



CITY OF PHILADELPHIA GAS WORKS RETIREMENT RESERVE FUND
Financial Statements
June 30, 2016
With Independent Auditors' Reports

City of Philadelphia Gas Works Retirement Reserve Fund
June 30, 2016

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INDEPENDENT AUDITORS' 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, 2016, 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.

Auditors' 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 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 information regarding the Plan's fiduciary net position as of June 30, 2016, and changes therein for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States requires 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 documentation.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2016 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 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.

Withum Smith & Brown, PC

December 22, 2016

City of Philadelphia Gas Works Retirement Reserve Fund
Statement of Fiduciary Net Position
June 30, 2016

Assets

Cash and short-term investments		\$ 16,987,561
Interest and dividend receivable		1,083,934
Investments, at fair value		
Corporate bonds	\$ 46,427,703	
Common and preferred stock	315,661,035	
U.S. government securities	55,623,611	
Financial agreements	35,454	
Collateralized mortgage obligations	42,850,766	
Foreign entity's debt	5,815,298	
Municipal obligations	<u>4,037,644</u>	
Total investments		470,451,511
Receivables		
Due from brokers		<u>5,878,803</u>
		494,401,809

Liabilities

Advance from the Philadelphia Gas Works	4,577,145
Due to brokers	6,174,897
Accounts payable	<u>391,105</u>
	<u>11,143,147</u>

Fiduciary Net Position	<u><u>\$ 483,258,662</u></u>
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City of Philadelphia Gas Works Retirement Reserve Fund
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2016

Additions

Employer's contributions	\$ 21,122,557
Employees' contributions	<u>602,287</u>
	21,724,844

Investment income

Interest	5,350,287
Dividends	6,291,780
Other investment income	4,235,696
Net realized/unrealized loss	<u>(11,042,908)</u>
	4,834,855

Investment expense

(1,962,668)

Net investment gain	<u>2,872,187</u>
Total additions and net investment gain	24,597,031

Deductions

Administrative expenses paid	1,610,866
Benefits paid	<u>50,446,550</u>

Change in fiduciary net position	(27,460,385)
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Fiduciary Net Position

Beginning of year	<u>510,719,047</u>
End of year	<u>\$ 483,258,662</u>

City of Philadelphia Gas Works Retirement Reserve Fund
Notes to Financial Statements
June 30, 2016

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 others. 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"). The Commission is responsible for the administration of the Plan. 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, 2016), the Plan's membership consisted of:

Active participants	1,251
Retired participants	2,192
Vested terminated participants	<u>329</u>
Total Plan participants	<u><u>3,772</u></u>

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 percent of the first \$6,600 of Final Average Earnings plus 1.75 percent of the excess of Final Average Earnings over \$6,600, times years of credited service, with a maximum of 60 percent of the highest annual earnings during the last 10 years of credited service, applicable to all participants; or,
- 2 percent of total earnings received during the period of credited service plus 22.5 percent 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, 2016

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.

Covered employees (those employees who are participants in the Plan as of May 21, 2011) are not required to contribute to the Plan. Contributing employees (those employees who became participants are required to contribute to the Plan (see Note 2, Employee Contributions). The Company is required by statute to contribute the amounts necessary to finance the Plan. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

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.

Investment Policy

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 12, 2014. 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 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 the consultant. The Policy can only be revised or changed by a vote by the Commission. For a fuller description of the Investment Policy, see the online version at: <http://www.phila.gov/Treasurer/pdfs/PGWPP>.

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 \$11,166,030 for the year ended June 30, 2016. Net unrealized losses for the year ended June 30, 2016 totaled \$22,208,938.

Income Taxes

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

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 also impose limitations on the amounts invested in certain types of securities.

City of Philadelphia Gas Works Retirement Reserve Fund
Notes to Financial Statements
June 30, 2016

The Plan's investments are Category 1, investments insured or registered, and the securities are held by the Plan or its agent in the Plan's name. There are no Plan investments that are not categorized June 30, 2016.

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.

	Total Fair Value
Investments - Category 1	
Corporate bonds	\$ 46,427,703
Common and preferred stock	315,661,035
U.S. government securities	55,623,611
Financial agreements	35,454
Collateralized mortgage obligations	42,850,766
Foreign entity's debt	5,815,298
Municipal obligations	4,037,644
Total investments - Category 1	<u>\$ 470,451,511</u>

The annual money-weighted return for the year ended June 30, 2016 was 0.02 percent.

The Pension Plan utilizes both equity and fixed-income investments consistent with the Policy as described above. As of June 30, 2016, the Plan had investments of approximately \$470 million, comprised of \$311 million in equities and \$159 million in fixed-income investments. The ratio of equities to fixed income is 66 percent to 34 percent which is in line with the Policy guidelines of 60-70 percent equities and 30-40 percent fixed income.

