

MATTRESS RECYCLING COUNCIL RHODE ISLAND, 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 RHODE ISLAND

For the Actual Operating Period from January 1, 2019 through December 31, 2022 and
Forecasted Period Covering January 1, 2023 through December 31, 2025

MATTRESS RECYCLING COUNCIL RHODE ISLAND, 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 RHODE ISLAND

For the Operating Period from January 1, 2019 through December 31, 2022 and
Forecasted Period Covering January 1, 2023 through December 31, 2025

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(A) Includes actual operating period from January 1, 2019 through December 31, 2022 and forecasted period covering January 1, 2023 through December 31, 2025.



INDEPENDENT ACCOUNTANT'S RECYCLING FEE EXAMINATION REPORT

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

Pursuant to Mattress Recycling Council Rhode Island, LLC's (MRC) written request on April 21, 2023, we have examined the accompanying forecasted summary of budgeted revenues, expenses (costs), and financial reserve fund prepared by the MRC with regard to operating a mattress recycling program required by Chapter 90-23 of the State of Rhode Island General Law (the Law), 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, 2023 through December 31, 2025, and including actual operating revenue and expenses (costs) from January 1, 2019 through December 31, 2022 (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 the guidelines for the presentation of a forecast established by the AICPA. The forecasted budget was prepared for the purpose of complying with Section 23-90-4(b) of the Law. Our responsibility under Section 23-90-5(h) of the Law 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 obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to this engagement.

In our opinion, the accompanying forecasted budget is presented, in all material respects, in accordance with the guidelines for the 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 the MRC's proposed average unitized mattress stewardship fee of \$16.00 (started October 1, 2017) and \$20.50 (starting January 1, 2024) per each mattress and foundation unit to be charged on all mattresses and foundations sold to Rhode Island 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, 2023 through December 31, 2025.

INDEPENDENT ACCOUNTANT'S RECYCLING FEE EXAMINATION REPORT
(continued)

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. 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 Executive Director of the Rhode Island Resource Recovery Corporation and the Board of Directors of the MRC, and are not intended to be used and should not be used by anyone other than these specified parties.

Sydon F. Hestonoff, P.C.

Rockville, Maryland
June 21, 2023

MATTRESS RECYCLING COUNCIL RHODE ISLAND, LLC

FORECASTED SUMMARY SCHEDULE OF ACTUAL AND BUDGETED REVENUES, EXPENSES
(COSTS) AND FINANCIAL RESERVE FUND
FOR THE STATE OF RHODE ISLAND
Actual Operating Period from January 1, 2019 through December 31, 2022 and
Forecasted Period Covering January 1, 2023 through December 31, 2025

FORECASTED REVENUES

Mattress stewardship (recycling) fee - NOTE B	\$ 10,575,628 (1)
Other income - NOTE H	19,560
Investment income - NOTE G	<u>3,529</u>
TOTAL REVENUES	10,598,717

FORECASTED EXPENSES

Collection, transportation and processing - NOTE C	\$ 8,791,139
Administration and legal - NOTE D	1,507,392
Communications - NOTE E	<u>48,869</u>
TOTAL EXPENSES	<u>10,347,400</u> (2)

**FORECASTED SURPLUS BEFORE BEGINNING RESERVE
BALANCE AND RESERVE FUND**

	251,317
Beginning reserve balance at December 31, 2018	53,060 (3)
Financial reserve fund - NOTE F	<u>(300,000)</u>
FORECASTED NET SURPLUS at December 31, 2025	<u>\$ 4,377</u>

(1) *Includes Rhode Island mattress stewardship (recycling) fee of \$16 per unit plus late fee revenue for the actual and forecasted periods covering January 1, 2019 through December 31, 2023, and \$20.50 per unit from January 1, 2024 through December 31, 2025.*

(2) *Includes actual operating period from January 1, 2019 through December 31, 2022, and forecasted period covering January 1, 2023 through December 31, 2025.*

