

**INSTITUTE FOR FREE SPEECH
(a nonprofit organization)**

FINANCIAL STATEMENTS

**Year ended December 31, 2019
with Summarized Comparative Information
for the year ended December 31, 2018**

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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, 2019, 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, 2019, 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.

Emphasis of Matter - Subsequent Event

As noted in Note 14 to the financial statements, economic uncertainties have arisen as a result of the spread of the novel coronavirus which are likely to negatively impact the Institute's operations. Our opinion is not modified with respect to this matter and no pandemic implications are accounted for in these financial statements.

Report on Summarized Comparative Information

We have previously audited the Institute's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 31, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Renner and Company, CPA, P.C.

Alexandria, Virginia
October 31, 2020

INSTITUTE FOR FREE SPEECH**STATEMENT OF FINANCIAL POSITION****December 31, 2019 (with Comparative Information as of December 31, 2018)****ASSETS**

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash	\$ 372,554	\$ 652,875
Investments	3,835,256	3,287,218
Accounts receivable	29,704	24,739
Prepaid expenses	<u>25,086</u>	<u>16,119</u>
TOTAL CURRENT ASSETS	<u>4,262,600</u>	<u>3,980,951</u>
PROPERTY AND EQUIPMENT, at cost, net	<u>54,940</u>	<u>4,132</u>
INTANGIBLE ASSETS		
Website development, at cost, net	<u>14,301</u>	<u>24,893</u>
OTHER ASSETS		
Security deposit	<u>32,947</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 4,364,788</u></u>	<u><u>\$ 4,009,976</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 91,026	\$ 65,040
Accrued expenses	212,590	164,080
Capital lease obligation	2,828	327
Escrow	<u>965</u>	<u>380</u>
TOTAL CURRENT LIABILITIES	<u>307,409</u>	<u>229,827</u>
LONG-TERM LIABILITIES		
Capital lease obligation, net of current portion	<u>10,347</u>	<u>-</u>
TOTAL LIABILITIES	<u>317,756</u>	<u>229,827</u>
NET ASSETS		
Without donor restrictions	4,047,032	3,756,402
With donor restrictions	<u>-</u>	<u>23,747</u>
TOTAL NET ASSETS	<u>4,047,032</u>	<u>3,780,149</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,364,788</u></u>	<u><u>\$ 4,009,976</u></u>

See Notes to Financial Statements.

INSTITUTE FOR FREE SPEECH

STATEMENT OF ACTIVITIES

Year Ended December 31, 2019 (with Summarized Comparative Information for the year ended December 31, 2018)

	2019			
	Without Donor Restrictions	With Donor Restrictions	Total	2018
SUPPORT AND REVENUE				
Contributions	\$ 2,486,518	\$ -	\$ 2,486,518	\$ 2,567,314
Litigation award	2,562	-	2,562	-
Donated services	190,865	-	190,865	112,752
Miscellaneous	4,592	-	4,592	14,491
Investment income	75,678	-	75,678	65,186
Net assets released from restrictions	23,747	(23,747)	-	-
TOTAL SUPPORT AND REVENUE	<u>2,783,962</u>	<u>(23,747)</u>	<u>2,760,215</u>	<u>2,759,743</u>
EXPENSES				
Program services	2,198,934	-	2,198,934	1,909,648
Management and general	78,768	-	78,768	98,544
Development	215,630	-	215,630	210,852
TOTAL EXPENSES	<u>2,493,332</u>	<u>-</u>	<u>2,493,332</u>	<u>2,219,044</u>
CHANGE IN NET ASSETS	290,630	(23,747)	266,883	540,699
NET ASSETS, beginning of year	<u>3,756,402</u>	<u>23,747</u>	<u>3,780,149</u>	<u>3,239,450</u>
NET ASSETS, end of year	<u>\$ 4,047,032</u>	<u>\$ -</u>	<u>\$ 4,047,032</u>	<u>\$ 3,780,149</u>

See Notes to Financial Statements.

