

FINANCIAL STATEMENTS



**FOR THE YEAR ENDED DECEMBER 31, 2015
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2014**

CENTER FOR DEMOCRACY AND TECHNOLOGY

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	2 - 3
EXHIBIT A - Statement of Financial Position, as of December 31, 2015, with Summarized Financial Information for 2014	4
EXHIBIT B - Statement of Activities and Change in Net Assets, for the Year Ended December 31, 2015, with Summarized Financial Information for 2014	5
EXHIBIT C - Statement of Functional Expenses, for the Year Ended December 31, 2015, with Summarized Financial Information for 2014	6 - 8
EXHIBIT D - Statement of Cash Flows, for the Year Ended December 31, 2015, with Summarized Financial Information for 2014	9
NOTES TO FINANCIAL STATEMENTS	10 - 14

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Center for Democracy and Technology
Washington, D.C.

We have audited the accompanying financial statements of the Center for Democracy and Technology (CDT), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Report on Summarized Comparative Information

We have previously audited CDT's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 4, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Freedman

April 6, 2016

CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014

ASSETS		<u>2015</u>	<u>2014</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	698,073	\$ 1,333,470
Investments, certificates of deposit		126,908	498,384
Grants receivable		920,000	692,734
Accounts receivable		80,355	412,979
Due from related parties		9,658	19,452
Prepaid expenses		<u>24,487</u>	<u>159,872</u>
Total current assets		<u>1,859,481</u>	<u>3,116,891</u>
PROPERTY AND EQUIPMENT			
Furniture, fixtures and equipment		554,032	399,298
Leasehold improvements		<u>151,218</u>	<u>151,218</u>
		705,250	550,516
Less: Accumulated depreciation and amortization		<u>(468,851)</u>	<u>(417,266)</u>
Net property and equipment		<u>236,399</u>	<u>133,250</u>
OTHER ASSETS			
Security deposits		<u>58,942</u>	<u>15,749</u>
TOTAL ASSETS	\$	<u>2,154,822</u>	\$ <u>3,265,890</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$	109,707	\$ 242,428
Deferred income		<u>185,000</u>	<u>35,000</u>
Total current liabilities		<u>294,707</u>	<u>277,428</u>
NET ASSETS			
Unrestricted:			
Undesignated		(665,291)	955,600
Board-designated		<u>1,225,000</u>	<u>1,200,000</u>
Total unrestricted		559,709	2,155,600
Temporarily restricted		<u>1,300,406</u>	<u>832,862</u>
Total net assets		<u>1,860,115</u>	<u>2,988,462</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>2,154,822</u>	\$ <u>3,265,890</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, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014**

	2015			2014
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE				
Grants and contributions	\$ 2,805,593	\$ 1,395,000	\$ 4,200,593	\$ 4,499,868
Cy Pres awards	-	-	-	497,666
Contracts	96,560	-	96,560	94,481
Investment income	1,265	-	1,265	6,739
Other revenue	5,888	-	5,888	5,855
Net assets released from donor restrictions	<u>927,456</u>	<u>(927,456)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>3,836,762</u>	<u>467,544</u>	<u>4,304,306</u>	<u>5,104,609</u>
EXPENSES				
Program Services:				
EU Office	262,881	-	262,881	322,006
Communications	281,677	-	281,677	276,734
Consumer Privacy	882,076	-	882,076	632,797
4th Amendment	-	-	-	833,156
National Security	737,334	-	737,334	-
Free Expression	343,382	-	343,382	-
Health Privacy Policy	56,350	-	56,350	293,408
Net Neutrality	213,818	-	213,818	240,926
1st Amendment	-	-	-	221,252
International Human Rights	565,212	-	565,212	666,439
Global Network Initiative	41,567	-	41,567	40,343
Internet Education Foundation	33,361	-	33,361	32,743
Copyright	153,281	-	153,281	193,808
Markle Initiative/Task Force	6,092	-	6,092	109,296
Architecture	303,435	-	303,435	210,088
Digital Fourth	42,541	-	42,541	7,570
Diversity in Technology	6,893	-	6,893	-
Global Internet Policy	12,282	-	12,282	-
General and Other	<u>6,868</u>	<u>-</u>	<u>6,868</u>	<u>-</u>
Total program services	<u>3,949,050</u>	<u>-</u>	<u>3,949,050</u>	<u>4,080,566</u>
Supporting Services:				
Management and General	677,182	-	677,182	616,120
Fundraising	<u>806,421</u>	<u>-</u>	<u>806,421</u>	<u>868,497</u>
Total supporting services	<u>1,483,603</u>	<u>-</u>	<u>1,483,603</u>	<u>1,484,617</u>
Total expenses	<u>5,432,653</u>	<u>-</u>	<u>5,432,653</u>	<u>5,565,183</u>
Change in net assets	(1,595,891)	467,544	(1,128,347)	(460,574)
Net assets at beginning of year	<u>2,155,600</u>	<u>832,862</u>	<u>2,988,462</u>	<u>3,449,036</u>
NET ASSETS AT END OF YEAR	<u>\$ 559,709</u>	<u>\$ 1,300,406</u>	<u>\$ 1,860,115</u>	<u>\$ 2,988,462</u>

