

RUGMARK FOUNDATION
Financial Statements
For the Year Ended December 31, 2007

and Report Thereon

(With Summarized Financial Information for the Year Ended December 31, 2006)

Cocchiaro & Associates

Certified Public Accountants and Consultants



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
the Rugmark Foundation

We have audited the accompanying statement of financial position of the Rugmark Foundation as of December 31, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Rugmark Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2006 financial statements, which in our report dated May 5, 2007, we expressed an unqualified opinion on those financial statements.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rugmark Foundation as of December 31, 2007, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses for the year ended December 31, 2007 on page 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cocchiaro & Associates LLC

Cocchiaro & Associates, LLC

April 19, 2008
Alexandria, Virginia

RUGMARK FOUNDATION
STATEMENT OF FINANCIAL POSITION
December 31, 2007
(With Summarized Comparative Information as of December 31, 2006)

	<u>2007</u>	<u>2006</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 704,109	\$ 712,380
Grants receivable	-	14,000
Accounts receivable, net	101,782	102,591
Investments	11,164	10,249
Prepaid expenses and other assets	<u>4,050</u>	<u>19,272</u>
Total Current Assets	821,105	858,492
Furniture and Equipment, Net	<u>76,860</u>	<u>60,754</u>
TOTAL ASSETS	<u>\$ 897,965</u>	<u>\$ 919,246</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 16,098	\$ 31,156
Deferred revenue	6,000	-
Funds held as fiscal sponsor	23,377	12,076
License fees payable - Rugmark International	<u>116,047</u>	<u>76,815</u>
TOTAL LIABILITIES	<u>161,522</u>	<u>120,047</u>
Commitments and risks		
NET ASSETS		
Unrestricted net assets	531,356	373,762
Temporarily restricted net assets	<u>205,087</u>	<u>425,437</u>
Total Net Assets	<u>736,443</u>	<u>799,199</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 897,965</u>	<u>\$ 919,246</u>

The accompanying notes are an integral part of these financial statements.

RUGMARK FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007
(With Summarized Comparative Information for the Year Ended December 31, 2006)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2007 Total</u>	<u>2006 Total</u>
SUPPORT AND REVENUE				
Grants and contributions	\$ 335,783	\$ 209,525	\$ 545,308	\$ 567,982
In-kind contributions	407,322	-	407,322	309,364
License and other fee income	187,436	-	187,436	157,219
Marketing partner fees	13,780	-	13,780	34,599
Special events	-	-	-	15,142
Investment and other income	23,946	-	23,946	10,528
Net assets released from restrictions	<u>429,875</u>	<u>(429,875)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>1,398,142</u>	<u>(220,350)</u>	<u>1,177,792</u>	<u>1,094,834</u>
EXPENSES				
Program Services				
Consumer Campaign	512,482	-	512,482	496,179
Rugmark International	211,250	-	211,250	123,451
Industry Outreach	<u>295,288</u>	<u>-</u>	<u>295,288</u>	<u>166,789</u>
Total Program Services	<u>1,019,020</u>	<u>-</u>	<u>1,019,020</u>	<u>786,419</u>
Supporting Services				
General and administrative	79,168	-	79,168	37,853
Fundraising	<u>142,360</u>	<u>-</u>	<u>142,360</u>	<u>99,210</u>
Total Supporting Services	<u>221,528</u>	<u>-</u>	<u>221,528</u>	<u>137,063</u>
Total Expenses	<u>1,240,548</u>	<u>-</u>	<u>1,240,548</u>	<u>923,482</u>
Change in Net Assets	157,594	(220,350)	(62,756)	171,352
Net Assets, Beginning of Year	<u>373,762</u>	<u>425,437</u>	<u>799,199</u>	<u>627,847</u>
Net Assets, End of Year	<u>\$ 531,356</u>	<u>\$ 205,087</u>	<u>\$ 736,443</u>	<u>\$ 799,199</u>

The accompanying notes are an integral part of these financial statements.

