

Intermountain Disposal
(A division of Intermountain Disposal, Inc.)
Financial Statements
December 31, 2019 and 2018

Intermountain Disposal

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December 31, 2019

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***Cupit, Milligan,
Ogden & Williams***
Certified Public Accountants

Shareholders

Edward R. Cupit, CPA (1943-2010)
Ronald A. Milligan, CPA
Thomas M. Ogden, CPA
Melvin L. Williams, CPA

Independent Auditors' Report

**To the Board of Directors and Stockholders,
Intermountain Disposal, Inc.**

We have audited the accompanying financial statements of Intermountain Disposal (a division of Intermountain Disposal, Inc.) which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of income and retained earnings and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Intermountain Disposal as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cupit, Milligan, Ogden & Williams

Reno, Nevada
March 2, 2020

Intermountain Disposal

Balance Sheets

December 31, 2019 and 2018

Assets	2019	2018
<i>Current Assets</i>		
Cash	\$ 807,992	\$ 635,803
Accounts receivable, net	124,869	156,261
Prepaid expenses	39,747	33,018
Prepaid income taxes	9,544	23,255
Due from related parties	20,617	4,477
<i>Total Current Assets</i>	<u>1,002,769</u>	<u>852,814</u>
<i>Non-Current Assets</i>		
Property and equipment, net	337,593	488,032
Feasibility study	156,535	156,535
<i>Total Non-Current Assets</i>	<u>494,128</u>	<u>644,567</u>
Total Assets	<u><u>\$ 1,496,897</u></u>	<u><u>\$ 1,497,381</u></u>
Liabilities and Stockholders' Equity		
<i>Current Liabilities</i>		
Accounts payable	\$ 59,252	\$ 64,936
Income taxes payable	9,087	3
Accrued liabilities	89,558	73,475
Customer deposits	88,564	81,225
Note payable, current portion	-	1,631
<i>Total Current Liabilities</i>	<u>246,461</u>	<u>221,270</u>
<i>Long-term Liabilities</i>		
Deferred income taxes	83,284	119,664
<i>Total Long-term Liabilities</i>	<u>83,284</u>	<u>119,664</u>
<i>Total Liabilities</i>	<u>329,745</u>	<u>340,934</u>
<i>Stockholders' Equity</i>		
Capital stock, no par value, 2,500 shares authorized, 1,000 shares issued and outstanding	47,610	47,610
Retained earnings	1,119,542	1,108,837
<i>Total Stockholders' Equity</i>	<u>1,167,152</u>	<u>1,156,447</u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 1,496,897</u></u>	<u><u>\$ 1,497,381</u></u>

The accompanying notes are an integral part of these financial statements.

