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, 2019 and 2018

(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 (wholly owned subsidiaries of Recology Inc.), which comprise the combined balance sheets as of September 30, 2019 and 2018, and the related combined statements of income, stockholder's equity, 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, 2019 and 2018, 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 6, 2019

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

Combined Balance Sheets

September 30, 2019 and 2018

Assets		**2019**	**2018**
Current assets:			
Accounts receivable, less allowance for doubtful accounts of $239,459 and $205,688 in 2019 and 2018, respectively	$	50,872,885	51,074,398
Parts and supplies		1,876,909	1,919,445
Prepaid expenses and other current assets		1,844,405	1,559,893
Total current assets		54,594,199	54,553,736
Property and equipment:			
Vehicles, containers, and operating equipment		1,461,968	846,001
Leasehold improvements		14,787,331	11,524,451
Furniture and fixtures		628,231	501,677
Total property and equipment		16,877,530	12,872,129
Less accumulated depreciation and amortization		6,210,225	5,528,397
Property and equipment, net		10,667,305	7,343,732
Permits		50,014,837	50,014,837
Goodwill, net of accumulated amortization of $11,964 and $9,970 in 2019 and 2018, respectively		7,976	9,970
Investment in Recology San Francisco		39,394,747	47,154,065
Total assets	$	154,679,064	159,076,340
Liabilities and Stockholder's Equity			
Current liabilities:			
Accounts payable	$	1,975,646	1,308,287
Accrued liabilities:			
Vacation and sick leave		1,998,748	1,906,582
Payroll and payroll taxes		2,249,779	1,776,786
Other accrued expenses		2,272,125	2,008,595
Deferred revenue		9,301,031	8,649,554
Total current liabilities		17,797,329	15,649,804
Total liabilities		17,797,329	15,649,804
Commitments and contingencies			
Stockholder's equity, net		136,881,735	143,426,536
Total liabilities and stockholder's equity	$	154,679,064	159,076,340

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, 2019 and 2018

	2019	2018
Revenue:		
Commercial	$ 229,535,616	214,576,822
Residential	94,032,291	90,260,088
Apartments	76,858,956	74,624,674
Other	4,106,528	3,884,688
Revenue from affiliate	24,632	21,698
	404,558,023	383,367,970
Less amounts reserved for impound and zero waste incentive accounts	(25,132,116)	(24,390,096)
Total operating revenue	379,425,907	358,977,874
Expenses:		
Refuse collection	210,404,168	203,638,324
Truck and garage	30,589,670	29,768,919
Debris box	39,212,872	36,307,984
General and administrative	28,943,489	26,648,856
Total operating expenses	309,150,199	296,364,083
Operating income	70,275,708	62,613,791
Other income:		
Recology San Francisco, net income share	7,155,650	11,341,300
Other	254,537	232,955
Net income	$ 77,685,895	74,188,046

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 Stockholder's Equity

Years ended September 30, 2019 and 2018

		Total stockholder's equity
Balance, September 30, 2017	$	125,267,459
Net income		74,188,046
Net distribution to Parent		(56,028,969)
Balance, September 30, 2018		143,426,536
Net income		77,685,895
Net distribution to Parent		(84,230,696)
Balance, September 30, 2019	$	136,881,735

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, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Net income	$	77,685,895	74,188,046
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		683,822	513,237
Provision for bad debts		533,035	311,486
Income of Recology San Francisco		(7,155,650)	(11,341,300)
Changes in assets and liabilities:			
Accounts receivable		(331,522)	(2,325,425)
Parts and supplies		42,536	(420,054)
Prepaid expenses and other current assets		(284,512)	(194,644)
Accounts payable		667,359	640,159
Accrued liabilities		828,689	341,366
Deferred revenues		651,477	148,050
Net cash provided by operating activities		73,321,129	61,860,921
Cash flows used in financing activities:			
Distribution from Recology San Francisco		7,632,478	18,030,024
Distribution to Parent		(80,953,607)	(79,890,945)
Net decrease in cash		(73,321,129)	(61,860,921)
Cash at beginning of year		—	—
Cash at end of year	$	—	—
Supplemental disclosure of noncash activities:			
Equipment distribution from (to) Recology San Francisco to (from) Parent	$	7,282,490	(3,562,557)
Additions to property and equipment funded by Parent		4,005,401	2,269,395

See accompanying notes to combined financial statements.

