ANNUAL REPORT to CalRecycle

July 2011 – June 2013

California Carpet Stewardship Plan

Submitted by:

Robert Peoples, Ph.D.
Executive Director
Carpet America Recover Effort (CARE)
100 South Hamilton Street Dalton,
GA 30722
bpeoples@carpetrecovery.org

Submitted to:
Carol Mortensen, Director
c/o Kathy Frevert
Department of Resources, Recycling and Recovery (CalRecycle)
1001 I Street
Sacramento, CA 95814

CARE California Carpet Stewardship Plan

Annual Report

Table of Contents

Topic	Page
1. Contact Information	3
2. Executive Summary	3
3. Scope	5
4. Program Outline	5
5. Description of Goals and Activities	8
6. Market Development	15
7. Financing Mechanism	16
8. Outreach/Education	17
9. Audits	19
Appendix I: Members of CARE Board of Directors, 2013	24
Appendix II: Collectors and Recyclers of Carpet from California	25
Appendix III: AB 2398 Full Audit Report	30
Appendix IV: CARE Full Audit Report	48

Section 18944. Annual Report Compliance Criteria

(1) Contact information. Identify the manufacturer or stewardship organization responsible for the annual report submittal.

Robert Peoples, Ph.D.
Executive Director
Carpet America Recover Effort (CARE)
100 South Hamilton Street Dalton,
GA 30722
bpeoples@carpetrecovery.org
214-300-5206

(2) Executive Summary. Provide an evaluation of the effectiveness of the carpet stewardship plan, and anticipated steps, if needed, to improve performance.

CARE has now completed 7 full quarters of operation as the Carpet Stewardship Organization approved by CalRecycle. Since the program's inception CARE reports the following results for the time period July 1, 2011 through March 31, 2013 except as noted. Note the terms recovery, diversion, and collected are synonymous and all data is based on post-consumer carpet (PCC).

- ✓ **Total carpet sales: 173M square yards in California**
- ✓ **Total discards of PCC (calculated): 626M pounds**
- ✓ **Total recovered PCC: 184M pounds (as reported by processors)**
- ✓ **Total Recycled Output (Type 1 & 2): 60M pounds**
- ✓ **Average Recycled output 10%**
- ✓ **Type 1 Outlets: 97%**
- ✓ **Recovered PCC ultimately sent to landfill: 35M pounds (19%)**
- ✓ **Total Fees Collected: $8.6M**
- ✓ **Total Payments to Processors: $3.5M**
- ✓ **Total Administrative Fees Paid: $755.3K**
- ✓ **Fund balance: $ 4,322,226 (as of June 28, 2013)**
- ✓ **Rural Country Pilot Collection Program completed with 6 counties**
- ✓ **CA jobs end Q1 2013: 210**

The first 7 quarters have been a very steep learning curve for both CARE and CalRecycle. There are no "best management practices" to refer to for the implementation of such a PCC recycling program. All systems, procedures, protocols had to be developed from a blank sheet of paper. Progress has really been amazing when one considers CARE functioned without an Executive Director from May 1, 2012 thru September 1, 2012. CARE believes we have made major progress in setting up and now refining infrastructure and reporting. Major strides have been made in the following areas:

- ✓ **Implementation of enhanced Agreed Upon Procedures (AUPs)**
- ✓ **Implementation of enhanced quarterly reporting protocol for both mills and recyclers**
- ✓ **Implementation of follow-up protocols for non-reporting mills**
- ✓ **Enhanced quarterly reporting documentation bringing transparency and clarity**
- ✓ **Agreement of denominator calculation methodology**
- ✓ **Implementing new tracking metrics to help identify inventory concerns**
- ✓ **Implementing new incentive program to grow Type 1 output volume**

- ✓ **Implementing targeted new PET incentive program to increase outlets**
- ✓ **Implementing CARE "boots on the ground" initiative in California**

It is important to recognize CARE has had to work closely with CalRecycle on two major issues in the last 9 months. First was dealing with an on-going challenge with a massive inventory buildup by one recycler who ultimately was issued a cease and desist order by the Sacramento LEA. CARE has spent extensive time trying to understand what went wrong, working with local agencies, CalRecycle and the company management to try and seek solutions. This continues to be an on-going challenge. Second, late in Q1 2013 a second major processor in the State shut down operations for financial reasons.

CARE has worked diligently with our accounting firm who conducts reviews of both mills and processors against the Agreed Upon Procedures (AUPs). CARE has from time to time found and corrected minor reporting mistakes. Such issues have arisen out of a lack of understanding of the details of how the subsidy program operates, interpreting language and simple calculation errors. At this time all such issues have been considered minor in terms of dollars involved. At this time CARE has no hard evidence to suggest fraud is a concern. It should be stated however, there are those who feel differently.

Audit Results

As has been noted, CARE operated without an Executive Director from May 2012 until September 2012. During that time the Plan was executed by the Sustainable Plan Committee (SPC) and overseen by the Sustainable Fund Operating Committee (SFOC) with the support of CARE's Operations Manager. Upon arrival of the new Executive Director, steps were immediately taken to standardize procedures and implement improvements as a result of prior quarter operations and as new issues surfaced. As a result reviews of Agreed Upon Procedures (AUP) as outlined in the original Plan have been strengthened and signals identified for early warning (e.g., inventory levels).

A full audit of both CARE and AB 2398 financials was completed in June 2013 for the fiscal year 2012. Results of the AB 2398 audit found no uncorrected findings while there were no findings or CARE. Full details of both audits may be found in the appendices of this report.

Looking Forward

The SPC has completed an extensive analysis of feedback by California stakeholders, recyclers, and the performance trends and issues of the past 7 quarters. As a result, the SPC made specific recommendations to the SFOC at the June review meeting to modify and enhance the program and stimulate further growth. Specifically the SFOC approved the following actions. While the high level plans are outlined here, details are being developed for implementation beginning with the 2Q 2013 reporting cycle.

1. Implement a bonus incentive for Type 1 recycled output (enhancement to existing payout schedule)
2. Implement a non-nylon incentive to enhance growth which will address PET along with other non-nylon materials.
3. Hire a CARE person in California.
4. CARE will hire a person to work on PET national and allocate 20% of those costs to AB 2398.

While there has been considerable feedback and criticism, readers should be reminded this is a start-up program and CARE has moved with diligence, but also with a deep commitment to do the right thing and not respond in a whipsaw fashion to uninformed opinion. The original subsidy plan incentivized the entry of new business models now seen as unsustainable. The SFOC is looking for ways to maximize the viability of new initiatives while achieving the goals of AB 2398 for the future.

(3) Scope. The program described in the stewardship plan accepts and manages all applicable postconsumer carpet.

(A) Indicate any changes in the program scope from the approved stewardship plan.
(B) Indicate the scope is unchanged, if no changes have occurred during the reporting period.

There have been no changes in scope of what the Plan manages in terms of post-consumer carpet. The Plan focused on broadloom carpet, both residential and commercial, along with carpet tiles. A one year rural counties collection pilot was conducted and completed in February 2013. Based on the experiences of that program, the rural collection program is being expanded in the new Plan. However, as rural county collection was included in the original Statute, there is no change in scope.

(4) Program Outline. Describe the carpet stewardship program, including information on the following topics:

(A) Types of collections sites and basic information about recycling facilities in California, e.g., how carpet is collected, number and location of processors, throughput and capacity of recycling facilities.
(B) Include facility name(s) and address(es) for each method of disposition.

There are 80 mills registered with CARE as selling carpet in the State. Each quarter they submit a confidential report on the number of net square yards sold in the State and remit a check for the appropriate fees collected.

There are 11 processors (recyclers) who regularly report their activities under AB 2398. There are 6 recyclers who reside in the State and 5 who operate outside the State of California. It should be noted not all 11 processors report each quarter. There are 20 companies listed as CARE collectors/processors total within the State as shown in Figure 1. The 21 companies fall into two main categories: collectors and processors and in some cases one company performs both functions.

Under the current Plan, only companies that engage in processing of post-consumer carpet (PCC) are eligible for subsidy funding. Eligible companies must be a member in good standing as outlined in the following bullets and which includes a number of data requirements as documented in quarterly reporting. A list of all California collectors/processors may be found in Appendix II.

- **The company must complete all required CARE reporting of activities in accordance with the time-frame required by the Carpet Stewardship Plan.**
- **The company must be compliant with all federal state and local OSHA, DOT Fire Department EPA and all other regulatory agencies requirements.**
- **The funds being requested will be compliant with CARE's agreed upon procedures and be able to be verified through sales bills and/or a document from a certified scale.**
- **CARE Dues are current.**
- **Signature on the request for funds verifies that the company is operating in good standing.**

Figure 1 - California Collection/Processing Operations

Key

Green = Carpet is collected from these counties
Blue = Rural Pilot Counties
Red Dots = Locations of CARE Reclamation Centers

Since capacity and throughput are considered proprietary business information, CARE cannot disclose individual company details. However, one need only examine the total pounds collected from California landfill diversion (recovered pounds) and the recycled output pounds over 7 quarters of operation to draw two conclusions:

1. Both the landfill diversion and recycled output are increasing – an important goal of this program which also reflects seasonal selling impacts.
2. The total output capacity, which is driven in part by market demand, is reflected in the cumulative quarterly input/output mass balance.

It should be noted there are a number of different processing technologies in use. Each technology approach has associated yields and efficiencies. Further, it should be noted that not all PCC collected is processed in California. Examination of 7 quarters of data reveals that >90% of all California PCC diverted from landfills is processed by California based companies.

This is a compelling statistic for the State both in terms of ability to divert and use PCC, but also for job creation.

The fact that >90% of all PCC is processed within the State also points to a reason for concern. There are currently 11 recyclers of PCC, half of which are located in the State. In any given quarter typically 8-10 recyclers report processing of CA PCC. In the 1Q of 2013 one the State's recyclers shuttered operations which will have a material negative impact on the recycled output pounds generated and as a result pounds diverted since such dislocations cannot be immediately offset. This result was driven by economics which underscores just how challenging the economics of PCC recycling is.

