

CARBONFUND.ORG FOUNDATION

REPORT ON AUDITS
OF FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

No extracts from this report may be published without our written consent.

Stegman & Company

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Carbonfund.org Foundation
Silver Spring, Maryland

We have audited the accompanying statements of financial position of Carbonfund.org Foundation (Foundation) as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Carbonfund.org Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Carbonfund.org Foundation as of December 31, 2008 and 2007, and changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Stegman & Company".

Baltimore, Maryland
May 6, 2009

CARBONFUND.ORG FOUNDATION

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007

	ASSETS	
	2008	2007
CURRENT ASSETS:		
Cash	\$ 2,895,664	\$ 2,644,570
Pledges receivable	1,141,557	796,158
Accounts receivable, net - other	-	143,965
Projects in process	958,966	1,294,972
Prepaid expenses	17,165	1,095
Total current assets	5,013,352	4,880,760
FURNITURE AND EQUIPMENT - at cost:		
Office furniture and equipment	42,022	23,651
Less accumulated depreciation	21,338	9,580
Net furniture and equipment	20,684	14,071
TOTAL ASSETS	\$ 5,034,036	\$ 4,894,831
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 1,334,220	\$ 883,775
Payroll and payroll tax liability	1,785	23,256
Purchase obligations	682,592	1,868,556
Reforestation - note payable	170,000	170,000
Other current liabilities	-	2,500
Total liabilities	2,188,597	2,948,087
NET ASSETS:		
Unrestricted	2,845,439	1,946,744
Total net assets	2,845,439	1,946,744
TOTAL LIABILITIES AND NET ASSETS	\$ 5,034,036	\$ 4,894,831

See accompanying notes.

CARBONFUND.ORG FOUNDATION

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
SUPPORT AND REVENUE:		
Contributions and grants	\$ 3,983,138	\$ 4,827,516
Interest income	37,628	29,070
Miscellaneous income	<u>43,547</u>	<u>21,371</u>
Total support and revenues	<u>4,064,313</u>	<u>4,877,957</u>
 EXPENSES:		
Project costs - general	1,426,206	1,659,166
Renewable energy	196,427	453,735
Salaries and related expenses	939,548	480,987
Loss due to bank closing	-	151,022
Independent contractors	61,012	116,971
Office expense	128,370	142,059
Other operating expenses	<u>414,055</u>	<u>253,553</u>
Total expenses	<u>3,165,618</u>	<u>3,257,493</u>
 CHANGE IN NET ASSETS	 898,695	 1,620,464
 NET ASSETS AT BEGINNING OF YEAR	 <u>1,946,744</u>	 <u>326,280</u>
 NET ASSETS AT END OF YEAR	 <u>\$ 2,845,439</u>	 <u>\$ 1,946,744</u>

See accompanying notes.

CARBONFUND.ORG FOUNDATION

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 898,695	\$ 1,620,464
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	11,758	8,084
Changes in net operating assets and liabilities:		
Pledges receivable	(345,399)	(746,301)
Accounts receivable - other	143,965	(143,965)
Projects in process	336,006	(1,294,972)
Prepaid expenses and other assets	(16,070)	1,408
Accounts payable	450,445	874,500
Payroll and payroll tax liability	(21,471)	11,183
Purchase obligations	(1,185,964)	1,759,092
Other current liabilities	<u>(2,500)</u>	<u>2,500</u>
Net cash provided by operating activities	<u>269,465</u>	<u>2,091,993</u>
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Acquisition of furniture and equipment	<u>(18,371)</u>	<u>(19,163)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in note payable - Reforestation	<u>-</u>	<u>170,000</u>
NET INCREASE IN CASH	251,094	2,242,830
CASH AT BEGINNING OF YEAR	<u>2,644,570</u>	<u>401,740</u>
CASH AT END OF YEAR	<u><u>\$ 2,895,664</u></u>	<u><u>\$ 2,644,570</u></u>

See accompanying notes.

CARBONFUND.ORG FOUNDATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PURPOSE OF FOUNDATION

Purpose of Foundation

CarbonFund.org Foundation (the "Foundation") is a nonprofit organization created to help combat the dangers of climate change through the reduction of or offset to Carbon Dioxide. The Foundation carries out its exempt purposes by educating the public about the dangers of climate change and making it easier and affordable for individuals, businesses and other organizations to reduce their impact on our climate. The Foundation's method is to reduce the threat of climate change by promoting low-cost carbon reduction techniques while at the same time establishing and supporting renewable energy, energy efficiency and reforestation projects that reduce and offset Carbon Dioxide emissions.

Goals of Foundation

The goals of the Foundation are (1) to create and provide a cleaner, safer and more prosperous world for our generation and future generations (2) promote easy, cost effective solutions to climate change by encouraging people to "reduce what you can, offset what you cannot" (3) help make carbon offsets, green power and zero carbon a normal way of life for every individual, business and organization both in the United States and throughout the world.

Method of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Furniture and Equipment

Expenditures for maintenance, repairs and minor renewals are charged against income as incurred. Expenditures for additions, improvements, replacements and major renewals are added to furniture and equipment accounts. Depreciation for financial statement purposes is calculated primarily on the straight-line method over the estimated useful lives of 3 - 7 years.

