B|F|B|A

Beyond Accounting

RECOLOGY OF THE COAST
(A Wholly Owned Subsidiary of Recology Inc.)

Financial Statements

September 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

B|F|B|A

Beyond Accounting

Independent Auditors' Report

The Board of Directors
Recology of the Coast:

Report on the Financial Statements

We have audited the accompanying financial statements of Recology of the Coast (the Company) (a wholly owned subsidiary of Recology Inc.), which comprise the balance sheets as of September 30, 2017 and 2016, and the related statements of income and stockholder's investment, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Recology of the Coast as of September 30, 2017 and 2016, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The accompanying Schedule of Revenues by Franchise Area is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BFBA, LLP

Sacramento, California
January 26, 2018

83 Scripps Drive #210 Sacramento, CA 95825 | www.bfba.com | Office: (916) 924-0800 | Email: info@bfba.com

RECOLOGY OF THE COAST
(A Wholly Owned Subsidiary of Recology Inc.)

Balance Sheets

September 30, 2017 and 2016

Assets		**2017**	**2016**
Current assets:			
Accounts receivable, net of allowance for doubtful accounts of $27,526 and $58,022 in 2017 and 2016, respectively	$	1,161,300	1,353,057
Parts and supplies		31,270	23,395
Prepaid expenses		62,872	102,064
Total current assets		1,255,442	1,478,516
Property and equipment:			
Vehicles, containers, and operating equipment		568,223	777,458
Leasehold improvements		24,378	24,378
Total property and equipment		592,601	801,836
Less accumulated depreciation		583,246	710,216
Property and equipment, net		9,355	91,620
Other assets:			
Intangible asset with indefinite life		1,960,000	1,960,000
Total assets	$	3,224,797	3,530,136
Liabilities and Stockholder’s Investment			
Current liabilities:			
Accounts payable	$	67,884	50,730
Accrued liabilities:			
Payroll and payroll taxes		56,456	60,954
Vacation and sick leave		70,307	55,876
Accrued franchise fees and other expenses		255,700	209,524
Deferred revenues		688,435	661,843
Total current liabilities		1,138,782	1,038,927
Commitments and contingencies			
Other non-current liabilities		5,941	10,437
Stockholder’s investment, net		2,080,074	2,480,772
Total liabilities and stockholder’s investment	$	3,224,797	3,530,136

See accompanying notes to financial statements.

RECOLOGY OF THE COAST
(A Wholly Owned Subsidiary of Recology Inc.)

Statements of Income and Stockholder's Investment

Years ended September 30, 2017 and 2016

	2017	2016
Revenues:		
Refuse collection	$ 10,278,835	10,207,107
Recycling	272,046	147,140
Total operating revenues	10,550,881	10,354,247
Expenses:		
Collection operations	5,947,265	5,520,760
Truck and garage	2,366,255	2,115,786
General and administrative	1,766,644	1,654,811
Total operating expenses	10,080,164	9,291,357
Operating income	470,717	1,062,890
Other income		
Interest and other	37,490	47,340
Net income	508,207	1,110,230
Stockholder's investment, net, beginning of year	2,480,772	2,333,812
Net distributions to Parent and affiliates	(908,905)	(963,270)
Stockholder's investment, net, end of year	$ 2,080,074	2,480,772

See accompanying notes to financial statements.

RECOLOGY OF THE COAST
(A Wholly Owned Subsidiary of Recology Inc.)

Statements of Cash Flows

Years ended September 30, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Net income	$	508,207	1,110,230
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation		2,437	2,444
Loss/(gain) on disposal of equipment		79,828	(563)
Provision for bad debts		105,505	60,536
Changes in assets and liabilities:			
Accounts receivable		86,252	(113,021)
Parts and supplies		(7,875)	(3,665)
Prepaid expenses		39,192	(33,953)
Accounts payable		17,154	(73,582)
Accrued liabilities		56,109	(35,982)
Deferred revenues		26,592	10,902
Other non-current liabilities		(4,496)	10,437
Net cash provided by operating activities		908,905	933,783
Cash flows used in financing activities:			
Net distributions to Parent and affiliates		(908,905)	(933,783)
Net change in cash		—	—
Cash, beginning of year		—	—
Cash, end of year	$	—	—
Supplemental disclosure of noncash activities:			
Additions to property and equipment funded by Parent	$	—	1,438
Sale proceeds paid directly to Parent		—	(563)
Net transfers of property and equipment to affiliates		—	(30,362)

See accompanying notes to financial statements.