Intermountain Disposal

Statements of Income and Retained Earnings

For the Years Ended December 31, 2019 and 2018

	2019		2018	
	Amount	Percent	Amount	Percent
Revenue				
Commercial	\$ 596,828	33.30	\$ 602,047	34.55
Residential	401,635	22.41	379,852	21.80
Transfer station	231,640	12.92	230,175	13.21
Roll-off containers	193,698	10.81	213,936	12.28
Tipping fees	145,082	8.09	127,272	7.30
Tipping fees - related party	140,068	7.82	115,613	6.64
Special service	72,329	4.04	46,875	2.70
Recycling	10,968	0.61	26,563	1.52
<i>Total Revenue</i>	<u>1,792,248</u>	<u>100.00</u>	<u>1,742,333</u>	<u>100.00</u>
Operating Expenses				
<i>Labor</i>				
Payroll - route	263,773	14.72	208,216	11.95
Payroll - office	93,813	5.23	91,265	5.24
Payroll - company executive officer	88,374	4.93	88,374	5.07
Payroll - transfer station	61,674	3.44	58,792	3.37
Payroll - taxes	44,404	2.48	42,006	2.41
Retirement plan contribution	83,949	4.68	59,402	3.41
Workers' compensation insurance	30,126	1.68	26,293	1.51
Employee benefits	18,495	1.03	16,556	0.95
<i>Total Labor</i>	<u>684,608</u>	<u>38.19</u>	<u>590,904</u>	<u>33.91</u>
<i>Diesel Fuel</i>				
Diesel fuel	117,852	6.57	119,169	6.83
<i>Total Diesel Fuel</i>	<u>117,852</u>	<u>6.57</u>	<u>119,169</u>	<u>6.83</u>
<i>Vehicle Replacement</i>				
Depreciation - vehicles	112,832	6.30	148,461	8.52
Equipment rent	27,691	1.55	26,555	1.52
<i>Total Vehicle Replacement</i>	<u>140,523</u>	<u>7.85</u>	<u>175,016</u>	<u>10.04</u>
<i>Vehicle Maintenance</i>				
Vehicle maintenance	62,164	3.47	103,684	5.95
Tires	23,838	1.33	47,601	2.73
<i>Total Vehicle Maintenance</i>	<u>86,002</u>	<u>4.80</u>	<u>151,285</u>	<u>8.68</u>
<i>Disposal</i>				
Dump fees	226,813	12.66	211,023	12.11
Franchise fees	115,490	6.44	81,856	4.70
Hazardous waste	11,683	0.65	13,709	0.79
Transfer station rental	9,600	0.54	9,600	0.55
<i>Total Disposal</i>	<u>363,586</u>	<u>20.29</u>	<u>316,188</u>	<u>18.15</u>

The accompanying notes are an integral part of these financial statements.

Intermountain Disposal

Statements of Income and Retained Earnings

For the Years Ended December 31, 2019 and 2018

	2019		2018	
	Amount	Percent	Amount	Percent
<i>All Other</i>				
Building rent - related party	71,288	3.98	69,831	4.01
Business taxes, licenses and fees	52,365	2.92	37,913	2.18
Accounting	51,446	2.87	44,698	2.57
Insurance	45,762	2.55	50,024	2.87
Depreciation - equipment	26,171	1.46	22,487	1.29
Operating and office supplies	24,867	1.39	31,742	1.82
General maintenance	21,118	1.18	8,463	0.49
Telephone and internet	15,713	0.88	22,685	1.30
Utilities	12,919	0.72	11,352	0.65
Equipment rental - related party	8,853	0.49	8,580	0.49
Other rent	8,413	0.47	4,961	0.28
Fuel, oil and lubricants	7,273	0.41	5,074	0.29
Equipment maintenance	5,451	0.30	6,320	0.36
Bad debts	2,524	0.14	1,054	0.06
Depreciation - leasehold improvements	2,378	0.13	2,378	0.14
Advertising and promotion	2,163	0.12	1,222	0.07
Association dues	1,424	0.08	1,443	0.08
Entertainment	1,218	0.07	1,545	0.09
Charitable contributions	600	0.03	600	0.03
Depreciation - office	497	0.03	497	0.03
Legal	106	0.01	214	0.01
<i>Total All Other</i>	<u>362,549</u>	<u>20.23</u>	<u>333,083</u>	<u>19.11</u>
<i>Total Operating Expenses</i>	<u>1,755,120</u>	<u>97.93</u>	<u>1,685,645</u>	<u>96.72</u>
Operating Income	<u>37,128</u>	<u>2.07</u>	<u>56,688</u>	<u>3.28</u>
Other Income (Expense)				
Interest income	1,007	0.06	3,001	0.17
Refunds	2,443	0.14	1,448	0.08
Interest expense	(128)	(0.01)	(4,425)	(0.25)
Miscellaneous	(1,226)	(0.07)	1,279	0.07
Loss on asset dispositions	(26,868)	(1.50)	-	-
Bad debts recovered	-	-	155	0.01
<i>Total Other Income (Expense)</i>	<u>(24,772)</u>	<u>(1.38)</u>	<u>1,458</u>	<u>0.08</u>
Income Before Income Taxes	12,356	0.69	58,146	3.36
Income Tax Expense	<u>(1,651)</u>	<u>(0.09)</u>	<u>(42,529)</u>	<u>(2.44)</u>
Net Income	10,705	<u>0.60</u>	15,617	<u>0.92</u>
Retained Earnings, Beginning of Period	<u>1,108,837</u>		<u>1,093,220</u>	
Retained Earnings, End of Period	<u>\$ 1,119,542</u>		<u>\$ 1,108,837</u>	

The accompanying notes are an integral part of these financial statements.

