Annual Report
to
California Department of Resources, Recycling and Recovery (CalRecycle)

January 2013—December 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
CalRecycle
1001 I Street
Sacramento, CA 95814

California Carpet Stewardship Plan
2013 Annual Report

1 Table of Contents

2 Contact Information 3
3 Executive Summary 3
4 Scope 8
5 Program Outline 9
6 Description of Goals and Activities 14
7 Market Development 29
8 Financing Mechanisms 30
9 Outreach & Education 34
10 Audits 36
11 Appendices 37

2 Contact Information

Identify the manufacturer or stewardship organization responsible for the annual report submittal.

The **Carpet America Recovery Effort (CARE)** serves as the California Carpet Stewardship Organization (CSO) responsible for annual report submittal under the California Carpet Stewardship Program (Program). Contact information for the organization is listed below:

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

3 Executive Summary

Provide an evaluation of the effectiveness of the carpet stewardship plan, and anticipated steps, if needed, to improve performance.

This **Annual Report #2** is submitted to CalRecycle in line with requirements specified in statute AB 2398, for calendar year reporting period of **January 1, 2013 through December 31, 2013**. The Program's first annual report was submitted in July 2013 for the reporting period of *July 2011 through June 2013*. This second annual report concentrates on the remaining six months of calendar year 2013, from **July 2013—December 2013**. However for the purposes of annual trends, the full 2013 calendar year results are referenced throughout this document. Moving forward, future annual reports will generally be submitted annually in July of each year for the full calendar year preceding the submission. This report summaries results achieved in 2013, makes comparisons of outcomes over time, provides an evaluation of the effectiveness, and identifies anticipated steps which may be necessary for continued and meaningful improvement.

AB 2398 Results Calendar Year 2013

- **363.6M pounds** of post-consumer carpet (PCC) was destined for landfills in California.
- **88M pounds** (24% of discards) were gross collected from consumers, retailers, installers, landfills, transfer stations and materials recovery facilities (MRFs) by collectors, sorters and processors.
- **44.3M pounds** (12% of discards) of PCC such as fiber and filler, were converted into recycled output, for utilization in secondary products, (i.e., this recycled output did not get sent to the landfill).
- **2.3 pounds** of PCC was recovered per capita* in California.
- **$5M** in total remittances were made by the mill manufacturers registered with CARE.

* Per capita estimate is based off a population data of 38,332,521 for California in 2013.

- Processors requesting funds from AB 2398 reported a combined **23.6M pounds** of gross collected material was sent back to landfills across the U.S. (total includes both PCC plus processing waste).
- Qualified recipients (processors) received approximately **$3.3M (65%** of fees collected) in market incentives.
- Expenses for this time period were estimated at **$794K** (**16%** of fees collected).
- Unused funds at the end of December 31, 2013 were **$4.9M**.
- **Program Manager** hired in November 2013 to assist in the implementation of the Plan.
- Revised Plan was submitted to CalRecycle in December (and approved in January 2014 as version 3.2).
- Independent audit of AB 2398 Plan program resulted in no material findings.
- First ever CARE independent audit resulted in no material findings.
- Two California processors went out of business in 2013.
- Three new processors were considering starting operations at the end of 2013.

Results for 2013 are discussed in further detail in **Chapter 6** and throughout this report.

3.1 Background

Carpet America Recovery Effort (CARE) is a 501(c)3 organization, which began in 2002 as a result of a Memorandum of Understanding (MOU) for Carpet Stewardship signed by stakeholders including members of the carpet industry, government representatives, NGOs, and entrepreneurs. Per AB 2398, CARE serves as the designated Carpet Stewardship Organization (CSO) charged with implementation of the California Carpet Stewardship Program (Program). CARE works cooperatively with oversight agency, California Department of Resources, Recycling and Recovery (CalRecycle), and in collaboration with its membership and interested stakeholders from across California and beyond, to implement the Program. Following the passage of AB 2398 in September 2010, the program launched operationally in July 2011. Since the Program launch, consumers in California are assessed a five cents per square yard assessment of all carpet purchased in California. This assessment amount, established in legislation, is subject to adjustment by CARE as outlined in the current California Stewardship Plan (Version 3.2), approved in January 2014: http://www.calrecycle.ca.gov/Carpet/Plans/

3.2 Summary of Program Results

Program results are tracked and monitored by CARE on an ongoing basis and reported to CalRecycle quarterly, approximately 90 days following the end of each quarterly reporting period. At the time of this report preparation (June 2014), the Program has completed 11 full quarterly reporting periods, providing the implementation team with the ability to track trends and progress toward program goals over time. For the purposes of this report, results are presented for calendar year 2013, based on the best available data at the time

of report preparation. *Results to date* are offered based on available data for the ten quarters since program initiation through calendar year 2013 (July 1, 2011—Dec 31, 2013), unless otherwise specified.

In 2013, the following major Program outcomes were achieved:

- ✓ **88 M** lbs **gross collected** (24% of estimated discards)
- ✓ **44 M** lbs converted to **recycled output** (19% higher by weight compared to 2012)
- ✓ **12.2%** average estimated **diversion rate** (2% rate increase from 2012)

Additional Program performance metrics are presented below in **Table 1**.

Table 1. Summary of Program Performance Metrics

Metric	Unit	2013 Total 1/2013-12/2013	Total To Date 7/ 2011-12/2013	Notes
Carpet Sold in CA	Square Yards	100 Million	249 Million	Consistent average 25 Million/Quarter
Post Consumer Carpet (PCC) Discards	Pounds	364 Million	902 Million	Seasonal Fluctuations Q2-Q3, generally 9% higher than Q4-Q1
Gross Collection (GC) (recovered but not recycled)	Pounds	88 Million	249 Million	Approximately ¼ of all PCC estimated discards (24% in 2013; 27% to date)
Recycled Output (RO) (recovered and recycled as Type 1, Type 2, CAAF or Kiln)	Pounds	44 Million	92 Million	Average RO in 2013 is 19% higher than 2012, and 20% higher than average RO to date
GC Conversion Rate	GC:RO	50.3%	37.1%	Increased conversion in 2013
RO Diversion Rate	RO:PCC	12.2%	10.2%	2013 average diversion rate increased 2% compared to '12
Reuse	Pounds	26 Thousand	179 Thousand	2013 reuse rate 0.3% of GC
Source Reduction (SR)	Pounds	4.2/sq. yd.	4.2/sq. yd.	2012 & 2013 average weight per sq.yd. of carpet equates to 7% reduction from previous years
Energy Recovery	WTE:PCC	3.2%	5.6%	When taken together, Recycled Output + WTE equates to 18% of all discards being removed from CA Landfills in 2013
Disposal to Landfill	Pounds	24 Million	80 Million	27% of 2013 processor reported GC pounds sent back to landfill
Funds Remitted	Dollars	5.1 Million	12.5 Million	An average of 1.3M/Qtr
Implementation Cost	Dollars	4.1 Million	7.6 Million	61% of 2013 remitted funds invested into incentives/mgmt. 19% of funds expended to date on mgmt. (admin)
Greenhouse Gas (GHG) Reductions	MTCO2E	42,571	198,091	Estimated using EPA WARM Model, accounts for RO, WTE, SR; Equivalent to removing 43,703 cars from California roads
Green Job Creation	Jobs	22	236	Per processor reported added jobs; 161 average jobs in 2013

3.3 Tracking & Evaluating Effectiveness.

Calendar year 2013 marked the second full year of program operations since the July 2011 launch. CARE is pleased to note that the initial program rollout concentrated in 2011 and 2012, was successfully completed throughout California. The effort included intensive coordination, education and outreach with over 80 manufacturers, thousands of retailers, a wide array of governmental and non-governmental stakeholders, and dozens of industry trade groups and media outlets. Details regarding this effort are included in the previous Annual Report #1.

As an innovative first of its kind Program, a tremendous effort was untaken in the initial launch phase to establish processes and protocols from scratch, ensure appropriate fund collection and stewardship mechanisms were in place and functional, and educate retailers and manufacturers on program details to ensure proper participation and compliance measures were seamlessly integrated into retailer and manufacturer operations. Assessments appropriately applied to each consumer purchase on the front end are collected from the consumer by retailers, funneled from retailer to manufacturer, and finally remitted to CARE as the CSO, to be reinvested in meeting the goals of AB 2398.

Drawing on this early success, CARE continued to support this foundation in 2013 by:

- ✓ Serving a total of **79 manufacturers** participating under the CARE Carpet Stewardship Plan[†];
- ✓ Delivering an estimated **$3.3M in processor (Type 1, Type 2, CAAF, Kiln, Tier 2) incentives** to drive program outcomes;
- ✓ Hiring an **In-State Program Manager** to provide support and oversight within California; and
- ✓ Providing the **administrative management** necessary for effective program implementation and oversight.
- ✓ Extensive efforts to build and **refine/strengthen reporting protocols** and agreed upon procedure (AUP) reviews.

A list of participating manufacturers is updated at least annually per statute, and as often as quarterly. The list is presented in **Appendix I** and available at: http://www.calrecycle.ca.gov/Carpet/ManuBrands/

Additional details regarding program elements and expenditures is contained throughout this report.

[†] The actual number of participating manufacturers as reported in quarterly reports fluctuated over time throughout 2013 between 76 and 80. In Q4-2013, CARE staff worked closely with AUP accounting firm to ensure the number of manufacturers is reported accurately. As of December 2013, 79 manufacturers were listed. A portion of the fluctuation was due to manufacturer bankruptcy and/or acquisitions occurring during period.

3.4 Striving For Continued Improvement.

Ongoing program refinement continues while program results to date are already demonstrating some key successes. Manufacturer participation for instance, as indicated by quarterly assessment remittance and reporting rates (94% average quarterly response rate in 2013), third party monitoring of Agreed Upon Procedures (AUPs) reviews, and ongoing feedback from CalRecycle Program and Enforcement branches, each show that the assessment collection aspects of the program are functioning well. As reported to CARE, very few if any, inquires or complaints have been submitted to CalRecycle by the public since the Program began. Stakeholder feedback made public during the Plan approval process was taken under careful consideration helping to inform a balanced incorporation of Program enhancements as the Plan was developed and refined throughout 2013. In the quarters ahead, CARE intends to continue to make meaningful and continuous progress towards program goals expanding, enhancing and refining program implementation strategies along the way.

4 Scope

The program described in the stewardship plan accepts/manages all applicable PCC.

In 2013, CARE submitted the final California Carpet Stewardship Plan (Plan) to CalRecycle for review and consideration. Stakeholder comments were received by CalRecycle from various parties in the state over the course of 2013. CARE worked with CalRecycle to consider stakeholder feedback and incorporate program refinements throughout this period, reflected in the final version of the Plan.

A revised Plan was submitted in late December 2013 and was approved by CalRecycle Director Caroll Mortensen at a Public Meeting on January 21, 2014. The Version 3.2 Plan is now considered current and active and reflects minor corrections to version 3.0 submitted in December 2013 and approved by CalRecycle Director in January 2014. These adjustments were finalized with CalRecycle staff on April 7, 2014 and were not considered material.

A copy of the current Plan (3.2) can be found at: www.calrecycle.ca.gov/Carpet/Plans/

4.1 Scope Adjustments

Indicate any changes in the program scope from the approved stewardship plan or that no changes have occurred during the reporting period.

The Program described in the Version 3.2 Plan is designed to accept and manage all applicable postconsumer carpet. The Plan focuses on broadloom carpet, both residential and commercial, along with carpet tiles. There were no changes to this essential program scope made during the reporting period.

Any adjustments to details of the implementation approach incorporated in 2013, including modifications made to program incentive elements, are presented below under Program Outline, and/or contained in greater detail within the current Version 3.2 Plan. All changes were reviewed with CalRecycle and were within the scope of the approved Plan.

5 Program Outline

(1) 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.

5.1 Overview

The Program is designed to achieve continuous meaningful improvement in the rates of recycling and diversion of carpet in the state of California. Five main goals guide the program to successful outcomes:

- ✓ *Increase* **Recyclability** of Carpets
- ✓ *Increase* **Reuse** of PCC
- ✓ *Increase* **Gross-Collection** of PCC from California Landfills
- ✓ *Increase* **Conversion** of PCC to Recycled Output
- ✓ *Increase* **Market Growth** of Secondary Products made w/ Post-Consumer Recycled Carpet Content (PCRCC)

Participating manufacturers (mills) register with CARE under the Plan to take advantage of services provided by CARE as the designated CSO. During calendar year 2013, there were 79 mills registered with CARE as participating manufacturers selling carpet in the State of California. Confidential reports are submitted quarterly by each mill to a third party accounting firm managed by CARE. Mills report the number of square yards sold within the State, submit a certification letter attesting to the accuracy of the data and remit a check for the appropriate associated assessment fees collected. The accounting firm oversees submission of the data, flags areas of concern for follow-up by CARE staff or oversight body and consolidates data to provide useful aggregate information to assist with program management, while maintaining individual manufacturer confidentiality. Funds remitted by manufacturers through this process become part of the fund utilized by CARE to provide incentives, management and oversight of the Program as specified in the Plan. To date $12.5 Million has been collected from carpet sold in California since the program began. Of this, 49% or 6.1 Million has been directly reinvested back into the carpet recycling marketplace by the Program in form of Processor Incentives (80%) and Program Management (20%). In 2013 alone over $4M was distributed in subsidy payments. The subsidy program was modified beginning in Q2 2013 and resulted in a significant increase in eligible payments for growth in overall recycled output of Type 1 materials and use of Type 1 non-nylon fiber into products. The fund balance of $4.9 Million at the end of 2013 is retained to provide a safe harbor fund reserve, or budgeted for expenditure in subsequent quarters. Beginning in 2014, it is anticipated that the fund balance will decrease from quarter to quarter.