RUGMARK FOUNDATION
STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2007
Increase (Decrease) in Cash and Cash Equivalents
(With Summarized Comparative Information for the Year Ended December 31, 2006)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (62,756)	\$ 171,352
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	27,758	11,617
Unrealized gain	(515)	146
Bad debt expense	3,400	-
Changes in assets and liabilities:		
Decrease in grants receivable	14,000	201,000
Increase in accounts receivable	(2,591)	(23,176)
(Increase) decrease in prepaid expenses and other assets	15,222	(15,260)
Increase(decrease) in accounts payable and accrued expenses	(15,058)	3,491
Increase in deferred revenue	6,000	-
Increase (decrease) in funds held as fiscal sponsor	11,301	(24,035)
Increase in License fees payable - Rugmark International	39,232	24,910
NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES	35,993	350,045
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of furniture and equipment	(43,863)	(47,030)
Purchase of Investments	(401)	(10,395)
NET CASH FLOW USED IN INVESTING ACTIVITIES	(44,264)	(57,425)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,271)	292,620
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	712,380	419,760
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 704,109	\$ 712,380

The accompanying notes are an integral part of these financial statements.

RUGMARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2007 and 2006

1. Organization and Summary of Significant Accounting Policies

Organization

The Rugmark Foundation (the Foundation) is a 501(c)(3) nonprofit organization incorporated in 1996. The Foundation works to eradicate child labor in the handmade carpet industry in India, Nepal, and Pakistan through carpet loom monitoring programs, certification and labeling of carpets, education of former child laborers, and by raising awareness about child labor within the carpet trade and general public. The Foundation's operations are funded primarily through grants, contributions, license fees, and marketing program fees.

Cash and Cash Equivalents

The Foundation considers all demand deposit accounts, money market funds and highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Rugmark records accounts receivable at net realizable value and utilizes the allowance method for recording bad debts.

Investments

Investments are comprised of mutual funds and are recorded at fair value. Accordingly, changes in the fair value of the investments are recognized as a gain or loss, as appropriate, in the period in which the change occurs.

Furniture and Equipment and Related Depreciation

Furniture and equipment are stated at cost and are depreciated using the straight-line method over estimated useful lives of three to five years, with no salvage value. Expenditures for major repairs and improvements are capitalized; conversely, expenditures for minor repairs and maintenance costs are expensed when incurred. Upon retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is reported in the statement of activities, as appropriate.

Classification of Net Assets

The net assets of the Foundation are classified as follows:

- Unrestricted net assets are available for the general operations of the Foundation
- Temporarily restricted net assets represents amounts restricted by the donor for specific purposes or periods of time

(continued)

RUGMARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2007 and 2006

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition

The Foundation recognizes revenue from unconditional grants and contributions when notification of the commitment (promise) is received from the donor. Promises received as of the end of a year for which the cash had not been received, are reported as grants and contributions receivable in the accompanying statement of financial position. The Foundation reports contributions of cash and other assets as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor-imposed restriction expires, that is, when a stipulated time restriction ends or a 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.

The Foundation receives licence fees in exchange for the right to use the Rugmark Label on handmade rugs that meet the Foundation's strict requirements prohibiting the use of illegal child labor in the manufacture of the products. These license fees are payable quarterly based on net the import value of the handmade rugs. Accordingly, revenue from these fees is recognized in the quarter to which the license fee relates. Amounts due to the Foundation but uncollected at the end of the year are reported as accounts receivable in the accompany statement of financial position.

Marketing fees are recognized as revenue when earned.

Inkind Contributions

The Foundation receives inkind contributions of professional services and advertising. The Foundation records these inkind contributions at fair value as of the date of the gift based on the fair value provided by the donor.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. General and administrative costs have been allocated to the programs and supporting services proportionately based on direct personnel costs.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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RUGMARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2007 and 2006

2. Grants Receivable

At December 31, 2006, grants receivable was comprised of foundation grants. All amounts are considered fully collectible and are due within one year.