Intermountain Disposal

Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Net Income	\$ 10,705	\$ 15,617
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>		
Depreciation and amortization	141,879	173,824
Deferred income taxes	(36,380)	42,510
Bad debts	2,524	1,054
Loss on asset dispositions	26,868	-
Changes in operating assets and liabilities		
Accounts receivable, net	28,868	(72,677)
Prepaid expenses	(6,729)	6,954
Prepaid income taxes	13,711	(18,898)
Recycling inventory	-	10,492
Accounts payable	(5,684)	(6,095)
Income taxes payable	9,084	(5,771)
Accrued liabilities	16,083	24,611
Customer deposits	7,339	14,215
Net Cash Provided by Operating Activities	208,268	185,836
Cash Flows from Investing Activities		
Capital expenditures	(18,308)	(156,619)
Net Cash Used by Investing Activities	(18,308)	(156,619)
Cash Flows from Financing Activities		
Proceeds from stockholder loan	-	97,632
Principal payments on note payable	(1,631)	(6,353)
Principal payments on stockholder loan	-	(97,632)
Due to related party	(16,140)	3,693
Net Cash Used by Financing Activities	(17,771)	(2,660)
Net Increase in Cash	172,189	26,557
Cash, Beginning of Period	635,803	609,246
Cash, End of Period	\$ 807,992	\$ 635,803
Supplemental Disclosure of Cash Flow Information		
<i>Cash paid during the period for</i>		
Interest	<u>\$ 28</u>	<u>\$ 4,425</u>
Income taxes	<u>\$ 15,239</u>	<u>\$ 28,622</u>

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

Organization

Intermountain Disposal, Inc. was incorporated in 1991 in the State of California and is comprised of three divisions: Intermountain Disposal (the "Company"), Sierra Disposal and Portola Disposal. The Company is principally engaged in the business of providing solid waste management and collection for commercial, residential, roll-off container service and transfer station operations in Eastern Plumas County under an exclusive franchise agreement with the County of Plumas. The Company also provides recycling services at the Delleker Recycling Center and commingled recycling at the Graeagle Transfer Station under the agreement. The franchise agreement is effective through March 31, 2027 with provisions for extensions of five year increments, not to exceed ten years from the expiration date of the agreement.

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 2, 2020, the date the financial statements were available to be issued.

Method of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States. Income tax reporting is on the cash basis of accounting.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing receivables. The Company determines the allowance based on historical write-off experience. Past due balances are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is remote. The Company does not have any off-balance sheet credit exposure related to its receivables. The allowance for doubtful accounts was \$3,018 for the years ended December 31, 2019 and 2018, respectively.

Property and Equipment

Property and equipment in excess of \$500 are capitalized at cost. The Company's policy is to depreciate property and equipment using the straight-line method over the estimated useful lives of the assets ranging from three to thirty-nine years.

Feasibility Study

The Company is conducting a study to determine the feasibility of constructing a material recovery facility in Eastern Plumas County. The costs of the study have been capitalized and will be amortized over a period of fifteen years commencing in the year the facility is placed in service. If the Company decides to abandon the project, the capitalized costs of the project will be taken as an expense in the year of abandonment.

Revenue Recognition

Revenues are primarily generated from fees charged for collection, transfer, disposal, and recycling, and from sales of commodities by the Company's recycling operations. Revenues from collection operations are influenced by factors such as collection frequency, type of collection equipment furnished and type and volume or weight of the

waste collected. Fees charged at transfer stations are generally based on the weight or volume of waste deposited. Recycling revenues generally consist of the sale of recycling commodities to third parties.