In 2013, 11 processors participated as qualified recipients under the Plan, 5 processors within the state of California and 6 processors operating in other states within the US. However, 2 of

these 5 California-based processors ceased operations within the reporting period, resulting in 9 total processors (3 CA, 6 US) considered viable at the end of December 2013. Lessons learned from these experiences have been and are being incorporated into CARE's operational Plan AUPs in a continuous improvement process.

Processors participating under the plan receive whole carpet as gross collections. The carpet may be pre-sorted or sorted as received, generally by fiber type. Sorted whole carpet is processed utilizing various methods to yield final recycled output materials that can be used to make secondary products. The processed recycled output represents the true diversion of discarded PCC, equivalent to a recycled output conversion rate of about 50% of material initially kept out of the landfill through gross collections in 2013. Increasing the conversion rate of gross collected materials can have a significant impact on the program's total estimated diversion rate. In some cases whole carpet may be shipped outside the US by for processing. Among the many data points submitted, participating incentive qualified recipients report quarterly on California carpet gross collected from within California, processed within California, processed outside California, as well as pounds shipped outside the US.

In 2014, CARE will begin reporting estimated California pounds processed internationally into recycled output. Based on processor direct observation of multiple international processing facilities, CARE will apply a conservative estimated conversion factor of 25% to all California carpet pounds reported by qualified recipients to account for this additional diversion occurring internationally. CARE considers gross collections sent internationally to be kept out of California landfills and legitimately used for recovery of the valuable face fiber.

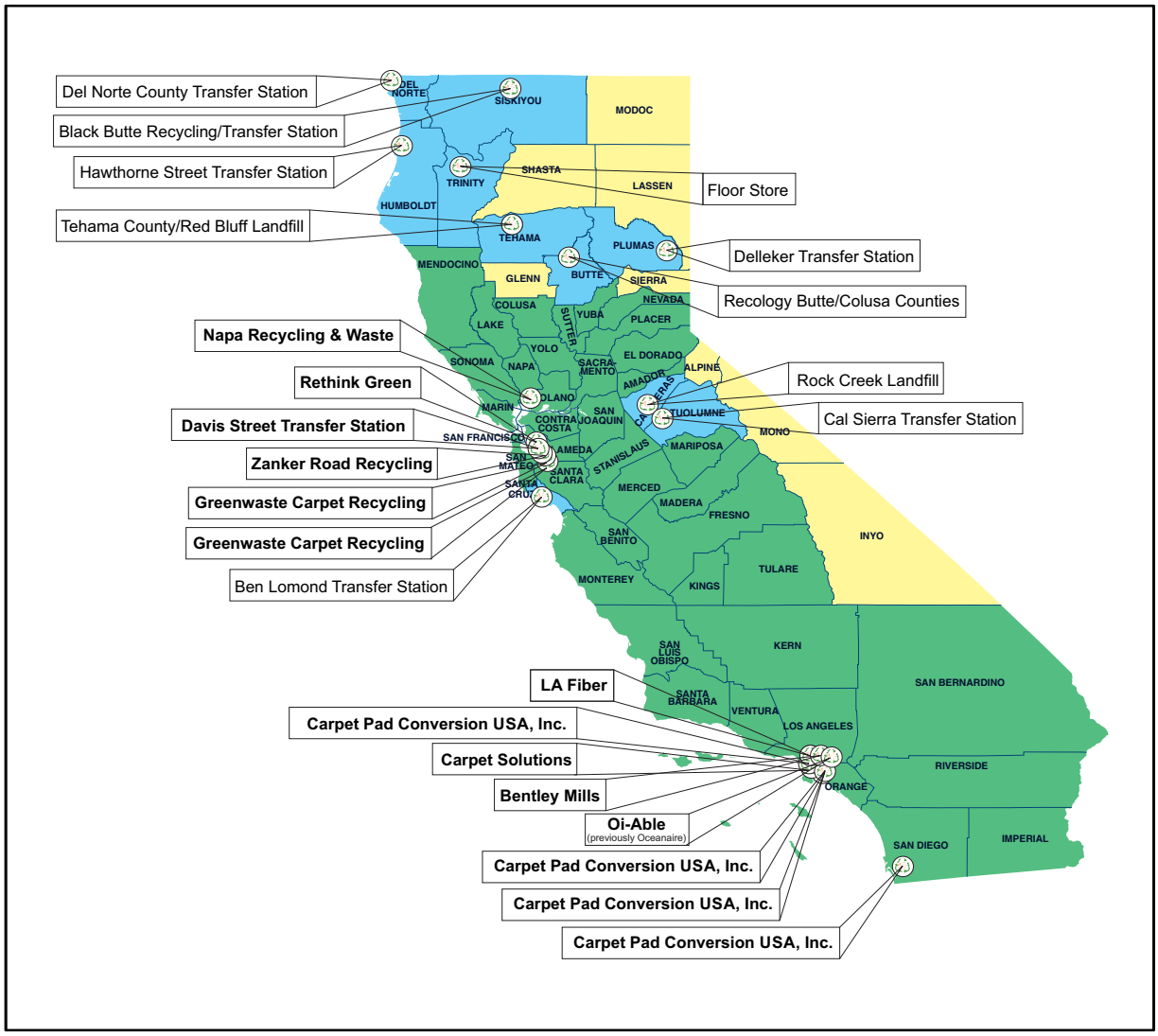
5.2 Types of Collection Sites

At the time of this report, there are 22 companies listed as CARE collectors/recyclers within California. Sites fall into two main categories: collectors and processors. In some cases one company performs both functions.

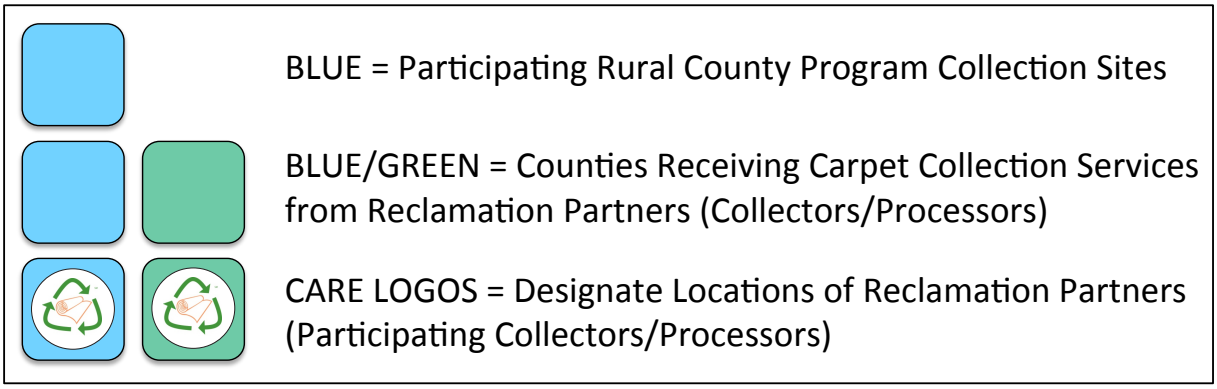
Under the current Plan, only companies that engage in processing of PCC are eligible for subsidy funding. Eligible companies must be a member in good standing of CARE which includes a number of requirements as documented in quarterly reporting. A list of all California collectors/processors may be found in **Appendix II** or via CARE's searchable database at: http://carpetrecovery.org/recovery-effort/collector-finder-map/

The following **Figure 1** is a graphical representation of the 23 operations located in California.

Figure 1. Map of CARE Carpet Collector/Processor Reclamation Partners in California



Map Legend:



5.3 Recycling Facilities in California

In 2013, a total of eleven carpet processors (*recycling facilities*, also referred to as *Qualified Recipients*, due to their eligibility to receive Stewardship Program incentive funds) participated in the Program incentive mechanism. Processors reported California PCC collected, sorted and processed over the course of the year. Of these, 5 facilities (45%) were located within the state of California, 6 facilities (55%) were located elsewhere within the United States. It is worthy of note that processors requesting subsidy funds may not submit for funds every quarter. In 2013, the number requesting funds fluctuated each quarter between 6-8 or ~64% of processors.

The following companies[‡] have requested AB 2398 subsidy funding one or more times over the ten quarters through December 2013:

1. Bonded Logic, Chandler, AZ
2. Carpet Collectors, Sacramento, CA (CLOSED)
3. Carpet Solutions, Carson, CA
4. Columbia Recycling, Dalton, GA
5. Heritage Recycling, Kansas City, MO
6. Interface Flooring, LaGrange, GA
7. Los Angeles Fiber Company, Los Angeles, CA
8. Mission Recycling, Pomona, CA
9. Reliance Carpet Cushion, Los Angeles, CA
10. Shaw Industries, Dalton, GA
11. SOEX Group, Fresno, CA
12. Tandus Flooring, Dalton, GA
13. The Carpet Recyclers, La Mirada, CA (CLOSED)

5.3.1 Challenging Times in California

In Q2 and Q3 2013, the Program faced a significant challenge with the closure 2 of the 5 California based recycling facilities (processors). These closures resulted in a 40% reduction in the number of California based processors, the estimated loss of 121 (see below) green jobs, and approximately 27% of the California based Recycled Output capacity based on historical reporting trends. However, despite this loss in capacity, CARE is pleased to report that the actual reported Recycled Output numbers stayed relatively constant throughout the second half of 2013, indicating that the remaining marketplace was able to work collaboratively to continue collection and processing services despite this challenge. As the Program continues in 2014, CARE is aware of several additional processors considering initiating operations in California in the future, a positive indication that the marketplace is likely to recover and even reverse the downward trend in gross collections in the months and years ahead.

[‡] Companies are listed alphabetically

5.3.2 International Recycling Facilities

In additional to the PCC processed domestically, a small amount of whole carpet is reported to be exported outside the United State to international recycling facilities, assumed to be primarily in Asia. CARE has begun collecting data on pounds of whole carpet which are exported outside the United States. Reported exports are estimated to comprise just 1.2% of all discards, or 4% of total gross collections. CARE does not support international recycling facilities and no incentives are paid for materials exported outside the United States. However, efforts are presently underway to further track these pounds being kept out of California landfills and quantify amounts of PCC being converted to recycled output through international recycling efforts. In addition, during 2013 CARE estimates that approximately 8-12M unreported pounds were collected by entrepreneurs who do not report to CARE. These unreported pounds are believed to be shipped directly out of the country for processing by international recyclers and are therefore kept out of California landfills. Reporting on these mechanisms will be included in quarterly reports beginning in 2014.

5.4 Facility Names & Locations

A list of Facility Names and Locations is provided to CalRecycle, updated periodically, and available on the CARE Website at: www.carpetrecovery.org

Participating facilities[§] and accepted materials are subject to change over time. Data maintained on the CARE search database is based on the best available data as reported by the participating facility to CARE. Members are encouraged to update their data annually. Contact information for each facility is included on the database. Customers are encouraged to call ahead to confirm currently accepted materials.

[§] Facilities are designated CARE Certified Collectors, for which there is an application process and periodic updates. Facilities accepting carpet are subject to changing market conditions and rely on private agreements. Always contact a facility prior to a drop-off to ensure it can accept carpet and what requirements might exist (free of contaminants, volume, type, etc.).

6 Description of Goals and Activities

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

The Program is designed to achieve continuous meaningful improvement in the rates of recycling and diversion of carpet in the state of California. Five main goals guide the program to successful outcomes:

- ✓ *Increase* **Recyclability** of Carpets
- ✓ *Increase* **Reuse** of PCC
- ✓ *Increase* **Gross-Collection** of PCC from California Landfills
- ✓ *Increase* **Conversion** of PCC to Recycled Output
- ✓ *Increase* **Market Growth** of Secondary Products made w/ Post-Consumer Recycled Carpet Content

Program activities working to achieve these goals are outlined in detail with the Plan and summarized below.

6.1 Increasing Recyclability

As outlined within the Plan, CARE is working to identify, qualify and report on technologies that significantly improve the ability for carpet to be recycled. This increased recyclability involves two principle components driven by industry: (1) increased ease of materials separation of constituent parts, and (2) increased opportunities for utilization of various fiber types comprising carpet. Infrastructure solutions linked to gross collections will target the increased ease by which generators can connect to recycling opportunities. Recyclability is linked to source reduction and discussed in further detail within the Plan. Manufacturers working to achieve higher recyclability in their product lines may issue annual sustainability reports. Reported efforts are summarized in the CARE organizational annual report available at: http://carpetrecovery.org/newsblog/reading-room/

- ✓ Aid in the **development of technology** to recycle more of the carpet components
- ✓ Work to identify new **technologies, processing equipment and product outlets** to increase recycled output
- ✓ Work to identify new ways to increase the amount of **PET carpet that can recycled**
- ✓ Provide general assistance to help **grow market awareness** and develop secondary product markets

Key 2013 milestones for achieving these goals include:

- **New Tier 2 Incentive** for end users of non-nylon Type 1 materials processed into new secondary products implemented in Q2-2013 ($0.12/lb)
- **New PET Technology Consultant** to specially target the recyclability of PET as a shared collective investment with CARE implemented in Q3-2013
- **Quarterly Reports** illustrate trends over time published (June, Sept, Dec ‘13; Mar ‘14)

- **Manufacturer Sustainability Best Practices** are included within the 2013 CARE Annual Report (Scheduled 2014) and highlighted at the CARE Annual Conference (May 2014)
- **State of Technology** results of recycling research innovations to be presented at various sessions by PET consultant and others at the CARE Annual Conference (May 2014)
- **Coordination with CalRecycle Director**, Staff and Department of General Services to support progress on state PCC product procurement and proper carpet management
- **Stakeholder Feedback Sessions** conducted to secure input from a range of stakeholders including CalRecycle, NGOs, cities, municipalities, collectors, processors, entrepreneurs
- Initiation of a **CARE Blog** as an additional outreach mechanism

6.2 Increasing Reuse

Activities related to reuse as outlined within the Plan focus on education and connectivity solutions.

