

RUGMARK FOUNDATION
Financial Statements
For the Year Ended December 31, 2008

and Report Thereon

(With Summarized Financial Information for the Year Ended December 31, 2007)

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, 2008, 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 2007 financial statements, which in our report dated April 19, 2008, 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, 2008, 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, 2008 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

May 6, 2009
Alexandria, Virginia

RUGMARK FOUNDATION
STATEMENT OF FINANCIAL POSITION
December 31, 2008
(With Summarized Comparative Information as of December 31, 2007)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 847,952	\$ 704,109
Grants receivable	435,000	-
Accounts receivable, net	113,639	101,782
Investments	185,287	11,164
Prepaid expenses and other assets	<u>4,130</u>	<u>4,050</u>
Total Current Assets	1,586,008	821,105
Grants Receivable, net of current portion	415,434	-
Furniture and Equipment, Net	<u>60,099</u>	<u>76,860</u>
TOTAL ASSETS	<u>\$ 2,061,541</u>	<u>\$ 897,965</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 28,216	\$ 16,098
Deferred revenue	4,000	6,000
Funds held as fiscal sponsor	138,044	23,377
License fees payable - Rugmark International	<u>112,593</u>	<u>116,047</u>
TOTAL LIABILITIES	<u>282,853</u>	<u>161,522</u>
Commitments and risks		
NET ASSETS		
Unrestricted net assets	563,688	531,356
Temporarily restricted net assets	<u>1,215,000</u>	<u>205,087</u>
Total Net Assets	<u>1,778,688</u>	<u>736,443</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,061,541</u>	<u>\$ 897,965</u>

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

**RUGMARK FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2008**

(With Summarized Comparative Information for the Year Ended December 31, 2007)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2008 Total</u>	<u>2007 Total</u>
SUPPORT AND REVENUE				
Grants and contributions	\$ 533,825	\$ 1,275,000	\$ 1,808,825	\$ 545,308
In-kind contributions	486,538	-	486,538	407,322
License and other fee income	228,933	-	228,933	187,436
Marketing partner fees	39,070	-	39,070	13,780
Investment and other income	(9,315)	-	(9,315)	23,946
Net assets released from restrictions	<u>265,087</u>	<u>(265,087)</u>	<u>-</u>	<u>-</u>
 Total Support and Revenue	 <u>1,544,138</u>	 <u>1,009,913</u>	 <u>2,554,051</u>	 <u>1,177,792</u>
 EXPENSES				
Program Services				
Consumer Campaign	579,129	-	579,129	512,482
Rugmark International	343,851	-	343,851	211,250
Industry Outreach	<u>375,439</u>	<u>-</u>	<u>375,439</u>	<u>295,288</u>
 Total Program Services	 <u>1,298,419</u>	 <u>-</u>	 <u>1,298,419</u>	 <u>1,019,020</u>
 Supporting Services				
General and administrative	84,242	-	84,242	79,168
Fundraising	<u>129,145</u>	<u>-</u>	<u>129,145</u>	<u>142,360</u>
 Total Supporting Services	 <u>213,387</u>	 <u>-</u>	 <u>213,387</u>	 <u>221,528</u>
 Total Expenses	 <u>1,511,806</u>	 <u>-</u>	 <u>1,511,806</u>	 <u>1,240,548</u>
 Change in Net Assets	 32,332	 1,009,913	 1,042,245	 (62,756)
Net Assets, Beginning of Year	<u>531,356</u>	<u>205,087</u>	<u>736,443</u>	<u>799,199</u>
Net Assets, End of Year	<u>\$ 563,688</u>	<u>\$ 1,215,000</u>	<u>\$ 1,778,688</u>	<u>\$ 736,443</u>

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

RUGMARK FOUNDATION
STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2008
Increase (Decrease) in Cash and Cash Equivalents
(With Summarized Comparative Information for the Year Ended December 31, 2007)

