

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 May 1, 2016 through December 31, 2020 and
Forecasted Periods Covering January 1, 2021 through December 31, 2023

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 May 1, 2016 through December 31, 2020 and
Forecasted Periods Covering January 1, 2021 through December 31, 2023

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(A) Includes actual operating period from May 1, 2016 through December 31, 2020 and forecasted periods covering January 1, 2021 through December 31, 2023.



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 16, 2021, 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, 2021 through December 31, 2023, and including actual operating revenue and expenses (costs) from May 1, 2016 through December 31, 2020 (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, 2021 through December 31, 2023.

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 Fattoroff Corydon, P.A.

Rockville, Maryland
June 23, 2021

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 May 1, 2016 through December 31, 2020 and
Forecasted Periods Covering January 1, 2021 through December 31, 2023

FORECASTED REVENUES

| | |
|---|-------------------|
| Mattress stewardship (recycling) fee - NOTE B | \$ 11,430,330 (1) |
| Investment income - NOTE G | 4,996 |
| | <hr/> |
| TOTAL REVENUES | 11,435,326 |

FORECASTED EXPENSES

| | |
|--|-----------------------|
| Collection, transportation and processing - NOTE C | \$ 9,413,271 |
| Administration and legal - NOTE D | 1,304,952 |
| Communications, research and advisory - NOTE E | 101,272 |
| | <hr/> |
| TOTAL EXPENSES | 10,819,495 (2) |

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

615,831

| | |
|---------------------------------|---------------|
| Start-up costs | (190,553) (3) |
| Financial reserve fund - NOTE F | (420,000) |
| | <hr/> |

FORECASTED NET SURPLUS **\$ 5,278**

(1) *Includes Rhode Island mattress stewardship (recycling) fee of \$10 per unit plus late fee revenue for the actual and forecasted periods covering May 1, 2016 through September 30, 2017, and \$16 per unit from October 1, 2017 through December 31, 2023.*

(2) *Includes actual operating period from May 1, 2016 through December 31, 2020, and forecasted periods covering January 1, 2021 through December 31, 2023.*

(3) *Includes actual pre-operational start-up costs from January 1, 2014 through April 30, 2016.*

**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 May 1, 2016 through December 31, 2020 and
 Forecasted Periods Covering January 1, 2021 through December 31, 2023

| | Actual Operating Period from May 1, 2016 through December 31, 2020 | Forecasted Periods covering January 1, 2021 through December 31, 2023 | Total |
|--|--|---|----------------------------------|
| FORECASTED REVENUES | | | |
| Matress stewardship (recycling) fee - NOTE B | \$ 6,473,318 | \$ 4,957,012 | \$ 11,430,330 ⁽¹⁾ |
| Investment income - NOTE G | 1,933 | 3,063 | 4,996 |
| TOTAL REVENUES | 6,475,251 | 4,960,075 | 11,435,326 |
| FORECASTED EXPENSES | | | |
| Collection, transportation and processing - NOTE C | 5,157,422 | 4,255,849 | 9,413,271 |
| Administration and legal - NOTE D | 744,863 | 560,089 | 1,304,952 |
| Communications, research and advisory - NOTE E | 68,007 | 33,265 | 101,272 |
| TOTAL EXPENSES | 5,970,292 | 4,849,203 | 10,819,495 ⁽²⁾ |
| TOTAL FORECASTED SURPLUS BEFORE PRE-OPERATIONAL START-UP COSTS AND RESERVE FUND | \$ 504,959 | \$ 110,872 | \$ 615,831 |
| Less start-up costs | | | (190,553) ⁽³⁾ |
| Less: Financial reserve fund - NOTE F | | | (420,000) |
| FORECASTED NET SURPLUS | | | \$ 5,278 |

⁽¹⁾ Includes Rhode Island mattress stewardship (recycling) fee of \$10 per unit plus late fee revenue for the actual and forecasted periods covering May 1, 2016 through September 30, 2017, and \$16 per unit from October 1, 2017 through December 31, 2023.

⁽²⁾ Includes actual operating period from May 1, 2016 through December 31, 2020, and forecasted periods covering January 1, 2021 through December 31, 2023.