- **Educate Public** about reuse opportunities for broadloom and tiles
- **Promote Connectivity** with Resource Centers, Habitat for Humanity and other similar community organizations

Due to the customization of broadloom carpet being cut to size to accommodate the particular dimensions of an installation site, the varied colors, designs and styles in use, as well as the difficulty of cleaning or refurbishing broadloom carpet, make it a challenging material to reuse. However, some opportunities for reuse do exist especially where the carpet is relatively new, experienced low traffic and where there may be high demand for gently used carpet with a nearby community organization such as Habitat For Humanity. However, reuse in this way is assumed to comprise a minute portion of total annual discards and does not currently offer a reliable ability to track this activity. On the other hand, reuse potential for carpet tile has both a higher opportunity to be reused (due to its standardized size and ease with which various styles and colors can be mixed and matched), as well as a more reliable ability for tracking.

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. In 2012 a total of 152.1K pounds of PCC was reported as reused (~0.14%). In 2013 processors reported a total of 25.9K pounds of PCC as reused or just 0.3% of gross collections, 0.01% of discards. This represents an 83% reduction from reported reuse in 2012. It is important to note, that reuse amounts reported to CARE include only those recorded by processors submitting for incentive reimbursement in any given quarter and does not include additional reuse which may be occurring upstream from gross collections. Preliminary data from the 2013 CARE annual survey suggests the national reuse rate was 0.6%, indicating a consistency with CA data results.

6.3 Increasing Gross-Collection

Gross collection represents the materials which are initially kept out of the landfill through collection, sorting and processing activities conducted in coordination with consumers,

retailers, installers, landfills, transfer stations, MRFs and the like. Participants separate PCC with the hope of having the material be recycled. However, unlike a bottle or can, the gross collected PCC cannot directly be recycled in all circumstances. Rather the material must be further segregated by fiber type and processed to harvest the portion of the carpet which can be converted to recycled output, typically on the order of 50% of the weight. With just 2.5 years of operations through 2013, the program has already reached a gross collection rate of 24% or roughly ¼ of all annual discards. Present technology is converting about 50% of these gross collections into final recycled output, yielding an average 12% diversion rate in 2013. As the program seeks to increase total diversion therefore, the growth of both gross collections as well as recycled output will be critical. With the loss of two major collector/processors in 2013, gross collections in 2013 dropped approximately 7 percentage points from 31% in 2012 (27% overall since July 2011) to 24% in 2013. Remarkably however, the overall marketplace has been responsive in absorbing much of these collections, with recycled output remaining relatively constant over the same time frame. Initial indications suggest strong growth expected in 2014.

Activities supporting gross collections will seek to:

- **Promote** existing collection sites
- **Outreach** to establish new collection locations (including rural counties expansion)
- **Coordinate** with stakeholders to increase participation
- **Support** opportunities for increased efficiency and streamlined collection
- **Examination** of incentive program structure

Major milestone activities driving gross collections in 2013:

- Proactive and **responsive collaboration** to respond to closure of major collectors
- Implementation of a **new Growth Incentive Compensation incentive** ($0.10/lb over target) to encourage growth in collections above the average collections from 2012:
    - Increasing collection sites serviced by Program processors
    - Helping to buffer against the loss in processing capacity
- Support efforts of **new potential processors** considering initiating new operations
- Groundwork to **support collection in 4 new rural county** locations in 2014

6.4 Increasing Recycled Output

Recycled output comprises the portion of gross collections which is successfully converted from PCC to an end use product or input material for a secondary product. The Program utilizes an incentives structure which compensates processors based on the number of pounds of materials converted to recycled output.

The incentive structure driving Recycled Output is broken down into two Tiers:

- **Tier 1 (Process of PCC to Recycled Output)**
    - ***Type 1*** (High Value Output; Contains 25% or lower Ash Content): $0.06/lb
    - ***Type 2*** (Low Value Output; Contains Greater Than 25% Ash Content): $0.03/lb
    - ***Growth*** bonus paid per pound over target (average of previous year): $0.10/lb

- **Tier 2 (Process of Recycled Output into a Secondary Product)**
    - ***Secondary Product*** Processor using Type 1 Non-Nylon Output: $0.12/lb

In addition to incentives, Recycled Output milestones in 2013 include:

- ✓ **Industry-wide Outreach** and education including Annual Conference in 2013 and 2014
- ✓ **New PET Consultant** hired working to improve conversion of PET into recycled output
- ✓ **University Grant RFP** sought to fund research focused on non-nylon (Released in 2013)

Results of gross collections and recycled output over time are summarized under section **6.10 Disposition** below.

6.5 Increasing Market Growth of Secondary Products

Following the full circle of carpet production to disposition, CARE and its members are working to increase recyclability at from the design phase of carpet production, reduce waste through source reduction throughout manufacturing process, increase reuse to extend the useful life of carpet prior to disposal, raise gross collections to keep more PCC out of the landfill by leveraging proactive retailers, installers, consumers, haulers and governmental agencies, sort collected materials by fiber type and finally process collected material into recycled output. To fully complete the circle however, the final stage utilizes this recycled output to successfully produce a new secondary product useful to the marketplace.

It is worthy to note, CARE anticipates reporting a dramatic increase in closed-loop recycling of nylon face fibers back to new carpet when the 2013 CARE annual report is released later this year. This growing trend of carpet to carpet full circle recycling is a direct result of almost a decade of industry R&D and investment in new/novel technologies to recover and purify these valuable raw materials. This investment is estimated at more than $300M. In 2012, CARE Annual Survey results indicated that approximately 27% of recycled output was being directed back into carpet products in the form of face fiber and backing. The remaining recycled output consisted of primarily of engineered resins (63%) and other products (1%). In 2013, the amount of national recycled output being directed back into carpet products increased 67%% overall, with 45% of recycled output being directed back into carpet in the form of carpet face fiber and backing.

Supporting the market growth of these carpet-derived secondary products (made with post-consumer recycled carpet) includes the following major elements:

- ✓ Increase **opportunities for recycled output** utilization in new products
- ✓ Increase **supply of** carpet-derived secondary products available in the marketplace
- ✓ Increase **demand for** carpet-derived secondary products available in the marketplace

Major milestones achieved during 2013 driving market growth include:

- Completion of **manufacturer survey** to identify and document available carpet-derived secondary products available in the marketplace

- Completion of **draft Product Brochure** highlight available carpet-derived secondary products (Schedule Release in early 2014)
- **New PET Consultant** hired working to improve conversion of PET into recycled output
- **Coordination with CalRecycle Director**, Staff and Department of General Services to support progress on state PCC product procurement and proper carpet management
- **Proposal Solicitation** from a CA based consultant with expertise in post-consumer recycled content product procurement within the State (Anticipated contract execution in 2014)

6.6 Carpet Sales

Amount of carpet sold by square yards and pounds, in the state during the reporting period that is covered under the approved stewardship plan. CSO with more than one manufacturer may use average weight.

Carpet sales in 2013 totaled 100.5 million square yards (circa 422 million pounds), or an average of 25.1 million square yards (circa 105 million pounds) per quarter. A total of 249 million square yards is recorded as sold since July 2011, with an approximate total weight of 1 million pounds. Weights provided are based on an industry reported averages per square yard of carpet, presently estimated by calculation at 4.2 pounds per square yard.

6.7 Carpet Discards

Amount (pounds) of PCC that is available for collection.

In 2013, an estimated 364M pounds of PCC was destined for landfills and available for collection in California. Of these calculated discards, approximately 88M pounds were gross collected from California landfills (~24%).

6.8 Source Reduction

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

Carpet manufacturers are continuously working on programs to reduce the amount of natural resources used in making carpet. They regularly report on the life-cycle impacts of carpet manufacturing through their individual Sustainability reports. Therefore, incentivizing the strategies and programs for reduction is not within the scope of the CARE Carpet Stewardship Plan, but rather is a strategic objective, and managed by, the individual carpet manufacturers. By leveraging parallel manufacturer source reduction programs and/or investments, the funds generated from the assessments will be directed towards carpet recycling to maximize the impact in achieving the goals of AB 2398.

The average weight of carpet has decreased over the years due to these manufacturer efforts, in 2012, it was estimated that the average weight is 4.2 pounds per square yard, a decline of 0.3 pounds (-7%) over previous estimates. The average weight was reconfirmed in 2013. (National raw data was supplied confidentially by the industry and analyzed by CARE. Weighted averages of carpet weights of broadloom and tile used in the commercial and residential sectors were calculated.)

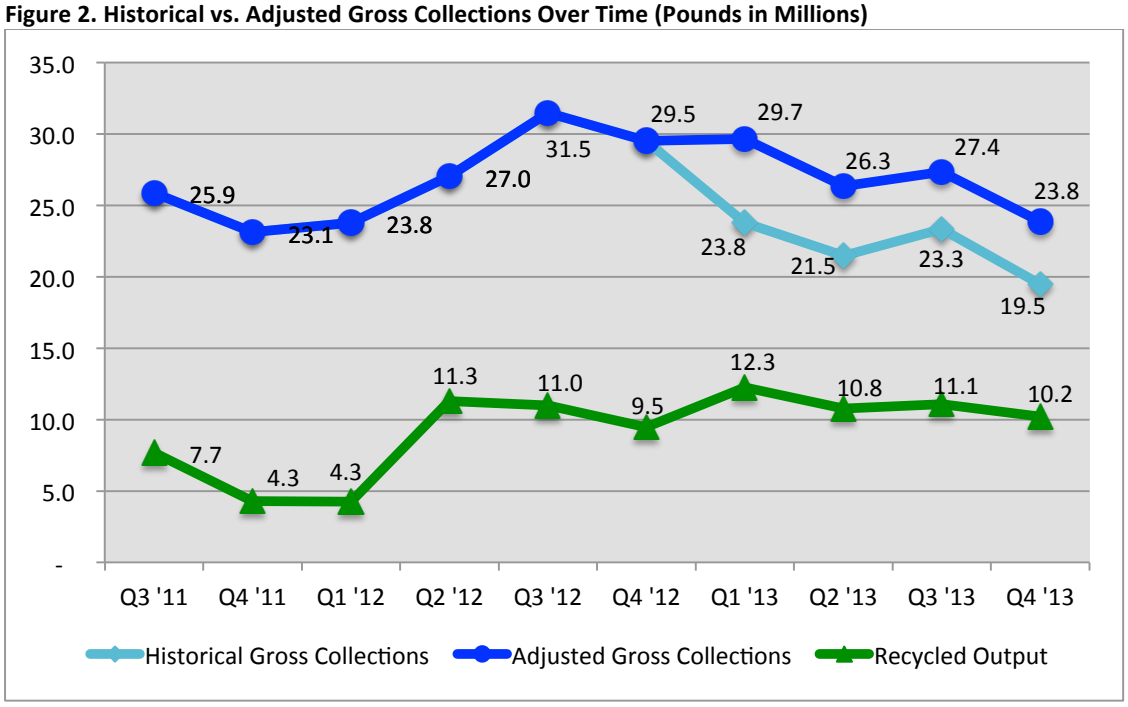
6.9 Gross Collection

Amount (pounds) of PCC collected, by weight, during the reporting period.

In 2013, gross collections totaled 88 million pounds of PCC, or 24% of estimated annual discards. In the 10 quarters since the program began in July 2011 through Dec 2013, 249 million pounds of PCC (27% of discards) has been collected from discarded carpet otherwise destined for the landfill. Of these gross collections, 50.3% were converted into recycled output in 2013.

In addition to the 88 million pounds of PCC reported in quarterly reports for 2013, new data reported beginning in 2013 and uncovered in recent months, quantifies additional California tonnage being collected by non-processor collectors that supply such material to processors participating within the California incentive program. This amount, totaling an additional 19.2 million pounds brings the gross collection tonnage for 2013 up to 107 million pounds, or 29% of discards. Recycled output is a proportion of discards, remains unchanged by this adjustment. However, the portion of gross collections converted to recycled output drops from 50% to 41%. The increased gross collection will be reported beginning in 2014 quarterly reports.

Figure 2. Historical vs. Adjusted Gross Collections Over Time (Pounds in Millions)



6.10 Disposition

Disposition, that is, amounts reused, recycled, incinerated for energy recovery or disposed of in a landfill; of collected PCC, by pounds, during the reporting period.

The final disposition of PCC managed by this Program is summarized below. All data is based on processor and manufacturer quarterly reports submitted to CARE and/or summarized by the Program's third party accounting firm. National data is provided by CARE membership as reported in the organization's annual survey.