INSTITUTE FOR FREE SPEECH

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2019 (with Summarized Comparative Information for the year ended December 31, 2018)

	2019							2018	
	Program Services				Supporting Services			Total	Total
	Communication	Legal	Research and External Relations	Total Program	Management and General	Development	Total		
Salaries	\$ 258,505	\$ 745,429	\$ 293,253	\$ 1,297,187	\$ 29,032	\$ 91,120	\$ 1,417,339	\$ 1,224,437	
Payroll taxes	18,654	53,791	21,162	93,607	2,095	6,575	102,277	81,617	
Employee benefits	24,993	72,070	28,352	125,415	2,807	8,810	137,032	123,001	
Accounting fees	-	-	-	-	16,029	-	16,029	15,508	
Bank fees	196	565	222	983	23	69	1,075	492	
Branding	-	-	306	306	138	-	444	3,055	
Business meals	-	194	929	1,123	533	79	1,735	11,011	
Computer services	3,102	8,945	3,519	15,566	349	1,093	17,008	6,590	
Conference	-	-	11,850	11,850	1,450	1,000	14,300	10,274	
Depreciation and amortization	2,788	8,040	3,163	13,991	313	983	15,287	12,462	
Donated services	81,870	106,995	2,000	190,865	-	-	190,865	112,752	
Dues and subscriptions	726	64,721	14,347	79,794	304	1,447	81,545	75,318	
Grant expense	2,000	-	-	2,000	-	-	2,000	4,000	
Insurance	-	11,265	-	11,265	751	-	12,016	9,200	
Interest	-	-	-	-	406	-	406	114	
Legal	-	16,778	-	16,778	2,579	6,696	26,053	35,286	
Licenses and fees	-	256	-	256	962	-	1,218	3,270	
Mailing, postage, and printing	12,687	12,063	2,195	26,945	5,974	11,996	44,915	56,140	
Miscellaneous	3,525	10,164	3,999	17,688	396	1,242	19,326	13,937	
Professional fees	32,167	26,400	26,250	84,817	5,447	66,988	157,252	214,926	
Rent	26,510	76,444	30,073	133,027	2,977	9,344	145,348	129,884	
Supplies	1,404	4,049	1,593	7,046	158	495	7,699	9,833	
Telephone and internet	627	1,807	711	3,145	69	221	3,435	3,802	
Travel	1,314	43,978	19,988	65,280	5,976	7,472	78,728	62,135	
Total	\$ 471,068	\$ 1,263,954	\$ 463,912	\$ 2,198,934	\$ 78,768	\$ 215,630	\$ 2,493,332	\$ 2,219,044	

See Notes to Financial Statements.

INSTITUTE FOR FREE SPEECH**STATEMENT OF CASH FLOWS****Year Ended December 31, 2019 (with Comparative Information for the year ended December 31, 2018)**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operations		
Support and revenue	\$ 2,488,707	\$ 2,685,979
Interest income	70,542	65,186
	<u>2,559,249</u>	<u>2,751,165</u>
Cash disbursed by operations		
Payment to suppliers and employees	2,253,607	2,147,502
Interest expense	406	114
	<u>2,254,013</u>	<u>2,147,616</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>305,236</u>	<u>603,549</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(3,756,902)	(3,524,145)
Sale of investments	3,214,000	3,000,000
Website development	-	(31,776)
Purchase of property and equipment	(40,508)	(2,770)
NET CASH USED BY INVESTING ACTIVITIES	<u>(583,410)</u>	<u>(558,691)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(2,147)	(3,822)
NET (DECREASE) INCREASE IN CASH	(280,321)	41,036
CASH AND RESTRICTED CASH, beginning of year	<u>652,875</u>	<u>611,839</u>
CASH AND RESTRICTED CASH, end of year	<u>\$ 372,554</u>	<u>\$ 652,875</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Unrealized (gain) loss in market value of investments	\$ (5,136)	\$ 1,428
Increase (decrease) in investment value	5,136	(1,428)
Purchase of equipment under capital lease	(14,995)	-
Capital lease obligation	14,995	-
	<u>\$ -</u>	<u>\$ -</u>

See Notes to Financial Statements.

