

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

AUDITED FINANCIAL STATEMENTS

From Inception July 1, 2017 to December 31, 2017

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT (CT) LLC**
AUDITED FINANCIAL STATEMENTS
From Inception July 1, 2017 to December 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
**Mattress Recycling Council -
Connecticut LLC**
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, 2017, and the related statements of activities and cash flows for the period from inception July 1, 2017 to December 31, 2017, 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, 2017, and the changes in its net assets and its cash flows for the initial period 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, 2017, and our report thereon dated June 18, 2018, is expressed as an unmodified opinion on those financial statements.



Rockville, Maryland
June 18, 2018

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT, LLC**
STATEMENT OF FINANCIAL POSITION
December 31, 2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents - NOTES A, B and H	\$ 400,854
Investments - short-term - NOTES A, C, H, and I	1,521,237
Accounts receivable (net of allowance for doubtful accounts of \$10,352) - NOTE A	502,129
Prepaid expenses	<u>8,491</u>

TOTAL CURRENT ASSETS 2,432,711

PROPERTY AND EQUIPMENT - NOTES A and D

Computers and office equipment	1,628
Furniture	472
Software	<u>14,406</u>
	16,506
Accumulated depreciation	<u>(14,676)</u>

TOTAL PROPERTY AND EQUIPMENT 1,830

OTHER ASSETS

Investments - board designated - financial reserve - NOTES A, C, H and I	<u>1,535,174</u>
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TOTAL OTHER ASSETS 1,535,174

TOTAL ASSETS \$ 3,969,715

The Accompanying Notes are an Integral Part of these Financial Statements

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT, LLC**
STATEMENT OF FINANCIAL POSITION
December 31, 2017

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$	260,300
Due to MRC-Holdings - NOTE J		392,412
Customer credit		<u>8,350</u>
TOTAL CURRENT LIABILITIES		<u>661,062</u>
TOTAL LIABILITIES		<u>661,062</u>

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

NET ASSETS - NOTES A, E, and K

Net assets - unrestricted		1,773,479
Net assets - board designated - financial reserve - NOTE C		<u>1,535,174</u>
TOTAL NET ASSETS		<u>3,308,653</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u><u>3,969,715</u></u>

The Accompanying Notes are an Integral Part of these Financial Statements

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT, LLC**
STATEMENT OF ACTIVITIES
From Inception July 1, 2017 to December 31, 2017

	December 31, 2017			
	Unrestricted	Temporarily Restricted	Total	%
REVENUES - NOTE A				
Mattress recycling fee	\$ 1,949,996	\$ 0	\$ 1,949,996	98.8
Interest and dividend income - NOTE C	23,441	0	23,441	1.2
TOTAL REVENUES	<u>1,973,437</u>	<u>0</u>	<u>1,973,437</u>	<u>100.0</u>
EXPENSES - NOTE A				
PROGRAM EXPENSES				
Recycling, transportation, and operational costs	1,434,001	0	1,434,001	72.7
Program management fees - NOTE J	88,544	0	88,544	4.5
Marketing & communications	19,846	0	19,846	1.0
Legal	511	0	511	0.0
Outside consultants - NOTE G	24,681	0	24,681	1.3
Travel	5,235	0	5,235	0.3
Research and advisory	20,809	0	20,809	1.1
TOTAL PROGRAM EXPENSES	<u>1,593,627</u>	<u>0</u>	<u>1,593,627</u>	<u>80.8</u>
SUPPORTING SERVICES				
General and administrative	15,668	0	15,668	0.8
TOTAL SUPPORTING SERVICES	<u>15,668</u>	<u>0</u>	<u>15,668</u>	<u>0.8</u>
TOTAL EXPENSES	<u>1,609,295</u>	<u>0</u>	<u>1,609,295</u>	<u>81.5</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS BEFORE INVESTMENT GAINS AND LOSSES	364,142	0	364,142	18.5
Realized and unrealized increase (decrease) in market value of investments - NOTE C	5,485	0	5,485	0.3
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS AFTER INVESTMENT GAINS AND LOSSES	369,627	0	369,627	<u>18.8</u>
NET ASSETS AT INCEPTION	0	0	0	
TRANSFER OF NET ASSETS - NOTE L	2,939,026	0	2,939,026	
NET ASSETS AT END OF YEAR - NOTE E	<u>\$ 3,308,653</u>	<u>\$ 0</u>	<u>\$ 3,308,653</u>	