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014

	2015							
	Program Services							
	EU Office	Communications	Consumer Privacy	National Security	Free Expression	Health Privacy Policy	Net Neutrality	International Human Rights
Salaries	\$ 1,688	\$ 197,298	\$ 601,467	\$ 517,662	\$ 246,888	\$ 3,355	\$ 154,359	\$ 245,031
Payroll taxes	133	13,606	40,513	31,828	14,922	287	8,236	14,756
Pension expense	59	9,063	19,845	25,841	9,997	201	4,281	12,485
Employee benefits	242	9,156	41,876	34,108	12,253	213	7,290	12,732
Workers compensation	10	774	2,277	2,017	929	24	623	982
Consultants	170,842	315	6,524	240	108	50,001	78	198,376
Travel and meetings	11,481	9,119	33,943	20,461	10,400	-	5,650	33,975
Events	5	460	13,646	1,319	1,375	2	347	584
Board expenses travel and meetings	-	-	709	-	-	-	-	-
Annual meeting	-	-	-	-	-	-	-	-
Accounting and audit	-	-	-	-	-	-	-	-
Books, dues and subscriptions	7,890	2,915	7,860	7,021	1,410	17	3,881	1,465
Computer equipment expense	3	145	392	356	158	9	124	183
Contributions	17	664	1,873	1,753	792	71	631	881
Insurance	11	1,200	3,563	3,126	1,452	14	918	1,442
Depreciation and amortization	29	3,599	10,655	9,325	4,366	57	2,800	4,293
Network usage	13	2,380	5,244	4,518	2,102	24	1,353	2,094
Legal	-	-	-	-	-	-	-	-
Miscellaneous	1	103	388	385	125	-	90	145
Office equipment expense	2	302	1,153	781	371	4	229	341
Postage and delivery	-	12	73	16	7	-	4	62
Printing/Copying	1	554	3,423	1,314	705	-	369	585
Rent and storage	70,422	24,153	71,792	62,793	29,215	2,001	18,889	28,993
Office supplies and expense	17	4,020	9,361	7,713	3,606	42	2,252	3,598
Telephone/Fax	15	1,839	5,499	4,757	2,201	28	1,414	2,209
TOTAL	\$ 262,881	\$ 281,677	\$ 882,076	\$ 737,334	\$ 343,382	\$ 56,350	\$ 213,818	\$ 565,212

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014

2015 (Continued)									
Program Services (Continued)									
	Global Network Initiative	Internet Education Foundation	Copyright	Markle Initiative/Task Force	Architecture	Digital Fourth	Diversity in Technology	Global Internet Policy	
Salaries	\$ 28,837	\$ 23,565	\$ 114,779	\$ 4,460	\$ 202,168	\$ 31,180	\$ 5,200	\$ 9,082	
Payroll taxes	1,735	1,328	5,841	367	13,309	1,555	223	403	
Pension expense	1,582	1,289	3,691	-	7,434	340	-	156	
Employee benefits	2,589	2,435	5,672	341	14,357	3,203	-	901	
Workers compensation	112	90	455	26	712	119	16	23	
Consultants	13	11	642	8	91	14	1	1	
Travel and meetings	144	121	553	-	25,282	183	36	63	
Events	71	58	302	2	2,095	75	411	30	
Board expenses travel and meetings	-	-	-	-	-	-	-	-	
Annual meeting	-	-	-	-	-	-	-	-	
Accounting and audit	-	-	-	-	-	-	-	-	
Books, dues and subscriptions	1,170	138	628	42	1,163	180	17	42	
Computer equipment expense	20	16	72	12	107	21	-	1	
Contributions	97	78	368	64	421	102	-	-	
Insurance	172	139	685	19	1,195	184	29	49	
Depreciation and amortization	512	417	2,004	77	3,550	550	101	154	
Network usage	248	202	956	37	1,734	267	48	79	
Legal	-	-	-	-	-	-	-	-	
Miscellaneous	16	13	57	6	446	17	1	3	
Office equipment expense	43	35	165	4	300	46	13	16	
Postage and delivery	1	1	4	-	6	1	-	-	
Printing/Copying	72	59	269	3	530	78	27	29	
Rent and storage	3,450	2,804	13,482	540	23,737	3,698	651	1,012	
Office supplies and expense	422	349	1,619	50	2,984	449	70	155	
Telephone/Fax	261	213	1,037	34	1,814	279	49	83	
TOTAL	\$ 41,567	\$ 33,361	\$ 153,281	\$ 6,092	\$ 303,435	\$ 42,541	\$ 6,893	\$ 12,282	

