

MATTRESS RECYCLING COUNCIL CONNECTICUT, LLC

**FORECASTED SUMMARY SCHEDULE OF ACTUAL AND
BUDGETED REVENUES, EXPENSES (COSTS) AND
FINANCIAL RESERVE FUND
AND
CALCULATED AVERAGE UNITIZED MATTRESS
STEWARDSHIP FEE FOR THE STATE OF CONNECTICUT**

For the Actual Operating Period from May 1, 2015 through December 31, 2021 and
Forecasted Periods Covering January 1, 2022 through December 31, 2024

MATTRESS RECYCLING COUNCIL CONNECTICUT, LLC

**FORECASTED SUMMARY SCHEDULE OF ACTUAL AND BUDGETED REVENUES,
EXPENSES (COSTS) AND FINANCIAL RESERVE FUND AND CALCULATED AVERAGE
UNITIZED MATTRESS STEWARDSHIP FEE FOR THE STATE OF CONNECTICUT**

For the Actual Operating Period from May 1, 2015 through December 31, 2021 and Forecasted Periods
Covering January 1, 2022 through December 31, 2024

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(A) Includes actual operating period from May 1, 2015 through December 31, 2021 and forecasted periods covering
January 1, 2022 through December 31, 2024



INDEPENDENT ACCOUNTANT'S RECYCLING FEE EXAMINATION REPORT

Ryan Trainer, President and
Board of Directors of the
Mattress Recycling Council, Inc.

Pursuant to Mattress Recycling Council Connecticut, LLC's (MRC) written request on March 16, 2022, we have examined the accompanying forecasted summary of budgeted revenues, expenses (costs), and financial reserve fund prepared by MRC with regard to operating a mattress recycling program required by Connecticut General Statutes § 22a-905a, et seq., and the calculated average unitized mattress stewardship fee that MRC has proposed to fund the program for the multi-year operational period covering January 1, 2022 through December 31, 2024, and including actual operating revenue and expenses (costs) from May 1, 2015 through December 31, 2021 (collectively the forecasted budget) based on the guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants (AICPA). MRC's management is responsible for preparing and presenting the forecasted budget in accordance with guidelines for the presentation of a forecast established by the AICPA. The forecasted budget was prepared for the purpose of complying with § 22a-905a(h). Our responsibility under § 22a-905a(h) is to express an opinion on the forecasted budget statement based on our examination.

Our examination was conducted in accordance with attestation standards established by the AICPA. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the forecast is presented in accordance with the guidelines for the presentation of a forecast established by the AICPA, in all material respects. An examination involves performing procedures to obtain evidence about the forecast. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the forecast, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the accompanying forecasted budget is presented, in all material respects, in accordance with the guidelines for presentation of a forecast established by the AICPA, and the underlying assumptions are suitably supported and provide a reasonable basis for MRC's forecasted budget. Also, in our opinion MRC's proposed unitized mattress stewardship fee of \$11.75 per each mattress and foundation unit to be charged on all mattresses and foundations sold to Connecticut consumers is reasonable to cover the expenses (costs) of operating the mattress stewardship program and maintain financial reserves sufficient to operate said program over the multi-year period from January 1, 2022 through December 31, 2024.

INDEPENDENT ACCOUNTANTS' RECYCLING FEE EXAMINATION REPORT
(continued)

There will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying documents contain confidential proprietary business information of MRC and other parties that should not be publicly disclosed. Also, the accompanying forecasted budget statement and our report are intended solely for the information and use of the Commissioner of Energy and Environmental Protection of the State of Connecticut and the Board of Directors of MRC and are not intended to be used and should not be used by anyone other than these specified parties.

Sydon Fattoroff Coyle, P.A.

Rockville, MD
June 21, 2022

MATTRESS RECYCLING COUNCIL CONNECTICUT, LLC

**FORECASTED SUMMARY SCHEDULE OF ACTUAL AND BUDGETED REVENUES, EXPENSES
(COSTS) AND FINANCIAL RESERVE FUND**

FOR THE STATE OF CONNECTICUT

Actual Operating Period from May 1, 2015 through December 31, 2021 and

Forecasted Periods Covering January 1, 2022 through December 31, 2024

FORECASTED REVENUES

Mattress stewardship (recycling) fee - NOTE B	\$ 40,728,663	(1)
Investment income - NOTE C	704,997	
Other income - NOTE C	71,398	
	<hr/>	
TOTAL REVENUES	41,505,058	

