

INSTITUTE FOR FREE SPEECH
(a nonprofit organization)

FINANCIAL STATEMENTS

Year ended December 31, 2018
with Summarized Comparative Information for the year ended December 31, 2017

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Institute for Free Speech
Alexandria, Virginia

We have audited the accompanying financial statements of Institute for Free Speech (the Institute), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, 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.

Auditors' 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 from 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 auditors' 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 the Institute as of December 31, 2018, and the changes 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.

Report on Summarized Comparative Information

We have previously audited the Institute's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 18, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Lenner and Company, CPA, P.C.

Alexandria, Virginia
July 31, 2019

INSTITUTE FOR FREE SPEECH

STATEMENT OF FINANCIAL POSITION

December 31, 2018 (with Comparative Information as of December 31, 2017)

ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash	\$ 652,875	\$ 611,839
Certificates of deposit - negotiable	3,287,218	2,764,501
Accounts receivable	24,739	12,412
Prepaid expenses	16,119	23,570
Escrow	-	2,321
TOTAL CURRENT ASSETS	<u>3,980,951</u>	<u>3,414,643</u>
PROPERTY AND EQUIPMENT, at cost, net	<u>4,132</u>	<u>6,941</u>
INTANGIBLE ASSETS		
Website development, at cost, net	<u>24,893</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 4,009,976</u></u>	<u><u>\$ 3,421,584</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 65,040	\$ 58,809
Accrued expenses	164,080	119,176
Capital lease obligation	327	3,822
Escrow	<u>380</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	<u>229,827</u>	<u>181,807</u>
LONG-TERM LIABILITIES		
Capital lease obligation, net of current portion	<u>-</u>	<u>327</u>
TOTAL LIABILITIES	<u>229,827</u>	<u>182,134</u>
NET ASSETS		
Without donor restrictions	3,756,402	3,095,126
With donor restrictions	<u>23,747</u>	<u>144,324</u>
TOTAL NET ASSETS	<u>3,780,149</u>	<u>3,239,450</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,009,976</u></u>	<u><u>\$ 3,421,584</u></u>

See Notes to Financial Statements.

INSTITUTE FOR FREE SPEECH**STATEMENT OF ACTIVITIES****Year Ended December 31, 2018 (with Summarized Comparative Information for the year ended December 31, 2017)**

	2018			
	Without Donor Restrictions	With Donor Restrictions	Total	2017
SUPPORT AND REVENUE				
Contributions	\$ 2,517,314	\$ 50,000	\$ 2,567,314	\$ 2,179,442
Litigation award	-	-	-	220,000
Donated services	112,752	-	112,752	145,709
Miscellaneous	14,491	-	14,491	6,471
Interest income	65,186	-	65,186	27,747
Net assets released from restrictions	170,577	(170,577)	-	-
TOTAL SUPPORT AND REVENUE	2,880,320	(120,577)	2,759,743	2,579,369
EXPENSES				
Program services	1,909,648	-	1,909,648	1,808,895
Management and general	98,544	-	98,544	91,806
Development	210,852	-	210,852	184,043
TOTAL EXPENSES	2,219,044	-	2,219,044	2,084,744
CHANGE IN NET ASSETS	661,276	(120,577)	540,699	494,625
NET ASSETS, beginning of year	3,095,126	144,324	3,239,450	2,744,825
NET ASSETS, end of year	\$ 3,756,402	\$ 23,747	\$ 3,780,149	\$ 3,239,450

See Notes to Financial Statements.

