

FINANCIAL STATEMENTS

**CENTER FOR DEMOCRACY AND
TECHNOLOGY**

**FOR THE YEAR ENDED DECEMBER 31, 2010
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2009**

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, 2010, and the related statements of activities and change in net assets 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 2009 financial statements and, in our report dated July 19, 2010, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CDT's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2010, 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 7, 2011

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CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009

ASSETS

| | <u>2010</u> | <u>2009</u> |
|---|----------------------------|----------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,214,703 | \$ 677,673 |
| Investments (Notes 2 and 9) | 251,618 | 1,094,632 |
| Grants receivable, current portion | 1,898,859 | 1,816,363 |
| Accounts receivable | 13,504 | 124,746 |
| Due from related parties (Note 8) | 3,038 | - |
| Prepaid expenses | <u>20,552</u> | <u>15,455</u> |
| Total current assets | <u>3,402,274</u> | <u>3,728,869</u> |
| PROPERTY AND EQUIPMENT | | |
| Furniture, fixtures and equipment | 267,805 | 238,031 |
| Leasehold improvements | <u>151,218</u> | <u>151,218</u> |
| | 419,023 | 389,249 |
| Less: Accumulated depreciation and amortization | <u>(256,362)</u> | <u>(205,207)</u> |
| Net property and equipment | <u>162,661</u> | <u>184,042</u> |
| OTHER ASSETS | | |
| Security deposit | 17,004 | 22,004 |
| Grants receivable, long-term portion | <u>-</u> | <u>191,360</u> |
| Total other assets | <u>17,004</u> | <u>213,364</u> |
| TOTAL ASSETS | <u>\$ 3,581,939</u> | <u>\$ 4,126,275</u> |

LIABILITIES AND NET ASSETS

| | | |
|--|----------------------------|----------------------------|
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 147,878 | \$ 236,069 |
| Deferred income | <u>30,000</u> | <u>16,000</u> |
| Total current liabilities | <u>177,878</u> | <u>252,069</u> |
| NET ASSETS | | |
| Unrestricted: | | |
| Undesignated | 859,171 | 223,276 |
| Board-designated (Note 5) | <u>1,100,000</u> | <u>1,075,000</u> |
| Total unrestricted | 1,959,171 | 1,298,276 |
| Temporarily restricted (Note 3) | <u>1,444,890</u> | <u>2,575,930</u> |
| Total net assets | <u>3,404,061</u> | <u>3,874,206</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 3,581,939</u> | <u>\$ 4,126,275</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, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

| | 2010 | | | 2009 |
|---|----------------------------|-----------------------------------|----------------------------|----------------------------|
| | Unrestricted | Temporarily Restricted | Total | Total |
| REVENUE | | | | |
| Grants and contributions | \$ 2,542,575 | \$ 1,311,211 | \$ 3,853,786 | \$ 2,488,788 |
| Contracts | 78,138 | - | 78,138 | 74,785 |
| Investment income (Note 2) | 12,675 | - | 12,675 | 26,127 |
| Other revenue | 4,385 | - | 4,385 | 53,255 |
| Net assets released from donor restrictions (Note 4) | <u>2,442,251</u> | <u>(2,442,251)</u> | <u>-</u> | <u>-</u> |
| Total revenue | <u>5,080,024</u> | <u>(1,131,040)</u> | <u>3,948,984</u> | <u>2,642,955</u> |
| EXPENSES | | | | |
| Program Services: | | | | |
| Privacy | 388,283 | - | 388,283 | 398,517 |
| 4th Amendment | 621,753 | - | 621,753 | 665,537 |
| Healthy Privacy Policy | 466,287 | - | 466,287 | 579,420 |
| DNS Net-Neutrality | 207,496 | - | 207,496 | 146,308 |
| 1st Amendment | 231,277 | - | 231,277 | 192,053 |
| Global Internet Policy Initiative | 219,336 | - | 219,336 | 125,745 |
| Global Network Initiative | 289,732 | - | 289,732 | 287,350 |
| Internet Education Foundation | 60,531 | - | 60,531 | 59,026 |
| Copyright | 232,349 | - | 232,349 | 264,889 |
| Open Government | 93,947 | - | 93,947 | 125,469 |
| Standards | 1,991 | - | 1,991 | 16,361 |
| Markle Capacity | <u>345,533</u> | <u>-</u> | <u>345,533</u> | <u>512,225</u> |
| Total program services | <u>3,158,515</u> | <u>-</u> | <u>3,158,515</u> | <u>3,372,900</u> |
| Supporting Services: | | | | |
| Management and General | 682,397 | - | 682,397 | 450,826 |
| Fundraising | <u>578,217</u> | <u>-</u> | <u>578,217</u> | <u>506,168</u> |
| Total supporting services | <u>1,260,614</u> | <u>-</u> | <u>1,260,614</u> | <u>956,994</u> |
| Total expenses | <u>4,419,129</u> | <u>-</u> | <u>4,419,129</u> | <u>4,329,894</u> |
| Change in net assets | 660,895 | (1,131,040) | (470,145) | (1,686,939) |
| Net assets at beginning of year | <u>1,298,276</u> | <u>2,575,930</u> | <u>3,874,206</u> | <u>5,561,145</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 1,959,171</u> | <u>\$ 1,444,890</u> | <u>\$ 3,404,061</u> | <u>\$ 3,874,206</u> |

