2005, 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 8, 2006

4550 MONTGOMERY AVENUE · SUITE 650 NORTH · BETHESDA, MARYLAND 20814  
(301) 951-9090 · FAX (301) 951-3570 · [WWW.GRFCPA.COM](http://WWW.GRFCPA.COM)

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**CENTER FOR DEMOCRACY AND TECHNOLOGY**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2005**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2004**

**ASSETS**

	<u>2005</u>	<u>2004</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 6)	\$ 1,056,201	\$ 1,111,631
Accounts receivable (Note 7)	151,309	62,013
Loans receivable (Note 7)	20,274	-
Grants receivable (Note 2)	213,917	263,674
Contracts receivable	34,465	43,069
Prepaid expenses	<u>14,104</u>	<u>21,925</u>
Total current assets	<u>1,490,270</u>	<u>1,502,312</u>
<b>PROPERTY AND EQUIPMENT</b>		
Furniture, fixtures and equipment	106,132	95,758
Leasehold improvements	<u>42,166</u>	<u>28,478</u>
	148,298	124,236
Less: Accumulated depreciation and amortization	<u>(108,898)</u>	<u>(101,835)</u>
Net property and equipment	<u>39,400</u>	<u>22,401</u>
<b>OTHER ASSETS</b>		
Security deposit	15,248	4,700
Grants receivable - long-term portion (Note 2)	-	190,024
Loan receivable - long-term portion (Note 7)	<u>25,187</u>	<u>-</u>
Total other assets	<u>40,435</u>	<u>194,724</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,570,105</u></b>	<b><u>\$ 1,719,437</u></b>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 27,714	\$ 59,861
Contingency liability (Note 9)	<u>57,140</u>	<u>-</u>
Total liabilities	<u>84,854</u>	<u>59,861</u>
<b>NET ASSETS</b>		
Unrestricted	1,261,488	1,040,662
Temporarily restricted (Note 5)	<u>223,763</u>	<u>618,914</u>
Total net assets	<u>1,485,251</u>	<u>1,659,576</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 1,570,105</u></b>	<b><u>\$ 1,719,437</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, 2005**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2004**

	<u>2005</u>			<u>2004</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
<b>REVENUE</b>				
Grants and contributions	\$ 1,316,487	\$ 300,020	\$ 1,616,507	\$ 2,150,289
Settlement revenue (Note 8)	-	-	-	575,000
Contracts	57,750	-	57,750	63,850
Interest income	13,382	18	13,400	3,250
Investment income	15,483	-	15,483	-
Other revenue	107,852	-	107,852	467
Net assets released from donor restrictions (Note 5)	<u>695,189</u>	<u>(695,189)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>2,206,143</u>	<u>(395,151)</u>	<u>1,810,992</u>	<u>2,792,856</u>
<b>EXPENSES</b>				
Program services:				
Data Privacy (IPWG)	247,592	-	247,592	164,820
4th Amendment Privacy (DP4A)	438,158	-	438,158	502,556
DNS Project	16,809	-	16,809	21,842
Free Speech	162,915	-	162,915	268,127
Global Internet Policy Initiative	109,823	-	109,823	39,356
Internet Education Foundation	64,287	-	64,287	85,950
Copyright	237,308	-	237,308	190,674
Standards	23,694	-	23,694	9,014
E-Governance World Bank	20,850	-	20,850	-
E-Democracy	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,494</u>
Total program services	<u>1,321,436</u>	<u>-</u>	<u>1,321,436</u>	<u>1,297,833</u>
Supporting services:				
Management and General	312,373	-	312,373	264,173
Fundraising	<u>351,508</u>	<u>-</u>	<u>351,508</u>	<u>205,174</u>
Total supporting services	<u>663,881</u>	<u>-</u>	<u>663,881</u>	<u>469,347</u>
Total expenses	<u>1,985,317</u>	<u>-</u>	<u>1,985,317</u>	<u>1,767,180</u>
Change in net assets	220,826	(395,151)	(174,325)	1,025,676
Net assets at beginning of year	<u>1,040,662</u>	<u>618,914</u>	<u>1,659,576</u>	<u>633,900</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 1,261,488</u></b>	<b><u>\$ 223,763</u></b>	<b><u>\$ 1,485,251</u></b>	<b><u>\$ 1,659,576</u></b>

See accompanying notes to financial statements.

