Note: Recology's financial statements do not reflect the same numbers as the rate reports. These differences are due to differences in reported periods covered (the fiscal years do not correspond to the rate years), different treatment for certain items in financial statements and rate reports, and the inclusion in financial statements of expenses for which ratepayers are not charged.

Recology's financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP) and cover Recology's fiscal year. For instance, fiscal year 2021 is October 1, 2020 through September 30, 2021. The statements were audited by Recology's independent outside auditor, KPMG LLP, and contain audit opinions that they present fairly, in all material respects, the financial position of Recology Sunset Scavenger, Recology Golden Gate, and/or Recology San Francisco. Statements for fiscal years 2018 and 2019 were prepared for Recology Sunset Scavenger/Recology Golden Gate and, separately, for Recology San Francisco. Statements for fiscal years 2020 and 2021 were prepared on a combined basis (financial results for all three entities), but transactions between Recology Sunset Scavenger/Recology Golden Gate and Recology San Francisco have been eliminated, resulting in revenue and expense figures that are lower than the sum of these amounts in the rate reports. See Schedule 1 for the operating expenses of Recology Sunset Scavenger/Recology Golden Gate and Schedule 2 for the operating expenses of Recology San Francisco.

Rate reports are filed by Recology pursuant to its reporting obligations in the 2017 Rate Application. The rate year begins July 1. Rate Year 2021, for instance, is July 1, 2020 through June 30, 2021. Rate reports are filed on a cumulative basis: the first quarterly report covers the three months from July 1 through September 30; the second quarterly report covers the six months from July 1 through December 31; the third quarterly report covers the nine months from July 1 through March 31; and the annual report covers the twelve months of the rate year ending June 30. Rate reports include projections, which are from the Rate Year 2018 projections in the 2017 Rate Application and are adjusted for COLA in subsequent years. The financial statements do not contain such projections. Rate reports are not prepared entirely on a GAAP basis but rather on the same basis as the rate application projections. Some amounts in the rate application projections and rate reports are reported in a different manner from the audited financial statements, such as pension costs. In addition, rate reporting requires different treatment for certain items, such as the Reserve Fund, Impound, and Zero Waste Incentive ("ZWI") accounts. As an example, the receipt of funds from the ZWI account to offset capital expenditures is reflected as revenue in the audited financial statements and is reported as a negative expense in the rate reports over the same period that the related depreciation and lease expense is recorded. As a result, the same item may be reported differently in a rate report than it is in a financial statement. In addition, the financial statements include balance sheets, statements of stockholder's equity, statements of cash flows, and footnotes, all of which are not required for rate reports.

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, 2020 and 2019

(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:

We have audited the accompanying combined financial statements of Sunset Scavenger Company, Golden Gate Disposal & Recycling Company, and Recology San Francisco (wholly owned subsidiaries of Recology Inc.), which comprise the combined balance sheets as of September 30, 2020 and 2019, and the related combined statements of operations, stockholder's equity, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Sunset Scavenger Company, Golden Gate Disposal & Recycling Company, and Recology San Francisco as of September 30, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 2 (p) to the combined financial statements, effective October 1, 2019, Sunset Scavenger Company, Golden Gate Disposal & Recycling Company, and Recology San Francisco adopted Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606), and related amendments. Our opinion is not modified with respect to this matter.

Other Matters

Our audits were 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 are presented for the purpose 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 audits 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 auditing standards generally accepted in the United States of America. 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
December 22, 2021