(1) Nature of Business

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 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 February 13, 2017. On May 12, 2017, the Rate Board approved the 2017 San Francisco Rate Order (the Rate Order or 2017 Rate Order). The Rate Order approved the rates for the 2018 rate year (Rate Year 2018 began July 1, 2017) and annual cost of living adjustments (COLA) after the first year. The Rate Order includes the City's adoption of new rate structures for residential and apartment customers. The residential rate structure includes separate identification of fixed charges and volumetric charges on recycling and composting service. The 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 100% of the charges for containerized services are eligible for a diversion discount, equal to the percentage of recycling and compostable service volume to total service volume in excess of 25%, up to a maximum discount of 75%.

(2) Summary of Significant Accounting Policies

(a) Principle of Combination

The Company eliminates intercompany transactions between the combined companies and combines their individual ownership interests in the unconsolidated subsidiary (note 3). Amounts due from or payable to the Parent and affiliates are accumulated by the Company during the year, and at year end, the net amount is settled by way of capital contributions from or distributions to the Parent.

(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 valuation of intangible assets, 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 on 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 Refuse Collection and Disposal Rate Board Resolution adopting the Department of Public Work Director's Recommendation Order (the Rate Order). 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 potentially uncollectible 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.

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(g) Property and Equipment

Property and equipment, including major capital improvements, 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 $681,828 and $511,243 for the years ended September 30, 2019 and 2018, 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 flows 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, 2019 and 2018, no impairment was recorded.

(i) Income Taxes

The Parent is an S corporation with the Company electing to be treated as a Qualified Subchapter S corporation subsidiary. Under S corporation rules, the Parent's taxable income and losses are passed through to the ESOP, the Parent's sole shareholder, which is exempt from income tax, and the Company is treated as a division of the Parent having no separate income tax obligations. The Parent has not allocated the income tax expense to the Company.

The Company recognizes income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that has a greater than 50% likelihood of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company's accounting policy for evaluating uncertain tax positions is to accrue estimated benefits or obligations relating to those positions. The Company records interest related to unrecognized tax benefits as interest expense and penalties as an administrative expense. For the years ended September 30, 2019 and 2018, there were no interest expenses or penalties recorded, because the Company had no uncertain tax positions that met the more-likely than-not threshold.

(j) Environmental Remediation Liabilities

The Company accrues for environmental remediation costs when they become probable and based on its best estimate within a range. If no amount within the range appears to be a better estimate than any other, the low end of such range is used. Remediation costs are estimated by environmental remediation professionals based upon site remediation plans they develop and on their experience working with regulatory agencies and the Company's environmental staff and legal counsel. No environmental remediation liabilities were accrued at September 30, 2019 and 2018.

(k) Stockholder's Equity

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, 2019 and 2018. Stockholder's equity, net, is comprised of the legal capital plus cumulative contributions net of distributions.

(l) Allocations

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

(m) Adoption of New Accounting Standards

In May 2014, the Financial Accounting Standards Board (the FASB) issued guidance to provide a single, comprehensive revenue recognition model for all contracts with customers. The revenue guidance contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The Company will adopt the amended guidance using the modified retrospective method as of October 1, 2019. Under the new standard, the Company will record revenue when control is transferred to the customer, generally at the time the Company provides waste collection services. The Company has completed its review of the sample contracts, and it does not anticipate a significant change to the pattern or timing of revenue recognition as a result of adopting the new standard. While the Company does not expect a significant change to the timing or pattern of revenue recognition, certain consideration payable to customers will be recorded as a reduction of revenue. Upon adoption of the amended guidance, the Company anticipates a reduction in operating revenues and expenses of approximately $15,511 with no impact to net income. Additional areas of the amended guidance the Company has evaluated for potential impact include sales incentives, volume discounts, free service periods, and rebates. The Company does not believe changes in these areas will result in a material impact on its combined financial statements.

In February 2016, the FASB issued guidance that requires lessees to recognize a right-of-use asset and a lease liability for virtually all 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

(Continued)

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, 2020, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Company is assessing the potential impact of implementing this new accounting standard on its consolidated financial statements.

(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:

		2019	2018
Financial position:			
Current assets	$	25,357,152	17,164,579
Current liabilities		(25,746,110)	(19,777,150)
		(388,958)	(2,612,571)
Long-term liabilities		(464,831)	(1,032,182)
Property and equipment, net and other noncurrent		40,248,536	50,798,818
Stockholder's equity	$	39,394,747	47,154,065
Operations:			
Revenue	$	163,548,425	155,383,495
Expenses, net of other expense and income		(156,392,775)	(144,042,195)
Net income	$	7,155,650	11,341,300

Recology San Francisco's operating results are 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.

