

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT (CT) LLC
(A WHOLLY OWNED SUBSIDIARY OF THE
MATTRESS RECYCLING COUNCIL)**

AUDITED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT (CT) LLC**
AUDITED FINANCIAL STATEMENTS
December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Mattress Recycling Council
Alexandria, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the **Mattress Recycling Council – Connecticut LLC** (a wholly owned subsidiary of the Mattress Recycling Council), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material 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.

INDEPENDENT AUDITORS' REPORT (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Mattress Recycling Council Connecticut LLC** (a wholly owned subsidiary of the Mattress Recycling Council) as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on the Audited Financial Statements of Mattress Recycling Council

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Mattress Recycling Council, as of and for the year ended December 31, 2018, and our report thereon dated June 17, 2019, is expressed as an unmodified opinion on those financial statements.

Sydon Flasteroff Cuydon, P.A.

Rockville, Maryland
June 17, 2019

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT, LLC**
STATEMENT OF FINANCIAL POSITION
December 31, 2018

ASSETS

CURRENT ASSETS

	<u>2018</u>
Cash and cash equivalents - NOTES A, B and H	\$ 720,081
Investments - short-term - NOTES A, C, H, and I	281,988
Accounts receivable (net of allowance for doubtful accounts of \$18,123) - NOTE A	507,655
Interest receivable	719
Prepaid expenses	<u>4,924</u>
TOTAL CURRENT ASSETS	<u>1,515,367</u>

PROPERTY AND EQUIPMENT - NOTES A and D

Computers and office equipment	2,531
Furniture	472
Software	<u>14,406</u>
	17,409
Accumulated depreciation	<u>(15,570)</u>
TOTAL PROPERTY AND EQUIPMENT	<u>1,839</u>

OTHER ASSETS

Investments - board designated - financial reserve - NOTES A, C, H and I	<u>2,736,003</u>
TOTAL OTHER ASSETS	<u>2,736,003</u>

TOTAL ASSETS \$ 4,253,209

The Accompanying Notes are an Integral Part of these Financial Statements

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT, LLC**
STATEMENT OF FINANCIAL POSITION
December 31, 2018

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	<u>2018</u>
Accounts payable and accrued expenses	\$ 295,110
Due to MRC-Holdings - NOTE J	276,514
Customer credit	<u>602</u>
TOTAL CURRENT LIABILITIES	<u>572,226</u>
TOTAL LIABILITIES	<u>572,226</u>

COMMITMENTS AND CONTINGENCIES - NOTES G, I, J, K, L, and M

NET ASSETS - NOTES A and E

Net assets without restrictions	
Undesignated	944,980
Board designated - financial reserve - NOTES C	<u>2,736,003</u>
TOTAL NET ASSETS	<u>3,680,983</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,253,209</u></u>

The Accompanying Notes are an Integral Part of these Financial Statements

MATTRESS RECYCLING COUNCIL -
CONNECTICUT, LLC
STATEMENT OF ACTIVITIES
Year Ended December 31, 2018

December 31, 2018				
	Without Restrictions	With Restrictions	Total	%
REVENUES - NOTE A				
Mattress recycling fee	\$ 3,815,008	\$ 0	\$ 3,815,008	100.0
TOTAL REVENUES	<u>3,815,008</u>	<u>0</u>	<u>3,815,008</u>	<u>100.0</u>
EXPENSES - NOTE A				
PROGRAM SERVICE				
Collection, Recycling, and Transportation Costs	2,834,310	0	2,834,310	74.3
Communications/Education and Outreach Costs	247,554	0	247,554	6.5
Administration	235,642	0	235,642	6.2
Legal Services	2,698	0	2,698	0.1
Research and Development Costs	1,256	0	1,256	0.0
TOTAL PROGRAM EXPENSES	<u>3,321,460</u>	<u>0</u>	<u>3,321,460</u>	<u>87.1</u>
SUPPORTING SERVICES				
General and administrative	94,550	0	94,550	2.4
TOTAL SUPPORTING SERVICES	<u>94,550</u>	<u>0</u>	<u>94,550</u>	<u>2.4</u>
TOTAL EXPENSES	<u>3,416,010</u>	<u>0</u>	<u>3,416,010</u>	<u>89.5</u>
CHANGE IN NET ASSETS BEFORE INVESTMENT RETURNS	398,998	0	398,998	10.5
Net Investment Return - NOTE C	(26,668)	0	(26,668)	(0.7)
CHANGE IN NET ASSETS	372,330	0	372,330	<u>9.8</u>
NET ASSETS AT BEGINNING OF YEAR	<u>3,308,653</u>	<u>0</u>	<u>3,308,653</u>	
NET ASSETS AT END OF YEAR - NOTE E	<u>\$ 3,680,983</u>	<u>\$ 0</u>	<u>\$ 3,680,983</u>	