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,042,245	\$ (62,756)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	34,491	27,758
Unrealized gain	24,278	(515)
Bad debt expense	2,165	3,400
Discount on multi-year pledges	14,566	-
Changes in assets and liabilities:		
(Increase) decrease in grants receivable	(850,434)	14,000
(Increase) decrease in accounts receivable	(14,022)	(2,591)
(Increase) decrease in prepaid expenses and other assets	(80)	15,222
Increase (decrease) in accounts payable and accrued expenses	12,118	(15,058)
Increase (decrease) in deferred revenue	(2,000)	6,000
Increase (decrease) in funds held as fiscal sponsor	114,666	11,301
Increase (decrease) in license fees payable - Rugmark International	<u>(3,454)</u>	<u>39,232</u>
NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES	<u>359,973</u>	<u>35,993</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of furniture and equipment	(17,731)	(43,863)
Purchase of Investments	<u>(198,399)</u>	<u>(401)</u>
NET CASH FLOW USED IN INVESTING ACTIVITIES	<u>(216,130)</u>	<u>(44,264)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	143,843	(8,271)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>704,109</u>	<u>712,380</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 847,952</u>	<u>\$ 704,109</u>

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

RUGMARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2008 and 2007

1. Organization and Summary of Significant Accounting Policies

Organization

The Rugmark Foundation USA (the Foundation) is a 501(c)(3) nonprofit organization incorporated in 1996. The Foundation works to eradicate child labor in the handmade carpet industry and offer educational opportunities to children in South Asia. This is accomplished through a product labeling and certification program for handmade rugs. The certification includes inspection, monitoring and support of social programs in rug producing countries and awareness campaigns within the carpet trade and the general public in market countries. 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. Cash equivalents also include \$82,670 in operating cash held on behalf of Rugmark International, which is used by the Foundation in its capacity as the fiscal agent for this organization.

Accounts Receivable

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

Investments

Investments are recorded at fair value. Accordingly, changes in the fair value of the investments are recognized as a gain or loss, as appropriate.

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 either unrestricted net assets, which are available for the general operations of the Foundation, or temporarily restricted net assets, which 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, 2008 and 2007

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.

(continued)

RUGMARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2008 and 2007

2. Grants Receivable

At December 31, 2008, grants receivable was comprised of a multi-year foundation grant of \$865,000 net of a discount of \$14,566, to reduce the grant to the present value of its estimated future cash flows. The Foundation used a discount rate of 1.5%. Future expected cash flows for the grants receivable are \$435,000 in 2009, \$302,500 in 2010 and \$127,500 in 2011. This grant is also time restricted through 2011. All amounts are considered fully collectible.

3. Accounts Receivable

At December 31, 2008 and 2007, accounts receivable was comprised of the following:

	2008	2007
License payments	\$ 106,029	\$ 91,500
Other	7,610	10,282
Total	\$ 113,639	\$ 101,782

4. Investments

At December 31, 2008 investments were comprised of mutual funds and an exchange traded index fund totalling \$174,557 and \$10,730, respectively. At December 31, 2007, investments were comprised of mutual funds totalling \$11,164. For the years ended December 31, 2008 and 2007, total investment income (loss) was \$(9,315) and \$23,947, respectively, and included \$(24,405) and \$2,255 of unrealized gains (losses) on investments, respectively.

5. Furniture and Equipment

Furniture and equipment and the related accumulated depreciation as of December 31, 2008 and 2007, were as follows:

	2008	2007
Website	\$ 79,136	\$ 64,954
Photo library	31,582	31,582
Furniture and equipment	30,247	26,698
Total	140,965	123,234
Less: accumulated depreciation	(80,866)	(46,374)
Furniture and equipment, net	\$ 60,099	\$ 76,860

(continued)

RUGMARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2008 and 2007

6. Temporarily Restricted Net Assets

At December 31, 2008 and 2007, temporarily restricted net assets were available for the following time periods:

	2008	2007
Time restricted for use in:		
2008	\$ -	\$ 205,087
2009	785,000	-
2010	302,500	-
2011	127,500	-
Total	\$ 1,215,000	\$ 205,087

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, 2008 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 \$370,585. Also included in cash and cash equivalents reported in the accompanying statement of financial position at December 31, 2008 is \$218,382 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, 2008, the Foundation recognized \$1,590,000 or 77% of its total support and revenue, excluding inkind revenue, from three donors. \$865,000 of which was from one grantor, which awarded a large multi-year grant to the Foundation. In addition, the Foundation received an additional \$228,933 or 11% of its support and revenue, excluding inkind 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.

RUGMARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2008 and 2007

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, 2008 and 2007 was \$6,229 and \$5,265, 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>	
2009	24,707
2010	<u>25,324</u>
Total	<u>\$ 50,031</u>

Rent expense recorded by the Foundation for the years ended December 31, 2008 and 2007, was approximately \$27,279 and \$24,561, 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, 2007, from which the summarized information was prepared.

RUGMARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2008 and 2007

11. Inkind Contributions

During the years ended December 31, 2008 and 2007, the Foundation received the following inkind contributions:

	2008	2007	
Advertising	\$ 454,708	\$ 374,406	
Professional fees and other	31,830	32,916	
Total	\$ 486,538	\$ 407,322	

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 trademarks. 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. 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, 2008 and 2007, the Foundation received license fees of \$228,933 and \$187,436, under the terms of this agreement, of which \$126,646 and \$103,417 is required to be distributed as described above. At December 31, 2008 and 2007, \$112,593 and \$116,047 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 and it's affiliates. During the year ended December 31, 2008, the Foundation received \$35,535 as fiscal agent and also provided grants totaling \$135,318 to RMI. At December 31, 2008, the amount of funds held on behalf of RMI was \$138,044.

During the year ended December 31, 2008, the Foundation also utilized the services of an organization which is associated with the Founder of the Foundation. During the year ended December 31, 2008, the Foundation paid this organization \$20,000.

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RUGMARK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2008 and 2007

13. 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, 2008 and 2007, the Foundation had no net unrelated business income and accordingly, no provision for income taxes was required.

14. Reclassifications

Certain 2007 amounts have been reclassified to conform to the 2008 presentation.

SUPPLEMENTAL INFORMATION

RUGMARK FOUNDATION
Schedule of Functional Expenses
For the Year Ended December 31, 2008

	Program Services				Supporting Services		Total
	Consumer Campaign	Rugmark International	Industry Outreach	Total Program Services	General and Administrative	Fundraising	
Advertising	\$ 319,017	\$ -	\$ 136,175	\$ 455,192	\$ -	\$ -	\$ 455,192
Salaries	81,529	32,212	94,835	208,576	52,203	57,894	318,673
Grants	-	135,318	-	135,318	-	-	135,318
Consultants	75,375	12,750	27,410	115,535	4,717	10,481	130,733
Licensee Fees - RMI	-	126,646	-	126,646	-	-	126,646
Travel and meetings	15,051	14,957	21,042	51,050	14,303	5,384	70,737
Legal and accounting	3,427	1,242	27,219	31,888	16,535	357	48,780
Payroll taxes and employee benefits	12,106	4,882	14,196	31,184	8,623	8,249	48,056
Printing and copying	18,057	8	4,504	22,569	10,959	11,225	44,753
Depreciation and amortization	-	-	-	-	34,491	-	34,491
Rent	-	-	-	-	27,279	-	27,279
Office supplies	3,846	368	1,312	5,526	10,021	1,030	16,577
Telephone and website	6,688	144	-	6,832	8,360	-	15,191
Postage and delivery	2,747	235	1,123	4,105	1,890	6,313	12,308
Other expenses	361	-	171	533	7,270	745	8,548
Fees, licenses, insurance	-	-	-	-	6,146	347	6,493
Special events	1,433	-	3,030	4,463	-	-	4,463
Maintenance and repairs	-	-	-	-	3,919	-	3,919
Recruitment	50	-	-	50	2,347	-	2,397
Photography	1,252	-	-	1,252	-	-	1,252
Allocated overhead	38,190	15,089	44,422	97,701	(124,820)	27,119	-
Total	\$ 579,129	\$ 343,851	\$ 375,439	\$ 1,298,419	\$ 84,242	\$ 129,145	\$ 1,511,806

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