(3) *Beginning reserve (deficit) balance includes the cumulative reserve for the program from its inception through December 31, 2018, and includes pre-operation costs incurred prior to the program's implementation.*

**CONTAINS CONFIDENTIAL PROPRIETARY BUSINESS DATA WHICH IS RESTRICTED FOR USE BY MRC
AND THE EXECUTIVE DIRECTOR OF THE RHODE ISLAND RESOURCE RECOVERY CORPORATION OF
THE STATE OF RHODE ISLAND**

See Notes to Forecasted Financial Information and Accountant's Report

MATRESS RECYCLING COUNCIL RHODE ISLAND, LLC
FORECASTED DETAIL SCHEDULE OF ACTUAL AND BUDGETED REVENUES, EXPENSES
(COSTS) AND FINANCIAL RESERVE FUND
FOR THE STATE OF RHODE ISLAND
For the Actual Operating Period from January 1, 2019 through December 31, 2022 and
Forecasted Period Covering January 1, 2023 through December 31, 2025

	Actual Operating Period from January 1, 2019 through December 31, 2022	Forecasted Period covering January 1, 2023 through December 31, 2025	Total
FORECASTED REVENUES			
Matress stewardship (recycling) fee - NOTE B	\$ 6,066,140	\$ 4,509,488	\$ 10,575,628 ⁽¹⁾
Other income - NOTE H	19,560	0	19,560
Investment income (loss) - NOTE G	(1,180)	4,709	3,529
	6,084,520	4,514,197	10,598,717
TOTAL REVENUES			
FORECASTED EXPENSES			
Collection, transportation and processing - NOTE C	5,132,317	3,658,822	8,791,139
Administration and legal - NOTE D	853,385	654,007	1,507,392
Communications - NOTE E	33,504	15,365	48,869
	6,019,206	4,328,194	10,347,400 ⁽²⁾
TOTAL EXPENSES			
TOTAL FORECASTED SURPLUS BEFORE BEGINNING RESERVE			
BALANCE AND RESERVE FUND	\$ 65,314	\$ 186,003	\$ 251,317
Beginning reserve balance at December 31, 2018			53,060 ⁽³⁾
Less: Financial reserve fund - NOTE F			(300,000)
			\$ 4,377

FORECASTED NET SURPLUS at December 31, 2025

⁽¹⁾ Includes Rhode Island matress stewardship (recycling) fee of \$16 per unit plus late fee revenue for the actual and forecasted periods covering January 1, 2019 through December 31, 2023, and \$20.50 per unit from January 1, 2024 through December 31, 2025.

⁽²⁾ Includes actual operating period from January 1, 2019 through December 31, 2022, and forecasted period covering January 1, 2023 through December 31, 2025.

⁽³⁾ Beginning reserve (deficit) balance includes the cumulative reserve for the program from its inception through December 31, 2018, and includes pre-operation costs incurred prior to the program's implementation.

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RHODE ISLAND RESOURCE RECOVERY CORPORATION OF THE STATE OF RHODE ISLAND

MATTRESS RECYCLING COUNCIL RHODE ISLAND, LLC
 CALCULATED AVERAGE UNITIZED MATTRESS STEWARDSHIP FEE
 FOR THE STATE OF RHODE ISLAND
 For the Forecasted Periods Covering January 1, 2023 through December 31, 2025

FORECASTED CALCULATED AVERAGE UNITIZED MATTRESS STEWARDSHIP FEE (1)

