

MATTRESS RECYCLING COUNCIL CONNECTICUT, 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 CONNECTICUT**

For the Actual Operating Period from May 1, 2015 through December 31, 2023 and
Forecasted Periods Covering January 1, 2024 through December 31, 2026

MATTRESS RECYCLING COUNCIL CONNECTICUT, 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 CONNECTICUT
For the Actual Operating Period from May 1, 2015 through December 31, 2023 and Forecasted Periods
Covering January 1, 2024 through December 31, 2026

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(A) Includes actual operating period from May 1, 2015 through December 31, 2023 and forecasted periods covering
January 1, 2024 through December 31, 2026



INDEPENDENT ACCOUNTANT'S RECYCLING FEE EXAMINATION REPORT

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

Pursuant to Mattress Recycling Council Connecticut, LLC's (MRC) written request on May 2, 2024, we have examined the accompanying forecasted summary of budgeted revenues, expenses (costs), and financial reserve fund prepared by MRC with regard to operating a mattress recycling program required by Connecticut General Statutes § 22a-905a, et seq., 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, 2024 through December 31, 2026, and including actual operating revenue and expenses (costs) from May 1, 2015 through December 31, 2023 (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 guidelines for the presentation of a forecast established by the AICPA. The forecasted budget was prepared for the purpose of complying with § 22a-905a(h). Our responsibility under § 22a-905a(h) 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 we 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 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 MRC's proposed unitized mattress stewardship fee of \$11.75 (from January 1, 2024 through December 31, 2024) and \$16.00 (effective January 1, 2025) per each mattress and foundation unit to be charged on all mattresses and foundations sold to Connecticut 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, 2024 through December 31, 2026.

INDEPENDENT ACCOUNTANTS' RECYCLING FEE EXAMINATION REPORT
(continued)

There will usually be differences between 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 Commissioner of Energy and Environmental Protection of the State of Connecticut and the Board of Directors of MRC and are not intended to be used and should not be used by anyone other than these specified parties.

Sydon Hattaroff Cowden, P.A.

Rockville, MD
June 12, 2024

MATTRESS RECYCLING COUNCIL CONNECTICUT, LLC

FORECASTED SUMMARY SCHEDULE OF ACTUAL AND BUDGETED REVENUES, EXPENSES
(COSTS) AND FINANCIAL RESERVE FUND
FOR THE STATE OF CONNECTICUT
Actual Operating Period from May 1, 2015 through December 31, 2023 and
Forecasted Periods Covering January 1, 2024 through December 31, 2026

FORECASTED REVENUES

Mattress stewardship (recycling) fee - NOTE B	\$ 51,608,613	(1)
Net investment income - NOTE C	598,815	
Other income - NOTE C	<u>71,624</u>	
TOTAL REVENUES	52,279,052	

FORECASTED EXPENSES

Collection, transportation and processing - NOTE D	\$ 42,462,109	
Administration and legal - NOTE E	5,279,705	
Communications and research - NOTE F	<u>1,375,318</u>	
TOTAL EXPENSES	49,117,132	(2)

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

	3,161,920	
Start-up costs	<u>(345,996)</u>	(3)
Net surplus before reserve fund	2,815,924	
Financial reserve fund target - NOTE G	<u>(2,815,000)</u>	
FORECASTED NET SURPLUS/(DEFICIT)	\$ 924	

(1) Includes Connecticut mattress stewardship (recycling) fee of \$9 per unit charged at retail for periods covering May 1, 2015 through December 31, 2020, \$11.75 per unit from January 1, 2021 through December 31, 2024, and \$16.00 per unit from January 1, 2025 through December 31, 2026.

(2) Includes actual operating period from May 1, 2015 through December 31, 2023, and forecasted periods covering January 1, 2024 through December 31, 2026.

(3) Includes actual pre-operational startup period from January 1, 2014 through April 30, 2015.

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See Notes to Forecasted Financial Information and Accountants' Report

MATTRESS RECYCLING COUNCIL CONNECTICUT, LLC

FORECASTED DETAIL SCHEDULE OF ACTUAL AND BUDGETED REVENUES, EXPENSES
(COSTS) AND FINANCIAL RESERVE FUND
FOR THE STATE OF CONNECTICUT

