KPMG

SUNSET SCAVENGER COMPANY, GOLDEN GATE DISPOSAL & RECYCLING COMPANY, AND RECOLOGY SAN FRANCISCO

(Wholly Owned Subsidiaries of Recology Inc.)

Combined Financial Statements and Supplementary Information

September 30, 2022 and 2021

(With Independent Auditors’ Report Thereon)

KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report

The Board of Directors
Sunset Scavenger Company, Golden Gate Disposal & Recycling Company and Recology San Francisco:

Opinion

We have audited the accompanying combined financial statements of Sunset Scavenger Company, Golden Gate Disposal & Recycling Company and Recology San Francisco (the Company, wholly owned subsidiaries of Recology Inc.), which comprise the combined balance sheets as of September 30, 2022 and 2021, and the related combined statements of income (loss), stockholder's equity, and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the combined financial statements, effective October 1, 2022, the Company adopted new accounting guidance Accounting Standards Update 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the combined financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary information included in Schedules 1, 2, 3 and 4 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

San Francisco, California
January 26, 2023

SUNSET SCAVENGER COMPANY,
GOLDEN GATE DISPOSAL & RECYCLING COMPANY, AND
RECOLOGY SAN FRANCISCO
(Wholly Owned Subsidiaries of Recology Inc.)

Combined Balance Sheets

September 30, 2022 and 2021

Assets		**2022**	**2021**
Current assets:			
Restricted cash	$	8,422,391	10,014,119
Accounts receivable, less allowance for doubtful accounts of $1,385,214 and $725,074 for 2022 and 2021, respectively		54,366,245	51,936,701
Parts and supplies		3,794,852	4,011,236
Prepaid expenses and other current assets		4,380,778	4,904,076
Total current assets		70,964,266	70,866,132
Restricted cash, long term		4,534,470	—
Property and equipment:			
Land		3,311,106	3,311,106
Buildings and improvements		43,753,201	42,724,451
Furniture and fixtures		1,019,553	1,054,349
Vehicles, containers, and operating equipment		36,521,163	35,817,487
Construction in progress		5,258,069	5,978,590
Total property and equipment		89,863,092	88,885,983
Less accumulated depreciation		51,269,059	45,340,591
Property and equipment, net		38,594,033	43,545,392
Right-of-use assets, net		4,603,973	—
Permits		50,014,837	50,014,837
Goodwill, net of accumulated amortization of $17,946 and $15,952 in 2022 and 2021, respectively		1,994	3,988
Other assets		2,700,475	2,586,950
Total assets	$	171,414,048	167,017,299
Liabilities and Stockholder’s Equity			
Current liabilities:			
Accounts payable	$	2,659,372	2,034,532
Accrued liabilities:			
Vacation and sick leave		3,787,844	3,936,082
Payroll and payroll taxes		4,972,807	3,892,071
Self-insurance and other accrued expenses		19,952,438	21,158,749
Zero waste incentive		8,422,391	10,234,601
Deferred revenue		10,802,649	10,164,015
Customer refund liability		—	737,351
Current portion of lease liability		3,492,500	—
Total current liabilities		54,090,001	52,157,401
Customer refund liability		4,607,253	—
Non-current lease liability		1,161,000	—
Self-insurance and other noncurrent liabilities		12,597,631	23,915,561
Total liabilities		72,455,885	76,072,962
Stockholder’s equity, net		98,958,163	90,944,337
Total liabilities and stockholder’s equity	$	171,414,048	167,017,299

See accompanying notes to combined financial statements.

SUNSET SCAVENGER COMPANY,
GOLDEN GATE DISPOSAL & RECYCLING COMPANY, AND
RECOLOGY SAN FRANCISCO
(Wholly Owned Subsidiaries of Recology Inc.)

Combined Statements of Income (Loss)

Years ended September 30, 2022 and 2021

	2022	2021
Revenue:		
Commercial	$ 192,294,972	184,247,378
Residential	95,546,072	95,815,737
Apartments	77,562,235	78,468,001
Recycling	22,396,444	24,181,132
Disposal	9,839,918	10,176,363
Other	2,073,296	2,362,548
Revenue from affiliate	31,850	4,998
Refund to customer	(15,155)	(11,715,104)
	399,729,632	383,541,053
Less amounts reserved for impound and zero waste incentive accounts	(30,201,896)	(29,598,194)
Total operating revenue	369,527,736	353,942,859
Expenses:		
Refuse collection	122,703,016	115,627,737
Truck and garage	42,325,058	40,383,162
Debris box	11,098,738	12,981,320
Transfer station	64,957,527	62,099,331
Processing	38,241,787	37,676,186
Special waste	4,674,550	4,558,609
General recycling	17,121,821	18,610,547
General and administrative	52,712,395	64,990,941
Total operating expenses	353,834,892	356,927,833
Operating income (loss)	15,692,844	(2,984,974)
Other income (expense):		
Interest expense	(1,886)	(3,269,141)
Rental and other income	401,471	266,603
Non-service pension and postretirement	9,296,663	5,548,969
Net income (loss)	$ 25,389,092	(438,543)

See accompanying notes to combined financial statements.

SUNSET SCAVENGER COMPANY,
GOLDEN GATE DISPOSAL & RECYCLING COMPANY, AND
RECOLOGY SAN FRANCISCO
(Wholly Owned Subsidiaries of Recology Inc.)

Combined Statements of Stockholder's Equity

Years ended September 30, 2022 and 2021

		Total stockholder's Investment
Balance, September 30, 2020	$	9,380,820
Net loss		(438,543)
Net contribution from Parent		82,002,060
Balance, September 30, 2021		90,944,337
Net income		25,389,092
Net distribution to Parent		(17,375,266)
Balance, September 30, 2022	$	98,958,163

See accompanying notes to combined financial statements.

SUNSET SCAVENGER COMPANY,
GOLDEN GATE DISPOSAL & RECYCLING COMPANY, AND
RECOLOGY SAN FRANCISCO
(Wholly Owned Subsidiaries of Recology Inc.)

Combined Statements of Cash Flows

Years ended September 30, 2022 and 2021

	Combined	
	2022	**2021**
Cash flows from operating activities:		
Net income (loss)	$ 25,389,092	(438,543)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of right-of-use assets	4,434,799	—
Depreciation and amortization	5,954,780	5,891,866
Provision for bad debts	2,092,756	534,520
Changes in assets and liabilities:		
Accounts receivable	(4,522,300)	(2,124,939)
Parts and supplies	216,384	1,403
Prepaid expenses and other assets	409,773	521,555
Accounts payable	624,840	(345,800)
Accrued liabilities	(273,813)	1,730,816
Zero waste incentive	(1,812,210)	3,334,355
Deferred revenues	638,634	(253,396)
Customer refund liability	3,869,902	(82,451,494)
Operating lease liabilities	(4,385,272)	—
Other liabilities	(11,317,930)	(9,921,862)
Net cash provided by (used in) operating activities	21,319,435	(83,521,519)
Cash flows from financing activities:		
Distribution from Recology San Francisco		
(Distribution to) contribution from Parent and affiliates	(18,376,693)	83,781,554
Net increase in cash	2,942,742	260,035
Cash, cash equivalents, and restricted cash at beginning of year	10,014,119	9,754,084
Cash, cash equivalents, and restricted cash at end of year	$ 12,956,861	10,014,119
Supplemental disclosure of noncash activities:		
Interest allocation from Parent	$ 1,861	1,102
Additions to (distributions of) property and equipment funded by (made to) Parent	1,001,427	(1,779,494)

See accompanying notes to combined financial statements.