The Company recognizes revenue as services are performed or products are delivered. For example, revenue is recognized as waste is collected, tons are received at transfer stations, or recycling commodities are delivered as product. The Company bills for certain services prior to performance. Such services include, among others certain commercial contracts. These advance billings are recognized as revenue in the period service is provided.

Payment terms are dependent on the nature of the service. For commercial services, fees are due within 30 days of the month in which the services were provided. For residential customers, services are billed quarterly, generally on the first day of the quarter. Payment is due within 30 days of the invoice date. Fees charged at the transfer stations are due and collected at the time of the service.

Accounting for Income Taxes

The Company recognizes deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Income taxes are allocated between the three divisions based on each division's proportion of taxable income to total taxable income.

Corporate Expenses

Corporate expenses, including overhead expenses such as rent, utilities, insurance and office supplies, are allocated approximately sixty-five percent to Intermountain Disposal, eighteen percent to Sierra Disposal and seventeen percent to Portola Disposal based on their relative total revenues. The corporate executive officer's salary allocated to Intermountain Disposal was \$88,374 for each of the years ended December 31, 2019 and 2018. The corporate financial officer's salary allocated to Intermountain Disposal was \$88,374 and \$59,438 for the years ended December 31, 2019 and 2018, respectively.

New Accounting Pronouncements

On January 1, 2019, the Company adopted ASC Topic, Revenue from Contracts with Customers. The new guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance outlines a five-step process for revenue recognition that focuses on transfer of control as opposed to transfer of risk and rewards. Major provisions include defining performance obligations, recognition of variable consideration and whether revenue should be recognized at a point in time or over time. The adoption of the new guidance did not have a material impact on revenue recognition and therefore, the Company did not record a cumulative effect adjustment to retained earnings.

Reclassification of Prior Year Amounts

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

2. Related Party Transactions

Tipping Fees

Related party revenue includes tipping fees charged to other divisions. For the years ended December 31, 2019 and 2018, tipping fees charged to Portola Disposal were \$125,263 and \$108,974, respectively. For the years ended December 31, 2019 and 2018, tipping fees charged to Sierra Disposal were \$14,805 and \$6,639, respectively.

Intermountain Disposal
Notes to Financial Statements
December 31, 2019

Equipment Rental

Related party expenses include equipment rental expense incurred by the Company for use of Sierra Disposal's storage bins. For the years ended December 31, 2019 and 2018, equipment rental expense charged to the Company by Sierra Disposal was \$8,853 and \$8,580, respectively.

Due From (To) Related Parties

The following amounts were due from or to Sierra Disposal, Portola Disposal and a stockholder at December 31:

	<u>2019</u>	<u>2018</u>
Due from (to) Sierra Disposal	\$ 5,625	\$ (537)
Due from Portola Disposal	14,992	4,969
Due from Stockholder	-	45
	<u> </u>	<u> </u>
Due from related parties	<u>\$ 20,617</u>	<u>\$ 4,477</u>

Such amounts were recorded as due from related parties. For the years ended December 31, 2019 and 2018, no amounts of income taxes were paid by the Company for other divisions and no amounts were paid by other divisions for the Company.

Building Rent

The Company rents their operating facilities and office space from the stockholders. Total building rent was \$71,288 and \$69,831 for the years ended December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, no amounts of rent were due to the stockholders.

Stockholder Loan

The Company had an unsecured loan due to a stockholder during the year ended December 31, 2018. The loan is more fully described in Note 5.

3. Concentrations

Concentration of Activity

The Company collects and hauls solid waste within the limits of Eastern Plumas County, excluding the City of Portola.

Concentrations of Credit Risk

The Company maintains cash balances at financial institutions. Cash balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At December 31, 2019, the Company had approximately \$494,300 of cash in excess of insured limits.

