

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

FINANCIAL STATEMENTS

**Year ended December 31, 2022
with Summarized Comparative Information
for the year ended December 31, 2021**

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 3
FINANCIAL STATEMENTS	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7 - 8
Notes to Financial Statements	9 - 20

INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Institute for Free Speech
Washington, DC

Opinion

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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Institute and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Institute's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Institute's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Institute's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Institute's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 19, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, 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 19, 2023

INSTITUTE FOR FREE SPEECH

STATEMENT OF FINANCIAL POSITION

December 31, 2022 (with Comparative Information as of December 31, 2021)

ASSETS

	<u>2022</u>	<u>2021</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,840,965	\$ 5,531,450
Investments	4,951,030	249,983
Accounts receivable	499	176
Prepaid expenses	<u>1,745</u>	<u>1,771</u>
TOTAL CURRENT ASSETS	<u>6,794,239</u>	<u>5,783,380</u>
PROPERTY AND EQUIPMENT, at cost, net	<u>315,030</u>	<u>373,105</u>
OTHER ASSETS		
Right of use asset - operating lease	1,474,486	-
Right of use asset - copier	4,427	-
Security deposit	<u>13,974</u>	<u>16,474</u>
TOTAL ASSETS	<u><u>\$ 8,602,156</u></u>	<u><u>\$ 6,172,959</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 30,093	\$ 19,150
Accrued expenses	168,893	158,521
Operating lease liability - office	222,365	-
Operating lease liability - copier	3,324	-
Capital lease obligation	-	3,080
Deferred rent	-	13,576
Deferred tenant allowance	-	32,501
Escrow	<u>-</u>	<u>295</u>
TOTAL CURRENT LIABILITIES	<u>424,675</u>	<u>227,123</u>
LONG-TERM LIABILITIES		
Operating lease liability - office, net of current portion	1,792,136	-
Operating lease liability - copier, net of current portion	1,111	-
Deferred rent, net of current portion	-	210,572
Deferred tenant allowance, net of current portion	-	260,007
Capital lease obligation, net of current portion	<u>-</u>	<u>4,316</u>
TOTAL LONG-TERM LIABILITIES	<u>1,793,247</u>	<u>474,895</u>
TOTAL LIABILITIES	<u>2,217,922</u>	<u>702,018</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>6,384,234</u>	<u>5,470,941</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 8,602,156</u></u>	<u><u>\$ 6,172,959</u></u>

See Notes to Financial Statements.

INSTITUTE FOR FREE SPEECH

STATEMENT OF ACTIVITIES

Year Ended December 31, 2022 (with Comparative Information for the year ended December 31, 2021)

	<u>2022</u>	<u>2021</u>
SUPPORT AND REVENUE		
Contributions	\$ 3,157,682	\$ 3,231,497
Attorney fees	574,150	12,902
Donated services	179,706	193,015
Rental income	35,750	57,000
Miscellaneous	14,680	13,064
Investment income	<u>173,934</u>	<u>1,747</u>
TOTAL SUPPORT AND REVENUE	<u>4,135,902</u>	<u>3,509,225</u>
EXPENSES		
Program services	2,973,530	2,706,119
Management and general	78,760	66,354
Development	<u>170,319</u>	<u>153,048</u>
TOTAL EXPENSES	<u>3,222,609</u>	<u>2,925,521</u>
CHANGE IN NET ASSETS	913,293	583,704
NET ASSETS, beginning of year	<u>5,470,941</u>	<u>4,887,237</u>
NET ASSETS, end of year	<u><u>\$ 6,384,234</u></u>	<u><u>\$ 5,470,941</u></u>

See Notes to Financial Statements.