INSTITUTE FOR FREE SPEECH

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018 (with Summarized Comparative Information for the year ended December 31, 2017)

	2018							2017
	Program Services				Supporting Services			Total
	Communication	Legal	Research and External Relations	Total Program	Management and General	Development	Total	Total
Salaries	\$ 230,644	\$ 558,369	\$ 322,087	\$ 1,111,100	\$ 27,203	\$ 86,134	\$ 1,224,437	\$ 1,075,259
Payroll taxes	15,374	37,219	21,469	74,062	1,814	5,741	81,617	73,552
Employee benefits	23,169	56,091	32,355	111,615	2,733	8,653	123,001	110,465
Accounting fees	-	-	-	-	15,508	-	15,508	15,673
Bank fees	93	224	129	446	11	35	492	335
Branding	-	-	-	-	3,055	-	3,055	35,824
Business meals	-	663	563	1,226	9,761	24	11,011	9,584
Computer services	1,241	3,005	1,733	5,979	147	464	6,590	14,286
Conference	-	129	4,720	4,849	4,775	650	10,274	6,925
Depreciation and amortization	2,347	5,683	3,278	11,308	277	877	12,462	5,520
Donated services	3,176	109,576	-	112,752	-	-	112,752	145,709
Dues and subscriptions	612	56,086	17,194	73,892	509	917	75,318	73,653
Equipment rental	-	-	-	-	-	-	-	89
Grant expense	-	4,000	-	4,000	-	-	4,000	6,000
Insurance	-	8,330	-	8,330	870	-	9,200	9,685
Interest	-	-	-	-	114	-	114	290
Legal	-	21,360	-	21,360	6,563	7,363	35,286	31,031
Licenses and fees	7	189	-	196	3,074	-	3,270	2,551
Mailing, postage, and printing	6,652	14,735	8,493	29,880	11,478	14,782	56,140	47,471
Marketing	-	-	-	-	-	-	-	71
Miscellaneous	2,625	6,356	3,666	12,647	310	980	13,937	28,307
Professional fees	85,588	29,651	26,365	141,604	5,337	67,985	214,926	197,831
Rent	24,466	59,230	34,166	117,862	2,885	9,137	129,884	128,180
Supplies	1,852	4,484	2,587	8,923	218	692	9,833	6,205
Telephone and internet	716	1,734	1,000	3,450	85	267	3,802	4,311
Travel	13	37,591	16,563	54,167	1,817	6,151	62,135	55,937
Total	\$ 398,575	\$ 1,014,705	\$ 496,368	\$ 1,909,648	\$ 98,544	\$ 210,852	\$ 2,219,044	\$ 2,084,744

See Notes to Financial Statements.

INSTITUTE FOR FREE SPEECH**STATEMENT OF CASH FLOWS****Year Ended December 31, 2018 (with Comparative Information for the year ended December 31, 2017)**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operations		
Support and revenue	\$ 2,685,979	\$ 2,537,047
Interest income	65,186	27,747
	<u>2,751,165</u>	<u>2,564,794</u>
Cash disbursed by operations		
Payment to suppliers and employees	2,147,502	2,047,793
Interest expense	114	290
	<u>2,147,616</u>	<u>2,048,083</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>603,549</u>	<u>516,711</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(3,524,145)	(2,914,501)
Sale of investments	3,000,000	2,150,000
Website development	(31,776)	-
Purchase of property and equipment	(2,770)	(1,685)
	<u>(558,691)</u>	<u>(766,186)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(558,691)</u>	<u>(766,186)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(3,822)	(3,646)
	<u>(3,822)</u>	<u>(3,646)</u>
NET INCREASE (DECREASE) IN CASH	41,036	(253,121)
CASH, beginning of year	<u>611,839</u>	<u>864,960</u>
CASH, end of year	<u>\$ 652,875</u>	<u>\$ 611,839</u>

See Notes to Financial Statements.

