

**FINANCIAL STATEMENTS**

**CENTER FOR DEMOCRACY AND  
TECHNOLOGY**

**FOR THE YEAR ENDED DECEMBER 31, 2007  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2006**

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

April 3, 2009

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**CENTER FOR DEMOCRACY AND TECHNOLOGY**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2007**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2006**

**ASSETS**

	<b>2007</b>	<b>2006</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,229,492	\$ 923,318
Grants receivable	650,481	94,514
Accounts receivable	72,597	91,463
Loans receivable (Note 5)	1,986	25,187
Employee advances	-	1,600
Prepaid expenses	25,704	42,454
Total current assets	1,980,260	1,178,536
<b>PROPERTY AND EQUIPMENT</b>		
Furniture, fixtures and equipment	129,141	121,890
Leasehold improvements	126,936	126,936
	256,077	248,826
Less: Accumulated depreciation and amortization	(142,362)	(122,680)
Net property and equipment	113,715	126,146
<b>OTHER ASSETS</b>		
Security deposit	15,248	15,248
<b>TOTAL ASSETS</b>	<b>\$ 2,109,223</b>	<b>\$ 1,319,930</b>

See accompanying notes to financial statements.

## LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
<b>CURRENT LIABILITIES</b>		
Contingency liability (Note 7)	\$ 10,000	\$ 14,800
Accounts payable and accrued liabilities	<u>22,729</u>	<u>28,937</u>
Total current liabilities	<u>32,729</u>	<u>43,737</u>
<b>LONG-TERM LIABILITIES</b>		
Contingent liability, net of current portion (Note 7)	<u>-</u>	<u>10,000</u>
Total liabilities	<u>32,729</u>	<u>53,737</u>
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	13,249	45,537
Board designated (Note 6)	1,000,000	1,000,000
Temporarily restricted (Note 4)	<u>1,063,245</u>	<u>220,656</u>
Total net assets	<u>2,076,494</u>	<u>1,266,193</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 2,109,223</u></b>	<b><u>\$ 1,319,930</u></b>

**CENTER FOR DEMOCRACY AND TECHNOLOGY**  
**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2006**

	<u>2007</u>			<u>2006</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
<b>REVENUE</b>				
Grants and contributions	\$ 908,045	\$ 2,014,883	\$ 2,922,928	\$ 1,834,629
Contracts	50,302	-	50,302	38,652
Interest income	8,274	1,299	9,573	24,270
Unrealized gain (loss)	-	-	-	(1,380)
Investment income	32,940	-	32,940	23,103
Other revenue	9,274	-	9,274	65,058
Net assets released from donor restrictions (Note 4)	<u>1,173,593</u>	<u>(1,173,593)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>2,182,428</u>	<u>842,589</u>	<u>3,025,017</u>	<u>1,984,332</u>
<b>EXPENSES</b>				
Program Services:				
Privacy	301,233	-	301,233	381,168
4th Amendment	462,314	-	462,314	461,410
Health Privacy Policy	1,242	-	1,242	-
DNS Project	10,527	-	10,527	10,368
1st Amendment	174,136	-	174,136	235,128
Global Internet Policy Initiative	150,135	-	150,135	128,846
Internet Education Foundation	64,273	-	64,273	47,662
Copyright	241,578	-	241,578	229,814
Standards	23,700	-	23,700	19,447
E-Democracy	63,313	-	63,313	20,616
E-Governance World Bank	<u>24,517</u>	<u>-</u>	<u>24,517</u>	<u>145,696</u>
Total program services	<u>1,516,968</u>	<u>-</u>	<u>1,516,968</u>	<u>1,680,155</u>
Supporting Services:				
Management and General	265,723	-	265,723	317,021
Fundraising	<u>432,025</u>	<u>-</u>	<u>432,025</u>	<u>206,214</u>
Total supporting services	<u>697,748</u>	<u>-</u>	<u>697,748</u>	<u>523,235</u>
Total expenses	<u>2,214,716</u>	<u>-</u>	<u>2,214,716</u>	<u>2,203,390</u>
Change in net assets	(32,288)	842,589	810,301	(219,058)
Net assets at beginning of year	<u>1,045,537</u>	<u>220,656</u>	<u>1,266,193</u>	<u>1,485,251</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 1,013,249</u></b>	<b><u>\$ 1,063,245</u></b>	<b><u>\$ 2,076,494</u></b>	<b><u>\$ 1,266,193</u></b>

See accompanying notes to financial statements.