(1) Nature of Business

The accompanying financial statements are the combined statements of Sunset Scavenger Company, Golden Gate Disposal & Recycling Company, and Recology San Francisco (the Company). Recology San Francisco is owned equally by Sunset Scavenger Company and Golden Gate Disposal & Recycling Company, which are wholly owned subsidiaries of Recology Inc. (the Parent or Recology), which in turn is wholly owned by the Recology Employee Stock Ownership Plan (the ESOP).

The Company provides solid waste, recyclables, and organics collection services in San Francisco. The Company's collection rates for residences and apartments are set by the Refuse Collection and Disposal Rate Board of the City and County of San Francisco (the Rate Board). The rates are set to allow the Company to recover its operating costs plus a return on those costs, with certain mandated exceptions. This rate setting process may result in the disallowance of certain costs and/or delays in cost recovery.

The Company filed a rate application to the Department of Public Works on February 13, 2017. On May 12, 2017, the Rate Board approved the 2017 San Francisco Rate Order (the Rate Order or 2017 Rate Order). The Rate Order approved the rates for the 2018 rate year (Rate Year 2018 began July 1, 2017) and annual cost of living adjustments (COLA) after the first year. The Rate Order includes the City's adoption of new rate structures for residential and apartment customers. The residential rate structure includes separate identification of fixed charges and volumetric charges on recycling and composting service. The apartment rate structure includes a fixed charge and a variable charge based on total service volume, with incentives to participate in recycling and composting collection programs. As a result of the Rate Order, the recycling incentive program for commercial customers was modified whereby 100% of the charges for containerized services are eligible for a diversion discount, equal to the percentage of recycling and compostable service volume to total service volume in excess of 25%, up to a maximum discount of 75%. The Company's operating results are affected by variation in its recycling revenue from the sale of recyclable commodities. The Company's recycling revenue can be volatile and fluctuate in accordance with changes in the recycling commodity mix and in the prices of recyclable commodities, which in turn are, in many cases, dependent on changes in worldwide supply of, and demand for, such recyclable commodities.

(2) Summary of Significant Accounting Policies

(a) Principle of Combination

The Company eliminates intercompany transactions between the combined companies. Amounts due from or payable to the Parent and affiliates are accumulated by the Company during the year, and at year end, the net amount is settled by way of capital contributions from or distributions to the Parent.

(b) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these combined financial statements in conformity with accounting principles generally accepted in the United States of America. The more significant estimates requiring the judgment of management include valuation of intangible assets, allowances for accounts receivable, zero waste incentive accounting, and potential litigation, claims, and assessments. Actual results could differ from those estimates.

(c) Fair Value of Financial Instruments

Assets and liabilities that are considered to be financial instruments (such as accounts receivable, accounts payable, and accrued liabilities) are reported in the combined balance sheets at carrying values that approximate their fair value based on current market indicators and the short maturity of these instruments.

(d) Cash and Cash Equivalents, and Restricted Cash

Cash and cash equivalents include cash balances and highly liquid investments with an original maturity of three months or less when purchased. Cash and cash equivalents are principally comprised of cash invested in demand deposit accounts and money market instruments and are stated at cost plus accrued interest.

As of September 30, 2022, restricted cash consists primarily of amounts pertaining to incentives for certain waste diversion and sustainability programs undertaken by the Company's San Francisco operations, and remaining uncashed portion from refunds due to the customers from the settlement agreement between the Company and the San Francisco City Attorney's Office on March 3, 2021.

(e) Cash Concentration Account

The Company's bank accounts are linked to the Parent's concentration account. Cash balances (or deficits) at the end of each day are automatically transferred to (or from) the concentration account, so that at the end of any particular day, as well as at year-end, the Company's bank accounts have a zero balance, with related amounts debited or credited to the underlying intercompany account.

(f) Revenue Recognition and Accounts Receivable

The Company generally recognizes revenue when services are performed, or products are delivered in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. A significant amount of the Company's revenue is subject to rate regulation and adjustment in accordance with the Refuse Collection and Disposal Rate Board Resolution adopting the Department of Public Work Director's Recommendation Order (the Rate Order). Revenue recognition related to contractual diversion goals is based on the Company's estimation of the likelihood that it will reach those diversion goals.

Deferred revenue primarily consists of revenue billed in advance that is recorded as revenue in the period in which the related services are rendered. The Company makes certain payments to customers, payments to the Impound and Zero Waste Incentive Accounts, and payments to municipalities in the Company's refuse collection and recycling businesses, which reduce the amount of revenue recognized. The Company's receivables are recorded when billed and represent claims against third parties that will be settled in cash. The carrying value of the Company's receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value.

(Continued)

The Company estimates potentially uncollectible accounts based on several factors, including historical collection trends, existing economic conditions, and other factors. In certain instances, the Company can collect receivables through a lien process. Past-due receivable balances not subject to a lien process are written-off when the Company's internal collection efforts have been unsuccessful.

(g) Parts and Supplies

Parts and supplies consist of fuel, oil, tires, tubes, repair parts, containers, and bins are recorded at average cost and are expensed when utilized.

(h) Property and Equipment

Property and equipment, including major capital improvements, are stated at cost. It is the Company's policy to periodically review the estimated useful lives of its property and equipment. Depreciation is calculated on a straight-line basis over the estimated useful lives of assets as follows:

	Estimated useful lives
Buildings	20–40 years
Leasehold improvements	Shorter of lease or useful life
Machinery and equipment	6–8 years
Furniture and fixtures	8 years
Vehicles	9 years
Containers	10 years

Depreciation expense on the above amounted to $5,952,786 and $5,889,872 for the years ended September 30, 2022 and 2021, respectively. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

(i) Leases

The Company leases certain land, buildings, vehicles, and equipment used in the Company's operations under lease agreements. The Company is responsible for all maintenance costs, taxes, and insurance on the buildings, vehicles, and equipment under lease agreements. The Company's leases have varying terms, some of which include renewal or escalation clauses, which are considered in determining minimum lease payments. The terms include options to renew the lease when it is reasonably certain that the Company will exercise that option. The Company has elected not to include leases with an initial term of 12 months or less in the combined balance sheets and payments associated with these short-term leases are recognized as an operating expense on a straight-line basis over the lease term. Leases are classified as operating leases or finance leases at inception. As of September 30, 2022, the Company does not have finance leases.