3. Accounts Receivable

At December 31, 2007 and 2006, accounts receivable was comprised of the following:

	2007	2006
Licensee payments	\$ 91,500	\$ 81,258
Marketing Partners	1,664	14,859
Other	8,618	6,474
Total	\$ 101,782	\$ 102,591

4. Furniture and Equipment

Furniture and equipment and the related accumulated depreciation as of December 31, 2007 and 2006, were as follows:

	2007	2006
Website	\$ 64,954	\$ 61,377
Photo library	31,582	-
Furniture and equipment	26,698	17,993
Total	123,234	79,370
Less: accumulated depreciation	(46,374)	(18,616)
Furniture and equipment, net	\$ 76,860	\$ 60,754

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RUGMARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2007 and 2006

5. Temporarily Restricted Net Assets

At December 31, 2007 and 2006, temporarily restricted net assets were available for the following time periods:

	2007	2006
Time restricted for use in:		
2007	\$ -	\$ 340,350
2008	205,087	85,087
Total	\$ 205,087	\$ 425,437

6. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, the Foundation is exempt from the payment of taxes on income other than net unrelated business income. For the years ended December 31, 2007 and 2006, the Foundation had no net unrelated business income and accordingly, no provision for income taxes was required.

7. Concentration of Risk

Concentration of Credit Risk

The Foundation's cash and cash equivalents include money market funds, cash held at federally insured financial institutions, highly liquid securities with an original maturity of less than three months. At December 31, 2007 the amount of cash and cash equivalents held by the Foundation in excess of the amount guaranteed by the Federal Deposit Insurance Corporation (FDIC) was \$52,458. Also included in cash and cash equivalents reported in the accompanying statement of financial position at December 31, 2007 is \$427,203 held in a money market mutual fund. The Foundation has not experienced, nor does it anticipate, any loss of funds as a result of this concentration.

Concentration of Revenue

During the year ended December 31, 2007, the Foundation received \$350,000 or 45% of its support and revenue, excluding in-kind contributions, from three donors. In addition, the Foundation received an additional \$187,436 or 24% of its support and revenue, excluding in-kind donations, under certain licensing rights granted through a management agreement between Rugmark International and Rugmark USA. A significant decline in these sources of support and revenue may impact the Foundation's ability to continue its current programs and supporting services. Management of the Foundation does not believe a significant reduction in these funding sources will occur in the near term.

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RUGMARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2007 and 2006

8. Retirement Plan

The Foundation maintains a simple individual retirement account plan for eligible employees. Eligible employees may contribute to the plan up to the maximum limits set by the Internal Revenue Service. The Foundation provides matching contributions of up to 3% of eligible employees' compensation. Retirement expense for the year ended December 31, 2007 and 2006 was \$5,265 and \$5,139, respectively.

9. Lease Commitment

The Foundation leases its office space in Washington DC under a noncancellable lease agreement (the Agreement) entered into in September 2005. The terms of the Agreement require fixed monthly payments with predetermined annual increases and a pro-rata share of the annual increase in operating expenses and property taxes. The agreement expires in November 2010. Future minimum lease payments are as follows:

<u>Years Ending</u> <u>December 31,</u>	
2008	24,104
2009	24,707
2010	<u>25,324</u>
Total	\$ <u>74,135</u>

Rent expense recorded by the Foundation for the years ended December 31, 2007 and 2006, was approximately \$24,561 and \$23,431, respectively.

10. Summarized Financial Information

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the years ended December 31, 2006, from which the summarized information was prepared.