**CENTER FOR DEMOCRACY AND TECHNOLOGY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2006**

	2007							
	Program							Services
	Privacy	4th Amendment	Health Privacy Policy	DNS Project	1st Amendment	Global Internet Policy Initiative	Internet Education Foundation	Copyright
Salaries	\$ 161,076	\$ 310,565	\$ -	\$ 7,384	\$ 119,664	\$ 93,326	\$ 17,781	\$ 169,596
Payroll taxes	11,506	20,636	-	592	7,999	5,303	1,341	11,904
Pension expense (Note 3)	8,600	12,647	-	346	6,788	4,761	1,012	9,931
Employee benefits	14,723	24,402	-	530	7,721	3,305	2,407	7,338
Workers compensation								
insurance	563	1,086	-	26	419	326	62	594
Consultants	4,871	4,766	-	106	1,794	1,260	260	2,364
Travel and meetings	57,162	22,584	397	45	3,781	23,618	10,217	3,489
Board expenses - travel and meeting	-	-	-	-	-	-	-	-
Temporaries	-	-	-	-	-	-	-	-
Accounting and audit	-	-	-	-	-	-	-	-
Books, dues, subscriptions	5,474	4,212	795	84	2,100	838	318	4,142
Computer equipment expense	157	233	-	8	132	75	77	176
Contribution	-	-	-	-	-	-	-	-
Office expansion	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-
Depreciation expense	-	-	-	-	-	-	-	-
Furniture and fixtures	-	-	-	-	-	-	-	-
Network usage	2,413	4,484	-	107	1,744	1,300	276	2,432
Legal	1,300	-	-	-	-	-	-	-
Office equipment expense	1,427	2,591	-	64	1,062	753	(2,822)	1,452
Postage and delivery	1,050	835	-	17	551	223	130	402
Printing/copying	1,730	1,055	-	-	327	-	-	-
Rent and storage (Note 2)	23,693	44,125	-	1,063	17,263	12,800	32,761	23,980
Office supplies and expense	1,158	1,808	50	44	707	551	151	981
Telephone/fax	4,330	6,285	-	111	2,084	1,696	302	2,797
<b>TOTAL</b>	<b>\$ 301,233</b>	<b>\$ 462,314</b>	<b>\$ 1,242</b>	<b>\$ 10,527</b>	<b>\$ 174,136</b>	<b>\$ 150,135</b>	<b>\$ 64,273</b>	<b>\$ 241,578</b>

See accompanying notes to financial statements.

									2006
Supporting Services									
Standards	E-Democracy	E-Governance World Bank	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	Total Expenses	
\$ 12,090	\$ 29,111	\$ 15,261	\$ 935,854	\$ 94,511	\$ 115,228	\$ 209,739	\$ 1,145,593	\$ 1,251,902	
793	1,598	1,278	62,950	6,462	7,345	13,807	76,757	82,884	
719	1,534	916	47,254	5,405	6,599	12,004	59,258	54,684	
1,016	2,035	1,966	65,443	14,917	8,309	23,226	88,669	99,874	
42	102	53	3,273	1,666	403	2,069	5,342	7,466	
179	22,685	246	38,531	6,909	93,858	100,767	139,298	117,300	
3,158	818	199	125,468	13,368	173,601	186,969	312,437	215,818	
-	-	-	-	5,375	-	5,375	5,375	349	
-	-	-	-	60	-	60	60	110	
-	-	-	-	43,202	-	43,202	43,202	41,777	
3,315	119	820	22,217	6,455	1,297	7,752	29,969	26,829	
13	8	103	982	134	122	256	1,238	4,846	
-	-	-	-	1,200	-	1,200	1,200	500	
-	-	-	-	-	-	-	-	12,095	
-	-	-	-	3,625	-	3,625	3,625	-	
-	-	-	-	21,356	-	21,356	21,356	20,117	
-	-	-	-	-	-	-	-	393	
179	472	272	13,679	1,742	1,685	3,427	17,106	19,219	
-	-	-	1,300	756	-	756	2,056	6,303	
109	223	283	5,142	2,074	1,023	3,097	8,239	10,429	
30	52	49	3,339	854	1,705	2,559	5,898	5,057	
-	-	-	3,112	8,125	951	9,076	12,188	24,905	
1,771	4,029	2,551	164,036	15,494	16,651	32,145	196,181	159,596	
86	151	166	5,853	9,989	1,385	11,374	17,227	19,723	
200	376	354	18,535	2,044	1,863	3,907	22,442	21,214	
<b>\$ 23,700</b>	<b>\$ 63,313</b>	<b>\$ 24,517</b>	<b>\$ 1,516,968</b>	<b>\$ 265,723</b>	<b>\$ 432,025</b>	<b>\$ 697,748</b>	<b>\$ 2,214,716</b>	<b>\$ 2,203,390</b>	

