

**FINANCIAL STATEMENTS**

**CENTER FOR DEMOCRACY AND  
TECHNOLOGY**

**FOR THE YEAR ENDED DECEMBER 31, 2006  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2005**

**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, 2006, 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 2005 financial statements and, in our report dated June 8, 2006, 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, 2006, 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 21, 2007

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**CENTER FOR DEMOCRACY AND TECHNOLOGY**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2006**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2005**

**ASSETS**

	<b>2006</b>	<b>2005</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 923,318	\$ 1,056,201
Accounts receivable	91,463	151,309
Loans receivable (Note 5)	25,187	20,274
Employee advances	1,600	-
Grants receivable	94,514	213,917
Contracts receivable	-	34,465
Prepaid expenses	42,454	14,104
Total current assets	1,178,536	1,490,270
<b>PROPERTY AND EQUIPMENT</b>		
Furniture, fixtures and equipment	121,890	106,132
Leasehold improvements	126,936	42,166
	248,826	148,298
Less: Accumulated depreciation and amortization	(122,680)	(108,898)
Net property and equipment	126,146	39,400
<b>OTHER ASSETS</b>		
Security deposit	15,248	15,248
Loan receivable - long-term portion (Note 5)	-	25,187
Total other assets	15,248	40,435
<b>TOTAL ASSETS</b>	<b>\$ 1,319,930</b>	<b>\$ 1,570,105</b>

See accompanying notes to financial statements.

## LIABILITIES AND NET ASSETS

	<u>2006</u>	<u>2005</u>
<b>CURRENT LIABILITIES</b>		
Contingency liability (Note 7)	\$ 14,800	\$ 57,140
Accounts payable and accrued liabilities	<u>28,937</u>	<u>27,714</u>
Total current liabilities	<u>43,737</u>	<u>84,854</u>
<b>LONG-TERM LIABILITIES</b>		
Contingent liability, net of current portion (Note 7)	<u>10,000</u>	<u>-</u>
Total liabilities	<u>53,737</u>	<u>84,854</u>
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	-	-
Board designated (Note 6)	45,537	1,261,488
Temporarily restricted (Note 4)	1,000,000	-
	<u>220,656</u>	<u>223,763</u>
Total net assets	<u>1,266,193</u>	<u>1,485,251</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 1,319,930</u></b>	<b><u>\$ 1,570,105</u></b>

**CENTER FOR DEMOCRACY AND TECHNOLOGY**  
**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2005**

	<u>2006</u>			<u>2005</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
<b>REVENUE</b>				
Grants and contributions	\$ 1,051,896	\$ 782,733	\$ 1,834,629	\$ 1,616,507
Contracts	38,652	-	38,652	57,750
Interest income	23,654	616	24,270	13,400
Unrealized gain (loss)	(1,380)	-	(1,380)	-
Investment income	23,103	-	23,103	15,483
Other revenue	65,058	-	65,058	107,852
Net assets released from donor restrictions (Note 4)	<u>786,456</u>	<u>(786,456)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>1,987,439</u>	<u>(3,107)</u>	<u>1,984,332</u>	<u>1,810,992</u>
<b>EXPENSES</b>				
Program services:				
Privacy	381,168	-	381,168	247,592
4th Amendment	461,410	-	461,410	438,158
DNS Project	10,368	-	10,368	16,809
1st Amendment	235,128	-	235,128	162,915
Global Internet Policy Initiative	128,846	-	128,846	109,823
Internet Education Foundation	47,662	-	47,662	64,287
Copyright	229,814	-	229,814	237,308
Standards	19,447	-	19,447	23,694
E-Democracy	20,616	-	20,616	-
E-Governance World Bank	<u>145,696</u>	<u>-</u>	<u>145,696</u>	<u>20,850</u>
Total program services	<u>1,680,155</u>	<u>-</u>	<u>1,680,155</u>	<u>1,321,436</u>
Supporting services:				
Management and General	317,021	-	317,021	312,373
Fundraising	<u>206,214</u>	<u>-</u>	<u>206,214</u>	<u>351,508</u>
Total supporting services	<u>523,235</u>	<u>-</u>	<u>523,235</u>	<u>663,881</u>
Total expenses	<u>2,203,390</u>	<u>-</u>	<u>2,203,390</u>	<u>1,985,317</u>
Change in net assets	(215,951)	(3,107)	(219,058)	(174,325)
Net assets at beginning of year	<u>1,261,488</u>	<u>223,763</u>	<u>1,485,251</u>	<u>1,659,576</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 1,045,537</u></b>	<b><u>\$ 220,656</u></b>	<b><u>\$ 1,266,193</u></b>	<b><u>\$ 1,485,251</u></b>

See accompanying notes to financial statements.