Operating Leases

The Company's operating lease activities primarily consist of leases with third parties for the use of facilities (i.e., office space, material recovery facilities, etc.) as well as small equipment (i.e., copiers, fax machines, postage machines, office trailers, etc.). The Company accounts for leases in accordance with *Accounting Standards Codification* Topic 842, *Leases*. The Company determines if an arrangement is or contains a lease at contract inception. The Company recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received. The ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. The lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

(j) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. A long-lived asset is considered impaired when the undiscounted cash flows from the asset or asset group is estimated to be less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. During the years ended September 30, 2022 and 2021, no impairment was recorded.

(k) Goodwill and Permits

When the Company acquires permits, the purchase price is allocated to the permits based upon their estimated fair value at the date of acquisition. The permits acquired are recorded and classified as intangible assets with an indefinite life. In addition, any consideration for an acquisition paid in excess of amounts allocated to the net assets acquired is included in goodwill.

The Company performs an assessment of intangible assets with indefinite lives for impairment at least annually. Amortizable intangible assets are evaluated for impairment when an event or change in circumstances indicates that the carrying amount of an asset may not be recoverable based on undiscounted cash flows.

The Company amortizes goodwill on a straight-line basis over 10 years. The Company performs an assessment for impairment if an event occurs or circumstances change that indicate that the fair value of the entity may be below its carrying amount.

During the years ended September 30, 2022 and 2021, no impairment of goodwill or intangible assets was recorded.

(l) Income Taxes

The Parent is an S corporation with the Company electing to be treated as a Qualified Subchapter S corporation subsidiary. Under S corporation rules, the Parent’s taxable income and losses are passed through to the ESOP, the Parent’s sole shareholder, which is exempt from income tax, and the Company is treated as a division of the Parent having no separate income tax obligations. The Parent has not allocated the income tax expense to the Company.

The Company recognizes income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that has a greater than 50% likelihood of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company’s accounting policy for evaluating uncertain tax positions is to accrue estimated benefits or obligations relating to those positions. The Company records interest related to unrecognized tax benefits as interest expense and penalties as an administrative expense. For the years ended September 30, 2022 and 2021, there were no interest expenses or penalties recorded, because the Company had no uncertain tax positions that met the more-likely-than-not threshold.

(m) Environmental Remediation Liabilities

The Company accrues for environmental remediation costs when they become probable and based on its best estimate within a range. If no amount within the range appears to be a better estimate than any other, the low end of such range is used. Remediation costs are estimated by environmental remediation professionals based upon site remediation plans they develop, working with regulatory agencies, and the Company’s environmental staff and legal counsel. No environmental remediation liabilities were accrued at September 30, 2022 and 2021.

(n) Stockholder’s Equity

Sunset Scavenger Company and Golden Gate Disposal & Recycling Company has 30,000 shares of common stock authorized and 12,304 shares issued and outstanding with no par value as of September 30, 2022 and 2021. Stockholder’s equity, net, is comprised of the legal capital plus cumulative contributions net of distributions.

Recology San Francisco has 7,500 shares of common stock authorized, issued, and outstanding with no par value as of September 30, 2022 and 2021. All of these shares are held by Sunset Scavenger Company and Golden Gate Disposal & Recycling Company. Accordingly, Recology San Francisco’s stockholder’s equity eliminates in combination.

(o) Allocations

The Company includes allocated charges from the Parent and its affiliates in operating and other expenses. The charges are allocated by applying activity appropriate factors to direct and indirect costs of the Parent and its affiliates or based on established fees.

(p) New Accounting Standards

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. ASU 2018-14 removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. The Company adopted the new standard effective October 1, 2021 and has adjusted its disclosures accordingly.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability is equal to the present value of lease payments. The asset is based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases result in straight-line expense (similar to current operating leases) while finance leases result in a front-loaded expense pattern (similar to current capital leases). Classification is based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. The Company adopted the new standard effective October 1, 2021 using a modified retrospective transition and considered certain permitted practical expedients. The Company recorded a right-of-use asset and related lease liability on the combined balance sheets in the amount of $8,874,966 and $9,088,299, respectively, as of October 1, 2021, with no impact to net income.

(3) Regulatory and Contractual Obligations

The Reserve Fund is a fund to be used for extraordinary expenses relating to the Waste Disposal Agreement between the City and County of San Francisco, Recology San Francisco, and Recology Hay Road. The Company is required to fund this account with $2,000,000 of annual transfers, with the last of these transfers occurring in the beginning of Rate Year 2020. The Company’s deposits into the Reserve Fund are not reported as assets or liabilities of the Company.

The Impound Account is a restricted bank account held jointly by Recology San Francisco and the City and County of San Francisco and used by the City and County to cover certain waste management and diversion expenses. The Company contributed $22,007,611 during the year ended September 30, 2022 and $21,578,366 during the year ended September 30, 2021 to the Impound Account. The Company’s deposits into the Impound Account are not reported as assets or liabilities of the Company.

In addition, the Company is responsible for administering the Recology San Francisco Zero Waste Incentive Account (ZWIA). In order to help the City meet state-mandated recycling goals, the Company, has the opportunity to earn a higher level of profit beyond that normally allowed for in the Rate Order by meeting tonnage goals for diversion of materials. The 2017 Rate Order established zero waste diversion goals based on disposal tons at four tiers to cover the rate year ended June 30, 2018 through rate year ending June 30, 2022. The revenue collected by the Company is based on the maximum reward level of profit as stated in the respective Rate Order. The incentive revenue recognized by the Company is based on the estimate of the level of incentive to be achieved during each respective rate year. The incremental billings generated from the Company resulting from the additional reward level of profit are deposited on a monthly basis into the ZWIA. If the Company meets or exceeds the diversion goals for the rate year, then the funds deposited into the account may be withdrawn by the Company as the incentive reward after the conclusion of the rate year. If the goal for the rate year is not achieved, then the funds from that year will remain in the account and will be used to offset future rate increases. The amounts deposited for both rate years ended June 30, 2022 and 2021 are included in restricted cash. The portion of the diversion goals achieved is recognized as revenue and the unachieved portion is included in accrued liabilities. The Company deposited $8,194,285 and $8,019,828 from cash receipts into the ZWIA for the years ended September 30, 2022 and 2021, respectively.

The Company did not achieve any of the diversion goals for the rate years ended June 30, 2022 or 2021, does not expect to achieve any of the incentive goals for the rate year ending June 30, 2023 and did not recognize any of the corresponding incremental revenue.