INSTITUTE FOR FREE SPEECH

STATEMENT OF CASH FLOWS

Year Ended December 31, 2018 (with Comparative Information for the year ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	<u>\$ 540,699</u>	<u>\$ 494,625</u>
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Unrealized loss on investments	1,428	-
Depreciation and amortization expense	<u>12,462</u>	<u>5,520</u>
	<u>13,890</u>	<u>5,520</u>
CHANGES IN ASSETS AND LIABILITIES AFFECTING OPERATIONS PROVIDING (USING) CASH		
ASSETS		
Accounts receivable	(12,327)	(12,254)
Prepaid expenses	7,451	(8,341)
Security deposit	-	200
Escrow	<u>2,321</u>	<u>(2,321)</u>
	<u>(2,555)</u>	<u>(22,716)</u>
LIABILITIES		
Accounts payable	6,231	(839)
Accrued expenses	44,904	41,752
Escrow	<u>380</u>	<u>(1,631)</u>
	<u>51,515</u>	<u>39,282</u>
NET CHANGES IN ASSETS AND LIABILITIES	<u>48,960</u>	<u>16,566</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 603,549</u></u>	<u><u>\$ 516,711</u></u>

See Notes to Financial Statements.

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018 (with Comparative Information as of and for the year ended December 31, 2017)

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION AND PURPOSE

Organization and Purpose

Institute for Free Speech (the Institute) is an independent, nonprofit organization incorporated in Virginia in November 2005 that promotes and defends the political rights to free speech, press, assembly, and petition guaranteed by the First Amendment through litigation, communication, research and education. The Institute's major program activities are as follows:

1. Litigation - The litigation program of the Institute pursues strategic litigation and files amicus briefs to defend the First Amendment rights to free political speech, press, assembly and petition.

2. Research and External Relations - The Institute publishes research on the effects of laws and regulations on the First Amendment rights to free political speech, press, assembly and petition. The Institute also tracks and analyzes proposed legislation and regulations at the federal and state levels that could affect these First Amendment rights.

3. Communication - The Institute educates its supporters and the public at large of the benefits of the First Amendment rights to free political speech, press, assembly and petition and the importance of these rights to competitive elections to ensure integrity at all levels of the political process. It communicates this information through published articles in newspapers, websites and magazines, briefings of and interviews with journalists, appearances on television and radio, newsletters and an extensive website and blog.

Significant Accounting Policies

Income Taxes

The Institute is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and has been granted public charity status. The Institute conducts no taxable activities. Accordingly, no provision for income taxes has been provided in the financial statements.

In accounting for uncertainty in income taxes, accounting standards require an entity to recognize the financial statement impact of a tax position when it is more-likely-than-not that the position will not be sustained upon examination. Management evaluated the Institute's tax positions and concluded there are no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018 (with Comparative Information as of and for the year ended December 31, 2017)

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION AND PURPOSE (CONTINUED)

Significant Accounting Policies (Continued)

Basis of Accounting

The Institute prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Revenues are recognized in the period in which they are earned; expenses are recognized in the period in which they are incurred.

Summarized Information

The financial statements include certain summarized comparative information in total but not by each class of net assets. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Institute's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Cash and Cash Equivalents

Cash consists of checking and money market accounts. The Institute considers as cash equivalents highly liquid investments which can be converted into known amounts of cash and have a maturity period of 90 days or less at the time of purchase. There were no cash equivalents as of December 31, 2018 and 2017.

Investments

The Institute's investment portfolio includes certificates of deposit and money held in interest bearing deposit accounts. Certificates of deposit with maturities no more than one year are classified as short-term investments. Certificates with maturities greater than one year are classified as other long-term investments. Certificates of deposit are reported at cost plus accrued interest which approximates fair value. The certificates of deposit bear interest ranging from 1.8% to 2.6% at December 31, 2018 and have maturities ranging from two months to 11 months as of December 31, 2018.

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018 (with Comparative Information as of and for the year ended December 31, 2017)

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION AND PURPOSE (CONTINUED)

Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Institute provides for losses on accounts receivable using the allowance method. Management has determined that all significant receivables are collectible and, therefore, an allowance for doubtful accounts has not been established. Accounts receivable are considered past due if payments are not received within 30 days of the invoice date. Returns are recorded as accepted and accounts receivable deemed uncollectible are charged off based on individual credit evaluation and specific circumstances of the parties involved.