6.10.1 Reuse

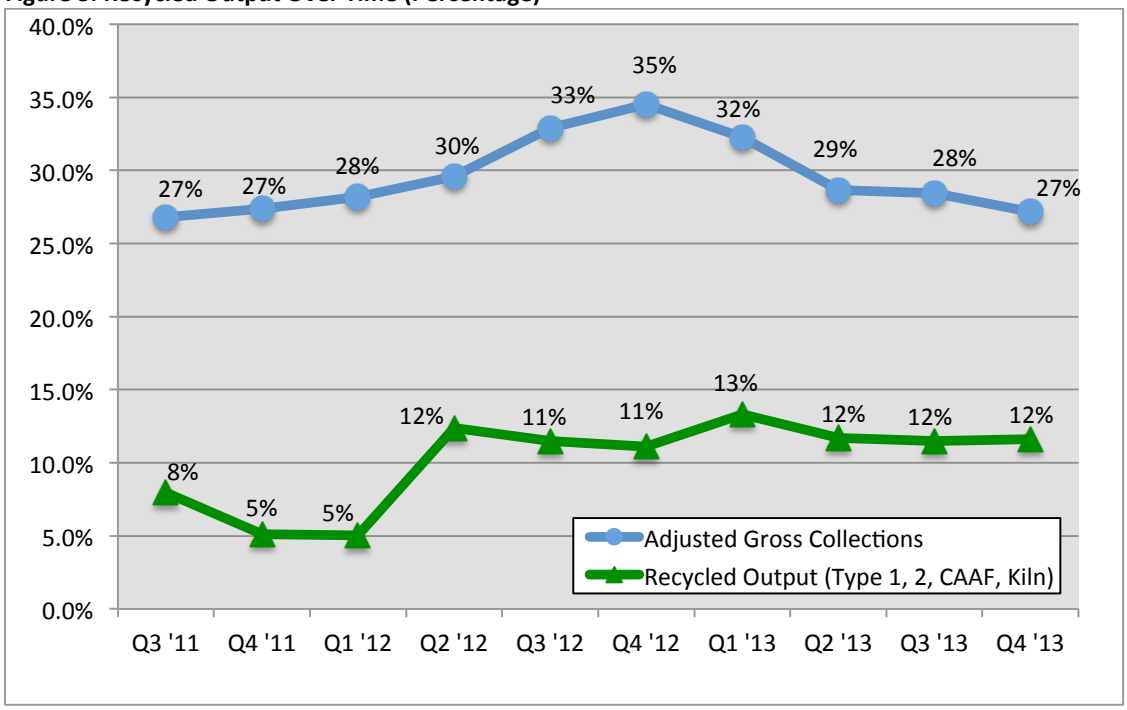
In 2013, processors reported a total of 25.9K pounds of PCC as reused or just 0.3% of gross collections, 0.01% of discards. Additional reuse is assumed to be taking place informally upstream (prior to materials becoming part of gross collections). However at this time, there is no reliable mechanism by which CARE is able to track such upstream reuse quantities. The national average is estimated at well below 1% by CARE.

6.10.2 Recycled Output

In 2013, recycled output totaled 44 million pounds or 41% of adjusted gross collections. By weight, recycled output in 2013 increased 19% over the previous year, and 20% compared to the average since the program began. As compared to total discards, recycled output represents an average annual diversion rate of 12.2% for 2013. This recycled output is used to measure Program progress toward the 2016 diversion target of 16%, and aspirational goal of 24% by 2020. Although recycled output remained relatively flat throughout 2013, given the challenges to the marketplace, the Program continues to make progress toward the 2016 goal. The average recycled output for 2012 was 10.2%, demonstrated a 2 percentage point increase over the previous year. It is believed the main reason the recycled output has not grown more quickly is the increase in PET waste flow which has caused a decrease in nylon waste flow. CARE anticipates an increase in recycled output in 2014 driven by the revised incentive program initiated in Q2 2013.

The Plan enables the management of PCC in a manner consistent with the state's solid waste hierarchy and with AB 2398 requirements. Included within the recycled output are both Type 1 high-value and Type 2 low-value processed quantities, as well as the minute amount of environmentally safe CAFF and Kiln also qualifying for Type 2 subsidies under the Plan. Note that no CAAF usage was reported for 2011 and just 44K pounds of Kiln utilization in 2012 (0.01% of discards; 0.1% recycled output). In 2013, 184K pounds were diverted via CAAF (137K) and Kiln (47K), collectively comprising just 0.05% of discards and 0.4% of recycled output. These amounts are well below the threshold quarterly cap of 15% on subsidies on CAAF and Kiln outlets set in the Plan.

Figure 3. Recycled Output Over Time (Percentage)



6.10.3 Incineration

No incineration was reported in 2013, or since the program began.

6.10.4 Energy Recovery

Waste to Energy (WTE) is not supported by the subsidy program, but does find minimal use by processors. In 2012 approximately 11 million pounds of materials (3.2% of discards) were kept out of California landfills through WTE utilizing unusable material which would otherwise be sent to landfill, generating prior to processing, used internally or resulting from the recycling process itself. In 2013, WTE utilized 20 million pounds of materials (5.6% of discards). Although WTE is not considered diversion for the purposes of achieving the Program's 16% diversion target by 2016, WTE is serving an important role in reducing the total amount of PCC sent to landfill either inside or outside of California. ***When taken together, recycled output + WTE accounts for 18% of total discards being kept out of California landfills.***

6.10.5 Disposal

Materials sent to landfill are comprised of unusable PCC materials collected as part of gross collections, or generated as an unusable byproduct of production or processing. Of the total program gross collections, materials which cannot be converted to recycled output or managed through an environmentally safe energy recovery WTE utilization process, are presently disposed of in landfills. In 2013, California processors reported the total pounds sent to landfill as 23.6M pounds (10% of estimated discards, and 42% of gross collections). As the percentage of gross collected materials converted to recycled output increases with new and improved technologies, overall diversion will also increase, and the amount of gross collections ultimately ending up back in the landfill will decrease. At present, these waste materials are comprised of

unusable PCC fiber types or segments, or materials generated as an unusable byproduct of production or recycled output processing itself. In addition, unless otherwise diverted via reuse or another upstream mechanism occurring outside of CARE reporting processes, up to 246M pounds of PCC (71% of discards) is assumed to be sent to landfill prior to gross collection, as the difference between total discards (364M pounds) and known gross collections (118M).

Included within this assumption is new data obtained by CARE, which indicates that a higher level of gross collections is taking place than has historically been reported by processors. This amount of additional gross collections totals an estimated 30M pounds of PCC made up of the approximately 23.3M pounds of recently uncovered data reported by processors beginning in 2013, presented as *adjusted* gross collections above (See Section **6.9 Gross Collections**), which had not previously been included in past totals; plus an estimated of 7.7M pounds of PCC collected by non-reporting collectors that is understood to be sent directly overseas by collectors outside the CARE network. Combined, these amounts suggest total pounds gross collected in 2013 to be an estimated 118M pounds or 32% of total discards. Using this number to calculate the difference between discards and gross collections, and combining waste gross collections materials not converted to recycled output, total California PCC waste disposal in 2013 is thus estimated to be approximately 270M pounds.

6.11 Recyclability Efforts

Describe efforts to increase recyclability of carpets.

Recyclability is discussed above in program goals within **6.1 Increasing Recyclability**. See also **6.2 Increasing Reuse** and **6.8 Source Reduction**.

6.12 Recycled Output Efforts

Describe efforts to increase recycling of PCC.

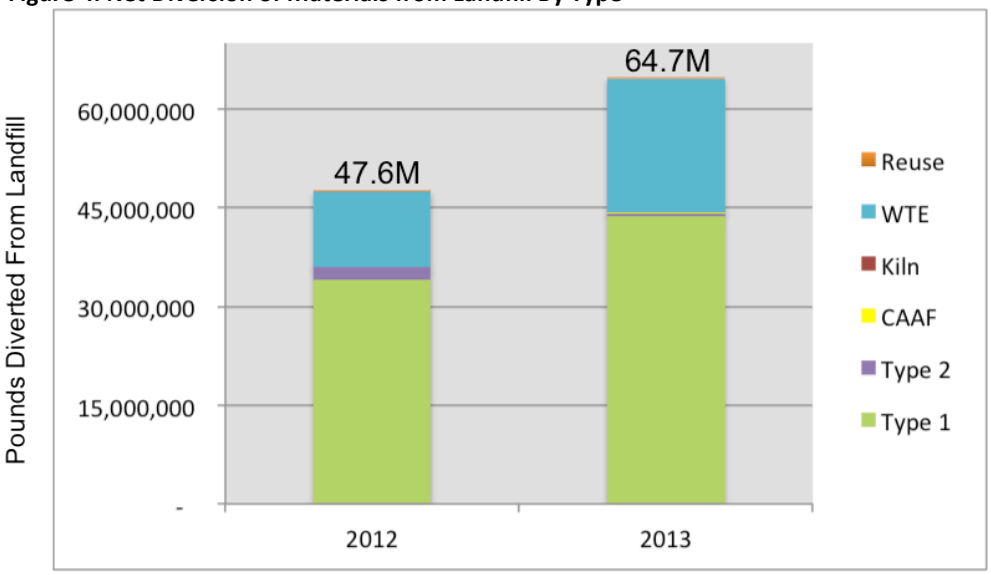
Increasing recycling of PCC carpet (recycled output) is a central program goal under this Program and includes subsidy payments, growth incentives, grants, education, in-state staff, technology consultants, and administrative oversight. Efforts to increase recycled output are discussed above in program goals within **6.4 Increasing Recycled Output.**

6.13 Increasing Overall Diversion

Describe efforts to increase diversion of PCC from landfills.

While the central focus of the Program concentrates on recycled output, overall diversion of PCC from landfills in line with the Plan is also a principle objective, especially as technology, infrastructure and awareness continue to be established. Net diversion from landfill therefore includes reuse, recycled output (Type 1, Type 2, CAAF and Kiln), and WTE (not counted as recycled, but kept out of the landfill). In 2013 net diversion totaled 64.5M pounds, a 36% increase from 47.6M in 2012. Net diversion in 2013 consists of: 0.3M (Reuse), 43.7M (Type 1), 0.4M (Type 2), 0.1M (CAAF), 0.05 (Kiln), and 20.3M (WTE).

Figure 4. Net Diversion of Materials from Landfill By Type



6.14 Environmental Impacts

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

Establishing and supporting a robust PCC recycling industry may have significant implications for greenhouse gas (GHG) reductions statewide. GHG reductions related to Program activities in 2013, were calculated utilizing the Environmental Protection Agency (EPA) Waste Reduction Model (WARM) at: http://epa.gov/epawaste/conserve/tools/warm/Warm_Form.html

Results indicate **42,571 metric tons** of Carbon Dioxide equivalent (MTCO2E) were reduced in 2013 as a result of Program and partner activities as summarized by the WARM Summary screenshots inserted below:

Figure 5. WARM Analysis of GHG Emissions Reductions for 2013

WARM Summary

GHG Emissions Analysis — Summary Report

(Version 12, 2/12)

Analysis of GHG Emissions from Waste Management for CARE

Prepared by California Carpet Stewardship Program: 2013 GHG Reductions

Reporting Period for this Analysis is from 01/01/2013 to 12/31/2013

GHG Emissions from Baseline Waste Management Scenario (MTCO2E):	7,056
GHG Emissions from Alternative Waste Management Scenario (MTCO2E):	-35,515
Total Change in GHG Emissions: (MTCO2E):	**-42,571**

Table 2. WARM Summary of 2013 Reductions in GHG Emissions By Program Activity

	Baseline Scenario					Alternative Scenario						
Material	Tons Recycled	Tons Landfilled	Tons Combusted	Tons Composted	Total MTCO2E	Tons Source Reduced	Tons Recycled	Tons Landfilled	Tons Combusted	Tons Composted	Total MTCO2E	Change (Alt - Base) MTCO2E
Carpet	0	181,784	0	N/A	7,056	13	22,147	149,459	10,165	N/A	-35,515	**-42,571**

Utilizing the same methodology, it is estimated that the Program has reduced an estimated **198,091 MTCO2E of GHG emissions** in the 10 quarters since July 2011.

Figure 6. WARM Summary of Total Reductions in GHG Emissions Related Program Activities Since July 2011

WARM Summary close or Esc K

GHG Emissions Analysis — Summary Report Print Summary

(Version 12, 2/12)

Analysis of GHG Emissions from Waste Management for CARE

Prepared by California Carpet Stewardship Program: Total GHG Reductions To Date

Reporting Period for this Analysis is from 07/01/2011 to 12/31/2013

GHG Emissions from Baseline Waste Management Scenario (MTCO2E):	17,497
GHG Emissions from Alternative Waste Management Scenario (MTCO2E):	-180,593
Total Change in GHG Emissions: (MTCO2E):	**-198,091**

	Baseline Scenario					Alternative Scenario						
Material	Tons Recycled	Tons Landfilled	Tons Combusted	Tons Composted	Total MTCO2E	Tons Source Reduced	Tons Recycled	Tons Landfilled	Tons Combusted	Tons Composted	Total MTCO2E	Change (Alt - Base) MTCO2E
Carpet	0	450,790	0	N/A	17,497	89	90,773	340,332	19,596	N/A	-180,593	**-198,091**

Since the program began in July 2011 through the end of the period, the estimated total GHG reductions of 198,091 metric tons is equivalent to:

- Removing **41,703 cars** from the road*, or*
- Eliminating **472 million vehicle miles traveled** (VMT) *, or*
- Removing over **10,153 garbage truckloads** of materials from the landfill*, or*
- Avoiding emissions from **212.8 million pounds of coal** burned*, or*
- Saving **2,622 tanker trucks** worth of gasoline*, or*
- Eliminating emissions from **22.3 million gallons of gasoline***, or*
- Installing **55 wind turbines** providing renewable energy*, or*
- Switching out **5.2 million incandescent** light bulbs with CFLs*, or*
- Powering **27,248 average home**s with electricity for one year*, or*
- Planting **5.1 million tree seedlings** grown for 10 years

6.15 Market Development: Growing Secondary Products

Describe efforts to increase the market growth of secondary products made from PCC.

