



**CITY OF PHILADELPHIA GAS WORKS RETIREMENT RESERVE FUND**  
**Financial Statements**  
**June 30, 2020**  
**With Independent Auditor's Reports**

**City of Philadelphia Gas Works Retirement Reserve Fund**  
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**June 30, 2020**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors,  
City of Philadelphia Gas Works Retirement Reserve Fund:

### Report on the Financial Statements

We have audited the accompanying financial statements of City of Philadelphia Gas Works Retirement Reserve Fund (the "Plan"), which comprise the statement of fiduciary net position as of June 30, 2020, and the related statement of changes in fiduciary net position for the year 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 auditor's 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 Plan's fiduciary net position as of June 30, 2020, and the respective changes in fiduciary net position therein for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules of net pension liability, employer contributions as a percentage of covered payroll and investment returns, and notes to required supplementary information be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the *Government Accounting Standards Board* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis for the Plan, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the *Government Accounting Standards Board*, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

### Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2021 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance *with Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Withum Smith + Brown, PC".

February 19, 2021

**City of Philadelphia Gas Works Retirement Reserve Fund**  
**Statement of Fiduciary Net Position**  
**June 30, 2020**

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**Assets**

Cash and cash equivalents		
Cash	\$ 21,258,417	
U.S. Treasury bills	<u>1,174,952</u>	
Total cash and cash equivalents		\$ 22,433,369
Interest and dividend receivable		1,518,860
Investments, at fair Value		
Corporate bonds	81,814,060	
Common and preferred stock	350,708,039	
U.S. government securities	81,128,798	
Asset backed securities	7,505,542	
Municipal obligations	<u>1,201,462</u>	
Total investments		522,357,901
Receivables		
Due from brokers		<u>2,594,598</u>
Total assets		<u>548,904,728</u>

**Liabilities**

Advance from the Philadelphia Gas Works		132,652
Due to brokers		5,338,660
Accounts payable		<u>203,065</u>
Total liabilities		<u>5,674,377</u>

**Fiduciary net position restricted for pension** **\$ 543,230,351**

The Notes to Financial Statements are an integral part of this statement.

**City of Philadelphia Gas Works Retirement Reserve Fund**  
**Statement of Changes in Fiduciary Net Position**  
**Year Ended June 30, 2020**

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**Additions**

Contributions		
Employer	\$	29,413,979
Employees		<u>1,519,517</u>
		<u>30,933,496</u>
Investment income		
Interest		5,708,617
Dividends		7,866,017
Net realized/unrealized gain		<u>2,219,317</u>
		<u>15,793,951</u>
Investment expense		<u>(1,507,774)</u>
Net Investment gain		<u>14,286,177</u>
Total contributions and net investment gain		<u>45,219,673</u>

**Deductions**

Administrative expenses		167,729
Benefits paid		<u>55,061,155</u>
Total deductions		<u>55,228,884</u>
Change in Fiduciary net position restricted for pensions		(10,009,211)
<b>Fiduciary net position restricted for pension</b>		
Beginning of year		<u>553,239,562</u>
End of year	\$	<u>543,230,351</u>

The Notes to Financial Statements are an integral part of this statement.

**City of Philadelphia Gas Works Retirement Reserve Fund**  
**Notes to Financial Statements**  
**June 30, 2020**

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**1. PLAN DESCRIPTION**

The City of Philadelphia (the “City”), maintains two pension systems providing benefits for its employees and several of its component units: the City’s pension system includes the Municipal Pension (the “Fund”) and the Gas Works Plan (the “Plan”). Each pension system is a separate Public Employee Retirement System (“PERS”) with a separate oversight body and is financially independent of the other. In each case, the City is required by the Philadelphia Home Rule Charter to maintain an actuarially sound pension and retirement system.

There are no component units of the Plan. In determining its oversight responsibility, the Plan considers financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability of fiscal matters.

The Plan consists of Philadelphia Gas Works (“PGW” or the “Company”), a component unit of the City and is included in the City’s Comprehensive Annual Financial Report as a trust and agency fund.