The Accompanying Notes are an Integral Part of these Financial Statements

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT, LLC**
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018

	PROGRAM SERVICE <u>MRC - CT</u> <u>Recycling Program</u>	SUPPORTING SERVICES <u>General and</u> <u>Administrative</u>	<u>Total</u>	<u>%</u>
Collection, Recycling, and Transportation Costs				
Recycling Program Costs	\$ 2,834,310	\$ 0	\$ 2,834,310	83.0
Communications/Education and Outreach Costs				
Marketing and Communication	247,554	0	247,554	7.2
Administration				
Management and Staffing Expenses	212,040	37,418	249,458	7.3
Annual Financial Audit	0	23,536	23,536	0.7
Fee Audit	17,025	0	17,025	0.5
Computer/Database Services	0	14,237	14,237	0.4
Bad Debt	0	7,852	7,852	0.2
Staff Travel Expense	6,577	1,161	7,738	0.2
Accounting Services	0	4,693	4,693	0.1
Insurance	0	2,968	2,968	0.1
Licenses	0	1,369	1,369	0.0
Depreciation	0	894	894	0.0
Bank Fees	0	122	122	0.0
	<u>235,642</u>	<u>94,250</u>	<u>329,892</u>	<u>9.7</u>
Legal Services	2,698	300	2,998	0.1
Research and Development Costs	<u>1,256</u>	<u>0</u>	<u>1,256</u>	<u>0.0</u>
Total	<u>\$ 3,321,460</u>	<u>\$ 94,550</u>	<u>\$ 3,416,010</u>	<u>100.0</u>

The Accompanying Notes are an Integral Part of these Financial Statements

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT, LLC**
STATEMENT OF CASH FLOWS
Year Ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2018</u>
Increase (decrease) in net assets	\$ 372,330
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:	
Depreciation and amortization expense - NOTE D	894
Unrealized (gain)/loss on investments - NOTE C	104,545
(Increase) decrease in operating assets	
Accounts receivable	(5,526)
Interest receivable	(719)
Prepaid expenses	3,567
Increase (decrease) in operating liabilities	
Bank overdraft	0
Accounts payable and accrued expenses	34,810
Due to MRC-Holdings	(115,898)
Customer credit	<u>(7,748)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	386,255
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(903)
Proceeds from sale of investments	1,134,704
Increase in board designated investments - financial reserve	<u>(1,200,829)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(67,028)
CASH FLOWS FROM FINANCING ACTIVITIES - NONE	<u>0</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>0</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	319,227
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>400,854</u>
UNRESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR - NOTES A and B	<u><u>\$ 720,081</u></u>

See Note F for Supplemental Cash Flow Disclosures

The Accompanying Notes are an Integral Part of these Financial Statements

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the **Mattress Recycling Council – Connecticut LLC** (“MRC – CT”) is presented to assist in understanding the MRC – CT’s financial statements. The financial statements and notes are representations of the MRC – CT’s management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Purpose of the Connecticut Recycling Operations:

Connecticut’s (CT) Public Act 13-42 requires mattress manufacturers in CT to develop, finance, and implement a convenient and cost-effective statewide recycling program for mattresses and box spring units discarded in the state. MRC – CT developed and manages the program known as Bye Bye Mattress. MRC – CT funds its activities through a \$9 per unit recycling fee collected from consumers when they purchase a mattress or box spring unit at retail. MRC – CT is required to perform a financial statement audit under accounting principles generally accepted in the United States of America to satisfy the state of Connecticut’s Public Act no. 16-122, Section 3.

