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

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

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

SUNSET SCAVENGER COMPANY AND
GOLDEN GATE DISPOSAL & RECYCLING COMPANY

(Wholly Owned Subsidiaries of Recology Inc.)

Combined Financial Statements and Supplementary Information

September 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report

The Board of Directors
Sunset Scavenger Company and
Golden Gate Disposal & Recycling Company:

We have audited the accompanying combined financial statements of Sunset Scavenger Company and Golden Gate Disposal & Recycling Company (the Company) (wholly owned subsidiaries of Recology Inc.), which comprise the combined balance sheets as of September 30, 2016 and 2015, and the related combined statements of income, changes in stockholder's investment, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Sunset Scavenger Company and Golden Gate Disposal & Recycling Company as of September 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary information included in Schedule 1 is presented for the purpose of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

San Francisco, California
December 15, 2016

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

Combined Balance Sheets

September 30, 2016 and 2015

Assets	**2016**	**2015**
Current assets:		
Accounts receivable, less allowance for doubtful accounts of $162,098 and $171,322 in 2016 and 2015, respectively	$ 34,098,395	32,523,702
Parts and supplies	1,473,272	1,418,916
Prepaid expenses and other current assets	1,336,478	1,307,231
Total current assets	36,908,145	35,249,849
Property and equipment:		
Vehicles, containers, and operating equipment	838,380	1,790,733
Leasehold improvements	7,398,127	5,708,826
Furniture and fixtures	414,175	381,680
Total property and equipment	8,650,682	7,881,239
Less accumulated depreciation and amortization	4,614,302	5,425,567
Property and equipment, net	4,036,380	2,455,672
Permits	50,014,837	50,014,837
Goodwill, net of accumulated amortization of $5,992 and $3,998 in 2016 and 2015, respectively	13,958	15,952
Investment in Recology San Francisco	30,553,071	13,616,817
Total assets	$ 121,526,391	101,353,127
Liabilities and Stockholder’s Investment		
Current liabilities:		
Accounts payable	$ 706,576	505,008
Accrued liabilities:		
Vacation and sick leave	1,894,516	2,127,521
Payroll and payroll taxes	1,780,152	3,178,732
Other accrued expenses	2,598,467	967,853
Deferred revenues	7,224,836	7,303,085
Total current liabilities	14,204,547	14,082,199
Total liabilities	14,204,547	14,082,199
Commitments and contingencies (note 8)		
Stockholder’s investment, net	107,321,844	87,270,928
Total liabilities and stockholder’s investment	$ 121,526,391	101,353,127

See accompanying notes to combined financial statements.

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

Combined Statements of Income

Years ended September 30, 2016 and 2015

		2016	2015
Revenues:			
Commercial	$	172,393,438	163,966,667
Residential		74,581,356	73,348,801
Apartments		59,649,003	58,698,433
Other		2,893,264	1,743,000
Revenue from affiliate		17,582	17,427
		309,534,643	297,774,328
Less amounts reserved for impound and zero waste incentive accounts		(19,028,907)	(18,810,042)
Total operating revenues		290,505,736	278,964,286
Expenses:			
Refuse collection		183,051,368	176,857,453
Truck and garage		25,631,195	24,219,501
Debris box		32,119,492	30,392,623
General and administrative		22,305,989	23,718,416
Total operating expenses		263,108,044	255,187,993
Operating income		27,397,692	23,776,293
Other income:			
Recology San Francisco, net income share		21,445,451	8,952,577
Other		123,663	96,994
Net income	$	48,966,806	32,825,864

See accompanying notes to combined financial statements.

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

Combined Statements of Changes in Stockholder's Investment

Years ended September 30, 2016 and 2015

		Total stockholder's investment
Balances, September 30, 2014	$	88,713,274
Net income		32,825,864
Net distribution to Parent		(34,268,210)
Balances, September 30, 2015		87,270,928
Net income		48,966,806
Net distribution to Parent		(28,915,890)
Balances, September 30, 2016	$	107,321,844

See accompanying notes to combined financial statements.