⁽³⁾ Includes actual pre-operational start-up costs from January 1, 2014 through April 30, 2016.

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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 Actual Operating Period from May 1, 2016 through December 31, 2020 and
Forecasted Periods Covering January 1, 2021 through December 31, 2023

FORECASTED CALCULATED AVERAGE UNITIZED MATTRESS STEWARDSHIP FEE ⁽¹⁾

| | Actual Operations @ \$10 Per Unit ⁽²⁾ | Actual & Forecasted Operations @ \$16 Per Unit ⁽³⁾ | Total (Expenses and Reserve Fund) |
|--|---|---|--------------------------------------|
| REVENUE | \$ 1,504,788 | \$ 9,930,538 | \$ 11,435,326 |
| EXPENSES AND RESERVE FUND | \$ 1,842,417 | \$ 9,587,631 | \$ 11,430,048 |
| NET SURPLUS / (DEFICIT) | \$ (337,629) | \$ 342,907 | \$ 5,278 |
| NET SURPLUS / (DEFICIT) 1/1/14- 9/30/17 TO BE RECOVERED BY FUTURE UNIT SALES | \$ (337,629) | | |
| TOTAL ACTUAL AND FORECASTED EXPENSES AND RESERVE FUND 10/1/17 - 12/31/23 | | \$ 9,587,631 | |
| FORECASTED RI UNIT SALES - CAPTURED FOR FEE PAYMENT FROM 10/1/17-12/31/23 | / 620,654 ⁽⁴⁾ | / 620,654 ⁽⁴⁾ | |
| FORECASTED DOLLAR PER UNIT RECYCLING FEE | \$ 0.54 | + \$ 15.45 | = \$ 15.99 ⁽⁵⁾ |

FORECASTED DOLLAR PER UNIT RECYCLING FEE ROUNDED \$ 16.00

(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, 2023.

(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, 2020, and forecasted periods covering January 1, 2021 through December 31, 2023, 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, 2020, and forecasted unit sales captured for fee payment for the forecasted periods covering January 1, 2021 through December 31, 2023, subject to \$16 per unit fee.

(5) Recalculated Rhode Island mattress stewardship (recycling) fee to be charged at retail starting October 1, 2021, 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, 2020 and forecasted periods from January 1, 2021 through December 31, 2023.

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CORPORATION OF THE STATE OF RHODE ISLAND**

MATTRESS RECYCLING COUNCIL RHODE ISLAND, LLC

NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from May 1, 2016 through December 31, 2020 and Forecasted Periods Covering January 1, 2021 through December 31, 2023

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, 2021 through December 31, 2023. Accordingly, the forecast reflects management’s assumptions as of June 23, 2021, the date of this forecast, of expenses of through December 31, 2023 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, 2023. 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 2020, increased by a 1.0% growth rate in 2021, followed by 2.0% growth in 2022 and 1.0% growth in 2023. The forecasted growth rates for 2021 through 2023 are less than the projected economic growth rate primarily due to the unknown effect of the global COVID-19 pandemic. See **NOTE H**.

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MATTRESS RECYCLING COUNCIL RHODE ISLAND, LLC

NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from May 1, 2016 through December 31, 2020 and Forecasted Periods Covering January 1, 2021 through December 31, 2023

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 each period were then multiplied by the \$16 fee to equal the total fee revenue for the period January 1, 2021 through December 31, 2023.

The total forecasted budget mattress stewardship (recycling) fee revenue is \$11,430,330. The forecasted budget includes actual fee revenue of \$6,473,318 for the period from May 1, 2016 through December 31, 2020, and estimated fee revenue of \$4,957,012, including \$3,000 of estimated late fee revenue, for the forecasted period from January 1, 2021 through December 31, 2023.

