

Comic Book Legal Defense Fund
Audited Financial Statements
For the Year Ended December 31, 2016



MCDONALD JACOBS



Shareholders

MARK A. CLIFT, CPA
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Principals

JAKE JACOBS, CPA
SUSAN J. MARKS, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Comic Book Legal Defense Fund

We have audited the accompanying financial statements of Comic Book Legal Defense Fund (a Wisconsin nonprofit corporation), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization'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 Comic Book Legal Defense Fund as of December 31, 2016, and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McDonald Jacoby, P.C.

Portland, Oregon
July 20, 2017

COMIC BOOK LEGAL DEFENSE FUND
STATEMENT OF FINANCIAL POSITION
December 31, 2016

ASSETS

Cash and cash equivalents	\$ 696,505
Investments	34,219
Contributions and memberships receivable	160,681
Prepaid expenses and deposits	38,536
Inventory	<u>40,784</u>
 TOTAL ASSETS	 <u>\$ 970,725</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 3,241
Accrued expenses	<u>8,188</u>
Total liabilities	<u>11,429</u>
 Net assets:	
Unrestricted	<u>959,296</u>
Undesignated	
Board designated	
Net property and equipment	<u>-</u>
Total unrestricted	959,296
Temporarily restricted	
Permanently restricted	
Total net assets	<u>959,296</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 970,725</u>

See notes to financial statements.

COMIC BOOK LEGAL DEFENSE FUND
STATEMENT OF ACTIVITIES
For the year ended December 31, 2016

Support and revenue:	
Contributions	\$ 539,329
Dues and memberships	304,489
Publications income	27,244
Royalties	12,183
Other income	<u>14,011</u>
Total support and revenue	<u>897,256</u>
Expenses:	
Program	389,312
Management and general	156,750
Fundraising	<u>246,356</u>
Total expenses	<u>792,418</u>
Change in net assets	104,838
Net assets:	
Beginning of year	<u>854,458</u>
End of year	<u>\$ 959,296</u>

See notes to financial statements.

COMIC BOOK LEGAL DEFENSE FUND
STATEMENT OF CASH FLOWS
For the year ended December 31, 2016

	2016
Cash flows from operating activities:	
Change in net assets	\$ 104,838
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Net realized/unrealized loss on investments	122
 (Increase) decrease in:	
Accounts receivable	(46,618)
Prepaid expenses	(7,078)
Inventory	(8,400)
 Increase (decrease) in:	
Accounts payable	2,370
Accrued expenses	(7,471)
Net cash provided by operating activities	37,763
 Cash flows from investing activities:	
Purchase of investments	(1,093)
Net cash used in investing activities	(1,093)
 Net increase in cash and cash equivalents	36,670
 Cash and cash equivalents - beginning of year	659,835
 Cash and cash equivalents - end of year	\$ 696,505

See notes to financial statements.

Comic Book Legal Defense Fund
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

I. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Comic Book Legal Defense Fund, Inc. (the Organization) is a 501(c)(3) non-profit organization dedicated to the protection of the First Amendment rights of the comics art form and its community of retailers, creators, publishers, librarians, and readers. The Organization provides legal referrals, representation, advice, assistance, and education in furtherance of these goals.

The Organization was incorporated in the State of Wisconsin in 1989 and moved its headquarters from New York, New York to Portland, Oregon in 2016.

Basis of Presentation

Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as unrestricted or restricted net assets. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Temporarily restricted net assets are subject to donor-imposed stipulations that will be met, either by actions of the Organization and/or the passage of time. At December 31, 2016, the Organization had only unrestricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents.

Investments

Investments are carried at fair value.

Inventory

The Organization maintains inventory for membership. The inventory includes mostly comic books and novels and other items valued at cost and donated items. Donated items are not valued for purposes of inventory due to the difficulty of estimating values.

Property and Equipment

Management reviews acquisitions of property and equipment to determine any items to be capitalized based on estimated useful lives and future benefit to the Organization. Property and equipment purchased are recorded at cost.

Comic Book Legal Defense Fund
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2016

I. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Income Tax Status

Comic Book Legal Defense Fund is a nonprofit corporation exempt from income tax under section 501(c)(3) of the Internal Revenue Code and applicable state law. No provision for income taxes is made in the accompanying financial statements, as the Organization has no activities subject to unrelated business income tax. The Organization is not a private foundation.

The Organization follows the provisions of FASB ASC *Topic Accounting for Uncertainty in Income Taxes*. Management has evaluated the Organization's tax positions and concluded that there are no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this Topic.

Contributions Receivable

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the Organization is notified of the commitment. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Organization has evaluated all subsequent events through July 31, 2017, the date the financial statements were available to be issued.

Comic Book Legal Defense Fund
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2016

2. INVESTMENTS

Investments consist of the following at December 31, 2016:

Money market accounts	\$ 723
Mutual funds - fixed income	<u>33,495</u>
Total investments	<u><u>\$ 34,218</u></u>

Investment income (included in other income) consists of:

Interest and dividends	595
Net realized/unrealized loss	<u>(122)</u>
Total investment income	<u><u>\$ 473</u></u>

3. LEASE COMMITMENTS

The Organization was leasing office space through May 2016 for approximately \$5,200. Upon moving to Oregon, a new operating lease was entered into which expires May 2021 with monthly rent of approximately \$3,650 and escalating annual payments. Rent expense paid for the above lease totaled approximately \$51,500 for the year ended December 31, 2016.

Approximate future minimum lease commitments under operating leases are as follows:

Year ending December 31, 2017	\$ 44,800
2018	46,500
2019	48,200
2020	49,900
2021	<u>21,100</u>
Total	<u><u>\$ 210,500</u></u>

Comic Book Legal Defense Fund
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2016

4. EXPENSES

The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited.

Costs by their natural classification for the year ended December 31, 2016 are summarized as follows:

Payroll and related expenses	\$ 294,087
Professional services	48,887
Rent and occupancy	51,763
Conferences, meetings, and exhibitions	79,639
Travel	28,244
Office expenses	25,187
Dues and memberships	26,789
Postage and shipping	39,451
Printing	43,157
Premium purchase expense	81,755
Relocation expenses	44,002
Other misc expenses	<u>29,457</u>
Total expenses	<u><u>\$ 792,418</u></u>

5. CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash balances in one financial institution. Balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Balances in excess of insured limits were approximately \$474,600 as of December 31, 2016.

Credit risk for contributions and memberships receivable is concentrated with 68% of the balance from two organizations as of December 31, 2016 and approximately \$18,000 greater than 90 days outstanding. Receivables are unsecured and expected to be collected within one year.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Comic Book Legal Defense Fund
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2016

6. RELATED PARTY DISCLOSURE

Certain board members are executives at businesses that contribute through corporate memberships with the Organization.. These transactions occur in the normal course of business and disclosed as part of the Organization's conflict of interest policy.

7. FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets, or quoted market prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation.

As of December 31, 2016, all of the Organization's investments are classified as Level 1.