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

Combined Balance Sheets

September 30, 2020 and 2019

Assets		**2020**	**2019**
Current assets:			
Cash and cash equivalents	$	2,853,838	—
Restricted cash		6,900,246	15,074,644
Accounts receivable, less allowance for doubtful accounts of $320,786 and $277,069 for 2020 and 2019, respectively		50,346,282	57,624,675
Parts and supplies		4,012,638	3,578,240
Net assets held for sale		889,333	—
Prepaid expenses and other current assets		5,754,734	3,656,976
Total current assets		70,757,071	79,934,535
Property and equipment:			
Land		9,301,180	9,301,180
Buildings and improvements		41,532,725	38,783,111
Furniture and fixtures		916,446	909,463
Vehicles, containers, and operating equipment		34,891,908	30,611,824
Construction in progress		3,159,498	6,106,868
Total property and equipment		89,801,757	85,712,446
Less accumulated depreciation		39,476,332	35,755,854
Property and equipment, net		50,325,425	49,956,592
Permits		50,014,837	50,014,837
Goodwill, net of accumulated amortization of $13,958 and $11,964 in 2020 and 2019, respectively		5,982	7,976
Other assets		2,267,848	976,065
Total assets	$	173,371,163	180,890,005
Liabilities and Stockholder’s Equity			
Current liabilities:			
Accounts payable	$	2,380,332	3,891,147
Accrued liabilities:			
Vacation and sick leave		3,963,823	3,003,853
Payroll and payroll taxes		3,650,637	3,491,187
Self-insurance and other accrued expenses		19,641,626	8,571,416
Zero waste incentive		6,900,246	15,074,644
Deferred revenue		10,417,411	9,511,192
Customer refund liability		83,188,845	—
Total current liabilities		130,142,920	43,543,439
Self-insurance and other noncurrent liabilities		33,837,423	464,831
Total liabilities		163,980,343	44,008,270
Commitments and contingencies			
Stockholder’s equity, net		9,380,820	136,881,735
Total liabilities and stockholder’s equity	$	173,361,163	180,890,005

See accompanying notes to financial statements.

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

Combined Statements of Operations

Years ended September 30, 2020 and 2019

	2020	2019
Revenue:		
Commercial	$ 221,127,706	239,653,999
Residential	97,355,766	94,032,291
Apartments	78,618,551	76,858,956
Recycling	19,461,110	19,279,771
Disposal	10,711,620	9,766,579
Other	2,344,743	3,359,421
Revenue from affiliate	22,359	1,565
Refund to customer	(76,973,462)	—
	352,668,393	442,952,582
Less amounts reserved for impound and zero waste incentive accounts	(28,800,889)	(28,034,405)
Total operating revenue	323,867,504	414,918,177
Expenses:		
Refuse collection	112,544,031	106,204,523
Truck and garage	39,719,714	43,953,851
Debris box	15,183,966	16,589,944
Transfer station	63,682,953	68,356,817
Processing	38,023,651	39,681,518
Special waste	4,165,726	4,047,770
General recycling	19,002,746	21,039,267
General and administrative	86,855,762	43,153,153
Total operating expenses	379,178,549	343,026,843
Operating (loss) income	(55,311,045)	71,891,334
Other income (expense):		
Interest expense	(6,216,551)	(1,396)
Rental and other income	344,297	299,547
Non-service pension and postretirement	854,014	5,496,410
Net (loss) income	$ (60,329,285)	77,685,895

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, 2020 and 2019

		Total Stockholder's investment
Balance, September 30, 2018	$	143,426,536
Net income		77,685,895
Net distribution to Parent		(84,230,696)
Balance, September 30, 2019		136,881,735
Net loss		(60,329,285)
Net distribution to Parent		(67,171,630)
Balance, September 30, 2020	$	9,380,820

See accompanying notes to 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, 2020 and 2019

		2020	2019
Cash flows from operating activities:			
Net (loss) income	$	(60,329,285)	77,685,895
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		5,207,590	4,204,143
Provision for bad debts		298,023	500,742
Loss on disposal of fixed assets		—	139,347
Changes in assets and liabilities:			
Accounts receivable		6,980,370	(2,614,094)
Parts and supplies		(434,398)	31,506
Prepaid expenses and other assets		(3,379,540)	(789,611)
Accounts payable		(1,510,815)	906,247
Accrued liabilities		12,189,630	801,431
Zero waste incentive		(8,174,398)	5,753,455
Deferred revenues		906,219	655,352
Customer refund liability		83,188,845	—
Other noncurrent liabilities		33,372,591	(567,351)
Net cash provided by operating activities		68,314,832	86,707,062
Cash flows from financing activities:			
Distribution to Parent and affiliates		(73,635,392)	(80,953,607)
Net (decrease) increase in cash		(5,320,560)	5,753,455
Cash, cash equivalents, and restricted cash at beginning of year		15,074,644	9,321,189
Cash, cash equivalents, and restricted cash at end of year	$	9,754,084	15,074,644
Supplemental disclosure of noncash activities:			
Interest allocation from Parent	$	1,168	1,396
Additions to (distributions of) property and equipment funded by (made to) Parent		6,463,762	(3,277,089)

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.