FORECASTED EXPENSES

Collection, transportation and processing - NOTE D	\$ 32,584,347	
Administration and legal - NOTE E	4,177,881	
Communications and research - NOTE F	1,169,815	
	<hr/>	
TOTAL EXPENSES	37,932,043	(2)

**FORECASTED SURPLUS BEFORE START-UP
COSTS AND RESERVE FUND**

	3,573,015	
Start-up costs	(345,996)	(3)
Financial reserve fund target - NOTE G	(2,959,000)	
	<hr/>	
FORECASTED NET SURPLUS/(DEFICIT)	\$ 268,019	

(1) Includes Connecticut mattress stewardship (recycling) fee of \$9 per unit charged at retail for periods covering May 1, 2015 through December 31, 2020, and \$11.75 per unit from January 1, 2021 through December 31, 2024.

(2) Includes actual operating period from May 1, 2015 through December 31, 2021, and forecasted periods covering January 1, 2022 through December 31, 2024.

(3) Includes actual pre-operational startup period from January 1, 2014 through April 30, 2015.

**CONTAINS CONFIDENTIAL PROPRIETARY BUSINESS DATA WHICH IS RESTRICTED FOR USE BY
MRC AND THE COMMISSIONER OF THE DEPARTMENT OF ENERGY AND ENVIRONMENTAL
PROTECTION OF THE STATE OF CONNECTICUT**

See Notes to Forecasted Financial Information and Accountants' Report

MATRESS RECYCLING COUNCIL CONNECTICUT, LLC
FORECASTED DETAIL SCHEDULE OF ACTUAL AND BUDGETED REVENUES, EXPENSES
(COSTS) AND FINANCIAL RESERVE FUND
FOR THE STATE OF CONNECTICUT

Actual Operating Period from May 1, 2015 through December 31, 2021 and
 Forecasted Periods Covering January 1, 2022 through December 31, 2024

	Actual Operating Period from May 1, 2015 through December 31, 2021	Forecasted Periods covering January 1, 2022 through December 31, 2024	Total
FORECASTED REVENUES			
Matress stewardship (recycling) fee - NOTE B	\$ 26,343,283	\$ 14,385,380	\$ 40,728,663 ⁽¹⁾
Investment income - NOTE C	437,417	267,580	704,997
Other income - NOTE C	71,398	0	71,398
	26,852,098	14,652,960	41,505,058
FORECASTED EXPENSES			
Collection, transportation and processing - NOTE D	\$ 19,740,127	\$ 12,844,220	\$ 32,584,347
Administration and legal - NOTE E	2,505,520	1,672,361	4,177,881
Communications and research - NOTE F	871,257	298,558	1,169,815
	23,116,904	14,815,139	37,932,043 ⁽²⁾
TOTAL EXPENSES			
TOTAL FORECASTED SURPLUS/(DEFICIT)			
BEFORE START-UP COSTS AND RESERVE FUND	\$ 3,735,194	\$ (162,179)	\$ 3,573,015
Less: Start-up costs			(345,996) ⁽³⁾
Less: Financial reserve fund target - NOTE G			(2,959,000)
			\$ 268,019

⁽¹⁾ Includes Connecticut matress stewardship (recycling) fee of \$9 per unit charged at retail for periods covering May 1, 2015 through December 31, 2020, and \$11.75 per unit from January 1, 2021 through December 31, 2024.

⁽²⁾ Includes actual operating period from May 1, 2015 through December 31, 2021, and forecasted periods covering January 1, 2022 through December 31, 2024.

⁽³⁾ Includes actual pre-operational startup period from January 1, 2014 through April 30, 2015.

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See Notes to Forecasted Financial Information and Accountants' Report
 (4)

MATTRESS RECYCLING COUNCIL CONNECTICUT, LLC
CALCULATED AVERAGE UNITIZED MATTRESS STEWARDSHIP FEE
FOR THE STATE OF CONNECTICUT
 Actual Operating Period from May 1, 2015 through December 31, 2021 and
 Forecasted Periods Covering January 1, 2022 through December 31, 2024

FORECASTED CALCULATED AVERAGE UNITIZED MATTRESS STEWARDSHIP FEE (1)

