

PREPAID EXPENSES POLICY

Purpose:

To provide guidelines on how to record, classify, amortize, and monitor prepaid expenses.

Scope:

This policy is applicable to the company and its subsidiaries. The following types of Prepaid Expenses are outside of the scope of this policy:

- Rent is recorded in accordance with Lease Accounting Policy.
- Advertising Expenses are recorded in accordance with Advertising Accounting Policy.

Definition:

A prepaid expense occurs when payment is made for goods or services before the benefits are received. It is defined as an asset representing an amount paid in advance that will benefit the Company in the future. Examples of prepaid expenses include:

1. Insurance premiums
2. Property taxes
3. Rents
4. Software maintenance agreements
5. Membership dues/subscriptions
6. Other miscellaneous prepaid expenses: Consulting, Tickets, Retainers, etc.

Policy:

- The amount must be equal to or greater than \$10,000. We do not record items under \$10,000 as prepaid expense accounts on a balance sheet. In instances where multiple invoices are involved for a specific event, the invoices must be bundled together for the purposes of the \$10,000 threshold calculation.
- The prepayment must be for a time period greater than 12 months, except for event deposits, which will be recognized as expenses immediately upon receipt of the invoice.
- If an amount of \$50,000 or more is received in a single invoice for a prepayment that spans across fiscal quarters, it may be capitalized.
- Prepaid expenses below \$10,000 must be recorded as period expenses immediately.

Identification and posting:

Each entity applying the policy should confirm that decision with a regional controller and document this decision in local policy documents. All prepayments expensed under this policy must be registered.

If a prepaid expense is not processed for payment, an adjustment for "prepaid not paid" will be posted to the prepaid expense account and the AP manual adjustment account. If a liability remains in the AP sub-ledger, the prepaid expense will not be treated as an asset. Adjustments will be made on a quarterly basis at a minimum. Deposits held for more than 12 months, such as security deposits, will be recorded to the Security & Other Deposits account.

Exceptions:

- The mid-month amortization method does not apply to prepaid expenses with a monthly amortization of \$50,000 or more, or if the amortization is spread over only one period. If the monthly amortization is equal to or more than \$50,000, the first month's amortization will be calculated based on the actual number of days of service.
- Prepaid T&E Expenses under \$10,000 can be recognized on the balance sheet if approved by a regional controller. This decision should be documented in the Policies by Entity.
- If local statutory laws do not allow applying threshold limits to record prepaid assets, local laws will be applicable.

Amortization:

A prepaid expense is amortized using a straight-line method based on the mid-month amortization method. If the first month of service begins between the 1st and 15th, a full month's amortization will be recorded in the current month. If it begins between the 16th and the last day of the month, amortization will begin on the 1st day of the following month:

1. For services over the period of services received,
2. For goods, once the goods are received.

Presentation:

If the prepaid expense is to be fully amortized within 12 months of the date of payment, the entire payment must be classified as a current asset. If the prepaid expense amortization extends beyond 12 months from the date of payment, the portion of payments related to the first twelve months' amortization must be classified as a current asset, and the remainder classified as a long-term asset.

Reconciliation:

Prepaid expenses must be tracked and reconciled monthly. The balance of prepaid expenses will be reviewed by the Senior Accounting Manager.