In March 2020, the World Health Organization declared the outbreak of a new strain of coronavirus (COVID-19) a pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, and created significant volatility and disruption of financial markets. Both national and local government agencies have implemented steps with the intent to slow the spread of the virus, including shelter-in-place orders and the mandatory shutdown of certain businesses. During this time, the Company continued to provide essential services to customers. In mid-March 2020, certain customers began adjusting their service levels, which included a decrease in the frequency of pickups or a temporary pause in service. As service levels decreased, the Company also experienced a decrease in certain costs of operations which are variable in nature. This decline in service activity gradually improved thereafter as local economies began to gradually reopen and customers began to resume service. The full extent of the impact of the COVID-19 pandemic on the Company’s operations and financial performance will depend on future developments, including the duration and spread of the pandemic, all of which are uncertain and cannot be predicted at this time.

(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, 2020, restricted cash consists of incentives for certain waste diversion and sustainability programs.

(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

(Continued)

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.

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 $5,205,596 and $4,202,149 for the years ended September 30, 2020 and 2019, respectively. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

(i) Assets Held for Sale

During 2020, the Parent entered into a sales agreement covering certain property and equipment owned by the Company. Net book value of this property and equipment is $889,333 and classified as assets held for sale at September 30, 2020. No impairment charge was recorded based on the expected sale price less costs to sell.

(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, 2020 and 2019, 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.

(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, 2020 and 2019, 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, 2020 and 2019.

(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, 2020 and 2019. 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, 2020 and 2019. 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

Effective October 1, 2019, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and Other Assets and Deferred Costs-Contracts with Customers (Subtopic 340-40) (ASU 2014-09 or the new revenue recognition standard) using the modified retrospective approach. The prior comparative periods have not been restated and continue to be reported under the accounting standards in effect for those periods. The timing and pattern of revenue recognition has not significantly changed under the new revenue recognition standard, nor has there been a material change to our operating or net income. Under the new revenue recognition standard, the Company records revenue when control is transferred to the customer, generally at the time the service is provided. While the timing and pattern of revenue recognition remains unchanged, the Company identified certain consideration payable to customers that is now recorded as a reduction in revenue while historically these costs were recorded as a component of cost of operations. Additionally, certain upfront payments to acquire customer contacts were historically expensed as incurred while under the new revenue recognition standard these costs will be recorded as an asset and amortized as a reduction in revenue. The Company anticipates that amortizable contract costs will only be occasionally incurred upon the renewal or acquisition of certain contracts and will not result in a substantial change in operating results. Additional areas of the amended guidance the Company has evaluated for potential impact include sales incentives, volume discounts, free service periods, and rebates. Changes in these areas did not result in a material impact on the Company's combined financial statements. The impact of the adoption of the amended guidance for the year ended September 30, 2020 was a reduction in operating revenue, with a corresponding reduction in operating expenses, of approximately $652,132, with no impact to net income.

In March 2017, the Financial Accounting Standards Board (FASB) issued guidance that requires the service cost component of the Company's net periodic pension cost and net periodic postretirement benefit cost to be included in the same line item as other compensation costs arising from services rendered by employees, with the non service cost components of net periodic benefit cost being classified outside of a subtotal of income from operations. The Company adopted the new accounting standard on October 1, 2019 using the practical expedient, which allows entities to use information previously disclosed in its pension and other postretirement benefit plans note as the estimation basis to apply the retrospective presentation requirements. During the year ended September 30, 2020, the Company recognized a net benefit of $0.9 million in non-service pension and post retirement net benefit cost. For the year ended September 30, 2019, the Company reclassified a net benefit of $5.5 million in non-service pension and post retirement net benefit cost from operating income to other income (expense), net in the combined statements of operations.

In February 2016, the FASB issued guidance that 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 will be equal to the present value of lease payments. The asset will be 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 will result in straight line expense (similar to current operating leases) while finance leases will result in a front loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. The new standard is effective for private companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021, with early adoption permitted. The Company expects to adopt the new standard using a modified retrospective transition and will consider certain permitted practical expedients. The Company is assessing the potential impact of implementing this new accounting standard on its combined financial statements.

(q) Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

(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 $21,143,664 during the year ended September 30, 2020 and $20,315,113 during the year ended September 30, 2019 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, 2020 and 2019 are included in restricted cash. The portion of the diversion goals achieved is recognized as revenue and the unachieved portion is included in deferred revenue. The Company deposited $7,794,352 and $7,582,166 from cash receipts into the ZWIA for the years ended September 30, 2020 and 2019, respectively.

