

Recology Western Oregon - Valley Inc.
(A Wholly Owned Subsidiary of Recology Inc.)

Financial Statements

December 31, 2021
(With Independent Accountant's Review Report)



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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors of
Recology Western Oregon – Valley Inc.
McMinnville, Oregon

We have reviewed the accompanying financial statements of Recology Western Oregon – Valley Inc., which comprise the balance sheet as of December 31, 2021, and the related statements of earnings and stockholders' investment, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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; and for 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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. The supplementary information included in the accompanying Schedule of Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we did not become aware of any material modifications that should be made to such information.

Armanino LLP

Armanino ^{LLP}
San Ramon, California

March 25, 2022



An independent firm
associated with Moore
Global Network Limited

RECOLOGY WESTERN OREGON - VALLEY INC.

(A Wholly Owned Subsidiary of Recology Inc.)

Balance Sheet

December 31, 2021

ASSETS

Current assets:

Accounts receivable, net of allowance for doubtful accounts of \$19,866	\$ 1,801,178
Prepaid expenses	49,902
Due from parent	226,496
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Total current assets	2,077,576

Fixed assets:

Machinery and equipment	2,036,496
Less accumulated depreciation	(2,020,669)
	<hr/>
Property and equipment, net	15,827
Total assets	\$ 2,093,403

LIABILITIES AND STOCKHOLDER'S INVESTMENT

Current liabilities:

Accounts payable	\$ 53,655
Accrued liabilities	261,617
Deferred revenues	1,285,885
Deferred taxes	34,129
	<hr/>
Total current liabilities	1,635,286

Stockholder's investment, net

	458,117
	<hr/>
Total liabilities and stockholder's investment	\$ 2,093,403

See accompanying notes to financial statements and independent accountant's review report.

RECOLOGY WESTERN OREGON - VALLEY INC.
(A Wholly Owned Subsidiary of Recology Inc.)
Statement of Earnings and Stockholder's Investment
For the year ended December 31, 2021

Revenues, net	<u>\$ 14,513,324</u>
Cost of operations	
Intercompany refuse disposal	2,071,441
Third party refuse disposal	507,067
Labor costs	2,410,778
Operational expenses	<u>6,628,864</u>
Total cost of operations	<u>11,618,150</u>
Gross profit	2,895,174
General and administrative expenses	<u>2,212,473</u>
Earnings from operations	<u>682,701</u>
Other income	
Interest income	31,091
Gain on asset disposal	<u>10,000</u>
Total other income	41,091
Net earnings	723,792
Stockholder's investment, net, beginning of year	684,888
Net distributions to parent and affiliates	<u>(950,563)</u>
Stockholder's investment, net, end of year	<u><u>\$ 458,117</u></u>

See accompanying notes to financial statements and independent accountant's review report.

RECOLOGY WESTERN OREGON - VALLEY INC.

(A Wholly Owned Subsidiary of Recology Inc.)

Statement of Cash Flows

For the year ended December 31, 2021

Cash flows from operating activities:	
Net earnings	\$ 723,792
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation	11,458
Gain on disposal of equipment	(10,000)
Provision for bad debts	152,556
Changes in assets and liabilities:	
Accounts receivable	74,439
Prepaid expenses	11,028
Due from parent	(5,864)
Accounts payable	17,567
Accrued liabilities	(81,752)
Deferred revenues	55,633
Deferred taxes	(8,294)
Net cash provided by operating activities	<u>940,563</u>
Cash flows provided by investing activities:	
Proceeds from sale of equipment sold	<u>10,000</u>
Cash flows used in financing activities:	
Net distributions to parent and affiliates	<u>(950,563)</u>
Net change in cash	-
Cash, beginning of year	<u>-</u>
Cash, end of year	<u>\$ -</u>

See accompanying notes to financial statements and independent accountant's review report.

RECOLOGY WESTERN OREGON - VALLEY INC.

(A Wholly - Owned Subsidiary of Recology Inc.)

Notes to Financial Statements

December 31, 2021

1. ORGANIZATION AND ACCOUNTING POLICIES

Organization

Recology Western Oregon - Valley Inc. (the "Company"), is a wholly owned subsidiary of Recology Oregon Inc., which 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").

Revenue recognition and accounts receivable

The Company recognizes revenue on an accrual basis when services are performed. Deferred revenues primarily consist 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 is 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 accordance with the Company's adoption of ASU 2014-09 during 2019, municipal franchise fees totaling \$567,718 are presented as a reduction to revenue for the year ended December 31, 2021.

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:

	<u>Estimated useful lives</u>
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 amounted to \$11,458 for the year ended December 31, 2021. The cost of maintenance and repairs is charged to operations as incurred; the cost of significant renewals and betterments are capitalized.

