

COMIC BOOK LEGAL DEFENSE FUND

Audited Financial Statements

For the Years Ended
December 31, 2017 and 2016



MCDONALD JACOBS

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 statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2017 and 2016, and 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.

McDonald Jacobson, P.C.

Portland, Oregon
July 20, 2018

COMIC BOOK LEGAL DEFENSE FUND
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 896,330	\$ 696,505
Investments	34,707	34,219
Contributions and memberships receivable	110,538	160,681
Prepaid expenses and deposits	32,367	38,536
Inventory	<u>21,362</u>	<u>40,784</u>
TOTAL ASSETS	<u>\$ 1,095,304</u>	<u>\$ 970,725</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 24,848	\$ 3,241
Accrued expenses	<u>9,292</u>	<u>8,188</u>
Total liabilities	<u>34,140</u>	<u>11,429</u>
Net assets:		
Unrestricted net assets	<u>1,061,164</u>	<u>959,296</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,095,304</u>	<u>\$ 970,725</u>

See notes to financial statements.

COMIC BOOK LEGAL DEFENSE FUND
 STATEMENTS OF ACTIVITIES
 For the years ended December 31, 2017 and 2016

	2017	2016
Change in unrestricted net assets:		
Support and revenue:		
Contributions	\$ 525,508	\$ 539,329
Dues and memberships	292,748	304,489
Publications income	25,291	27,244
Royalties	15,887	12,183
Other income	13,603	14,011
Total support and revenue	873,037	897,256
Expenses:		
Program	460,363	389,312
Management and general	90,296	156,750
Fundraising	220,510	246,356
Total expenses	771,169	792,418
Change in net assets	101,868	104,838
Net assets:		
Beginning of year	959,296	854,458
End of year	\$ 1,061,164	\$ 959,296

See notes to financial statements.

COMIC BOOK LEGAL DEFENSE FUND
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 101,868	\$ 104,838
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized/unrealized (gain) loss on investments	(70)	122
(Increase) decrease in:		
Contributions and memberships receivable	50,143	(46,618)
Prepaid expenses and deposits	6,169	(7,078)
Inventory	19,422	(8,400)
Increase (decrease) in:		
Accounts payable	21,607	2,370
Accrued expenses	1,104	(7,471)
Net cash provided by operating activities	200,243	37,763
 Cash flows from investing activities:		
Purchase of investments	(418)	(1,093)
Net cash used in investing activities	(418)	(1,093)
 Net increase in cash and cash equivalents	199,825	36,670
 Cash and cash equivalents - beginning of year	696,505	659,835
 Cash and cash equivalents - end of year	\$ 896,330	\$ 696,505

See notes to financial statements.

COMIC BOOK LEGAL DEFENSE FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. 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's primary source of revenue is from contributions and memberships.

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, 2017 and 2016, the Organization has only unrestricted net assets.

Cash and Cash Equivalents

For purposes of the statements 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, novels and other items valued at cost. Donated items are not valued for purposes of inventory and are considered immaterial to the financial statements.

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. Donated assets are reflected as contributions at their estimated values on the date received.

COMIC BOOK LEGAL DEFENSE FUND
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017 and 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 and Memberships

Contributions and memberships, 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. Receivables are unsecured and expected to be collected within one year.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Expense Allocation

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

COMIC BOOK LEGAL DEFENSE FUND
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017 and 2016

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

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 20, 2018, the date the financial statements were available to be issued.

2. INVESTMENTS

Investments consist of the following at December 31, 2017 and 2016:

	2017	2016
Money market accounts	\$ 727	\$ 724
Mutual funds - fixed income	33,980	33,495
Total investments	\$ 34,707	\$ 34,219

Investment income (included in other income) consists of:

Interest and dividends	\$ 701	\$ 595
Net realized/unrealized gain (loss)	70	(122)
Total investment income	\$ 771	\$ 473

COMIC BOOK LEGAL DEFENSE FUND
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017 and 2016

3. LEASE COMMITMENTS

The Organization has an operating lease for office space which expires May 2021 with monthly rent of approximately \$3,800 and escalating annual payments. Rent expense for the above lease totaled approximately \$45,600 for the year ended December 31, 2017. For the year-ended December 31, 2016, rent expense totaled approximately \$51,500 including payments on a lease prior to moving to Oregon.

Approximate future minimum lease commitments under the current operating lease are as follows:

Year ending December 31, 2018	\$ 46,500
2019	48,200
2020	49,900
2021	<u>21,100</u>
Total	<u>\$ 165,700</u>

4. EXPENSES

Costs by their natural classification for the years ended December 31, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Payroll and related expenses	\$ 309,535	\$ 294,087
Professional services	80,593	48,887
Rent and occupancy	45,630	51,763
Conferences, meetings, and exhibitions	84,914	79,639
Travel	44,704	28,244
Office expenses	10,809	25,187
Dues and memberships	23,748	26,789
Postage and shipping	29,414	39,451
Printing	41,229	43,157
Premium purchase expense	82,367	81,755
Relocation expenses	-	44,002
Other miscellaneous expenses	<u>18,226</u>	<u>29,457</u>
Total expenses	<u>\$ 771,169</u>	<u>\$ 792,418</u>

COMIC BOOK LEGAL DEFENSE FUND
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017 and 2016

5. CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash balances in one financial institution in Portland, Oregon. Balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Balances in excess of insured limits were approximately \$590,500 and \$474,600, respectively, as of December 31, 2017 and 2016.

Credit risk for contributions and memberships receivable is concentrated with 50% of the balance receivable from one entity as of December 31, 2017, and 68% of the balance receivable from two entities as of December 31, 2016.

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.

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.

COMIC BOOK LEGAL DEFENSE FUND
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017 and 2016

7. FAIR VALUE MEASUREMENTS, Continued

At December 31, 2017 and 2016, all of the Organization's investments are classified as Level 1. Fair values for fixed income mutual funds are determined by reference to quoted market prices and other relevant information generated by market transactions.