CARE has undertaken an analysis of this shutdown to try and understand the underlying factors and thus recommend changes to the Plan that will help minimize such future events. The Plan submitted does not offer a specific remedy, but rather provides for a flexible response capacity in order to adjust to changing marketplace dynamics, just as any successful business would do.

CARE is aware of additional collectors who operate in the State who do not submit quarterly reports since they are not processing and thus not eligible for subsidy payouts. However, such collection does contribute to overall landfill diversion. CARE works to stay in contact with such companies to try and capture their data in an unofficial capacity since they are not obligated to share any information. As a result, CARE believes the quarterly diversion numbers are conservative.

As in any business endeavor there are market driven cycles. As an example it is well known to the carpet industry that sales are driven seasonally. Typically the second and third quarters of each year are strong selling seasons while the first and fourth quarters are historically slow periods. As carpet recycling is driven predominately by "rip outs" associated with new carpet installation, the carpet recycling/collection cycle typically mirrors new carpet sales. While there has been discussion of deselection as consumer's transition to alternative flooring, the industry data suggests this is a minor component of the landfill flow. In calculation of the denominator used to generate percent recovery (landfill diversion) and recycle output, there is a correction to account for deselection. Please refer to the Carpet Stewardship Plan, Section 5, *Methodology Used for Estimating the amount of carpet available for diversion in California for the year 2011 and beyond* (page 15) for a full discussion of the calculations used for landfill diversion and recycle output.

The methods for carpet collection vary and are driven in large part by two key variables: a) costs and b) space availability to locate collection trailers or bins. PCC may find its way to recyclers via several different mechanisms:

1. MSW collection system following be separation
2. DIY installation dropping PCC at collection sites or landfills
3. Installers bringing PCC to a collector
4. Installers returning to their shops and dropping in a collection vessel
5. C&D transfer stations via segregation
6. Independent collectors who sell their PCC to a processor

In many cases independent collectors also run one or more parallel businesses. It is typical for a PCC collector to also collect foam carpet cushion. A market exists for this material and as expected the value swings thru cycles typically ranging from zero to 16-20 cents per pound during robust economic times.

(5) Description of goals and activities based on the stewardship plan. State goals from the approved plan, the baseline from which goals were measured, and report on achievement during the reporting period.

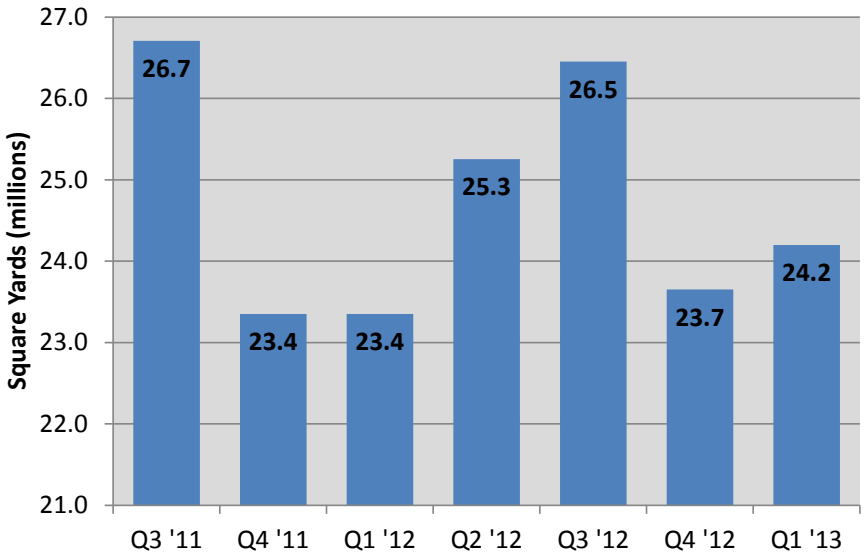
(A) The annual report shall include, but is not limited to, quantitative information data and discussion, specific to sales in California, on the following:

1. *Amount of carpet sold by square yards and pounds, in the state during the reporting period that is covered under the approved stewardship plan. A stewardship organization with more than one manufacturer may use average weight.*
2. *Amount (pounds) of post-consumer carpet that is available for collection.*

CARE issues a quarterly summary report on the current quarter along with trend information since inception, July 2011. These reports are posted to both the CARE and CalRecycle website.

Figure 2 is a summary of the total square yards of new carpet sold in the State of California, by quarter, as reported directly by the 80 manufacturers registered with CARE. Cumulatively 173M square years were sold and $8.6M was collected through the end of Q1 2013.You will note the seasonality of sales described previously. Reported square yards sold are converted to pounds destined for California landfills prior to recovery using the agreed upon formula described below.

Figure 2: Carpet Sold in Square Yards in California



The formula agreed upon with CalRecycle for the estimate of California PCC destined for landfill is as follows and is taken directly from the Plan submitted May 31, 2013 (page 16).

Formula Used for Calculating the Carpet Available for Diversion in California (Discards)

Discards = (((Sales * R)* P) + D)

The factors used to calculate the amount of carpet available for diversion include:

S= Carpet Sales into California for the reporting period (square yards)

i. Sales Data beginning with the 3rd quarter of 2011 comes from the independent accounting firm who is collecting the sales data from the carpet manufacturers registered with CARE. This data drives the future forecasts for 2013-2016, presented in the current Plan.

ii. Sales data for 2011 and beyond come directly from the manufacturers reporting to CARE on all carpet sold or shipped to the state of California. Future forecasts will be updated with the actual sales data after 2012. The updated forecasts will be supplied to CalRecycle as part of the Annual Report.

R= Percent of carpet that is replacement, or carpet replacing existing carpet. Replacement carpet is the carpet destined for the landfill. (This data will be supplied by an outside market research firm). The carpet industry estimates the replacement rate to be 85% currently.

P= Average weight of carpet per square yard. In 2012, the average weight was 4.2 pounds/square yard. (This data was supplied by the industry through the analysis by CARE.)

D= Pounds of carpet from demolition projects not replaced (this data will be supplied by outside market research firm) (In 2012, the demolition rate was estimated at 1.3%, (estimated by Torcivia Market Insights). D is converted to pounds by multiplying the percentage by total discards.

NOTE: The Plan assumes market share of soft floor covering (carpet) will remain steady (~55%) versus hard floor covering (~45%) and assumes that there will be no major shifts in the market share of soft versus hard floor covering for the years included in the scope of this Plan (2012-2016). If there is a change in market share, the calculations for discards will be adjusted accordingly and based on actual data. Also, there is export and import of carpet from the State of California. Historical data suggests these two factors offset within the error of estimates and thus are not included as discrete variables in the equation shown above.

3. Amount (pounds) of carpet source reduced, if measureable.

The carpet industry has for many years been working to reduce mass and improve yields and efficiencies. At the same time effort have been underway to design products that are more easily recyclable. When CARE started there was essentially no closed-loop recycling being done for carpet. Today approximately 15% of recycled PCC goes back into face fiber and another 12% into backing. A number of mills now recycle 100% of their manufacturing post-industrial materials. Several mills have products in their portfolio that are now 100% recyclable, primarily in the carpet tile segment. All new product development takes recycle into consideration as new products are conceived, designed and developed. Mills continue to work to increase the percent of PCC content in their products.

In addition to the newly approved incentives for non-nylon outlet with a focus on PET, and hiring of a resource to focus on PET, one mill has recently developed an all PET tile designed specifically with recycle in mind. This product is substantially lighter than traditional carpet. Another mill recently launched a carpet tile that is 80 oz/sqyd, down from 120 oz/sqyd, another great example of dematerialization. The continued growth of polyolefin backing systems is yet another step as these carpet tiles weigh less than traditional backing systems. Creative use of non-adhesive based installation systems also allows for the use of dramatically less material

resulting in an environmental footprint that is 5% or less than conventional systems. Finally, in addition to the recent developments listed above, the carpet industry continues to work to develop products which meet the triple bottom line of sustainability, superior function/performance and economic viability.

As experience evolves, mills now look at an extensive evaluation of material chemistry to ensure the carpet at the end of its useful life is a valuable resource because it has no or very limited amounts of chemicals of concern included in the polymer matrix and/or complete product makeup. In addition, mills have continued to expand ways to capture and reuse PCC. Technology approaches span the range from simple mechanical processing to sophisticated depolymerization and refining operations.

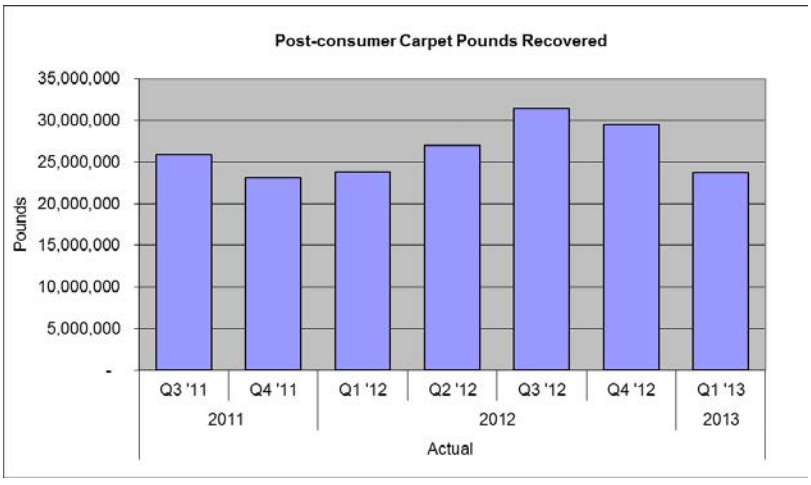
Since the industry looks at the challenge of recycling holistically, it is no surprise that mills have also engaged in a number of additional approaches: Examples include partnering on gas recovery projects from landfills and energy recovery projects to power manufacturing operations.

Full details of efforts to reduce impacts may be found in the annual reports and sustainability reports of individual mills. CARE does not seek such proprietary data in quantitative terms.