The Company may obtain approval from the City and County of San Francisco to use ZWIA funds for diversion programs. During fiscal 2022, the Company did not propose any diversion program, as a result did not recognize any Zero Waste Incentive revenue. The Company recognized $820,853 in Zero Waste Incentive revenue during year ended September 30, 2021.

(4) Employee Stock Ownership Plan

In 1986, the Parent established an ESOP, which purchased all of the Parent’s outstanding stock. The ESOP covers most of the employees of the Company and is noncontributory. Employees, except under certain conditions, become fully vested after a requirement of three years of service. Benefits, in the form of Parent company stock, are allocated to an employee’s account based on a number of factors, including contributions, forfeitures, income, and changes in the underlying value of the Parent company stock.

All benefit distributions are made from the ESOP in cash, which is received from the Parent, or shares, subject to immediate repurchase by the Parent. A participant who is vested is entitled to begin receiving a distribution from his or her ESOP account at a future date following his or her termination of employment. Distributions may be made in a lump sum, equal annual installments over a period generally not to exceed five years or a combination of the foregoing, generally as determined by the ESOP Administrative Committee subject to certain limitations under the ESOP. Each participant who has attained age 55 and has participated in the ESOP for at least 10 years may elect to receive cash distributions for in-service withdrawals attributable to post-1986 shares allocated to his or her account. An eligible participant is entitled to elect payment attributable to as much as 25% of his or her eligible shares during the first five years of election and up to 50% of eligible shares in the sixth year.

Presently, the Parent makes cash contributions to fund certain of the ESOP benefit distributions. Shares attributable to those benefit distributions are reallocated within the ESOP among active participants. The Parent’s common stock is not traded on an established market. The fair market value of the shares as of the most recently completed fiscal year-end is used for the next years’ ESOP benefit distributions.

(Continued)

(5) Employee Benefit Plans

The Company participates in a noncontributory, funded defined-benefit pension plan (the Plan) sponsored by its Parent for the benefit of nonunion employees. Benefits are based on a formula that includes years of service and average compensation. As of September 30, 2022 and 2021, the Plan, of which certain of the Company's employees are participants, had a projected benefit obligation in excess of plan assets by approximately $46.1 million and $16.4 million, respectively. The Company's financial statements do not reflect the Company's share of the projected benefit obligation in excess of plan assets. It is the Parent's current policy to contribute at least the minimum statutory required amount.

The Company's pension expense under the Plan for the years ended September 30, 2022 and 2021 was $8,111,626 and $13,606,159, respectively, which represents an allocation of approximately 102% and 93% of the Parent's plan expense for the years ended September 30, 2022 and 2021, respectively.

The weighted average discount rate used by the Parent to determine pension expense under the Plan was 6.01% and 3.44% for the years ended September 30, 2022 and 2021, respectively. The expected long-term rate of return on assets was 7.00% and 6.75% for the years ended September 30, 2022 and 2021, respectively. The rate of increase in future compensation levels used in determining the benefit obligations was 5.65% and 4.00% for the years ended September 30, 2022 and 2021, respectively. The Company's portions of the actuarially computed value of the vested and non-vested benefits of the Plan and the union plan and the net assets of the related pension plan funds have not been determined.

In connection with the ESOP's purchase of stock from certain former employee-shareholders, the Parent has agreed to provide those former employee-shareholders with lifetime postretirement medical benefits subject to certain conditions. In addition, certain union employees are eligible for postretirement medical benefits as part of an early retirement program when they reach certain eligibility criteria.

Recology recognizes postretirement medical benefits in the combined financial statements over the term of the affected employee's service with Recology. The postretirement medical benefit plan is unfunded. As of September 30, 2022 and 2021, the Plan, of which the Company's employees are participants, has a projected benefit obligation of approximately $26.1 million and $33.3 million, respectively. The Company's combined financial statements do not reflect the Company's share of the projected benefit obligation.

The Company's postretirement medical income for the years ended September 30, 2022 and 2021 was $3.7 million and $3.9 million, respectively.

The weighted average discount rate used by the Parent to determine postretirement medical expense was 3.24% and 3.08% for the years ended September 30, 2022 and 2021, respectively.

Certain of the Company's union employees are participants in a union-sponsored multiemployer defined-benefit pension plan. The risks of participating in this multiemployer plan are different from single-employer plans in that (i) assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; (ii) if a participating employer stops contributing to the Plan, the unfunded obligations of the Plan may be required to be assumed by the remaining participating employers; and (iii) if the Company chooses to stop participating in any of the multiemployer plans, the Company may be required to pay those plans a withdrawal amount on the underfunded status of the Plan. Pension cost charged to expense under these plans for the years ended September 30, 2022 and 2021 was $1,079,053 and $1,088,843 respectively. The Company's portion of the actuarially computed value of the vested and nonvested benefits of the plans and the net assets of the pension funds has not been determined.

The following table outlines the Company's participation in multiemployer plans:

Pension fund (1)/Employer identification number/plan number	Pension protection act reported	Fund Improvement plan/ Rehabilitation	Contributions (in millions) 2022	Contributions (in millions) 2021	Expiration date of collective bargaining agreement
Pension Trust Fund for Operating Engineers/94-6090764/001	Endangered	Implemented	$ 1,079,053	1,088,843	Various through December 31, 2027

(1) The Company paid no surcharges for multi-employer pension funds during the year ended September 30, 2022

The most recent Pension Protection Act zone status available as of September 30, 2022 is for the Plan's year-end at December 31, 2021. The zone status is based on information that the Company received from the Plan and is certified by the Plan's actuary. As defined in the Pension Protection Act of 2006, among other factors, plans reported as critical are generally less than 65% funded, plans seriously endangered are less than 80% funded and have an accumulated funding deficiency for the current plan year or a projected accumulated funding deficiency for any of the next six years, and plans reported as endangered are generally less than 80% funded.

The Company agreed to allow certain union employees to participate in a multiemployer union-sponsored postretirement medical plan. The Company contributed $9,433,766 and $9,392,361 into the multiemployer union postretirement plan during the years ended September 30, 2022 and 2021, respectively. The Company, through plans managed by the Parent, also sponsors a defined contribution plan, the Recology 401(k) Plan, for certain eligible employees of the Company. The Company made matching contributions equal to a specified percentage of each participant's annual contributions amounting to $298,663 and $327,728 for the years ended September 30, 2022 and 2021, respectively.

(6) Self-Insurance

The Company, through plans managed by the Parent, is self--insured for various risks of loss related to general liability, automobile liability, property damage, employee and certain retiree healthcare, and workers' compensation. The Parent establishes a reserve for self-insured claims based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Adjustments to the reserve are charged or credited to the Parent's expense in the periods on which they are determined to be necessary. The Parent also purchases commercial insurance on behalf of the Company and other subsidiaries to cover risks above set limits. The Company was allocated expenses of $45,245,665 and $47,982,109 for the years ended September 30, 2022 and 2021, respectively, for the cost of self-insured programs, including certain reserve adjustments. The Company's share of the self-insurance reserve is ultimately reflected as a liability of the Parent.