Market Development is discussed above within Program Goals (**6.5 Increasing Market Growth**).

6.16 Creating Green Jobs

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

According to processor reported data an **average of 161 California green jobs** were directly associated with carpet recycling during 2013, with quarterly fluctuations from 272 at the beginning of Q1, to 107 at the end of Q4 (40% reduction). In addition to the estimated 121 jobs lost by two processor closures in 2013, an additional 41 jobs were lost over the period. This trend was echoed on the national scale according to preliminary results from the 50 respondents to the CARE Annual Survey, indicating that 1078 people were employed in local communities throughout the U.S. in 2013, a decrease of 240 people or 18% versus 2012. Approximately ½ of national reduction in jobs were associated with two California based recyclers who ceased operations in 2013. Despite this decline, it is anticipated that employment will rise in 2014. Additionally it is estimated that another 3-5 indirect jobs are supported for every 1 job directly associated with the PCC recycling industry in California. This total could therefore represent a total of nearly 500 direct and indirect jobs in the State.

6.17 Measurement Methodology, Assumptions, Factors and Data Sources

Describes the measurement methodology, assumptions, conversion factors, and data sources.

Measurement methodology is outlined in detail within the Plan. The **Program Diversion Rate** is estimated as a function of total estimated discards, and presently assessed at **12%.** The formula used for calculating carpet available for diversion is also summarized below:

6.17.1 Formula for Calculating Carpet Discards

The approved formula for calculation of discards is:

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

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

> **S**= Carpet Sales in the US for the reporting period (square yards)
> Sales Data comes from Torcivia Market Insights, an independent market research firm, who is collecting the confidential sales data from carpet manufacturers doing business in the US.
>
> **R**= Percent of carpet that is replacement, or carpet replacing existing carpet. Replacement carpet is the carpet destined for the landfill. The carpet industry

has worked with Torcivia Market Insights to quantify the replacement rate to be 85% in 2013.

P= Average weight of carpet per square yard. In 2012, the average weight was 4.2 pounds/square yard and this number was reconfirmed in 2013. (Raw data was supplied by the industry and analyzed by CARE. Weighted averages of carpet weights of broadloom and tile used in the commercial and residential sectors were calculated.)

D= Pounds of carpet from demolition projects not replaced. In 2012, the weighted demolition rate (85% residential and 15% commercial) was estimated at 0.34%, (estimate provided by independent company Torcivia Market Insights). D is converted to pounds by multiplying Sales x R x P.

Note that the term demolition represents the teardown of a building. There is no easy way to know the actual square yards of carpet coming out of such a process. By assuming the actual demolition rate obtained from Marketing Insights/Torcivia we are likely overestimating the total volume of carpet sent to landfill. However, this is a tiny fraction (<1%) of the overall amount and does not significantly alter the flow.

Deselection is a separate element of the PCC flow to landfill. CARE does not currently have an independent estimate of this parameter. However, it is also believed to be very small (<1%). CARE is working with Torcivia Market Insights to develop a more quantitative estimate of deselection in 2014.

It should be noted that both demolition and deselection estimates are well within the error associated which our discard and recycle estimates.

Application of the formula to generate discards is shown in the following example using actual US data from 2013 and rounded for clarity.

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

Sales 2013: 100 million square yards

*Discards = (100*0.85*4.2) = 358.8 + D*

*Where D = 357*0.0034 = 1.2 million pounds*

Thus, Discards = 358.8 + 1.2 = ~360 million pounds in 2013

6.18 Performance Trends Over Time

Report demonstrates that over time source reduction, reuse, and recycling increased, while environmentally safe transformation and land disposal decreased.

As discussed above in **6.10 Disposition,** the program has now collected 10 quarters of data through the end of 2013 enabling the team to begin to see performance trends over time. The team is pleased to report an overall increase in average recycled output of 2 percentage points from 10.2% to 12.2%. Source reduction and reuse continues as manufacturer sustainability efforts increase, although quantities in this category remain elusive and difficult to quantify. Reported reuse comprised 0.3% of gross collections in 2013. CAAF and Kiln is utilized in minute amounts and accounting for just 0.4% of recycled output. Environmentally safe WTE increased in 2013 from 2012 nearly 82%, although it continues to comprise just 5.6% of discards. As collection and processing infrastructure capacity and efficiency increases in the quarters and years ahead, the Program anticipates long-term proportional reductions in transformation and disposal. However, given current status of technology and increased proportions of difficult to manage non-nylon, these mechanisms will continue to serve a critical role for the time being.

6.19 Continuous Meaningful Improvement

Report demonstrates continuous meaningful improvement toward achievement of goals.

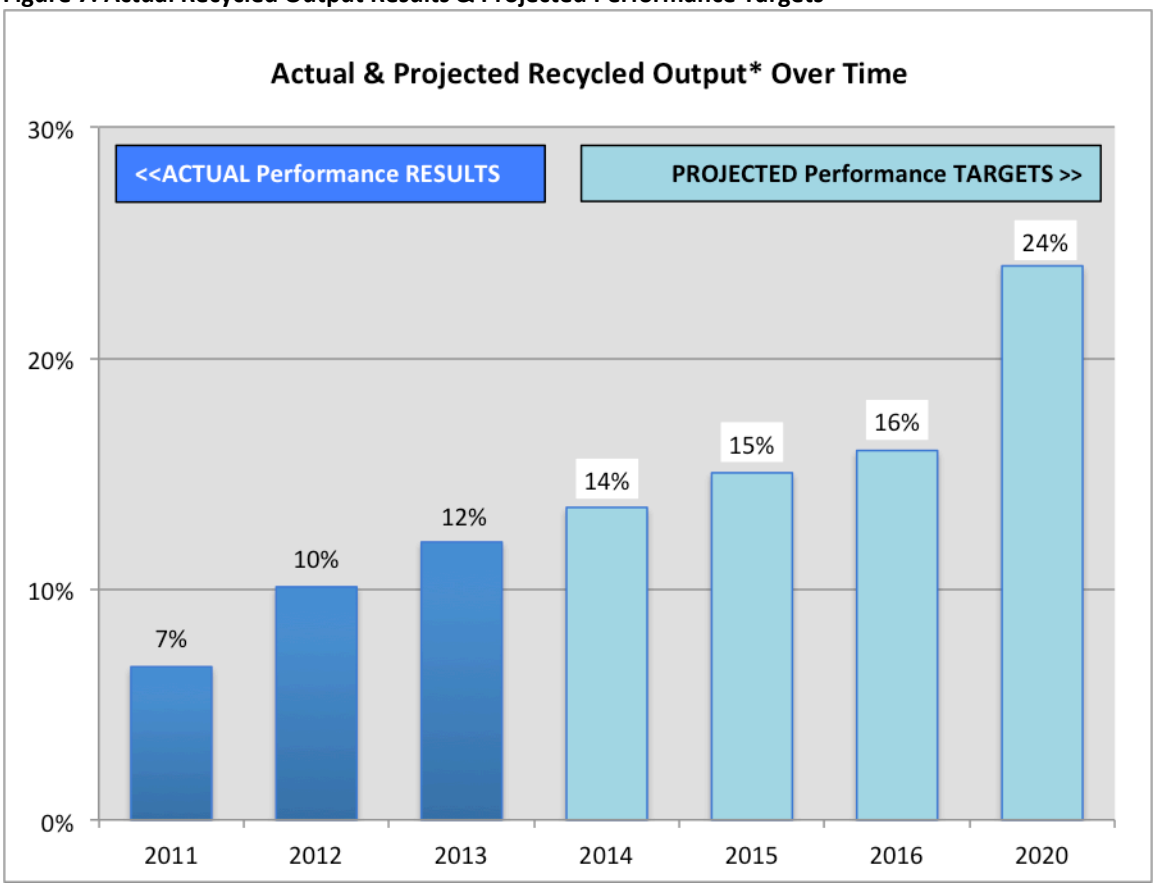
As compared to 2011 and 2012, performance trends in 2013 indicate continuous meaningful progress toward Program goals is underway. Despite challenges and setbacks in the marketplace, the program has been able to hold recycled output relatively constant throughout 2013, laying a good foundation for continued progress toward 2016 diversion targets and 2020 aspirational goals.

Early indicators for 2014 point to significant increases expected in both collections and recycled output. In addition, as noted above, CARE has accounted for additional gross collections based on new data not previously included in quarterly reports. This data will be taken into consideration in 2014 as well as estimates for international recycled output based on first hand processor observation of a sample facilities and conservative conversion rates considered reasonable and valid.

CARE continues to strive to improve quality of data collection, data analysis and to enhanced transparency and value to the reporting process. This is accomplished by working with the SPC and Dr. Matthew Realff, Engineering Professor at Georgia Tech and long time CARE advisor and consultant.

The following figure summarizes actual recycled output (diversion) results achieved to date on the left hand side of the graph, presented in blue. The right hand side of the graph depicts projections for future years 2014, 2015, 2016 and 2020 in order for the Program to accomplished its 2016 diversion target and 2020 aspirational goal, as outlined in the Plan.

Figure 7. Actual Recycled Output Results & Projected Performance Targets



*Recycled Output includes Type 1, Type 2

6.20 Additional Progress

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

Program goals are set to increase recyclability, reuse, gross collections, recycled output and market growth. Activities supporting these goals are discussed throughout this **Section 6.**

7 Market Development

The annual report shall include a description of possible market development activities to incentivize the market growth of secondary products made from PCC.

Market development efforts to date are presented in program goals within Section **6.5 Increasing Market Growth.**

Additional efforts planned for 2014 include:

- Continued support of PET consultant to support non-nylon processing and recycled output progress, leading to increased opportunity for secondary product utilization
- Support new development of secondary products with technical assistance to drive to supply and demand
- Support demand generation activities including coordination with public agencies and procurement office to increase demand and clear the path for streamline purchase
- Production of new Product Brochure highlighted available carpet derived products

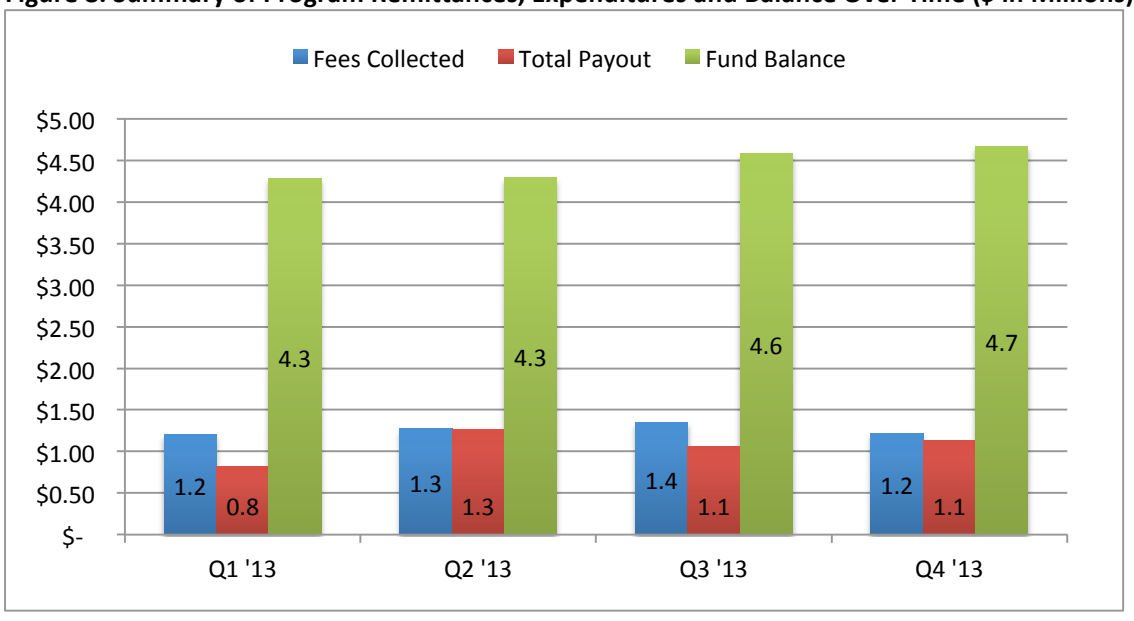
8 Financing Mechanisms

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):

Financing mechanisms established under this Program are outlined within the Plan in detail. Funds are remitted by manufacturers to CARE via a third party accounting firm on a quarterly basis, in line with Program protocols. Funds collected via this process are utilized by CARE as the CSO to provide incentives, management and oversight of the Program as specified in the Plan. To date $12.5 Million has been collected from carpet sold in California since the program began. Of this, 61% or 7.6 Million has been directly reinvested back into the carpet recycling marketplace through the Program in form of Processor Incentives (80%) and Program Management (20%). The fund balance of $4.9 Million is retained to provide a safe harbor fund reserve, or budgeted for expenditure in subsequent quarters. Beginning in 2014, it is anticipated that the fund balance will decrease from quarter to quarter.