4. *Amount (pounds) of post-consumer carpet collected, by weight, during the reporting period.*

The amount of PCC collected is reported each quarter by the processors registered with CARE. As stated earlier, CARE is aware of others who are collecting but do not file a quarterly report since they are not eligible for subsidy payments under the AB 2398 program. Thus, CARE believes actual diversion from landfill is higher than reported. CARE is working to try and obtain such information for a more accurate assessment of landfill diversion. For example, in early 2013 CARE learned of a new collector operating in California whose volume of material collected in 2012 was quite significant and expected to grow. This company was not reporting since they do not process PCC. Figure 3 shows the calculated number of PCC pounds diverted from California landfills. It is also important to note that while only California PCC collected and diverted is report, a significant percentage of that diverted flow is processed outside the State. Cumulatively 184.6M pounds (30%) of PCC have been diverted from California landfills in 7 quarters.

Figure 3: Post Consumer Carpet Recovered (Diverted from Landfill)



5. *Disposition, that is, amounts reused, recycled, incinerated for energy recovery or disposed of in a landfill; of collected post-consumer carpet, by pounds, during the reporting period.*

The opportunities for reuse exist primarily in carpet tile and this is where virtually all effort is focused. Reusing carpet tiles can be very effective, especially carpet tiles that have not been used in high-traffic areas. The reuse of broadloom carpet is challenging, because it is customized (cut to size) and when ripped out, this carpet is often very dirty. Refurbishing and cleaning dirty broadloom carpet presents significant issues. For these reasons, cleaning and refurbishing broadloom carpet can be challenging, and the opportunity to reuse post-consumer broadloom carpet is very limited and will have no material impact on landfill diversion. In 2012 a total of 152.1K pounds of PCC was reported as reused (~0.14%).

Figure 4 gives a breakdown of the outlets reported over the life of this program after 7 quarters (July 2011 – April 2013). Figure 5 gives a breakdown of recycled outlet pounds as a percentage of the total diversion per quarter showing the contribution from Type 1 vs. Type 2 outlets. The reader will recall Type 1 outlets are currently supported at 6 cents/lb of sold and shipped product while Type 2 outlets are supported at 3 cents/lb.

The breakout shown for Type 1 vs. Type 2 outlets is shown differently from prior graphs and is a result of correcting a major Type 2 outlet that did not materialize. Thus, these pounds were removed from the database. If/when this alternative Type 2 outlet proves viable it will be eligible for future inclusion in the Type 2 program.

Figure 4: Total Pounds of Recycled Outlet Produced

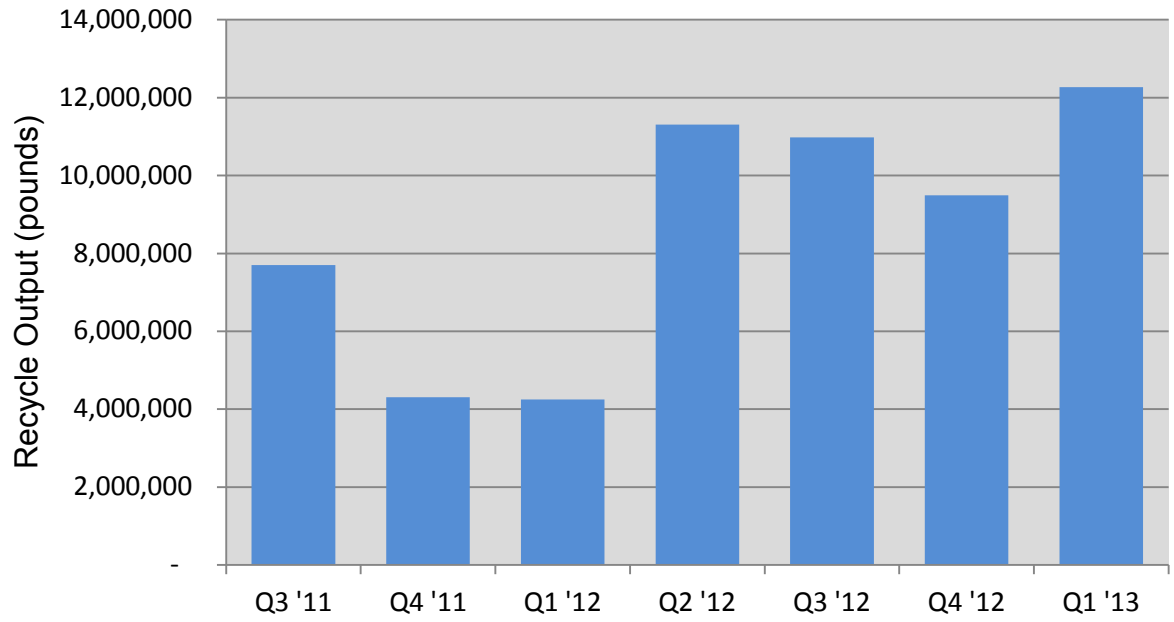
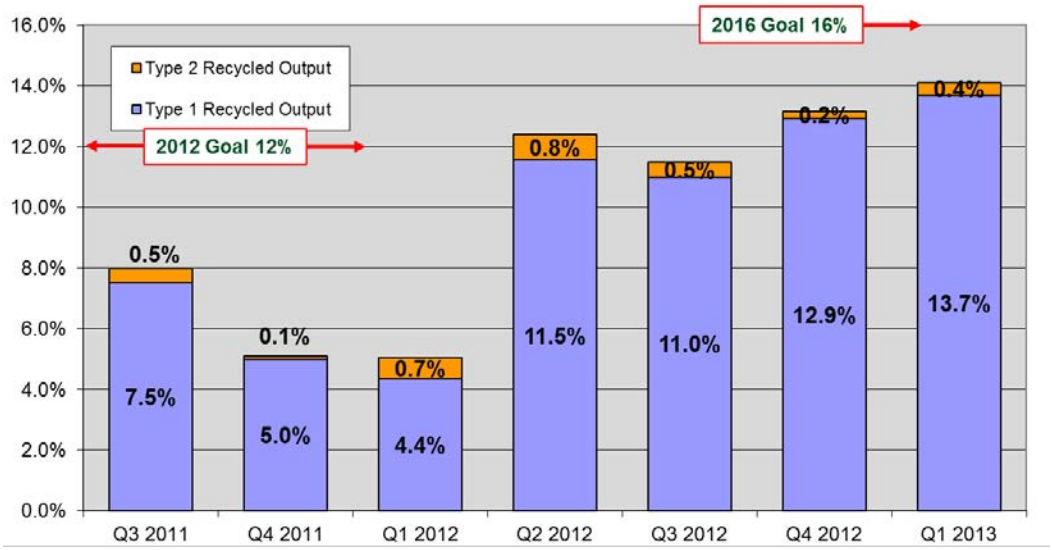


Figure 5: Recycled Output by Type as a Percent of Diversion



6. *Describe efforts to increase recyclability of carpets.*

See item 3 above.

7. *Describe efforts to increase recycling of post-consumer carpet.*

CARE has worked diligently with all recyclers, especially those in California, to assist in all aspects of the PCC recycling arena. Examples of our efforts over the last 23 months include the following:

- Holding a monthly conference call with CalRecycle to keep both organizations up to date on successes, progress, issues, and concerns.
- Invitation to all entrepreneurs and processors for participation in the annual CARE Membership meeting, held in the spring, and the Entrepreneur meeting held in the fall.
- Regular visits by the Executive Director of CARE to the west coast to meet with processors, rural counties, CalRecycle, and other interested stakeholders.
- Face to face and web based feedback session on the state of the Plan: what is working, concerns, ideas/suggestions for changes and improvements.
- Appointment of a special committee to focus on the challenges associated with PET outlets.
- Issuance of an RFP to hire a resource to work specifically on the recycle of PET.
- Contributions to newsletters and website updates, both for CalRecycle and CARE.
- Issue of a quarterly summary of results providing transparent graphics of diversion, recycle output, industry sales, fees collected, subsidies dispersed to processors, etc.
- Consulting with California processors in difficult situations to provide guidance and contacts for assistance.
- Engagement with CMTC (California Manufacturing Technology Consulting) to provide in-depth analysis and recommendations to California small businesses, a free service.
- Engaging in networking facilitation for financial investments in new technology opportunities for California processors.

8. *Describe efforts to increase diversion of post-consumer carpet from landfills.*

CARE has worked closely with collectors, recyclers and equipment manufacturers to help facilitate logistics, networking and market opportunities. In addition to the on-going collection efforts in California, CARE launched a rural counties pilot initiative which was completed in February. Data collected along with feedback from the 6 rural country participants resulted in guidance for expansion of the rural country collection program submitted in the new Plan. In addition, CARE hosts an annual spring meeting and fall entrepreneur meeting where members hear the latest information, innovations, network, and share successes and learnings. CARE works closely in a consulting capacity with recyclers when issues arise. Recently CARE has partnered with the California Manufacturers Technology Consultants (CMTC) to offer expert assistance to all California recyclers. This is a voluntary program which spans the full range of support services to aid California businesses.

9. *Describe other environmental impacts as data are available, e.g., green house gas emissions. Descriptions of any enforcement actions or problems related to plan implementation.*

CARE has worked closely with both mills and processors on reporting requirements. CARE has taken steps, working with our independent accounting firm (at this time that firm is Habif, Arogeti and Wynne, LLP, HA&W) to modify agreed upon procedures (AUPs). CARE has encountered a number of compliance concerns with one particular recycler. CARE worked both with the recycler as well as CalRecycle, LEA, and other local departments such as Fire to understand and help resolve the issues. Plans were approved by LEA to resolve issues and this is an on-going program. It is not appropriate in this pubic report to detail the issues or actions. However, interested readers may obtain publicly available records by searching the appropriate agency websites.

While CARE has not focused on GHG emission avoidance, this is something which can be calculated in the future.

10. *Describe efforts to increase the market growth of secondary products made from postconsumer carpet.*

As an organization CARE has been working for more than a decade to identify and develop technologies, products and market outlets for PCC. CARE has worked with dozens of small and large businesses to help develop, test and grow markets related to fibers, thermoplastics, erosion control, carpet cushion, railroad ties, sounds barriers, landscape timbers, decking, flood control, automotive parts, CAAF, cement kilns, etc. CARE has also explored ways to leverage publically funded procurement without success. We believe this is an important approach and one for which renewed discussion with California should be encouraged.