	Actual Operations 2015 - 2020 @ \$9 Per Unit and Actual Operations 2021 @ \$11.75 Per Unit (2)	Forecasted Operations 2022 - 2024 @ \$11.75 Per Unit (3)	Total (Expenses and Reserve Fund)
REVENUE	\$ 26,852,098	\$ 14,652,960	\$ 41,505,058
LESS: EXPENSES	(23,116,904)	(14,815,139)	(37,932,043)
LESS: START-UP COSTS	(345,996)	0	(345,996)
LESS: TARGET RESERVE FUND	<u>(2,959,000)</u>	<u>0</u>	<u>(2,959,000)</u>
NET SURPLUS / (DEFICIT)	<u>\$ 430,198</u>	<u>\$ (162,179)</u>	<u>\$ 268,019</u>
NET SURPLUS / (DEFICIT) 1/1/14-12/31/21 TO BE ALLOCATED TO FUTURE UNIT SALES	\$ 430,198		
TOTAL FORECASTED EXPENSES 1/1/22 - 12/31/24		\$ 14,815,139	
FORECASTED CT UNIT SALES - CAPTURED FOR FEE PAYMENT FROM 1/1/22-12/31/24	<u>/ 1,224,160 (4)</u>	<u>/ 1,224,160 (4)</u>	
FORECASTED DOLLAR PER UNIT RECYCLING FEE	<u>\$ (0.35) (5)</u>	\$ 12.10	
		\$ (0.35) =	<u>\$ 11.75 (6)</u>
		Rounded	<u>\$ 11.75</u>

(1) Includes Connecticut mattress stewardship (recycling) fee of \$9 per unit charged at retail for periods covering May 1, 2015 through December 31, 2020, and \$11.75 per unit from January 1, 2021 through December 31, 2024.

(2) Includes actual pre-operational startup period from January 1, 2014 through April 30, 2015 and actual operating period from May 1, 2015 through December 31, 2020, subject to \$9 per unit fee, and actual operating period from January 1, 2021 through December 31, 2021, subject to \$11.75 per unit fee.

(3) Includes forecasted period from January 1, 2022 through December 31, 2024, subject to the \$11.75 per unit fee.

(4) Includes forecasted unit sales captured for fee payment for the forecasted periods covering January 1, 2022 through December 31, 2024 subject to \$11.75 per unit fee.

(5) The \$0.35 surplus from 2014 - 2021 will be used to subsidize the forecasted net loss from 2022 - 2024

(6) Recalculated Connecticut mattress stewardship (recycling) fee to be charged at retail starting January 1, 2021, in order to recover net losses incurred for the actual pre-operational startup period from January 1, 2014 through April 30, 2015, actual operating activity for the period from May 1, 2015 through December 31, 2021 and funding to cover forecasted periods from January 1, 2022 through December 31, 2024.

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PROTECTION OF THE STATE OF CONNECTICUT**

See Notes to Forecasted Financial Information and Accountants' Report

MATTRESS RECYCLING COUNCIL CONNECTICUT, LLC

NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from May 1, 2015 through December 31, 2021 and Forecasted Periods Covering January 1, 2022 through December 31, 2024

NOTE A – SUMMARY OF SIGNIFICANT ASSUMPTIONS AND ACCOUNTING POLICIES

The accompanying forecasted summary schedules of budgeted revenues, expenses (costs) and financial reserve fund and calculated average unitized mattress stewardship fee for the state of Connecticut presents, to the best of management’s knowledge and belief, the Mattress Recycling Council Connecticut, LLC’s (MRC) expected budgeted revenues, expenses (costs) and financial reserve fund and calculated average unitized mattress stewardship fee for the state of Connecticut for the forecasted period. The forecast reflects the expected costs to operate a mattress recycling program required by the state of Connecticut General Statutes § 22a-905a, et seq., and the calculated average unitized mattress stewardship fee that MRC has proposed to fund the program, from January 1, 2022 through December 31, 2024. Accordingly, the forecast reflects management’s assumptions as of June 21, 2022, the date of this forecast, of expected expenses of the program and the proposed unitized mattress stewardship fee that would be needed to cover these expenses. The forecast is designed to provide information to the Commissioner of the Department of Energy and Environmental Protection of the State of Connecticut regarding the calculation of the mattress stewardship fee and whether it is a reasonable amount to cover the expenses of the program and to establish a reserve fund for program expenses as of December 31, 2024. Accordingly, this presentation should not be used for any other purposes. The assumptions disclosed herein are those that management believes are significant to the forecast. The forecasted revenues and expenses are presented on an accrual basis, and there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

NOTE B – MATTRESS STEWARDSHIP (RECYCLING) FEE REVENUE

The Mattress Stewardship (Recycling) Fee collected will provide the revenue to fund the expenses for the mattress recycling program. Based on the recalculation of the fee required, retailers will continue to collect a \$11.75 fee on each mattress and foundation unit sold for the forecasted period covering January 1, 2022 through December 31, 2024. Management calculated the revenue expected from this fee using several assumptions. Management estimated an 8% reduction from 2021 to 2022 in total unit sales captured for the fee payment in Connecticut due primarily to the COVID-19 uncertainty and its economic impact. Management then estimated annual growth rates of 2% in 2023 and 2% in 2024.