RECOLOGY WESTERN OREGON - VALLEY INC.

(A Wholly - Owned Subsidiary of Recology Inc.)

Notes to Financial Statements

December 31, 2021

1. ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Environmental remediation liabilities

The Company accrues 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. All estimates require assumptions about future events due to a number of uncertainties, including the nature and extent of any contamination, the appropriate remedy or remedies, the final apportionment of responsibility among the potentially responsible parties, if any are identified, the financial viability of other potentially responsible parties, and regulatory agency requirements. Thus, actual costs incurred may differ from the Company's initial estimate. These estimates do not take into account discounts for the present value of total estimated future costs, as the timing of cash payments is not reliably determinable. The Company regularly evaluates the recorded liabilities when additional information becomes available or regulatory changes occur to ascertain whether the accrued amounts are adequate. The Company does not recognize recoverable amounts from other responsible parties or insurance carriers until receipt is deemed probable. No environmental liabilities were accrued at December 31, 2021.

Impairment of long-lived assets

The Company's policy is to review estimated undiscounted future cash flows and other measures of asset value for its operations when events or changes in circumstances indicate the carrying value of an asset may not be fully recoverable.

During the year ended December 31, 2021, there were no events or changes in circumstances that indicated the carrying value of an asset was not fully recoverable.

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 year ended December 31, 2021, there was no interest or penalties recorded because the Company has no uncertain tax positions that meet the more likely than not threshold.

RECOLOGY WESTERN OREGON - VALLEY INC.

(A Wholly - Owned Subsidiary of Recology Inc.)

Notes to Financial Statements

December 31, 2021

1. ORGANIZATION AND ACCOUNTING POLICIES (continued)

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. 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.

Allocations

The Company includes allocated charges from the Parent and affiliates in operating 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.

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 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 the valuation of the allowance for doubtful accounts and accrued franchise fees. Actual results could differ from those estimates.

Stockholder's investment, net

The Company has 100,000 shares of common stock authorized and 1,000 shares issued and outstanding with no par value as of December 31, 2021. Stockholder's investment, net is comprised of the legal capital plus cumulative contributions net of distributions.

Fair value of financial instruments

The carrying amounts reported in the balance sheets of the assets and liabilities, which are considered to be financial instruments (such as receivables, accounts payable, and accrued liabilities), approximate their fair value based upon current market indicators.

Concentration of credit risk

Cash and accounts receivable are financial instruments that potentially expose the Company to credit risk. 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. Management believes that the Company is not exposed to significant concentration risk on cash. As of December 31, 2021, two jurisdictions accounted for approximately 78% of the accounts receivable balance.

RECOLOGY WESTERN OREGON - VALLEY INC.
(A Wholly - Owned Subsidiary of Recology Inc.)
Notes to Financial Statements
December 31, 2021

1. ORGANIZATION AND ACCOUNTING POLICIES (continued)

Leases

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 adopted the new standard as of October 1, 2021, using a modified retrospective transition and will consider certain permitted practical expedients. The Company has assessed the impact of implementing this new accounting standard on its combined financial statements. Recology Western Oregon – Valley Inc. did not record a right of use asset.

2. OPERATIONS

The Company collects refuse and recyclables in the City of McMinnville and surrounding municipalities in Yamhill and Polk Counties. The Company's refuse collection rates are set by these municipalities. 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.

During the year ended December 31, 2021, the Company disposed of refuse collected by its operations at a facility owned and operated by an affiliate as well as a facility owned and operated by a third party. Yard debris and other recyclable commodities were primarily disposed at a facility owned and operated by an affiliate.

3. 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 bases, 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, 2021, there was an outstanding balance of \$262.0 million on the Parent's Revolving Credit Agreement and there were standby letters of credit issued totaling \$111.2 million. The Parent has represented to the Company that it is in compliance with all covenants of the Revolving Credit Agreement.

RECOLOGY WESTERN OREGON - VALLEY INC.

(A Wholly - Owned Subsidiary of Recology Inc.)

Notes to Financial Statements

December 31, 2021

3. COMMITMENTS AND CONTINGENCIES (continued)

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.

4. LEASE EQUIPMENT AND PROPERTY OBLIGATIONS

The Company has cancelable agreements with an affiliate whereby it pays for use of certain operating equipment. Future payments for continued use of the equipment and property, by year-end and in aggregate, as of December 31, 2021 are as follows:

Year ending December 31:

2022	\$ 928,809
2023	808,905
2024	550,570
2025	390,990
2026	215,908
Thereafter	<u>134,409</u>
Total future payments	<u>\$3,029,591</u>

Rental expense for the year ended December 31, 2021, was \$1,063,302 including amounts under short-term rental agreements with third parties and affiliates.