(7) Commitments and Contingencies

Substantially all of the assets of the Company are pledged to secure the obligations of the Parent. The Company, along with the Parent and the Parent's wholly owned subsidiaries, has guaranteed the repayment, on a joint and several basis, of any and all obligations under the Parent's Revolving Credit Agreement. The Company could be required to honor the guarantee upon an uncured default event, as defined in the Parent's Revolving Credit Agreement. The Parent's Revolving Credit Agreement expires in December 2026. At September 30, 2022, there was an outstanding balance of $262.0 million on the Parent's Revolving Credit Agreement and there were standby letters of credit issued for $118.4 million. The Parent has represented to the Company that it is in compliance with all covenants of the Revolving Credit Agreement.

The Company, along with the Parent and the Parent's wholly owned subsidiaries, has guaranteed the payment of amounts owed to unrelated third parties, which provided the equipment financing to affiliates of the Company. The affiliates are obligated to the unrelated third parties with various expiration dates through June 2027. At September 30, 2022, the outstanding principal on the financed equipment recorded by the affiliates was $20.4 million.

The net book value of the equipment financed by an affiliate and utilized by the Company at September 30, 2022 was $8.8 million.

As of September 30, 2022, approximately 86.4% of the Company's employees were subject to collective bargaining agreements expiring on December 31, 2026 and 2027.

The Parent and its subsidiaries, including the Company, are subject to various laws and regulations relating to the protection of the environment. It is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly any future remediation and other compliance efforts. The Parent has environmental impairment liability insurance, which covers the sudden or gradual onset of environmental damage to third parties, on all owned and operated facilities. In the opinion of management, compliance with present environmental protection laws will not have a material adverse effect on the results of operations of the Company, provided that costs are substantially covered in the Company's rates on a timely basis.

The Company and the Parent are involved in various legal actions or claims arising in the normal course of business. It is the Company's opinion that these matters are adequately provided for or that the resolution of such matters will not have a material adverse impact on the financial position or results of operations of the Company or the Parent.

On February 2, 2021, a putative class action complaint was filed against the Company asserting violations of California's Unfair Competition Laws, alleging that San Francisco ratepayers had been overcharged for waste collection fees due to allegedly improper payments to San Francisco public officials. On May 20, 2021, plaintiffs filed an amended complaint, adding causes of action for alleged violations of California's

Consumer Legal Remedies Act, fraud, and breach of contract. In this amended complaint, Plaintiffs seek monetary damages of an unspecified amount and injunctive relief. The Company has filed a demurrer to each of the causes of action asserted in the amended complaint. After full briefing and a hearing on the demurrer, The Court issued its decision on December 6, 2021, sustaining the Company's demurrer to each claim, but granting Plaintiffs leave to amend their complaint. Plaintiff filed a second amended complaint on January 6, 2022. On February 9, 2022, the Company filed another demurrer. On April 19, 2022, the Court sustained the demurrer without leave to amend. On April 27, 2022, the Court entered judgment in Recology's favor. Plaintiffs filed a notice of appeal on June 21, 2022. Briefing is underway and should be completed by April 2023. The date for oral argument has not been set. As of the balance sheet date, the Company cannot reasonably estimate a monetary outcome of this litigation and thus no amounts have been accrued on the consolidated balance sheets.

On March 3, 2021 a settlement agreement was entered into between the SF Recology Companies and the San Francisco City Attorney's Office. The settlement was related to an omission in the 2017 SF rate application and other alleged violations of the California Unfair Competition Law and San Francisco Campaign and Government Conduct Code that impacted fiscal years up to and including the year ended September 30, 2021. The key terms of the settlement are summarized below (in thousands):

Component of Settlement		Amount
Omission error	$	86,600
Interest on the above amount		7,920
Settlement payment		7,000
Total	$	101,520

The components of this settlement have been allocated among the financial statement captions and fiscal years to which they relate. This allocation is summarized below for the year ending September 30, 2021 (in thousands):

Reduction of revenue	$	11,138
Interest expense		1,912
Total	$	13,050

Federal criminal complaints were filed against two former employees in U.S. District Court for the Northern District of California on November 18, 2020 and on April 15, 2021. On September 9, 2021, the SF Recology Companies and Recology Inc. entered into a deferred prosecution agreement with the U.S. Attorney's Office to resolve an investigation arising from the SF Recology Companies' actions related to the San Francisco Department of Public Works. Under the agreement, the SF Recology Companies agreed to pay a fine of $36 million, consisting of $29 million to be paid in three installments to the United

States Treasury and a credit for the $7 million paid to the City and County of San Francisco in connection with the earlier settlement, as described above.

The $7 million settlement amount due to the City and County of San Francisco was paid in full by the Company on September 13, 2021. The first and second installments of $9 million each due to the United States Treasury were paid by the Company on October 25, 2021 and October 27, 2022, respectively. As of September 30, 2022, the second installment of $9 million was recorded in other current liabilities and the final installment of $11 million in self-insurance and other noncurrent liabilities on the combined balance sheets.

(8) Leases

The Company recognizes a lease liability and right-of-use asset for leases classified as operating leases in the combined balance sheets upon lease commencement.

The Company has cancelable operating lease agreements with affiliates that have one year terms, whereby it pays for use of certain operating equipment and property. As these qualify as short-term leases, they are not included on the Company's combined balance sheet as permitted under Accounting Standards Codification 842. In addition, the Company has noncancelable building and equipment operating leases with unrelated third parties.

Supplemental cash flow information and non-cash activity related to the Company's leases are as follows:

		2022	2021
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	$	4,385,272	—
Non-cash activity:			
Amortization of right-of-use assets		4,434,799	—

The Company uses judgment to determine the discount rates used to discount the unpaid lease payments to present value, the lease term, and the amount of lease payments. An implicit rate is often not readily available for these leases. As such, the Company use its incremental borrowing rate to determine present value of lease payments. The Company's incremental borrowing rate represents the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term in a similar economic environment. To determine this rate, the Company receives quotes from a third party of various terms and matches these third-party rates to the terms of any new leases entered into during the year. For the year ended September 30, 2022, the weighted average discount rate was 2.04% and the weighted average remaining lease term was 1.67 years for the leases that make up the Company's lease liability.

The lease term for the Company's leases includes the noncancelable period of the lease plus any additional periods covered by a Company option to extend that the Company is reasonably certain to exercise.

(Continued)

The lease payments included in the measurement of the lease liability comprise fixed payments or variable lease payments. The variable lease payments take into account annual changes to an underlying base index such as a consumer price index, if known, and are recognized in the combined statements of income in the period incurred.