Property and Depreciation

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the appropriate fair value at the date of donation. Depreciation is computed using the straight-line method.

Intangible Assets

Intangible assets are carried at cost. Amortization is computed using the straight-line method based on the asset's estimated useful life. When the asset is retired or otherwise disposed of, the cost and related accumulated amortization are removed from the accounts, and any resulting gain or loss is recognized.

Classes of Assets

In accordance with U.S. GAAP, the Institute's net assets are classified into two categories: net assets without donor restriction and net assets with donor restriction.

Net Assets Without Donor Restriction

The Institute includes operating net assets which are available for the general operations of the Institute as net assets without donor restriction.

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018 (with Comparative Information as of and for the year ended December 31, 2017)

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION AND PURPOSE (CONTINUED)

Significant Accounting Policies (Continued)

Classes of Assets (Continued)

Net Assets With Donor Restriction

The Institute reports gifts of cash and other restricted support if they are received with donor stipulations that limit the use of donated assets as net assets with donor restriction. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restriction.

Investment gains and losses earned on donor restricted funds held by the Institute are recorded as an increase or decrease in net assets without donor restriction.

Recognition of Contributions

The Institute reports contributions with donor-imposed restrictions as net assets with donor restrictions; however, donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restriction, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Donated Services

The Institute receives donated professional services for legal, research, and communication projects. These donated services have been recorded in the financial statements at their estimated fair value in the statement of activities.

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018 (with Comparative Information as of and for the year ended December 31, 2017)

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION AND PURPOSE (CONTINUED)

Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs, such as salaries, payroll taxes, employee benefits, bank fees, business meals, computer services, conference, depreciation and amortization, dues and subscriptions, insurance, legal, licenses and fees, mailing, postage, and printing, miscellaneous, professional fees, rent, supplies, telephone and internet, and travel expenses have been allocated among the program and supporting services benefits based on level of effort or by department based on direct association.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues during the reporting period. Actual results could differ from those estimates.

Liquidity

The Institute maintains a liquid cash balance in checking and money market accounts in an amount necessary to meet its anticipated expenditures for the next 30 days. Cash in excess of this amount is invested in short-term investments.

The Institute reconciles the balance of financial assets subject to donor restrictions monthly, based on restricted amounts used and received. Restricted cash and investments are separately identified and monitored as part of the Institute's monthly financial reporting process.

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018 (with Comparative Information as of and for the year ended December 31, 2017)

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION AND PURPOSE (CONTINUED)

Significant Accounting Policies (Continued)

Liquidity (Continued)

The Institute's financial assets available within one year to meet cash needs for general expenditures through December 31, 2019 are as follows:

Financial Assets	
Cash	\$ 652,875
Certificates of deposit - negotiable	3,287,218
Accounts receivable	<u>24,739</u>
Total financial assets	\$ 3,964,832
Less amounts not available within one year	
Purpose restricted net assets	<u>(23,747)</u>
Financial assets available within one year to meet cash needs for general expenditures within one year	<u><u>\$ 3,941,085</u></u>

2. CASH

Cash as of December 31, 2018 and 2017 consisted of the following:

	2018	2017
Operating accounts	<u>\$ 652,875</u>	<u>\$ 611,839</u>

The Institute maintains cash balances at multiple financial institutions. The balances are insured by the Federal Deposit Insurance Corporation. As of December 31, 2018 and 2017, the Institute's cash balances in excess of federal deposit insurance coverage totaled \$397,920 and \$346,978 respectively.