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

Combined Statements of Cash Flows

Years ended September 30, 2016 and 2015

		2016	2015
Cash flows from operating activities:			
Net income	$	48,966,806	32,825,864
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		326,879	268,656
Provision for bad debts		167,963	82,041
Loss on disposal of assets		398,000	—
Share of income of Recology San Francisco		(21,445,451)	(8,952,577)
Changes in assets and liabilities:			
Accounts receivable		(1,742,656)	(2,815,674)
Parts and supplies		(54,356)	15,519
Prepaid expenses and other current assets		(29,247)	(15,420)
Deferred revenues		(78,249)	877,365
Accounts payable		201,568	(329,745)
Accrued liabilities		(971)	580,933
Net cash provided by operating activities		26,710,286	22,536,962
Cash flows used in financing activities:			
Net distributions to Parent and affiliates		(26,710,286)	(22,536,962)
Net change in cash		—	—
Cash, beginning of year		—	—
Cash, end of year	$	—	—
Supplemental disclosure of noncash activities:			
Distribution from Recology San Francisco	$	(4,509,197)	(12,509,748)
Additions to property and equipment funded by Parent		2,303,593	778,500

See accompanying notes to combined financial statements.

(1) Accounting Policies

(a) Organization

The accompanying financial statements are the combined statements of Sunset Scavenger Company and Golden Gate Disposal & Recycling Company (the Company), which are wholly owned subsidiaries of Recology Inc. (the Parent or Recology), which in turn is wholly owned by the Recology Employee Stock Ownership Plan (the ESOP). The Company eliminates intercompany transactions between the combined companies and combines their individual ownership interests in unconsolidated subsidiary (note 3).

(b) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these combined financial statements in conformity with accounting principles generally accepted in the United States of America. The more significant estimates requiring the judgment of management include pension and postretirement obligations, valuation of intangible assets, self-insurance reserves, allowances for accounts receivable, zero waste incentive accounting (note 4), and potential litigation, claims, and assessments. Actual results could differ from those estimates.

(c) Fair Value of Financial Instruments

Assets and liabilities that are considered to be financial instruments (such as accounts receivable, accounts payable, and accrued liabilities) are reported in the combined balance sheets at carrying values that approximate their fair value based upon current market indicators and the short maturity of these instruments.

(d) Cash Concentration Account

The Company's bank accounts are linked to the Parent's concentration account. Cash balances (or deficits) at the end of each day are automatically transferred to (or from) the concentration account, so that at the end of any particular day, as well as at year-end, the Company's bank accounts have a zero balance, with related amounts debited or credited to the underlying intercompany account.

(e) Revenue Recognition and Accounts Receivable

The Company generally recognizes revenue when services are performed or products are delivered and collectibility is reasonably assured. Deferred revenue primarily consists of revenue billed in advance that is recorded as revenue in the period in which the related services are rendered. A significant amount of the Company's revenue is subject to rate regulation and adjustment in accordance with the San Francisco Rate Orders. Revenue recognition related to contractual diversion goals is based on the Company's estimation of the likelihood that it will reach those diversion goals.

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, 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.

(f) Parts and Supplies

Parts and supplies consist of fuel, oil, tires, tubes, repair parts, containers, and bins, are recorded at average cost, and are expensed when utilized.

(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 $324,885 and $266,662 for the years ended September 30, 2016 and 2015, 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 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, 2016 and 2015, no impairment was recorded.

(i) Intangible Assets

The Company performs an assessment of the fair value of permits for impairment at least annually. The Company's annual assessments indicated that there was no impairment to the permit values.

(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, 2016 and 2015, there were no interest expenses or penalties recorded, because the Company had no uncertain tax positions that met the more-likely than-not threshold.

(k) Stockholder's Investment

The Company has 30,000 shares of common stock authorized and 12,304 shares issued and outstanding with no par value as of September 30, 2016 and 2015. 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) Reclassifications

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

(2) Operations

The Company provides solid waste, recyclables, and organics collection services in San Francisco. The Company's collection rates for residences and apartments are set by the Refuse Collection and Disposal Rate Board of the City and County of San Francisco (the Rate Board). The rates are set to allow the Company to recover its operating costs plus a return on those costs, with certain mandated exceptions. This rate-setting process may result in the disallowance of certain costs and/or delays in cost recovery.