The following figure summarizes the funding received, payouts made and retained by quarter throughout 2013.

Figure 8. Summary of Program Remittances, Expenditures and Balance Over Time ($ in Millions)



8.1 Total Program Cost

In 2013, a total of $4.1M was expended in support of program activities in the form of processor incentives, secondary producer incentives, and program administration. During the

same time period, $5.1M was remitted by manufacturers.

Table 3. Summary of 2013 Program Costs by Category Over Time (Amounts in Thousands)

Quarter	Processor Incentives*	Tier 2 Producer Incentives*	Program Administration**	Total
Q1	$722	n/a	$126	$848
Q2	$871	$179	$269	$1,319
Q3	$702	$148	$216	$1,066
Q4	$788	$174	$182	$1,144
TOTAL	**$3,083**	**$501**	**$793**	**$4,377**

*Both Processor and Producer Incentives listed within the above table consist of total approved payouts for materials processed in 2013. Actual total incentives expended for the period total $3.3M.
**Program Administration costs listed above reflect total actual expenses incurred during 2013.

8.2 Cost($)/capita

Based on a total California population of roughly 38.3 million persons in 2013, data shows 2.3 pounds per capita** of PCC was recovered in California. The $4.1M expended in 2013 on Program expenses account for approximately $0.11 for each Californian.

It is worthy of note that while rural collections represents a tiny fraction of the gross collections, those pounds cost on average circa 10 times that of urban collection costs.

8.3 Cost ($)/pound collected

In 2013, a total of 88 million pounds of PCC was gross collected thus, data shows 2.3 pounds of PCC was recovered per capita in California. Based on total funds expended in 2013, the cost/pound collected is $0.05.

8.4 Education/Communications

(% of total program cost)

Education and communications were concentrated in 2011 and 2012 relative to Program roll-out. In 2013, expenditures in this area totaled $88K included general expenses related to rural county educational materials production, in-state travel, stakeholder meetings and engagements ($51K), the hire of a new California Program Manager (0.5K), and rural county transportation of materials ($36K) expanding access to regions of California who might otherwise not have access to carpet recycling. A significant portion of time in 2013 was spent dealing with the challenges of two processors going out of business and considerable

** Per capita estimate is based off a population data of 38,332,521 for California in 2013.

associated legal and enforcement activities. Time was invested in interviewing and hiring a new California based Program Manager to focus on expanding rural participation and Marketing, Education and Outreach (ME&O) activities in 2014 and beyond. The Program Manager is now in place and working to increase reach, impact and effectiveness of ME&O moving forward.

8.5 End-of-life materials management

(% of total program cost)

For the purpose of this report, CARE considers end-of-life materials management as non-diversion management practices, such as environmentally safe disposal or energy recovery (WTE) which may be utilized by processors to properly manage non-recyclable materials, components or contaminants, resulting from collection and/or processing of gross collected materials into recycled output. No (0%) end-of-life material management is compensated by the Program. Collectors must adhere to proper local, state and federal requirements including applicable Solid Waste management laws and regulations. Under the CARE's Certified Collector Criteria as outlined in the Plan, collectors are required adopt an internal landfill reduction policy.

8.6 Program Administration

Total % program cost, including annual administrative fee for service payments to CalRecycle

Program administration expenses comprise 19% of overall Program costs based on total fees collected in 2013. These are summarized in the Table below. Please note, Program administration includes service payments to CalRecycle for their role in providing additional Program support and oversight on behalf of the state of California.

Table 4. Summary of Program Administrative Expenses in 2013.

	Q1 '13	Q2 '13	Q3 '13	Q4 '13	2013 TOTAL
Accounting	$86,000	$42,922	$152,808	$94,490	$376,220
Legal	$-	$963	$1,456	$19,815	$22,234
CARE Expenses	$2,556	$19,302	$13,396	$15,759	$51,013
CARE Salaries	$31,950	$39,969	$40,115	$42,272	$154,306
CA Program Manager	$-	$-	$-	$553	$553
Rural County Program	$5,820	$12,305	$8,595	$9,470	$36,190
CalRecycle Fees	$-	$153,114	$-	$-	$153,114
Total	**$126,326**	**$268,575**	**$216,370**	**$182,359**	**$793,630**

8.7 Governance

(Program oversight as % of total program cost)

Program governance is provided by a combination of CARE staff (under direction of Executive Director and supported by Operations Manager) in concert with strategic guidance by the CARE Board of Directors, and Program specific Committees including the Sustainable Plan Committee

(SPC), overseen by the Sustainable Fund Operating Committee (SFOC). Members serving on these bodies are not compensated for their service. Portion of CARE salaries covered by the Program totaled $154K in 2013, or 4% of the total $4.1M expended in 2013. CalRecycle also provides additional governance oversight. Costs related to CalRecycle oversight are included in the previous section **8.6 Program Administration**.

8.8 Total cost to local government (if applicable)

No direct costs are incurred by local governments. Some local governments may elect to expend funds in support of Program efforts in line with their local goals for waste diversion. In the case of rural county program participants, in-kind staff time is donated to support program roll-out and management. In some cases rural counties may expend local government resources by leveraging concurrent diversion activities, special events, billing inserts, newsletter announcements and related strategies to increase program participation.

8.9 Summary of Expenses

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.

A summary of Program expenses by category is presented in **Section 8.1**. CAAF is discussed above. CAAF accounts for 0.02% of discards and 0.15% of recycled output to date. CAAF/Kiln is capped at 15% for the program, many orders of magnitude beyond current levels of utilization. Additional details regarding expenditures follows in subsequent sections.

8.10 Surplus Funding

If any, and how it will be applied to reduce program costs

Surplus funding is planned for utilization in subsequent periods. A forecast of expenditures in presented within the Plan. At the close of 2013, the Program had a total of $4.9M remaining.

8.11 Assessment Rate

An evaluation of the assessment rate

The assessment rate is presently set at $0.05 per square yard of carpet sold in California. CARE is carefully monitoring Program activities, results and comparing these results to the assessment rate. Adjustments to the overall program elements especially related to incentive structure is being examined throughout 2014. At this time, and given surplus levels present within the fund, the current fee level is deemed to be adequate.

9 Outreach & Education

List educational outreach activities in the stewardship plan. 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.

In the initial two years of the Program, CARE supported a significant education and outreach push targeted primarily at retailers and manufacturers participating in the Plan. This critical educational campaign ensured streamlined implementation of the assessment including such integral elements as consumer notification /labeling on invoices, proper collection of assessment fees, remittance of collections, and proper accounting in line with Program requirements. Educational and outreach is planned for expansion and enhancement in 2014-2016, building on lessons learned and market researched obtained from Program implementation to date. Additional details are included within the Plan. See also Section 8.5 of this report.

CARE maintains a website with AB 2398 specific webpages and specialized sections targeted to various stakeholder groups available at: http://carpetrecovery.org/california-ab-2398/

9.1 Description of Materials

Provide a description of educational materials that were provided to retailers, consumers, carpet removers/installers, contractors, during the reporting period (provide electronic samples).

To assist in education and outreach efforts to date, the initial educational campaign included:

- Updated CARE website with AB 2398 and stakeholder specific sections and links
- Retailer educational materials including window clings, webinars, letters, educational resource kits, signage, brochures, and industry presentations
- Manufacturer outreach to all mills registered under the Plan, letters, coordination with software vendors, trade publication articles, radio interview, training webinars, and accounting firm coordination
- Consumer outreach through print articles and database posting at Earth911.com
- In-state stakeholder feedback sessions with CalRecycle, NGOs, local governments, associations, entrepreneurs, and others
- Rural County presentations, webinars, monthly conference calls, planning sessions, sites visits, guidelines development, as well as brochure and signage production
- Multi-stakeholder outreach through presentations at conferences and events

Education and outreach measures throughout 2013 were limited compared to the initial program rollout period, as the team transitioned to supporting the processor and collector network in the face of the significant challenge of reduced processing capacity. Significant efforts were also placed on CalRecycle and stakeholder coordination in support of creating the finalized approved Version 3.2 Plan in 2013. With the initial launch complete, and recovering from a period without the presence of an Executive Director, CARE focused efforts primarily on

coordination with participating mills, processor support, response to the loss of two major recyclers, and the ongoing rural county program pilot. A summary of educational efforts to date is presented in **Appendix III.**

9.2 Measuring Effectiveness

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.).

Measurement methods are summarized in the Education and Outreach summary table referenced above. Effectiveness is determined through stakeholder feedback and tracking communications units such as number of materials produced, number of trainings conducted, number of presentations delivered, number of radio interviews conducted, numbers of news articles generated, and similar metrics. In future years, CARE plans to conduct additional market research to guide refined and expanded Marketing, Education and Outreach (ME&O) efforts in 2014 through 2016, as well as provide refined mechanisms for evaluating effectiveness.

Efforts to date include:

- 681,986 web visits at: http://carpetrecovery.org/
- 3,849 retailer education resource kits distributed
- 2,935 retailer notification letters delivered
- 533 Manufacturer and software vendor notification letters delivered
- 16 promotional/training presentations at conferences, workshops, meetings and events
- 7 educational training webinar for retailers and manufacturer sales teams
- 54 news outlets media events including news print, trade magazines, radio interviews
- 2,100 brochures distributed and 12 signs installed to promote rural county programs

10 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.

(1) 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.

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

(3) 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.

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

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

The Financial Statements of CARE and California's Stewardship Plan AB2398 for the year ended December 31, 2013 were audited by an independent Certified Public Accounting firm. The Audited Financial Statements are found in **Appendix IV.**

11 Appendices

11.1 Appendix I: List of Manufacturers

A List of CA Carpet Stewardship Program Participating Manufacturers follows.

List of Carpet Manufacturers and Brands (February 26, 2014)

California Product Stewardship for Carpet regulation, developed by CalRecycle, requires a list of manufacturers participating in the stewardship organization and a list of brands covered under the stewardship plan (the Plan). This list was created by CalRecycle from the Plan provided by Carpet America Recovery Effort (CARE) in order to comply with the regulation.

Parent Company	Sub Companies	City	State	Country
Alexandria Carpet		Adairsville	GA	USA
Alliance Textiles, Inc.	Metro Carpet	Cartersville	GA	USA
Atlas Carpet Mills, Inc.		Los Angeles	CA	USA
Beaulieu Canada Company		Acton Vale	Quebec	canada
Beaulieu Group LLC	Aqua, Armstrong FashionSmart, Armstrong FashionSmart B, Beaulieu, Beaulieu Commercial, Beaulieu Engineered Fabrics & Fibers, Beaulieu of America, Bliss Aligned Dealer Program, Bliss by Beaulieu, Bliss Flooring Solutions, BOA Distributor Div., BolYu, Cambridge, Citation, Compass, Coronet Carpets, Coronet SFC, Hollytex, Interloom, Laura Ashley, Property Management Solutions, Pure, Royalist, Surfaces	Dalton	GA	USA
Bellbridge Inc		benicia	CA	USA
Bentley Prince Street		City of Industry	CA	USA
Berkshire Flooring		Dalton	GA	USA
Bloomsburg Carpet Ind., Inc.		Bloomsburg	PA	USA
Brintons		Kennesaw	GA	USA
Burtco Enterprises, Inc.	B Carpet	Dalton	GA	USA
CAP Carpet Inc	Aircraft Interior Products, White Oak Carpet Mills,	Wichita	KS	USA
Carpet Crafts, Inc.		Dalton	GA	USA
Catalina Carpet Mills, Inc.	Catalina Homes	Santa Fe Springs	CA	USA
Cavalier Carpet Ind.		Dalton	GA	USA
Couristan, Inc.		Fort Lee	NJ	USA
Crossley Holdings of South Africa	Inc., Crossley Axminster	Greenville	MS	USA
Dalton Carpet Mart	Signature Hospitality Carpet LLC.	Dalton	GA	USA
Daltonian Flooring Inc.		Calhoun	GA	USA
Design Manufacturing International, LLC.		Yardley	PA	USA
Design Materials, Inc.		Kansas City	KS	USA
Desso BV	Desso USA, Inc.	Darien	CT	USA
Dobbs Mills, LLC	Looptex Mills, Phenix	Dalton	GA	USA
Earth Weave Carpet Mills Inc.		Dalton	GA	USA
ECMH,LLC	Cadence, Clayton Miller, Nood Fashion	Dalton	GA	USA
Emerald Carpet, Inc.		Dalton	GA	USA
Emery Park Carpet Company		Calhoun	GA	USA
Engineered Floors	Dream Weaver	Calhoun	GA	USA
Fibreworks Corporation		Louisville	KY	USA
Forbo Flooring Systems	Flotex Carpet	Hazleton	PA	USA
Fortune Contract, Inc.		Dalton	GA	USA
Godfrey Hirst USA, Inc.		Adairsville	GA	USA