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MATTRESS RECYCLING COUNCIL CONNECTICUT, LLC

NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from May 1, 2015 through December 31, 2021 and Forecasted Periods Covering January 1, 2022 through December 31, 2024

NOTE B – MATTRESS STEWARDSHIP (RECYCLING) FEE REVENUE (continued)

The estimated unit sales for each year were then multiplied by the \$11.75 fee for the period January 1, 2022 through December 31, 2024 to equal the total fee revenue. The total forecasted mattress stewardship (recycling) fee revenue for the period covering January 1, 2022 through December 31, 2024 is estimated to be \$14,385,380, which includes \$1,500 in estimated late fee revenue.

NOTE C—INVESTMENT AND OTHER INCOME

Management reported actual investment income earned in 2016 through 2021, and estimated the amount of investment income to be earned on the financial reserve fund in 2022 through 2024. Management estimates investment income of \$64,159 for 2022, \$103,328 in 2023, and \$100,093 in 2024, for a total of \$267,580.

MRC received a Paycheck Protection Program (PPP) loan from the SBA during 2020, which was fully forgiven during 2021. MRC-CT's portion of this loan was \$71,398, which was recorded as other income in 2021.

NOTE D – COLLECTION, TRANSPORTATION AND PROCESSING EXPENSES

Units collected and collection expenses:

Every new mattress or foundation unit sold does not trigger a used mattress being discarded. From 2019 to 2021, the ratio of discarded mattress and foundation units that were collected for recycling to new mattresses and foundation units on which a mattress stewardship (recycling) fee was collected increased from 47% to 50.2%, an average rate of 1.6% annually. Other used units are landfilled or incinerated, resold or given away, stored in a basement or garage, or reused/recycled/disposed outside of the program, etc. Some new unit sales are to first-time purchasers, bought for a new family member, for a child moving out to attend university, for a second home, etc. and are not intended to replace an existing unit. Management increased the ratio of discarded to new units sold by 1.8% annually for 2022. Afterwards, the rate may increase at 0 – .5% per year.

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NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from May 1, 2015 through December 31, 2021 and Forecasted Periods Covering January 1, 2022 through December 31, 2024

**NOTE D – COLLECTION, TRANSPORTATION AND PROCESSING EXPENSES
(continued)**

Units collected and collection expenses: (continued)

Collection costs include the following different types of collection methods for discarded mattresses:

Type 1:	Transfer stations
Type 2:	Institutional sources

Collection costs associated with Type 1 sources (transfer stations) are included in the transportation and processing expenses (see separate section of **NOTE D** below). The cost of Type 2 collections will come from serving institutional sources such as universities, hotels, and larger retailers. The monthly average container costs of \$105 to \$106 per container serve up to 148 municipalities and up to 23 non-municipal sites.

Transportation and processing expenses:

Transportation and processing costs include fees paid to contracted mattress recycling companies to (1) transport discarded mattress and foundation units from transfer stations to the recycler's facility, and (2) dismantle those units for recycling. Management based the transportation and processing fees on written contracts with multiple vendors. For transportation costs, management estimated a \$6.08/unit average transportation cost for the year 2022, which is forecasted to increase by 1.5% in 2023 and 0.7% in 2024. Processing for the eight counties in Connecticut will be shared by two recycling companies and the forecast reflects a rate per unit cost based on the written contracts.

The total forecasted collection, transportation and processing costs for the period covering January 1, 2022 through December 31, 2024 are estimated to be \$12,844,220.

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NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from May 1, 2015 through December 31, 2021 and Forecasted Periods Covering January 1, 2022 through December 31, 2024

NOTE E – ADMINISTRATION AND LEGAL EXPENSES

Total forecasted administration and legal costs include various costs required to run the mattress recycling program from the period January 1, 2022 through December 31, 2024 and include the following:

Administration and Legal Expenses:

Management and Administration	\$ 1,489,847
Legal	6,182
Government Affairs	146,400
Travel Expenses	24,740
Bank Fees and other Taxes	5,192
Total	<u>\$ 1,672,361</u>

Direct expenses are allocated to each state’s recycling program based upon direct effort where they can be specifically identified. Indirect expenses are generally allocated to Connecticut at a rate of 8% of total recycling program expenses which is computed by Connecticut’s percentage of total population to the total population of all the states (i.e., Connecticut, Rhode Island, and California) in which MRC operates.