Historically nylon has enjoyed a niche in the markets where the properties find wide applications. Thru the efforts of CARE and its members, recycled nylon, both nylon 6 and nylon 66, find wide acceptance with growing demand. More recently the rapid increase in the use of polyester face fiber (PET) has resulted in a shift in focus to the development of markets and products which can absorb this recycled polymer (rPET). Unlike nylon, PET does not have as wide a scope of market outlets due to limitations in some of its physical and chemical properties. CARE has appointed a PET Committee to focus specifically on the outlets and market challenges with rPET. Recently CARE has approved the hiring of a part-time resource to accelerate the work on PET options and outlets.

In the recently submitted new Plan, CARE has built in more flexibility to deploy funds in a manner consistent with the dynamic feedback from an evolving marketplace. CARE is looking at special incentive programs to develop and facilitate the adoption of rPET. Details of how an incentive would be deployed are under action discussion with a decision expected soon.

CARE continues to meet with individuals and organizations that are looking to bring new processing and product technology into the marketplace where PCC may serve as the raw material. Recent examples include: new lumber products, pallets, diesel fuel conversion. Efforts also continue on energy production, kiln and CAAF outlets as a bridge to move small pieces, contaminated goods and PET while other alternatives are developed.

Finally, CARE has launched an effort to update our database of know products containing PCC. Once completed an electronic slide deck will created highlighting each product along with pictures, contact information and web links. This tool will be published to the website and also used in CARE presentations.

> *11. Describe number of jobs attributable to the carpet stewardship program as data are available.*

Quarterly reporting of processors using California PCC includes data on jobs. Again, not all companies handling PCC in California are reporting, so clearly jobs are under counted. At the same time, those jobs that are reported are directly involved in PCC recycling within the State of California. At this time the number of jobs at the end of Q1 2013 was reported to be 210. As is typically the case, it is not uncommon for the indirect supporting job market to be a factor of 3-5x. It should be pointed out that there are additional collections operations as well as start-up manufacturing jobs in the State which have not been captured via the formal reporting mechanism. As noted earlier, one of the larger recyclers shuttered operations at the end of the first quarter. As a result an estimated 67 jobs were lost.

> *(B) Information on goals shall be accompanied by supporting information covering, but not be limited to the following topics:*
>
> *1. Report describes the measurement methodology, assumptions, conversion factors, and data sources.*
>
> *2. Report demonstrates that over time source reduction, reuse, and recycling increased, while environmentally safe transformation and land disposal decreased.*

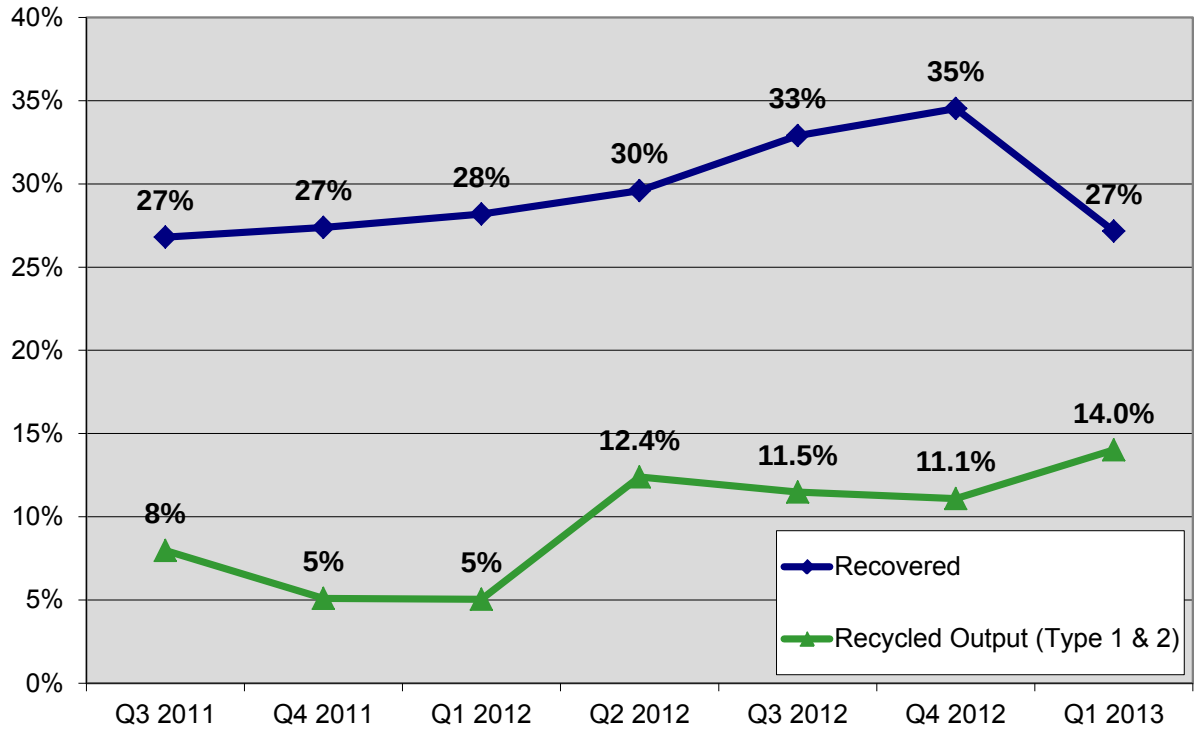
While still very early in the implementation of AB 2398, data clearly indicate that recycling continues to expand. The 1Q data for 2013 indicated a recycled output rate of >14% which exceeds the 2012 goal of 12%. Figure4 clearly shows a modest increasing trend in recycled output. However, this same figure also reflects the seasonal variation associated with the selling cycle for new carpet. In addition to the hard data it is important to acknowledge that one of the recyclers located in California shut down operations late in the first quarter. This will have a material impact on second quarter 2013 reporting of both landfill diversion and recycle output. It is also important to note that data includes both Type 1 and 2 outputs. One of the highly promising Type 2 outlets identified and reported for several quarters has proven unsustainable at this time and diversion pounds for this Type 2 outlet has been corrected to remove those pounds from earlier reports. If/when this particular Type 2 outlet provides viable, it would be once again included in the reported recycled output data. Finally, reuse as explained earlier, is a small fraction (0.14%) of total diversion and is largely restricted to carpet tile. CARE does not expect this avenue to increase to any substantial extent in the next few years. Details on each of these elements have been reported above.

3. Report demonstrates continuous meaningful improvement toward achievement of goals.

Examination of Figures 5 reveals that about 97% of recycled output is of Type 1. This is good news as Type 1 is consistent with the solid waste hierarchy. While the average recycle output rate is 10% after 7 quarters, the trend is a positive slope for the last 3 quarters. The SFOC is taking steps to further increase the interest and incentive for PET recycling as well as for growth of all Type 1 outlets. The PET incentives are expected to take several quarters before their impact is felt.

Figure 6 displays the performance trends for diversion (diversion = recovery = collection) and output as a percentage of the total disposal rate by quarter using the formula described in Section 4.

Figure 6: Recycled Output by Type as a Percent of Diversion



4. Report covers progress toward achievement of all goals in the approved stewardship plan.

(6) Market Development. The annual report shall include a description of possible market development activities to incentivize the market growth of secondary products made from post-consumer carpet.

The rising percentage of polyester carpet in the diverted PCC stream has resulted in pressure on business models and recycling economics. CARE plans to implement a dynamic approach to incentivizing growth of total landfill diversion, increased recycled output yields and market

development of new products and processes. It should be noted that average California landfill diversion has been rising over the first 7 quarters of this program, a good trend. However, there is significant opportunity for improving output yields of processed PCC. Considerable thought has gone into innovative ways to incentivize the development of polyester market outlets in particular. This approach must be flexible and adaptive to allow for timely response to the market dynamics of both material flow and pricing. Careful analysis of available funds and how the balance would be impacted are important considerations to ensure solvency of the program. These considerations must be balanced by a need to meet recycler's investment requirements for the development and implementation of new technology and capital investment which enables new outlets for all materials. While the current conceptual approach is focused on polyester carpet, it is not restricted to such and may be applied to other non-nylon PCC or the transportation dimension. Several additional approaches are under constant evaluation by CARE including: differential fees based on fiber type, 2nd tier manufacturer payouts and square yard fees. Implementation of any of these approaches is considered part of this Plan.

The SFOC will annually review the Plan payouts and progress to maximize impact while ensuring financial stability.

(7) Financing Mechanism. The annual report shall include a description and evaluation of the program's financing mechanism, including whether or not the funding was sufficient to recover, but not exceed, the full cost of the stewardship program. The annual report shall include, but not be limited to, the following total program cost information, and include any supporting documentation. Any proposed change in the amount of the carpet stewardship assessment fee must be submitted to the department for re-approval (See Section 18943 Criteria for Plan Approval):

- *(A) Total Program Cost*
- *(B) Cost($)/capita*
- *(C) Cost ($)/pound collected*
- *(D) Education/Communications (% of total program cost)*
- *(E) End-of-life materials management (% of total program cost)*
- *(F) Program administration (% of total program cost, including annual administrative fee for service payments to the department)*
- *(G) Governance (program oversight) (% of total program cost)*
- *(H) Total cost to local government (if applicable)*
- *(I) Amount of the assessment, aggregate assessment funds collected, how spent and amounts of each major expenditure a. Funds, if spent on CAAF, must be supported with documentation reporting on economic and environmental impacts and that incentives shall expire, if they no longer serve a benefit.*
- *(J) Surplus funding, if any, and how it will be applied to reduce program costs*
- *(K) An evaluation of the assessment rate*

Total costs of the program, which include start-up costs for CalRecycle, along with on-going administration by CARE and supporting functions, are shown in Table 1. All data are based on the timeframe July 1, 2011 thru March 31, 2013.