(1) Accounting Policies

(a) Organization

Recology of the Coast (the Company) is a wholly owned subsidiary of Recology Inc. (the Parent or Recology), which in turn is wholly owned by the Recology Employee Stock Ownership Plan (the Recology ESOP or the ESOP).

(b) Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The more significant estimates requiring the judgment of management include the valuation of intangible assets and goodwill, pension and postretirement obligations, self-insurance reserves, allowance for doubtful accounts, 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 receivables, accounts payables and accrued liabilities) are reported in the balance sheets at carrying values that approximate their fair value based upon current market indicators and the short maturity of these instruments.

(d) Cash Concentration Account

The Company's bank account is 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 account has a zero balance, with related amounts debited or credited to the underlying intercompany account.

(e) Revenue Recognition and Accounts Receivable

The Company recognizes revenues on an accrual basis when services are performed and collectability is reasonably assured. Deferred revenue primarily consists of revenues billed in advance that are recorded as revenue in the period in which the related services are rendered. The majority of the Company's revenue are subject to rate regulation by the municipalities in which it operates.

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 its allowance for doubtful accounts based on several factors, including historical collection trends, type of customer, 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. Finance

(Continued)

charge income is recognized on outstanding accounts receivable balances under the respective terms of the amounts due.

(f) Parts and Supplies

Parts and supplies consist of equipment parts, materials, and supplies that are recorded at average cost and are expensed when utilized.

(g) Property and Equipment

Property and equipment, including major renewals and betterments, 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 $2,437 and $2,444 for the years ended September 30, 2017 and 2016, respectively. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

(h) Impairment of Long-Lived Assets

Long-lived assets, such as property, plant, 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 flow 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, 2017 and 2016, no impairment was recorded.

(i) Intangible Asset with Indefinite life

The Company performs an assessment of the fair value of the franchise asset with an indefinite life to test for impairment at least annually. The Company's annual assessments indicated that there was no impairment to the franchise asset value for the years ended September 30, 2017 and 2016.

(j) Income Taxes

Effective October 1, 1998, the Parent elected to become 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, 2017 and 2016, there were no interest expenses or penalties recorded because the Company has no uncertain tax positions that meet the more likely than not threshold.

(k) 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 and on their experience working with regulatory agencies and the Company's environmental staff and legal counsel. No environmental remediation liabilities were accrued at September 30, 2017 and 2016.

(l) Allocations

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

(m) Stockholder's Investment

The Company has 100 shares of common stock authorized, issued, and outstanding with no par value as of September 30, 2017 and 2016. Stockholder's investment, net, is comprised of the legal capital plus cumulative contributions net of distributions.

(Continued)

(2) Operations

The Company collects refuse and recyclables in the City of Pacifica, California, and portions of the County of San Mateo, California. The Company's refuse collection rates are set by the City of Pacifica and the County of San Mateo. The rate setting process may result in the disallowance of certain costs and/or delays in cost recovery, as well as differences in the timing of when revenues and expenses are recognized.

The Company's operating results are affected by variations in its recycling revenues from the sale of recyclable commodities. The Company's recycling revenues are volatile and fluctuate in accordance with changes in recycling commodity volume 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 the aggregate, the costs relating to recycling operations do not fluctuate in accordance with changes in prices of such commodities.

(3) Employee Benefit Plans

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 the 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, 2017 and 2016, were $228,164 and $215,404, 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 multi-employer plans considered to be individually significant:

Pension Fund (1)/ Employer Identification Number/ Plan Number	Pension Protection Act Reported Status		Funding Improvement Plan / Rehabilitation Plan Status		Contributions		Expiration Date of Collective Bargaining Agreement
	2016	2015	2016	2015	2017	2016	
Western Conference of Teamsters Retirement Fund (2)/91-6145047/001	Not Endangered	Not Endangered	Not Applicable	Not Applicable	$ 228,164	$ 215,404	10/31/2021

(1) The Company paid no surcharges for multiemployer pension funds during the years ended September 30, 2017 and 2016.

(2) The Western Conference of Teamsters Retirement Fund utilizes an extended amortization period for losses incurred in 2008.