The Company monitors for events or changes in circumstances that require a reassessment of one of its leases. When a reassessment results in a remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding right-of-use asset. The Company did not recognize any significant remeasurement during the year ended September 30, 2022.

Future payments for continued use of the leased equipment and property with non-cancelable terms with unrelated third parties, by year-end and in aggregate, as of September 30, 2022 are as follows:

		Operating leases
Year ending September 30:		
2023	$	3,544,337
2024		457,481
2025		433,593
2026		304,659
Total undiscounted lease payments		4,740,070
Less amount representing interest		86,570
Total lease liabilities		4,653,500
Less current portion of lease liabilities		3,492,500
Non-current lease liabilities	$	1,161,000

The Company’s rent expense for the years ended September 30, 2022 and 2021 was $32,523,148 and $35,484,599 respectively, including amounts under short-term rental agreements with third parties.

Under the terms of the agreements with an affiliate, and in accordance with existing rate policies, the Company may continue to use certain equipment under operating leases without a related payment once the affiliates’ equipment cost and related interest have been funded through operating lease payments.

In November 2020, the Company entered into a sales-leaseback transaction with a third party related to the sale of a property located in San Francisco, California that would allow the Company to lease the property back for up to two years. The Company leased the property for one year from the third party for the period from December 2020 through 2021. The rent obligation was recorded as prepaid rent with a corresponding increase in the gain recognized on the sale. As of September 30, 2022, the prepaid rent is fully amortized.

(Continued)

(9) Transactions with Related Parties

During the years ended September 30, 2022 and 2021, operating expenses and other income of the Company included the following charges by or (to) the Parent and its affiliates. Such charges are based on the direct and indirect costs of the Parent and its affiliates, or established fees, and are allocated using factors based on specific activities. The allocated charges were as follows:

		2022	2021
Parent:			
Health insurance	$	25,696,040	27,890,193
Workers' compensation		11,603,429	10,946,453
Pension		8,111,626	13,606,159
Postretirement medical income		(3,739,310)	(3,987,406)
General and vehicle insurance		7,946,196	9,145,463
Corporate services		8,511,729	7,958,981
Information technology services		4,730,324	5,458,998
		62,860,034	71,018,841
Affiliates:			
Property rental		2,613,074	2,760,163
Equipment rental		21,782,642	20,969,000
Disposal/organics processing		25,208,668	23,736,652
		49,604,384	47,465,815
Total	$	112,464,418	118,484,656

Contributions from or distributions to Parent and its affiliates are presented as financing activities in the combined statements of cash flows, except expenditures attributable to property and equipment, which are presented as supplemental noncash investing activities.

(10) Subsequent Events

Subsequent to September 30, 2022, the Company reached a tentative agreement with the City of San Francisco (the “2022 Agreement”) involving a notional, non-cash balancing account with an initial notional balance of $25 million. This initial notional balance will be reduced to account for below-target profits earned during periods after July 1, 2021 and for revenue forgone as a result of delaying the Company’s cost of living adjustment to the rates, not to fall below a notional balance of $0. If the notional balancing account retains a positive balance after accounting for profits earned during the year ending September 30, 2023, such balance will be used to offset future rate increases. As part of this agreement, the 2022 rate year has been realigned to be consistent with the Company’s fiscal year (October 1, 2021 through September 30, 2022). The 2022 Agreement was approved by the San Francisco Board of Supervisors on December 22, 2022 and has been approved by the Company’s lenders. The accounting impacts of this agreement will be recognized in fiscal year 2023.

The Company has evaluated its subsequent events through January 26, 2023, which is the date the combined financial statements were available to be issued, and determined there were no other items to be disclosed.

Schedule 1

SUNSET SCAVENGER COMPANY
GOLDEN GATE DISPOSAL and RECYCLING COMPANY
(Wholly Owned Subsidiaries of Recology Inc.)

Combined Schedule of Operating Expenses

Year ended September 30, 2022

	Refuse collection	Truck and garage	Debris box	General and administrative	Total
Operating expenses:					
Salaries and wages	$ 66,748,581	10,179,038	5,184,530	3,645,872	85,758,021
Payroll taxes	5,007,881	749,802	380,803	289,617	6,428,103
Pension and 401(k)	7,350,359	1,115,956	620,053	279,553	9,365,921
Health insurance	12,973,677	1,878,766	897,423	511,193	16,261,059
Workers' compensation	6,559,292	1,000,602	487,551	52,361	8,099,806
O/S postretirement benefit	4,848,215	748,903	334,908	10,633	5,942,659
Temporary labor and subcontractor costs	201,414	—	—	317,191	518,605
General and vehicle Insurance	19,881	1,077,598	—	4,424,680	5,522,159
Disposal charges	73,462,348	73,734	8,644,423	—	82,180,505
Equipment rental	13,933,728	423,022	1,624,819	105,278	16,086,847
Property rental	—	—	—	2,507,275	2,507,275
Supplies	684,875	1,112,523	726,196	379,785	2,903,379
Repairs expense	798,633	842,770	172,182	46,028	1,859,613
Parts, tires, and tubes	—	3,832,917	—	—	3,832,917
Fuel and oil	35,251	5,343,255	50	—	5,378,556
Buildings and facilities	71,326	91,158	19,492	142,965	324,941
Security and janitorial	52,371	27,233	1,814	617,484	698,902
Licenses and permits	1,837,220	142,777	482,637	30,432	2,493,066
Utilities	—	720,983	4,873	491,099	1,216,955
Freight	3,357	53,633	3,743	4,248	64,981
Recycling processing	26,386,285	—	—	—	26,386,285
Professional services	81,116	(27,821)	14,993	977,975	1,046,263
Provision for bad debt	599,244	—	—	581,501	1,180,745
Business meals, travel and entertainment	18,751	(23)	1,759	32,067	52,554
Office expense	136,822	24,617	10,280	267,382	439,101
Telephone	52,902	28,394	10,097	542,849	634,242
Dues and subscriptions	1,172	2,040	—	186,131	189,343
Postage	454	—	—	146,451	146,905
Projects	448,553	42,350	27,785	3,668,040	4,186,728
Taxes	—	—	—	3,802,935	3,802,935
Corporate management fees	—	—	—	12,994,067	12,994,067
Other expense	81,967	711	272	2,037,480	2,120,430
Depreciation	155,974	607,379	92,479	202,813	1,058,645
Amortization expense	—	—	—	1,994	1,994
Total operating expenses	$ 222,551,649	30,092,317	19,743,162	39,297,379	311,684,507

See accompanying notes to combined financial statements.

Schedule 2

RECOLOGY SAN FRANCISCO

(An Indirect Wholly Owned Subsidiary of Recology Inc.)