Actual Operating Period from May 1, 2015 through December 31, 2023 and

Forecasted Periods Covering January 1, 2024 through December 31, 2026

	Actual Operating Period from May 1, 2015 through December 31, 2023	Forecasted Periods covering January 1, 2024 through December 31, 2026	Total	
FORECASTED REVENUES				
Mattress stewardship (recycling) fee - NOTE B	\$ 35,010,794	\$ 16,597,819	\$ 51,608,613	(1)
Net investment income - NOTE C	364,510	234,305	598,815	
Other income - NOTE C	71,624	0	71,624	
	35,446,928	16,832,124	52,279,052	
FORECASTED EXPENSES				
Collection, transportation and processing - NOTE D	\$ 28,037,948	\$ 14,424,161	\$ 42,462,109	
Administration and legal - NOTE E	3,526,381	1,753,324	5,279,705	
Communications and research - NOTE F	1,058,028	317,290	1,375,318	
TOTAL EXPENSES	32,622,357	16,494,775	49,117,132	(2)
TOTAL FORECASTED SURPLUS/(DEFICIT) BEFORE START-UP COSTS AND RESERVE FUND	\$ 2,824,571	\$ 337,349	\$ 3,161,920	
Less: Start-up costs			(345,996)	(3)
Less: Financial reserve fund target - NOTE G			(2,815,000)	
FORECASTED NET SURPLUS/(DEFICIT)			\$ 924	

(1) Includes Connecticut mattress stewardship (recycling) fee of \$9 per unit charged at retail for periods covering May 1, 2015 through December 31, 2020, \$11.75 per unit from January 1, 2021 through December 31, 2024, and \$16.00 per unit from January 1, 2025 through December 31, 2026.

(2) Includes actual operating period from May 1, 2015 through December 31, 2023, and forecasted periods covering January 1, 2024 through December 31, 2026.

(3) Includes actual pre-operational startup period from January 1, 2014 through April 30, 2015.

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MATTRESS RECYCLING COUNCIL CONNECTICUT, LLC
CALCULATED AVERAGE UNITIZED MATTRESS STEWARDSHIP FEE
FOR THE STATE OF CONNECTICUT
 Actual Operating Period from May 1, 2015 through December 31, 2023 and
 Forecasted Periods Covering January 1, 2024 through December 31, 2026

FORECASTED CALCULATED AVERAGE UNITIZED MATTRESS STEWARDSHIP FEE (1)

	Actual Operations (2015 - 2020) at \$9 Per Unit, and Actual Operations (2021-2023) and Forecasted Operations (2024) at \$11.75 Per Unit (2)	Forecasted Operations 2025 - 2026 at \$16.00 Per Unit (3)	Total (Reserve Fund)
REVENUE	\$ 39,838,734	\$ 12,440,318	\$ 52,279,052
LESS: EXPENSES	(37,619,531)	(11,497,601)	(49,117,132)
LESS: START-UP COSTS	(345,996)	0	(345,996)
NET SURPLUS / (DEFICIT) TO BE ALLOCATED TO FUTURE UNIT SALES	<u>\$ 1,873,207</u>	<u>\$ 942,717</u>	<u>\$ 2,815,924</u>
TOTAL FORECASTED EXPENSES 1/1/2025 - 12/31/2026		\$ 11,497,601	
TARGET FINANCIAL RESERVE FUND BY 12/31/2026 (page 3)		2,815,000	
LESS: PREVIOUS YEARS' SURPLUS		(1,873,207)	
TOTAL ACTUAL AND FORECASTED EXPENSES PLUS ADDITIONS TO FINANCIAL RESERVE - 1/1/2025 - 12/31/2026		\$ 12,439,394	
FORECASTED CT UNIT SALES - CAPTURED FOR FEE PAYMENT FROM 1/1/2025 - 12/31/2026		<u>/ 766,595 (4)</u>	
TOTAL FORECASTED DOLLAR PER UNIT RECYCLING FEE		\$ 16.23 (5)	
LESS: RECYCLING FEE AMOUNT SUPPORTED BY INVESTMENT INCOME (2025-2026)		<u>(0.23) (6)</u>	
FORECASTED DOLLAR PER UNIT RECYCLING FEE (2025-2026)		<u>\$ 16.00 (7)</u>	

(1) Includes Connecticut mattress stewardship (recycling) fee of \$9 per unit charged at retail for periods covering May 1, 2015 through December 31, 2020, \$11.75 per unit from January 1, 2021 through December 31, 2024, and \$16.00 per unit from January 1, 2025 through December 31, 2026.

(2) Includes actual pre-operational startup period from January 1, 2014 through April 30, 2015 and actual operating period from May 1, 2015 through December 31, 2020, subject to \$9 per unit fee, and actual operating period from January 1, 2021 through December 31, 2023 and forecasted period covering January 1, 2024 through December 31, 2024, subject to \$11.75 per unit fee.

(3) Includes forecasted period covering January 1, 2025 through December 31, 2026, subject to \$16.00 per unit fee.