NOTE C – COLLECTION, TRANSPORTATION AND PROCESSING EXPENSES

Units collected and collection expenses:

Management estimated an average rate of 93% of new mattress and foundation unit sales captured for fee payment would be associated with old units collected for recycling in 2021 through 2023 based on actual results from 2020. 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 \$67 to \$400 per month per container at up to 38 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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MATTRESS RECYCLING COUNCIL RHODE ISLAND, LLC

NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from May 1, 2016 through December 31, 2020 and Forecasted Periods Covering January 1, 2021 through December 31, 2023

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 2020 and on written contracts with multiple vendors. For transportation costs, management calculated these based on actual 2020 costs and costs from written contracts. Processing for municipalities in Rhode Island will be shared by three 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 \$4,255,849 for the forecasted period from January 1, 2021 through December 31, 2023 (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, 2021 through December 31, 2023 and include the following:

| | |
|--|-------------------|
| Legal, government affairs and compliance/audit functions | \$ 87,457 |
| MRC Rhode Island staffing, management fees and operational program management fees | 465,522 |
| Travel expenses | <u>7,110</u> |
| Total | <u>\$ 560,089</u> |

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MATTRESS RECYCLING COUNCIL RHODE ISLAND, LLC

NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from May 1, 2016 through December 31, 2020 and Forecasted Periods Covering January 1, 2021 through December 31, 2023

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 and government relations fees associated with the MRC recycling program in Rhode Island based on anticipated costs in 2021 and they are assumed to remain stable through 2023. The compliance audit costs include the cost of one (1) recycling participant facility compliance audit per year in 2021, and two (2) audits in 2022, and one audit in 2023.

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, operations director, program coordinator, and other accounting and administrative support staff. Total costs for these management and staffing fees start at about \$91,000 per year in 2021 and increase to an annual amount of about \$98,000 by 2023. Rent is handled separately from the management fee and is projected at about \$2,900 in 2021 and increases to \$3,200 by 2023. 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, 2023.

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MATTRESS RECYCLING COUNCIL RHODE ISLAND, LLC

NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from May 1, 2016 through December 31, 2020 and Forecasted Periods Covering January 1, 2021 through December 31, 2023

NOTE D – ADMINISTRATION AND LEGAL EXPENSES (continued)

The program costs also include management’s estimate for computer software/database expenses and other office expenses which average approximately \$15,000 per year for the years 2021 through 2023. Additional costs include financial audits and reports, state fees and bank charges estimated to be \$21,000 in 2021 and which are expected to increase at various rates through 2023 based on estimated costs and needs each year. Rhodes Island-related travel expenses, which average approximately \$2,500 per year for the years 2021 through 2023, are also included.

The total forecasted budgeted administrative and legal costs are \$560,089 for the forecasted period from January 1, 2021 through December 31, 2023 (see page 4 of the report).

NOTE E – COMMUNICATIONS, RESEARCH AND ADVISORY 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 2021-2023.

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MATTRESS RECYCLING COUNCIL RHODE ISLAND, LLC

NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from May 1, 2016 through December 31, 2020 and Forecasted Periods Covering January 1, 2021 through December 31, 2023

NOTE E – COMMUNICATIONS, RESEARCH AND ADVISORY EXPENSES (continued)

Research and advisory:

Research and advisory costs are estimated costs for studies regarding market development for used products. There were no research and advisory costs in 2020 and none expected in 2021-2023.

The total forecasted budgeted communications, research and advisory expenses are \$33,265 for the forecasted period from January 1, 2021 through December 31, 2023 (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. 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 the estimated operating surplus for the years ending December 31, 2021 through 2023, which will allow the accumulated reserve fund to reach MRC's goal of \$420,000 or approximately three months of operating expenses by December 31, 2023. 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, 2023.

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MATTRESS RECYCLING COUNCIL RHODE ISLAND, LLC

NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from May 1, 2016 through December 31, 2020 and Forecasted Periods Covering January 1, 2021 through December 31, 2023

NOTE G – INVESTMENT INCOME

Management reported actual investment income earned in 2019 through 2020, and estimated the amount of investment income to be earned on the financial reserve fund in 2021 through 2023. Management estimates investment income of \$1,021 for each year beginning in 2021 through 2023, net of investment fees estimated at \$32 per year.

The total forecasted budgeted investment income is \$3,063, net of \$96 in investment fees, for the forecasted period from January 1, 2021 through December 31, 2023 (see page 4 of the report).

NOTE H – COVID-19 UNCERTAINTY

The extent of the impact of COVID-19 on MRC's operational and financial performance will depend on certain developments, including the duration of the outbreak and impact on our customers, employees, and vendors, all which are uncertain and cannot be predicted. The extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

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