

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 Pre-Operational Startup Period from January 1, 2014 through April 30, 2016,
Actual Operating Period from May 1, 2016 through December 31, 2018 and
Forecasted Periods Covering January 1, 2019 through December 31, 2021

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 Pre-Operational Startup Period from January 1, 2014 through April 30, 2016,
Actual Operating Period from May 1, 2016 through December 31, 2018 and
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CONTENTS	PAGE(S)
Independent Accountants' Examination Report	1-2
Forecasted Financial Information:	
Forecasted Summary Schedule of Actual and Budgeted Revenues, Expenses (Costs) and Financial Reserve Fund (A)	3
Forecasted Detail Schedule of Actual and Budgeted Revenues, Expenses (Costs) and Financial Reserve Fund (A)	4
Calculated Average Unitized Mattress Stewardship Fee for the State of Rhode Island (A)	5
Notes to Forecasted Financial Information	6-12

(A) Includes actual pre-operational startup period from January 1, 2014 through April 30, 2016, actual operating period from May 1, 2016 through December 31, 2018 and forecasted periods covering January 1, 2019 through December 31, 2021



INDEPENDENT ACCOUNTANTS' 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 May 9, 2019, 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, 2019 through December 31, 2021, and including actual pre-operational startup costs MRC has incurred from January 1, 2014 through April 30, 2016 and actual operating revenue and expenses (costs) from May 1, 2016 through December 31, 2018 (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.

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 unitized mattress stewardship fee of \$16.00 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, 2019 through December 31, 2021, and to recover actual pre-operational program startup costs incurred from January 1, 2014 through April 30, 2016 less actual net operating surplus from operating revenue less expenses (costs) from May 1, 2016 through December 31, 2018.

INDEPENDENT ACCOUNTANTS' 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. Farnoff, P.A.

Rockville, Maryland
June 21, 2019

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**

For the Actual Pre-Operational Startup Period from January 1, 2014 through April 30, 2016,
Actual Operating Period from May 1, 2016 through December 31, 2018 and
Forecasted Periods Covering January 1, 2019 through December 31, 2021

FORECASTED REVENUES

Mattress stewardship (recycling) fee - NOTE B	\$	8,173,714	(1)
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FORECASTED EXPENSES

Collection, transportation and processing - NOTE C	\$	6,364,963	
Start-up, administration and legal - NOTE D		1,050,991	
Communications, research and advisory - NOTE E		<u>132,826</u>	
TOTAL EXPENSES		7,548,780	(2)

Financial reserve fund - NOTE F		<u>620,000</u>	
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TOTAL FORECASTED EXPENSES AND RESERVE FUND		<u>8,168,780</u>	
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FORECASTED NET SURPLUS/(DEFICIT)	\$	<u><u>4,934</u></u>	
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(1) *Includes Rhode Island mattress stewardship (recycling) fee of \$10 per unit charged at retail for periods covering May 1, 2016 through September 30, 2017, and \$16 per unit from October 1, 2017 through December 31, 2021.*

(2) *Includes actual pre-operational startup period from January 1, 2014 through April 30, 2016, actual operating period from May 1, 2016 through December 31, 2018 and forecasted periods covering January 1, 2019 through December 31, 2021.*

**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 Accountants' Report

MATTRESS 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 Pre-Operational Startup Period from January 1, 2014 through April 30, 2016,
 Actual Operating Period from May 1, 2016 through December 31, 2018 and
 Forecasted Periods Covering January 1, 2019 through December 31, 2021

	Actual Pre-Operational Startup Period from January 1, 2014 through April 30, 2016	Actual Operating Period from May 1, 2016 through December 31, 2018	Forecasted Periods covering January 1, 2019 through December 31, 2021	Total
FORECASTED REVENUES				
Mattress stewardship (recycling) fee - NOTE B	\$ 0	3,401,490	4,772,224	8,173,714 (1)
FORECASTED EXPENSES				
Collection, transportation and processing - NOTE C	\$ 0	2,729,558	3,635,405	6,364,963
Start-up, administration and legal - NOTE D	173,581	381,435	495,975	1,050,991
Communications, research and advisory - NOTE E	16,972	46,887	68,967	132,826
	<u>190,553</u>	<u>3,157,880</u>	<u>4,200,347</u>	<u>7,548,780 (2)</u>
TOTAL FORECASTED SURPLUS/(DEFICIT) BEFORE RESERVE FUND	<u>(190,553)</u>	<u>243,610</u>	<u>571,877</u>	<u>624,934</u>
Less: Financial reserve fund - NOTE F				<u>(620,000)</u>
				<u>\$ 4,934</u>

(1) Includes Rhode Island mattress stewardship (recycling) fee of \$10 per unit charged at retail for periods covering May 1, 2016 through September 30, 2017, and \$16 per unit from October 1, 2017 through December 31, 2021.