(4) Regulatory and Contractual Obligations

The Reserve Fund is a fund to be used for extraordinary expenses relating to the Waste Disposal Agreement between the City and County of San Francisco, Recology San Francisco, and Recology Hay Road. The Company is required to fund this account with $2,000,000 of annual transfers from the Special Reserve Account, with the last of these transfers occurring in the beginning of Rate Year 2020. At the end of Rate Year 2020, any remaining funds in the Special Reserve Account will be transferred to the Reserve Fund.

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. The Company contributed $20,315,113 during the year ended September 30, 2019 and $19,848,390 during the year ended September 30, 2018 to the Impound Account. The Company's deposits into the Impound Account are not reported as assets or liabilities of the Company.

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 and 2017 Rate Orders established new zero waste diversion goals based on disposal tons at four tiers. 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 zero waste incentive account (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 $4,679,876 and $4,541,706 from cash receipts into the ZWIA for the years ended September 30, 2019 and 2018, respectively.

The Company did not achieve any of the diversion goals for the rate years ended June 30, 2018 or 2019, does not expect to achieve any of the incentive goals for the rate year ending June 30, 2020, and did not recognize any of the corresponding incremental revenue.

The Company withdrew $1,938,143 from the ZWIA in Rate Year 2019. The funds were used to offset the rate increase effective on July 1, 2018.

(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 Parent, or shares, subject to immediate repurchase by the Parent. A participant who is vested is entitled to begin receiving a distribution from his or her ESOP account at a future date following his or her termination of employment. Distributions may be made in a lump sum, equal annual installments over a period generally not to exceed five years or a combination of the foregoing, generally as determined by the ESOP Administrative Committee 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, 2019, and 2018, the Plan had a projected benefit obligation in excess of plan assets by approximately $115 million and $19.0 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, 2019 and 2018 was $4,668,809 and $8,751,799, respectively, which represents an allocation of approximately 48.8% and 52.5% of the Parent’s plan expense for the years ended September 30, 2019 and 2018, respectively.

The weighted average discount rate used by the Parent to determine pension expense under the Plan was 4.55% and 4.10% for the years ended September 30, 2019 and 2018, respectively. The expected long-term rate of return on assets was 7.25% for both years ended September 30, 2019 and 2018. The rate of increase in future compensation levels used in determining the benefit obligations was 4% for both of the years ended September 30, 2019 and 2018. The Company’s portions of the actuarially computed value of the vested and nonvested benefits of the Plan and the union plan and the net assets of the related pension plan funds have 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, 2019, and 2018, the Plan, of which the Company’s employees are participants, has a projected benefit obligation of approximately $36.6 million and $36.1 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, 2019 and 2018 was $2.2 million and $1.6 million, respectively.

The weighted average discount rate used by the Parent to determine postretirement medical expense was 4.50% and 4.15% for the years ended September 30, 2019 and 2018, respectively. The Parent expects its healthcare cost trend for postretirement medical benefits to decrease from 6.50% in 2019 to 5.00% in 2025, after which the rate is expected to stabilize.

The Company agreed to allow certain union employees to participate in a multiemployer union-sponsored postretirement medical plan. The Company contributed $5,128,104 and $4,628,443 into the multiemployer union postretirement plan during the years ended September 30, 2019 and 2018, 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 $215,579 and $157,360 for the years ended September 30, 2019 and 2018, 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 $28,971,863 and $28,416,583 for the years ended September 30, 2019 and 2018, 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 on April 21, 2022. At September 30, 2019, there was an outstanding balance of $142.5 million on the Parent's Revolving Credit Agreement and there were standby letters of credit issued for $254.9 million. The Parent has represented to the Company that it is in compliance with all covenants of the Revolving Credit Agreement.

The Company, along with the Parent and the Parent's wholly owned subsidiaries, has guaranteed the payment of amounts owed to unrelated third parties, which provided the equipment financing to affiliates of the Company. The affiliates are obligated to the unrelated third parties with various expiration dates through August 2025. At September 30, 2019, the outstanding principal on the financed equipment recorded by the affiliates was $49.2 million.

The net book value of the equipment financed by an affiliate and utilized by the Company at September 30, 2019 was $13.0 million.

As of September 30, 2019, approximately 81.8% of the Company's employees were subject to collective bargaining agreements, which expire on December 31, 2021.