The Plan is a single employer defined benefit PERS. The Plan provides pension benefits for all eligible employees of Philadelphia Gas Works, and other eligible class employees of Philadelphia Facilities Management Corporation (“PFMC”) and Philadelphia Gas Commission (“PGC”). The Plan is administered by the Sinking Fund Commission of the City of Philadelphia (the “Commission”). Certain administrative aspects of the Plan are delegated to PGW. The Commission acts in a fiduciary matter with regards to the assets of the Plan. The Commission was established by the City Charter and consists of the Director of Finance, the City Controller and an experienced banker or investment banker appointed by the Mayor. Alternates for these members are allowed by written authorization of the Mayor.

As of the latest available actuarial valuation (June 30, 2020), the Plan’s membership consisted of:

Active participants	1,163
Retired participants	2,195
Vested terminated participants	<u>319</u>
Total plan participants	3,677
Total payroll	\$ 95,933,744
Average pay	82,488

The Plan is currently open to all employees of PGW.

The Plan provides retirement benefits as well as death and disability benefits. Retirement benefits are vested after 5 years of credited service. Employees who retire at or after age 65 are entitled to receive an annual retirement benefit, payable monthly, in an amount equal to the greater of:

- 1.25% of the first \$6,600 of Final Average Earnings plus 1.75% of the excess of Final Average Earnings over \$6,600, times years of credited service, with a maximum of 60% of the highest annual earnings during the last 10 years of credited service, applicable to all participants; or,
- 2% of total earnings received during the period of credited service plus 22.5% of the first \$1,200 of such amount, applicable only to participants who were employees on or prior to March 24, 1967.

# City of Philadelphia Gas Works Retirement Reserve Fund

## Notes to Financial Statements

### June 30, 2020

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Final Average Earnings are the employees' average pay, over the highest five years of the last ten years of credited service. Employees with 15 years of credited service may retire at or after age 55 and receive a reduced retirement benefit. In addition, employees with 30 years of credited service are eligible to select early retirement with no reduction in benefits.

#### **Contributions**

In December 2011 the City of Philadelphia City Council approved Bill No. 110830 "An Ordinance" effecting PGW workers hired on or after May 21, 2011. The ordinance states, in part, that employees commencing employment on or after May 21, 2011 shall become a participant in the Plan only upon completion of an irrevocable written election to participate in the Plan. Such election must be made within thirty days after their employment commencement date, or if later, thirty days after the effective date of the ordinance. All such employees who elect to participate in the Plan are deemed contributing participants.

Contributing participants (Non-covered employees) in the Plan are required to make annual contributions totaling 6% of their compensation. Such contributions are made by means of periodic payroll deductions determined by the Company. Contributing participants are 100% vested in their employee contributions. All participants in the Plan, including contributing participants, have no vested interest in their accrued benefit from the Plan sponsor until they have 5 years of credited service, at which time they become 100% vested in their accrued benefit. Contributions from contributing participants for the Plan year ending June 30, 2020 totaled \$1,519,517.

In addition, newly hired employees who commence employment on or after May 21, 2011 who opt out of the Plan will enter into the newly formed Philadelphia Gas Works Employees' Defined Contribution Plan, a tax qualified defined contribution plan pursuant to Section 401(a) of the Internal Revenue Code of 1986 as amended. The defined-contribution plan provides for an employer contribution equal to 5.5% of applicable wages. Assets of this plan are not a part of the City of Philadelphia Gas Works Retirement Reserve Fund and are not reported on in these financial statements.

#### **Funding Policy**

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Level percentages of payroll employer contributions rates are determined using the Projected Unit Credit actuarial funding method. The most recent annual actuarial valuation is as of June 30, 2020 and the contribution rate as of percentage of payroll was 30.66%.

Benefit and contribution provisions are established by City ordinance and may be amended only as allowed by City ordinance. Benefits under the Plan are guaranteed by statute. In the event employer contributions are not sufficient to pay required benefits, the City's General fund must provide any shortfall.

#### **Investments**

The Commission maintains a Statement of Investment Guidelines ("Policy") consistent with the needs of the Plan. The latest Policy was approved by the Commission at its meeting on November 25, 2019. The Policy serves as the chief communication tool of the Commission with vendors and investment managers. The Policy defines the need for the Policy, the investment goals of the Plan, the asset allocation, the investment guidelines, including prohibited investments, as well as the objectives for each manager and benchmarks for each type of investment. Additionally, it defines the necessary communication and responsibilities of each party, including the Commission, the investment managers, the custodian and any consultants. The Policy can only be revised or changed by a vote by the Commission.