INSTITUTE FOR FREE SPEECH

STATEMENT OF CASH FLOWS

Year Ended December 31, 2019 (with Comparative Information for the year ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	<u>\$ 266,883</u>	<u>\$ 540,699</u>
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Unrealized (gain) loss on investments	(5,136)	1,428
Depreciation and amortization expense	<u>15,287</u>	<u>12,462</u>
	<u>10,151</u>	<u>13,890</u>
CHANGES IN ASSETS AND LIABILITIES AFFECTING OPERATIONS PROVIDING (USING) CASH		
ASSETS		
Accounts receivable	(4,965)	(12,327)
Prepaid expenses	(8,967)	7,451
Security deposit	(32,947)	-
Escrow	<u>585</u>	<u>2,701</u>
	<u>(46,294)</u>	<u>(2,175)</u>
LIABILITIES		
Accounts payable	25,986	6,231
Accrued expenses	<u>48,510</u>	<u>44,904</u>
	<u>74,496</u>	<u>51,135</u>
NET CHANGES IN ASSETS AND LIABILITIES	<u>28,202</u>	<u>48,960</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 305,236</u></u>	<u><u>\$ 603,549</u></u>

See Notes to Financial Statements.

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 (with Comparative Information as of and for the year ended December 31, 2018)

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

December 31, 2019 (with Comparative Information as of and for the year ended December 31, 2018)

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, 2018, from which the summarized information was derived.

Cash and Cash Equivalents

Cash consists of a checking account and cash on hand. 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, 2019 and 2018.

Investments

The Institute's investment portfolio includes certificates of deposit, government money market funds, and an insured deposit program. 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 2.5% at December 31, 2019 and have maturities ranging from two months to nine months as of December 31, 2019.

Government money market funds are exposed to various risks such as market and credit risk. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 (with Comparative Information as of and for the year ended December 31, 2018)

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

December 31, 2019 (with Comparative Information as of and for the year ended December 31, 2018)

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

December 31, 2019 (with Comparative Information as of and for the year ended December 31, 2018)

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, branding, 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.

The Institute's financial assets available within one year to meet cash needs for general expenditures through December 31, 2020 are as follows:

Financial Assets	
Cash	\$ 372,554
Investments	3,835,256
Accounts receivable	29,704
Financial assets available within one year to meet cash needs for general expenditures within one year	<u>\$ 4,237,514</u>

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 (with Comparative Information as of and for the year ended December 31, 2018)

2. CASH

Cash as of December 31, 2019 and 2018 consisted of the following:

	2019	2018
Operating accounts	<u>\$ 372,554</u>	<u>\$ 652,875</u>

The Institute maintains cash balances at multiple financial institutions. The balances are insured by the Federal Deposit Insurance Corporation. As of December 31, 2019 and 2018, the Institute's cash balances in excess of federal deposit insurance coverage totaled \$106,882 and \$397,920 respectively. Restricted cash totaled \$0 and \$23,747 for the years ended December 31, 2019 and 2018, respectively.

3. PROPERTY AND DEPRECIATION

Property and depreciation for the years ended December 31, 2019 and 2018 consisted of the following:

	2019			
	Cost	Depreciation expense	Accumulated depreciation	Useful life (years)
Furniture, fixtures, and equipment	\$ 49,244	\$ 2,406	\$ 7,300	3 - 5
Equipment under capital lease	14,995	2,289	1,999	5
	<u>\$ 64,239</u>	<u>\$ 4,695</u>	<u>\$ 9,299</u>	

	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>	

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 (with Comparative Information as of and for the year ended December 31, 2018)

4. INTANGIBLE ASSET

Intangible assets and accumulated amortization as of December 31, 2019 and 2018, and amortization expense for the years then ended is as follows:

	2019		
	Cost	Amortization Expense	Accumulated Amortization
Website development	\$ 31,776	\$ 10,592	\$ 17,475
	2018		
	Cost	Amortization Expense	Accumulated Amortization
Website development	\$ 31,776	\$ 6,883	\$ 6,883

5. INVESTMENTS

Investments are recorded at fair value and consist of the following as of December 31, 2019 and 2018:

	2019		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Insured deposit program	\$ 862,581	\$ 862,581	\$ -
Government money market funds	501,564	501,564	-
Certificates of deposit - negotiable	2,470,000	2,471,111	1,111
	<u>\$ 3,834,145</u>	<u>\$ 3,835,256</u>	<u>\$ 1,111</u>
	2018		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Insured deposit program	\$ 673,306	\$ 673,306	\$ -
Certificates of deposit	2,614,000	2,613,912	(88)
	<u>\$ 3,287,306</u>	<u>\$ 3,287,218</u>	<u>\$ (88)</u>

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 (with Comparative Information as of and for the year ended December 31, 2018)

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 Levels 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).