The Company did not achieve any of the diversion goals for the rate years ended June 30, 2020 or 2019, does not expect to achieve any of the incentive goals for the rate year ending June 30, 2021 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 2020 and 2019, the Company proposed multiple diversion programs that were approved and completed. As a result, the Company recognized $7,520,874 and $2,927,507 in Zero Waste Incentive revenue during fiscal 2020 and 2019, respectively.

(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.

(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 union and nonunion employees. Benefits are based on a formula, which includes years of service and average compensation. As of September 30, 2020 and 2019, the Plan had a projected benefit obligations in excess of plan assets of approximately $50.6 million and $115 million, respectively. It is the Parent's current policy to contribute at least the minimum statutory required amount. The Company's combined financial statements do not reflect the Company's share of the projected benefit obligation in excess of plan assets.

The Company's pension expense under the Plan for the years ended September 30, 2020 and 2019 was $16,990,881 and $8,180,344, respectively, which represents an allocation of approximately 88.8% and 85.5% of the Parent's plan expense for the years ended September 30, 2020 and 2019, respectively.

The weighted average discount rate used by the Parent to determine pension expense under the Plan was 3.51% and 4.55% for the years ended September 30, 2020 and 2019, respectively. The expected long-term rate of return on assets was 6.75% and 7.25% for the years ended September 30, 2020 and 2019, respectively. The rate of increase in future compensation levels used in determining the benefit obligations was 4% for both years ended September 30, 2020 and 2019, 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

(Continued)

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, 2020, and 2019, the Plan, of which the Company's employees are participants, has a projected benefit obligation of approximately $33.6 million and $36.6 million, respectively. The Company's combined financial statements do not reflect the Company's share of the projected benefit obligation.

The postretirement medical income for parent and all of its affiliates for the years ended September 30, 2020 and 2019 was $3.6 million and $3.4 million, respectively.

The weighted average discount rate used by the Parent to determine postretirement medical expense was 3.47% and 4.50% for the years ended September 30, 2020 and 2019, respectively. The Parent expects its healthcare cost trend for postretirement medical benefits to decrease from 6.50% in 2020 to 5.00% in 2026, after which the rate is expected to stabilize.

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, 2020 and 2019 was $1,095,049 and $1,191,085, 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)		Expiration date of collective bargaining agreement
			2020	2019	
Pension Trust Fund for Operating Engineers/94-6090764/001	Endangered	Implemented	$ 1,095,049	1,191,085	Various through December 31, 2021

(1) The Company paid no surcharges for multi-employer pension funds during the year ended September 30, 2020.

The most recent Pension Protection Act zone status available as of September 30, 2020 is for the Plan's year-end at December 31, 2019. 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 multi-employer union sponsored postretirement medical plan. The Company contributed $8,992,433 and $8,469,562 into the multiemployer union postretirement plan during the years ended September 30, 2020 and 2019, 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 $330,474 and $298,636 for the years ended September 30, 2020 and 2019, 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 in 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 $42,618,990 and $43,086,374 for the years ended September 30, 2020 and 2019, 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, 2020, there was an outstanding balance of $267.0 million on the Parent's Revolving Credit Agreement and there were standby letters of credit issued for $102.8 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, 2020, the outstanding principal on the financed equipment recorded by the affiliates was $51.5 million.

The net book value of the equipment financed by an affiliate and utilized by the Company at September 30, 2020 was $14.7 million.

As of September 30, 2020, approximately 85.7% of the Company's employees were subject to collective bargaining agreements, which expire on December 31, 2021.

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 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. 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 combined balance sheets.

(8) Equipment and Property Obligations

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. In addition, the Company has noncancelable building and equipment operating leases with unrelated third parties. Future payments for continued use of the leased equipment and real property with non-cancelable terms with unrelated third parties, by year-end and in aggregate, as of September 30, 2020 are as follows:

		Equipment	Real property	Total
Year ending September 30:				
2021	$	74,448	4,106,249	4,180,697
2022		65,398	4,126,585	4,191,983
2023		21,685	3,091,983	3,113,668
Thereafter		10,390	—	10,390
Total payments	$	171,921	11,324,817	11,496,738

The Company's rent expense for the years ended September 30, 2020 and 2019 was $30,760,165 and $29,003,436, 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.