(4) Includes forecasted unit sales captured for fee payment for the forecasted periods covering January 1, 2025 through December 31, 2026, subject to \$16.00 per unit fee.

(5) Recalculated Connecticut average mattress stewardship (recycling) fee from January 1, 2025 through December 31, 2026 to cover the expenses and increases in the financial reserve for the forecasted period from January 1, 2025 through December 31, 2026.

(6) Includes forecasted investment income for 2025 and 2026 of \$80,336 and \$92,462, respectively, divided by the total forecasted unit sales captured for fee payment from January 1, 2025 through December 31, 2026, which totals \$0.23. This non-operational revenue for investment income is being subtracted from the total forecasted dollar per unit recycling fee to net to the forecasted dollar per unit recycling fee to be recovered at retail. See tickmark (7) below.

(7) Average proposed per unit recycling fees of \$16.00 per unit (2025-2026).

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See Notes to Forecasted Financial Information and Accountants' Report

MATTRESS RECYCLING COUNCIL CONNECTICUT, LLC

NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from May 1, 2015 through December 31, 2023 and Forecasted Periods Covering January 1, 2024 through December 31, 2026

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 Connecticut presents, to the best of management's knowledge and belief, the Mattress Recycling Council Connecticut, LLC's (MRC) expected budgeted revenues, expenses (costs) and financial reserve fund and calculated average unitized mattress stewardship fee for the state of Connecticut for the forecasted period. The forecast reflects the expected costs to operate a mattress recycling program required by the state of Connecticut General Statutes § 22a-905a, et seq., and the calculated average unitized mattress stewardship fee that MRC has proposed to fund the program, from January 1, 2024 through December 31, 2026. Accordingly, the forecast reflects management's assumptions as of June 12, 2024, the date of this forecast, of expected expenses 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 Commissioner of the Department of Energy and Environmental Protection of the State of Connecticut 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, 2026. 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 \$11.75 fee on each mattress and foundation unit sold for the forecasted period covering January 1, 2024 through December 31, 2024. Effective January 1, 2025 through December 31, 2026, retailers will begin to collect a \$16.00 fee on each mattress and foundation unit sold. Management calculated the revenue expected from this fee using several assumptions. Management estimated an 0% increase from 2023 to 2024 in total unit sales captured for the fee payment in Connecticut based upon post COVID-19 flattening of sales. Management then estimated annual growth rates of 3% in 2025 and 2% in 2026.

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NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from May 1, 2015 through December 31, 2023 and Forecasted Periods Covering January 1, 2024 through December 31, 2026

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

The estimated unit sales were then multiplied by the \$11.75 fee for the period January 1, 2024 through December 31, 2024, and by the \$16.00 fee for the period January 1, 2025 through December 31, 2026 to equal the total fee revenue. The total forecasted mattress stewardship (recycling) fee revenue for the period covering January 1, 2024 through December 31, 2026 is estimated to be \$16,597,819, which includes \$3,000 in estimated late fee revenue.

NOTE C—INVESTMENT AND OTHER INCOME

Management reported actual net investment income earned in 2016 through 2023, and estimated the amount of investment income to be earned on the financial reserve fund in 2024 through 2026. Management estimates investment income of \$61,507 for 2024, \$80,336 in 2025, and \$92,462 in 2026, for a total of \$234,305.

NOTE D – COLLECTION, TRANSPORTATION AND PROCESSING EXPENSES

Units collected and collection expenses:

Every new mattress or foundation unit sold does not trigger a used mattress being discarded. From 2021 to 2023, the ratio of discarded mattress and foundation units that were collected for recycling to new mattresses and foundation units on which a mattress stewardship (recycling) fee was collected increased from 50.2% to 54.2%, an average rate of 2.0% annually. Other used units are landfilled or incinerated, resold or given away, stored in a basement or garage, or reused/recycled/disposed outside of the program, etc. Some new unit sales are to first-time purchasers, bought for a new family member, for a child moving out to attend university, for a second home, etc. and are not intended to replace an existing unit. Management increased the ratio of discarded to new units sold by 1.0% annually for 2024 – 2026.

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**NOTE D – COLLECTION, TRANSPORTATION AND PROCESSING EXPENSES
(continued)**

Units collected and collection expenses: (continued)

Collection costs include the following different types of collection methods for discarded mattresses:

Type 1:	Transfer stations
Type 2:	Institutional sources

Collection costs associated with Type 1 sources (transfer stations) are included in the transportation and processing expenses (see separate section of **NOTE D** below). The cost of Type 2 collections will come from serving institutional sources such as universities, hotels, and larger retailers. The weighted average monthly container costs are \$108 - \$111 (by 2026), serving up to 157 municipalities and up to 32 non-municipal sites.