**CENTER FOR DEMOCRACY AND TECHNOLOGY**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2005  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2004**

	<b>2005</b>					
	<b>Program Services</b>					
	<b>Data Privacy (IPWG)</b>	<b>4th Amendment Privacy (DP4A)</b>	<b>DNS Project</b>	<b>Free Speech</b>	<b>Global Internet Policy Initiative</b>	<b>Internet Education Foundation</b>
Salaries	\$ 130,189	\$ 303,401	\$ 10,087	\$ 101,686	\$ 75,206	\$ 45,474
Payroll taxes	8,543	19,898	709	6,764	4,984	3,016
Pension expense (Note 4)	6,015	14,013	490	4,744	3,501	2,117
Employee benefits	8,260	19,258	659	6,522	4,826	2,910
Workers compensation insurance	306	699	28	248	179	111
Fellowships	121	298	9	93	71	40
Consultants	13,263	4,551	105	16,418	1,066	648
Travel and meetings	46,134	10,871	2,767	3,792	4,651	437
Board expenses - travel and meeting	-	-	-	-	-	-
Temporaries	-	-	-	-	-	-
Accounting and audit	-	-	-	-	-	-
Books, dues, subscriptions	1,833	4,663	103	2,799	535	330
Computer equipment expense	179	476	8	133	106	59
Contribution	-	-	-	-	-	-
Depreciation expense	1,929	4,011	102	1,351	960	646
Furniture and fixtures	-	-	-	-	-	-
Network usage	2,310	5,026	171	1,708	1,266	767
Legal	1,552	-	-	-	-	-
Office equipment expense	1,043	2,510	69	804	602	357
Postage and delivery	700	1,833	34	334	260	187
Printing/copying	2,236	133	-	175	-	-
Rent and storage (Note 3)	16,240	37,860	1,247	12,715	9,418	5,684
Office supplies and expense	841	2,182	65	664	458	832
Telephone/fax	5,794	6,203	150	1,887	1,673	637
Contingency expense (Note 9)	-	-	-	-	-	-
Miscellaneous	104	272	6	78	61	35
<b>TOTAL</b>	<b>\$ 247,592</b>	<b>\$ 438,158</b>	<b>\$ 16,809</b>	<b>\$ 162,915</b>	<b>\$ 109,823</b>	<b>\$ 64,287</b>

2004

Supporting Services								
Copyright	Standards	E-Governance World Bank	Total Program Services	Management and General	Fundraising	Total Supporting Services	TOTAL	TOTAL
\$ 163,590	\$ 13,004	\$ 10,743	\$ 853,380	\$ 112,682	\$ 93,164	\$ 205,846	\$1,059,226	\$ 994,996
10,836	895	778	56,423	7,585	6,177	13,762	70,185	62,708
7,596	621	524	39,621	5,283	4,341	9,624	49,245	57,082
10,458	855	743	54,491	16,028	5,978	22,006	76,497	66,860
386	34	31	2,022	785	223	1,008	3,030	2,176
161	10	8	811	100	88	188	999	-
7,271	874	5,744	49,940	1,459	78,929	80,388	130,328	180,554
4,487	446	88	73,673	16,234	110,768	127,002	200,675	74,789
-	-	-	-	3,575	-	3,575	3,575	3,632
-	-	-	-	271	150	421	421	9,161
-	-	-	-	42,355	-	42,355	42,355	55,570
1,403	4,419	199	16,284	4,091	3,685	7,776	24,060	19,860
229	14	10	1,214	596	129	725	1,939	1,216
-	-	-	-	3,000	-	3,000	3,000	1,000
2,102	139	72	11,312	1,420	1,186	2,606	13,918	17,264
-	-	-	-	-	-	-	-	3,957
2,775	223	190	14,436	2,288	1,563	3,851	18,287	17,776
-	-	-	1,552	3,596	-	3,596	5,148	1,669
1,332	97	75	6,889	2,589	748	3,337	10,226	13,246
661	101	70	4,180	1,129	1,018	2,147	6,327	6,419
-	-	-	2,544	2,701	29,352	32,053	34,597	7,833
20,370	1,633	1,338	106,505	14,078	11,681	25,759	132,264	117,991
1,089	78	71	6,280	11,701	942	12,643	18,923	22,660
2,435	243	162	19,184	1,608	1,310	2,918	22,102	28,522
-	-	-	-	57,140	-	57,140	57,140	-
127	8	4	695	79	76	155	850	239
<b>\$ 237,308</b>	<b>\$ 23,694</b>	<b>\$ 20,850</b>	<b>\$1,321,436</b>	<b>\$ 312,373</b>	<b>\$ 351,508</b>	<b>\$ 663,881</b>	<b>\$1,985,317</b>	<b>\$1,767,180</b>