Table 1: AB 2398 Financial Details

Total Funds Collected	$	8,648,437	
Payments to Processors	$	3,511,384	82%
Rural Pilot	$	34,619	
Communications	$	5,689	
CARE Administrative	$	148,656	3%
Morehead Accounting	$	32,231	1%
HA&W Accounting	$	332,742	8%
Professional Services	$	3,150	0%
CalRecycle Funds Paid YTD	$	238,510	6%
Total Program Administrative Costs	**$**	**755,289**	18%
Total Program Expenditures	**$**	**4,306,981**	

Table Notes:
Rural Pilot includes transportation, communication, and signage
CARE costs include salaries and travel
Morehead Accounting includes accounting, taxes, etc.
HA&W includes mill reports, AUP reviews, etc.
Total program expenses are inclusive of all start-up costs
In 2013 CalRecycle invoiced CARE $115,144 for on-going operations.

The following Table summarizes how funds were distributed in terms of Type 1, Type 2, CAAF, and WtE over 7 quarters (July 2011 – March 2013).

Table 2: Cumulative Payout by Outlet Type

Cumulative Payouts			
Type 1	**$**	**3,437,098**	**97.4%**
Type 2	**$**	**85,841**	**2.4%**
CAAF	**$**	**3,508**	**0.1%**
Cement Kiln	**$**	**1,321**	**0.0%**

(8) Outreach/Education. List educational outreach activities in the stewardship plan. Provide a description of educational materials that were provided to retailers, consumers, carpet removers/installers, contractors, during the reporting period (provide electronic samples). Identify the method used to determine the effectiveness of educational and outreach surveys (e.g., surveys, hits on specific web pages, number of participants at events, etc). Education and outreach materials may include, but are not limited to, signage, written materials, advertising or other promotional materials pursuant to Section 42972 (a) (5) and Links to website(s) created and maintained by the manufacturer or stewardship organization.

CARE has an on-going commitment to clear, concise and transparent communication and education spanning a broad spectrum of audiences. CARE continues to evolve these activities based on experience, feedback and desire to bring clarity to these complex challenges. The following summarizes CARE activities since AB 2398 inception thru June 2013.

- **Updates to the CARE website**
    - Includes specific sections devoted to each of the major stakeholder groups
    - Includes webinar designed to educate all stakeholders
    - Includes a link to CalRecycle' s website
    - Includes a dedicated page for AB 2398 information
    - Continued updates on manufacturers who are in compliance with AB 2398
    - A list of frequently asked questions for various stakeholders
- **Retailer Education**
    - Developed brochures and window clings explaining the program to consumers
    - 3 Webinars have been offered to retailers
        - Customized AB 2398 Webinar for retailers on March 22, 2011
        - Retailer-specific Webinar on May 11, 2011
        - CCA Global Webinar on June 14, 2011
    - 2,935 letters were sent to retailers on March 15, 2011
    - Education kits/packets were sent to 3,849 retailers and dealers on June1, 2011
        - Signage and window clings can be easily displayed in retailer showrooms
        - Brochures can be distribute by retailers to their customers
    - Presentations have been delivered to retail groups
        - CCA Global Presentation on Jan. 11, 2011
        - Mill sales rep training presentation on Feb. 8, 2011
        - StarNet Presentation on April 17, 2011
- **Manufacturers**
    - 81 manufacturers have registered for the CARE stewardship plan
    - Letters were sent to all CRI members on Jan. 15, 2011
    - Software vendors were included in the education and outreach to manufacturers
    - CARE has participated in interviews with trade publications
        - National Floor Trends Magazine, Feb. 18, April 22, June 7, June 22, July 1,2011
        - Flooring Insider, October 1, 2010
        - CARE's new Executive Director routinely does media interview highlighting the California program progress
- Facility Management Magazine, May 2, 2011
        - Floor Covering Weekly Insider, April, 2011, October, 2011
        - Floor Covering News, March, 2011
    - Participated in radio interviews
        - Floor Daily Interviews on Jan. 12, 2011, April, 2011, July 22,2011,October, 2011
        - Floor Radio Interviews on March 7, 2011 and May 16, 2011
        - Floor Focus, July, 2011
        - TalkFloor Interview, March 4, 2011
        - TalkFloor Interview, May 2, 2011
    - CARE has developed and presented webinars to educate salespeople and support staff of many of the major manufacturers
    - Member-only section of the website includes specific information that manufacturers need to know in order to be in compliance with the law, including:

        - Manufacturers' Quarterly Reporting Requirements and Upload Table
        - Quarterly Remittance Statement
        - Invoice Examples
        - Non-Compliance Letter Template
        - Exemption Forms
        - Blanket Exemption Forms
    - Direct link to third-party accounting firm, HA&W, posted
- **Consumers**
    - CARE released 5 consumer articles
        - LA Times, July, 2011
        - Mother Nature Network(July and August, 2011)
        - Napa Valley Register, August 17, 2011
        - San Francisco Chronicle, August 18, 2011
        - Earth911.com
- **Rural Counties**
    - Presented to Waste Management on March 17, 2011
    - Rural Communities Webinar on March 24, 2011
    - CARE held monthly conference calls with rural counties
    - Planning session for pilot projects on August 2, 2011
    - CARE staff visited the rural pilot locations in March, 2012
    - CARE developed handling and storage guidelines for rural counties
- **Presentations**
    - Surfaces, Jan. 28, 2011
    - National Association of Manufacturers, May 19, 2011
    - Wools of New Zealand Manufacturers, April 13, 2011
    - Georgia Recycling Coalition, August 24, 2011
    - CalRecycle Zone Works, November, 2011
    - C&D World, April 2013
    - WasteCon, May 2013

(9) Audits. The annual report shall include an independent financial audit funded from the carpet stewardship assessment. The audit shall be conducted in accordance with auditing standards generally accepted in the United States of America, and standards set forth in Government Auditing Standards issued by the Comptroller General of the United States. The audit report shall also include a separate state compliance report on the carpet program requirements as directed by the department.

(A) The department may investigate further. If the department decides to further review the findings of the independent auditor, the review will be conducted based on same information the individual manufacturer or stewardship organization provided to the independent auditor.

(B) Financial audits must be prepared by a Certified Public Accountant.

(C) The department may request supplemental information from the individual manufacturer or stewardship organization during the course of review of a manufacturer- or stewardship organization-submitted financial audit, if necessary.

(D) The department will inform the individual manufacturer or the stewardship organization within 60 days of the results of its review.

(E) If after conducting further review of the audit, the Department deems it to be necessary, the Department may conduct its own audit.

Consistent with the conditionally approved Plan, CARE issued an RFP for the selection of an independent certified accounting firm to audit, individually, both the AB 2398 and CARE programs for 2012. Scoggins & Winter, LLC of Dalton, GA was selected based on competitive bids received. Scoggins and Winter have had no other relationship with CARE prior to this audit engagement. The audits were completed and reviewed with the CARE Executive Committee on June 26th. The AB 2398 audit was conducted consistent with Generally Accepted Government Audit Standards (GAGAS) as outlined in the Plan. The scope of the financial audit explicitly reports on the manufacturer or stewardship financial statements as they relate to the Carpet program and the organization's compliance with PRC 42970 and Title 14 Article 1 of the California Code of Regulations. The full auditor's reports for both organizations are included in this report as Appendices X & Y. A summary of the findings are as follows (direct excerpts).

The AB2398 California Carpet Stewardship Plan
Schedule of Findings and Responses
For the Year Ending December 31, 2012

SUMMARY OF AUDIT RESULTS

Opinion:

Unqualified opinion issued on the financial statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller of the United States.

Internal Control Deficiencies:

During the audit of the financial statements four significant deficiencies in internal controls were disclosed, which three were also considered to be material weaknesses.

Material Noncompliance:

No instances of compliance or other matters were disclosed.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL:

Finding 12-1-Approvals and Documentation

Criteria:

Government Auditing Standards Chapter A.04(h) states that, "inadequate controls for the safeguarding of assets," is a control deficiency.

Condition Found:

Upon review of the AB2398 disbursement process, the following conditions were found:

1. One processor/recycler request for funds could not be located and was provided by the recycler.
2. There was no written authorization of disbursements to recyclers.

3. There was a difference of $23,356.82 between a request for reimbursement and the actual amount dispersed with no documentation supporting the change attached to the disbursement schedule.

Recommendation:

1. All disbursements must be supported by adequate documentation. The documentation should be sufficient to determine that the amount dispersed is equal to the amount approved. We recommend that the executive director prepare a physical summary of payments listing the detail of disbursements and that this schedule be reviewed and approved prior to its submission to the SFOC and SPC for approval in total.
2. Requests for AB2398 disbursements should be accompanied by documentation that the disbursement has been approved. We recommend that the chairman of the SFOC sign an approval document to release funds, and that this approval be submitted to accounting.
3. Adequate documentation should be maintained illustrating any differences between requests and disbursements. If requests are mathematically inaccurate the documentation should include an analysis of where the calculations were incorrect and document the correct calculations.

Management's Response:

Effective beginning with the Q1 2013 review, the CARE Executive Director will prepare an Excel file showing individual disbursements which have been approved by the SFOC (in aggregate). The Excel file will be signed, dated and converted into a PDF document. The PDF documentation will be sent via email to the CRI Finance Manager who will also attach for the record the SFOC draft minutes, where the aggregate disbursements were approved, along with the slides used to review the quarterly results and recommendations for approval by the SFOC. Should any differences in requested vs. actual disbursements exist, these will be documented in the Excel file.

Finding 12-2 - Functional Allocations Substantiation

Criteria:

Government Auditing Standards Chapter A.04(h) states that, "inadequate controls for the safeguarding of assets," is a control deficiency.

Condition Found:

There was no documentation of the allocations of CARE salary expense for AB2398 or documentation of approval by a third party.

Recommendation:

A record keeping system should be developed to support the allocation of expenses to AB2398. Monthly invoices should be prepared and settled timely. In 2013, we were told that allocations are being now done monthly.

Management's Response:

The Executive Director will provide (in writing) the payroll allocation percentages to accounting prior to January 1st annually. In addition, CARE has not billed AB 2398 for facility and infrastructure use. CARE will allocate a portion of this charge to AB 2398 effective January 1st.