Management and Administrative expenses include ISPA staff, independent contractors (IC), and other related overhead costs such as insurance, office supplies, rent, and computer services. Connecticut’s staffing costs include its share of MRC managing director, operations director, program coordinator, and other accounting, marketing and administrative support staff. MRC has a written agreement with ISPA that covers the allocation of these costs. These estimated costs start at \$324,452 in 2022 and increase gradually to \$347,520 in 2024. This category also includes fees for a signed agreement with PCA Product Stewardship Inc. to manage the collection of retailers’ remittances of the mattress stewardship (recycling) fee, submissions, and reporting for the recycling program through December 31, 2024. Compliance audits, which are also in this category, include the cost of two (2) recycling participant facility compliance audits per year.

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MATTRESS RECYCLING COUNCIL CONNECTICUT, LLC

NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from May 1, 2015 through December 31, 2021 and Forecasted Periods Covering January 1, 2022 through December 31, 2024

NOTE E – ADMINISTRATION AND LEGAL EXPENSES (continued)

Management estimated legal costs based on actual costs through 2021 and an annual increase of 3% for 2022 to 2024 to account for inflation. The government affairs costs are based on actuals since start-up and a new contract effective in 2022.

The program costs also include management’s estimate for Connecticut-related travel expenses which average approximately \$8,000 per year for the years 2022 through 2024. Additional costs include bank charges which are expected to increase at various rates through 2024.

The total forecasted administration and legal expenses for the period covering January 1, 2022 through December 31, 2024 are estimated to be \$1,672,361.

NOTE F – COMMUNICATIONS AND RESEARCH EXPENSES

Communications:

Communications costs are based on current written contracts with public relations agencies to promote and manage marketing for the recycling program. Costs also include expenses incurred to obtain third-party products and services such as advertising space, public education and point of sale, marketing outreach, website maintenance, conferences and events, and customer service. Management allocated 100% of the in-state public relations agency cost to Connecticut. The cost for the shared public relation agency was allocated based on the contract, with Connecticut charged at a rate of 8%, representing its share of the total population of the three states (Connecticut, Rhode Island, and California) in which MRC operates recycling programs. Agency expenses for 2022-2024 are expected to remain consistent with actual 2021 expenses based on contracted rates. Management estimated marketing outreach, point of sale and advertising costs based on anticipated costs in 2022-2024.

Research:

Research costs are estimated costs for data collection, studies related to processing and efficiency improvements, and market development for used products. These costs are estimated to be \$1,250 in 2022, \$2,500 in 2023, and \$2,500 in 2024.

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MATTRESS RECYCLING COUNCIL CONNECTICUT, LLC

NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from May 1, 2015 through December 31, 2021 and Forecasted Periods Covering January 1, 2022 through December 31, 2024

NOTE F – COMMUNICATIONS AND RESEARCH EXPENSES (continued)

The total forecasted communications and research expenses for the period covering January 1, 2022 through December 31, 2024 are estimated to be \$298,558.

NOTE G – FINANCIAL RESERVE FUND

Connecticut General Statutes § 22a-905a, et seq. requires that MRC maintain a financial reserve sufficient to operate the program over a multi-year period in a fiscally prudent and responsible manner. MRC management and staff uses prudent financial management in allocating net asset funds between unrestricted (necessary for working capital needs and current operations) versus board designated financial reserves (necessary for the long-term viability of the recycling program). We also note that unlike a governmental entity, MRC cannot bridge cash flow shortfalls by accessing additional working capital (cash) or other financing from other governmental sources. Therefore, MRC has taken the position that having operating cash on hand, as well as a reserve, is fiscally responsible. The Board and management have carried out their fiduciary responsibilities to the program's stakeholders by making sure that MRC has sufficient current working capital to run the mattress recycling program while at the same time budgeting a reserve fund covering at least six months of budgeted operating expenses for the year ending December 31, 2024. The reserve fund will be funded by an operating surplus being reserved for the years ending December 31, 2014 through 2024, which will allow the accumulated reserve fund to reach MRC's target of \$2,959,000 or approximately seven months of operating expenses by December 31, 2024. Management estimated that the forecasted mattress stewardship (recycling) fee of \$11.75 per unit will allow the reserve fund to be slightly above its minimum operating and reserve requirements by December 31, 2024.

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