(2) Includes actual pre-operational startup period from January 1, 2014 through April 30, 2016, actual operating period from May 1, 2016 through December 31, 2018 and forecasted periods covering January 1, 2019 through December 31, 2021.

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MATTRESS RECYCLING COUNCIL RHODE ISLAND, LLC

CALCULATED AVERAGE UNITIZED MATTRESS STEWARDSHIP FEE
FOR THE STATE OF RHODE ISLAND

For the Actual Pre-Operational Startup Period from January 1, 2014 through April 30, 2016,

Actual Operating Period from May 1, 2016 through December 31, 2018 and

Forecasted Periods Covering January 1, 2019 through December 31, 2021

FORECASTED CALCULATED AVERAGE UNITIZED MATTRESS STEWARDSHIP FEE ⁽¹⁾

	Actual Operations @ \$10 Per Unit ⁽²⁾	Forecasted Operations @ \$16 Per Unit ⁽³⁾	Total (Expenses and Reserve Fund)
REVENUE	\$ 1,504,788	\$ 6,668,926	\$ 8,173,714
EXPENSES AND RESERVE FUND	<u>\$ 1,842,417</u>	<u>\$ 6,326,363</u>	<u>\$ 8,168,780</u>
NET SURPLUS / (DEFICIT)	<u>\$ (337,629)</u>	<u>\$ 342,563</u>	<u>\$ 4,934</u>
NET SURPLUS / (DEFICIT) 1/1/14- 9/30/17 TO BE RECOVERED BY FUTURE UNIT SALES	\$ (337,629)		
TOTAL FORECASTED EXPENSES AND RESERVE FUND 10/1/17 - 12/31/21		\$ 6,326,363	
FORECASTED RI UNIT SALES - CAPTURED FOR FEE PAYMENT FROM 10/1/17-12/31/21	<u>/ 416,636 ⁽⁴⁾</u>	<u>/ 416,636 ⁽⁴⁾</u>	
FORECASTED DOLLAR PER UNIT RECYCLING FEE	<u>\$ 0.81</u>	<u>\$ 15.18</u>	<u>\$ 15.99 ⁽⁵⁾</u>
FORECASTED DOLLAR PER UNIT RECYCLING FEE <u>ROUNDED</u>			<u>\$ 16.00</u>

(1) Includes Rhode Island mattress stewardship (recycling) fee of \$10 per unit charged at retail for periods covering May 1, 2016 through September 30, 2017, and \$16 per unit from October 1, 2017 through December 31, 2021.

(2) Includes actual pre-operational startup period from January 1, 2014 through April 30, 2016, and actual operating period from May 1, 2016 through September 30, 2017, subject to \$10 per unit fee.

(3) Includes actual operating period from October 1, 2017 through December 31, 2018, and forecasted periods covering January 1, 2019 through December 31, 2021, subject to \$16 per unit fee.

(4) Includes actual unit sales captured for fee payment for the operating period from October 1, 2017 through December 31, 2018, and forecasted unit sales captured for fee payment for the forecasted periods covering January 1, 2019 through December 31, 2021, subject to \$16 per unit fee.

(5) Recalculated Rhode Island mattress stewardship (recycling) fee to be charged at retail starting October 1, 2019, in order to recover net losses incurred for the actual pre-operational startup period from January 1, 2014 through April 30, 2016, actual operating losses for the period from May 1, 2016 through September 30, 2017, subject to the current \$10 per unit fee, and funding to cover the expenses and reserve fund for the actual operating period from October 1, 2017 through December 31, 2018 and forecasted periods from January 1, 2019 through December 31, 2021.