The Accompanying Notes are an Integral Part of these Financial Statements

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT, LLC**

STATEMENT OF CASH FLOWS

From Inception July 1, 2017 to December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (decrease) in net assets	\$ 369,627
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:	
Depreciation and amortization expense - NOTE D	4,657
Unrealized (gain)/loss on investments - NOTE C	(3,382)
(Increase) decrease in operating assets	
Accounts receivable	(49,605)
Intercompany advance - MRC-Holdings	1,000,000
Prepaid expenses	(7,381)
Increase (decrease) in operating liabilities	
Bank overdraft	(226,426)
Accounts payable and accrued expenses	15,319
Due to MRC-Holdings	392,412
Customer credit	(5,917)

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 1,489,304

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	0
Purchase of investments	(1,053,276)
Decrease in board designated investments - financial reserve	(35,174)

NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES (1,088,450)

CASH FLOWS FROM FINANCING ACTIVITIES - NONE 0

NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES 0

**NET INCREASE (DECREASE)
IN CASH AND CASH EQUIVALENTS** 400,854

CASH AND CASH EQUIVALENTS, AT INCEPTION 0

**UNRESTRICTED CASH AND CASH EQUIVALENTS,
END OF YEAR - NOTES A and B** \$ 400,854

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

From Inception July 1, 2017 to December 31, 2017

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

From Inception July 1, 2017 to December 31, 2017

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, 2017. MRC – CT’s December 31, 2017 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 presented in accordance with the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958 Not-for-Profit Entities (formerly Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*). Under FASB ASC 958, the MRC – CT 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.

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.

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**

NOTES TO FINANCIAL STATEMENTS

From Inception July 1, 2017 to December 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2017, 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, 2017, the statute of limitations for the MRC’s income tax return for the years ended December 31, 2014, 2015, and 2016 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.

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 \$10,352 for the initial period ended December 31, 2017

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**

NOTES TO FINANCIAL STATEMENTS

From Inception July 1, 2017 to December 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**

NOTES TO FINANCIAL STATEMENTS

From Inception July 1, 2017 to December 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Accordingly, certain costs have been allocated among the programs and supporting services benefited. 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. The MRC has entered into contracts with related parties and third-party vendors. Total costs are allocated to the respective states on a monthly basis. For the initial period ended December 31, 2017, 8% of these expenses were allocated to the MRC – CT, which is based on relative state population.

NOTE B - CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2017, consisted of the following:

<u>Unrestricted:</u>	<u>12/31/17</u>
Demand deposits	<u>\$ 400,854</u>

NOTE C – INVESTMENTS (UNRESTRICTED and BOARD DESIGNATED)

The MRC – CT invests a majority of their funds (approximately 88% as of December 31, 2017) in conservative fixed income products, and the remaining 12% 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, 2017 are consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>
Unrestricted – short-term	\$ 1,531,531	\$ 1,521,237
Board Designated – financial reserve	<u>1,522,063</u>	<u>1,535,174</u>
	<u>\$ 3,053,594</u>	<u>\$ 3,056,411</u>

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**

NOTES TO FINANCIAL STATEMENTS

From Inception July 1, 2017 to December 31, 2017

NOTE C – INVESTMENTS (UNRESTRICTED and RESTRICTED) (continued)

The MRC – CT has established a financial reserve fund of approximately six (6) months of the average operating expenses from January 1, 2017 – December 31, 2017, which equates to \$1,535,174 as of December 31, 2017 (See **NOTE E**).

Investments are composed of the following:

	<u>Cost</u>	<u>Fair Value</u>
U.S. ETF and Equity Securities	\$ 163,576	\$ 175,908
International ETF and Equity Securities	104,265	110,485
Fixed Income	2,693,902	2,678,018
Mutual Funds	<u>91,851</u>	<u>92,000</u>
	<u>\$ 3,053,594</u>	<u>\$ 3,056,411</u>

Investment income for the initial period ended December 31, 2017 is comprised of the following:

	<u>12/31/17</u>
Interest and dividend income	\$ 23,441
Realized gain on investments	2,103
Unrealized gain on investments	<u>3,382</u>
Total investment income	<u>\$ 28,926</u>

The combined realized gain and unrealized gain for the six months ended December 31, 2017 amounted to a net gain of \$5,485.

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**
NOTES TO FINANCIAL STATEMENTS
From Inception July 1, 2017 to December 31, 2017

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 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	\$ 1,628	\$ 258	\$ 1,037	\$ 591	3-5
Furniture	472	34	115	357	7
Software	<u>14,406</u>	<u>4,365</u>	<u>13,524</u>	<u>882</u>	3
	<u>\$ 16,506</u>	<u>\$ 4,657</u>	<u>\$ 14,676</u>	<u>\$ 1,830</u>	

NOTE E - NET ASSETS

The MRC – CT has elected to adopt Accounting Standards Codification (ASC) 958 Not-for-Profit Entities (formerly Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*). Under FASB ASC 958-205, the MRC – CT 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. Permanently restricted net assets contain donor-imposed restrictions that require that contributed funds be maintained by the MRC – CT in perpetuity. The MRC – CT has no permanently restricted net assets as of December 31, 2017. Temporarily restricted net assets contain donor-imposed use limits on contributed funds that relate to specific periods of time or specified purposes. The MRC – CT has no temporarily restricted net assets as of December 31, 2017. Unrestricted net assets are funds received that do not include any restriction as to the use by the donor. As of December 31, 2017, the MRC – CT's total unrestricted net assets balance was \$3,308,653, of which the MRC – CT's Board designated \$1,535,174 for establishing a financial reserve to operate CT's recycling program.

