

Creative Commons Corporation

Financial Statements

Year Ended December 31, 2012

Creative Commons Corporation

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CERTIFIED PUBLIC ACCOUNTANTS

Partners

Daniel J. Harrington, CPA

Bruce J. Wright, CPA

Michael J. Ellingson, CPA

Principal

Mitchell Richstone, CPA

Independent Auditors' Report

Board of Directors
Creative Commons Corporation

We have audited the accompanying financial statements of Creative Commons Corporation (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2012, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the Organization's 2011 financial statements and, in our report dated April 26, 2012, we expressed an unqualified opinion on those 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 of 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 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.

**Independent Auditors' Report
(Continued)**

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 Creative Commons Corporation as of December 31, 2012, and the 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.



South San Francisco, California
April 30, 2013

Creative Commons Corporation
Statement of Financial Position
December 31, 2012
(With Comparative Totals at December 31, 2011)

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,092,944	\$ 3,600,454
Grants Receivable	2,557,988	4,079,667
Contributions and Other Receivables	50,087	162,922
Prepaid Expenses	30,984	72,552
Total Current Assets	<u>4,732,003</u>	<u>7,915,595</u>
NONCURRENT ASSETS		
Grants Receivable	1,161,932	2,315,819
Investments	5,263	2,088
Security Deposit	78,291	85,395
Property and Equipment - Net	80,793	100,391
Total Noncurrent Assets	<u>1,326,279</u>	<u>2,503,693</u>
 Total Assets	 <u>\$ 6,058,282</u>	 <u>\$ 10,419,288</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 129,230	\$ 788,989
Accrued Expenses	232,438	102,303
Total Liabilities	<u>361,668</u>	<u>891,292</u>
NET ASSETS		
Unrestricted (Deficit)	(505,956)	852,823
Temporarily Restricted	6,202,570	8,675,173
Total Net Assets	<u>5,696,614</u>	<u>9,527,996</u>
 Total Liabilities and Net Assets	 <u>\$ 6,058,282</u>	 <u>\$ 10,419,288</u>

Creative Commons Corporation
Statement of Activities
Year Ended December 31, 2012
(With Comparative Totals for the Year Ended December 31, 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2012</u>	<u>Total 2011</u>
REVENUE AND GAINS				
Foundation Grants	\$ 47,965	\$ 750,000	\$ 797,965	\$ 9,328,440
Contributions	93,680	184,000	277,680	414,424
In-Kind Contributions	192,930		192,930	135,614
Contracts	21,080		21,080	21,081
Interest Income	31		31	-
Foreign Currency Translation Gain (Loss)	350		350	(1,398)
Net Realized and Unrealized Gain (Loss) on Investments	1,057		1,057	(1,061)
Other Income	31,862		31,862	83,946
	<u>388,955</u>	<u>934,000</u>	<u>1,322,955</u>	<u>9,981,046</u>
NET ASSETS RELEASED FROM RESTRICTIONS				
Satisfaction of Program Restrictions	3,406,603	(3,406,603)	-	-
Total Revenue and Gains	<u>3,795,558</u>	<u>(2,472,603)</u>	<u>1,322,955</u>	<u>9,981,046</u>
EXPENSES				
Program Services	3,894,860		3,894,860	4,844,156
Supporting Services				
Management and General Expenses	775,167		775,167	721,768
Fundraising Expenses	484,310		484,310	362,764
Total Expenses	<u>5,154,337</u>	<u>-</u>	<u>5,154,337</u>	<u>5,928,688</u>
CHANGE IN NET ASSETS				
BEFORE OTHER ITEM	(1,358,779)	(2,472,603)	(3,831,382)	4,052,358
Write-off of Receivables			-	(306,000)
CHANGE IN NET ASSETS	(1,358,779)	(2,472,603)	(3,831,382)	3,746,358
NET ASSETS, BEGINNING OF YEAR	<u>852,823</u>	<u>8,675,173</u>	<u>9,527,996</u>	<u>5,781,638</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ (505,956)</u>	<u>\$ 6,202,570</u>	<u>\$ 5,696,614</u>	<u>\$ 9,527,996</u>

Creative Commons Corporation
Statement of Functional Expenses
Year Ended December 31, 2012
 (With Comparative Totals for the Year Ended December 31, 2011)