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.

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 (with Comparative Information as of and for the year ended December 31, 2018)

6. FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2019 and 2018:

	2019		
	Fair Value	Level 1	Level 2
Insured deposit program	\$ 862,581	\$ 862,581	\$ -
Government money market funds	501,564	501,564	-
Certificates of deposit	2,471,111	-	2,471,111
	<u>\$ 3,835,256</u>	<u>\$ 1,364,145</u>	<u>\$ 2,471,111</u>
	2018		
	Fair Value	Level 1	Level 2
Insured deposit program	\$ 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>

7. CAPITAL LEASE

The Institute entered into an agreement to lease a copier machine under a capital lease which commenced in May 2019 and expires April 2024. 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
2020	\$ 3,336	\$ 508	\$ 2,828
2021	3,336	385	2,951
2022	3,336	256	3,080
2023	3,336	122	3,214
2024	1,112	10	1,102
	<u>\$ 14,456</u>	<u>\$ 1,281</u>	<u>\$ 13,175</u>

Total interest expense for the years ended 2019 and 2018 was \$406 and \$114, respectively.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2019 (with Comparative Information as of and for the year ended December 31, 2018)

8. NET ASSETS WITH DONOR RESTRICTION

A summary of activity in net assets with donor restriction for the year ended December 31, 2019 and 2018 is as follows:

	2019			
	Balance at December 31, 2018	Support and revenue	Net assets released from restrictions	Balance at December 31, 2019
Purpose restricted				
Staff attorney	<u>\$ 23,747</u>	<u>\$ -</u>	<u>\$ (23,747)</u>	<u>\$ -</u>
	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	<u>44,635</u>	<u>50,000</u>	<u>(70,888)</u>	<u>23,747</u>
	<u>\$ 144,324</u>	<u>\$ 50,000</u>	<u>\$ (170,577)</u>	<u>\$ 23,747</u>

9. RETIREMENT PLAN

The Institute maintains a 401K plan into which employees can contribute up to \$12,000 of their compensation in pretax dollars. The Institute matches employee contributions up to 3% of an employee's salary. Contribution expense for the Institute totaled \$37,590 and \$39,712 for the years ended 2019 and 2018, respectively.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2019 (with Comparative Information as of and for the year ended December 31, 2018)

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, 2019 and 2018 was \$141,058 and \$129,884, respectively.

The Institute entered into a new lease agreement in June 2019 to lease office space in Washington, DC for 11 years with a commencement date of January 1, 2020. 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	
2020	\$ 32,947
2021	205,589
2022	213,813
2023	222,365
2024	231,260
Thereafter	<u>1,595,299</u>
	<u>\$ 2,501,273</u>

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, 2019 and 2018.

12. CONCENTRATIONS

During 2019, the Institute received \$2,180,637 or 79.00% of its total revenue from fourteen donors. During 2018, the Institute received \$2,290,000 or 82.98% of its total revenue from sixteen donors. No contracts or pledges exist as a guarantee that these levels of contributions will continue.

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 (with Comparative Information as of and for the year ended December 31, 2018)

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, 2019 and 2018 are as follows:

	2019	2018
Legal	\$ 106,995	\$ 109,576
Communications	81,870	3,176
Research and external relations	2,000	-
	<u>\$ 190,865</u>	<u>\$ 112,752</u>

14. SUBSEQUENT EVENTS

In preparing the financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through October 31, 2020, the date of the financial statements were available to be issued.

Novel COVID-19 Coronavirus

Subsequent to the fiscal year end, citizens and economies of the United States and other countries have been significantly impacted by the coronavirus (COVID-19) pandemic. While it is premature to accurately predict how the coronavirus will ultimately affect the Institute's operations because the disease's severity and duration are uncertain, we expect 2020 financial results will be impacted and the implications beyond 2020, while unclear, could also be adversely impacted. No pandemic implications are accounted for in these financial statements.