

Creative Commons Corporation

Accounting Processes and Procedures

Introductions

Creative Commons Corporation employs a comprehensive and effective set of accounting processes, procedures and policies that are designed to:

1. Be effective in ensuring accuracy and maximum efficiency given the level of complexity of the organization.
2. To ensure appropriate levels of internal controls are in place to ensure key assets are protected and to prevent fraud and other such activities.
3. Maintain an updated and documented record of the processes that the company employs to produce financial statements in accordance with management requirements
4. To allow for the historical accounting records to be updated, relevant and available for various management purposes.

These accounting processes, procedures and policies have been reviewed by Ted Rose, Controller and Mike Linksvayer, Vice President of Creative Commons, who have deemed them to be adequate and in operation throughout 2009, and to be continued into 2010 and beyond. (There are no significant changes in the processes and procedures established in 2009 as compared with the prior year.) Additionally, Creative Commons Corporation's Audit Committee has reviewed and approved the processes and procedures contained herein.

The overall accounting and control environment is communicated to senior staff, the board of directors and key donors and audiences as needed to satisfy various requirements.

Reviewed and approved:

Ted Rose, Controller	Date	Mike Linksvayer, Vice President of Creative Commons	Date
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1. INVOICE RECEIPT AND PROCESSING

- All accounting mail is opened by Office Manager on a daily basis, as received.
- Invoices or statements requesting payment when received are:
 - Stamp dated (with official CC stamp) upon arrival and,
 - Forwarded to the appropriate budget owner and/or Operations Director for approval.
Approval is signaled by budget owner or Operations Director by initialing and indicating the correct GL or Project Codes for the expenses.
- Invoices are approved in reference to some purchased item or service and with regards to a list of budgeted expenditures.
- All invoice discrepancies are investigated thoroughly by the budget owner and/or Operations Director before further processing.
- **Approved** invoices are reviewed by Controller and processed for entry into the accounting software and for payment. Most requests for payment are paid upon final approval and review.
- Invoices are entered into the accounting software by the Controller, with reference to the GL/Project Code information.
- Invoices, once paid, are filed alphabetically in vendor files by Office Manager for each fiscal year. This filing is done regularly to ensure files are well maintained and kept up to date.
- All paid invoices are reviewed as part of the monthly bank reconciliation as checks clear the bank account. All checks issued that have not cleared the bank at the end of the month and are clearly visible on the details of the bank reconciliation and are checked in subsequent months.
- Invoices that are unbudgeted are clearly marked as such by the budget owner and/or Operations Director, and final approval of the expense is given by the Vice President of Creative Commons, which is denoted by the Vice President of Creative Commons' initials.

2. EXPENSE REPORTS

- All employee reimbursements have to be submitted on an expense report that identifies the expense to be reimbursed, and is supported by receipts or other source documentation. Any lost receipts have to be replaced with an official CC document that clearly states what receipt has been lost and attesting that the expense is a valid business expense.
- All reasonable business expenses are reimbursed as long as they are in line with corporate policies as documented in the CC employee handbook.
- All expense reports have to be signed and dated by the employee and approved by the budget owner as being valid business expense in line with corporate rules.
 - All expense reports submitted by any board member are approved by the Operations Director or the Development Manager.
- Employees are requested to submit all expense reports within a 45 day time frame to ensure that expenses are appropriately recorded in a timely fashion. This is especially important at year-end, to ensure appropriate cutoff when numerous emails and calls will be initiated to ensure appropriate expense cutoff.
- All expense reports are reviewed by the Controller.
- Once expense reports have been approved for payment, they are entered into the accounting software and processed for payment in the same way as for other invoices and payments.
- All expenses are filed in the vendor files with an accompanying copy of the check.

3. CHECK ISSUANCE AND PAYMENTS

- Checks are issued for the payment of approved invoices or expenses reports. Once a check has been issued, a photocopy of the check is made and attached to the invoice or expense report for filing.
- The check number associated with the payment of the invoice is either entered into the accounting software upon review of payables (to be paid) or at the time that the invoice and check payment is entered into the system.

- Checks can be signed by Mike Linksvayer, Vice President of Creative Commons. Checks above \$50,000 require signatures from Mike Linksvayer **and** Joichi Ito, CEO.
- Checks are issued in sequence from a checkbook.
- The checkbook is kept locked and stored in a secure cabinet with only 2 keys. The Controller keeps one key, and the Operations Director keeps the other key.
- All checks not used, voided or otherwise spoiled are kept in the checkbook for reference purposes, but are clearly voided across the body of the check and specifically in the signature area to ensure that they are unable to be cashed.