	Program Services						Supporting Services			2011 Total Expenses	
	Education	International/ Affiliates	Legal	Technology	Science	Culture	Total Program Services	Management and General	Fund Raising		Total Supporting Services
Salaries	\$ 666,885	\$ 290,558	\$ 239,937	\$ 216,466	\$ 147,309	\$ 165,036	\$ 1,726,191	\$ 365,691	\$ 98,133	\$ 463,824	\$ 2,058,540
Payroll Taxes	46,791	20,386	16,835	15,188	10,336	11,579	121,115	25,658	6,885	32,543	148,174
Employee Benefits	82,713	36,037	29,759	26,848	18,270	20,469	214,096	45,356	12,171	57,527	265,170
	796,389	346,981	286,531	258,502	175,915	197,084	2,061,402	436,705	117,189	553,894	2,615,296
Consulting and Design	68,500	201,987		9,161	37,080		316,728	114,647	183,809	298,456	692,682
Contract Services	450,229				10,000		460,229	123,249	123,249	123,249	1,338,882
Travel and Conferences	130,659	56,927	47,009	42,411	28,861	32,335	338,202	71,648	19,227	90,875	429,077
Occupancy	106,357	46,339	38,266	34,523	23,493	26,320	275,298	58,321	15,650	73,971	349,269
Legal Fees	78,070	34,015	28,089	25,341	17,245	19,320	202,080	42,810	11,488	54,298	262,256
Special Events	13,269	5,781	4,774	4,307	2,931	3,284	34,346	7,276	1,953	9,229	160,865
Insurance	12,761	5,560	4,591	4,142	2,819	3,158	33,031	6,998	1,878	8,876	51,600
Recruiting	11,393	4,964	4,099	3,698	2,517	2,820	29,491	6,248	1,677	7,925	46,012
Depreciation	9,988	4,352	3,593	3,242	2,206	2,472	25,853	5,477	1,470	6,947	21,560
Telephone	7,292	3,177	2,626	2,367	1,611	1,805	18,878	3,999	1,073	5,072	28,695
Professional Services	6,413	2,794	2,307	2,082	1,417	1,587	16,600	3,517	944	4,461	20,616
Accounting Fees	6,127	2,669	2,204	1,989	1,353	1,516	15,858	3,360	902	4,262	21,863
Supplies	5,316	2,316	1,913	1,726	1,174	1,316	13,761	2,909	782	3,691	24,161
Website Development and Hosting	4,751	2,070	1,710	1,542	1,050	1,176	12,299	2,606	699	3,305	14,089
Technology	3,803	1,657	1,368	1,235	840	941	9,844	2,086	560	2,646	12,606
Membership and Dues	3,595	1,566	1,294	1,167	794	890	9,306	1,972	529	2,501	11,807
Training	3,020	1,316	1,087	980	667	747	7,817	1,656	444	2,100	9,917
Bank Charges	2,622	1,142	943	851	579	649	6,786	1,438	386	1,824	10,185
Printing	1,425	621	513	462	315	353	3,689	781	210	991	8,796
Moving Expenses	630	275	227	205	139	156	1,632	346	93	439	158,847
Licenses & Fees	396	172	142	128	87	88	1,023	217	58	275	1,298
Board Cultivation & Meetings	273	119	98	89	60	68	707	150	40	190	68,205
Publicity and Communication											26,948
Total Expenses	\$ 1,723,276	\$ 726,800	\$ 433,384	\$ 400,150	\$ 313,153	\$ 298,095	\$ 3,894,860	\$ 775,167	\$ 484,310	\$ 1,259,477	\$ 5,154,337

Creative Commons Corporation
Statement of Cash Flows
Year Ended December 31, 2012
(With Comparative Totals for the Year Ended December 31, 2011)

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (3,831,382)	\$ 3,746,358
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities		
Depreciation	32,800	21,560
Donated Investments	(2,118)	-
Net Realized and Unrealized (Gain) Loss on Investments	(1,057)	1,061
(Increase) Decrease in Operating Assets		
Grants Receivable	2,675,567	(3,158,923)
Contributions and Other Receivables	112,834	(22,709)
Prepaid Expenses	41,568	(28,693)
Security Deposit	7,104	(78,290)
Increase (Decrease) in Operating Liabilities		
Accounts Payable	(645,585)	754,347
Accrued Expenses	115,960	(38,985)
Net Cash Provided (Used) by Operating Activities	<u>(1,494,309)</u>	<u>1,195,726</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	<u>(13,201)</u>	<u>(104,544)</u>
Net Cash (Used) by Investing Activities	<u>(13,201)</u>	<u>(104,544)</u>
NET INCREASE (DECREASE) IN CASH	(1,507,510)	1,091,182
CASH, BEGINNING OF YEAR	<u>3,600,454</u>	<u>2,509,272</u>
CASH, END OF YEAR	<u>\$ 2,092,944</u>	<u>\$ 3,600,454</u>