	Actual Operations (2019 - 2022) and Forecasted (2023) at \$16 Per Unit (2)	Forecasted Operations at \$20.50 Per Unit (2024 - 2025) (3)	Total (Expenses and Reserve Fund)
REVENUES	\$ 7,343,255	\$ 3,255,462	\$ 10,598,717
EXPENSES	\$ 7,410,067	\$ 2,937,333	\$ 10,347,400
NET SURPLUS / (DEFICIT)	\$ (66,812)	\$ 318,129	\$ 251,317
PREVIOUS YEARS' SURPLUS / (DEFICIT)	53,060	(13,752)	
NET SURPLUS / (DEFICIT) TO BE ALLOCATED TO FUTURE UNIT SALES	\$ (13,752)	\$ 304,377	
FORECASTED EXPENSES 2024-2025		2,937,333	
TARGET FINANCIAL RESERVE FUND BY 12/31/2025 (page 3)		300,000	
PLUS: PREVIOUS YEARS' DEFICITS		13,752	
TOTAL ACTUAL AND FORECASTED EXPENSES PLUS ADDITIONS TO FINANCIAL RESERVE - 1/1/2024 - 12/31/2025		\$ 3,251,085	
FORECASTED RI UNIT SALES - CAPTURED FOR FEE PAYMENT FROM 1/1/2024- 12/31/2025		/ 158,642 (4)	
FORECASTED DOLLAR PER UNIT RECYCLING FEE		\$ 20.49 (5)	
AVERAGE FORECASTED DOLLAR PER UNIT RECYCLING FEE (2024-2025) (ROUNDED)		\$ 20.50 (6)	

(1) Includes Rhode Island mattress stewardship (recycling) fee of \$20.50 per unit charged at retail for period covering January 1, 2024 through December 31, 2025

(2) Includes actual operating period from January 1, 2019 through December 31, 2022, subject to \$16 per unit fee, and forecasted period covering January 1, 2023 through December 31, 2023, subject to \$16 per unit fee.

(3) Includes forecasted period covering January 1, 2024 through December 31, 2025, subject to \$20.50 per unit fee.

(4) Includes forecasted unit sales captured for fee payment for the forecasted period covering January 1, 2024 through December 31, 2025, subject to \$20.50 unit fee.

(5) Recalculated Rhode Island average mattress stewardship (recycling) fee from January 1, 2024 through December 31, 2025 to cover the expenses and increases in the financial reserve for the forecasted period from January 1, 2024 through December 31, 2025.

(6) Average proposed per unit recycling fees of \$20.50 per unit (2024-2025).

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MATTRESS RECYCLING COUNCIL RHODE ISLAND, LLC

NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from January 1, 2019 through December 31, 2022 and Forecasted Period Covering January 1, 2023 through December 31, 2025

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 Rhode Island presents, to the best of management’s knowledge and belief, the Mattress Recycling Council Rhode Island, LLC’s (MRC) expected budgeted revenues, expenses (costs) and financial reserve fund and calculated average unitized mattress stewardship fee for the state of Rhode Island for the forecasted period. The forecast reflects the expected costs to operate a mattress recycling program required by Chapter 90-23 of the State of Rhode Island General Law (the Law), and the calculated average unitized mattress stewardship fee that MRC has proposed to fund the program from January 1, 2023 through December 31, 2025. Accordingly, the forecast reflects management’s assumptions as of June 21, 2023, the date of this forecast, of expenses through December 31, 2025 and the proposed unitized mattress stewardship fee that would be needed to cover these expenses. The forecast is designed to provide information to the Executive Director of the Rhode Island Resource Recovery Corporation 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, 2025. 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 collect a \$16 fee from January 1, 2023 through December 31, 2023 from each mattress and foundation unit sold, the same fee that has been collected since October 1, 2017. Effective January 1, 2024, retailers will collect a \$20.50 fee from each mattress and foundation unit sold. Management calculated the revenue expected from this fee using several assumptions related to current and forecasted market conditions. Management estimated total unit sales in Rhode Island by using the actual unit sales captured for fee payment in 2022, decreased by an 8% rate in 2023, followed by 1% growth rate in 2024, and 0% growth rate in 2025. Also, the extent of the impact of the recovery from the COVID-19 recession on the growth rate is uncertain.