MRC – CT is one of three operating wholly owned subsidiaries of the Mattress Recycling Council (“MRC”). MRC also operates recycling programs in the states of California and Rhode Island. The MRC is a not-for-profit organization incorporated on November 14, 2013 under the laws of the State of Delaware and organized and operated for purposes consistent with recognition of exempt status under Internal Revenue Code Section 501(c)(3), including, without limitation, to work to establish an environmentally sound and cost-effective program for recycling of sleep products. The MRC is a subsidiary (under current accounting standards) of the International Sleep Products Association (“ISPA”) due to common control.

The MRC – CT’s significant accounting policies are as follows:

Basis of Accounting and Separately Stated Financial Statements of MRC – CT:

The financial statements of the MRC – CT have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, advances, prepaid expenses, payables, accruals and other liabilities.

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

On an annual basis, MRC – CT’s financial statements are included in the consolidated group financial statements of the MRC. These financial statements of the MRC – CT have been issued as a subsidiary of the MRC as of December 31, 2018. MRC – CT’s December 31, 2018 separately stated financial statements will be prepared due to the request of the Board of Directors of MRC and the State of Connecticut. See **NOTE J** for related party transaction disclosures.

Basis of Presentation:

As a wholly owned subsidiary of the MRC, a 501(c)(3) not-for-profit organization, the financial statements of the MRC – CT have been prepared on the accrual basis of accounting. The MRC – CT reports information regarding its financial position and activities according to two classes of net assets: net assets without restrictions and net assets with restrictions.

Net Assets Without Restrictions - Net assets that are not subject to or are no longer subject to third party imposed stipulations.

Net Assets With Restrictions - Net assets whose use is limited by third party-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without restrictions unless use of the related assets is limited by third party-imposed restrictions. Expenses are reported as decreases in net assets without restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restrictions unless their use is restricted by explicit third-party stipulations or by law. Expirations of restrictions on the net assets (i.e., the third party-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The MRC – CT has adopted a policy to classify restricted revenues as without restrictions to the extent that restrictions were met in the year the revenue was received.

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASC Codification:

During June 2009, the FASB issued SFAS No. 168 *"The FASB Accounting Standards Codification (ASC) and the Hierarchy of Generally Accepted Accounting Principles - A Replacement of FASB Statement No. 162,"* (now codified within ASC No. 105, Generally Accepted Accounting Principles (GAAP) (ASC No. 105)). ASC No. 105 establishes the Codification as the single source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. All guidance contained in the Codification carries an equal level of authority. Following this statement, FASB will not issue new standards in the form of statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates, which will serve only to: (1) update the Codification; (2) provide background information about the guidance; and (3) provide the bases for conclusions on the change(s) in the Codification. ASC No. 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of ASC No. 105 did not have any impact on the results of operations or financial position.

Income Tax Status:

The MRC is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from activities not directly related to the MRC tax-exempt purpose is subject to taxation as unrelated business income. MRC – CT is considered a disregarded entity for federal income tax purposes. MRC – CT's activity and mission are consistent with those of its Parent company, MRC. The subsidiary's financial operations are reported on a consolidated basis with MRC's tax exempt Federal Form 990 filing. Thus, the subsidiary is subject only to state income taxes as a for-profit limited liability company.

The MRC has adopted the authoritative guidance relating to uncertainty in income taxes included in ASC Topic *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and de-recognition of tax positions taken or expected to be taken in a tax return. The MRC performed an evaluation of uncertain tax positions for the initial period ended December 31, 2018, and determined that there were no material matters that would require recognition in the financial statements or that may have an effect on its tax-exempt status. As of December 31, 2018, the statute of limitations for the MRC's income tax return for the years ended December 31, 2015, 2016, and 2017 remain open with the Federal, state, and local authorities. It is the MRC's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the MRC – CT considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable:

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to valuation allowance based on its assessment of the current status of individual accounts. Balances which are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The balance of the allowance for doubtful accounts was \$18,123 for the year ended December 31, 2018.