Creative Commons Corporation
Notes to Financial Statements
December 31, 2012

1. Organization

Creative Commons Corporation (Creative Commons) is a Massachusetts charitable corporation that develops, supports, and stewards legal and technical infrastructure that maximizes digital creativity, sharing, and innovation. Creative Commons' vision is to realize the full potential of the Internet – universal access to research and education, participatory culture, and driving the next era of development, growth, and productivity. Existing copyright laws were established long before the emergence of the Internet, and can make it difficult to legally “do things” we take for granted on the network: copy, paste, edit source, and post to the Web. Because it can be expensive and burdensome to secure legal permission to use a copyrighted work published to the Web, Creative Commons provides a set of free copyright licenses and public domain tools that enable everyone, from individual creators to large companies and institutions, a simple, standardized way to grant copyright permissions to their creative work in advance. Creative Commons' public domain tools allow creators to waive all rights to a work and place it in the public domain, or to mark a work that is already in the public domain as such.

Creative Commons plays an instrumental role in furthering scientific research and innovation by enabling open access journals and the open exchange of scientific data. The world's largest Open Access publishers use Creative Commons' licenses to publish their content online. Creative Commons' licenses and public domain tools are also used to make data and databases freely available. The CC0 public domain dedication tool is used to remove copyright restrictions that could otherwise limit the dissemination and reuse of scientific and government data in the taxonomic, energy, genomics, disease research, geospatial, polar, and bilbiometric disciplines.

Creative Commons also provides the legal infrastructure that powers Open Educational Resources (OER), free resources that are developed by institutions, communities, and individuals to further universal access to education. Creative Commons-licensed OER, such as textbooks and lesson plans, are easy to find, easy to share, and easy to customize and combine. Creative Commons' licenses enable collaboration on linguistic and cultural translations of quality educational resources for use around the world. Creative Commons is also developing software and metadata standards to improve search and discovery of educational resources.

Creative Commons Corporation
Notes to Financial Statements
December 31, 2012
(Continued)

1. **Organization (continued)**

Creative Commons' licenses and tools have been developed in consultation with legal experts and Creative Commons affiliate institutions in over 70 jurisdictions. Over 500 million Creative Commons-licensed works have been published by their authors on the Internet. Creative Commons is a major player in the "free culture," "open access," "open education," and "open government" environments worldwide.

In 2012 a Canada subsidiary, 0941176 B.C. LTD, was established to enable CC to engage the services of a Canadian-based individual. Creative Commons is the sole shareholder of the subsidiary. A management services agreement is in place between the organizations and provides the structure for provision of those services to CC by the subsidiary through its employee. Consolidated financial statements are included for the year ended December 31, 2012.

2. **Summary of Significant Accounting Policies**

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation – Creative Commons is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has no permanently restricted net assets.

Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of asset and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents – For purposes of the Statement of Cash Flows, Creative Commons considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Grants Receivable – No allowance for doubtful accounts is considered necessary since the receivables relate primarily to foundations and corporations.

Creative Commons Corporation
Notes to Financial Statements
December 31, 2012
(Continued)

2. Summary of Significant Accounting Policies (continued)

Contributions Receivable – Unconditional receivables are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Unconditional receivables are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. No allowance for uncollectible receivables has been recorded based on management's evaluation of collections.

Investments – Investments, consisting of nationally traded securities, with readily determinable fair values are stated at fair value in the statement of financial position.

Property and Equipment – Creative Commons capitalizes all expenditures for property and equipment in excess \$1,000. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives on the property and equipment.

Restricted and Unrestricted Revenue – Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a donor-specified restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as Net Assets Released from Restrictions.

Donated Services – The financial statements reflect \$192,930 for donated legal services to evaluate ongoing tax, trademark, and copyright implications of its new programs and existing services.