The Company together with Recology San Francisco filed a rate application to the Department of Public Works on March 14, 2013. On July 23, 2013, the Rate Board approved the 2013 San Francisco Rate Order (the Rate Order or 2013 Rate Order). The Rate Order approved the rates for the 2014 rate year (Rate Year 2014 began July 1, 2013) and a cost-of-living adjustment (COLA) for up to four years after the first year through and including the rate year ending June 30, 2018. The Rate Order includes the City's adoption of new rate structures for residential and apartment customers. New rates became effective August 1, 2013. The new residential rate structure includes separate identification of fixed charges and volumetric charges on recycling and composting service. The new apartment rate structure includes a fixed charge and a variable charge based on total service volume, with incentives to participate in recycling and composting collection programs. As a result of the Rate Order, the recycling incentive program for commercial customers was modified whereby 90% of the charges for containerized services are eligible for a diversion discount, equal to the percentage of recycling and compostables service volume to total service volume in excess of 10%, up to a maximum discount of 75%. The new rate structure for commercial customers became effective July 1, 2013. A COLA increase was applied to the rates effective July 1, 2015. The Company received approval from the Department of Public Works to use funds from the Zero Waste Incentive Account (ZWIA) to offset the COLA effective July1, 2016. On September 2, 2016, the Company submitted a notice of intent to file a rate application.

(3) Investment in Recology San Francisco

Sunset Scavenger Company and Golden Gate Disposal & Recycling Company each has a 50% ownership interest in Recology San Francisco. The investment in Recology San Francisco is accounted for under the equity method of accounting.

Summarized financial information of Recology San Francisco as of September 30 is as follows:

		2016	2015
Financial position:			
Current assets	$	25,409,607	23,555,197
Current liabilities		(23,289,582)	(26,520,151)
		2,120,025	(2,964,954)
Long-term liabilities		(1,453,736)	(55,774)
Property and equipment, net and non current and other assets		29,886,782	16,637,545
Stockholder's investment	$	30,553,071	13,616,817
Operations:			
Revenue	$	149,629,176	126,798,568
Expenses, net of other expense and income		(128,183,725)	(117,845,991)
Net income	$	21,445,451	8,952,577

Recology San Francisco's operating results were affected by variations in its recycling revenue and expenses from the sale of recyclable commodities. Recology San Francisco's recycling revenue and expenses can be volatile and fluctuate in accordance with changes in the recycling commodity mix and in the prices of recyclable commodities, which may be dependent on changes in worldwide supply of, and demand for, such recyclable commodities.

(Continued)

(4) Regulatory and Contractual Obligations

Historically, the Company was required to deposit funds on a monthly basis, into the Recology San Francisco Special Reserve Fund (Special Reserve Fund) from refuse collection billings. The dollar amount deposited represented a 1.3% surcharge of certain volume-related billings to the Company's customers, as approved by the Rate Board and collected by the Company.

On October 8, 2010, the Rate Board issued an order that reallocated the proceeds from the surcharge related to the Special Reserve Fund to the Impound Account for Department of Public Works' use to offset the costs of recycling and waste management. The Company deposited cash receipts of $2,253,604 to the Impound Account that represents the surcharge related to the rate year ended June 30, 2013. Amounts collected relating to the surcharge are not included in the Company's revenues. As a result of the 2013 Rate Order, the surcharge for the Special Reserve Fund was discontinued effective July 1, 2013.

The Special Reserve Fund is to be used for extraordinary expenses relating to the Waste Disposal Agreement dated November 1, 1988, between the City and County of San Francisco, Recology San Francisco, and Waste Management Company of Alameda County.

On December 16, 2015, the Rate Board approved the creation of a new reserve fund (the Reserve Fund) in connection with the landfill disposal agreement with Recology Hay Road. The funding of the Reserve Fund includes an initial transfer of $13,250,000 from the Special Reserve Fund, of which $1,250,000 is considered an initial deposit to meet the Company's obligation to reach $10,000,000 by January 15, 2020, and $12,000,000 to cover the anticipated additional transportation and disposal expenses the Company will incur as part of the landfill disposal agreement with Recology Hay Road.

The Impound Account is a restricted bank account held jointly by Recology San Francisco and the City and County of San Francisco and used by the City and County to cover certain waste management and diversion expenses. While Recology San Francisco has historically been responsible for making monthly deposits into the Impound Account, the 2013 Rate Order reallocated part of the funding requirements to the Company. The Company is required to make fixed monthly deposits into the Impound Account as established in the 2013 Rate Order while Recology San Francisco will continue to make monthly deposits based on tonnage. The amount deposited during the year ended September 30, 2016 was $15,154,164 that represents the nine-month deposits of $1,257,847 per month for the rate year ended June 30, 2016 and the three-month deposits of $1,277,847 per month for rate year beginning on July 1, 2016. The amount deposited during the year ended September 30, 2015 was $14,979,863 that represents the nine-month deposits of $1,245,147 per month for the rate year ended June 30, 2015 and the three-month deposits of $1,257,847 per month for rate year that began July 1, 2015. The Company's deposits into the Special Reserve Fund or the Impound Account are not reported as assets or liabilities of the Company.