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See Notes to Forecasted Financial Information and Accountants' Report

MATTRESS RECYCLING COUNCIL RHODE ISLAND, LLC

NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Pre-Operational Startup Period from January 1, 2014 through April 30, 2016,
Actual Operating Period from May 1, 2016 through December 31, 2018 and Forecasted Periods
Covering January 1, 2019 through December 31, 2021

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 actual costs to set up and implement and 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, which covers the multi-year period including both pre-operational program startup from January 1, 2014 through April 30, 2016, and operation of the mattress stewardship program from May 1, 2016 through December 31, 2021. Accordingly, the forecast reflects management’s assumptions as of June 21, 2019, the date of this forecast, of the actual expenses of startup and expected expenses of operation of the program, and the proposed unitized mattress stewardship fee that would be needed to cover these expenses. The forecast is designed to provide information to the 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, 2021. Accordingly, this presentation should not be used for any other purposes. The assumptions disclosed herein are those that management believes are significant to the forecast. The forecasted revenues and expenses are presented on an accrual basis, and there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

NOTE B – MATTRESS STEWARDSHIP (RECYCLING) FEE REVENUE

The Mattress Stewardship (Recycling) Fee collected will provide the revenue to fund the expenses for the mattress recycling program. Based on the recalculation of the fee required, retailers will continue to collect a \$16 fee from each mattress and foundation unit sold, the same fee that has been collected since October 1, 2017. From May 1, 2016 through September 30, 2017, retailers collected the prior fee amount of \$10 per unit. Management calculated the revenue expected from this fee using several assumptions. Management estimated total unit sales in Rhode Island by using the actual unit sales captured for fee payment in 2018, increased by a 2.0% growth rate in 2019, followed by 2.5% growth in 2020 and 2.0% growth in 2021. These growth rates are consistent with the Consumer Price Index over the past three years.

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NOTES TO FORECASTED FINANCIAL INFORMATION

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

Management reported actual sales results for 2016, the first partial year of operation, for the years ended 2017 and 2018, and also for the first three months of 2019 and forecast sales for the remainder of 2019 through 2021. Management also 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 the two full years of operations and consultation with PCA Product Stewardship Inc., a consulting organization with experience in recycling stewardship programs. The final adjusted unit sales for each period was then multiplied by the \$10 fee to equal the total fee revenue for the period through September 30, 2017, and multiplied by the \$16 fee to equal the total fee revenue for the period after October 1, 2017. The total actual and forecasted mattress stewardship (recycling) fee revenue for the period covering May 1, 2016 through December 31, 2021 is estimated to be \$8,173,714.

NOTE C – COLLECTION, TRANSPORTATION AND PROCESSING EXPENSES

Units collected and collection expenses:

Management estimated an average rate of 91% of new mattress and foundation unit sales captured for fee payment would be associated with old units collected for recycling in 2019 through 2021 based on actual results from 2018. 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

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

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 \$67 to \$400 per month per container at up to 43 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.

Management estimates that the remaining other collections will come from Type 3 (consumer) sources which include incentive payments of \$2 through August 31, 2016, and \$1 after September 1, 2016 per mattress and 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 2018 and on written contracts and proposals with multiple vendors. For transportation costs, management calculated these based on actual 2018 costs and costs from written proposals and contracts. Processing for municipalities in Rhode Island will be shared by two to three recycling companies at a time and the forecast reflects a rate per unit cost based on the written contracts.

The total actual and forecasted collection, transportation and processing costs for the period covering January 1, 2014 through December 31, 2021 are estimated to be \$6,364,963.

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NOTE D – START-UP, ADMINISTRATION AND LEGAL EXPENSES

Total actual and forecasted start-up, administration and legal costs include various costs required to develop and run the mattress recycling program from the period January 1, 2014 through December 31, 2021 and include the following:

Pre-operational set-up, legal, government affairs and compliance/audit functions	\$ 433,789
MRC Rhode Island staffing, management fees and pre-operational and operational program management fees	554,291
Interest expense (line of credit)	19,913
Travel expenses	42,998
Total	<u>\$ 1,050,991</u>

Direct expenses are allocated to each state’s recycling program based upon direct effort where they can be specifically identified. Indirect expenses are generally allocated to 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 and government relations fees associated with the formation, startup and continuation of MRC recycling program in Rhode Island based on anticipated costs in 2019 and they are assumed to increase 3% a year to account for inflation. The compliance audit costs include the cost of one (1) recycling participant facility compliance audits per year in 2019, and increasing to a possible two (2) audits per year by 2020 and 2021. They also include the cost of safety audits of the recycling facilities at the cost of one audit in 2019 and 2 audits in 2020 and 2021.