Revenue Recognition and Deferred Revenue:

Revenue is recognized during the period in which it relates, and income collected in advance is reflected as deferred revenue. Revenue received but not yet recognized is recorded as deferred revenue. The main source of revenue is mattress recycling fee income, which is generally not received in advance.

Property, Equipment, Depreciation and Amortization:

The MRC – CT capitalizes all expenditures for property and equipment in excess of \$1,000. Purchased property and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments:

The MRC – CT has adopted Accounting Standards Codification (ASC) 958 Not-for-Profit Entities (formerly Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*). Under FASB ASC 958-320, investments in marketable equity securities with readily determinable fair values and all investments in marketable debt securities are valued at their fair values in the statement of financial position. Realized and unrealized gains and losses are included in the change in net assets.

Functional Allocation of Expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain shared costs have been allocated among the three state programs (CA, CT, and RI) based on supporting services benefiting each program. Shared general and administrative expenses include those expenses that are not directly identifiable with any other specific function but that provide for the overall support of the MRC, including expenses related to contracts with third-party vendors. Total shared costs are allocated to the respective states on a monthly basis. For the year ended December 31, 2018, 8% of the shared expenses outlined above were allocated to MRC – CT, which is based on relative state population of CT as it relates to CA and RI.

New Accounting Pronouncement

During the year ended December 31, 2018, the MRC – CT adopted the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14—*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with restrictions. A footnote on liquidity and availability has also been added (NOTE L).

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE B - CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2018, consisted of the following:

<u>Unrestricted:</u>	<u>12/31/18</u>
Demand deposits	<u>\$ 720,081</u>

NOTE C – INVESTMENTS (SHORT-TERM and BOARD DESIGNATED)

As of December 31, 2018, the MRC – CT investments consisted of approximately 89% conservative fixed income products, and the remaining 11% is invested in U.S. and International ETF's and mutual funds. All investments are exposed to various risks, such as market and credit. Due to the level of risk associated with investments and level of uncertainty related to changes in the value of investments, there is always a possibility that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Investments at December 31, 2018 are consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>
Unrestricted – short-term	\$ 286,747	\$ 281,988
Board Designated – financial reserve	<u>2,820,182</u>	<u>2,736,003</u>
	<u>\$ 3,106,929</u>	<u>\$ 3,017,991</u>

The MRC – CT has established a financial reserve fund of approximately nine (9) months of the average budgeted operating expenses for the year ending December 31, 2019, which equates to \$2,736,003 as of December 31, 2018 (See **NOTE E**).

Investments are composed of the following:

	<u>Cost</u>	<u>Fair Value</u>
U.S. ETF and Equity Securities	\$ 163,576	\$ 164,499
International ETF and Equity Securities	104,265	91,842
Fixed Income	2,747,528	2,675,761
Mutual Funds	<u>91,560</u>	<u>85,889</u>
	<u>\$ 3,106,929</u>	<u>\$ 3,017,991</u>

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE C – INVESTMENTS (SHORT-TERM and BOARD DESIGNATED) (continued)

Investment return for the year ended December 31, 2018 is comprised of the following:

	<u>12/31/18</u>
Interest and dividend income	\$ 78,288
Unrealized loss	(104,545)
Realized gain	<u>9,566</u>
Investment return before fees	(16,691)
Less: Investment fees	<u>(9,977)</u>
Net investment return	<u>\$ (26,668)</u>

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2018 consisted of the following:

	<u>Cost</u>	<u>Depreciation and Amortization Expense</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Net Book Value</u>	<u>Estimated Useful Life (Years)</u>
Computer and office equipment	\$ 2,531	\$ 475	\$ 1,512	\$ 1,019	3-5
Furniture	472	69	184	288	7
Software	<u>14,406</u>	<u>350</u>	<u>13,874</u>	<u>532</u>	3
	<u>\$ 17,409</u>	<u>\$ 894</u>	<u>\$ 15,570</u>	<u>\$ 1,839</u>	

NOTE E - NET ASSETS

As of December 31, 2018, total net assets without restrictions available for general operations of the MRC – CT amounted to \$3,680,983. The MRC – CT’s Board has a reserve policy to establish a board designated financial reserve to operate CT’s recycling program over a multi-year period. As of December 31, 2018, the Board has designated \$2,736,003 of its \$3,680,983 total net assets as a financial reserve in order to comply with state regulations. The remaining net assets in the amount of \$944,980 are undesignated as of December 31, 2018.