(9) Transactions with Related Parties

During the years ended September 30, 2020 and 2019, 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:

		2020	2019
Parent:			
Health insurance	$	26,310,112	26,351,141
Workers' compensation		10,763,439	11,668,695
Pension		16,990,881	8,182,937
Postretirement medical income		(3,779,014)	(3,555,566)
General and vehicle insurance		5,545,439	5,066,538
Corporate services		6,904,042	6,818,577
Information technology services		4,510,995	4,686,845
	$	67,245,894	59,219,167

		2020	2019
Affiliates:			
Property rental	$	3,495,604	3,165,882
Equipment rental		19,739,540	17,453,387
Disposal/organics processing		26,349,466	29,870,042
		49,584,610	50,489,311
Total	$	116,830,504	109,708,478

Distributions from or contributions 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.

The Company incurred a loss from operations in fiscal 2020 and expects to experience losses in fiscal 2021. As such, Recology Inc. has committed to fund the liquidity and capital needed to support the Company's obligations for a period of at least twelve months following the issuance of the financial statements.

(10) Subsequent Events

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. Recology did not admit to any liability as part of the settlement. 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 years ending September 30, 2021 and 2020, and in total (in thousands):

		2021	2020	Total
Reduction of revenue	$	11,138	75,462	86,600
General and administrative expense		—	7,000	7,000
Interest expense		1,912	6,008	7,920
Total	$	13,050	88,470	101,520

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. Because this agreement was reached before the September 30, 2020 financial statements were issued, the net $29 million fine owed to the United States Treasury is included in fiscal 2020 general and administrative expenses.

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 and the first installment of $9 million due to the United States Treasury was paid by the company on October 25, 2021. As of September 30, 2021 and 2020, $9 million and $7 million of the amount due to the United States Treasury is included in other current liabilities, and the remaining $20 million and $29 million is included in other liabilities in the accompanying combined balance sheets, respectively.

The Company has evaluated its subsequent events through December 22, 2021, 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, 2020

	Refuse collection	Truck and garage	Debris box	General and administrative	Total
Operating expenses:					
Salaries and wages	$ 59,215,264	10,279,901	7,242,419	4,128,642	80,866,226
Business continuity payroll	549,816	3,512	37,056	1,083	591,467
Payroll taxes	4,628,043	721,338	506,914	293,818	6,150,113
Pension and 401(k)	7,038,356	1,166,467	829,429	281,655	9,315,907
Health insurance	12,641,649	1,790,457	1,324,764	649,589	16,406,459
Workers' compensation	5,945,864	1,020,917	663,789	58,546	7,689,116
O/S postretirement benefits expense	4,324,488	711,019	476,045	7,030	5,518,582
Temporary labor and subcontractor costs	812,265	8,865	10,543	74,718	906,391
General and vehicle Insurance	10,753	1,175,941	428	2,808,565	3,995,687
Disposal charges	69,309,947	51,292	17,811,701	—	87,172,940
Equipment rental	11,335,012	657,700	1,863,081	80,174	13,935,967
Property rental	—	235,675	—	1,590,528	1,826,203
Supplies	597,706	1,067,399	799,356	514,652	2,979,113
Repairs expense	737,277	1,171,304	337,111	53,684	2,299,376
Parts, tires, and tubes	375	3,674,566	—	—	3,674,941
Fuel and oil	25,534	3,243,332	—	—	3,268,866
Buildings and facilities	103,460	105,151	57,151	471,956	737,718
Security and janitorial	76,442	82,059	—	568,791	727,292
Licenses and permits	1,473,069	145,017	757,994	16,294	2,392,374
Utilities	93,458	365,215	1,031	509,801	969,505
Freight	3,973	58,590	4,390	1,512	68,465
Recycling processing	26,041,291	—	—	—	26,041,291
Professional services	457,286	17,483	20,998	1,047,694	1,543,461
Provision for bad debt	172,462	—	—	107,784	280,246
Business meals, travel and entertainment	32,546	(360)	3,943	44,872	81,001
Office expense	340,536	42,871	32,493	383,482	799,382
Telephone	104,719	44,162	13,349	370,556	532,786
Dues and subscriptions	24,029	720	755	294,665	320,169
Postage	59	—	—	298,842	298,901
Projects	1,622,191	95,816	104,526	3,104,748	4,927,281
San Francisco matters	—	—	—	24,000,000	24,000,000
Taxes	—	—	—	3,993,566	3,993,566
Regional management expense	—	—	—	8,278	8,278
Corporate management fees	—	—	—	10,903,707	10,903,707
Other expense	23,792	1,081	721	2,569,325	2,594,919
Depreciation	153,607	548,126	91,769	234,024	1,027,526
Amortization expense	—	—	—	1,994	1,994
Total operating expenses	$ 207,895,269	28,485,616	32,991,756	59,474,575	328,847,216