For a more complete description of the Policy, see the online version at:  
<http://www.phila.gov/Treasurer/Documents/PGWPP.pdf>



**City of Philadelphia Gas Works Retirement Reserve Fund**  
**Notes to Financial Statements**  
**June 30, 2020**

The Pension Plan utilizes both equity and fixed-income investments consistent with the Policy as described above. As of June 30, 2020, the Plan had investments of approximately \$522 million, comprised of \$351 million in equities and \$171 million in fixed-income investments. The ratio of equities to fixed income is 67% to 33% which is in line with the Policy guidelines of 60-70% equities and 30-40% fixed income.

For the year ended June 30, 2020, the annual money-weighted rate of return on pension plan investments, net of investment expense was 2.83%.

The Commission employs third-party vendors to manage the assets of the Plan as well as perform other needed services. As of June 30, 2020, the Commission employed the following investment managers and vendors:

<u>Manager</u>	<u>Mandate</u>	<u>Balance (Millions)</u>
<b>Equity Managers</b>		
RhumbLine Asset Management	Domestic Large Cap Index	\$ 119.6
RhumbLine Asset Management	International Markets	34.7
PineBridge Investments	Domestic Large Cap Index	61.5
Northern Trust Company	Domestic Large Cap Index	27.7
Acadian Asset Management	International Markets	35.1
Earnest Partners, LLC	International Markets	29.3
Copeland Capital Management	Domestic and International	21.4
Rhumblin Small CAP	Domestic Small Cap Index	21.4
		<u>350.7</u>
<b>Bond Managers</b>		
Weaver Barksdale	Core	42.0
Met Life Inc	Investment Grade	15.1
Met Life Inc	Core	37.6
Garcia Hamilton	Intermediate	33.7
Lazard Asset Management	Intermediate Plus	31.4
Sky Harbor Capital Management	High Yield	11.9
		<u>171.7</u>
		<u>\$ 522.4</u>

At its quarterly meetings, the Commission, with the assistance of PFM Asset Management LLC monitors the performance of the investment managers over various periods of time and will change a manager when the Commission deems it necessary. Each of the managers and other vendors (except for those marked 'fund') are contracted for a period of one year, with one-year extensions at the discretion of the Commission.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

Plan financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements. The pension benefits are paid monthly and recorded as paid. As a result, there are no pension benefits payable at June 30, 2020.

**City of Philadelphia Gas Works Retirement Reserve Fund**  
**Notes to Financial Statements**  
**June 30, 2020**

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**Method Used to Value Investments**

The Plan reports investments at their fair value in the statement of fiduciary net position. Unrealized gains and losses are included in the statement of changes in fiduciary net position. Securities traded on national or international exchanges are recorded at the last reported sales price at current exchange rates.

Investment income is recognized as earned. Gains and losses on sales and exchanges are recognized on the transaction date. Net realized gains on sales amounted to \$18,029,802 for the year ended June 30, 2020. Net unrealized loss for the year ended June 30, 2020 totaled \$(15,810,485).

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

**Due From and To Brokers**

Due from brokers represents the value of investments sold by brokers prior to year-end, for which the settlement date of the sale occurred after year end. Similarly, due to brokers represents the value of investments purchased by brokers prior to year-end, for which the settlement date of the purchase occurred after year end.

**Fair Value of Financial Instruments**

The carrying values of financial instruments including interest and dividends receivable, due from brokers, accounts payable, and amounts due to PGW and brokers approximate their fair market value due to the relative short maturity of these instruments.

**Investment Advisors**

The Fund utilizes numerous investment advisors to manage debt and equity portfolios. The Sinking Fund Commission must approve all investment advisors.

**Income Taxes**

The Plan is not subject to Federal, state or local income taxes.

**Trend Information**

Historical trend information related to the Plan is presented in the Required Supplemental Information section. The information is presented to enable the reader to assess the progress made by the Plan in accumulating sufficient assets to pay pension benefits as they become due.