**CENTER FOR DEMOCRACY AND TECHNOLOGY**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2006  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2005**

	<b>2006</b>						
	<b>Program Services</b>						
	<b>Privacy</b>	<b>4th Amendment</b>	<b>DNS Project</b>	<b>1st Amendment</b>	<b>Global Internet Policy Initiative</b>	<b>Internet Education Foundation</b>	<b>Copyright</b>
Salaries	\$ 166,331	\$ 315,180	\$ 7,535	\$ 145,855	\$ 89,090	\$ 30,858	\$ 166,316
Payroll taxes	11,763	20,412	590	9,747	5,531	2,330	11,627
Pension expense (Note 3)	7,257	16,141	238	5,337	2,732	1,755	5,500
Employee benefits	15,151	21,185	468	7,615	3,340	4,730	8,106
Workers compensation insurance	582	1,103	26	511	312	108	582
Fellowships	-	-	-	-	-	-	-
Consultants	11,000	-	-	30,000	-	540	-
Travel and meetings	124,351	13,346	25	4,077	10,077	353	1,378
Board expenses - travel and meeting	-	-	-	-	-	-	-
Temporaries	-	-	-	-	-	15	-
Accounting and audit	-	-	-	-	-	-	-
Books, dues, subscriptions	4,913	5,627	51	3,146	645	236	4,300
Computer equipment expense	1,615	724	17	282	170	77	364
Contribution	-	-	-	-	-	-	-
Office expansion	1,531	2,704	64	1,356	855	243	1,301
Depreciation and amortization	2,626	5,100	137	1,825	966	629	2,785
Furniture and fixtures	-	-	-	-	-	-	-
Network usage	3,046	4,656	105	2,292	1,393	569	2,335
Legal	278	-	-	-	-	-	-
Office equipment expense	1,136	2,090	49	1,009	623	214	1,053
Postage and delivery	352	978	14	724	174	63	302
Printing/copying	2,586	6,396	5	483	118	22	1,094
Rent and storage, net (Note 2)	21,070	39,200	920	17,845	10,789	4,122	20,009
Office supplies and expense	956	1,440	33	661	480	392	735
Telephone/fax	4,624	5,128	91	2,363	1,551	406	2,027
Contingency expense (Note 7)	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>\$ 381,168</b>	<b>\$ 461,410</b>	<b>\$ 10,368</b>	<b>\$ 235,128</b>	<b>\$ 128,846</b>	<b>\$ 47,662</b>	<b>\$ 229,814</b>

See accompanying notes to financial statements.

2005

Supporting Services								
Standards	E-Democracy	E-Governance World Bank	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
\$ 10,106	\$ 5,927	\$ 71,661	\$ 1,008,859	\$ 130,710	\$ 112,333	\$ 243,043	\$ 1,251,902	\$ 1,059,226
633	385	3,935	66,953	8,987	6,944	15,931	82,884	70,185
588	347	4,112	44,007	6,000	4,677	10,677	54,684	49,245
687	652	7,032	68,966	22,704	8,204	30,908	99,874	76,497
35	21	251	3,531	3,542	393	3,935	7,466	3,030
-	-	-	-	-	-	-	-	999
-	12,000	42,325	95,865	2,910	18,525	21,435	117,300	130,328
712	58	1,960	156,337	29,597	29,884	59,481	215,818	200,675
-	-	-	-	349	-	349	349	3,575
-	-	-	15	95	-	95	110	421
-	-	-	-	41,777	-	41,777	41,777	42,355
4,689	44	487	24,138	1,898	793	2,691	26,829	24,060
28	14	150	3,441	1,157	248	1,405	4,846	1,939
-	-	-	-	500	-	500	500	3,000
74	54	482	8,664	2,483	948	3,431	12,095	-
191	95	1,717	16,071	2,225	1,821	4,046	20,117	13,918
-	-	-	-	393	-	393	393	-
142	89	1,045	15,672	1,942	1,605	3,547	19,219	18,287
-	-	-	278	6,025	-	6,025	6,303	5,148
67	41	446	6,728	2,949	752	3,701	10,429	10,226
23	12	145	2,787	1,608	662	2,270	5,057	6,327
8	4	-	10,716	11,592	2,597	14,189	24,905	34,597
1,245	770	8,765	124,735	20,981	13,880	34,861	159,596	132,264
48	28	294	5,067	14,100	556	14,656	19,723	18,923
171	75	889	17,325	2,497	1,392	3,889	21,214	22,102
-	-	-	-	-	-	-	-	57,140
-	-	-	-	-	-	-	-	850
<b>\$ 19,447</b>	<b>\$ 20,616</b>	<b>\$ 145,696</b>	<b>\$ 1,680,155</b>	<b>\$ 317,021</b>	<b>\$ 206,214</b>	<b>\$ 523,235</b>	<b>\$ 2,203,390</b>	<b>\$ 1,985,317</b>

See accompanying notes to financial statements.