The Parent and its subsidiaries, including the Company, are subject to various laws and regulations relating to the protection of the environment. It is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly any future remediation and other compliance efforts. The Parent has environmental impairment liability insurance, which covers the sudden or gradual onset of environmental damage to third parties, on all owned and operated facilities. In the opinion of management, compliance with present environmental protection laws will not have a material adverse effect on the results of operations of the Company provided that 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, 2019 are as follows:

		Equipment	Real property	Total
Year ending September 30:				
2020	$	12,356,948	1,498,854	13,855,802
2021		11,376,335	1,320,902	12,697,237
2022		9,592,578	—	9,592,578
2023		7,940,567	—	7,940,567
2024		6,797,073	—	6,797,073
Thereafter		5,412,838	—	5,412,838
Total payments	$	53,476,339	2,819,756	56,296,095

The Company's rent expense for the years ended September 30, 2019 and 2018 was $14,432,948 and $13,839,962, 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, 2019 and 2018, operating and other expenses of the Company included the following charges by or (to) the Parent and its affiliates. Such charges are based on the direct and indirect costs of the Parent and its affiliates, or established fees, and are allocated using factors based on specific activities. The allocated charges were as follows:

		2019	2018
Parent:			
Health insurance	$	16,223,437	14,979,274
Workers' compensation		8,937,220	9,878,058
Pension		4,668,809	8,751,799
Postretirement medical income		(2,184,896)	(1,642,077)
General and vehicle insurance		3,811,206	3,559,251
Corporate services		6,777,066	6,969,335
Information technology services		4,658,339	3,043,637
		42,891,181	45,539,277
Affiliates:			
Property rental		1,320,902	1,320,902
Equipment rental		12,369,197	11,921,564
Disposal/organics processing		100,046,390	94,502,059
Recycling processing fees		28,009,765	26,280,788
		141,746,254	134,025,313
Total	$	184,637,435	179,564,590

Distributions from or contributions to Parent and its affiliates are presented as financing activities 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 6, 2019, which is the date the combined financial statements were available to be issued, and determined there were no items to be disclosed.

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, 2019

	Refuse collection	Truck and garage	Debris box	General and administrative	Total
Operating expenses:					
Salaries and wages	$ 58,679,707	11,090,535	7,808,168	3,812,164	81,390,574
Payroll taxes	4,446,061	739,842	587,446	289,213	6,062,562
Pension and 401(k)	3,570,682	646,385	478,955	188,366	4,884,388
Health insurance	12,382,742	1,747,445	1,517,928	575,322	16,223,437
Workers' compensation	6,805,109	1,227,753	853,189	51,169	8,937,220
O/S Postretirement benefit	3,978,109	642,966	497,772	9,257	5,128,104
Temporary labor and subcontractor costs	1,226,778	45,849	40,596	83,872	1,397,095
General and vehicle insurance	14,029	1,513,022	422	2,283,733	3,811,206
Disposal charges	77,270,400	63,599	22,765,454	—	100,099,453
Equipment rental	10,321,323	554,473	1,688,682	93,035	12,657,513
Property rental	—	235,675	—	1,539,760	1,775,435
Supplies	549,374	1,156,287	1,497,656	380,076	3,583,393
Repairs expense	349,005	1,389,983	605,429	52,464	2,396,881
Parts, tires, and tubes	6,448	3,798,778	651	—	3,805,877
Fuel and oil	87	4,470,945	1,085	—	4,472,117
Buildings and facilities	51,318	64,173	32,577	117,710	265,778
Security and janitorial	62,850	81,354	—	462,161	606,365
Licenses and permits	1,337,264	163,059	642,135	15,475	2,157,933
Utilities	—	439,573	—	397,027	836,600
Freight	6,267	62,429	6,469	9,365	84,530
Recycling processing	28,009,765	—	—	—	28,009,765
Professional services	178,274	23,965	27,008	587,681	816,928
Provision for bad debt	326,220	—	—	206,815	533,035
Business meals, travel and entertainment	40,878	3,275	14,549	80,213	138,915
Office expense	297,732	23,525	53,416	334,566	709,239
Telephone	104,802	41,491	29,399	351,679	527,371
Dues and subscriptions	4,460	1,005	1,481	562,790	569,736
Postage	13	—	—	307,000	307,013
Projects	—	—	—	175,735	175,735
Taxes	210	5,030	—	2,982,138	2,987,378
Corporate management fees	—	—	—	11,435,405	11,435,405
Post-retirement benefit	—	—	—	(2,184,896)	(2,184,896)
Other expense	323,245	4,712	379	3,535,955	3,864,291
Depreciation	61,016	352,542	62,026	206,245	681,829
Amortization expense	—	—	—	1,994	1,994
Total operating expenses	$ 210,404,168	30,589,670	39,212,872	28,943,489	309,150,199

See accompanying notes to combined financial statements.