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, 2020

	Transfer station	Processing	Truck and garage	Special waste	General recycling	General and administrative	Total
Operating expenses:							
Salaries and wages	$ 17,429,499	14,368,427	3,192,959	1,845,388	5,557,387	1,776,163	44,169,823
Business continuity payroll	284,882	—	—	—	—	—	284,882
Payroll taxes	1,251,475	1,155,807	222,613	144,706	453,943	124,775	3,353,319
Health insurance	3,422,600	3,536,016	727,352	465,360	1,430,307	322,018	9,903,653
Workers' compensation	1,437,552	708,855	258,325	159,638	496,321	13,633	3,074,324
Pension and 401(k)	2,447,273	1,929,304	600,569	233,906	812,535	151,910	6,175,497
Postretirement medical benefits expense	—	—	—	—	—	3,473,850	3,473,850
Provision for bad debt	—	—	—	—	12,259	5,518	17,777
Advertising and promotion, donations, dues and subscriptions	—	530	—	—	—	8,565	9,095
Buildings and facilities	245,468	626,506	339,149	6,994	114,211	147,071	1,479,399
Business meals, travel and entertainment	3,922	15,165	430	2,723	26,656	33,508	82,404
Corporate management fees	—	—	—	—	—	511,331	511,331
Depreciation	795,806	2,995,713	49,691	47,287	47,208	242,365	4,178,070
Disposal charges	24,620,665	10,475	98,324	654,579	3,172,706	30,347	28,587,096
Equipment rental	2,411,923	1,670,858	1,036,919	8,609	2,207,628	23,047	7,358,984
Freight	2,925	39,599	17,693	1,549	1,585,371	1,421	1,648,558
Fuel and oil	—	161,705	2,317,019	—	23,883	—	2,502,607
General and vehicle insurance	1,189,472	—	125,516	234,764	—	—	1,549,752
Licenses and permits	3,541,303	44,820	37,542	2,130	35,909	1,955	3,663,659
Office expenses	63,644	55,906	11,037	13,216	6,787	124,141	274,731
Other expense	1,096,515	11,801	—	—	—	258,170	1,366,486
Parts, tires, and tubes	13,107	763,025	1,488,798	—	16,167	—	2,281,097
Professional services	120,884	44,006	—	5,234	367,709	3,206,930	3,744,763
Projects	339,799	202,433	57,838	21,689	101,217	1,380,848	2,103,824
San Francisco matters	—	—	—	—	—	11,999,999	11,999,999
Property rental	1,638,005	4,302,831	66,246	—	1,262,241	369,688	7,639,011
Recycling processing	—	1,493,882	—	—	—	—	1,493,882
Regional management expense	—	—	—	—	164,092	188,852	352,944
Repairs expense	113,592	216,319	280,451	8,702	64,483	5,888	689,435
Security and janitorial	2,555	575,652	4,406	—	84,555	547,011	1,214,179
Supplies	560,754	865,382	256,785	237,457	622,520	27,519	2,570,417
Taxes	26,510	1,195,803	—	—	39,742	2,098,959	3,361,014
Telephone	15,919	40,217	15,319	24,582	11,272	184,459	291,768
Temporary labor and subcontractor costs	473	573	—	—	—	79,437	80,483
Utilities	606,431	992,041	37,494	47,213	285,637	41,809	2,010,625
Total operating expenses	$ 63,682,953	38,023,651	11,242,475	4,165,726	19,002,746	27,381,187	163,498,738

See accompanying independent auditors' report.