In order to provide the Company incentive to help the City meet recycling goals, the Company has the opportunity to generate additional earnings beyond the historically allowed profit by meeting goals for diversion of materials from landfill. The 2013 Rate Order established new zero waste diversion goals based on disposal tons at four tiers to cover the rate year ended June 30, 2014 through rate year ending June 30, 2021. The rates billed and collected by the Company are based on the maximum reward level of profit. The incentive revenue recognized by the Company is based on the estimate of the level of incentive to be achieved during each respective rate year. The incremental billings generated by the Company resulting from the additional reward levels of profit are deposited on a monthly basis into the Recology San Francisco ZWIA, which Recology San Francisco is responsible for administering based on the 2001 Rate Order. If the Company meets or exceeds the diversion goals for the rate year, then the funds deposited into the account may be withdrawn by the Company. If the goal for the rate year is not achieved, then the funds from that year will remain in the account and will be used to offset future rate increases. The Company deposited $3,874,743 and $3,830,178 from cash receipts into the ZWIA for the years ended September 30, 2016 and 2015, respectively.

During 2015, the Company received approval to utilize $463,592 for the purposes of a textile recycling pilot program that began in September 2015, and was completed in 2016. The Company recognized $138,910 and $108,687 during the years ended September 30, 2016 and 2015, respectively as reimbursement for this pilot. The remaining funds were awarded to Recology San Francisco.

The Company did not achieve any of the diversion goals for the rate year ended June 30, 2016. The incentive reward withdrawn during each of the years ended September 30, 2016 and 2015 amounted to $0 and $463,592, respectively.

The Company does not expect to achieve any of the incentive goals for the rate year ending June 30, 2017 and did not recognize any of the corresponding incremental revenue for the period from July 1, 2016 through September 30, 2016.

(5) Employee Stock Ownership Plan

In 1986, the Parent established an ESOP which purchased all of the Parent’s outstanding stock. The ESOP covers most of the employees of the Company and is noncontributory. Employees, except under certain conditions, become fully vested after a requirement of three years of service. Benefits, in the form of Parent company stock, are allocated to an employee’s account based on a number of factors, including contributions, forfeitures, income, and changes in the underlying value of the Parent company stock.

All benefit distributions are made from the ESOP in cash, which is received from the Company, or shares, subject to immediate repurchase by the Company. A participant who is vested is entitled to begin receiving a distribution from his or her ESOP account at a future date following his or her termination of employment. Distributions may be made in a lump sum, equal annual installments over a period generally not to exceed five years or a combination of the foregoing, generally as determined by the ESOP Administrative Committee subject to certain limitations under the ESOP. Each participant who has attained age 55 and has participated in the ESOP for at least 10 years may elect to receive cash distributions for in-service withdrawals attributable to post-1986 shares allocated to his or her account. An eligible participant is entitled to elect payment attributable to as much as 25% of his or her eligible shares during the first five years of election and up to 50% of eligible shares in the sixth year.

Presently, the Parent makes cash contributions to fund certain of the ESOP benefit distributions. Shares attributable to those benefit distributions are reallocated within the ESOP among active participants. The Parent’s common stock is not traded on an established market. The fair market value of the shares as of the most recently completed fiscal year-end is used for the next years’ ESOP benefit distributions.

(6) Employee Benefit Plans

The Company participates in a noncontributory, funded defined-benefit pension plan (the Plan) sponsored by its Parent for the benefit of union and nonunion employees. Benefits are based on a formula, which includes years of service and average compensation. As of September 30, 2016 and 2015, the Plan had a projected benefit obligation in excess of plan assets by approximately $143.7 million and $78.6 million, respectively. It is the Parent's current policy to contribute at least the minimum statutory required amount. The Company's combined financial statements do not reflect the Company's share of the projected benefit obligation in excess of plan assets.

The Company's pension expense under the Plan for the years ended September 30, 2016 and 2015 was $8,513,853 and $7,773,851, respectively, which represents an allocation of approximately 53.6% and 53.3% of the Parent's plan expense for the years ended September 30, 2016 and 2015, respectively.