**Related Parties**

The Sinking Fund Commission is the trustee of the Plan. The City of Philadelphia Department of Finance provides bookkeeping services for the Plan. Philadelphia Gas Works makes monthly benefit payments to retirees on behalf of the Plan and incurs administrative expenses on behalf of the Plan. Benefits payments made by PGW and administrative costs incurred by PGW on behalf of the Plan amounted to \$55,061,155 and \$167,729, respectively for the year ended June 30, 2020.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at June 30, 2020, and the reported amounts of revenues and expenses during the year then ended. Actual results could differ from those estimates. Significant estimates include the valuation of investments without quoted prices in an active market for identical assets and the actuarial estimates for Plan future benefit obligations.

**City of Philadelphia Gas Works Retirement Reserve Fund**  
**Notes to Financial Statements**  
**June 30, 2020**

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**Risks and Uncertainties**

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statement of fiduciary net position.

Plan contributions are made, and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near-term would be material to the financial statements.

**3. CASH DEPOSITS AND INVESTMENTS**

The Plan is authorized to maintain a diversified portfolio in the following types of investments: U.S. Treasury or agency obligations, corporate debt and equity securities, and foreign debt and equity securities. City ordinances and sinking fund policies contain provisions which preclude the Plan from investing in organizations that conduct business in certain countries and industries and impose limitations on the amounts invested in certain types of securities.

**Interest Rate Risk**

Interest rate risk is the largest risk faced by an investor in the fixed income market. The price of a fixed income security generally moves in the opposite direction of the change in interest rates. Securities with long maturities are highly sensitive to interest rate changes. The Plan's fixed income investments are as follows:

	<u>Total Fair Value</u>	<u>Below 1 Year</u>	<u>1 to 5 years</u>	<u>5 to 10 years</u>	<u>10 years and over</u>
U.S. Govt. Treasuries	\$ 41,480,401	\$ 4,111,599	\$ 23,591,656	\$ 7,846,768	\$ 5,930,378
U.S. Govt. Agencies	39,648,397	20,228,360	14,718,151	1,867,390	2,834,496
Municipal Bonds	1,201,462	-	188,389	668,409	344,664
Corporate Bonds	81,814,060	8,161,752	31,538,791	29,268,595	12,844,922
Asset Backed Securities	<u>7,505,542</u>	<u>3,614,754</u>	<u>2,411,482</u>	<u>1,042,823</u>	<u>436,483</u>
	<u>\$ 171,649,862</u>	<u>\$ 36,116,465</u>	<u>\$ 72,448,469</u>	<u>\$ 40,693,985</u>	<u>\$ 22,390,943</u>

**Custodial Credit Risk**

In the event of counter-party failure, the Plan may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities held by the counterparty or counterparty's trust department are uninsured and are not registered in the name of the Plan. The Plan requires that all investments be clearly marked as to ownership, and to the extent possible, be registered in the name of the Plan. Certain investments may be held by the managers in the Plan's name.

**City of Philadelphia Gas Works Retirement Reserve Fund**  
**Notes to Financial Statements**  
**June 30, 2020**

**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Fund's rated debt investments as of June 30, 2020 were rated by Standard and Poor ("S&P"), a nationally recognized statistical rating agency and are presented below using S&Ps rating scale:

S&P Credit Rating	U.S.			Corporate Bonds	Asset-Backed Securities	Total Fair Value
	U.S. Government Securities	Government Agency Securities	Municipal Bonds			
AAA	\$ -	\$ -	\$ -	\$ 167,358	\$ 5,213,515	\$ 5,380,873
AA+	41,480,401	36,857,783	-	531,686	386,973	79,256,843
AA	-	-	-	244,638	326,219	570,857
AA-	-	-	668,409	929,298	309,007	1,906,714
A+	-	-	-	2,888,187	69,530	2,957,717
A	-	-	-	5,249,078	335,480	5,584,558
A-	-	-	-	22,184,303	183,347	22,367,650
BBB+	-	-	-	15,422,546	-	15,422,546
BBB	-	-	-	12,216,245	31,094	12,247,339
BBB-	-	-	533,053	7,288,833	-	7,821,886
BB+	-	-	-	1,972,674	21,979	1,994,653
BB	-	-	-	1,624,024	24,891	1,648,915
BB-	-	-	-	1,229,656	-	1,229,656
B+	-	-	-	1,188,608	-	1,188,608
B	-	-	-	2,124,808	-	2,124,808
B-	-	-	-	2,862,019	136,871	2,998,890
CCC+	-	-	-	1,629,711	18,670	1,648,381
CCC	-	-	-	1,540,617	-	1,540,617
CCC-	-	-	-	466,967	-	466,967
NR/NA	-	2,790,614	-	52,804	447,966	3,291,384
	<u>\$ 41,480,401</u>	<u>\$ 39,648,397</u>	<u>\$ 1,201,462</u>	<u>\$ 81,814,060</u>	<u>\$ 7,505,542</u>	<u>\$ 171,649,862</u>