Schedule of Operating Expenses

Year ended September 30, 2022

	Transfer station	Processing	Truck and garage	Special waste	General recycling	General and administrative	Total
Operating expenses:							
Salaries and wages	$ 17,987,750	15,074,580	3,285,105	2,051,522	5,201,979	1,549,880	45,150,816
Payroll taxes	1,323,897	1,168,805	235,231	156,593	404,626	121,146	3,410,298
Health insurance	3,334,543	3,256,920	692,445	488,447	1,410,170	252,454	9,434,979
Workers' compensation	1,419,245	1,238,318	248,000	164,371	421,290	12,399	3,503,623
Pension and 401(k)	2,312,320	1,761,503	574,790	236,924	666,792	128,446	5,680,775
Postretirement medical benefit	—	—	—	—	—	3,491,107	3,491,107
Provision for bad debt	—	—	—	—	125,970	786,041	912,011
Advertising and promotion, donations, dues and subscriptions	—	—	—	—	—	1,743	1,743
Buildings and facilities	247,258	305,500	155,624	10,184	154,190	31,576	904,332
Business meals, travel and entertainment	4,313	2,915	92	909	33,942	15,476	57,647
Corporate management fees	—	—	—	—	—	435,064	435,064
Depreciation	804,742	2,722,445	74,590	42,498	1,030,478	219,388	4,894,141
Disposal charges	24,522,806	2,830	96,097	766,908	931,850	—	26,320,491
Equipment rental	2,189,642	1,723,598	1,209,023	11,977	1,113,124	29,207	6,276,571
Freight	1,606	78,821	17,980	1,511	2,750,251	172	2,850,341
Fuel and oil	—	247,674	2,921,422	—	27,484	—	3,196,580
General and vehicle insurance	1,852,074	—	206,422	365,541	—	—	2,424,037
Licenses and permits	4,279,461	53,274	32,305	5,987	42,651	6,250	4,419,928
Office expenses	17,049	76,012	9,179	16,839	6,210	160,539	285,828
Other expense	987,931	(76)	277	—	—	207,905	1,196,037
Parts, tires, and tubes	5,760	828,882	1,435,206	—	81,765	—	2,351,613
Professional services	86,439	50,428	11,167	163	49,088	1,349,946	1,547,231
Projects	293,477	174,837	56,198	18,733	81,174	1,559,744	2,184,163
San Francisco matters	—	—	—	—	—	—	—
Property rental	1,638,005	4,041,557	66,246	—	1,319,583	587,066	7,652,457
Recycling processing	—	1,519,322	—	—	—	—	1,519,322
Regional management expense	—	—	—	—	87,583	182,665	270,248
Repairs expense	150,146	138,700	477,544	3,706	83,287	9,916	863,299
Security and janitorial	2,137	541,577	57,252	—	126,226	503,095	1,230,287
Supplies	430,314	988,920	320,368	260,248	549,896	77,029	2,626,775
Taxes	4,352	1,130,117	—	553	(3,286)	1,430,094	2,561,830
Telephone	7,841	23,063	7,530	14,967	5,251	174,611	233,263
Temporary labor and subcontractor costs	—	(326)	—	—	—	42,151	41,825
Utilities	1,054,419	1,091,591	59,986	55,969	420,247	49,906	2,732,118
Total operating expenses	$ 64,957,527	38,241,787	12,250,079	4,674,550	17,121,821	13,415,016	150,660,780

See accompanying notes to combined financial statements.

Schedule 3

SUNSET SCAVENGER COMPANY,
GOLDEN GATE DISPOSAL & RECYCLING COMPANY, AND
RECOLOGY SAN FRANCISCO
(Wholly Owned Subsidiaries of Recology Inc.)

Combined Balance Sheets

September 30, 2022 and 2021

	SSGG		RSF							
Assets	**2022**	**2021**	**2022**	**2021**	**2022 Combined**	**Eliminations**	**2022**	**2021 Combined**	**Eliminations**	**2021**
Current assets:										
Restricted cash	—	—	8,422,391	10,014,119	8,422,391	—	8,422,391	10,014,119	—	10,014,119
Accounts receivable, less allowance for doubtful accounts of $1,385,214 and $725,074 for 2022 and 2021, respectively	48,561,101	44,919,814	5,805,144	7,016,887	54,366,245	—	54,366,245	51,936,701	—	51,936,701
Parts and supplies	1,856,945	1,715,317	1,937,907	2,295,919	3,794,852	—	3,794,852	4,011,236	—	4,011,236
Prepaid expenses and other current assets	2,926,146	3,301,699	1,454,632	1,602,377	4,380,778	—	4,380,778	4,904,076	—	4,904,076
Total current assets	53,344,192	49,936,830	17,620,074	20,929,302	70,964,266	—	70,964,266	70,866,132	—	70,866,132
Restricted cash, long term	4,534,470	—	—	—	4,534,470	—	4,534,470		—	—
Property and equipment:										
Land	—	—	3,311,106	3,311,106	3,311,106	—	3,311,106	3,311,106	—	3,311,106
Buildings and improvements	11,623,683	10,612,318	32,129,518	32,112,133	43,753,201	—	43,753,201	42,724,451	—	42,724,451
Furniture and fixtures	738,321	773,117	281,232	281,232	1,019,553	—	1,019,553	1,054,349	—	1,054,349
Vehicles, containers, and operating equipment	1,927,282	1,928,452	34,593,881	33,889,035	36,521,163	—	36,521,163	35,817,487	—	35,817,487
Construction in progress	147,406	526,579	5,110,663	5,452,011	5,258,069	—	5,258,069	5,978,590	—	5,978,590
Total property and equipment	14,436,692	13,840,466	75,426,400	75,045,517	89,863,092	—	89,863,092	88,885,983	—	88,885,983
Less accumulated depreciation	7,709,554	6,675,228	43,559,505	38,665,363	51,269,059	—	51,269,059	45,340,591	—	45,340,591
Property and equipment, net	6,727,138	7,165,238	31,866,895	36,380,154	38,594,033	—	38,594,033	43,545,392	—	43,545,392
Right-of-use asset, net	1,771,184	—	2,832,789	—	4,603,973	—	4,603,973	—	—	—
Permits	50,014,837	50,014,837	—	—	50,014,837	—	50,014,837	50,014,837	—	50,014,837
Goodwill, net of accumulated amortization of $17,946 and $15,952 in 2022 and 2021, respectively	1,994	3,988	—	—	1,994	—	1,994	3,988	—	3,988
Investment in Recology San Francisco	24,724,576	28,832,149	—	—	24,724,576	(24,724,576)	—	28,832,149	(28,832,149)	—
Other assets	1,253,671	1,253,671	1,446,804	1,333,279	2,700,475	—	2,700,475	2,586,950	—	2,586,950
Total assets	$ 142,372,062	137,206,713	53,766,562	58,642,735	196,138,624	(24,724,576)	171,414,048	195,849,448	(28,832,149)	167,017,299
Liabilities and Stockholder's Equity										
Current liabilities:										
Accounts payable	$ 1,168,515	1,187,331	1,490,857	847,201	2,659,372	—	2,659,372	2,034,532	—	2,034,532
Accrued liabilities:										
Vacation and sick leave	2,416,375	2,380,824	1,371,469	1,555,258	3,787,844	—	3,787,844	3,936,082	—	3,936,082
Payroll and payroll taxes	2,411,183	2,684,133	2,561,624	1,207,938	4,972,807	—	4,972,807	3,892,071	—	3,892,071
Self-insurance and other accrued expenses	11,655,194	12,924,986	8,297,244	8,233,763	19,952,438	—	19,952,438	21,158,749	—	21,158,749
Zero waste incentive	—	—	8,422,391	10,234,601	8,422,391	—	8,422,391	10,234,601	—	10,234,601
Deferred revenue	10,798,724	10,154,618	3,925	9,397	10,802,649	—	10,802,649	10,164,015	—	10,164,015
Customer refund liability	—	737,351	—	—	—	—	—	737,351	—	737,351
Current portion of lease liability	646,077	—	2,846,423	—	3,492,500	—	3,492,500	—	—	—
Total current liabilities	29,096,068	30,069,243	24,993,933	22,088,158	54,090,001	—	54,090,001	52,157,401	—	52,157,401
Customer refund liability	4,607,253	—	—	—	4,607,253	—	4,607,253	—	—	—
Non-current lease liability	1,156,032	—	4,968	—	1,161,000	—	1,161,000	—	—	—
Self-insurance and other noncurrent liabilities	8,554,546	16,193,133	4,043,085	7,722,428	12,597,631	—	12,597,631	23,915,561	—	23,915,561
Total liabilities	43,413,899	46,262,376	29,041,986	29,810,586	72,455,885	—	72,455,885	76,072,962	—	76,072,962
Stockholder's equity, net	98,958,163	90,944,337	24,724,576	28,832,149	123,682,739	(24,724,576)	98,958,163	119,776,486	(28,832,149)	90,944,337
Total liabilities and stockholder's equity	$ 142,372,062	137,206,713	53,766,562	58,642,735	196,138,624	(24,724,576)	171,414,048	195,849,448	(28,832,149)	167,017,299