INSTITUTE FOR FREE SPEECH

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2022 (with Summarized Comparative Information for the year ended December 31, 2021)

	2022							2021
	Program Services				Supporting Services			Total
	Communication	Legal	Research and External Relations	Total Program	Management and General	Development	Total	
Salaries	\$ 300,853	\$ 1,154,242	\$ 281,846	\$ 1,736,941	\$ 28,410	\$ 93,836	\$ 1,859,187	\$ 1,733,636
Payroll taxes	21,461	82,336	20,105	123,902	2,026	6,694	132,622	125,839
Employee benefits	25,285	97,007	23,688	145,980	2,388	7,886	156,254	148,663
Rent	34,243	131,374	32,079	197,696	3,234	10,680	211,610	200,936
Donated services	82,148	97,558	-	179,706	-	-	179,706	193,015
Miscellaneous	26,220	100,593	24,563	151,376	2,478	8,178	162,030	16,440
Professional fees	42,540	32,783	19,263	94,586	7,087	8,940	110,613	113,095
Dues and subscriptions	1,077	72,167	8,794	82,038	398	586	83,023	60,790
Legal	-	55,859	-	55,859	96	7,552	63,507	98,525
Travel	-	45,755	6,400	52,155	1,003	2,842	56,000	44,389
Depreciation and amortization	8,945	34,319	8,380	51,644	845	2,790	55,279	61,579
Mailing, postage, and printing	16,414	13,980	916	31,310	1,995	6,359	39,665	37,488
Computer services	3,067	11,766	2,873	17,706	289	957	18,952	16,847
Accounting fees	-	-	-	-	17,671	-	17,671	16,767
Marketing	-	3,990	147	4,137	1,532	11,453	17,122	14,571
Lobbying expenses	-	-	17,000	17,000	-	-	17,000	-
Conference	-	2,500	3,169	5,669	925	1,100	7,694	11,922
Grant expense	-	7,500	-	7,500	-	-	7,500	8,000
Loss on disposal	-	-	-	-	6,822	-	6,822	-
Insurance	-	4,680	-	4,680	779	-	5,459	7,613
Telephone and internet	797	3,059	747	4,603	76	249	4,928	4,446
Business meals	-	3,894	343	4,237	263	-	4,500	4,747
Supplies	632	2,423	592	3,647	59	197	3,903	2,761
Licenses and fees	-	504	-	504	80	-	584	378
Meetings	-	2	284	286	150	-	436	1,996
Bank fees	64	244	60	368	5	20	393	285
Branding	-	-	-	-	124	-	124	408
Interest	-	-	-	-	25	-	25	385
Total	\$ 563,746	\$ 1,958,535	\$ 451,249	\$ 2,973,530	\$ 78,760	\$ 170,319	\$ 3,222,609	\$ 2,925,521

See Notes to Financial Statements.

INSTITUTE FOR FREE SPEECH**STATEMENT OF CASH FLOWS****Year Ended December 31, 2022 (with Comparative Information for the year ended December 31, 2021)**

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operations		
Support and revenue	\$ 3,777,245	\$ 3,578,502
Interest income	106,613	169
	<u>3,883,858</u>	<u>3,578,671</u>
Cash disbursed by operations		
Payment to suppliers and employees	2,933,872	2,861,231
Interest expense	25	385
	<u>2,933,897</u>	<u>2,861,616</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>949,961</u>	<u>717,055</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	5,000,000	(250,000)
Sale of investments	(9,629,032)	1,251,595
Purchase of property and equipment	(4,026)	(10,712)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(4,633,058)</u>	<u>990,883</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(7,388)	(2,951)
NET (DECREASE) INCREASE IN CASH	(3,690,485)	1,704,987
CASH AND CASH EQUIVALENTS, beginning of year	<u>5,531,450</u>	<u>3,826,463</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,840,965</u>	<u>\$ 5,531,450</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain in market value of investments	\$ (67,321)	\$ (1,578)
Increase in investment value	67,321	1,578
	<u>\$ -</u>	<u>\$ -</u>

See Notes to Financial Statements.