See accompanying notes to financial statements.

**CENTER FOR DEMOCRACY AND TECHNOLOGY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2004**

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (174,325)	\$ 1,025,676
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	13,918	17,264
(Increase) decrease in:		
Accounts receivable	(89,296)	128,594
Grants receivable	239,781	(362,448)
Contracts receivable	8,604	(38,098)
Prepaid expenses	7,821	6,405
Security deposit	(10,548)	-
Increase (decrease) in:		
Accounts payable and accrued liabilities	(32,147)	(17,204)
Contingency liability	<u>57,140</u>	<u>-</u>
Net cash provided by operating activities	<u>20,948</u>	<u>760,189</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(30,917)	(10,837)
Increase in loan receivable	<u>(45,461)</u>	<u>-</u>
Net cash used by investing activities	<u>(76,378)</u>	<u>(10,837)</u>
Net increase (decrease) in cash and cash equivalents	(55,430)	749,352
Cash and cash equivalents at beginning of year	<u>1,111,631</u>	<u>362,279</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 1,056,201</u></b>	<b><u>\$ 1,111,631</u></b>

See accompanying notes to financial statements.



## CENTER FOR DEMOCRACY AND TECHNOLOGY

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005

#### 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, 2005**

**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. Prior long term grants receivable consisted of the MacArthur Foundation grant totaling \$600,000, paid in annual installments of \$200,000 starting in 2004 and ending in 2006.

**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. Effective December 1, 2005, CDT renewed its lease agreement for a ten-year period. Rent expense for 2005 was \$132,264.

**CENTER FOR DEMOCRACY AND TECHNOLOGY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**3. LEASE COMMITMENT (CONTINUED)**

At December 31, 2005, the future minimum rental payments required under the leases are as follows:

**Year Ended December 31,**

2006	\$ 141,230
2007	145,805
2008	150,494
2009	155,300
2010	160,226
Thereafter	<u>885,614</u>
	<b><u>\$ 1,638,669</u></b>

**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, 2005 was \$49,245.

**5. TEMPORARILY RESTRICTED NET ASSETS**

At December 31, 2005, temporarily restricted net assets were as follows:

Ron Plesser Fellowship	\$ 3,763
John D. and Catherine T. MacArthur Foundation	200,000
Eset	5,000
Mi5 Network	5,000
Grisoft	<u>10,000</u>
	<b><u>\$ 223,763</u></b>

The following is a summary of net assets which were released from donor imposed and time restrictions during 2005 by the incurring of expenses which satisfied the restricted purposes specified by the donors or the passage of time.

Microsoft	\$ 75,000
John D and Catherine T. MacArthur Foundation	275,000
Open Society Institute	78,890
Markle Foundation	178,664
Internews	15,000
Rose Foundation	55,000
Gersten Cy Pres	17,475
Plesser Foundation	<u>160</u>
	<b><u>\$ 695,189</u></b>

**CENTER FOR DEMOCRACY AND TECHNOLOGY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**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 2005, CDT received payments from IEF totaling \$41,746 as reimbursement for rent and other administrative expenses. At December 31, 2005, \$45,461 is due from IEF and is included in accounts receivable. IEF is to repay CDT \$1,994 a month for two years at 5% interest.

**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.

**9. LOSS CONTINGENCY**

One of CDT's vendors has alleged that CDT has violated a contract with the vendor. CDT negotiated with the vendor and a settlement has been reached. Excluding its own attorneys fees, it is estimated that the maximum exposure that CDT currently faces is \$57,140.