Concentration of credit risk with respect to trade receivables is limited due to the large number of customers comprising the Company's customer base. Due to the diverse customer base, the Company's business is not influenced by minor economic changes affecting the area. The Company does not consider itself to have significant concentrations of credit risk.

4. Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Vehicles	\$ 1,627,565	\$ 1,902,605
Disposal equipment	629,839	657,980
Office furniture	33,471	48,364
Leasehold improvements	78,860	86,423
Software	<u>4,646</u>	<u>4,646</u>
Total property and equipment	2,374,381	2,700,018
Less accumulated depreciation	<u>2,036,788</u>	<u>2,211,986</u>
Property and equipment, net	<u><u>\$ 337,593</u></u>	<u><u>\$ 488,032</u></u>

5. Stockholder Loan

The Company obtained an unsecured short-term loan from a stockholder during the year ended December 31, 2018. The loan accrued interest at 5.5% and was due by December 31, 2018. The Company made one balloon payment of \$97,632, and the loan and all accrued interest were paid off as of December 31, 2018.

6. Obligations under Operating Leases & Agreements

The Company rents facilities from the County of Plumas under its franchise agreement and leases vehicles under operating lease agreements. The following table represents future minimum lease payments required under the operating leases and agreements for the years ending December 31:

2020	\$ 25,896
2021	12,319
2022	9,600
2023	9,600
2024	9,600
Thereafter	<u>21,600</u>
	<u><u>\$ 88,615</u></u>

Equipment rent expense for the years ended December 31, 2019 and 2018 was \$27,691 and \$26,555, respectively. Rent expense related to use of County facilities for each of the years ended December 31, 2019 and 2018 was \$9,600.

7. Tipping Fees

Tipping fees earned from Sierra County Public Works for the years ended December 31, 2019 and 2018 were \$145,082 and \$127,272, respectively.

8. Retirement Plan

Intermountain Disposal, Inc. has a retirement plan and trust covering all eligible employees. Under the retirement plan, the corporation may contribute an amount designated by management to the extent permissible under the Internal Revenue Code. The total contribution for the year ended December 31, 2019 was \$144,057, and the portion allocated to the Company was \$83,949. The total contribution for the year ended December 31, 2018 was \$102,500, and the portion allocated to the Company was \$59,402.

9. Income Taxes

Deferred Income Taxes

Significant components of the Company's deferred income tax liability consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Deferred tax liabilities		
Net cash basis	\$ (4,563)	\$ (16,598)
Property and equipment	(78,721)	(103,066)
Total deferred income tax liability	<u>\$ (83,284)</u>	<u>\$ (119,664)</u>

The deferred tax liability by tax jurisdiction consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Deferred tax liabilities		
Net cash basis		
Federal	\$ (3,212)	\$ (11,681)
State	(1,351)	(4,917)
Property and equipment		
Federal	(65,041)	(89,689)
State	(13,680)	(13,377)
Total deferred tax liabilities	<u>\$ (83,284)</u>	<u>\$ (119,664)</u>

Income Tax Provision

The provision for income taxes consisted of the following for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Current income tax (expense) benefit		
Federal	\$ (32,339)	\$ 24
State	(5,692)	(43)
Deferred income tax benefit (expense)		
Federal	33,117	(38,650)
State	3,263	(3,860)
Total income tax expense	<u>\$ (1,651)</u>	<u>\$ (42,529)</u>

Intermountain Disposal

Notes to Financial Statements

December 31, 2019

Intermountain Disposal, Inc. files federal and California state income tax returns. The total income tax expense or benefit from the tax returns is allocated to the corporation's three divisions based on their relative taxable income or loss.

These tax returns are subject to examination by taxation authorities provided the years remain open under the relevant statutes of limitations. The Company is no longer subject to income tax examinations by US federal tax authorities for years prior to 2016 and state tax authorities for years prior to 2015. The Company currently has no tax years under examination.