See accompanying notes to financial statements.



**CENTER FOR DEMOCRACY AND TECHNOLOGY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2006**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 810,301	\$ (219,058)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	21,356	20,117
Loss on disposal of property and equipment	1,527	-
(Increase) decrease in:		
Grants receivable	(555,967)	119,403
Accounts receivable	18,866	59,846
Employee advances	1,600	(1,600)
Prepaid expenses	16,750	(28,350)
Contracts receivable	-	34,465
Increase (decrease) in:		
Contingency liability	(14,800)	(32,340)
Accounts payable and accrued liabilities	<u>(6,208)</u>	<u>1,223</u>
Net cash provided (used) by operating activities	<u>293,425</u>	<u>(46,294)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(10,452)	(106,863)
Repayment of loan receivable	<u>23,201</u>	<u>20,274</u>
Net cash provided (used) by investing activities	<u>12,749</u>	<u>(86,589)</u>
Net increase (decrease) in cash and cash equivalents	306,174	(132,883)
Cash and cash equivalents at beginning of year	<u>923,318</u>	<u>1,056,201</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 1,229,492</u></b>	<b><u>\$ 923,318</u></b>

## CENTER FOR DEMOCRACY AND TECHNOLOGY

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007

#### 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, 2006, 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.

##### 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.

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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.

At times during the year, CDT 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 of IEF's reimbursements for 2007, was \$196,181.

At December 31, 2007, the future minimum rental payments required under the leases are as follows:

<u>Year Ended December 31,</u>	
2008	\$ 145,805
2009	150,494
2010	155,300
2011	160,226
2012	166,449
Thereafter	<u>719,165</u>
	<b><u>\$ 1,497,439</u></b>

**CENTER FOR DEMOCRACY AND TECHNOLOGY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**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, 2007 was \$59,258.

**4. TEMPORARILY RESTRICTED NET ASSETS**

At December 31, 2007, temporarily restricted net assets were as follows:

Privacy	\$ 274,510
4th Amendment	133,333
Global Internet Policy Initiative	35,000
Administration - Plesser Fellowship	91,652
1st Amendment	60,000
Copyright	450,000
E-Democracy	<u>18,750</u>
	<b><u>\$ 1,063,245</u></b>

The following is a summary of net assets which were released from donor imposed and time restrictions during 2007 by the incurring of expenses which satisfied the restricted purposes specified by the donors or the passage of time.

Privacy	\$ 29,330
4th Amendment	304,665
1st Amendment	20,000
Global Internet Policy Initiative	110,000
Copyright	200,000
E-Democracy	61,250
Administration - Plesser Fellowship	47,159
Administration - Gala	<u>401,189</u>
	<b><u>\$ 1,173,593</u></b>

**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 2007, CDT received payments from IEF totaling \$77,235 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, 2007, the outstanding balance was \$1,986 and is reflected as loans receivable.

**CENTER FOR DEMOCRACY AND TECHNOLOGY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**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, 2007 was \$10,000.