**Concentration of Credit Risk**

Concentration of credit risk is the risk of substantial loss if investments are concentrated in one issuer. As of June 30, 2020, no single investment, not guaranteed by the U.S. government exceeds 5% of the Plan's net fiduciary financial position.

**City of Philadelphia Gas Works Retirement Reserve Fund**  
**Notes to Financial Statements**  
**June 30, 2020**

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**4. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**

The accounting pronouncement on fair value measurements establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

*Level 1* - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access. Such inputs include quoted prices in active markets for identical assets or liabilities.

*Level 2* - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

*Level 3* - Unobservable inputs that are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair value is the amount that the Fund can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Fixed income securities and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges or securities pricing services. Securities which are not traded on a national security exchange are valued by the respective fund manager or other third parties based on similar sales.

For private market investments where no readily ascertainable market value exists, management, in consultation with the general partner and investment advisors, has determined the fair values for the individual investments based upon the partnership's most recent available financial information. Some of the investment values provided in the report are estimates due to a lag in reporting for private market investments.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate Bonds	\$ -	\$ 81,814,060	\$ -	\$ 81,814,060
Common and Preferred Stock	327,817,304	22,887,986	2,749	350,708,039
U.S. Government Securities	41,480,401	39,648,397	-	81,128,798
Asset Backed Securities	-	7,505,542	-	7,505,542
Municipal Obligations	-	1,201,462	-	1,201,462
	<u>\$ 369,297,705</u>	<u>\$ 153,057,447</u>	<u>\$ 2,749</u>	<u>\$ 522,357,901</u>

**City of Philadelphia Gas Works Retirement Reserve Fund**  
**Notes to Financial Statements**  
**June 30, 2020**

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**5. ADVANCE FROM THE PHILADELPHIA GAS WORKS**

Payments to beneficiaries are made by PGW through its payroll system. The amount due to PGW at June 30, 2020 of \$132,652 represents the cumulative excess of payments made to the retirees and administrative expenses incurred by PGW, over the sum of the Company's required contribution, and reimbursements received from the Plan. Such amount will be settled in the subsequent Plan year.

**6. NET PENSION LIABILITY**

The components of the net pension liability of the City of Philadelphia Gas Works Retirement Reserve Fund at June 30, 2020, were as follows (dollar amounts in thousands):

Total pension liability	\$ 780,792
Plan fiduciary net position	<u>543,230</u>
Net pension liability	<u>\$ 237,562</u>
Plan fiduciary net position as a percentage of of the total pension liability	69.57%

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of June 30, 2020 using the following actuarial assumptions:

Salary increases	Salaries are assumed to increase by an amount based on years of service.
General inflation	2%
Investment rate of return	7.30%, net of pension plan investment expense, including inflation

Mortality rates were based on the Pri-2012 Mortality Table projected generationally from the central year using Scale MP-2020.

**Change in Assumptions**

The total pension liability reflects a decrease of approximately \$24.9 million as a result of changes actuarial assumptions for the Plan year ended June 30, 2020. The mortality table was changed from the RP-2014 mortality table generationally projected with Scale MP-2018 to the Pri-2012 Mortality Table projected generationally from the central year using Scale MP-2020 to better reflect actual and future mortality experience.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.30%. The projection of cash flows used to determine the discount rate assumed the contributions from Plan members will be made at the current contribution rate and that contributions from PGW will be made based on the current, actuarially determined funding policy. The long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate remains the same as the prior valuation period.

