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

Financial Statements

December 31, 2022
(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, 2022, and the related statements of income and stockholder's 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 Recology Western Oregon - Valley Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company adopted FASB Topic 842, *Leases*. Our conclusion is not modified with respect to that matter.

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.

Supplementary Information

The supplementary information included on page 14 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management. We have not audited or reviewed such information and do not express an opinion, a conclusion, nor provide any assurance on such supplementary information.

Armanino LLP

Armanino LLP
San Ramon, California

April 14, 2023

RECOLOGY WESTERN OREGON - VALLEY INC.
(A Wholly Owned Subsidiary of Recology Inc.)
Balance Sheet
December 31, 2022

ASSETS

Current assets:		
Accounts receivable, net of allowance for doubtful accounts of $30,078	$	1,998,040
Other receivables		2,425
Prepaid expenses		39,783
Due from parent		634,154
Total current assets		2,674,402
Fixed assets:		
Machinery and equipment		1,994,189
Less accumulated depreciation		(1,989,833)
Property and equipment, net		4,356
Total assets	$	2,678,758

LIABILITIES AND STOCKHOLDER'S INVESTMENT

Current liabilities:		
Accounts payable	$	81,292
Accrued liabilities		258,023
Deferred revenues		1,432,219
Total current liabilities		1,771,534
Stockholder's investment, net		907,224
Total liabilities and stockholder's investment	$	2,678,758

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 Income and Stockholder's Investment
For the Year Ended December 31, 2022

Revenues, net	$ 15,792,750
Cost of operations	
Intercompany refuse disposal	2,737,531
Third party refuse disposal	117,716
Labor costs	2,624,455
Operational expenses	6,597,529
Total cost of operations	12,077,231
Gross profit	3,715,519
General and administrative expenses	2,386,992
Income from operations	1,328,527
Other income	
Interest income	26,686
Gain on disposal of equipment	4,125
Total other income	30,811
Net income	1,359,338
Stockholder's investment, net, beginning of year	458,117
Net distributions to parent and affiliates	(910,231)
Stockholder's investment, net, end of year	$ 907,224

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, 2022

Cash flows from operating activities:	
Net income	$ 1,359,338
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation	11,471
Gain on disposal of equipment	(4,125)
Provision for bad debts	69,847
Changes in assets and liabilities:	
Accounts receivable	(266,709)
Other receivables	(2,425)
Prepaid expenses	10,119
Accounts payable	27,638
Accrued liabilities	(3,594)
Deferred revenues	146,333
Other liabilities	(34,129)
Net cash provided by operating activities	1,313,764
Cash flows provided by investing activities:	
Proceeds from disposal of equipment	4,125
Cash flows used in financing activities:	
Due from parent	(407,658)
Net distributions to parent and affiliates	(910,231)
Net cash provided by financing activities	(1,317,889)
Net change in cash	-
Cash, beginning of year	-
Cash, end of year	$ -

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

(1) NATURE OF BUSINESS

Recology Oregon Waste - 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").

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, 2022, 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.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the new revenue recognition standard during 2019, municipal franchise fees were presented as a reduction to revenue for the year ended December 31, 2022.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 amounted to $11,471 for the year ended December 31, 2022. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized.

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 ranges 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 remediation liabilities were accrued at December 31, 2022.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022, there were no events or changes in circumstances that indicated the carrying value of an asset was not fully recoverable.

Leases

The Company leases certain land, buildings, vehicles, and equipment used in the Company's operations under lease agreements. The Company is responsible for all maintenance costs, taxes, and insurance on the buildings, vehicles, and equipment under lease agreements.

The Company accounts for leases in accordance with Accounting Standards Codification Topic 842, Leases. The Company determines if an arrangement is or contains a lease at contract inception. The Company recognizes a right-of use ("ROU") asset and a lease liability at the lease commencement date.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received.

The Company's leases have varying terms, some of which include renewal or escalation clauses, which are considered in determining minimum leases payments. The lease term for all the Company's leases includes the noncancelable period of the lease plus any additional periods covered by either a Company option to extend (or not to terminate) the lease that the Company is reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor. 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 has elected not to include these leases with an initial term of 12 months or less in the balance sheets and payments associated with these short term-leases are recognized as an operating expense on a straight-line basis over the lease term. Leases are classified as either operating leases or finance leases at inception.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 administrative expenses. For the year ended December 31, 2022, there were no interest or penalties recorded because the Company has no uncertain tax positions that meet the more likely than not threshold.

