

FINANCIAL STATEMENTS

**CENTER FOR DEMOCRACY AND
TECHNOLOGY**

**FOR THE YEAR ENDED DECEMBER 31, 2008
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2007**

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 (CDT) as of December 31, 2008, 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 CDT'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 CDT's 2007 financial statements and, in our report dated April 3, 2009, 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 CDT as of December 31, 2008, 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

March 3, 2010

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CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2008
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2007

ASSETS

	<u>2008</u>	<u>2007</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 443,313	\$ 1,229,492
Investments (Notes 7 and 9)	1,367,886	-
Grants receivable, current (Note 10)	2,501,054	650,481
Accounts receivable	18,980	72,597
Loans receivable (Note 5)	-	1,986
Due from related parties (Note 5)	4,343	-
Prepaid expenses	<u>40,258</u>	<u>25,704</u>
Total current assets	<u>4,375,834</u>	<u>1,980,260</u>
PROPERTY AND EQUIPMENT		
Furniture, fixtures and equipment	171,854	129,141
Leasehold improvements	<u>145,223</u>	<u>126,936</u>
	317,077	256,077
Less: Accumulated depreciation and amortization	<u>(164,995)</u>	<u>(142,362)</u>
Net property and equipment	<u>152,082</u>	<u>113,715</u>
OTHER ASSETS		
Security deposit	21,504	15,248
Grants receivable - long-term portion (Note 10)	<u>1,200,498</u>	<u>-</u>
Total other assets	<u>1,222,002</u>	<u>15,248</u>
TOTAL ASSETS	<u>\$ 5,749,918</u>	<u>\$ 2,109,223</u>

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 155,273	\$ 22,729
Deferred income	33,500	-
Contingency liability (Note 8)	<u>-</u>	<u>10,000</u>
Total current liabilities	<u>188,773</u>	<u>32,729</u>
NET ASSETS		
Unrestricted:		
Undesignated	(138,076)	13,249
Board-designated (Note 6)	1,000,000	1,000,000
Temporarily restricted (Note 4)	<u>4,699,221</u>	<u>1,063,245</u>
Total net assets	<u>5,561,145</u>	<u>2,076,494</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,749,918</u>	<u>\$ 2,109,223</u>

CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2007

	2008			2007
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE				
Grants and contributions	\$ 973,764	\$ 5,272,233	\$ 6,245,997	\$ 2,922,928
Contracts	58,698	-	58,698	50,302
Investment income (Note 7)	42,243	203	42,446	42,513
Other revenue	7,875	-	7,875	9,274
Net assets released from donor restrictions (Note 4)	<u>1,636,460</u>	<u>(1,636,460)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>2,719,040</u>	<u>3,635,976</u>	<u>6,355,016</u>	<u>3,025,017</u>
EXPENSES				
Program Services:				
Privacy	405,844	-	405,844	301,233
4th Amendment	523,441	-	523,441	462,314
Healthy Privacy Policy	447,667	-	447,667	1,242
DNS Net-Neutrality	68,978	-	68,978	10,527
1st Amendment	153,700	-	153,700	174,136
Global Internet Policy Initiative	151,639	-	151,639	150,135
Global Network Initiative	1,869	-	1,869	-
Internet Education Foundation	65,189	-	65,189	64,273
Copyright	252,201	-	252,201	241,578
E-Democracy	109,216	-	109,216	63,313
Markle Capacity	113,141	-	113,141	-
Standards	-	-	-	23,700
E-Governance World Bank	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,517</u>
Total program services	<u>2,292,885</u>	<u>-</u>	<u>2,292,885</u>	<u>1,516,968</u>
Supporting Services:				
Management and General	274,699	-	274,699	265,723
Fundraising	<u>302,781</u>	<u>-</u>	<u>302,781</u>	<u>432,025</u>
Total supporting services	<u>577,480</u>	<u>-</u>	<u>577,480</u>	<u>697,748</u>
Total expenses	<u>2,870,365</u>	<u>-</u>	<u>2,870,365</u>	<u>2,214,716</u>
Change in net assets	(151,325)	3,635,976	3,484,651	810,301
Net assets at beginning of year	<u>1,013,249</u>	<u>1,063,245</u>	<u>2,076,494</u>	<u>1,266,193</u>
NET ASSETS AT END OF YEAR	<u>\$ 861,924</u>	<u>\$ 4,699,221</u>	<u>\$ 5,561,145</u>	<u>\$ 2,076,494</u>