**City of Philadelphia Gas Works Retirement Reserve Fund**  
**Notes to Financial Statements**  
**June 30, 2020**

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**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following table illustrates the impact of interest rate sensitivity on the Net Pension Liability. The net pension liability as of June 30, 2020 is calculated using the discount rate of 7.30%, as well as the Plan's net pension liability if it were calculated using a discount rate that is 1 % lower (6.30%) or 1% higher (8.30%) than the current rate (dollar amounts in thousands):

	<b>1% Decrease</b>	<b>Current Rate</b>	<b>1% Increase</b>
	<b>6.30%</b>	<b>7.30%</b>	<b>8.30%</b>
Total pension liability	\$ 869,083	\$ 780,792	\$ 707,156
Plan fiduciary net position	<u>543,230</u>	<u>543,230</u>	<u>543,230</u>
Net pension liability	<u>\$ 325,853</u>	<u>\$ 237,562</u>	<u>\$ 163,926</u>

**7. SUBSEQUENT EVENTS**

The Plan has evaluated subsequent events occurring after the statement of fiduciary net position through the date of February 19, 2021 which is the date the financial statements were available to be issued.

Subsequent to the Plan's year-end, the Sinking Fund Commission voted to transition the Plan's custody banking service from Wells Fargo to US bank with a target date of November 1, 2020.

Management is currently evaluating the introduction of the COVID-19 virus to the United States during March 2020, and its impact on the Plan, and has concluded that while it is reasonably possible that the virus could have a negative effect on the Plan's net assets, and changes therein, the specific impact is not readily determinable as of the date the financial statements were available to be issued.



**REQUIRED SUPPLEMENTARY INFORMATION**



**City of Philadelphia Gas Works Retirement Reserve Fund  
Schedule of Net Pension Liability (Dollars in Thousands)  
June 30, 2020**

Net pension liability for Plan year ended June 30, 2020 is reflected below (dollar amounts expressed in thousands). The 2014 Plan year is the first year this information has been made available. This information will be given prospectively for future Plan years.

	Actuarial Valuation						
	FYE 2020	FYE 2019	FYE 2018	FYE2017	FYE2016	FYE2015	FYE2014
<b>Total Pension Liability</b>							
Service cost	\$ 6,400	\$ 6,554	\$ 6,103	\$ 5,823	\$ 5,400	\$ 4,890	\$ 8,924
Interest cost	56,893	57,240	55,718	55,443	55,903	52,377	47,098
Changes of benefit terms	-	-	-	-	-	-	-
Differences between expected and actual experience	(3,034)	(12,089)	15,706	2,182	(8,841)	17,960	59,326
Changes of assumptions	(24,891)	(1,834)	(3,864)	(7,952)	26,748	44,877	-
Benefit payments	(55,061)	(53,893)	(52,627)	(51,376)	(50,447)	(46,917)	(42,913)
<b>Net change in total pension liability</b>	<b>(19,693)</b>	<b>(4,022)</b>	<b>21,036</b>	<b>4,120</b>	<b>28,763</b>	<b>73,187</b>	<b>72,435</b>
<b>Total pension liability - beginning</b>	<b>800,485</b>	<b>804,507</b>	<b>783,471</b>	<b>779,351</b>	<b>750,588</b>	<b>677,401</b>	<b>604,966</b>
<b>Total pension liability - ending</b>	<b>\$ 780,792</b>	<b>\$ 800,485</b>	<b>\$ 804,507</b>	<b>\$ 783,471</b>	<b>\$ 779,351</b>	<b>\$ 750,588</b>	<b>\$ 677,401</b>
<b>Plan fiduciary net position</b>							
Contributions - employer	29,414	28,570	29,143	27,918	21,123	21,106	24,934
Contributions - employee	1,519	1,249	1,078	852	602	393	239
Net investment income	14,286	34,260	44,310	61,002	2,872	24,472	75,303
Benefit payments	(55,061)	(53,893)	(52,627)	(51,376)	(50,446)	(46,917)	(42,913)
Administrative expense	(168)	(192)	(184)	(129)	(1,611)	(1,480)	(732)
Other	-	-	-	-	-	-	-
<b>Net change in plan fiduciary net position</b>	<b>(10,010)</b>	<b>9,994</b>	<b>21,720</b>	<b>38,267</b>	<b>(27,460)</b>	<b>(2,426)</b>	<b>56,831</b>
<b>Plan fiduciary net position - beginning</b>	<b>553,240</b>	<b>543,246</b>	<b>521,526</b>	<b>483,259</b>	<b>510,719</b>	<b>513,145</b>	<b>456,314</b>
<b>Plan fiduciary net position - ending</b>	<b>\$ 543,230</b>	<b>\$ 553,240</b>	<b>\$ 543,246</b>	<b>\$ 521,526</b>	<b>\$ 483,259</b>	<b>\$ 510,719</b>	<b>\$ 513,145</b>
<b>Net pension liability - ending</b>	<b>\$ 237,562</b>	<b>\$ 247,245</b>	<b>\$ 261,261</b>	<b>\$ 261,945</b>	<b>\$ 296,092</b>	<b>\$ 239,869</b>	<b>\$ 164,256</b>
Plan fiduciary Net Position as a Percentage of the Total Pension Liability	69.57%	69.11%	67.53%	66.57%	62.01%	68.04%	75.75%
Covered Payroll	\$ 95,934	\$ 98,454	\$ 101,271	\$ 94,768	\$ 90,860	\$ 95,187	\$ 103,530
Net Pension Liability as a Percentage of Covered Payroll	247.63%	251.13%	257.98%	276.41%	325.88%	252.00%	158.66%