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NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from January 1, 2019 through December 31, 2022 and Forecasted Period Covering January 1, 2023 through December 31, 2025

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

Management estimated the portion of sales in each year that would not be captured by the fee payment due to non-payment or non-collection by retailers, which was based on actual results from prior years and monthly reporting from a consulting organization with experience in recycling stewardship programs. The final adjusted unit sales for 2023 were then multiplied by the \$16 fee and the final adjusted unit sales for 2024 and 2025 were multiplied by the \$20.50 fee. The sum of these two periods were combined to equal the total fee revenue for the period January 1, 2023 through December 31, 2025.

The total forecasted budget mattress stewardship (recycling) fee revenue is \$10,575,628. The forecasted budget includes actual fee revenue of \$6,066,140 for the period from January 1, 2019 through December 31, 2022, and estimated fee revenue of \$4,509,488, including \$750 of estimated late fee revenue, for the forecasted period from January 1, 2023 through December 31, 2025.

NOTE C – COLLECTION, TRANSPORTATION AND PROCESSING EXPENSES

Units collected and collection expenses:

Management estimated an average rate of 98% of new mattress and foundation unit sales captured for fee payment would be associated with old units collected for recycling in 2023 through 2025 based on actual results from 2022. The remaining amount of unit sales was assumed to be uncollectible due to various reasons (first-time purchase of mattress, old mattress resold or given away, or reused/recycled/disposed outside of the program). Collection costs include three different types of collection methods for discarded mattress and are as follows:

- | | |
|---------|-------------------------|
| Type 1: | Solid waste facilities |
| Type 2: | Institutional locations |
| Type 3: | Consumer drop off |

Collection costs associated with Type 1 sources (solid waste facilities) are included in the transportation and processing expenses (see separate section of **NOTE C** below). The cost of Type 2 collections will come from serving institutional sources such as universities, demolition sites, and larger retailers, as well as remote locations and includes container costs ranging from \$85 to \$145 per month per container at up to 44 locations. Management estimates that the majority of mattress and foundation units collected will be collected by contracted mattress recycling companies directly from Type 1 and Type 2 sources.

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NOTES TO FORECASTED FINANCIAL INFORMATION

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NOTE C – COLLECTION, TRANSPORTATION AND PROCESSING EXPENSES (continued)

Management estimates that the remaining other collections will come from Type 3 (consumer) sources which include incentive payments of \$1 per mattress or foundation unit dropped off directly at a recycling center.

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) dismantling those units for recycling. Management based the transportation and processing fees on actual costs incurred in 2022 and on written contracts with multiple vendors. For transportation costs, management calculated these based on actual 2022 costs and costs from written contracts. Processing for municipalities in Rhode Island will be shared by two recycling companies and the forecast reflects a rate per unit cost based on the written contracts.

The total forecasted budgeted collection, transportation and processing costs are \$3,658,822 for the forecasted period from January 1, 2023 through December 31, 2025 (see page 4 of the report).

NOTE D –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, 2023 through December 31, 2025, and include the following:

MRC staffing and operational management fees	\$ 471,364
Legal	4,013
Audit and compliance	102,591
Bank fees, state taxes, rent, and other administrative costs	47,510
Computer database	19,273
Travel expenses	6,000
Interest expense	3,256
Total	<u>\$ 654,007</u>

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MATTRESS RECYCLING COUNCIL RHODE ISLAND, LLC

NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from January 1, 2019 through December 31, 2022 and Forecasted Period Covering January 1, 2023 through December 31, 2025

NOTE D –ADMINISTRATION AND LEGAL EXPENSES (continued)

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 Rhode Island at a rate of approximately 2% of total recycling program expenses, which is computed by Rhode Island’s percentage of total population to the total population of all the recycling states (i.e., Connecticut, Rhode Island, and California) in which the MRC operates.

Management estimated legal fees associated with the MRC recycling program in Rhode Island based on anticipated costs in 2023 and they are assumed to remain stable through 2025. The compliance audit costs include the cost of one (1) recycling participant facility compliance audit per year in 2023 through 2025.