The weighted average discount rate used by the Parent to determine pension expense under the Plan was 4.9% and 4.75% for the years ended September 30, 2016 and 2015, respectively. The expected long-term rate of return on assets was 7.5% for both years ended September 30, 2016 and 2015. The rate of increase in future compensation levels used in determining the benefit obligations was 3% for both years ended September 30, 2016 and 2015. 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.

In connection with the ESOP's purchase of stock from certain former employee-shareholders, the Parent has agreed to provide those former employee-shareholders with lifetime postretirement medical benefits subject to certain conditions. In addition, certain union employees are eligible for postretirement medical benefits as part of an early retirement program when they reach certain eligibility criteria.

Recology recognizes postretirement medical benefits in the combined financial statements over the term of the affected employee's service with Recology. The postretirement medical benefit plan is unfunded. As of September 30, 2016 and 2015, the Plan, of which the Company's employees are participants, has a projected benefit obligation of approximately $44.2 million and $42.4 million, respectively. The Company's combined financial statements do not reflect the Company's share of the projected benefit obligation.

The Company's postretirement medical income for the years ended September 30, 2016 and 2015 was $1,168,379 and $260,624, respectively.

The weighted average discount rate used by the Parent to determine postretirement medical expense was 4.8% and 4.6% for the years ended September 30, 2016 and 2015, respectively. The Parent expects its healthcare cost trend for postretirement medical benefits to decrease from 7.25% in 2016 to 5.0% in 2025, after which the rate is expected to stabilize.

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 total cost of retiree medical coverage.

The Company agreed to allow certain union employees to participate in a multiemployer union-sponsored postretirement medical plan. The Company contributed $4,061,931 and $3,685,010 into the multiemployer union postretirement plan during the years ended 2016 and 2015, respectively.

The Company, through plans managed by the Parent, also sponsors a defined-contribution plan, the Recology 401(k) Plan, for certain eligible employees of the Company. The Company made matching contributions equal to a specified percentage of each participant's annual contributions, amounting to $63,842 and $47,862 for the years ended September 30, 2016 and 2015, respectively.

(7) Self-Insurance

The Company, through plans managed by the Parent, is self-insured for various risks of loss related to general liability, automobile liability, property damage, employee and certain retiree healthcare, and workers' compensation. The Parent establishes a reserve for self-insured claims based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Adjustments to the reserve are charged or credited to the Parent's expense in the periods on which they are determined to be necessary. The Parent also purchases commercial insurance on behalf of the Company and other subsidiaries to cover risks above set limits. The Company was allocated expenses of $27,136,327 and $25,463,307 for the years ended September 30, 2016 and 2015, respectively, for the cost of self-insured programs, including certain reserve adjustments. The Company's share of the self-insurance reserve is ultimately reflected as a liability of the Parent.

(8) 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 April 12, 2018. At September 30, 2016, $23 million was outstanding on the Parent's Revolving Credit Agreement, and there were standby letters of credit issued for $182.4 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. These obligations expire at various dates through June 2024. At September 30, 2016, the outstanding principal on the financed equipment recorded by the affiliates was $59.9 million.

The book value of the equipment financed by an affiliate and utilized by the Company at September 30, 2016 was $12.5 million.

As of September 30, 2016, approximately 83.5% of the Company's employees were subject to collective bargaining agreements, which expire on December 31, 2016. The Companies are in ongoing negotiations and expect to renew the contract prior to expiration.

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.

(9) Equipment and Property Obligations

The Company has cancelable operating lease agreements with affiliates whereby it pays for use of certain operating equipment and property. In addition, the Company has a noncancelable building operating lease with an unrelated third party. Future payments for continued use of the equipment and property, by year-end and in aggregate, as of September 30, 2016 are as follows:

		Equipment	Real property	Total
Year ending September 30:				
2017	$	12,214,548	1,769,694	13,984,242
2018		8,815,884	1,804,478	10,620,362
2019		6,242,199	1,841,958	8,084,157
2020		4,814,029	1,498,854	6,312,883
2021		3,875,212	1,320,902	5,196,114
Thereafter		2,812,728	—	2,812,728
Total payments	$	38,774,600	8,235,886	47,010,486

The Company's rent expense for the years ended September 30, 2016 and 2015 was $15,159,532 and $15,238,385, respectively, including amounts under short-term rental agreements with third parties.

Under the terms of the agreements with an affiliate, and in accordance with existing rate policies, the Company may continue to use certain equipment under operating leases without a related payment once the affiliates' equipment cost and related interest have been funded through operating lease payments.