Unless otherwise noted in the table above, the most recent Pension Protection Act zone status available in 2017 and 2016 is for the plan years ended December 31, 2016 and 2015, respectively. 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 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 $197,799 and $193,474 into the multi-employer union-sponsored postretirement medical plan during 2017 and 2016, respectively.

The Affordable Care Act, which was passed by Congress and signed into law in March 2010, imposes an excise tax on high value health plans (often referred to as Cadillac plans) in addition to other requirements. It is anticipated that these law changes will not have a material impact upon the Company's cost of retiree medical coverage.

The Company, through a plan 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 $16,174 and $16,452 for the years ended September 30, 2017 and 2016, respectively.

(4) Self-Insurance

The Company, through plans managed by its 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 $511,719 and $458,365 for the years ended September 30, 2017 and 2016, respectively, for the cost of self-insurance programs, including certain reserve adjustments. The Company's share of the self-insurance reserve is ultimately recorded by the Parent.

(5) 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 on April 12, 2022. At September 30, 2017, there was no outstanding principal on the Parent's Revolving Credit Agreement and there were standby letters of credit issued for $182.3 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 August 2024. At September 30, 2017, the outstanding principal on the financed equipment recorded by the affiliates was $62.7 million.

The net book value of the equipment financed by an affiliate and utilized by the Company at September 30, 2017, was $58,203.

Approximately, 83% of the Company's employees are subject to a collective bargaining agreement, which expires in October 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 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.

(6) Equipment and Property Obligations

The Company has cancelable agreements with an affiliate whereby it pays for use of certain operating equipment and property. In addition, the Company leases its operating premises from an unrelated third party, which expires on March 31, 2020. Future payments for continued use of the equipment and property, by years ended and in aggregate, as of September 30, 2017, are as follows:

		Equipment	Real Estate	Total
Year ending September 30:				
2018	$	171,056	323,044	494,100
2019		93,147	332,735	425,882
2020		54,478	168,826	223,304
2021		44,800	—	44,800
2022		44,628	—	44,628
Thereafter		42,299	—	42,299
Total payments	$	450,408	824,605	1,275,013

The Company also leases its administrative offices and shop from an affiliate on a month to month basis for an annual rental of $117,000, plus real estate taxes. The Company's rental expense for the years ended September 30, 2017 and 2016, was $661,241 and $663,839, respectively, including amounts under short-term rental agreements with third parties and affiliates.

(7) Transactions with Related Parties

During the years ended September 30, 2017 and 2016, operating and other expenses of the Company included allocated charges by the Parent and affiliates. Such charges are based upon the direct and indirect costs of the Parent and affiliates, or established fees, and are allocated based on specific activities. The allocated charges are as follows:

		2017	2016
Parent:			
Health insurance	$	72,327	79,297
Workers' compensation		301,524	255,831
Pension and 401K		16,174	16,452
General and vehicle insurance		137,868	123,237
Corporate services		445,894	411,098
		973,787	885,915
Affiliates:			
Disposal costs		396,332	355,707
Processing fees		197,475	27,941
Property rental		117,000	117,000
Regional management and accounting fees		173,353	157,745
		884,160	658,393
Total	$	1,857,947	1,544,308

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 or distributions by the Parent. Changes in amounts due from or payable to the Parent and affiliates are presented as a financing activity in the statements of cash flows, except as relating to expenditures attributable to property and equipment, which are presented as supplemental noncash investing activities.

The Company received $224,738 and $13,356 from affiliates in recycling revenues during the years ended September 30, 2017 and 2016, respectively.

(8) Subsequent Events

The Company has evaluated its subsequent events through January 26, 2018, which is the date the financial statements were available for issuance.

RECOLOGY OF THE COAST
(A Wholly Owned Subsidiary of Recology Inc.)

Schedule of Revenues by Franchise Area

Year ended September 30, 2017

		Pacifica	Montara	El Granada	Other	Total
Revenues:						
Refuse collection operations:						
Residential and commercial	$	7,379,399	1,212,372	1,292,024	—	9,883,795
Debris box		344,421	30,236	18,492	1,891	395,040
Recycling		—	—	—	272,046	272,046
Total operating revenues	$	7,723,820	1,242,608	1,310,516	273,937	10,550,881

See accompanying independent auditors’ report.