Parent Company	Sub Companies	City	State	Country
Hagaman Carpet Industries		Fort Oglethorpe	GA	USA
Hibernia Woolen Mills		Whittier	CA	USA
iCarpetiles.com., Inc.		Louisville	KY	USA
Indian Summer Carpet Mills, Inc.	Cherokee Carpet, Northstar Flooring Design, Southwind Carpet	Dalton	GA	USA
Interface Americas		Atlanta	GA	USA
Interface Services			GA	USA
J Mish LLC		Cartersville	GA	USA
J&J Industries, Inc.	Templeton	Dalton	GA	USA
Joy Carpets & Co.		Fort Oglethorpe	GA	USA
Kane Carpet	Weavemasters	Brooklyn	NY	USA
Kinsley Carpet Mills		Dalton	GA	USA
Kraus	Barrett Carpet,	Dalton	GA	USA
Lancer Enterprises, inc.		Dalton	GA	USA
Langhorne Carpet Co Inc.		Penndel	PA	USA
Lexmark Carpet Mills,Inc		Dalton	GA	USA
Lonesome Oak Trading Co., Inc.		Chatsworth	GA	USA
Manassas Textiles, Inc DBA Carpet Bagger		Adairsville	GA	USA
Mannington Mills, Inc.	Mannington Commercial	Calhoun	GA	USA
Marquis Industries, inc	Artisans Carpet, Artisans Hospitality, Astro Carpet Mills, Best Buy Flooring Source, Best Buy Hard Surfaces, Cornerstone Hospitality, Dalton Carpet Depot, Omega Pattern Works	Chatsworth	GA	USA
Mathews & Parlo Carpet Wholesalers, Inc		Calhoun	GA	USA
Merida Meridian Inc		Boston	MA	USA
Millennium Carpet Mills Inc.	Atlas Ind., Creative Carpet, Orion Carpet	chatsworth	GA	USA
Milliken & Company	Milliken Services LLC., Sylvan Chemical Co.	Spartanburg	SC	USA
Moda LLC		Irvine	CA	USA
Mohawk Industries, Inc.	Aladdin, Aladdin Manufacturing Corporation, Bigelow, Color Center, CustomWeave, Durkan, Floorscapes, Floorz, Galaxy, Helios, Horizon, Horizon Europe, Karastan, Lees, Mohawk, Mohawk Carpet, Mohawk Carpet Distribution, Mohawk Carpet Foundation, Mohawk Carpet Transportation of Georgia, Mohawk Commercial, Mohawk ESV, Mohawk Factoring, Mohawk Industries, Mohawk Resources, Mohawk Servicing, Nautilus, Portico, Portico Estate, Properties by Mohawk, Regency Grand, Wayn-Tex LLC, World, Wunda Weve	Dalton	GA	USA
Nature's Carpet		Vancouver	British Columbia	Canada
Northwest Carpet, Inc.		Dalton	GA	USA

Parent Company	Sub Companies	City	State	Country
Nourison Industries Inc.	Div of Nourison, AeroSea, Nourison Home, Nourtex	Saddle Brook	NJ	USA
Oriental Weavers USA, Inc.	OW Hospitality	Dalton	GA	USA
Prestige Mills	Concepts International, Weavetuft Carpet	Long Island City	NY	USA
R.C. Willey Home Furnishings, Inc.		Salt Lake City	UT	USA
Radici USA, Inc.		Spartanburg	SC	USA
Relative Space (Floorworks)				
Royalty Carpet Mills, Inc.	Camelot Carpet Mills, Pacificrest Mills	Irvine	CA	USA
Savnik & Company, Inc.		Oakland	CA	USA
Shaheen Carpet Mills	Carpets by Sierra Carpet Mills	Resaca	GA	USA
Shaw Industries, Inc.	American Home Fashions of California, Cabin Crafts, Couture Elegant Floors by Shaw, HGTV Home - Flooring by Shaw, Kathy Ireland Home Solutions, Patcraft, Philadelphia Commercial, Philadelphia Residential, Queen, Queen Commercial, Shaw, Shaw Contract Group, Shaw Home Foundations Flooring, Shaw Hospitality, ShawMark Home, Sutton Carpets, Tuftex	Dalton	GA	USA
Signature Hospitality Carpet LLC.	Dalton Carpet Mart, Signature Crypton	Dalton	GA	USA
Stanton Carpet Corporation	Antrim Carpets, Rosecore, Royal Dutch Carpets	Cartersville	GA	USA
Stark Carpet Corp		New York	NY	USA
TaiPing Carpets Americas Inc	Edward Field	Calhoun	GA	USA
Tandus Flooring Inc	Tandus Flooring US LLC	Dalton	GA	USA
The Dixie Group	Dixie Home, Fabrica International, Masland Carpets and Rugs, Masland Contract, Whitespace	Mobile	AL	USA
The Miller Davis Group	Davis & Davis Rugs, Glen Eden Wool Carpets, Luzern LTD	Chattanooga	TN	USA
Totally Enterprises		Dalton	GA	USA
Ulster Carpet Mills (North America) Inc		Marietta	GA	USA
Unique Carpets Ltd.		Riverside	CA	USA
Woolshire Carpet Mills Inc.		Calhoun	GA	USA

11.2 Appendix II: List of Collectors/Processors

A List of CARE California Participating Reclamation Partners Collector/Processors follows.

Appendix II: List of Collectors/Processors
CARE California Carpet Reclamation Partners (As of June 2014)
For current list[1], please go the CARE website: http://www.carpetrecovery.org/collector-finder

Rock Creek Landfill Distance-40 miles

12021 Hunt Road

Milton, CA 95684

209-754-2819 Email

50 DCF CL RL BL CT CC AST N 6 N6,6 PET PP WL CL

Tehema County /Red Bluff Landfill Distance-145 miles

19995 Plymire Rd.

Red Bluff, CA 96080

530-528-1103 Email

50 DCF CL RL BL CT CC AST N 6 N6,6 PET PP WL CL

Delleker Transfer Station Distance-85 miles

73980 Industrial Way

Delleker, CA 96122

530-283-6268 Email

50 DCF CL RL BL CT CC AST N 6 N6,6 PET PP WL CL

Napa Recycling & Waste Services Distance-96 miles

820 Levitin Way POBOX 239

Napa, CA 94558

200 DCF PU CL RL BL CT CC AST CD N 6 N6,6 PET PP WL CL

[1] "These facilities are designated CARE Certified Collectors, for which there is an application process and periodic updates. Facilities accepting carpet are subject to changing market conditions and rely on private agreements. Always contact a facility prior to a drop-off to confirm carpet acceptance process and requirements (e.g. free of contaminants, etc.)

Davis Street Transfer Station Distance-108 miles

2615 Davis Street

San Leandro, CA 94507

Email

Zanker Road Recycling Distance-110 miles

675 Los Esteros Road

San Jose, CA 95134

916.412.3277 Email

GreenWaste Carpet Recycling Distance-112 miles

1201 N. 15th Street

San Jose, CA 95112

916.412.3277 Email

GreenWaste Carpet Recycling Distance-112 miles

625 Charles Street

San Jose, CA 95112

916.412.3277 Email

Black Butte Recycling/Transfer Station Distance-213 miles

3710 Springhill Drive

Mt. Shasta, CA 96067

530-842-8272 Email

50 DCF CL RL BL CT CC AST N 6 N6,6 PET PP WL CL

Hawthorne Street Transfer Station Distance-244 miles

1059 W. Hawthorne St.

Eureka, CA 95501

707-268-8030 Ext. 0

50 DCF CL RL BL CT CC AST N 6 N6,6 PET PP WL CL

Del Norte County Transfer Station Distance-288 miles

1700 State Street

Crescent City, CA 955531

Email

50 DCF CL RL BL CT CC AST N 6 N6,6 PET PP WL CL

Los Angeles Fiber Distance-343 miles

PO BOX 58584

Vernon, CA 90058

Email

>200 DCF PU TCS CL RL BL CT CC AST N 6 N6,6 PET PP WL CL PR BT SD

Carpet Pad Conversion USA, Inc. Distance-347 miles

1429 W. 130th street

Gardena , CA 90249

714-299-4206 Email

Bentley Prince Street Distance-347 miles

14641 Don Julian Rd.

City of Industry, CA 91746

Carpet Solutions Distance-350 miles

17100 Margay Ave

Carson, CA 90746

Email

Oi-Able *(previously, Oceanaire International, Inc.)* Distance-351 miles

628 N. Diamond Bar Blvd.

Diamond Bar, CA 91766

Email

Carpet Pad Conversion USA, Inc. Distance-363 miles

1539 S state College Blvd

Anaheim , CA 92806

714-299-4206 Email

Carpet Pad Conversion USA, Inc. Distance-363 miles

7551 Acacia Ave

Garden Grove , CA 92841

714-299-4206 Email

Carpet Pad Conversion USA, Inc. Distance-452 miles

2501 Commercial Street

San Diego , CA 92113

714-299-4206 Email

Recology Butte Colusa Counties

2720 South Fifth Avenue

Oroville, CA 95965

Cal Sierra Transfer Station

19309 Industrial Dr,

Sonora, CA 95370

50 DCF CL RL BL CT CC AST N 6 N6,6 PET PP WL CL

Ben Lomond Transfer Station

9835 Newell Creek Road

Ben Lomond, CA 95005

50 DCF CL RL BL CT CC AST N 6 N6,6 PET PP WL CL

Floor Store

1306 Nugget Ln,

Weaverville, CA 96093

50 DCF CL RL BL CT CC AST N 6 N6,6 PET PP WL CL

Key:

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

11.3 Appendix III: Summary of Education & Outreach Activities To Date

A summary of educational efforts to date follows.

APPENDIX III:

California Carpet Stewardship Program
Summary of Education & Outreach To Date (July 2011-Dec 2013)

Outreach Mechanism	Target Audience	Description	Measuring Unit	Total to Date	2011	2012	2013	Upcoming
Website	Multi-stakeholder	AB 2398 Specific Pages, Resources and Links	Web Visits	681,986	198,452	313,928	169,606	New CARE website launch planned for 2014
Resource Kits	Retailer Education	Brochures, Window Clings, Signage, Resources	Number Distributed	3,849	3,849	Additional by Request	Additional by Request	New Market Research Planned in 2014
Letters	Retailer Education	Program Notification & Overview	Number Distributed	2,935	2,935	Additional by Request	Additional by Request	New Market Research Planned in 2015
Presentations	Multi-stakeholder	Promotional and/or Training Presentations at Conferences, Workshops, Meeting, Events	Number Conducted	16	9	3	4	6 Planned in 2014
Webinars	Retailers & Manufacturers	Educational Training retailers, sales teams, & rural counties	Number Conducted	7	7	2	Additional by Request	New Market Research Planned in 2015
Letters	Manufacturers and Software Vendors	Program Notification & Overview	Number Distributed	533	533	Additional by Request	Additional by Request	New Market Research Planned in 2015
Trade Publications	Multi-stakeholder	Trade Magazines	Number Articles	10	16	3	Blog Launched	New Market Research Planned in 2015
Consumer Publications	Consumers	Print Newspapers	Number Articles	5	5	Additional by Request	Blog Launched	New Market Research Planned in 2015
Blog	Multi-stakeholder	News, Education, Trends	Number Posts	30	n/a	n/a	30	Continued in 2014
Signage	Rural County	Signage	Number Produced	12	n/a	12	Additional by Request	Planned Increase from 6 Counties to 10 in 2014
Brochures	Rural County	Brochures	Number Produced	2,100	n/a	1,500	600	Planned Increase from 6 Counties to 10 in 2015
Radio	Multi-stakeholder	News, Education, Trends	Number Interviews	9	9	Additional by Request	Additional by Request	New Market Research Planned in 2015

11.4 Appendix IV: Audited Financial Statements

The Financial Statements of CARE and California's Stewardship Plan AB2398 for the year ended December 31, 2013 follow.

11.4.1 CARE 2013 Audited Financial Statement

11.4.2 CA Carpet Stewardship Plan 2013 Audited Financial Statement

CARPET AMERICA RECOVERY EFFORT, INC.

FINANCIAL STATEMENTS

December 31, 2013 and 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, 2013 and 2012, and the related statement of activities and cash flows for the years 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, 2013 and 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 20, 2014

Carpet America Recovery Effort, Inc.

Statements of Financial Position

December 31,

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 472,916	$ 304,435
Accounts receivable, net	34,693	10,643
Accounts receivable - AB2398	24,868	148,415
Prepaid expenses	4,296	-
Total current assets	536,773	463,493
PROPERTY AND EQUIPMENT, NET	3,433	2,944
Total Assets	$ 540,206	$ 466,437
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 23,618	$ 31,506
Accrued expenses	30,933	5,244
Deferred revenue	19,500	8,550
Total current liabilities	74,051	45,300
NET ASSETS		
Unrestricted	466,155	421,137
Total net assets	466,155	421,137
Total Liabilities and Net Assets	$ 540,206	$ 466,437

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

Carpet America Recovery Effort, Inc.

Statements of Activities

For the years ended December 31,

	2013	2012
REVENUES		
CARE dues	$ 303,300	$ 287,650
CARE conferences	95,520	95,408
Contributions in-kind of CRI	90,625	84,776
Interest income	1,302	648
Total revenues	490,747	468,482
EXPENSES		
Program Services		
Member programs	326,048	310,003
Total program services	326,048	310,003
Support services		
Administrative	89,542	62,060
Uncollected Dues	15,000	-
Facilities	15,139	16,197
Total support services	119,681	78,257
Total expenses	445,729	388,260
INCREASE IN UNRESTRICTED NET ASSETS	45,018	80,222
UNRESTRICTED NET ASSETS - beginning of year	421,137	340,915
UNRESTRICTED NET ASSETS - end of year	$ 466,155	$ 421,137

Carpet America Recovery Effort, Inc.