The Commission employs third-party vendors to manage the assets of the Plan as well as perform other needed services. As of June 30, 2016, the Commission employed the following investment managers and vendors:

Manager	Mandate	Balance (millions)
<u>Equity Managers</u>		
RhumbLine Asset Management	Domestic Large Cap Index	\$ 102.3
Fred Alger Management, Inc	Domestic Large Cap Growth	34.0
O'Shaughnessy Asset Management	Domestic Large Cap Value	35.4
Northern Trust Company	Domestic Large Cap Index	30.5
Harding-Loevner	International Growth (fund)	24.4
Mondarian International Equity	International Value (fund)	22.8
Eagle Asset Management	Domestic Small Cap Growth	21.3
Dimensional Fund Advisors	Emerging Markets (fund)	21.6
Vaughan Nelson	Domestic Small Cap Value	<u>19.0</u>
		311.3

City of Philadelphia Gas Works Retirement Reserve Fund
Notes to Financial Statements
June 30, 2016

Manager	Mandate	Balance (millions)
<u>Bond Managers</u>		
Weaver Barksdale	Core	\$ 38.2
Logan Circle Partners	Core Plus	35.2
Garcia Hamilton	Intermediate	45.4
Lazard Asset Management	Intermediate Plus	<u>40.2</u>
		159.0
Other Assets		<u>0.2</u>
Total		<u>\$ 470.50</u>

As of June 30, 2016 no single investment, not guaranteed by the U.S. government exceeds 5 percent of the Plan's net fiduciary financial position.

During Fiscal year 2016, the Commission changed investment managers to reduce costs and increase returns for the Plan. Accordingly, the Commission moved the funds managed by one equity manager to O'Shaughnessy Asset Management.

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 three one-year extensions at the discretion of the Commission.

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 subsequent to 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 subsequent to year end.

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, 2016 and the contribution rate as of percentage of payroll was 29.14 percent.

Employee 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.

City of Philadelphia Gas Works Retirement Reserve Fund
Notes to Financial Statements
June 30, 2016

Contributing participants (Non-covered employees) in the Plan are required to make annual contributions totaling 6 percent of their compensation. Such contributions are made by means of periodic payroll deductions determined by the sponsor. Contributing participants are 100 percent vested in their contribution. All participants in the Plan, including contributing participants, have no vested interest in their accrued benefit until they have 5 years of credited service, at which time they become 100 percent vested in their accrued benefit. Contributions from contributing participants for the Plan year ending June 30, 2016 totaled \$602,287.

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.

Benefits Payable

The pension benefits are paid monthly. As a result, there are no pension benefits payable at June 30, 2016.

Trend Information

Historical trend information related to the Plan is presented in the 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.

Investment Advisors

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

Related Parties

The Sinking Fund Commission is the trustee of the investments 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 \$50,446,550 and \$189,907, respectively for the year ended June 30, 2016.

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.

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, 2016, and the reported amounts of revenues and expenses during the year then ended. Actual results could differ from those estimates. Significant estimate includes 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, 2016

3. 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.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate bonds	\$ --	\$ 46,427,703	\$ --	\$ 46,427,703
Common and preferred stock	298,386,454	17,274,269	312	315,661,035
U.S. government securities	35,964,395	19,659,216	--	55,623,611
Financial agreements	--	--	35,454	35,454
Collateralized mortgage obligations	--	42,850,766	--	42,850,766
Foreign entity's debt	--	5,594,530	220,768	5,815,298
Municipal obligations	--	4,037,644	--	4,037,644
	<u>\$ 334,350,849</u>	<u>\$ 135,844,128</u>	<u>\$ 256,534</u>	<u>\$ 470,451,511</u>

City of Philadelphia Gas Works Retirement Reserve Fund
Notes to Financial Statements
June 30, 2016

The following is a summary of activity for the year ended June 30, 2016 for investments measured at fair value based on unobservable measure criteria:

Balance, beginning of year	\$ 266,735
Sales	(42,028)
Investment income received included in income	10,554
Unrealized gain included in income	21,054
Realized gain included in income	219
Balance, end of year	<u>\$ 256,534</u>

4. 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, 2016 of \$4,577,145 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.

5. NET PENSION LIABILITY

The components of the net pension liability of the City of Philadelphia Gas Works Retirement Reserve Fund at June 30, 2016, were as follows (dollar amounts in thousands):

Total pension liability	\$ 779,351
Plan fiduciary net position	<u>(483,259)</u>
Net pension liability	<u>\$ 296,092</u>

Plan fiduciary net position as a percentage of the total pension liability	62.01%
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Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016 using the following actuarial assumptions:

Salary increases	4.5 percent for the current year and for subsequent years
General inflation	2 percent
Investment rate of return	7.30 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Combined Mortality Table for Males and Females with adjustments for mortality improvements based on Scale MP-2015.