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2007**

	2008							
	Program Services							
	Privacy	4th Amendment	Health Privacy Policy	DNS Net- Neutrality	1st Amendment	Global Internet Policy Initiative	Global Network Initiative	Internet Education Foundation
Salaries	\$ 241,559	\$ 374,830	\$ 224,798	\$ 41,044	\$ 101,076	\$ 99,262	\$ -	\$ 17,398
Payroll taxes	16,333	22,720	14,880	2,733	6,498	6,058	-	1,209
Pension expense (Note 3)	11,557	16,542	4,002	2,086	5,158	5,427	-	983
Employee benefits	18,561	24,237	8,638	2,203	5,791	3,108	-	1,449
Workers compensation insurance	571	885	531	97	239	234	-	41
Consultants	5,375	3,752	132,664	393	1,412	14,795	-	174
Travel and meetings	61,445	12,200	20,078	6,755	13,770	5,182	1,809	10,713
Board expenses - travel and meeting	-	-	-	-	-	-	-	-
Temporaries	-	-	-	-	-	-	-	-
Accounting and audit	-	-	94	-	-	-	-	-
Books, dues and subscriptions	5,070	7,200	4,418	7,049	2,377	1,645	60	304
Computer equipment	845	1,250	823	133	335	331	-	58
Contribution	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-
Depreciation and Amortiz	-	-	-	-	-	-	-	-
Network usage	3,517	4,987	6,182	560	1,359	1,346	-	243
Legal	-	-	-	-	-	-	-	-
Office equipment	1,548	2,381	1,300	263	644	619	-	115
Postage and delivery	1,097	1,117	543	108	274	257	-	71
Printing/copying	2,725	16	-	7	1,101	-	-	21
Rent and storage (Note 2)	28,453	43,543	24,040	4,844	11,845	11,505	-	32,114
Office supplies	1,484	1,076	1,045	116	288	264	-	51
Telephone/fax	5,704	6,705	3,631	587	1,533	1,606	-	245
Loss on disposal of equipment	-	-	-	-	-	-	-	-
TOTAL	\$ 405,844	\$ 523,441	\$ 447,667	\$ 68,978	\$ 153,700	\$ 151,639	\$ 1,869	\$ 65,189

See accompanying notes to financial statements.

2007

Supporting Services									
Copyright	E-Democracy	Markle Capacity	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	Total Expenses	Total Expenses
\$ 186,408	\$ 57,998	\$ 22,938	\$ 1,367,311	\$ 98,046	\$ 99,276	\$ 197,322	\$ 1,564,633	\$ 1,145,593	
11,769	3,547	1,988	87,735	6,335	6,341	12,676	100,411	76,757	
9,595	2,823	-	58,173	5,214	5,436	10,650	68,823	59,258	
7,064	3,424	2,295	76,770	12,152	6,801	18,953	95,723	88,669	
440	137	54	3,229	232	235	467	3,696	5,342	
1,804	30,332	75,466	266,167	1,523	139,084	140,607	406,774	139,298	
2,118	671	7,120	141,861	16,224	26,060	42,284	184,145	312,437	
-	-	-	-	1,400	-	1,400	1,400	5,375	
-	-	-	-	1,740	-	1,740	1,740	60	
-	-	-	94	42,730	-	42,730	42,824	43,202	
3,674	982	159	32,938	10,202	1,723	11,925	44,863	29,969	
600	187	132	4,694	548	328	876	5,570	1,238	
-	-	-	-	-	-	-	-	1,200	
-	-	-	-	3,226	-	3,226	3,226	3,625	
-	-	-	-	23,587	-	23,587	23,587	21,356	
2,463	840	234	21,731	1,343	1,366	2,709	24,440	17,106	
-	-	-	-	1,994	-	1,994	1,994	2,056	
1,170	370	132	8,542	3,826	647	4,473	13,015	8,239	
475	149	38	4,129	710	284	994	5,123	5,898	
-	-	-	3,870	6,812	860	7,672	11,542	12,188	
21,506	6,803	2,221	186,874	16,007	11,882	27,889	214,763	196,181	
525	165	76	5,090	16,384	916	17,300	22,390	17,227	
2,590	788	288	23,677	3,127	1,542	4,669	28,346	22,442	
-	-	-	-	1,337	-	1,337	1,337	-	
\$ 252,201	\$ 109,216	\$ 113,141	\$ 2,292,885	\$ 274,699	\$ 302,781	\$ 577,480	\$ 2,870,365	\$ 2,214,716	

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,484,651	\$ 810,301
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	23,587	21,356
Loss on disposal of property and equipment	1,337	1,527
Unrealized gain on investment	(16,886)	-
(Increase) decrease in:		
Grants receivable	(3,051,071)	(555,967)
Accounts receivable	53,617	18,866
Due from related parties	(4,343)	-
Prepaid expenses	(14,554)	16,750
Security deposit	(6,256)	-
Employee advances	-	1,600
Increase (decrease) in:		
Accounts payable and accrued liabilities	132,544	(6,208)
Deferred income	33,500	-
Contingency liability	<u>(10,000)</u>	<u>(14,800)</u>
Net cash provided by operating activities	<u>626,126</u>	<u>293,425</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(63,291)	(10,452)
Repayment of loan receivable	1,986	23,201
Purchase of investments	<u>(1,351,000)</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(1,412,305)</u>	<u>12,749</u>
Net increase (decrease) in cash and cash equivalents	(786,179)	306,174
Cash and cash equivalents at beginning of year	<u>1,229,492</u>	<u>923,318</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 443,313</u>	<u>\$ 1,229,492</u>