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014

	2015 (Continued)					2014	
	Supporting Services						
	General and Other	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
Salaries	\$ 3,508	\$ 2,390,527	\$ 377,580	\$ 166,318	\$ 543,898	\$ 2,934,425	\$ 2,849,420
Payroll taxes	47	149,089	21,741	9,352	31,093	180,182	182,213
Pension expense	115	96,379	16,192	3,917	20,109	116,488	117,004
Employee benefits	90	147,458	38,887	6,229	45,116	192,574	185,708
Workers compensation	6	9,195	1,573	709	2,282	11,477	8,887
Consultants	-	427,265	10,619	246,801	257,420	684,685	696,897
Travel and meetings	2,623	154,034	16,487	9,460	25,947	179,981	249,960
Events	-	20,782	1,251	482	1,733	22,515	-
Board expenses travel and meetings	-	709	454	-	454	1,163	4,828
Annual meeting	-	-	-	321,543	321,543	321,543	517,650
Accounting and audit	-	-	93,276	-	93,276	93,276	84,533
Books, dues and subscriptions	12	35,851	3,448	1,165	4,613	40,464	42,318
Computer equipment expense	-	1,619	2,858	172	3,030	4,649	21,177
Contributions	-	7,812	1,363	824	2,187	9,999	10,937
Insurance	13	14,211	2,287	1,225	3,512	17,723	15,997
Depreciation and amortization	41	42,530	6,133	2,922	9,055	51,585	53,891
Network usage	23	21,322	3,488	8,093	11,581	32,903	21,538
Legal	-	-	-	-	-	-	81
Miscellaneous	-	1,796	2,580	1,901	4,481	6,277	22,151
Office equipment expense	4	3,809	2,406	205	2,611	6,420	16,842
Postage and delivery	-	187	5,296	251	5,547	5,734	11,023
Printing/Copying	10	8,028	1,604	914	2,518	10,546	8,046
Rent and storage	258	357,890	54,469	20,136	74,605	432,495	367,135
Office supplies and expense	89	36,796	9,722	2,288	12,010	48,806	36,422
Telephone/Fax	29	21,761	3,468	1,514	4,982	26,743	40,525
TOTAL	\$ 6,868	\$ 3,949,050	\$ 677,182	\$ 806,421	\$ 1,483,603	\$ 5,432,653	\$ 5,565,183

See accompanying notes to financial statements.

CENTER FOR DEMOCRACY AND TECHNOLOGY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014**

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,128,347)	\$ (460,574)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	51,585	53,891
Realized gain on investments	(206)	(1,332)
Unrealized gain on investment	-	(790)
Loss on disposal of equipment	-	2,787
(Increase) decrease in:		
Grants receivable	(227,266)	(262,240)
Accounts receivable	332,624	(291,033)
Due from related parties	9,794	(10,616)
Prepaid expenses	135,385	(37,218)
Security deposits	(43,193)	38,005
Increase (decrease) in:		
Accounts payable and accrued liabilities	(132,721)	53,607
Deferred income	<u>150,000</u>	<u>(26,450)</u>
Net cash used by operating activities	<u>(852,345)</u>	<u>(941,963)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture, fixtures and equipment	(154,734)	(91,200)
Net maturities of certificates of deposit	<u>371,682</u>	<u>341,031</u>
Net cash provided by investing activities	<u>216,948</u>	<u>249,831</u>
Net decrease in cash and cash equivalents	(635,397)	(692,132)
Cash and cash equivalents at beginning of year	<u>1,333,470</u>	<u>2,025,602</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 698,073</u>	<u>\$ 1,333,470</u>

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

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, 2014, 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.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, CDT maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends, 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. All amounts are due within one year and 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. Property and equipment are depreciated on a 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. The cost of maintenance and repairs is recorded as expenses are incurred.