Finding 12-3 - Basis of Financial Statements

Criteria:

Accounting principles generally accepted in the United States of America require that financial statements be kept on the accrual basis of accounting.

Condition Found:

The financial statements of AB2398 California Carpet Stewardship Plan were not kept on the accrual basis of accounting and had to be converted for audit purposes.

Recommendation:

The financial statements of the AB2398 California Carpet Stewardship Plan should be prepared on the accrual basis of accounting.

Management's Response:

A meeting between Morehouse Group and HA&W will be scheduled in June to discuss facilitation of details to allow for reporting accurate financial statements.

Finding 12-4 - Accounts Receivable

Criteria:

Detail of outstanding accounts receivable should be maintained to manage collection efforts and ensure accurate financial statements.

Condition Found:

No detailed accounts receivable reports are maintained to support the balances found in the general ledger. Additional audit procedures had to be performed to gather enough evidence to support our opinion.

Recommendation:

CARE should maintain a detailed ledger of amounts reported and amounts and dates of when paid to ensure that the amount reported as accounts receivable at the end of each period is correct.

Management's Response:

The internal accounts receivable within CARE's operation and AB2398 has been detailed beginning January 1, 2013. The meeting with HA&W and Morehouse Group will address the additional receivables for AB2398.

Carpet America Recovery Effort, Inc.
For the year ended December 31, 2012

SUMMARY OF AUDIT RESULTS

For the year ended December 31, 2012, the auditors for the Carpet America Recovery Effort, Inc. issued an unqualified audit opinion on June 26, 2013. Net unrestricted net assets increased $80,222 to $421,137. Revenues were $468,482 with total expenses of $388,260. Program and support expenses were approximately 66% and 17% of total revenues, respectively.

Appendix I

Members of CARE Board of Directors, April 2013
Voting Members

For more information, see www. carpetrecovery.org

First Name	Last Name	Company/Organization
Werner	Braun	Carpet and Rug Institute (CRI) Board Chair
Bob	Lee	Beaulieu Group
Russ	DeLozier	J+J Flooring Group
Don	Dolan	The Dixie Group
Sheri	Gorman	RD Weis Companies
Ronald	Greitzer	Los Angeles Fiber Company
Thomas	Holland	Corporate Floors
Lynn	Preston	Tandus
Richard	Kruse	Kruse Carpet Recycling
Jim	Lindsey	Aquafil USA
Brendan	McSheehy	Universal Fiber Systems
Paul	Murray	Shaw Industries
Eric	Nelson	Interface
Glenn	Odom	Wellman Plastics Recycling
Sean	Ragiel	CarpetCycle
Robert	Peoples	CARE (non-voting)
Philip	Ivey	Milliken
Fred	Williamson	StarNet Worldwide
Joe	Yarbrough	Mohawk Industries

Appendix II

Collectors and Recyclers of Carpet from California

As of 05/01/13

For current list, please go the CARE website: www.carpetrecovery.org

1. Bentley Prince Street
14641 Don Julian Rd.
City of Industry, CA 91746

2. Black Butte Recycling/Transfer Station
3710 Springhill Drive
Mt. Shasta, CA 96067
530-842-8272 Email

3. Carpet Collectors
5854 88th St.
Sacramento, CA 95828
Email

4. Carpet Solutions
17100 Margay Ave
Carson, CA 90746
Email

5. Davis Street Transfer Station
2615 Davis Street
San Leandro, CA 94507
Email

6. Delleker Transfer Station
73980 Industrial Way

Delleker, CA 96122
530-283-6268 Email

7. Del Norte County Transfer Station
1700 State Street
Crescent City, CA 955531
Email

8. GreenWaste Carpet Recycling
1555 South 7th Street
San Jose, CA 95112
916.412.3277 Email

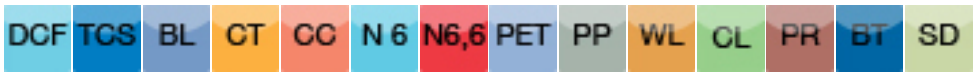
9. GreenWaste Carpet Recycling
625 Charles Street
San Jose, CA 95112
916.412.3277 Email

10. Hawthorne Street Transfer Station
1059 W. Hawthorne St.
Eureka, CA 95501
707-268-8030 Ext. 0

11. Los Angeles Fibers
PO BOX 58584
Vernon, CA 90058
Email

12. Mission Recycling

1341 E. Mission Blvd
Pomona, CA 91766
Email

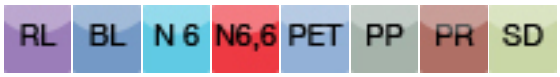


13. Napa Recycling & Waste Services
820 Levitin Way POBOX 239
Napa, CA 94558
Email

14. Oceanaire International, Inc.
628 N. Diamond Bar Blvd.
Diamond Bar, CA 91766
Email

15. Rock Creek Landfill
12021 Hunt Road
Milton, CA 95684
209-754-2819 Email

16. SOEX West Textile Recycling
2360 South Orange Ave
Fresno, CA 93725
Email



17. Tehama County /Red Bluff Landfill
19995 Plymire Rd.
Red Bluff, CA 96080
530-528-1103 Email

18. The Carpet Recyclers
14209 Gannet St
La Mirada, CA 90638
Email

19. Waste Management of Orange County
16122 Construction Circle E
Irvine, CA 92606

20. Zanker Road Recycling
675 Los Esteros Road
San Jose, CA 95134
916.412.3277 Email

Key

CL	Collector
PR	Processor
BT	Both
CT	Carpet Tile
TK	Turn Key Facility
TCS	Trailer/Container Service
PET	PET
WL	Wool
CC	Carpet Cushion/Underlayment
HSF	Hard Surface Flooring
SR	Shearing
HM	Hammer milling
CL	Commercial
RL	Residential
BL	Broadloom
DCF	Drop Off Facility
PU	Pick up from location
N 6	Nylon 6
N6,6	Nylon 6,6
PP	Polypropylene
AST	Artificial Rugs/Synthetic Turf
CD	Other Construction and Demolition Debris
SD	Shredding

Appendix III

THE AB2398 CALIFORNIA CARPET STEWARDSHIP PLAN

FINANCIAL STATEMENTS

December 31, 2012

The AB2398 California Carpet Stewardship Plan

Contents

INDEPENDENT AUDITORS' REPORT	1-2
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF CASH FLOWS	5
NOTES TO THE FINANCIAL STATEMENTS	6-9

WINTER & SCOGGINS
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Carpet America Recovery Effort, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the AB2398 California Carpet Stewardship Plan, which comprise of the statement of financial position as of December 31, 2012, and the related statement of activities, and cash flows for the year then ended, and the related notes to the 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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. 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.

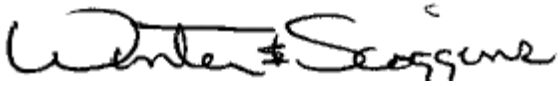
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the AB2398 California Carpet Stewardship Plan, as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2013, on our consideration of the Carpet America Recovery Efforts, Inc.'s internal control over the AB2398 California Carpet Stewardship Plan's financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Carpet America Recovery Effort, Inc.'s internal control over the AB2398 California Carpet Stewardship Plan's financial reporting and compliance.

Sincerely,



Winter & Scoggins

Dalton, GA
June 26, 2013

WINTER & SCOGGINS
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

The AB2398 California Carpet Stewardship Plan

Statement of Financial Position

December 31, 2012

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 3,896,263
Accounts receivable	1,197,014
Total current assets	5,093,277
Total Assets	$ 5,093,277
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	$ 1,259,635
Accrued expenses	453,332
Total current liabilities	1,712,967
LONG TERM LIABILITIES	
Accrued expenses	85,397
Total long term liabilities	85,397
Total Liabilities	1,798,363
NET ASSETS	
Unrestricted	3,294,914
Total net assets	3,294,914
Total Liabilities and Net Assets	$ 5,093,277

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

The AB2398 California Carpet Stewardship Plan

Statement of Activities

For the year ended December 31, 2012

REVENUES	
Carpet recovery assessments	$ 4,963,534
Interest income	6,345
Total revenues	4,969,880
EXPENSES	
Recycler disbursements	2,244,768
Accounting	259,662
CalRecycle administrative fees	238,180
Personnel	82,754
Transportation	23,089
Communications	5,689
Travel	9,455
Professional fees	1,500
Total expenses	2,865,095
CHANGE IN UNRESTRICTED NET ASSETS	2,104,784
UNRESTRICTED NET ASSETS - beginning of year	1,190,129
UNRESTRICTED NET ASSETS - end of year	$ 3,294,914

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

The AB2398 California Carpet Stewardship Plan

Statement of Cash Flows

For the year ended December 31, 2012

Cash Flows From Operating Activities	
Change in unrestricted net assets	$ 2,104,784
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Increase in accounts receivable	(4,336)
Increase in accounts payable	235,711
Increase in accrued expenses	157,388
Total adjustments	388,763
Net cash provided by operating activities	2,493,547
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,493,547
CASH AND CASH EQUIVALENTS-beginning of year	1,402,716
CASH AND CASH EQUIVLENTS-end of year	$ 3,896,263

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

The AB2398 California Carpet Stewardship Plan
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2012

A. Summary of Significant Accounting Policies

ORGANIZATION - The AB2398 California Carpet Stewardship Plan (the Plan) is authorized by CA AB2398 to implement measures to achieve measurable improvements in the landfill diversion and recycling of postconsumer carpet. AB 2398 was signed into law by the governor of California on September 30, 2010. Subsequent regulations were approved and are found in Title 14, Division 7, Chapter 11. The Plan began operations on July 1, 2011 and is managed by the Carpet America Recovery Effort, Inc. (CARE).

The Plan is a set of guidelines that CARE uses to administer AB2398. The Plan was developed by CARE and conditionally approved by the California Department of Resources Recycling and Recovery (CalRecycle). Periodic changes are made to the Plan and changes are approved by CalRecycle.

AB2398 requires manufacturers or retailers to collect an assessment based on the square yardage of carpeting sold in California. CARE collects the funds from the retailers and manufacturers and disburses the proceeds in accordance with the Plan.

