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Beyond Accounting

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

Financial Statements

September 30, 2020 and 2019

(With Independent Auditors' Report Thereon)



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, 2020 and 2019, 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, 2020 and 2019, 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.

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Sacramento, California
January 25, 2021

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

Balance Sheets

September 30, 2020 and 2019

Assets	<u>2020</u>	<u>2019</u>
Current assets:		
Accounts receivable, net of allowance for doubtful accounts of \$41,708 and \$22,809 in 2020 and 2019, respectively	\$ 1,449,702	1,345,476
Parts and supplies	28,106	11,448
Prepaid expenses	<u>78,588</u>	<u>73,775</u>
Total current assets	<u>1,556,396</u>	<u>1,430,699</u>
Property and equipment:		
Vehicles, containers, and operating equipment	480,918	524,028
Leasehold improvements	24,378	24,378
Less accumulated depreciation	<u>(502,497)</u>	<u>(543,925)</u>
Property and equipment, net	2,799	4,481
Other assets:		
Intangible asset with indefinite life	1,960,000	1,960,000
Other non-current assets	<u>—</u>	<u>17,798</u>
Total assets	<u>\$ 3,519,195</u>	<u>3,412,978</u>
Liabilities and Stockholder's Investment		
Current liabilities:		
Accounts payable	\$ 60,681	107,215
Accrued liabilities:		
Payroll and payroll taxes	64,178	75,461
Vacation and sick leave	128,709	116,402
Accrued franchise fees and other expenses	315,053	302,595
Deferred revenues	<u>836,269</u>	<u>794,504</u>
Total current liabilities	1,404,890	1,396,177
Long-term employer tax deferral	99,546	—
Commitments and contingencies		
Stockholder's investment, net	<u>2,014,759</u>	<u>2,016,801</u>
Total liabilities and stockholder's investment	<u>\$ 3,519,195</u>	<u>3,412,978</u>

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, 2020 and 2019

	2020	2019
Revenues:		
Refuse collection	\$ 11,119,773	11,424,200
Recycling	85,294	89,841
Total operating revenues	11,205,067	11,514,041
Expenses:		
Collection operations	5,803,718	6,627,710
Truck and garage	2,799,040	2,682,259
General and administrative	1,714,031	1,608,812
Total operating expenses	10,316,789	10,918,781
Operating income	888,278	595,260
Other income	27,555	31,563
Net income	915,833	626,823
Stockholder's investment, net, beginning of year	2,016,801	2,142,819
Net distributions to Parent and affiliates	(917,875)	(752,841)
Stockholder's investment, net, end of year	\$ 2,014,759	2,016,801

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, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Net income	\$ 915,833	626,823
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,682	2,437
Provision for bad debts	29,401	9,152
Changes in assets and liabilities:		
Accounts receivable	(133,627)	(65,986)
Parts and supplies	(16,658)	26,957
Prepaid expenses	(4,813)	(5,152)
Other non-current assets	17,798	(9,552)
Accounts payable	(46,534)	30,708
Accrued liabilities	13,482	93,056
Deferred revenues	41,765	44,398
Long-term employer tax deferral	99,546	—
Net cash provided by operating activities	917,875	752,841
Cash flows used in financing activities:		
Net distributions to Parent and affiliates	(917,875)	(752,841)
Net change in cash	—	—
Cash, beginning of year	—	—
Cash, end of year	\$ —	—

See accompanying notes to financial statements.

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

Notes to Financial Statements

September 30, 2020 and 2019

(1) Nature of Business

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 ESOP). 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 by the Parent. The Parent has the ability and intent to continue to support the Company's operations, as needed.

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 the prices of such 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) 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, pension and postretirement obligations, self-insurance reserves, allowance for doubtful accounts, and potential litigation, claims, and assessments. Actual results could differ from those estimates.

RECOLOGY OF THE COAST
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Notes to Financial Statements

September 30, 2020 and 2019

(b) 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.

(c) 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.

(d) 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 portion of the Company's revenue is related to contracts with municipalities and is subject to rate regulation. These contracts are generally long-term in nature and often contain renewal options. Deferred revenue primarily consists of revenue billed in advance that is recognized as revenue in the period in which the related services are rendered. The Company makes certain payments to customers, including payments to municipal customers and commodity rebates to customers in the Company's recycling business, 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 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 charge income is recognized on outstanding accounts receivable balances under the respective terms of the amounts due.

(e) Parts and Supplies

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

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September 30, 2020 and 2019

(f) 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 \$1,682 and \$2,437 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.

(g) 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, 2020 and 2019, no impairment was recorded.

(h) 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, 2020 and 2019.

(i) 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 has no uncertain tax positions that meet the more likely than not threshold.

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September 30, 2020 and 2019

(j) 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, 2020 and 2019.

(k) Stockholder's Investment

The Company has 100 shares of common stock authorized, issued, and outstanding with no par value as of September 30, 2020 and 2019. Stockholder's investment, net, is comprised of the legal capital plus cumulative contributions net of distributions.

(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) Adoption of New Accounting Standards

Effective October 1, 2019, the Company adopted Accounting Standards Update (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 the Company's 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 consolidated 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 \$968,939, with no impact to net income.