(10) Transactions with Related Parties

During the years ended September 30, 2016 and 2015, operating and other expenses of the Company included the following charges by or (to) 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 using factors based on specific activities. The allocated charges were as follows:

		2016	2015
Parent:			
Health insurance	$	16,035,080	13,417,972
Workers' compensation		8,221,884	9,478,141
Pension		8,513,853	7,773,851
Postretirement medical income		(1,168,379)	(260,624)
General and vehicle insurance		2,879,362	2,567,194
Corporate services		5,344,363	5,843,399
Information technology services		2,444,993	2,509,693
		42,271,156	41,329,626
Affiliates:			
Property rental		1,320,902	1,320,902
Equipment rental		13,258,764	13,339,537
Disposal/organics processing		82,380,688	79,889,846
Recycling processing fees		22,085,619	21,659,493
		119,045,973	116,209,778
Total	$	161,317,129	157,539,404

Amounts due from or payable to Parent and affiliates are accumulated by the Company during the year, and at year-end, the net amount is settled by way of capital distributions or contributions by the Parent. Changes in amounts due from or payable to Parent and affiliates are presented as a financing activity in the combined statements of cash flows, except expenditures attributable to property and equipment, which are presented as supplemental noncash investing activities.

(11) Subsequent Events

The Company has evaluated its subsequent events through December 15, 2016, which is the date the combined financial statements were available for issuance.

Schedule 1

SUNSET SCAVENGER COMPANY
GOLDEN GATE DISPOSAL and RECYCLING COMPANY
(Wholly Owned Subsidiaries of Recology Inc.)

Combined Schedule of Operating Expenses

Year ended September 30, 2016

	Refuse collection	Truck and garage	Debris box	General and administrative	Total
Operating expenses:					
Salaries and wages	$ 50,272,297	9,617,331	7,100,552	3,747,837	70,738,017
Payroll taxes	3,868,496	610,575	518,580	345,360	5,343,011
Health insurance	12,242,767	1,722,848	1,571,539	497,925	16,035,079
Workers' compensation	6,281,067	1,096,047	782,383	62,386	8,221,883
Pension	6,347,836	1,033,732	859,550	337,543	8,578,661
Postretirement benefit	3,167,294	478,955	408,128	7,552	4,061,929
Advertising and promotion, donations, dues, and subscriptions	7,464	945	318	71,740	80,467
Amortization expense	—	—	—	1,994	1,994
Buildings and facilities	23,307	59,128	3,493	85,950	171,878
Business meals, travel and entertainment	21,819	198	5,374	49,332	76,723
Corporate management fees	—	—	—	7,789,356	7,789,356
Depreciation	1,483	103,809	24,831	194,759	324,882
Disposal costs	63,837,427	39,833	18,533,322	—	82,410,582
Equipment rental	12,237,316	573,789	585,313	67,702	13,464,120
Freight	7,343	51,361	4,575	2,992	66,271
Fuel and oil	—	3,711,552	—	—	3,711,552
Loss on sale	—	—	—	398,000	398,000
Liability insurance	14,044	1,268,346	—	1,596,971	2,879,361
Licenses and permits	1,282,889	44,944	277,305	40,414	1,645,552
Office expenses	111,136	12,294	37,656	347,914	509,000
Other expenses	—	3,082	1,876	2,073,724	2,078,682
Parts, tires, and tubes	—	3,192,135	537	325	3,192,997
Postage	—	—	—	298,777	298,777
Post-retirement benefit	—	—	—	(1,168,378)	(1,168,378)
Professional services	15,839	463	—	572,659	588,961
Property rental	—	235,675	—	1,459,735	1,695,410
Provision for bad debt	55,321	—	—	112,640	167,961
Recycling purchase/processing	22,091,790	—	—	—	22,091,790
Regional management expense	—	—	—	43,596	43,596
Repairs and maintenance	33,599	751,130	460,505	24,966	1,270,200
Security and janitorial	106,578	77,091	—	275,124	458,793
Supplies	494,527	927,728	862,112	381,647	2,666,014
Taxes	—	—	—	1,466,078	1,466,078
Telephone	79,516	18,194	4,946	329,376	432,032
Temporary labor and subcontractor costs	450,201	—	76,586	343,796	870,583
Utilities	12	10	11	446,197	446,230
Total operating expenses	$ 183,051,368	25,631,195	32,119,492	22,305,989	263,108,044

See accompanying notes to combined financial statements.