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) dismantle those units for recycling. Management based the transportation and processing fees on written contracts with multiple vendors. For transportation costs, management estimated a \$7.47/unit average transportation cost for the year 2024, which is forecasted to increase by 3.8% in 2025 and 0.1% in 2026. Processing for the eight counties in Connecticut will be shared by two recycling companies and the forecast reflects a rate per unit cost based on the written contracts.

The total forecasted collection, transportation, and processing costs for the period covering January 1, 2024 through December 31, 2026 are estimated to be \$14,424,161.

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NOTES TO FORECASTED FINANCIAL INFORMATION

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NOTE E – 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, 2024 through December 31, 2026 and include the following:

Administration and Legal Expenses:

Management and Administration	\$ 1,547,611
Government Affairs	163,340
Travel Expenses	29,340
Legal	8,000
Bank Fees and other Taxes	5,033
Total	<u>\$ 1,753,324</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 Connecticut at a rate of approximately 8% of total recycling program expenses which is computed by Connecticut's percentage of total population to the total population of all the states (i.e., Connecticut, Rhode Island, and California) in which MRC operates. The rate allocated to Connecticut is expected to drop to approximately 7.5% when the Oregon program begins operations in 2025.

Management and Administrative expenses include ISPA staff, independent contractors (IC), and other related overhead costs such as insurance, office supplies, rent, and computer services. Connecticut's staffing costs include its share of MRC management, a program manager, and accounting, marketing, and administrative support staff. MRC has a written agreement with ISPA that covers the allocation of these costs. These estimated costs start at \$315,000 in 2024 and increase gradually to \$362,290 in 2026. This category also includes fees for a signed agreement with Product Care Association of Canada (PCA) to manage the collection of retailers' remittances of the mattress stewardship (recycling) fee, submissions, and reporting for the recycling program through December 31, 2026. Compliance audits, which are also in this category, include the cost of two (2) recycling participant facility compliance audits per year.

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NOTES TO FORECASTED FINANCIAL INFORMATION

For the Actual Operating Period from May 1, 2015 through December 31, 2023 and Forecasted Periods Covering January 1, 2024 through December 31, 2026

NOTE E – ADMINISTRATION AND LEGAL EXPENSES (continued)

Management estimated legal costs for 2024 – 2026 based on actual costs through 2023. The government affairs costs are based on actuals since start-up and include increases in 2025 based on the program unit fee increase effective January 1, 2025.

The program costs also include management's estimate for Connecticut-related travel expenses which average approximately \$9,750 per year for the years 2024 through 2026. Additional costs include bank charges which are expected to increase at various rates through 2026.

The total forecasted administration and legal expenses for the period covering January 1, 2024 through December 31, 2026 are estimated to be \$1,753,324.

NOTE F – COMMUNICATIONS AND RESEARCH EXPENSES

Communications:

Communications costs are based on current written contracts with public relations agencies to promote and manage marketing for the recycling program. Costs also include expenses incurred to obtain third-party products and services such as advertising space, public education and point of sale, marketing outreach, website maintenance, conferences and events, and customer service. Management allocated 100% of the in-state public relations agency cost to Connecticut. The cost for the shared public relations agency was allocated based on the contractual work specific for Connecticut. Agency expenses for 2024 – 2026 are expected to remain consistent with actual 2023 expenses based on contracted rates. Management estimated marketing outreach, point of sale and advertising costs based on anticipated costs in 2024 – 2026.

Research:

Research costs are estimated costs for data collection, studies related to processing and efficiency improvements, and market development for used products. These costs are estimated to be \$0 in 2024 – 2026.

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NOTE F – COMMUNICATIONS AND RESEARCH EXPENSES (continued)

The total forecasted communications and research expenses for the period covering January 1, 2024 through December 31, 2026 are estimated to be \$317,290.

NOTE G – FINANCIAL RESERVE FUND

Connecticut General Statutes § 22a-905a, et seq. 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). We 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 reserve fund covering approximately six months of budgeted operating expenses for the year ending December 31, 2026. The reserve fund will be funded by an operating surplus being reserved for the years ending December 31, 2015 through 2026 (due to the increased recycling fee of \$16.00 per unit, effective January 1, 2025), which will allow the accumulated reserve fund to reach MRC's target of \$2,815,000, or approximately six months of operating expenses, by December 31, 2026. Management estimated that the forecasted mattress stewardship (recycling) fee of \$16.00 per unit (effective January 1, 2025) will allow the reserve fund to be approximately equal to its minimum operating and reserve requirements by December 31, 2026.

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