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

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 CDT's financial statements for the year ended December 31, 2007, 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, 2008

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

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 Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes*. FIN 48 interprets the guidance in FASB Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. When FIN 48 is implemented, reporting entities utilize different recognition thresholds and measurement requirements when compared to prior technical literature. On December 30, 2008, the FASB Staff issued FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. As deferred by the guidance in FSP FIN 48-3, CDT is not required to implement the provisions of FIN 48 until fiscal years beginning after December 15, 2008. As such, CDT has not implemented those provisions in the 2008 financial statements.

Since the provisions of FIN 48 have not been implemented in accounting for uncertain tax positions, CDT continues to utilize its prior policy of accounting for these positions, following the guidance in SFAS No. 5, *Accounting for Contingencies*. Disclosure is not required of a loss contingency involving an unasserted claim or assessment when there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable. Using that guidance, as of December 31, 2008, CDT has no uncertain tax positions that qualify for either recognition or disclosure in the accompanying financial statements.

Accounts receivable -

Accounts receivable approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

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 the operation of CDT and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of CDT and/or the passage of time. When a restriction expires, 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.

CENTER FOR DEMOCRACY AND TECHNOLOGY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

**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.

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included on investment income in the Statement of Activities and Change in Net Assets.

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 measurements -

CDT adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, entitled *Fair Value Measurements*. SFAS No. 157 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.

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.

CENTER FOR DEMOCRACY AND TECHNOLOGY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

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 in 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 2008 was \$214,763.

At December 31, 2008, the future minimum rental payments required under the leases are as follows:

<u>Year Ended December 31,</u>	
2009	\$ 155,300
2010	160,226
2011	166,449
2012	171,654
2013	176,989
Thereafter	<u>370,521</u>
	<u>\$ 1,201,139</u>

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, 2008 was \$68,823.

4. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2008, temporarily restricted net assets were as follows:

Privacy	\$ 203,450
4th Amendment	831,053
Global Internet Policy Initiative	159,815
Administration - Plesser Fellowship	83,651
1st Amendment	20,000
Copyright	275,000
Health Privacy Project	59,972
Markle Capacity	<u>3,066,280</u>
	<u>\$ 4,699,221</u>

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

4. TEMPORARILY RESTRICTED NET ASSETS (Continued)

The following is a summary of net assets, which were released from donor-imposed and time restrictions during 2008, by the incurring of expenses which satisfied the restricted purposes specified by the donors or the passage of time.

Privacy	\$ 191,060
4th Amendment	378,553
Global Internet Policy Initiative	56,250
Administration - Plesser Fellowship	48,746
1st Amendment	40,000
Copyright	175,000
Markle Capacity	444,132
Administration - Gala	92,500
Time restricted	37,500
E-Democracy	59,938
Markle Capacity	<u>112,781</u>
	<u>\$ 1,636,460</u>

5. INTERNET EDUCATION FOUNDATION

CDT shares personnel, office space and other administrative expenses with 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 2008, CDT received payments from IEF totaling \$65,189 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, 2008, there was no outstanding balance.

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. INVESTMENTS

Investments consisted of the following at December 31, 2008:

	<u>Cost</u>	<u>Market Value</u>
Fixed Income	<u>\$1,351,000</u>	<u>\$1,367,886</u>

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

7. INVESTMENTS (Continued)

Included in investment income are the following:

Interest and dividends	\$ 25,560
Unrealized gain	<u>16,886</u>
Total Investment Income	\$ <u>42,446</u>

8. 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.

There was no outstanding settlement balance at December 31, 2008.

9. FAIR VALUE MEASUREMENTS

In accordance with Statement of Financial Accounting Standards (SFAS) No. 157, 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 in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

9. FAIR VALUE MEASUREMENTS (Continued)

Financial assets recorded in the Statement of Financial Position are categorized based on the inputs to the valuation technique as follows for the year ended December 31, 2008:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Category:				
Investments	<u>\$1,367,886</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,367,886</u>

10. GRANTS RECEIVABLE

As of December 31, 2008, contributors to CDT have made written promises to give totaling \$3,756,570. Grants due in more than one-year have been recorded at the present value of the estimated cash flows, using a discount rate of 3.25%.

Grants are due as follows at December 31, 2008:

Less than one-year	\$ 2,501,054
One to five years	<u>1,255,516</u>
Total	3,756,570
Less: Allowance to discount balance to present value	<u>(55,018)</u>
GRANTS RECEIVABLE	<u>\$ 3,701,552</u>

11. SUBSEQUENT EVENTS

In preparing these financial statements, CDT has evaluated events and transactions for potential recognition or disclosure through March 3, 2010, the date the financial statements were issued.