**CENTER FOR DEMOCRACY AND TECHNOLOGY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2005**

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (219,058)	\$ (174,325)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	20,117	13,918
(Increase) decrease in:		
Accounts receivable	59,846	(89,296)
Employee advances	(1,600)	-
Grants receivable	119,403	239,781
Contracts receivable	34,465	8,604
Prepaid expenses	(28,350)	7,821
Security deposit	-	(10,548)
Increase (decrease) in:		
Contingency liability	(32,340)	57,140
Accounts payable and accrued liabilities	<u>1,223</u>	<u>(32,147)</u>
Net cash provided (used) by operating activities	<u>(46,294)</u>	<u>20,948</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(106,863)	(30,917)
(Increase) decrease in loan receivable	<u>20,274</u>	<u>(45,461)</u>
Net cash used by investing activities	<u>(86,589)</u>	<u>(76,378)</u>
Net decrease in cash and cash equivalents	(132,883)	(55,430)
Cash and cash equivalents at beginning of year	<u>1,056,201</u>	<u>1,111,631</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 923,318</u></b>	<b><u>\$ 1,056,201</u></b>

See accompanying notes to financial statements.

## CENTER FOR DEMOCRACY AND TECHNOLOGY

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

#### 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".

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 the organization's financial statements for the year ended December 31, 2005, from which the summarized information was derived.

##### 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.

**CENTER FOR DEMOCRACY AND TECHNOLOGY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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

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.

Cash and cash equivalents -

Cash and cash equivalents include cash on hand and other highly liquid instruments with maturities of less than three months.

At times during the year, the Center for Democracy and Technology maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

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. 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 5). 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 and storage expense, net for 2006, was \$159,596.

**CENTER FOR DEMOCRACY AND TECHNOLOGY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**2. LEASE COMMITMENT (Continued)**

At December 31, 2006, the future minimum rental payments required under the leases are as follows:

<u>Year Ended December 31,</u>	
2007	\$ 145,805
2008	150,494
2009	155,300
2010	160,226
2011	166,449
Thereafter	<u>719,165</u>
	<b><u>\$ 1,497,439</u></b>

**3. 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, 2006 was \$54,684.

**4. TEMPORARILY RESTRICTED NET ASSETS**

At December 31, 2006, temporarily restricted net assets were as follows:

Privacy	\$ 15,000
4th Amendment	66,667
Global Internet Policy Initiative	35,000
Administration - Plesser Fellowship	97,190
Administration - Gala	<u>6,799</u>
	<b><u>\$ 220,656</u></b>

The following is a summary of net assets which were released from donor imposed and time restrictions during 2006 by the incurring of expenses which satisfied the restricted purposes specified by the donors or the passage of time.

Privacy	\$ 45,000
4th Amendment	267,116
1st Amendment	25,000
Global Internet Policy Initiative	55,000
Copyright	200,000
E-Governance World Bank	131,830
Administration - Plesser Fellowship	19,310
Administration - Gala	<u>43,200</u>
	<b><u>\$ 786,456</u></b>

**CENTER FOR DEMOCRACY AND TECHNOLOGY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**5. 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, whereby IEF reimbursed CDT for its support of IEF program and administrative activities. During 2006, CDT received payments from IEF totaling \$70,779 as reimbursement for rent and other administrative expenses.

In December 2005, CDT loaned IEF \$45,461. The loan expires on January 1, 2008 and bears interest at 5%. The loan is unsecured and requires IEF to repay CDT \$1,994 per month. As of December 31, 2006, the outstanding balance was \$25,187 and is reflected as loans receivable.

**6. BOARD DESIGNATED NET ASSETS**

In 2006, CDT's Board of Directors designated \$1 million for CDT's future operations. These funds can only be drawn upon with the approval of the Board of Directors.

**7. CONTINGENT LIABILITY**

One of CDT's vendors has alleged that CDT has violated a contract with the vendor. CDT negotiated with the vendor and a settlement was reached for CDT to pay \$57,140 as follows: \$32,340 in 2006; \$14,800 in 2007 and \$10,000 in 2008. The settlement balance at December 31, 2006 was \$24,800.