Under the terms of the equipment lease agreement 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 affiliate's equipment cost and related interest have been funded through operating lease payments.

RECOLOGY WESTERN OREGON - VALLEY INC.

(A Wholly - Owned Subsidiary of Recology Inc.)

Notes to Financial Statements

December 31, 2021

5. TRANSACTION WITH RELATED PARTIES

During the year ended December 31, 2021, operating and other expenses of the Company included allocated charges from the Parent and affiliates. Such charges are based upon the direct and indirect costs of the Parent and affiliates, or established fees, and allocated based on specific activities. The allocated charges are as follows:

Parent:	
Health insurance	\$ 11,551
Worker's compensation	90,356
401(k) employer portion	(705)
General and vehicle insurance	<u>188,785</u>
	<u>289,987</u>
Affiliates:	
Collection Revenue	(725,054)
Rental of equipment	903,028
Property rental	12,960
Disposal costs	3,569,189
Processing fees	1,126,258
General and administration allocation	1,357,289
Truck and garage expenses	1,001,026
Regional management and accounting fees	<u>434,194</u>
	<u>7,678,890</u>
Total	<u>\$7,968,877</u>

During the year ended December 31, 2021, amounts due from or payable to Parent and affiliates were accumulated by the Company and, as of the Parent's fiscal year-end, September 30, 2021, the net amount was settled by way of capital contributions or distributions. Changes in amounts due from or payable to Parent or affiliates are presented as a financing activity in the statement of cash flows, except as related to expenditures attributable to property and equipment. For the three months from October 1, 2021, to December 31, 2021, the net amount was not settled by way of capital contributions or distributions, net amounts due from parents totaled \$226,496 as of December 31, 2021.

6. EMPLOYEE STOCK OWNERSHIP PLAN

In 1986, the Parent established an employee stock ownership plan and trust, which purchased all of the Parent's outstanding stock. The ESOP is a noncontributory plan that covers substantially all of the employees of the Company and other Recology subsidiaries. Employees, except under certain conditions, become fully vested after a requirement of three years of service. No vesting occurs until the full-service requirement is satisfied.

The Parent's common stock is not traded on an established market. Presently, all shares are held by the ESOP. All distributions will be made from the ESOP in cash, which is received from Recology, or shares, subject to immediate repurchase by Recology. 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".

RECOLOGY WESTERN OREGON - VALLEY INC.

(A Wholly - Owned Subsidiary of Recology Inc.)

Notes to Financial Statements

December 31, 2021

6. EMPLOYEE STOCK OWNERSHIP PLAN (continued)

The Committee also generally determines the time and manner of distributions, subject to the following limitations: (i) in the event of a participant's retirement, disability, or death, distribution must begin prior to September 30th of the plan year following the plan year in which employment terminates; and (ii) if a participant's employment terminates for any other reason, distribution must begin prior to September 30th of the sixth plan year following the plan year in which employment terminates, although the Committee may further defer distributions that are not attributable to post-1986 shares until the participant reaches the age that he or she would be required to reach in order to qualify for retirement 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. The cash distributions are based upon the appraised value of Recology stock and other assets, if any, as of the most recent valuation of the participant's account.

The Parent makes contributions to the ESOP to make benefit payments to eligible participants under the Plan.

7. RISK AND UNCERTAINTIES

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.

8. SUBSEQUENT EVENTS

The Company has evaluated its subsequent events through March 25, 2022, which is the date the financial statements were available for issuance. As a result of the evaluation, we are not aware of any subsequent events that should have a material impact on the financial statements.

SUPPLEMENTARY INFORMATION

RECOLOGY WESTERN OREGON - VALLEY INC.

(A Wholly Owned Subsidiary of Recology Inc.)

Schedule of Expenses

For the year ended December 31, 2021

Operational expenses	
Depreciation	\$ 11,458
Fuel	599,388
Insurance	188,785
Supplies	87,384
Operational lease expense	1,063,302
Recycling processing costs	1,126,258
Repair and maintenance	1,782,509
Taxes and licenses	224,123
Yard debris funding	1,497,748
Other operational expenses	47,909
Total operational expenses	<u>\$ 6,628,864</u>
General and administrative expenses	
General administration allocation	\$ 1,357,289
Regional management and accounting fees	434,194
Advertising and promotion	1,796
Bad debt	152,556
Contributions	8,075
Billing services	65,399
Dues and subscriptions	23,239
Education and training	765
Bank service charges	53,985
Meals	2,828
Office supplies	11,247
Postage	15,533
Professional services	14,319
Telephone	62,310
Travel	2,029
Other administration	6,909
Total general and administrative expenses	<u>\$ 2,212,473</u>

See accompanying notes to financial statements and independent accountant's review report.