The actuarial assumptions used for the Plan year ended June 30, 2016 were based on the results of an actuarial experience study for the period September 1, 2015 – June 30, 2016.

City of Philadelphia Gas Works Retirement Reserve Fund
Notes to Financial Statements
June 30, 2016

Change in Assumptions

Total pension liability reflects an increase of approximately \$27 million as a result of change in actuarial assumptions for the Plan year ended June 30, 2016. The mortality table was changed from RP-2000 IRS PPA @ 2014 Mortality Tables for Males and Females to the RP-2014 mortality table generationally projected with Scale MP-2015 to better reflect actual and future mortality experience. The discount rate of the Plan was reduced from 7.65 to 7.30 for the year ended June 30, 2016.

Discount Rate

The discount rate used to measure the total pension liability was 7.30 percent. 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.

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, 2016, the most recent actuarial report, is calculated using the discount rate of 7.30 percent, as well as the Plan's net pension liability if it were calculated using a discount rate that is 1 percent lower (6.30 percent) or 1 percent higher (8.30 percent) than the current rate (dollar amounts in thousands):

	1% Decrease 6.30%	Current Rate 7.30%	1% Increase 8.30%
Total Pension Liability	\$ 870,319	\$ 779,351	\$ 703,554
Plan Fiduciary Net Position	483,259	483,259	483,259
Net Pension Liability	<u>\$ 387,060</u>	<u>\$ 296,092</u>	<u>\$ 220,295</u>

6. 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.

7. SUBSEQUENT EVENTS

The Plan has evaluated subsequent events occurring after the statement of fiduciary net position through the date of December 22, 2016 which is the date the financial statements were available to be issued.

Based on this evaluation the Plan has determined no subsequent event has occurred which requires disclosure in the financial statements.



SUPPLEMENTARY INFORMATION

City of Philadelphia Gas Works Retirement Reserve Fund
Schedule of Net Pension Liability (dollars in thousands)
June 30, 2016

Net pension liability for Plan year ended June 30, 2016 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		
	2016	2015	2014
Total pension liability			
Service cost	\$ 5,400	\$ 4,890	\$ 8,924
Interest cost	55,903	52,377	47,098
Change in benefit terms	--	--	--
Differences between expected and actual	(8,841)	17,960	59,326
Changes in assumptions	26,748	44,877	--
Benefit payments	(50,447)	(46,917)	(42,913)
Net change in total pension liability	28,763	73,187	72,435
Total pension liability, beginning	750,588	677,401	604,966
Total pension liability, ending	<u>\$ 779,351</u>	<u>\$ 750,588</u>	<u>\$ 677,401</u>
Plan fiduciary net position			
Contributions - employer	\$ 21,123	\$ 21,106	\$ 24,934
Contributions - employee	602	393	239
Net investment income	2,872	24,472	75,303
Benefit payments	(50,446)	(46,917)	(42,913)
Administrative expense	(1,611)	(1,480)	(732)
Other	--	--	--
Net change in fiduciary net position	(27,460)	(2,426)	56,831
Plan fiduciary net position, beginning	510,719	513,145	456,314
Plan fiduciary net position, ending	<u>\$ 483,259</u>	<u>\$ 510,719</u>	<u>\$ 513,145</u>
Net pension liability, ending	<u>\$ 296,092</u>	<u>\$ 239,869</u>	<u>\$ 164,256</u>

Actuarial Valuation Date	Total Pension Liability	Net Pension Liability	Covered Employer Payroll	Net Pension Liability as a Percentage of Payroll
June 30, 2016	\$ 779,351	\$ 296,092	\$ 90,860	325.88%
June 30, 2015	\$ 750,588	\$ 239,869	\$ 95,187	252.00%
June 30, 2014	\$ 677,401	\$ 164,256	\$ 103,530	158.66%

See Independent Auditors' 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, 2016

Employer Contributions as a Percentage of Covered Payroll:

Year Ended June 30,	Annual Required Contribution (000)	Covered Payroll (000)	Contribution as a Percentage of Covered Payroll
2006	\$ 15,056	\$ 106,018	14.20%
2007	15,608	102,958	15.16%
2008	15,453	107,918	14.32%
2009	15,437	108,474	14.23%
2010	23,099	106,125	21.77%
2011	22,936	106,308	21.58%
2012	23,802	106,308	22.39%
2013	23,673	105,985	22.34%
2014	24,385	103,530	23.55%
2015	21,526	95,187	22.61%
2016	26,476	90,860	29.14%

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.