INSTITUTE FOR FREE SPEECH

STATEMENT OF CASH FLOWS

Year Ended December 31, 2022 (with Comparative Information for the year ended December 31, 2021)

	<u>2022</u>	<u>2021</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	<u>\$ 913,293</u>	<u>\$ 583,704</u>
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Unrealized and realized gain on investments	(72,015)	(1,578)
Non-cash occupancy costs	23,359	(2,794)
Disposal of asset	6,822	385
Depreciation and amortization expense	<u>55,279</u>	<u>61,579</u>
	<u>13,445</u>	<u>57,592</u>
CHANGES IN ASSETS AND LIABILITIES AFFECTING OPERATIONS PROVIDING (USING) CASH		
ASSETS		
Attorneys fees receivable	-	259,055
Accounts receivable	(323)	4,984
Prepaid expenses	26	2,725
Security deposit	2,500	-
Escrow	<u>(295)</u>	<u>-</u>
	<u>1,908</u>	<u>266,764</u>
LIABILITIES		
Accounts payable	10,943	4,067
Accrued expenses	<u>10,372</u>	<u>(195,072)</u>
	<u>21,315</u>	<u>(191,005)</u>
NET CHANGES IN ASSETS AND LIABILITIES	<u>23,223</u>	<u>75,759</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 949,961</u></u>	<u><u>\$ 717,055</u></u>

See Notes to Financial Statements.

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 (with Comparative Information as of and for the year ended December 31, 2021)

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 communicates with and educates the public, legislators, organizations, and the media to enable every American to understand the importance of the First Amendment's speech freedoms. 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, 2022 (with Comparative Information as of and for the year ended December 31, 2021)

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, 2021, from which the summarized information was derived.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

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. As of December 31, 2022 and 2021, cash equivalents consisted of government money market funds maintained within the Institute's brokerage account.

Investments

The Institute's investment portfolio includes bonds. Investments with readily determinable fair values are reflected at fair value.

Bonds 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, 2022 (with Comparative Information as of and for the year ended December 31, 2021)

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, 2022 (with Comparative Information as of and for the year ended December 31, 2021)

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.

Revenue Recognition

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.

Disaggregation of Revenue

The Institute is dependent on the strength of its ability to solicit donations and grants from outside sources. The Institute recognizes revenue as it is received for financial reporting purposes. The Institute classifies revenue between grants and donations, and these categories are used to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.

Performance Obligations

The Institute's revenue solely consists of donations and grants from outside sources. No performance obligations exist as of the December 31, 2022 fiscal year end.

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 (with Comparative Information as of and for the year ended December 31, 2021)

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

Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Significant Judgments

The Institute's revenue is a result of donations and grants from independent outside sources. As a result, revenue is recognized as it is received.

Gifts-in-kind

Donated services are recorded at their estimated fair market value on the date of receipt. Donated services are recognized in the financial statements at their fair value if the services require specialized skills and the services would typically need to be purchased if not donated. In-kind contributions are reported in the statement of activities as both revenue and expense.

Adoption of New Accounting Standard

The Organization has adopted the financial statement recognition, presentation and disclosure standards contained in the Financial Accounting Standards Board Accounting Standards Update 2016-02, *Topic 842, Leases*. The change has been applied as of December 31, 2022 with no effect on beginning net assets without donor restrictions.

The Organization adopted ASU 2016-02 as of January 1, 2022. As a result, the statement of financial position as of December 31, 2022 includes the right-of-use asset and operating lease liability, which are not reflected in the statement of financial position as of December 31, 2021. There was no effect on beginning net assets without donor restrictions.

The Organization elected to apply all practical expedients available under the ASU, allowing it to 1) not reassess whether any expired or existing contracts previously assessed as not containing leases are, or contain, leases; 2) not reassess the lease classification for any expired or existing leases; and 3) not reassess initial direct costs for any existing leases.