NOTE F - SUPPLEMENTAL CASH FLOW STATEMENT DISCLOSURES

Supplemental disclosure of cash flows information:

Cash paid during the initial period ended December 31, 2017 for:

Interest	\$ 0
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**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**

NOTES TO FINANCIAL STATEMENTS

From Inception July 1, 2017 to December 31, 2017

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 the first review in 2016 and the fee was determined to be reasonable. The recycling fee is subject to review again during the second half of 2018, and any changes in the fee will affect MRC – CT revenue stream in future years.

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 initial period ended December 31, 2017, the total expenses incurred related to PCA consulting fees were \$97,331 and MRC – CT proportionate allocation of those expenses were \$7,932, which is included in outside consultants on the statement of activities.

Concentration of Service Provider:

For the initial period ended December 31, 2017, one recycler accounted for approximately 51% of the MRC – CT’s total recycling, transportation, and operational costs and 66% of the units recycled. MRC – CT is currently in the process of identifying other recycling service providers to reduce this concentration risk.

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**

NOTES TO FINANCIAL STATEMENTS

From Inception July 1, 2017 to December 31, 2017

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, 2017. 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, 2017, the MRC – CT’s uninsured cash and investment balance was \$0.

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, 2017 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position.

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**

NOTES TO FINANCIAL STATEMENTS
From Inception July 1, 2017 to December 31, 2017

NOTE I - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

**Fair Value Measurements on a Recurring Basis
As of December 31, 2017**

	Level 1	Level 2	Level 3	Total
Investments – short-term	\$ 1,521,237	\$ 0	\$ 0	\$ 1,521,237
Investments – financial reserve	1,535,174	0	0	1,535,174
Total	<u>\$ 3,056,411</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,056,411</u>

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, 2017:

Due to MRC – Holdings	\$ 392,412
Administrative and management fee expense - MRC	\$ 81,543
Management fund expense - MRC	\$ 7,001

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. For the initial period ended December 31, 2017, the MRC – CT incurred expenses of \$88,544, of which \$81,543 related to this agreement for administrative fees and \$7,001 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, 2017.

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**

NOTES TO FINANCIAL STATEMENTS

From Inception July 1, 2017 to December 31, 2017

NOTE J – RELATED PARTY TRANSACTIONS (MRC) (continued)

Asset and Liability Transfer to Limited Liability Corporation (LLC):

On July 1, 2017, the MRC made a capital contribution of all of the Connecticut Recycling Operations Division's assets, liabilities, and net assets to fund the Mattress Recycling Council – Connecticut, LLC (MRC – CT). The newly formed entity is a single member LLC that is a wholly owned subsidiary of the MRC. Total net assets transferred to MRC – CT was \$2,939,026.

NOTE K - RECENT ACCOUNTING PRONOUNCEMENTS

During August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (“ASU 2016-14”). ASU 2016-14 makes improvements to the information provided in the financial statements and accompanying notes of not-for-profit entities. Entities will present on the face of their financial statements two classes of net assets, rather than the three classes currently required. In addition, entities will be required to present expenses by both their natural classification and functional classification, present investment returns net of external and direct internal investment expenses, and provide enhanced disclosures regarding the entity's available resources and liquidity, among other changes. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018, with early application permitted. The amendments should be applied on a retrospective basis in the year of adoption, with certain limited exceptions in the case of comparative financial statements, with disclosure of the nature of any reclassifications or restatements and their effects, if any, on changes in the net asset classes for each period presented. MRC – CT is currently evaluating the effect that ASU 2016-14 will have on its statement of financial position, statement of activities, and cash flows.

**MATTRESS RECYCLING COUNCIL -
CONNECTICUT LLC**

NOTES TO FINANCIAL STATEMENTS

From Inception July 1, 2017 to December 31, 2017

NOTE K - RECENT ACCOUNTING PRONOUNCEMENTS (continued)

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.

NOTE L - SUBSEQUENT EVENTS

In preparing the financial statements, the MRC – CT has evaluated events and transactions for potential recognition or disclosure through June 18, 2018, the date the audit report was available to be issued.