See accompanying notes to combined financial statements.

Schedule 4

SUNSET SCAVENGER COMPANY,
GOLDEN GATE DISPOSAL & RECYCLING COMPANY, AND
RECOLOGY SAN FRANCISCO
(Wholly Owned Subsidiaries of Recology Inc.)

Combined Statements of Income

Years ended September 30, 2022 and 2021

	SSGG		RSF							
	2022	2021	2022	2021	2022 Combined	Eliminations	2022	2021 Combined	Eliminations	2021
Revenue:										
Commercial	$ 184,335,792	176,328,871	7,959,180	7,918,507	192,294,972	—	192,294,972	184,247,378	—	184,247,378
Residential	95,546,072	95,815,737	—	—	95,546,072	—	95,546,072	95,815,737	—	95,815,737
Apartments	77,562,235	78,468,001	—	—	77,562,235	—	77,562,235	78,468,001	—	78,468,001
Recycling	737,880	1,767	48,044,849	48,553,678	48,782,729	(26,386,285)	22,396,444	48,555,445	(24,374,313)	24,181,132
Disposal	—	—	9,839,918	10,176,363	9,839,918	—	9,839,918	10,176,363	—	10,176,363
Other	1,894,391	2,340,472	178,905	22,076	2,073,296	—	2,073,296	2,362,548	—	2,362,548
Revenue from affiliate	—	2,695	82,155,960	80,048,970	82,155,960	(82,124,110)	31,850	80,051,665	(80,046,667)	4,998
Refund to customer	(15,155)	(11,715,104)	—	—	(15,155)	—	(15,155)	(11,715,104)	—	(11,715,104)
	360,061,215	341,242,439	148,178,812	146,719,594	508,240,027	(108,510,395)	399,729,632	487,962,033	(104,420,980)	383,541,053
Less amounts reserved for impound and zero waste incentive accounts	(27,040,026)	(26,515,922)	(3,161,870)	(3,082,272)	(30,201,896)	—	(30,201,896)	(29,598,194)	—	(29,598,194)
Total operating revenue	333,021,189	314,726,517	145,016,942	143,637,322	478,038,131	(108,510,395)	369,527,736	458,363,839	(104,420,980)	353,942,859
Expenses:										
Refuse collection	222,551,649	207,909,093	—	—	222,551,649	(99,848,633)	122,703,016	207,909,093	(92,281,356)	115,627,737
Truck and garage	30,092,317	28,854,837	12,250,079	11,534,888	42,342,396	(17,338)	42,325,058	40,389,725	(6,563)	40,383,162
Debris box	19,743,162	25,114,381	—	—	19,743,162	(8,644,424)	11,098,738	25,114,381	(12,133,061)	12,981,320
Transfer station	—	—	64,957,527	62,099,331	64,957,527	—	64,957,527	62,099,331	—	62,099,331
Processing	—	—	38,241,787	37,676,186	38,241,787	—	38,241,787	37,676,186	—	37,676,186
Special waste	—	—	4,674,550	4,558,609	4,674,550	—	4,674,550	4,558,609	—	4,558,609
General recycling	—	—	17,121,821	18,610,547	17,121,821	—	17,121,821	18,610,547	—	18,610,547
General and administrative	39,297,379	49,459,799	13,415,016	15,531,142	52,712,395	—	52,712,395	64,990,941	—	64,990,941
Total operating expenses	311,684,507	311,338,110	150,660,780	150,010,703	462,345,287	(108,510,395)	353,834,892	461,348,813	(104,420,980)	356,927,833
Operating income (loss)	21,336,682	3,388,407	(5,643,838)	(6,373,381)	15,692,844	—	15,692,844	(2,984,974)	—	(2,984,974)
Other income (expense):										
Recology San Francisco, net (loss) share	(2,717,902)	(4,488,179)	—	—	(2,717,902)	2,717,902	—	(4,488,179)	4,488,179	—
Interest expense	(25)	(3,268,039)	(1,861)	(1,102)	(1,886)	—	(1,886)	(3,269,141)	—	(3,269,141)
Rental and other income	376,469	234,393	25,002	32,210	401,471	—	401,471	266,603	—	266,603
Non-service pension and postretirement	6,393,868	3,694,875	2,902,795	1,854,094	9,296,663	—	9,296,663	5,548,969	—	5,548,969
Net income (loss)	$ 25,389,092	(438,543)	(2,717,902)	(4,488,179)	22,671,190	2,717,902	25,389,092	(4,926,722)	4,488,179	(438,543)

See accompanying notes to combined financial statements.