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.

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, leases, allocation of shared costs 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, 2022. Stockholder's investment, net is comprised of the legal capital plus cumulative contributions net of distributions.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 any significant risk on cash. As of December 31, 2022, two jurisdictions accounted for approximately 78% of accounts receivable.

New accounting standards

In February 2016, the FASB issued ASU 2016 02, *Leases (Topic 842).* ASU 2016 02 requires lessees to recognize a right of use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability is equal to the present value of lease payments. The asset is based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases result in straight line expense (similar to current operating leases) while finance leases result in a front-loaded expense pattern (similar to current capital leases). Classification is based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. The Company adopted the new standard as of January 1, 2022 using a modified retrospective transition and considered certain permitted practical expedients. The Company has assessed the potential impact of implementing this new accounting standard on its financial statements. The Company does not anticipate recording a right of use asset.

(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 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 December 31, 2022, there was an outstanding balance of $262.0 million on the Parent's Revolving Credit Agreement and there were standby letters of credit issued for $118.4 million. The Parent has represented to the Company that it is in compliance with all covenants of the Revolving Credit Agreement.

The Company, along with the Parent and the Parent's wholly owned subsidiaries, has guaranteed the payment of amounts owed to unrelated third parties, which provided the equipment financing to affiliates of the Company. The affiliates are obligated to the unrelated third parties with various expiration dates through June 2027. At December 31, 2022, the outstanding principal on the financed equipment recorded by the affiliates was $20.4 million.

(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) LEASES

The Company's main office facility and storage yard, located in Western Oregon Valley, is leased under a 12 month fully cancelable lease ranging from $2,296 to $10,311 per month. The Company also leases all equipment under 12 month fully cancelable annually renegotiated leases, ranging from $9 to $2,580 per month. The annual rent expense for both facilities totaled $156,105 and all equipment $818,375 for the year ended December 31, 2022.

Rental expense for the year ended December 31, 2022 was $974,480 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.

(5) TRANSACTIONS WITH RELATED PARTIES

During the year ended December 31, 2022, 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	$	10,744
Worker's Compensation		114,664
401(k) Employer Portion		2,607
General and Vehicle Insurance		103,026
		231,041
Affiliates:		
Collection Revenue		(980,668)
Freight		0
Rental of Equipment		822,369
Property Rental		12,960
Disposal Costs		4,021,934
Processing Fees		996,142
General and Administration Allocation		1,463,057
Truck and Garage		1,002,167
Regional Management and Accounting Fees		487,681
		7,825,642
	$	8,056,683

During the year ended December 31, 2022, 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, 2022, 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, 2022 to December 31, 2022, the net amount was not settled by way of capital contributions or distributions.

(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.

(6) EMPLOYEE STOCK OWNERSHIP PLAN (CONTINUED)

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). 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 30 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 30 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) SUBSEQUENT EVENTS

The Company has evaluated its subsequent events through April 7, 2023, which is the date the financial statements were available for issuance. As a result of the evaluation, we are not aware of any material modifications that should be made to these financial statements for them to be in conformity with generally accepted accounting principles.

SUPPLEMENTARY INFORMATION

RECOLOGY WESTERN OREGON - VALLEY INC.
(A Wholly Owned Subsidiary of Recology Inc.)
Schedule of Operational and General & Administrative Expenses
For the Year Ended December 31, 2022

Operational expenses		
Contract labor	$	119
Depreciation		11,471
Fuel		1,022,431
Insurance		103,026
Supplies		95,324
Operational lease expense		974,480
Recycling processing costs		996,142
Repair and maintenance		1,773,569
Taxes and licenses		300,918
Yard debris funding		1,284,403
Other operational expenses		35,646
Total operational expenses	$	6,597,529

General and administrative expenses		
General administration allocation	$	1,463,057
Regional management and accounting fees		487,681
Advertising and promotion		3,719
Bad debt		69,847
Contributions		10,721
Billing services		58,361
Dues and subscriptions		29,411
Education and training		5,293
Bank service charges		83,140
Meals		8,302
Office supplies		20,615
Postage		30,659
Professional services		36,768
Telephone		66,146
Travel		3,131
Other administration		10,141
Total general and administrative expenses	$	2,386,992

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