Advertising

Advertising costs, which are principally included in general and administrative expenses, are expensed as incurred. Advertising expense was not material for the years ended December 31, 2008 and 2007.

Revenues and Contributions

The Foundation accounts for contributions in accordance with the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and change in net assets as released from restrictions.

Basis of Presentation

The Foundation has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There were no temporarily restricted or permanently restricted net assets at December 31, 2008 and 2007.

Pledges

Unconditional pledges to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the pledges become unconditional. An allowance for uncollected pledges in the amount of \$29,000 and \$28,000 for 2008 and 2007, respectively, has been established to account for pledges that are not expected to be collected. Since the Foundation expects the pledges to be collected within the next twelve months, the Foundation has not recorded an adjustment for the present value of future cash flows.

Projects in Process

Projects in Process in the accompanying financial statements consists of energy efficiency and forestry carbon offset credits and renewable energy certificates that have been purchased by the Foundation. The Foundation will utilize these carbon offset credits and renewable energy certificates as individual donors contact the Foundation and designate donations as basket, energy efficiency, renewable energy and reforestation projects. The Foundation may also utilize these donations to support their own energy efficiency, renewable energy and reforestation projects that were initiated with donor stipulation that the Foundation could either utilize these funds for any project they choose or for general organization purposes. The Foundation carries Projects in Process in the financial statements on an average cost basis.

Donated Goods and Services

The Foundation sometimes receives non-cash donations. The value of these donations was not material for the years ended December 31, 2008 and 2007, respectively, and is not reported within the Foundation's financial statements.

Income Taxes

The Foundation is exempt from federal income taxes (except taxes on unrelated business income) under Section 501(c)(3) of the U.S. Internal Revenue Code (Code) and comparable state law, and contributions to it are tax deductible within the limitations prescribed by the Code. The Foundation is not a private foundation under Section 509(a) of the Code. No provision for income taxes is required for the years ended December 31, 2008 and 2007 since the Foundation had no taxable income from unrelated business activities. The Foundation is also exempt from state income taxes.

2. LEASE COMMITMENTS

The Foundation entered into a three year lease agreement on April 2, 2007. An increase occurred in 2008 making the monthly rental payment approximately \$3,900. Annually, the monthly rental payment is expected to increase by a factor of 3.50%. The following is the approximate future rental payments under the lease:

Future minimum lease payments under these lease agreements are as follows:

2009	47,196
2010	11,799

Rent expense under operating leases totaled \$46,517 and \$45,110 for the years ended December 31, 2008 and 2007, respectively.

3. CONCENTRATIONS

Cash Deposits in Excess of Insured Limit

The Foundation maintains its cash balances at several financial institutions. The balances were insured by the Federal Deposit Insurance Corporation up to \$100,000 as of December 31, 2007. In October 2008, a law was passed by Congress to increase this amount to \$250,000. Under the new law, the Foundation had approximately \$106,000 in a single financial institution that exceeded the insured limits.

Federal Deposit Insurance Corporation

The Foundation, in September 2007, was notified that the Office of Thrift Supervision closed the Foundation's primary bank and the Federal Deposit Insurance Corporation (FDIC) was appointed receivership. Although the deposits were only insured up to \$100,000, the Foundation recovered most of the \$1,011,000 in the bank at the time and incurred a loss of \$151,022 in 2007.

Concentration of Contributions and Pledges Receivable

The Foundation received contributions from two contributors which represent 28.60% of total contributions and grants for the year ended December 31, 2008. The Foundation received a contribution from one contributor which represents 38.76% of total contributions and grants for the year ended December 31, 2007. Related to this contribution is a receivable which represents 88% and 48% of pledge receivables at December 31, 2008 and 2007 respectively.

4. PURCHASE OBLIGATIONS

The Foundation records purchase obligations in the accompanying statements of financial position. These funds have been donated, but the Foundation has not yet purchased the carbon offsets to satisfy the donors request for the type of carbon offset desired. These Purchase Obligations consists of the following at December 31:

	<u>2008</u>	<u>2007</u>
Carbon offsets	\$ 682,592	\$ 890,561
General obligation	-	970,995
Trees	-	7,000
	<u>\$ 682,592</u>	<u>\$ 1,868,556</u>

5. PROJECTS IN PROCESS

Projects in Process consist of carbon offset credits or renewable energy certificates that the Foundation has purchased for future projects that it establishes on its own or carbon offset credits and renewable energy certificates purchased to fulfill specific requests by donors that would like their donations used for specific types of carbon reduction projects. The Projects in Process at December 31, 2008 and 2007 consist carbon offsets totaling \$958,966 and \$1,294,972, respectively.

6. NOTE PAYABLE - REFORESTATION

The Foundation has a note payable for a reforestation project in Nicaragua. The note is payable to Paso Pacifico, a company who has been contracted by the Foundation to assist with the Reforestation Project. The note is non- interest bearing and is scheduled to be repaid as follows:

March 1, 2009	\$ 70,000
March 10, 2010	50,000
June 1, 2011	<u>50,000</u>
	<u>\$ 170,000</u>