ISPA staff and independent contractors (IC’s) provide staffing to MRC. ISPA staff, IC’s, and other related overhead costs will be charged to MRC (at ISPA’s cost) through management fees. These costs include allocations of certain overhead expenses such as salaries, insurance, office supplies and rent. MRC has a written agreement with ISPA that covers the administration of these costs. MRC’s Rhode Island staffing expenses include costs for Rhode Island’s share of the MRC Chief Operating Officer, operations director, program coordinator, and other accounting and administrative support staff. Total costs for these management and staffing fees start at about \$140,000 per year in 2023, and increase to an annual amount of about \$159,000 by 2025. Program management fees include a signed management agreement with PCA Product Stewardship, Inc. for managing the administration, reporting, and collection of the fee revenues from the retailers through December 31, 2025.

The program costs also include management’s estimate for computer software/database expenses and other office expenses, which average approximately \$17,000 per year for the years 2023 through 2025. Additional costs include financial audits and reports, state fees, and bank charges estimated to be \$22,000 in 2023, which are expected to increase at various rates through 2025 based on estimated costs and needs each year. Rhode Island program related travel expenses, which average approximately \$2,000 per year for the years 2023 through 2025, are also included.

The total forecasted budgeted administrative and legal costs are \$654,007 for the forecasted period from January 1, 2023 through December 31, 2025 (see page 4 of the report).

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NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from January 1, 2019 through December 31, 2022 and Forecasted Period Covering January 1, 2023 through December 31, 2025

NOTE E – COMMUNICATION EXPENSES

Communications:

Communications costs are directly related to promoting the Rhode Island recycling program via activities such as advertising space, public education, point of sale materials, website maintenance, marketing outreach and website maintenance, conferences and events, and customer service. Management estimated these costs based on prior years' actual costs and anticipated costs for 2023-2025.

The total forecasted budgeted communication expenses are \$15,365 for the forecasted period from January 1, 2023 through December 31, 2025 (see page 4 of the report).

NOTE F – FINANCIAL RESERVE FUND

Rhode Island General Law Chapter 90-23 requires that MRC maintain a financial reserve sufficient to operate the program over a multi-year period in a fiscally prudent and responsible manner. Unlike a governmental entity, MRC cannot bridge cash flow shortfalls by accessing additional working capital (cash) or other financing from other governmental sources. The Board and MRC management have carried out their fiduciary responsibilities to the program's stakeholders by budgeting for a minimum reserve fund sufficient to run the recycling program over a multi-year period. The reserve fund will be funded by the estimated operating surplus for the years ending December 31, 2023 through 2025, which will allow the accumulated reserve fund to reach MRC's goal of \$300,000 or approximately two months of operating expenses by December 31, 2025. Management has estimated that the forecasted mattress stewardship (recycling) fee of \$20.50 per unit, effective January 1, 2024, will allow the reserve fund to reach its reserve requirements by December 31, 2025.

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MATTRESS RECYCLING COUNCIL RHODE ISLAND, LLC

NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from January 1, 2019 through December 31, 2022 and Forecasted Period Covering January 1, 2023 through December 31, 2025

NOTE G – INVESTMENT INCOME

Management reported actual investment income/loss earned in 2019 through 2022, and estimated the amount of investment income to be earned on the financial reserve fund in 2023 through 2025. Management estimates investment income of \$1,909 in 2023, \$1,200 in 2024, and \$1,600 in 2025.

The total forecasted budgeted investment income is \$4,709 for the forecasted period from January 1, 2023 through December 31, 2025 (see page 4 of the report).

NOTE H – OTHER INCOME

MRC received a Paycheck Protection Program (PPP) loan from the SBA during 2020, which was fully forgiven during 2021. MRC RI's portion of this loan was \$19,560, which was recorded as other income in 2021.

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