4. WIRE PAYMENTS AND WIRE RECEIPTS

- All wire payments to be processed are to be approved by the budget owner and/or the Operations Director, and the Controller. All wire payments must be supported by documentation that explains the amount, purpose and recipient of the funds to be transferred.
- The Controller can only “initiate” wire payments through the use of the secure Bank of America wire department using a dedicated password to establish the wire transfer. These authorization levels have been established with the bank.
- All wire transfers \$20,000 or less are “approved” by Jen Yip, Operations Director. Wire transfers greater than \$20,000 are approved by Mike Linksvayer, Vice President of Creative Commons. Wire transfers greater than \$50,000 are approved by Joichi Ito, CEO. All of the aforementioned people who approve wire transfers do not have the ability to also “initiate” wire transfers. These authorization levels have been established with the bank.
- Each authorized person has their own unique password (PIN) issued by the bank and not shared amongst employees.
- Any monthly transfer of funds to Germany is established by reference to the approved budget that illustrates the funds required on a monthly basis. CC will transfer funds that allow for Germany to have 2 months of cash on hand to ensure the smooth payment for future expenses. All funds transferred are initiated and approved under the same rules as for other wire transfers.

- The bank statement is reviewed regularly to identify any wired funds received by CC although most transfers are highlighted by the Development Department and then confirmed upon receipt and then reconciled as usual in the monthly bank statement reconciliation.
- Any amounts deposited into the PayPal account are transferred by the Development Department to CC's checking account, and the transactions are recorded as income as appropriate. These transfers are reconciled in the bank reconciliation process and to the monthly PayPal statements.

5. CHECK AND DEPOSIT RECEIPT

- All accounting mail is opened by the Office Manager.
- All checks received in the mail are photocopied, stamped on the back "For Deposit Only" by the Operations Manger, and deposited into the checking account by the Controller within 1-2 business days. The official bank deposit receipt is attached to the collection of checks that have been deposited. A copy of the check is forwarded to the Development Department for their records.
- All copies of the checks and deposit receipts are filed in the historical banking/cash files.
- All deposits are entered in the accounting software and reconciled in the monthly bank reconciliation process.
- Any cash received is immediately deposited into CC's checking account, and a copy of the deposit receipt is filed in the permanent cash/banking files.

6. ACCOUNTING FOR GERMAN OPERATIONS

- Each month the Accounting Assistant in Germany collects the following monthly accounting data and forwards it to the Controller for review:
 1. Expense summary for each employee or activity, identifying in euro's all expenses with copies of receipts attached.
 2. Any income received with explanations.
 3. Bank statements and credit card statements.

4. Opening and closing euro cash balances.
 5. Petty cash box reconciliation.
- Once the monthly accounting information is received from Germany, the information is reviewed and approved by the Controller.
 - The accounting source information is collated on to a spreadsheet that identifies each income and expense (in euro's) and the appropriate GL/Project Code for all postings.
 - The closing month-end exchange rate is looked up online and the opening euro cash balance carried forward from the previous month. Each transaction is converted into USD and the journal entry is produced that will allow for the posting of these transactions and balances into the accounting software.
 - Any foreign exchange differences that arise from the opening or closing balances are posted into the accounting software on the same journal entry. All ending balances are in USD.
 - The journal entry for German transactions is reviewed and approved by the Vice President of Creative Commons.
 - Any differences, errors or areas needing further investigation are reviewed with Germany before posting the journal for all transactions for the month.
 - Any funds transferred to Germany are approved by the Controller and the Vice President of Creative Commons in reference to the approved budget. These transfers of funds are reconciled in the monthly bank reconciliation process and in the journal entries for German transactions.
 - A copy of the journal entry is filed with all source documents and transaction summaries for the month.

7. GRANTS AND RECEIVABLES AND REVENUES UNDER CONTRACTS

The Accounting Department and the Development Department meet on a regular basis to document the following **(to ensure that revenue and receivable accounts are complete and accurate)**:

- Update all terms and conditions for ongoing contracts, grants, and pledges with regards to future funds to be received. Perm files for contracts, grants and pledges are updated for any changes (or proposed changes).