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE E - NET ASSETS (continued)

As of December 31, 2018, the MRC – CT did not have any net assets with restrictions.

	Without Restrictions	With Restrictions	Total Net Assets
Balance at December 31, 2017	\$3,308,653	\$ 0	\$3,308,653
2018 Increase (decrease) in net assets	<u>372,330</u>	<u>0</u>	<u>372,330</u>
Balance at December 31, 2018	<u>\$3,680,983</u>	<u>\$ 0</u>	<u>\$3,680,983</u>

NOTE F - SUPPLEMENTAL CASH FLOW STATEMENT DISCLOSURES

Supplemental disclosure of cash flows information:

Cash paid during the initial period ended December 31, 2018 for:

Interest	\$ 0
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NOTE G - COMMITMENTS AND CONTINGENCIES

MRC Recycling Fees:

Connecticut General Statutes § 22a-905a(h) requires that every two years following July 1, 2014, MRC – CT propose an updated mattress stewardship fee for all mattresses sold in the state and have an independent auditor render an opinion as to whether that fee “is reasonable to achieve the goals” of the law. Specifically, § 22a-905a(h) requires that the fee not exceed the cost to fund the mattress recycling activity required by § 22a-905a(a), and that the fee allow MRC – CT to maintain financial reserves sufficient to operate the mattress recycling program over a multi-year period in a fiscally prudent and responsible manner. The recycling fee in Connecticut was subject to review in 2016 and 2018, and the fee was determined to be reasonable. The recycling fee is subject to review again during the second half of 2020, and any changes in the fee will affect MRC – CT revenue stream in future years.

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE G - COMMITMENTS AND CONTINGENCIES (continued)

Product Care Association Consulting Fees:

The MRC has outsourced its billing and collection functions to Product Care Association (PCA), a third-party vendor which operates out of Canada. PCA collects and reviews the monthly sales reports from various mattress retailer sellers, invoices these sellers, and collects the fee income on behalf of MRC. During the year ended December 31, 2018, the total expenses incurred related to PCA consulting fees were \$273,850 and MRC – CT proportionate allocation of those expenses were \$18,089, which is included in administration (management and staffing) on the statement of activities.

Concentration of Service Provider:

For the year ended December 31, 2018, two recyclers accounted for 100% of the MRC – CT's total recycling costs and 100% of the units recycled. MRC – CT is currently in the process of identifying other recycling service providers to reduce this concentration risk.

Note Payable – line of credit:

On July 19, 2018, MRC entered into a line of credit agreement with PNC Bank. The principal amount of the line is \$1,000,000 and bears an interest rate which is equal to the daily LIBOR rate plus 2.0%. All unpaid principal and interest is payable at its maturity date on July 19, 2019. Until the maturity date, MRC is required to make monthly accrued interest payments, which are due on the 19th day of each month. The line of credit is secured by collateral of the assets of MRC. As of December 31, 2018, the outstanding balance under the line of credit is \$0. Interest expense related to the line of credit for the year ended December 31, 2018 is \$0.

NOTE H - CONCENTRATION OF CREDIT RISK

The MRC – CT maintains its cash, cash equivalents, and investment balances in three U.S. financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). The FDIC insures up to \$250,000 and the SIPC insures up to \$500,000 (including up to \$250,000 for cash) as of December 31, 2018. The MRC – CT's investment firm also maintains additional insurance coverage through an outside insurer which provides excess protection of up to \$400 million per account. At December 31, 2018, the MRC – CT's uninsured cash balance was \$178,526 and uninsured investment balance was \$0.

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE I - FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 – These inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the MRC – CT has the ability to access.

Level 2 – These are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, default rates and other similar data.

Level 3 – These are unobservable inputs for the asset or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability. The unobservable inputs should be developed based on the best information available in the circumstances and may include the MRC – CT’s own data.