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009

| | <u>2010</u> | <u>2009</u> |
|---|----------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (470,145) | \$ (1,686,939) |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 51,157 | 40,212 |
| Net (appreciation) depreciation on investments | (3,976) | 9,759 |
| (Increase) decrease in: | | |
| Grants receivable | 108,864 | 1,693,829 |
| Accounts receivable | 111,242 | (105,766) |
| Due from related parties | (3,038) | 4,343 |
| Prepaid expenses | (5,097) | 24,803 |
| Security deposit | 5,000 | (500) |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | (88,192) | 80,796 |
| Deferred income | <u>14,000</u> | <u>(17,500)</u> |
| Net cash provided (used) by operating activities | <u>(280,185)</u> | <u>43,037</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (29,773) | (72,172) |
| Purchase of investments | (500,000) | (1,245,000) |
| Sale of investments | <u>1,346,988</u> | <u>1,508,495</u> |
| Net cash provided by investing activities | <u>817,215</u> | <u>191,323</u> |
| Net increase in cash and cash equivalents | 537,030 | 234,360 |
| Cash and cash equivalents at beginning of year | <u>677,673</u> | <u>443,313</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 1,214,703</u> | <u>\$ 677,673</u> |

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

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, 2009, 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.

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 in investment income in the Statement of Activities and Change in Net Assets.

Grants and accounts receivable -

Grants and accounts receivable approximate fair value. 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 \$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 the life of the lease.

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

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. Grants and contributions are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions. 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, 2010, 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.

Deferred revenue -

Deferred revenue consists of conference and meeting registrations. CDT recognizes conference and meeting revenue when the related event has occurred.

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, 2010

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 measurements -

CDT adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*. 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, 2010:

| | <u>Cost</u> | <u>Market Value</u> |
|---------------------|--------------------------|--------------------------|
| Fixed Income | \$ <u>250,000</u> | \$ <u>251,618</u> |

Included in investment income are the following:

| | |
|---------------------------------|-------------------------|
| Interest and dividends | \$ 8,699 |
| Net appreciation on investments | <u>3,976</u> |
| TOTAL INVESTMENT INCOME | \$ <u>12,675</u> |

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

3. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2010, temporarily restricted net assets were as follows:

| | |
|-----------------------------------|----------------------------|
| 4th Amendment | \$ 201,163 |
| Health Privacy Project | 97,680 |
| DNS Net Neutrality | 62,500 |
| Global Internet Policy Initiative | 140,500 |
| Markle Capacity | 903,047 |
| Time restricted | <u>40,000</u> |
| | <u>\$ 1,444,890</u> |

4. NET ASSETS RELEASED FROM RESTRICTIONS

The following is a summary of net assets which were released from donor-imposed and time restrictions during 2010, by incurring expenses, which satisfied the restricted purposes specified by the donors or the passage of time:

| | |
|-------------------------------------|----------------------------|
| 4th Amendment | \$ 591,322 |
| Health Privacy Policy | 466,287 |
| DNS Net Neutrality | 37,500 |
| Global Internet Policy Initiative | 57,060 |
| Copyright | 125,000 |
| Open Government | 31,867 |
| Markle Capacity | 1,076,523 |
| Administration - Plesser Fellowship | 16,692 |
| Passage of time | <u>40,000</u> |
| | <u>\$ 2,442,251</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.

6. 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 8).

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

6. LEASE COMMITMENT (Continued)

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 2010, was \$320,423.

Effective November 1, 2008, CDT entered into another lease agreement to expand leased premises. Base rent for the new lease is \$78,024 per year.

At December 31, 2010, the future minimum rental payments required under the leases are as follows:

Year Ended December 31,

| | |
|------|----------------------------|
| 2011 | \$ 249,012 |
| 2012 | 256,488 |
| 2013 | 264,156 |
| 2014 | 272,021 |
| 2015 | <u>272,227</u> |
| | <u>\$ 1,313,904</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, 2010 was \$124,446.

8. 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 2010, CDT received payments from IEF totaling \$78,138, as reimbursement for rent and other administrative expenses.

9. FAIR VALUE MEASUREMENTS

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, 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.

CENTER FOR DEMOCRACY AND TECHNOLOGY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

9. FAIR VALUE MEASUREMENTS (Continued)

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.

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, 2010:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|------------------------|--------------------------|--------------------|--------------------|--------------------------|
| Asset Category: | | | | |
| Investments | \$ <u>251,618</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>251,618</u> |

10. SUBSEQUENT EVENTS

In preparing these financial statements, CDT has evaluated events and transactions for potential recognition or disclosure through June 7, 2011, the date the financial statements were issued.