	2014	2015	2016
Annual money-weighted rate of return, net of investment expense	16.76%	4.33%	0.02%

City of Philadelphia Gas Works Retirement Reserve Fund
Notes to Required Supplementary Information
Year Ended June 30, 2016

Notes to Required Supplementary Information:

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, 2016
Actuarial cost method	Projected unit credit cost method
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	Actual fair market value
Salary increase	4.5 percent for current and subsequent years
General inflation	2 percent
Investment rate of return	7.30 percent
Cost of living	N/A
Mortality rates	RP-2014 static Mortality generationally projected with Scale MP-2015
Discount Rate	7.30 percent

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 AUDITORS' REPORT

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

We have audited, 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, the financial statements of City of Philadelphia Gas Works Retirement Reserve Fund which comprise the statement of fiduciary net position as of June 30, 2016, and the related statement of changes in fiduciary net position for the year then ended and the related notes to the financial statements, and have issued our report dated December 22, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Philadelphia Gas Works Retirement Reserve Fund's internal control over financial reporting (internal control) to determine 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 City of Philadelphia Gas Works Retirement Reserve Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Philadelphia Gas Works Retirement Reserve Fund'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that material misstatement of the entity'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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified one deficiency in internal control, described in the accompanying schedule of findings as finding 2016-01, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Philadelphia Gas Works Retirement Reserve Fund's financial statements are free of 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 determination of financial statement amounts. 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*.

City of Philadelphia Gas Works Retirement Reserve Fund's Response to Finding

City of Philadelphia Gas Works Retirement Reserve Fund's response to the finding identified in our audit is described in the accompanying schedule of findings. City of Philadelphia Gas Works Retirement Reserve Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Withum Smith & Brown, PC

December 22, 2016

City of Philadelphia Gas Works Retirement Reserve Fund
Schedule of Findings
June 30, 2016

Finding 2016-01:	Incorrect postings to the PGW trial balance were noted and adjusted.
Condition	<p>The trial balance prepared by the Philadelphia Department of Finance did not reflect certain transactions related to Plan activity during the year.</p> <p>Examples of unrecorded transactions include, but are not limited to:</p> <ol style="list-style-type: none">1) Separation of assets and liabilities to adequately show accurate cash, broker receivable and broker payable balances.2) Administrative expenses incurred by Philadelphia Gas Works in the monthly processing of retiree payroll.3) Adjustments related to the amount owed to, or due from PGW.4) PGW's required contribution to the Plan.
Cause	<p>The City of Philadelphia Finance Department is charged with maintaining the Plan's books and records. This process includes the monthly review of brokerage statements from approximately 13 money managers and recording accounting transactions from each of the statements. The process also includes recording the monthly activity reported by Philadelphia Gas Works in the monthly processing of retiree payroll. General procedures are used, and in the instances noted above (and others), transactions were not recorded in sufficient detail to present an accurate and complete reporting of financial activity.</p> <p>The City of Philadelphia Finance Department is responsible for the preparation, integrity, and fair presentation of the Plan's financial statements. This process includes timely recording of transactions in sufficient detail and maintaining a clean trial balance to present an accurate and complete reporting of financial activity. The notes to the financial statements and required supplementary information should provide more comprehensive assessment of the Plan's financial condition and clarify the data reported in the financial statements.</p>
Effect	Significant audit adjustments were required for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America.
Recommendation	Policies and procedures should be implemented to ensure that all accounting transactions are posted in an accurate manner which includes providing enough detail to present financial statements in conformity with accounting principles generally accepted in the United States of America.
Management's Response	As part of the audit process of the PGW Pension Plan ("Plan"). WithumSmith+Brown has found that there are a number of adjusting journal entries that need to be processed in order to fairly represent the financial condition of the Plan. The City's Director of Accounting, the Executive Director of the Sinking Fund Commission, and the PGW Treasurer have indicated that it is their intention to formulate an action plan for them and their staff so that the number and materiality of the adjustments are reduced for future years.

City of Philadelphia Gas Works Retirement Reserve Fund
Comment on Audit Resolution Matters
Year Ended June 30, 2016

The prior year audit report, prepared by WithumSmith and Brown and dated November 30, 2015 included a finding on the Plan's internal control. The status of that finding is as follows:

Finding 15-01: Incorrect postings to the PGW trial balance were noted and adjusted.

Condition The trial balance prepared by the Philadelphia Department of Finance did not reflect certain transactions related to Plan activity during the year.

Examples of unrecorded transactions include, but are not limited to:

- 1) Cost and market valuation allowance adjustments on an investment by investment basis.
- 2) Separation of assets and liabilities to adequately show accurate cash, broker receivable and broker payable balances.
- 3) Administrative expenses incurred by Philadelphia Gas Works in the monthly processing of retiree payroll.
- 4) Adjustments related to the amount owed to, or due from PGW.
- 5) PGW's required contribution to the Plan.

Current Status A similar finding described as finding 16-01 in the schedule of findings is included in this report. Management has taken the necessary steps to correct example one above and continues to make steps to correct the remainder of the finding.