The MRC – CT estimates that the fair value of all financial instruments at December 31, 2018 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position.

**Fair Value Measurements on a Recurring Basis
As of December 31, 2018**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments – short-term	\$ 281,988	\$ 0	\$ 0	\$ 281,988
Investments – financial reserve	<u>2,736,003</u>	<u>0</u>	<u>0</u>	<u>2,736,003</u>
Total	<u>\$ 3,017,991</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,017,991</u>

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**
NOTES TO FINANCIAL STATEMENTS
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NOTE J – RELATED PARTY TRANSACTIONS (MRC)

These financial statements include the intra-entity accounts and transactions between the MRC – CT and MRC. The following transactions are included in these separately stated financial statements, but are eliminated in the consolidated MRC financial statements as of December 31, 2018:

Due to MRC – Holdings	\$ 276,514
Administrative and management fee expense - MRC	\$ 179,064
Management fund expense - MRC	\$ 19,896

Operating Agreement with MRC:

MRC – CT is required to pay a monthly service/license fee in the amount of \$12,831, which represents the anticipated costs incurred by MRC for administrative and financial staff support services to the LLC plus an administrative charge (management fund fee) equal to 10% of the total monthly fee. At the end of each quarter a reconciliation is prepared for a “true up” of actual costs MRC-CT incurred versus the monthly fee charged, and any surplus or deficits are reimbursed by the respective party. For the year ended December 31, 2018, the MRC – CT incurred expenses of \$198,960, of which \$179,064 related to this agreement for administrative fees and \$19,896 related to this agreement for management fund fees, and MRC recorded the associated management fee revenue in the same amount. The administrative and management fund fee expense charged by MRC has not been eliminated in these financial statements as of December 31, 2018.

NOTE K - RECENT ACCOUNTING PRONOUNCEMENTS

During May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. Topic 606 is effective for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. MRC – CT may elect to apply the guidance earlier, but no earlier than fiscal years beginning after December 15, 2016. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. MRC – CT is currently assessing the effect that Topic 606 will have on its results of operations, financial position, and cash flows.

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NOTE K - RECENT ACCOUNTING PRONOUNCEMENTS (continued)

During August 2018, the Financial Accounting Standards Board (“FASB”) issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Made*. This standard provides clarifications on recognition of contributions and grants (including government grants). This standard is effective beginning in fiscal year 2020. Management continues to evaluate the potential impact of this update on MRC – CT’s financial statements.

NOTE L – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The MRC – CT has financial assets as of December 31, 2018, consisting of cash and cash equivalents of \$720,081, short-term investments of \$281,988, accounts receivable of \$507,655, interest receivable of \$719, and investments for financial reserve of \$2,736,003, which total \$4,246,446. Included in these financial assets is the Board designated investments in the amount of \$2,736,003, set aside for the financial reserve in order to comply with state regulations in CT. These board designated financial assets are not available for general use.

The following reflected the MRC – CT’s financial assets available for general use as of the Statement of Financial Position date.

Financial assets, at year end	\$ 4,246,446
Less those unavailable for general expenditure within one year, due to:	
Board designations:	
Amount set aside for the financial reserve	<u>(2,736,003)</u>
Financial assets available to meet cash need for general expenditures within one year	<u>\$ 1,510,443</u>

The MRC – CT considers all expenditures related to its ongoing recycling programs, as well as the services undertaken to support these programs to be general expenditures. As part of the MRC – CT’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the MRC – CT invests cash in excess of daily requirements in short-term and long-term investments, which include conservative fixed income products, U.S. and International ETF’s, and mutual funds.

In addition to financial assets available to meet general expenditures over the next 12 months, the MRC – CT operated with a surplus budget for the year ending December 31, 2018. Also, for the year ending December 31, 2019, the MRC – CT projects it will collect sufficient additional revenue to cover its general expenditures for the year and will increase its liquidity reserves.

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NOTE M - SUBSEQUENT EVENTS

In preparing the financial statements, the MRC – CT has evaluated events and transactions for potential recognition or disclosure through June 17, 2019, the date the audit report was available to be issued.