Statements of Cash Flows

For the years ended December 31,

	2013	2012
Cash Flows From Operating Activities		
Change in unrestricted net assets	$ 45,018	$ 80,222
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,874	585
Decrease in net accounts receivable	99,497	163,773
(Increase) in prepaid expense	(4,296)	-
Increase (Decrease) in accounts payable	(7,888)	11,806
Increase in accrued liabilities	36,639	4,925
Total adjustment	125,826	181,089
Net cash provided by operating activities	170,844	261,311
Cash Flows From Investing Activities		
Acquisition of equipment	(2,363)	(2,497)
Net cash used by investing activities	(2,363)	(2,497)
NET INCREASE IN CASH AND CASH EQUIVALENTS	168,481	258,814
CASH AND CASH EQUIVALENTS-beginning of year	304,435	45,621
CASH AND CASH EQUIVALENTS-end of year	$ 472,916	$ 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, 2013 and 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, 2013 and 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. The amounts that exceed federally insured limits are secured by investment portfolio securities of the bank.

Carpet America Recovery Effort, Inc.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013 and 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, 2013 and 2012. Management has evaluated historical trends and individual account collectability and determined that an allowance for doubtful accounts of $15,000 at December 31, 2013 was necessary and it was unnecessary at December 31, 2012.

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, 2013 and 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 at December 31:

	2013	2012
Computer equipment	$ 16,990	$ 14,628
Accumulated depreciation	(13,557)	(11,684)
	$ 3,433	$ 2,944

Depreciation expense for the year ended December 31, 2013 and 2012 was $1,874 and $585, respectively.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Computer equipment	3 years

Carpet America Recovery Effort, Inc.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013 and 2012

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, 2013 and 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, 2013 and 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 2010.

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.

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.

Carpet America Recovery Effort, Inc.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013 and 2012

B. Related Parties; Industry Affiliate (continued)

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 $90,625 for the year ended December 31, 2013 and $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 $153,747 for the year ended December 31, 2013 and $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 that exceed federally insured limits are secured by investment portfolio securities of the bank. Management believes that there is no significant concentration of credit risk.

Approximately 65% of dues were received from ten members.

D. Subsequent Events

On January 21, 2014, the revised Carpet Stewardship Plan of the Carpet America Recovery Effort, Inc. was approved by the California Department of Resources, Recycling and Recovery.

Management has evaluated events through June 20, 2014, the date on which the financial statements were available to be issued.

THE AB2398 CALIFORNIA CARPET STEWARDSHIP PLAN

FINANCIAL STATEMENTS

December 31, 2013 and 2012

WINTER & SCOGGINS
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

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 statements of financial position as of December 31, 2013 and 2012, and the related statement of activities, and cash flows for the years 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, 2013 and 2012, and the changes in its net assets and its cash flows for the years 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 20, 2014, 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 20, 2014

The AB2398 California Carpet Stewardship Plan

Statements of Financial Position

December 31,

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,505,017	$ 3,896,263
Accounts receivable	1,258,500	1,197,014
Total current assets	5,763,517	5,093,277
Total Assets	$ 5,763,517	$ 5,093,277
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 1,020,633	$ 1,259,634
Accrued expenses	642,342	453,332
Total current liabilities	1,662,975	1,712,966
LONG TERM LIABILITIES		
Accrued expense	-	85,397
Total long term liabilities	-	85,397
Total Liabilities	1,662,975	1,798,363
NET ASSETS		
Unrestricted	4,100,542	3,294,914
Total net assets	4,100,542	3,294,914
Total Liabilities and Net Assets	$ 5,763,517	$ 5,093,277

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

The AB2398 California Carpet Stewardship Plan

Statements of Activities

For the years ended December 31,

	2013	2012
REVENUES		
Carpet recovery assessments	$ 5,134,537	$ 4,963,535
Interest income	11,139	6,345
Total revenues	5,145,676	4,969,880
EXPENSES		
Recycler disbursements	3,443,017	2,244,768
Accounting	349,531	259,662
CalRecycle administrative fees	256,727	238,180
Personnel	153,747	82,754
Transportation	44,511	23,089
Professional fees	40,831	1,500
Travel	31,225	9,455
Facilities	19,520	-
Other	939	5,687
Total expenses	4,340,048	2,865,095
INCREASE IN UNRESTRICTED NET ASSETS	805,628	2,104,785
UNRESTRICTED NET ASSETS - beginning of year	3,294,914	1,190,129
UNRESTRICTED NET ASSETS - end of year	$ 4,100,542	$ 3,294,914

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

The AB2398 California Carpet Stewardship Plan

Statements of Cash Flows

For the years ended December 31,

	2013	2012
Cash Flows From Operating Activities		
Change in unrestricted net assets	$ 805,628	$ 2,104,784
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Increase) in accounts receivable	(61,486)	(4,336)
Increase (Decrease) in accounts payable	(239,002)	235,711
Increase in accrued expenses	103,614	157,388
Total adjustment	(196,874)	388,763
Net cash provided by operating activities	608,754	2,493,547
NET INCREASE IN CASH AND CASH EQUIVALENTS	608,754	2,493,547
CASH AND CASH EQUIVALENTS-beginning of year	3,896,263	1,402,716
CASH AND CASH EQUIVALENTS-end of year	$ 4,505,017	$ 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, 2013 and 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 an initial plan document was conditionally approved by the California Department of Resources Recycling and Recovery (CalRecycle). A revised stewardship plan document (version 3.2.2) was approved by CalRecycle on January 21, 2014. 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 products that are 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, 2013 and 2012 the Plan had no temporarily restricted or permanently restricted net assets.

SEE INDEPENDENT AUDITORS' REPORT

The AB2398 California Carpet Stewardship Plan
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013 and 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. The amounts that exceed federally insured limits are secured by investment portfolio securities of the bank.

2. ESTIMATES AND UNCERTAINTIES-The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America 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 30 days following the close of each quarter. The assessment for the years ended December 31, 2013 and 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, 2013 and 2012, management is of the opinion that all accounts are collectible.

5. ACCRUED EXPENSES - The Plan is responsible for reimbursing CalRecycle's costs to administer the Plan. Pursuant to AB2398 Section 42977(d), the total amount payable to CalRecyle is 5% of the carpet recovery assessments received.

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

The AB2398 California Carpet Stewardship Plan
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013 and 2012

7. FUNCTIONAL ALLOCATION OF EXPENSES (CONTINUED) - 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, 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.

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 $153,747 for the year ended December 31 2013 and $82,754 for the year ended December 31, 2012.

The Plan included in accounts payable $24,868 and $148,415 due to CARE as of December 31, 2013 and 2012 for expenses paid by CARE, but incurred by the Plan.

The AB2398 California Carpet Stewardship Plan
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013 and 2012

C. Concentrations

The Plan holds AB2398 bank accounts at one bank. The amounts that exceed federally insured limits are secured by investment portfolio securities of the bank. 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, 2013 was $918,705 and December 31, 2012 was $2,617,657. These funds likewise are held at one bank and amounts in excess of FDIC limits are secured by investment portfolio securities of the bank.

For the year ended December 31, 2013 and 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, 2013 and 2012.

For the years ended December 31, 2013 and 2012, there were 12 and 11 recyclers respectively that received disbursements from the Plan.

D. Subsequent Events

On January 21, 2014, the revised Carpet Stewardship Plan (version 3.2.2) of the Carpet America Recovery Effort, Inc. was approved by the California Department of Resources Recycling and Recovery.

Management has evaluated events through June 20, 2014, the date on which the financial statements were available to be issued.

WINTER & SCOGGINS
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

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	3-8

The AB2398 California Carpet Stewardship Plan
Schedule of Findings and Corrective Action Plans
December 31, 2013

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 one material weakness, one new and one prior material weakness in internal controls were disclosed.

Material Noncompliance:

No instances of compliance or other matters were disclosed.

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

INTERNAL CONTROL:

Prior Audit Findings:

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.

The AB2398 California Carpet Stewardship Plan
Schedule of Findings and Corrective Action Plans
December 31, 2013

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 as well as the Executive Director of CARE sign the 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.

Status:

Recommendation 1 has been fully implemented.

Recommendation 2 has been partly implemented as the disbursements are approved by the Executive Director but not the Chair of the SFOC. We believe disbursements of this magnitude should be dual approved. We understand approval by the chair of the SFOC would violate agreements of confidentiality, accordingly we recommend approval by the CFO.

Recommendation 3 has been partly implemented, however, we believe the documentation should be assembled and maintained in one file, per quarter, located in a secure central location in CARE's offices.

Response:

Recommendation 2: CARE understood that the formal approval of disbursement by the SFOC constituted the necessary check and balance. Minutes of SFOC meetings are part of the complete documentation package. Effective 4Q 2013 the CA Program Manager participates in the preparation of the subsidy payout calculations followed by review of the Executive Director. Upon SFOC approval the Executive Director and CFO authorize the actual electronic transfers of funds to recipients.

Recommendation 3: CARE, being an environmentally based organization, will maintain a digital filing system where all key documents and collected, consolidated and organized by quarter.

The AB2398 California Carpet Stewardship Plan
Schedule of Findings and Corrective Action Plans
December 31, 2013

This will allow easy access by authorized individuals and for audit. This file will be maintained on a secured server with appropriate backup.

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.

Status:

The recommendation of Finding 12-2 has been fully implemented.

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.

The AB2398 California Carpet Stewardship Plan
Schedule of Findings and Corrective Action Plans
December 31, 2013

Status:

The recommendation of Finding 12-3 has been fully implemented.

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.

Status:

Since the Accounting Department of CARE and AB2398 is not privy to the manufacturers self reported liability to the plan and since the quarterly agreed upon procedures do not tie individual manufacturer payments to the amounts reported, a detailed accounts receivable ledger is not possible. Accounts receivable at a quarter end are determined by summation of cash received during the three months following the quarter end. The audit procedures employed did not result in the discovery of any material misstatement of accounts receivable. Until the accounting department of CARE and AB2398 is made privy to the manufacturers data or the agreed upon procedures performed by the independent accountant are expanded to include the vouching of individual receipts from the mills, we do not believe further improvement possible.

The AB2398 California Carpet Stewardship Plan
Schedule of Findings and Corrective Action Plans
December 31, 2013

Current Audit Findings:

Finding 13-1

Criteria:

Government auditing standards chapter 4-04h states that "inadequate controls for the safeguarding of assets" is a control deficiency.

Condition Found:

Upon review of the AB2398 system of revenue reporting by manufacturers and payment requests by recyclers, the following conditions were found:

On January 4, 2013, the sustainable funding oversight committee of CARE reduced the reporting window for mills and recyclers from 60 days plus a 15 day grace period to 30 days after quarter end with no grace period, effective with the Q1 2013 data, in order to shorten the payout cycle to the recyclers.

However, the timetable for the application of the plans agreed upon procedures have not been shortened and delivery of the agreed upon procedure reports for the 2013 data are seven and eight months after the quarterly data is available.

This makes it difficult for the management of the plan to timely respond to issues discovered by the agreed upon procedures.

Recommendation:

1. The timetable for the completion of the appropriate agreed upon procedures needs to be compressed to ninety days. Reporting of manufacturers and their remittance to the Plan is to occur within 30 days after each calendar quarter end. Recyclers, likewise, are to report and request payment within 30 days of the end of the calendar quarter. The agreed upon procedures need to take place within the 90 day window between reporting deadlines to be effective and reduce the chance for an excess payment to be made or recovered. Likewise an error in revenue recognition from the mills would be reduced.

Response:

CARE agrees the cycle time for conducting AUPs should be shortened. We will work with HA&W in an effort to close the review window recognizing that reporting deadlines are 30 days after the quarter closes. Our target will be to complete an audit in time to inform the subsequent quarters subsidy calculation if no unusual circumstances arise (e.g., Q1 AUP review completed by mid-Aug).

The AB2398 California Carpet Stewardship Plan
Schedule of Findings and Corrective Action Plans
December 31, 2013

Finding 13-2

Criteria:

Government auditing standards chapter 4-04h states that "inadequate controls for the safeguarding of assets" is a control deficiency.

Condition Found:

CARE management does not maintain a registry of, nor an easy access library of, the agreed upon procedure reports performed by the independent accountant. Likewise, an easy access library of the minutes of the SFOC, SPC, and meetings with CalRecycle are not maintained in a centralized repository. These reports and minutes are central to the system of internal control of the Plan and need to be maintained in one central location.

Recommendation:

1. We recommend that hard copies of all agreed upon procedure reports be maintained in a locked, confidential, fireproof cabinet in the CARE offices for access by management and auditors.

2. We recommend that hard copies of all minutes be maintained in the same cabinet.

3. Further, we recommend CARE's copy of the AB2398 registration, annual filings, the approved stewardship plan, etc., likewise, be maintained in this repository.

   The above documents are key to the existence and internal control of CARE and CARE's role as steward over AB2398.

Response:

1. CARE, being an environmentally based organization, will implement a digital filing system where all key documents are collected, consolidated and organized by quarter. This will allow easy access by authorized individuals and for audit. This file will be maintained on a secured server with appropriate backup. Given 21st century digital archiving capabilities, CARE does not see a need to maintain a hard copy file. We commit to have this new centralized filing system in place by end Q3 2014.

2. See #1.

3. See #1.