See Independent Auditor's Report.

**City of Philadelphia Gas Works Retirement Reserve Fund  
 Schedule of Employer Contributions as a Percentage of Covered Payroll  
 and Investment Returns  
 Ten Years Ended June 30, 2020**

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**Employer Contributions as a Percentage of Covered Payroll** (amounts in thousands).

	<u>FYE 2020</u>	<u>FYE 2019</u>	<u>FYE 2018</u>	<u>FYE 2017</u>	<u>FYE 2016</u>	<u>FYE 2015</u>	<u>FYE 2014</u>	<u>FYE 2013</u>	<u>FYE 2012</u>	<u>FYE 2011</u>
Actuarially Determined Contribution	\$ 26,844	\$ 28,797	\$ 28,395	\$ 29,260	\$ 26,476	\$ 21,526	\$ 24,385	\$ 23,673	\$ 23,802	\$ 22,936
Contributions in Relation to the										
Actuarially Determined Contribution	\$ 29,414	\$ 28,570	\$ 29,143	\$ 27,918	\$ 21,123	\$ 21,106	\$ 24,385	\$ 23,673	\$ 23,802	\$ 22,936
Contribution Deficiency/(Excess)	<u>\$ (2,570)</u>	<u>\$ 227</u>	<u>\$ (748)</u>	<u>\$ 1,342</u>	<u>\$ 5,353</u>	<u>\$ 420</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 95,934	\$ 98,454	\$ 101,271	\$ 94,768	\$ 90,860	\$ 95,187	\$ 103,530	\$ 105,985	\$ 106,308	\$ 106,308
Contributions as a Percentage of Covered Payroll	27.98%	29.25%	28.04%	30.88%	29.14%	22.61%	23.55%	22.34%	22.39%	21.58%

**Investment Returns**

The 2014 Plan year is the first year this information has been made available. This information will be given prospectively for future Plan years.

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Annual money-weighted rate of return, net of investment expense	16.76%	4.33%	0.58%	13.04%	8.89%	6.73%	2.83%

See Independent Auditor's Report.

**City of Philadelphia Gas Works Retirement Reserve Fund**  
**Notes to Required Supplementary Information**  
**Year Ended June 30, 2020**

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The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2020
Actuarial cost method	Projected unit credit
Amortization method	Contributions based on greater of 20-year level dollar open amortization method and 30-year level dollar closed amortization method
Asset valuation method	Assets smoothed over a 5-year period
Salary increase	Varies by participant years of service.
General inflation	2%
Investment rate of return	7.30%
Cost of living	N/A
Mortality rates	Pri-2012 mortality table projected generationally from the central year using Scale MP-2020.
Discount Rate	7.30%

See Independent Auditor's Report.

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors,  
City of Philadelphia Gas Works Retirement Reserve Fund:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Philadelphia Gas Works Retirement Reserve Fund (the "Plan"), which comprise the statement of fiduciary net position as of June 30, 2020 and the related statement of changes in fiduciary net position for the year then ended, and the related notes to financial statements, and have issued our report thereon dated February 19, 2021.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting ("internal control") as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Plan's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Withum Smith + Brown, PC". The signature is written in a cursive, flowing style.

February 19, 2021