- Review for new grant proposals, gifts and pledges and perm files updated for preliminary and fully executed contracts and other pledge documents.
- Review forward looking analysis and budget for funds to be received, especially for undocumented pledges and gifts.
- Review and reconciliation for funds received from the donors into corporate PayPal account and for any wired funds received.
- To review income recognition to be derived under GAAP for all contracts, pledges and other expected income. Reconcile between cash received and internal cash-based management reports and GAAP reporting for income.
- Ensure accounting records are complete for all potential income and ensure that any and all amounts deposited are recorded correctly in accordance with specific contracts or grants.
- To reconcile and resolve any differences in how any deposits or funds are received are recorded.
- To ensure any future grants or pledge reports are updated for transactions, and any reports are reviewed in accordance with the terms and conditions.
- On a quarterly and annual basis, each accounting income transactions is reviewed to ensure completeness and accuracy.
- Receivable balances are regularly reviewed and reconciled with reference to executed contracts and pledge agreements and updated for any new transactions.

8. FIXED ASSETS

- All fixed assets to be purchased must be approved by the budget owner and the Vice President of Creative Commons, and in accordance with a budget line item.
- All assets (either singularly or bundled, as in the case of computers) are capitalized if in excess of \$1,000.
- All expenses are reviewed each month to identify any capital items and any such items are capitalized in accordance with appropriate accounting transactions.
- All fixed assets are depreciated straight-line over 3 years.
- A fixed asset schedule is maintained that clearly exhibits each asset, its location, its purchase price and the date of purchase. This schedule is updated monthly and depreciation is booked on

a quarterly basis and reconciled at the same time so that the roll forward accurately exhibits all activity.

- All assets sold, retired or disposed of have to be approved by the Controller to ensure appropriate valuation, the collection of the funds and the appropriate accounting for any such transactions.

9. PREPAID EXPENSES

- All insurance payments are approved via the normal process and invoices and check copies are filed in the vendor files.
- Comprehensive files for each insurance policy are maintained for reference and regularly updated and reviewed for completeness.
- All prepaid items are identified in the monthly close process and any such payments are updated on a prepaid schedule to ensure appropriate amounts are capitalized and expensed. Each month this schedule is updated, reconciled and reviewed for any such activity.

10. CREDIT CARD STATEMENTS

- Creative Commons issues Bank of America Visa credit cards to certain key employees for the payment of business expenses. The issuance and use of all such credit cards are in accordance with the employee handbook and the adherence to these policies is reviewed and checked by the Controller and Operations Director. All new credit cards issued have to be approved by the Operations Director, as well as any request for a change in the credit limit.
- All credit cards charges have to be supported by the original receipts, which are collated each month by each card holder and sent through to HQ for review within 15 days of the month-end.
- These receipts are checked and collated with the actual charges per the monthly bank credit card statement by the Office Manager, who is checking for completeness and accuracy.
- The credit card statement and files of receipts is reviewed by Mike Linksvayer, Vice President of Creative Commons, and approved for payment using the official CC date stamp (as for other invoices).

- The Controller downloads the monthly charges from the online Bank of America website directly into the accounting software using an established and secure banking process, and reviews these downloads in conjunction to the approved statement and receipts.
- Approved credit card transactions after being downloaded are posted each month to the appropriate GL/Project Code and reviewed for accuracy and completeness.
- Each credit card statement balance is reconciled to official receipts, payments and transactions posted. This reconciliation is reviewed each month by the Controller, and any difference or issues are investigated.
- The following is an inclusive listing of the credit card holders at CC, and their corresponding credit limits:
 - Jennifer Yip, Operations Director (\$50,000)
 - John Wilbanks, Vice President of Science Commons (\$50,000)
 - Nathan Yergler, CTO (\$25,000)
 - Eric Steuer, Creative Director (\$10,000)

11. PAYROLL AND 403(b) PAYMENTS

- Payments to employees and contractors occur through Paychex. Payments are twice a month, on the 15th and month-end.
- Payroll records are maintained by the Office Manager. All updates to the payroll records are authorized by Mike Linksvayer, Vice President of Creative Commons, and are filed in employee HR files.
- Paychex deducts amounts directly from CC's checking account.
- The payroll records are reconciled monthly for each employee and contractor, and the journal entry is prepared by the Controller that illustrates the following:
 - Each deduction per employee/contractor
 - Deductions from the corporate checking account
 - Payments made on behalf of CC (taxes, etc.)
 - Invoiced amounts directly deducted for payroll processing fees

- Any 403(b) contributions are reviewed and reconciled from the bank statement and posted, by employee, to the accounting software. The Controller creates this journal entry.
- The journal entry is reviewed and approved by the Vice President of Creative Commons during the month-end close process.
- All journal entries are filed in the payroll files with the original payroll records.
- Vacation accrual balances are prepared by Operations Director and exhibit accruals necessary from review of activity through the period and resultant liability to be recorded.

12. OTHER LIABILITIES

- A periodic review is conducted to ensure that no other liabilities exist.