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018 (with Comparative Information as of and for the year ended December 31, 2017)

3. PROPERTY AND DEPRECIATION

Property and depreciation for the years ended December 31, 2018 and 2017 consisted of the following:

	2018			
	Cost	Depreciation expense	Accumulated depreciation	Useful life (years)
Furniture, fixtures, and equipment	\$ 112,064	\$ 2,079	\$ 108,222	3 - 5
Leasehold improvements	80,708	-	80,708	3 - 6
Equipment under capital lease	17,498	3,500	17,208	5
Software	16,031	-	16,031	3
	<u>\$ 226,301</u>	<u>\$ 5,579</u>	<u>\$ 222,169</u>	
	2017			
	Cost	Depreciation expense	Accumulated depreciation	Useful life (years)
Furniture, fixtures, and equipment	\$ 109,294	\$ 2,020	\$ 106,143	3 - 5
Leasehold improvements	80,708	-	80,708	3 - 6
Equipment under capital lease	17,498	3,500	13,708	5
Software	16,031	-	16,031	3
	<u>\$ 223,531</u>	<u>\$ 5,520</u>	<u>\$ 216,590</u>	

4. INTANGIBLE ASSET

Intangible assets and accumulated amortization as of December 31, 2018 and 2017, and amortization expense for the years then ended is as follows:

	2018		
	Cost	Amortization Expense	Accumulated Amortization
Website development	\$ 31,776	\$ 6,883	\$ 6,883
	2017		
	Cost	Amortization Expense	Accumulated Amortization
Website development	\$ 29,200	-	\$ 29,200

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018 (with Comparative Information as of and for the year ended December 31, 2017)

5. INVESTMENTS

Investments are recorded at fair value and consist of the following as of December 31, 2018 and 2017:

	2018		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Money market funds	\$ 673,306	\$ 673,306	\$ -
Certificates of deposit - negotiable	2,614,000	2,613,912	(88)
	<u>\$ 3,287,306</u>	<u>\$ 3,287,218</u>	<u>\$ (88)</u>
2017			
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Money market funds	\$ 14,841	\$ 14,841	\$ -
Certificates of deposit	2,750,000	2,749,660	(340)
	<u>\$ 2,764,841</u>	<u>\$ 2,764,501</u>	<u>\$ (340)</u>

6. FAIR VALUE MEASUREMENTS

The Institute records investments based on fair value on a recurring basis. Financial accounting and reporting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. The standard emphasizes that fair value is a market-based measurement, not an entity specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the standards established a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent from the reporting entity (observable inputs that are classified within level 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within level 3 of the hierarchy).

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018 (with Comparative Information as of and for the year ended December 31, 2017)

6. FAIR VALUE MEASUREMENTS (CONTINUED)

Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the Institute has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the assets or liabilities (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs for the assets or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

The determination of the fair value level within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Institute's assessment of the significance of the particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the assets or liabilities.

The following summarizes investments, measured at fair value on a recurring basis, aggregated by the level in the fair value hierarchy within which those measurements fall, as of December 31, 2018 and 2017:

	2018		
	Fair Value	Level 1	Level 2
Money market fund	\$ 673,306	\$ 673,306	\$ -
Certificates of deposit	2,613,912	-	2,613,912
	<u>\$ 3,287,218</u>	<u>\$ 673,306</u>	<u>\$ 2,613,912</u>
	2017		
	Fair Value	Level 1	Level 2
Money market fund	\$ 14,841	\$ 14,841	\$ -
Certificates of deposit	2,749,660	-	2,749,660
	<u>\$ 2,764,501</u>	<u>\$ 14,841</u>	<u>\$ 2,749,660</u>

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018 (with Comparative Information as of and for the year ended December 31, 2017)

7. CAPITAL LEASE

The Institute entered into an agreement to lease a copier machine under a capital lease which commenced in February 2014 and expires January 2019. The assets and liabilities under the capital lease are recorded at the lower of the present value of the minimum lease payments or the market value of the asset and will be amortized over its estimated useful life. The capital lease obligation is secured by the leased assets.

Future minimum lease payments under this capital lease are as follows:

Fiscal year ending	Total Payments	Interest Portion	Net
2019	\$ 328	\$ 1	\$ 327

Total interest expense for the years ended 2018 and 2017 was \$114 and \$290, respectively.