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NOTES TO FORECASTED FINANCIAL INFORMATION

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NOTE D – START-UP, ADMINISTRATION AND LEGAL EXPENSES (continued)

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 managing director, accounting manager, program coordinator, and other accounting and administrative support staff. Total costs for these management and staffing fees start at about \$80,000 per year in 2019 and increase to an annual amount of about \$89,000 by 2021 due to increased hours to manage the program. Starting in 2019, rent is handled separately from the management fee and is projected at about \$3,200 in 2019 and increases to \$3,400 by 2021. Program management fees include a signed management agreement with PCA Product Stewardship Inc. for program development, which include the costs associated with managing the development, administration, collecting, budgeting, and coordination of the recycling program through December 31, 2021.

The interest costs are associated with a line of credit required to finance start-up costs before the collection of mattress stewardship (recycling) fees began in 2016 that applied to all states MRC operated in, as well as a separate line of credit to finance the on-going operations of Rhode Island's program alone after 2016 until the program was profitable enough to repay the line of credit. The cost associated with the first line of credit was allocated to Rhode Island based on its indirect expense allocation percentage described above. This line of credit was repaid in full by December 31, 2016. The interest associated with the second line of credit was allocated 100% to Rhode Island, and this line of credit was paid off in 2018. The program costs also include management's estimate for Rhode Island-related travel expenses which average approximately \$5,400 per year for the years 2014 through 2021 and computer software/database expenses which start at about \$11,100 in 2018 and average approximately \$1,900 per year from 2019-2021. Additional costs include financial audits and reports, state fees and taxes, and bank charges totaling about \$23,700 in 2018, which are expected to increase at various rates through 2021 based on estimated costs and needs each year.

The total actual and forecasted start-up, administration and legal expenses for the period covering January 1, 2014 through December 31, 2021 are estimated to be \$1,050,991.

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MATTRESS RECYCLING COUNCIL RHODE ISLAND, LLC

NOTES TO FORECASTED FINANCIAL INFORMATION

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NOTE E – COMMUNICATIONS, RESEARCH AND ADVISORY EXPENSES

Communications:

Communications costs were estimated based in part on a written contract and include the costs of promoting the recycling program via a public relations agency and advertising activities. Costs also include expenses incurred to obtain third-party products such as advertising space, public education and point of sales, marketing outreach and website maintenance, conferences and events, and customer service. Management allocated the contract cost based upon the proposal for public relations services to Rhode Island at a rate of approximately 2%, its share of the total population of the three states (Connecticut, Rhode Island, and California) MRC operates recycling programs in, and estimated the cost for 2019 based on 2018 actual costs with 3% increases each year after 2019. Management estimated costs for website costs based on anticipated costs in 2019 with 3% increases after 2019. Management estimated costs for advertising, point of sales, marketing outreach, and conferences and events based on anticipated costs in 2019-2021. Management also estimated the expected costs of customer service, which will include Rhode Island's portion of call center costs.

Research and advisory:

Research and advisory costs are estimated costs for studies regarding market development for used products. Management has estimated these costs based on previous experience. These costs are estimated to be approximately \$600 in 2019 after which there will be no costs in 2020-2021.

The total actual and forecasted communications, research and advisory expenses for the period covering January 1, 2014 through December 31, 2021 are estimated to be \$132,826.

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NOTES TO FORECASTED FINANCIAL INFORMATION

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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. MRC management and staff uses prudent financial management in allocating net asset funds between unrestricted (necessary for working capital needs and current operations) versus board designated financial reserves (necessary for the long-term viability of the recycling program). Also note that unlike a governmental entity, MRC cannot bridge cash flow shortfalls by accessing additional working capital (cash) or other financing from other governmental sources. Therefore, MRC has taken the position that having operating cash on hand, as well as a reserve, is fiscally responsible. The Board and management have carried out their fiduciary responsibilities to the program's stakeholders by making sure that MRC has sufficient current working capital to run the mattress recycling program while at the same time budgeting a minimum reserve fund sufficient to run the recycling program over a multi-year period. The reserve fund will be funded by operating surplus being reserved for the years ending December 31, 2017 through 2021, which will allow the accumulated reserve fund to reach MRC's initial goal of \$620,000 or approximately five months of operating expenses by December 31, 2021. Management has estimated that the forecasted mattress stewardship (recycling) fee of \$16 per unit will allow the reserve fund to reach its operating and reserve requirements by December 31, 2021.

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