13. WRITE-OFF OF PLEDGE RECEIVABLES

- All reasonable means of collecting a pledge receivable are to be exhausted before write-off procedures are initiated.
- Write-offs are initiated by completion of a Pledge Write-off Request Form.
- If a receivable is deemed uncollectible, the following approvals are required before the pledge can be written off:

<u>Amount</u>	<u>Approval(s)</u>
Less than \$500,000	Vice President of Creative Commons
\$500,000 or more	Vice President of Creative Commons & CEO

- Pledges that are written off in the same year they are dated will be treated as a reduction of the appropriate revenue account.
- Pledges that are written off that are dated prior to the current year will be treated as bad debt.

14. MONTHLY ACCOUNTING CLOSE PROCESS AND PROCEDURES

Each month the following key steps are performed to ensure appropriate accounting:

- All bank accounts are reconciled and the reconciliations are printed and filed with original bank statements and reviewed by the Controller and the Vice President of Creative Commons.
- All checks older than 6 months are reviewed and investigated, and proposed for adjustment.
- All interest income is posted to the accounting software.
- Banking/cash perm files are updated for all copies of checks deposited and deposit receipts, and for all wire payments/receipts.
- Any PayPal amounts are reviewed and booked as appropriate. Balances are confirmed to monthly PayPal statements.
- Germany transactions are converted to USD, reviewed, and a journal entry is proposed for all transactions, including FX changes. The journal entry, the summary schedules and original receipts are reviewed, printed and filed by month.
- For all funds received, appropriate accounting is reviewed as to regards to income recognition and receivables.
- Income and receivable balances are reviewed and adjusted for changes in contracts, pledges and other gifts. This is reviewed with the Development Department and with reference to the contract files to ensure completeness.
- A review of the aging of balances to be received are reviewed with the Development Department.
- Prepays are updated, reconciled and reviewed for any amounts to be classified as such an asset. Amounts to be expensed are entered via a journal entry and posted once reviewed. Insurance perm files are updated.
- Any fixed assets purchased are capitalized and on a quarterly basis, the fixed asset schedule is updated and the depreciation expense posted. This fixed asset schedule is reconciled and reviewed on a quarterly basis.
- Credit card charges are downloaded directly from Bank of America and reconciled and reviewed with the credit card statement and supporting receipts. Transactions are posted and then reviewed for appropriate classification and recording.

- Payroll records from Paychex are reconciled to the bank statement and the journal entry is posted by employee. Any differences are highlighted and investigated. The payroll journal entry created by the Controller is reviewed during the month-end review process, which is conducted by the Vice President of Creative Commons.
- Payroll processing expenses are posted upon reconciliation to the Paychex invoice and to the bank statement. On a quarterly and annual basis, total payroll expense is reviewed and reconciled to the Paychex period reports.
- All expenses are reviewed for appropriate classification. Any exception or unclassified report is reviewed by the Controller. All invoices are filed in the vendor files.
- The balance sheet and income statement (sorted by GL and Class/Employee) are reviewed for reasonableness by the Controller and other senior staff. On a regular basis, key expenses are reviewed and income (from contracts, pledges and gifts) is reviewed for completeness and accuracy.
- Appropriate management reports are reviewed by senior management in conjunction with budget reports, and variances greater than or equal to 10% or \$20,000 are investigated and require documented justification/explanation. These reports include monthly updates to members of the senior staff and board of directors.

15. MAINTAINING 501(C)(3) STATUS

Creative Commons files the necessary paperwork with the IRS and state in order to maintain its 501(c)(3) status, and each year Creative Commons Corporation is audited by external auditors.

In addition to filing the necessary paperwork, Creative Commons also performs the following actions in order to ensure compliance:

- Maintain detailed and accurate records of all its financial transactions that track income, expenses and assets for the entire organization and its individual programs.
- Keep pertinent records of the organization on file including, but not limited to:
 - A copy of Creative Commons Corporation's letter determining its 501(c)(3) status.
 - The Articles of Incorporation.
 - Descriptions and summaries of Creative Commons Corporation's programs.

- Minutes from the board meetings.
 - Employment records (e.g., W-2 Forms).
- Track the financial resources used for lobbying activities to ensure compliance with the 501(h) Expenditure Test.
- Track the level of Unrelated Business Income.

Creative Commons Corporation's has an Audit Committee that assists the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal controls, the audit process, and the company's process for monitoring compliance with laws and regulations and the code of conduct. To read more on the Creative Commons Corporation's Audit Committee, please refer to the "Audit Committee Charter."