In March 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU 2017-07 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,

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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.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires lessees to recognize a right of use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short term lease). The liability 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 financial statements.

(n) Reclassifications

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

(3) Employee Stock Ownership Plan

In 1986, the Parent established an employee stock ownership plan and trust (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 (the 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.

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Notes to Financial Statements

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(4) Employee Benefit Plans

The Company participates in a noncontributory, funded defined benefit pension plan (the Plan) sponsored by its Parent for the benefit of nonunion employees. Benefits are based on a formula that includes years of service and average compensation. As of September 30, 2020 and 2019, the Plan, in which certain of the Company's employees are participants, has projected benefit obligations in excess of plan assets by approximately \$50.6 million and \$115.0 million, respectively. The Company's financial statements do not reflect the Company's share of the projected benefit obligation in excess of plan assets. It is the Parent's current policy to contribute at least the minimum statutory required amount.

The Company's pension expense under the Plan for the years ended September 30, 2020 and 2019, was \$16,598 and \$9,146, respectively, which represents an allocation of approximately 0.09% and 0.10% of the Parent's plan expense for both 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 4.0% for both the 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 funds has not been determined.

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, 2020 and 2019, were \$285,807 and \$268,170, respectively. The Company's portion of the actuarially computed value of the vested and non-vested 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 a multi-employer plan 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
			2020	2019	
Western Conference of Teamsters Retirement Fund (2)/91-6145047/001	Not Endangered	Not Applicable	\$ 285,807	\$ 268,170	October 2021

(1) The Company paid no surcharges for multiemployer pension funds during the years ended September 30, 2020 and 2019.

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

The most recent Pension Protection Act zone status available as of September 30, 2020, is for the plan's year ended 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%

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Notes to Financial Statements

September 30, 2020 and 2019

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 \$260,878 and \$244,395 into the multi-employer union-sponsored postretirement medical plan during the years ended September 30, 2020 and 2019, respectively.

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 \$21,440 and \$23,344 for the years ended September 30, 2020 and 2019, respectively.

(5) 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 \$727,929 and \$598,388 for the years ended September 30, 2020 and 2019, respectively, for the cost of self-insurance programs, including certain reserve adjustments. The Company's share of the self-insurance reserve is ultimately reflected as a liability of the Parent.

(6) 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, 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 \$512,900.

Approximately 81% of the Company's employees are subject to a collective bargaining agreement, which expires in October 2021.

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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.

(7) Equipment and Property Obligations

The Company has cancelable agreements with an affiliate that have one year terms whereby it pays for use of certain operating equipment and property. 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. In addition, the Company leases its operating premises from an unrelated third party on a month to month basis with a monthly rental of \$26,546 as the parties negotiate a new longer-term lease agreement.

The Company's rental expense for the years ended September 30, 2020 and 2019, was \$753,267 and \$683,693, respectively, including amounts under short-term rental agreements with third parties and affiliates.

(8) Transactions with Related Parties

During the years ended September 30, 2020 and 2019, operating and other expenses of the Company included allocated charges by the Parent and its affiliates. Such charges are based upon the direct and indirect costs of the Parent and its affiliates. Direct costs are allocated on a specific-identification basis. Indirect costs are allocated pro-rata based on revenues of each affiliate. The allocated charges are as follows:

	<u>2020</u>	<u>2019</u>
Parent:		
Health insurance	\$ 126,676	123,927
Workers' compensation	372,028	291,307
Pension and 401K	38,038	32,490
General and vehicle insurance	229,225	183,154
Corporate services	399,259	320,154
	<u>1,165,226</u>	<u>951,032</u>
Affiliates:		
Disposal costs	22,089	301,901
Processing fees	102,898	73,558
Property rental	117,000	117,000
Regional management and accounting fees	191,960	172,922
	<u>433,947</u>	<u>665,381</u>
Total	<u>\$ 1,599,173</u>	<u>1,616,413</u>

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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 \$0 and \$244 from affiliates in recycling revenues during the years ended September 30, 2020 and 2019, respectively.

(9) Subsequent Events

The Company has evaluated its subsequent events through January 25, 2021, which is the date the financial statements were available for issuance and determined there were no items to be disclosed.

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Schedule of Revenues by Franchise Area

Year ended September 30, 2020

	<u>Pacifica</u>	<u>Montara</u>	<u>El Granada</u>	<u>Other</u>	<u>Total</u>
Revenues:					
Refuse collection operations:					
Residential and commercial	\$ 8,686,591	1,387,988	1,375,656	—	11,450,235
Debris box	488,398	98,168	51,910	—	638,476
Recycling	—	—	—	85,294	85,294
Total gross revenue	9,174,989	1,486,156	1,427,566	85,294	12,174,005
Franchise fees and surcharges	(909,996)	(26,213)	(32,729)	—	(968,938)
Total operating revenues	\$ <u>8,264,993</u>	<u>1,459,943</u>	<u>1,394,837</u>	<u>85,294</u>	<u>11,205,067</u>

See accompanying independent auditors' report.