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RUGMARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2007 and 2006

11. Inkind Contributions

During the years ended December 31, 2007 and 2006, the Foundation received the following inkind contributions:

	2007	2006	
Advertising	\$ 374,406	\$ 264,049	
Professional fees and other	32,916	45,315	
Total	\$ 407,322	\$ 309,364	

12. Related Parties - Rugmark International and Affiliated Organizations

The Foundation is affiliated with Rugmark International (RMI), a nonprofit organization organized under the laws of Germany. A representative from each of the Rugmark offices worldwide is also a member of the Council of Members of RMI. The Foundation entered into a management agreement with RMI in 1997 that allows the Foundation to implement the Rugmark program in the United States and utilize the Rugmark trademark. As part of this agreement, the Foundation is required to bill and collect license fees for the use of the Rugmark trademark. The Foundation is required to remit all license fees in excess of the Foundation's expenses or 4/7 of the license fees, whichever is greater, to RMI offices in Nepal and India. The term of the agreement is five years and may be terminated with six month notice. The agreement automatically renews for an additional five years if it is not terminated.

For the years ended December 31, 2007 and 2006, the Foundation received license fees of \$187,436 and \$157,219, under the terms of this agreement, of which \$103,417 and \$89,015 is required to be distributed as described above. At December 31, 2007 and 2006, \$116,047 and \$76,815 related to this agreement was reported as License Fees Payable - Rugmark International in the accompanying statement of financial position.

The Foundation also serves as a fiscal agent for funds raised on behalf of RMI's Nepal and India offices. During the year ended December 31, 2007, the Foundation received \$57,404 as fiscal agent for these organizations. At December 31, 2007, the amount of funds held on behalf of RMI Nepal and India was \$23,377.

During the year ended December 31, 2007, the Foundation also utilized the consulting services of an organization, which is run by the Founder of the Foundation. During the year ended December 31, 2007, the Foundation paid this organization \$36,630.

RUGMARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2007 and 2006

13. Reclassifications

Certain 2006 amounts have been reclassified to conform to the 2007 presentation.

SUPPLEMENTAL INFORMATION

RUGMARK FOUNDATION
Schedule of Functional Expenses
For the Year Ended December 31, 2007

	Program Services				Supporting Services		Total
	Consumer Campaign	Rugmark International	Industry Outreach	Total Program Services	General and Administrative	Fundraising	
Advertising	\$ 262,257	\$ -	\$ 112,373	\$ 374,630	\$ -	\$ -	\$ 374,630
Salaries	82,381	9,941	64,932	157,254	46,677	59,133	263,064
Consultants	47,596	64,428	13,951	125,975	2,838	5,280	134,093
Licensee Fees - RMI	-	102,035	-	102,035	-	-	102,035
Special events	27,815	270	9,710	37,795	75	15,434	53,304
Travel and meetings	11,212	9,373	14,565	35,150	8,560	5,415	49,125
Legal and accounting	-	3,600	29,749	33,349	11,919	-	45,268
Payroll taxes and employee benefits	14,266	1,727	11,277	27,270	7,490	10,306	45,066
Printing and copying	8,881	-	2,823	11,704	11,569	11,046	34,319
Depreciation	-	-	-	-	27,758	-	27,758
Rent	-	-	-	-	24,561	-	24,561
Other expenses	6,015	-	463	6,478	8,614	1,736	16,828
Grants	-	14,735	-	14,735	-	-	14,735
Office supplies	1,355	-	1,646	3,001	10,065	1,267	14,333
Telephone and website	4,358	108	47	4,513	8,236	116	12,865
Postage and delivery	4,579	54	1,303	5,936	2,393	2,751	11,080
Recruitment	-	-	-	-	8,051	-	8,051
Fees, licenses, insurance	-	10	-	10	4,808	75	4,893
Maintenance and repairs	-	-	-	-	3,690	-	3,690
Photography	600	-	-	600	-	250	850
Allocated overhead	41,167	4,969	32,449	78,585	(108,136)	29,551	-
Total	\$ 512,482	\$ 211,250	\$ 295,288	\$ 1,019,020	\$ 79,168	\$ 142,360	\$ 1,240,548

The accompanying notes are an integral part of these financial statements.