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 (with Comparative Information as of and for the year ended December 31, 2021)

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, rent, miscellaneous, professional fees, dues and subscriptions, legal, travel, depreciation and amortization, mailing, postage, and printing, computer services, marketing, conference, telephone and internet, supplies, and bank fees 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 and Availability of Assets

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, 2023 are as follows:

Financial Assets	
Cash	\$ 1,840,965
Investments	4,951,030
Accounts receivable	499
Financial assets available within one year to meet cash needs for general expenditures within one year	<u>\$ 6,792,494</u>

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 (with Comparative Information as of and for the year ended December 31, 2021)

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2022 and 2021 consisted of the following:

	2022	2021
Operating account	\$ 283,458	\$ 1,548,194
Government money market funds	1,557,507	1,004,941
Bank deposits	-	2,978,315
	<u>\$ 1,840,965</u>	<u>\$ 5,531,450</u>

The Institute maintains an operating bank account. The balance is insured by the Federal Deposit Insurance Corporation. The Institute also maintains a brokerage account, which is insured by the Securities Investor Protection Corporation (SIPC). As of December 31, 2022 and 2021, the Institute's cash balances in excess of federal deposit insurance coverage totaled \$28,712 and \$1,253,652, respectively. As of December 31, 2022 and 2021, the Institute's cash equivalents in excess of SIPC protection totaled \$1,057,507, and \$504,941, respectively.

3. PROPERTY AND DEPRECIATION

Property and depreciation for the years ended December 31, 2022 and 2021 consisted of the

	2022			
	Cost	Depreciation expense	Accumulated depreciation	Useful life (years)
Furniture, fixtures, and equipment	\$ 102,135	\$ 18,149	\$ 57,064	3 - 5
Leasehold improvements	380,653	37,130	110,694	5
	<u>\$ 482,788</u>	<u>\$ 55,279</u>	<u>\$ 167,758</u>	
	2021			
	Cost	Depreciation expense	Accumulated depreciation	Useful life (years)
Furniture, fixtures, and equipment	\$ 98,117	\$ 17,741	\$ 39,099	3 - 5
Leasehold improvements	380,653	37,130	73,564	5
Equipment under capital lease	14,995	2,999	7,997	5
	<u>\$ 493,765</u>	<u>\$ 57,870</u>	<u>\$ 120,660</u>	

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 (with Comparative Information as of and for the year ended December 31, 2021)

4. INVESTMENTS

Investments are recorded at fair value and consist of the following as of December 31, 2022 and 2021:

	2022		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
US Treasury Bonds	<u>\$ 4,941,690</u>	<u>\$ 4,951,030</u>	<u>\$ 9,340</u>
	2021		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Certificates of deposit - negotiable	<u>\$ 250,000</u>	<u>\$ 249,983</u>	<u>\$ (17)</u>

5. 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.

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 (with Comparative Information as of and for the year ended December 31, 2021)

5. FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2022 and 2021:

	2022		
	Fair Value	Level 1	Level 2
US Treasury Bonds	<u>\$ 4,951,030</u>	<u>\$ 4,951,030</u>	<u>\$ -</u>

	2021		
	Fair Value	Level 1	Level 2
Certificates of deposit - negotiable	<u>\$ 249,983</u>	<u>\$ -</u>	<u>\$ 249,983</u>

6. OPERATING LEASE - COPIER

The Institute entered into an agreement to lease a copier machine under an operating lease which commenced in May 2019 and expires April 2024. The assets and liabilities under the 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 Institute has used a discount rate of 4.27% to calculate the present value of the sum of lease payments. This rate is determined to be the borrowing rate as of the lease agreement execution date and reflects the Institute's risk-free rate. The future minimum lease payments required under the lease are as follows:

Fiscal year ending	
2023	\$ 3,336
2024	<u>1,112</u>
	<u>\$ 4,448</u>

Total interest expense for the years ended 2022 and 2021 was \$256 and \$385, respectively.