Disbursements are to promote carpet recycling in California and cover the costs of administering the Plan. The primary use of funds is to carpet recyclers who are paid by the pound of qualifying product that is processed and subsequently sold.

Manufacturers or retailers participate voluntarily in the Plan; however, AB2398 requires that they participate in CARE's Plan, or develop and implement their own Carpet Stewardship Plan.

CARE is the sole carpet stewardship organization until April 1, 2015. At that time other organizations can apply for status as "Carpet Stewardship Organizations".

CARE does not have the authority to levy penalties on Manufacturers or retailers that are not compliant with AB2398. That authority belongs solely to the state of California.

PRESENTATION OF FINANCIAL STATEMENTS - The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The Plan is required to report information regarding its financial position and activities according to three classes of assets: unrestricted, temporarily restricted, and permanently restricted. As of December 31, 2012 the Plan had no temporarily restricted or permanently restricted net assets.

The AB2398 California Carpet Stewardship Plan
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2012

Other significant accounting policies followed by the Plan are described below.

1. CASH AND CASH EQUIVALENTS - The Plan considers all money market accounts and highly liquid debt instruments with maturities that do not exceed ninety days to be cash equivalents for financial statement purposes. These amounts exceed federally insured amounts at times and may at times significantly exceed amounts shown on the statement of financial position due to outstanding checks.

2. ESTIMATES AND UNCERTAINTIES-The preparation of financial statements in conformity with generally accepted accounting principles in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. REVENUE RECOGNITION - Revenue from carpet recovery assessments is recognized at the time carpeting is sold by a manufacturer that is a participant in the Plan. Manufacturers report their sales on a quarterly basis. Reports and payments were due within 60 days following the close of each quarter. The assessment for the year ended December 31, 2012 was $0.05 per square yard of carpeting sold in California.

   The carpet recovery fee is added to the wholesale price of carpet, and it is passed through until it reaches the retail consumer.

4. ACCOUNTS RECEIVABLE - Accounts receivable consist of carpet recovery assessments due from plan participants. An allowance for doubtful accounts is determined by management by identifying troubled accounts and using the historical experience applied to an aging of accounts. As of December 31, 2012, management is of the opinion that all accounts are collectible.

5. ACCRUED EXPENSES - The Plan is responsible for reimbursing CalRecycle's costs incurred prior to the approval of the Plan. The total amount payable to CalRecyle is $256,175 for these costs. The fees are payable in three equal installments, with the first payment of $85,397 due on July 1st, 2012 and paid on June 1, 2012. There are two more payments of $85,397 due on July 1st, 2013 and July 1st, 2014.

The AB2398 California Carpet Stewardship Plan
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2012

Pursuant to AB2398, Section 42977(d), the Plan must pay to CalRecycle an administrative fee that does not exceed 5% of the assessment collected. The fee is due annually on July 1. The Plan has not yet been billed, but management estimates that the fee will be 5% of assessments collected.

6. INCOME TAX STATUS - The Plan is not subject to income taxes.

7. FUNCTIONAL ALLOCATION OF EXPENSES - Expenses are charged directly to programs and supporting activities as incurred and have been summarized on a functional basis. Administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for overall administration of the plan.

B. Related Parties; Industry Affiliate

The Plan is administered by the Carpet America Recovery Effort, Inc. (known by the trade name “CARE”). CARE was established in 2002 to represent the carpet industry’s effort to support market based carpet recycling solutions. CARE is a not-for-profit, 501(c)(3) organization that was formed to oversee and enable market-based solutions for the recovery and recycling of post-consumer carpet.

To participate in the Plan, manufacturers and retailers must maintain a membership in good standing with CARE. Recyclers who wish to receive disbursements must also maintain a membership in good standing to receive funds.

The primary organizer of CARE was the Carpet and Rug Institute, Inc. (known by the trade name “CRI”. CRI is a 501(c)(6) organization and is the primary trade group of the carpet industry. CRI initiated CARE’s organization as the entity to represent and to promote the industry’s carpet recycling efforts and to manage the industry’s recycling programs.

CRI acts as an advocate of the carpet industry and actively works on representing its interest on legislative, regulatory, and judicial issues at the federal, state, and local levels. CRI played an active role in the development of the AB2398 legislation in California, and actively lobbies for the carpet industry in other states considering similar product stewardship or extended producer responsibility (commonly referred to as EPR) legislation.

CARE and CRI share common directors and facilities.

The AB2398 California Carpet Stewardship Plan
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2012

Under AB2398, CARE is allowed to be reimbursed for costs it incurs administering its Carpet Stewardship Plan. Costs incurred directly by AB2398 are paid from AB2398 funds. Shared labor costs of AB2398 and CARE are systematically allocated and periodically settled. These shared labor costs totaled $82,754 for the year ended December 31, 2012.

The Plan included in accounts payable $148,415 due to CARE as of December 31, 2012 for expenses paid by CARE, but incurred by the Plan.

C. Concentrations

The Plan holds AB2398 bank accounts at one bank. The amounts in the bank accounts exceed the amount that is insured by the Federal Deposit Insurance Corporation. Management believes that there is no significant concentration of credit risk.

The Plan has funds held by an escrow agent. The amount held by the escrow agent at December 31, 2012 was $2,617,657.19.

For the year ended December 31, 2012, 10 carpet manufacturers accounted for approximately 90% of the carpet recovery assessments. These manufacturers also accounted for 90% of accounts receivable at December 31, 2012.

For the year ended December 31, 2012, there were 11 recyclers that received disbursements from the Plan.

D. Subsequent Events

On May 31, 2013, the revised Carpet Stewardship Plan of the Carpet America Recovery Effort, Inc. was submitted to the California Department of Resources Recycling and Recovery.

Management has evaluated events through June 26, 2013, the date on which the financial statements were available to be issued.

The AB2398 California Carpet Stewardship Plan

Contents

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS 1-2

SCHEDULE OF FINDINGS AND RESPONSES 3-6

WINTER & SCOGGINS
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of the
Carpet America Recovery Effort, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the AB2398 California Carpet Stewardship Plan, which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Carpet America's Recovery Effort, Inc.'s internal control over financial reporting (internal control) over the Plan to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Carpet America Recovery Effort, Inc.'s internal control over the Plan. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, as described at 2012-1 through 2012-4 in the accompanying schedule of findings and questioned costs that we consider to be material deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the AB2398 California Carpet Stewardship Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

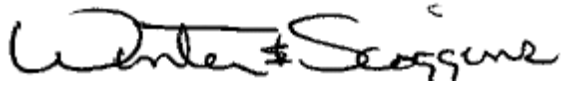
Carpet America Recovery Effort, Inc.'s Response to Findings

The Carpet America Recovery Effort, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Carpet America Recovery Effort, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Winter & Scoggins

Dalton, GA
June 26, 2013

The AB2398 California Carpet Stewardship Plan
Schedule of Findings and Responses
December 31, 2012

SUMMARY OF AUDIT RESULTS

Opinion:

Unqualified opinion issued on the financial statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller of the United States.

Internal Control Deficiencies:

During the audit of the financial statements four significant deficiencies in internal controls were disclosed, which three were also considered to be material weaknesses.

Material Noncompliance:

No instances of compliance or other matters were disclosed.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL:

Finding 12-1-Approvals and Documentation

Criteria:

Government Auditing Standards Chapter A.04(h) states that, “inadequate controls for the safeguarding of assets,” is a control deficiency.

Condition Found:

Upon review of the AB2398 disbursement process, the following conditions were found:

1. One processor/recycler request for funds could not be located and was provided by the recycler.
2. There was no written authorization of disbursements to recyclers.
3. There was a difference of $23,356.82 between a request for reimbursement and the actual amount dispersed with no documentation supporting the change attached to the disbursement schedule.

Recommendation:

1. All disbursements must be supported by adequate documentation. The documentation should be sufficient to determine that the amount dispersed is equal to the amount approved. We recommend that the executive director prepare a physical summary of payments listing the detail of disbursements and that this schedule be reviewed and approved prior to its submission to the SFOC and SPC for approval in total.
2. Requests for AB2398 disbursements should be accompanied by documentation that the disbursement has been approved. We recommend that the chairman of the SFOC sign an approval document to release funds, and that this approval be submitted to accounting.
3. Adequate documentation should be maintained illustrating any differences between requests and disbursements. If requests are mathematically inaccurate the documentation should include an analysis of where the calculations were incorrect and document the correct calculations.

Management's Response:

Effective beginning with the Q1 2013 review, the CARE Executive Director will prepare an Excel file showing individual disbursements which have been approved by the SFOC (in aggregate). The Excel file will be signed, dated and converted into a PDF document. The PDF documentation will be sent via email to the CRI Finance Manager who will also attach for the record the SFOC draft minutes, where the aggregate disbursements were approved, along with the slides used to review the quarterly results and recommendations for approval by the SFOC. Should any differences in requested vs. actual disbursements exist, these will be documented in the Excel file.

Finding 12-2 - Functional Allocations Substantiation

Criteria:

Government Auditing Standards Chapter A.04(h) states that, "inadequate controls for the safeguarding of assets," is a control deficiency.

Condition Found:

There was no documentation of the allocations of CARE salary expense for AB2398 or documentation of approval by a third party.

Recommendation:

A record keeping system should be developed to support the allocation of expenses to AB2398. Monthly invoices should be prepared and settled timely. In 2013, we were told that allocations are being now done monthly.

Management's Response:

The Executive Director will provide (in writing) the payroll allocation percentages to accounting prior to January 1st annually. In addition, CARE has not billed AB 2398 for facility and infrastructure use. CARE will allocate a portion of this charge to AB 2398 effective January 1st.

Finding 12-3 - Basis of Financial Statements

Criteria:

Accounting principles generally accepted in the United States of America require that financial statements be kept on the accrual basis of accounting.

Condition Found:

The financial statements of AB2398 California Carpet Stewardship Plan were not kept on the accrual basis of accounting and had to be converted for audit purposes.

Recommendation:

The financial statements of the AB2398 California Carpet Stewardship Plan should be prepared on the accrual basis of accounting.