Fair Value of Financial Instruments – The carrying amount of cash, grants receivable, contributions and other receivables, prepaid expenses, security deposit, accounts payable, and accrued liabilities, none of which are held for trading purposes, approximate the fair value due to the short-term maturities of those instruments.

Creative Commons Corporation
Notes to Financial Statements
December 31, 2012
(Continued)

2. **Summary of Significant Accounting Policies (continued)**

Income Taxes – Creative Commons is exempt from income taxes under Internal Revenue Section 501(c)(3). Creative Commons qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

Creative Commons recognizes the effect of income tax positions only if those positions are more than not to be sustained. Management continuously evaluates tax positions reflected in the Creative Commons' tax filings and does not believe that any material uncertain tax positions exist.

The Organization's federal and state income tax returns are generally subject to examination by federal and state taxing authorities for three and four years, respectively, after filing.

Functional Allocation of Expenses – Costs of providing programs and other activities are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated to the programs and supporting services by a method which best measured the relative degree of benefit. Accordingly, certain costs have been allocated between the program and the supporting services in reasonable ratios determined by management.

Reclassifications – Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Comparative Totals – The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Creative Commons' financial statements for the year ended December 31, 2011 from which the summarized information was derived.

Creative Commons Corporation
Notes to Financial Statements
December 31, 2012
(Continued)

3. Concentration of Credit Risk

Creative Commons maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Moreover, the Organization's banks take part in the FDIC's Transaction Account Guarantee Program, which provides unlimited deposit insurance coverage for non-interest bearing accounts until December 31, 2012. At December 31, 2012, the Organization had no uninsured cash balances.

4. Grants Receivable

Grants Receivable includes the following unconditional promises to give:

Total Temporarily Restricted Promises to Give	\$ <u>3,719,920</u>
Receivable in less than one year	\$ 2,557,988
Receivable in one to five years	<u>1,161,932</u>
Total unconditional promises to give	<u>3,719,920</u>
Net unconditional promises to give at December 31, 2012	\$ <u>3,719,920</u>

Promises to give receivable in more than one year are discounted at .25%, when material.

5. Property and Equipment

Computer Equipment	\$ 64,299
Furniture and Equipment	12,050
Leasehold Improvements	<u>84,314</u>
Subtotal	160,663
Less: Accumulated Depreciation	<u>(79,870)</u>
Property and Equipment – Net	\$ <u>80,793</u>

Depreciation expense for year ended December 31, 2012 was \$32,800.

Creative Commons Corporation
Notes to Financial Statements
December 31, 2012
(Continued)

6. Temporarily Restricted Net Assets

Restricted as to purpose and time:

Support for DOL Trade Adjustment Act grantees	\$ 4,334,973
Education	866,767
Learning Resource Metadata Initiative	566,280
OER Technology Development and Strategic Policy	155,484
General Support	150,000
Science Commons	<u>129,066</u>
 Total	 <u>\$ 6,202,570</u>

7. Operating Leases

Creative Commons leases office space and office equipment under non-cancelable operating leases expiring through May 2016. The equipment lease expires June 2014. The office space in San Francisco was subleased effective April 1, 2011 and expired concurrently with the master lease on April 15, 2012. The second lease for office space in Mountain View expires May 2016, with annual escalation of rental payments. Under this lease, the Company received two (2) months of free rent which will be amortized over the entire life of the lease on a straight-line basis. Accounting principles also requires that the total rent commitment be recognized on a straight-line basis over the term of the lease.

For the year ended December 31, 2012, total rent expense under the leases was \$351,494.

Minimum future lease payments are as follows:

<u>Fiscal Year Ending December 31,</u>	
2013	\$ 280,788
2014	290,899
2015	300,375
2016	<u>127,474</u>
 Total	 <u>\$ 999,536</u>

Creative Commons Corporation
Notes to Financial Statements
December 31, 2012
(Continued)

8. Pension Plan

Creative Commons has a Tax Sheltered Annuity under IRC Section 403(b), which allows all employees to contribute through payroll deductions. Creative Commons provides discretionary matching contributions of 5% of annual salary for all employees who work 20 hours or more per week. Creative Commons's contributions made during the year ending December 31, 2012 totaled \$105,169.

9. Subsequent Events

Management has evaluated subsequent events through April 30, 2013, the date which the financial statements were available to be issued and determined that no reportable events occurred.