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, 2020 and 2019

	SSGG		RSF							
Assets	**2020**	**2019**	**2020**	**2019**	**Combined**	**Eliminations**	**2020**	**Combined**	**Eliminations**	**2019**
Current assets:										
Cash and cash equivalents	$ —	—	2,853,838	—	2,853,838	—	2,853,838	—	—	—
Restricted cash	—	—	6,900,246	15,074,644	6,900,246	—	6,900,246	15,074,644	—	15,074,644
Accounts receivable, less allowance for doubtful accounts of $320,786 and $277,069 for 2020 and 2019, respectively	46,287,716	50,817,686	4,058,566	6,806,989	50,346,282	—	50,346,282	57,624,675	—	57,624,675
Parts and supplies	2,016,241	1,876,909	1,996,398	1,701,331	4,012,639	—	4,012,639	3,578,240	—	3,578,240
Net assets held for sale	889,333				889,333	—	889,333	—	—	—
Prepaid expenses and other current assets	3,624,040	1,882,788	2,130,694	1,774,188	5,754,734	—	5,754,734	3,656,976	—	3,656,976
Total current assets	52,817,330	54,577,383	17,939,742	25,357,152	70,757,072	—	70,757,072	79,934,535	—	79,934,535
Property and equipment:										
Land	—	—	9,301,180	9,301,180	9,301,180	—	9,301,180	9,301,180	—	9,301,180
Buildings and improvements	9,936,809	10,096,535	31,595,916	28,686,576	41,532,725	—	41,532,725	38,783,111	—	38,783,111
Furniture and fixtures	635,214	628,231	281,232	281,232	916,446	—	916,446	909,463	—	909,463
Vehicles, containers, and operating equipment	1,871,710	1,461,968	33,020,198	29,149,856	34,891,908	—	34,891,908	30,611,824	—	30,611,824
Construction in progress	205,991	4,690,796	2,953,507	1,416,072	3,159,498	—	3,159,498	6,106,868	—	6,106,868
Total property and equipment	12,649,724	16,877,530	77,152,033	68,834,916	89,801,757	—	89,801,757	85,712,446	—	85,712,446
Less accumulated depreciation	5,752,634	6,210,225	33,723,698	29,545,629	39,476,332		39,476,332	35,755,854		35,755,854
Property and equipment, net	6,897,090	10,667,305	43,428,335	39,289,287	50,325,425	—	50,325,425	49,956,592	—	49,956,592
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 $13,958 and $11,964 in 2020 and 2019, respectively	5,982	7,976	—	—	5,982	—	5,982	7,976	—	7,976
Investment in Recology San Francisco	30,201,975	39,394,747	—	—	30,201,975	(30,201,975)	—	39,394,747	(39,394,747)	—
Other assets	1,077,732	16,816	1,180,115	959,249	2,257,847	—	2,257,847	976,065	—	976,065
Total assets	$ 141,014,946	154,679,064	62,548,192	65,605,688	203,563,138	(30,201,975)	173,361,163	220,284,752	(39,394,747)	180,890,005
Liabilities and Stockholder's Equity										
Current liabilities:										
Accounts payable	$ 622,044	1,975,646	1,758,288	1,915,501	2,380,332	—	2,380,332	3,891,147	—	3,891,147
Accrued liabilities:										
Vacation and sick leave	2,462,730	1,998,748	1,501,093	1,005,105	3,963,823	—	3,963,823	3,003,853	—	3,003,853
Payroll and payroll taxes	2,486,152	2,253,578	1,164,485	1,237,609	3,650,637	—	3,650,637	3,491,187	—	3,491,187
Self-insurance and other accrued expenses	9,890,508	2,268,326	9,751,118	6,303,090	19,641,626	—	19,641,626	8,571,416	—	8,571,416
Zero waste incentive	—	—	6,900,246	15,074,644	6,900,246	—	6,900,246	15,074,644	—	15,074,644
Deferred revenue	10,407,151	9,301,031	10,260	210,161	10,417,411	—	10,417,411	9,511,192	—	9,511,192
Customer refund liability	83,188,845				83,188,845	—	83,188,845	—	—	—
Total current liabilities	109,057,430	17,797,329	21,085,490	25,746,110	130,142,920	—	130,142,920	43,543,439	—	43,543,439
Self-insurance and other noncurrent liabilities	22,576,696	—	11,260,727	464,831	33,837,423		33,837,423	464,831	—	464,831
Total liabilities	131,634,126	17,797,329	32,346,217	26,210,941	163,980,343	—	163,980,343	44,008,270	—	44,008,270
Commitments and contingencies										
Stockholder's equity, net	9,380,820	136,881,735	30,201,975	39,394,747	39,582,795	(30,201,975)	9,380,820	176,276,482	(39,394,747)	136,881,735
Total liabilities and stockholder's equity	$ 141,014,946	154,679,064	62,548,192	65,605,688	203,563,138	(30,201,975)	173,361,163	220,284,752	(39,394,747)	180,890,005

See accompanying independent auditors' report.