Management's Response:

A meeting between Morehouse Group and HA&W will be scheduled in June to discuss facilitation of details to allow for reporting accurate accrual financial statements.

The AB2398 California Carpet Stewardship Plan
Schedule of Findings and Responses
December 31, 2012

Finding 12-4 - Accounts Receivable

Criteria:

Detail of outstanding accounts receivable should be maintained to manage collection efforts and ensure accurate financial statements.

Condition Found:

No detailed accounts receivable reports are maintained to support the balances found in the general ledger. Additional audit procedures had to be performed to gather enough evidence to support our opinion.

Recommendation:

CARE should maintain a detailed ledger of amounts reported and amounts and dates of when paid to ensure that the amount reported as accounts receivable at the end of each period is correct.

Management's Response:

The internal accounts receivable within CARE's operation and AB2398 has been detailed beginning January 1, 2013. The meeting with HA&W and Morehouse Group will address the additional receivables for AB2398.

Appendix IV

CARPET AMERICA RECOVERY EFFORT, INC.

FINANCIAL STATEMENTS

December 31, 2012

CARPET AMERICA RECOVERY EFFORT, INC.

Contents

INDEPENDENT AUDITORS' REPORT	1
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF CASH FLOWS	5
NOTES TO THE FINANCIAL STATEMENTS	6-9

WINTER & SCOGGINS
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Carpet America Recovery Effort, Inc.

We have audited the accompanying financial statements of the Carpet America Recovery Effort, Inc. (a nonprofit organization), which comprise of the statement of financial position as of December 31, 2012, and the related statement of activities and cash flows for the year then ended, and the related notes to the 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 from material misstatement.

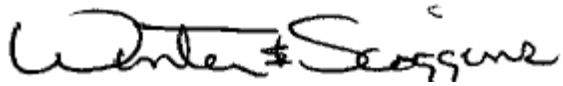
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or 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. 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 the Carpet America Recovery Effort, Inc. as of December 31, 2012, and the changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Sincerely,



Winter & Scoggins

Dalton, GA
June 26, 2013

Carpet America Recovery Effort, Inc.
Statement of Financial Position
December 31, 2012

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 304,435
Accounts receivable	10,643
Accounts receivable - AB2398	148,415
Total current assets	463,493
PROPERTY AND EQUIPMENT, NET	2,944
Total Assets	$ 466,437

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 31,506
Accrued expenses	5,244
Deferred revenue	8,550
Total current liabilities	45,300
NET ASSETS	
Unrestricted	421,137
Total net assets	421,137
Total Liabilities and Net Assets	$ 466,437

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

Carpet America Recovery Effort, Inc.
Statement of Activities
For the year ended December 31, 2012

REVENUES	
CARE dues	$ 287,650
CARE conferences	95,408
Contributions in-kind from CRI	84,776
Interest income	648
Total Revenues	468,482
EXPENSES	
Program Services	
Member programs	310,003
Total program services	310,003
Support services	
Administrative	62,060
Facilities	16,197
Total support services	78,257
Total expenses	388,260
CHANGE IN UNRESTRICTED NET ASSETS	80,222
UNRESTRICTED NET ASSETS - beginning of year	340,915
UNRESTRICTED NET ASSETS - end of year	$ 421,137

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

Carpet America Recovery Effort, Inc.
Statement of Cash Flows
For the year ended December 31, 2012

Cash Flows From Operating Activities	
Change in unrestricted net assets	$ 80,222
Adjustments to reconcile change in unrestricted net assets to cash provided by operating activities:	
Depreciation	585
Decrease in accounts receivable	163,773
Increase in accounts payable	11,806
Increase in other accrued liabilities	4,925
Total adjustments	181,089
Net cash provided by operating activities	261,311
Cash Flows From Investing Activities	
Acquisition of equipment	(2,497)
Net cash used by investing activities	(2,497)
NET INCREASE IN CASH	258,814
CASH AND CASH EQUILALENTS-beginning of year	45,621
CASH AND CASH EQUILALENTS-end of year	$ 304,435

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

Carpet America Recovery Effort, Inc.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2012

A. Summary of Significant Accounting Policies

ORGANIZATION - The Carpet America Recovery Effort, Inc. (known by the trade name "CARE") is a non-profit organization that was formed to encourage and oversee market based solutions for the recycling of post-consumer carpet.

Interested parties can join CARE as members by paying dues. Membership allows participation in the Organization's programs.

To achieve its goals, CARE sponsors events and conferences that bring together stakeholders in the carpet recycling industry. CARE also produces educational programs to help the public understand carpet recycling. A major part of its educational program is the Organization's website, www.carpetrecovery.org.

CARE is also the "Carpet Stewardship Organization" (CSO) under California AB2398 whereby it administers the Organization's "Carpet Stewardship Plan" (the Plan). As the CSO, CARE acts as a fiduciary of funds collected from the sale of carpeting in California through the carpet stewardship assessment and administers disbursements in accordance with the Plan. Similar legislation has been proposed in other states.

PRESENTATION OF FINANCIAL STATEMENTS - The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The financial statements are prepared under the requirements of ASC Topic 958-205-05. The topic requires CARE to recognize any contributions as support in the period received or when an unconditional pledge has been made. In addition, contributed services using specialized skills that would have been required to be purchased, if not provided by donation, are also recognized in the period performed.

CARE is required to report information regarding its financial position and activities according to three classes of assets: unrestricted, temporarily restricted, and permanently restricted. As of December 31, 2012, CARE had no temporarily restricted or permanently restricted net assets.

Other significant accounting policies followed by CARE are described below.

1. CASH AND CASH EQUIVALENTS - CARE considers all money market accounts and highly liquid debt instruments with maturities that do not exceed ninety days to be cash equivalents for financial statement purposes. These amounts exceed federally insured amounts at times and may at times significantly exceed amounts shown on the statement of financial position due to outstanding checks.

Carpet America Recovery Effort, Inc.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2012

2. ESTIMATES AND UNCERTAINTIES - The preparation of financial statements in conformity with generally accepted accounting principles in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. REVENUE RECOGNITION - Revenue from membership dues is recognized over the course of the membership period. Revenues from events are recognized at the time of the event.

4. ACCOUNTS RECEIVABLE - Accounts receivable consist of amounts owed for activities related to membership programs as of December 31, 2012. Management has evaluated historical trends and individual account collectability and determined that an allowance for doubtful accounts is unnecessary.

5. ACCOUNTS RECEIVABLE - AB2398 - CARE is reimbursed for costs it incurs as the Carpet Stewardship Organization under California AB2398 Carpet Stewardship Plan, and "Accounts receivable - affiliate" consists of amounts due to CARE from the Plan for these expense reimbursements as of December 31, 2012.

6. PROPERTY AND EQUIPMENT - Property and equipment are carried at cost less accumulated depreciation. It is management's policy to capitalize acquisitions of property and equipment of $1,500 or more. Maintenance and repairs are charged as incurred.

   Property and Equipment consist of the following major classifications:

Computer equipment	$ 4,045
Website	10,583
	14,628
Accumulated depreciation	(11,684)
	$ 2,944

   Depreciation expense for the year ended December 31, 2012, was $585.

6. PROPERTY AND EQUIPMENT (continued) - Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Computer equipment	3 years
Website	3 years

7. ACCRUED EXPENSES - Accrued expenses consist of amounts due to employees but not yet paid.

8. INCOME TAX STATUS - The Organization is currently exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The exemption does not apply to activity unrelated to the tax exempt function of the Organization. CARE did not have any unrelated business income for the year ended December 31, 2012.

9. ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES - CARE has adopted ASC Topic 740-10 which prescribes measurement and disclosure requirements for current and deferred income tax provisions. The topic provides for a consistent approach in identifying and reporting uncertain tax provisions. It is management's belief that CARE does not hold any uncertain tax positions as of December 31, 2012. CARE's returns are subject to examination by the IRS generally for three years following the date filed. With few exceptions, the Organization is no longer subject to tax examination for years prior to 2009.

10. FUNCTIONAL ALLOCATION OF EXPENSES - Expenses are charged directly to programs and supporting activities as incurred and have been summarized on a functional basis. Administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for overall administration of the Organization.

B. Related Parties; Industry Affiliate

The primary organizer of CARE was the Carpet and Rug Institute, Inc. (known by the trade name "CRI". CRI is a 501(c)(6) organization under the Internal Revenue Code and one of the primary trade groups of the carpet industry.

CRI initiated CARE's organization as the entity to represent and to promote the industry's carpet recycling efforts and to manage the industry's recycling programs.

Carpet America Recovery Effort, Inc.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2012

B. Related Parties; Industry Affiliate (continued)

CRI acts as an advocate of the carpet industry and actively works to represent its interest in legislative, regulatory, and judicial issues at the federal, state, and local levels. CRI played an active role in the development of the AB2398 legislation in California, and actively lobbies for the carpet industry in other states considering similar product stewardship or extended producer responsibility (commonly referred to as EPR) legislation.

CRI shares common directors and facilities and also provides administrative and technical support to CARE. CARE recognizes this support as in-kind contributions. The amount of this support totaled $84,776 for the year ended December 31, 2012.

Under AB2398, CARE is allowed to be reimbursed for costs it incurs administering its Carpet Stewardship Plan. Costs incurred directly by the Plan are paid from AB2398 funds. Shared labor costs of AB2398 and CARE are systematically allocated and periodically settled. The plan reimbursed CARE a total of $82,754 for the year ended December 31, 2012.

To participate in CARE's AB2398 California Carpet Stewardship Plan, membership in CARE is required.

C. Concentrations

CARE holds all of its cash at one bank. The amounts in the bank accounts exceed the amount that is insured by the Federal Deposit Insurance Corporation as of December 31, 2012. Management believes that there is no significant concentration of credit risk.

Approximately 65% of dues were received from ten members.

D. Subsequent Events

On May 31, 2013, the revised Carpet Stewardship Plan of the Carpet America Recovery Effort, Inc. was submitted to the California Department of Resources, Recycling, and Recovery.

Management has evaluated events through June 26, 2013, the date on which the financial statements were available to be issued.