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 (with Comparative Information as of and for the year ended December 31, 2021)

6. OPERATING LEASE - COPIER (Continued)

A reconciliation of the undiscounted cash payments to the operating lease liability for the year ended December 31, 2022 is as follows:

Undiscounted future cash flows	\$ 4,448
Less: discount to present value	<u>(13)</u>
Operating lease liability	<u>\$ 4,435</u>

7. NET ASSETS WITH DONOR RESTRICTION

The Institute maintained no net assets with donor restriction as of December 31, 2022 and December 31, 2021, respectively.

8. RETIREMENT PLAN

The Institute maintains a 401K plan into which employees can contribute up to 85% of their compensation in pretax dollars, but subject to the Federal limits on the amount an employee may elect to defer under the plan (\$20,500 in 2022 for employees under age 50). The Institute matches employee contributions up to 3% of an employee's salary. Contribution expense for the Institute totaled \$39,833 and \$34,202 for the years ended 2022 and 2021, respectively.

9. COMMITMENTS - OFFICE LEASE

Operating Lease

The Institute entered into a lease agreement in June 2019 to lease office space in Washington, DC for eleven 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 eight 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.

The Institute has used a discount rate of 0.4% to calculate the present value of the sum of lease payments, which is its recorded lease liability. This rate is determined to be the borrowing rate as of the lease agreement execution date and reflects the Organization's risk-free rate.

The weighted average remaining lease term for the Institute's operating lease is 96 months. The weighted average discount rate used for the Institute's operating lease is 0.4%.

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 (with Comparative Information as of and for the year ended December 31, 2021)

9. COMMITMENTS - OFFICE LEASE (CONTINUED)

The future minimum lease payments under the above lease is as follows:

2023	\$	222,365
2024		231,260
2025		240,510
2026		250,131
2027		260,136
Thereafter		844,522
		<u>844,522</u>
	\$	<u>2,048,924</u>

A reconciliation of the undiscounted cash payments to the operating lease liability for the year ended December 31, 2022 is as follows:

Undiscounted future cash flows	\$	2,048,924
Less: discount to present value		<u>(34,423)</u>
Operating lease liability		<u>\$ 2,014,501</u>

Sublease

The Institute entered into a sublease agreement that commenced April 1, 2020. Lease income for the year ended December 31, 2022 totaled \$35,750. The subtenant did not extend the term of the sublease subsequent to the year end.

In 2022, the Institute entered into a twelve-month sublease agreement with a new tenant starting January 1, 2023. Lease income to be received for the year ended December 31, 2023 is \$30,000.

10. 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 \$86,000 and \$66,000 for the years ended December 31, 2022 and 2021, respectively.

INSTITUTE FOR FREE SPEECH

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 (with Comparative Information as of and for the year ended December 31, 2021)

11. CONCENTRATIONS

During 2022, the Institute received \$2,921,800 or 73.85% of its total revenue from fifteen donors. During 2021, the Institute received \$3,034,968 or 86.49% of its total revenue from fourteen donors. No contracts or pledges exist as a guarantee that these levels of contributions will continue.

12. DONATED SERVICES

The Institute receives donated professional fees for legal and communications from various companies. These donated professional fees have been recorded in the financial statements at their estimated fair value under the statement of activities. Due to the nature of these nonfinancial assets, the services were utilized in the period they were received and there were no donor restrictions imposed on them. Inputs used to measure the initial recognition of donated services consist of current market rates for services received. The following table outlines the activity for the years ended December 31, 2022 and 2021, respectively:

	2022	2021
Legal	\$ 97,557	\$ 99,318
Communications	82,149	93,697
	<u>\$ 179,706</u>	<u>\$ 193,015</u>

13. SUBSEQUENT EVENTS

In preparing the financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through October 19, 2023, the date of the financial statements were available to be issued.

Office Sublease

Subsequent to year end, the Institute entered into another new agreement to sublease its remaining office space starting June 1, 2023 through October 31, 2027 with the initial monthly rent income to be received of \$10,750 and the option to extend through December 31, 2030.