8. NET ASSETS WITH DONOR RESTRICTION

A summary of activity in net assets with donor restriction for the year ended December 31, 2018 and 2017 is as follows:

	2018			
	Balance at December 31, 2017	Support and revenue	Net assets released from restrictions	Balance at December 31, 2018
Purpose restricted				
Advocacy restrictions project	\$ 99,689	\$ -	\$ (99,689)	\$ -
Staff attorney	44,635	50,000	(70,888)	23,747
	<u>\$ 144,324</u>	<u>\$ 50,000</u>	<u>\$ (170,577)</u>	<u>\$ 23,747</u>
	2017			
	Balance at December 31, 2016	Support and revenue	Net assets released from restrictions	Balance at December 31, 2017
Purpose restricted				
Advocacy restrictions project	\$ 100,943	\$ -	\$ (1,254)	\$ 99,689
Staff attorney	-	50,000	(5,365)	44,635
	<u>\$ 100,943</u>	<u>\$ 50,000</u>	<u>\$ (6,619)</u>	<u>\$ 144,324</u>

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018 (with Comparative Information as of and for the year ended December 31, 2017)

9. RETIREMENT PLAN

The Institute maintains a 401K plan into which employees can contribute up to \$12,000 of their compensation in pre-tax dollars. The Institute matches employee contributions up to 3% of an employee's salary. Contribution expense for the Institute totaled \$39,712 and \$30,163 for the years ended 2018 and 2017, respectively.

10. COMMITMENTS - OFFICE LEASE

The Institute entered into a lease agreement in September 2007 to lease office space in Alexandria, Virginia. The yearly base rent at the start of the lease was \$88,416 with a cost of living increase of 3% being incurred annually. The lease ended in February 2016 and The Institute has not renewed the lease. By mutual agreement, the Institute has renewed on a month to month lease basis until further notice. Rent expense for the years ended December 31, 2018 and 2017 was \$129,884 and \$128,180, respectively.

Subsequent to year end, the Institute entered into a new lease agreement in June 2019 to lease office space in Washington, DC for 11 years with an estimated commencement date of December 1, 2019. The monthly base rent at the start of the lease is \$16,474 with an annual escalation in rent payments of 4%. The lease contains an early opt out at 8 years and option to extend the term by five years. The first ten months of rent are also abated as part of the terms of the lease agreement. Future minimum lease payments are as follows:

Fiscal year ended	
2019	\$ -
2020	67,212
2021	206,960
2022	215,238
2023	223,848
Thereafter	<u>1,788,016</u>
	<u>\$ 2,501,274</u>

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NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018 (with Comparative Information as of and for the year ended December 31, 2017)

11. RELATED PARTY TRANSACTIONS

The Institute has entered into an agreement with the Chairman of its Board of Directors for consulting services to provide legal services, assist the Institute's communications activities, including but not limited to media interviews, articles, blog posts and speeches, assist with research and external relations, including testimony, letters and speeches, assist fundraising activities and provide other services as requested. The original agreement expired December 31, 2011; however it has been renewed through December 31, 2016 with automatic renewals on an annual basis unless cancelled in writing. The consulting services were \$66,000 for both years ended December 31, 2018 and 2017.

12. CONCENTRATIONS

During 2018, the Institute received \$2,290,000 or 82.98% of its total revenue from sixteen donors. During 2017, the Institute received \$1,953,850 or 75.75% of its total revenue from thirteen donors. No contracts or pledges exist as a guarantee that these levels of contributions will continue.

13. DONATED SERVICES

The fair value of donated services included as in-kind revenue and program services in the accompanying financial statements for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Legal	\$ 109,576	\$ 128,069
Communications	3,176	17,640
	<u>\$ 112,752</u>	<u>\$ 145,709</u>

14. SUBSEQUENT EVENTS

In preparing the financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through July 31, 2019, the date of the financial statements were available to be issued.