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.

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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

Net asset classification (continued) -

- **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. Temporarily restricted grants and contributions are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions. Such 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 -

For the year ended December 31, 2015, CDT has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has 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.

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.

CENTER FOR DEMOCRACY AND TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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

Fair value measurement -

CDT adopted the provisions of FASB ASC 820, *Fair Value Measurement*. 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, 2015:

	<u>Market Value</u>
Certificates of Deposit	\$ <u>126,908</u>

Included in investment income are the following:

Interest income	\$ 1,059
Realized gain on investments	<u>206</u>
TOTAL INVESTMENT INCOME	\$ <u>1,265</u>

3. **TEMPORARILY RESTRICTED NET ASSETS**

At December 31, 2015, temporarily restricted net assets consisted of the following:

Consumer Privacy	\$ 539,432
Architecture	664,307
Time restricted	<u>96,667</u>
	\$ <u>1,300,406</u>

4. **NET ASSETS RELEASED FROM RESTRICTIONS**

The following is a summary of net assets which were released from donor-imposed and time restrictions, at December 31, 2015, by incurring expenses which satisfied the restricted purposes specified by the donors or the passage of time:

Consumer Privacy	\$ 185,568
Architecture	225,605
Digital Fourth	15,000
Passage of Time	<u>501,283</u>
	\$ <u>927,456</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. Board-designated net assets for the year ended December 31, 2015 totaled \$1,225,000.

CENTER FOR DEMOCRACY AND TECHNOLOGY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

6. LEASE COMMITMENT

Effective December 1, 2005, CDT renewed its lease for general office space for a ten year period. This lease expired January 31, 2016. On November 6, 2015, CDT entered into an eleven-year agreement to lease new office space, commencing February 1, 2016. Base rent is \$518,332 per year, increasing by a factor of 2.5% per year. The lease includes one year of abated rent in the first year of the lease, therefore, during the year ended December 31, 2016, the total rent commitment also will be recognized on a straight-line basis over the term of the lease, and the difference between the actual monthly payments and the rent expense to be recognized for financial statement purposes will be recorded as a deferred rent liability. CDT shares office space with IEF, and is reimbursed by IEF for a portion of rent.

The following is a schedule of future minimum rental payments under all leases:

<u>Year Ending December 31,</u>	
2016	\$ 26,803
2017	486,994
2018	543,484
2019	557,084
2020	570,980
Thereafter	<u>6,947,030</u>
	<u>\$ 9,132,375</u>

Rent and storage expense for the year ended December 31, 2015 totaled \$432,495.

7. RETIREMENT PLAN

CDT maintains a 403(b) retirement plan covering all employees who have completed one year of service. CDT contributes up to six percent of compensation on behalf of each active participant. Retirement plan expense for the year ended December 31, 2015 totaled \$116,489.

8. INTERNET EDUCATION FOUNDATION AND GLOBAL NETWORK INITIATIVE

CDT shares personnel, office space and other administrative expenses with the Internet Education Foundation (IEF) and Global Network Initiative (GNI). An agreement was made between the two parties in 2010 and 2011, respectively, whereby IEF and GNI reimbursed CDT for its support of IEF and GNI program and administrative activities. During 2015, CDT received payments from IEF and GNI totaling \$96,560, as reimbursement for rent and other administrative expenses.

9. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, 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, 2015

9. FAIR VALUE MEASUREMENT (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 for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2015.

Certificates of Deposit - Generally valued at original cost plus accrued interest, which approximates fair value.

The table below summarizes, by level within the fair value hierarchy, CDT's investments as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class:				
Certificates of Deposit	\$ <u> -</u>	\$ <u> 126,908</u>	\$ <u> -</u>	\$ <u> 126,908</u>

10. SUBSEQUENT EVENTS

In preparing these financial statements, CDT has evaluated events and transactions for potential recognition or disclosure through April 6, 2016, the date the financial statements were issued.