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

Combined Statements of Operations

Years ended September 30, 2020 and 2019

	SSGG 2020	SSGG 2019	RSF 2020	RSF 2019	2020 Combined	Eliminations	2020	2019 Combined	Eliminations	2019
Revenue:										
Commercial	$ 207,229,644	229,535,616	13,898,062	10,118,383	221,127,706	—	221,127,706	239,653,999	—	239,653,999
Residential	97,355,766	94,032,291	—	—	97,355,766	—	97,355,766	94,032,291	—	94,032,291
Apartments	78,618,551	76,858,956	—	—	78,618,551	—	78,618,551	76,858,956	—	76,858,956
Recycling	1,447,518	764,802	44,054,883	46,524,734	45,502,401	(26,041,291)	19,461,110	47,289,536	(28,009,765)	19,279,771
Disposal	—	—	10,711,620	9,766,579	10,711,620	—	10,711,620	9,766,579	—	9,766,579
Other	2,321,017	3,341,726	23,726	17,695	2,344,743	—	2,344,743	3,359,421	—	3,359,421
Revenue from affiliate	25,804	24,632	87,122,669	100,023,323	87,148,473	(87,126,114)	22,359	100,047,955	(100,046,390)	1,565
Refund to customer	(76,973,462)	—	—	—	(76,973,462)	—	(76,973,462)	—	—	—
	310,024,838	404,558,023	155,810,960	166,450,714	465,835,798	(113,167,405)	352,668,393	571,008,737	(128,056,155)	442,952,582
Less amounts reserved for impound and zero waste incentive accounts	(25,813,247)	(25,132,116)	(2,987,642)	(2,902,289)	(28,800,889)	—	(28,800,889)	(28,034,405)	—	(28,034,405)
Total operating revenue	284,211,591	379,425,907	152,823,318	163,548,425	437,034,909	(113,167,405)	323,867,504	542,974,332	(128,056,155)	414,918,177
Expenses:										
Refuse collection	207,895,269	211,484,688	—	—	207,895,269	(95,351,238)	112,544,031	211,484,688	(105,280,165)	106,204,523
Truck and garage	28,485,616	30,785,873	11,242,475	13,178,513	39,728,091	(8,377)	39,719,714	43,964,386	(10,536)	43,953,850
Debris box	32,991,756	39,355,398	—	—	32,991,756	(17,807,790)	15,183,966	39,355,398	(22,765,454)	16,589,944
Transfer station	—	—	63,682,953	68,356,817	63,682,953	—	63,682,953	68,356,817	—	68,356,817
Processing	—	—	38,023,651	39,681,518	38,023,651	—	38,023,651	39,681,518	—	39,681,518
Special waste	—	—	4,165,726	4,047,770	4,165,726	—	4,165,726	4,047,770	—	4,047,770
General recycling	—	—	19,002,746	21,039,267	19,002,746	—	19,002,746	21,039,267	—	21,039,267
General and administrative	59,474,575	31,157,695	27,381,187	11,995,459	86,855,762	—	86,855,762	43,153,154	—	43,153,154
Total operating expenses	328,847,216	312,783,654	163,498,738	158,299,344	492,345,954	(113,167,405)	379,178,549	471,082,998	(128,056,155)	343,026,843
Operating (loss) income	(44,635,625)	66,642,253	(10,675,420)	5,249,081	(55,311,045)	—	(55,311,045)	71,891,334	—	71,891,334
Other income (expense):										
Recology San Francisco, net income share	(10,053,418)	7,155,650	—	—	(10,053,418)	10,053,418	—	7,155,650	(7,155,650)	—
Interest expense	(6,215,383)	—	(1,168)	(1,396)	(6,216,551)	—	(6,216,551)	(1,396)	—	(1,396)
Rental and other income	297,540	254,537	46,757	45,010	344,297	—	344,297	299,547	—	299,547
Non-service pension and postretirement	277,601	3,633,455	576,413	1,862,955	854,014	—	854,014	5,496,410	—	5,496,410
Net (loss) income	$ (60,329,285)	77,685,895	(10,053,418)	7,155,650	(70,382,703)	10,053,418	(60,329,285)	84,841,545	(7,155,650)	77,685,895

See accompanying notes to combined financial statements.