ENERGY FOR ALL OF US

Philadelphia Gas Works

(A Component Unit of the City of Philadelphia)

Comprehensive Annual Financial Report

For Fiscal Years Ended August 31, 2019 and 2018

www.pgworks.com
800 West Montgomery Avenue
Philadelphia, PA 19122

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(A Component Unit of the City of Philadelphia)
Comprehensive Annual Financial Report
For Fiscal Years Ended August 31, 2019 and 2018

James F. Kenney
Mayor, City of Philadelphia, PA

Seth A. Shapiro
Chairman, Board of Directors,
Philadelphia Facilities
Management Corporation

Craig E. White
President & Chief Executive Officer,
Philadelphia Gas Works

Joseph F. Golden, Jr.
Executive Vice President &
Acting Chief Financial Officer,
Philadelphia Gas Works

Prepared by:
The Finance Organization
Philadelphia Gas Works
Philadelphia, PA

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
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PGW was named a **2019 Environmental Champion** by a Cogent Reports study for the second year for our commitment to sustainability and advanced technologies that help reduce emissions.

INTRODUCTORY SECTION

PHILADELPHIA GAS WORKS
Joseph F. Golden, Jr. • Executive Vice President and Acting Chief Financial Officer
800 West Montgomery Avenue • Philadelphia, PA 19122
Phone: 215-684-6464
Email: JGolden@pgworks.com

Dear Customers & Stakeholders,

The Comprehensive Annual Financial Report (CAFR) of the Philadelphia Gas Works (PGW) for the years ended August 31, 2019 and 2018 is attached hereto. The financial statements included were prepared in accordance with Generally Accepted Accounting Principles in the United States of America (U.S. GAAP). Responsibility for both the accuracy and completeness of the data rests with PGW management.

PGW management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. This includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud. The internal controls are subject to periodic evaluation by management in order to determine their adequacy. This evaluation recognizes that: (1) the cost of a control should not exceed the benefits to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by PGW management.

The financial statements were audited by KPMG LLP (KPMG), a firm of licensed certified public accountants. The annual audit was conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that KPMG plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PGW's internal controls over financial reporting. Accordingly, no such opinion was expressed as to PGW's internal controls over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

KPMG's opinion was unmodified and states, in part, that the financial statements "present fairly, in all material respects, the financial position of Philadelphia Gas Works as of August 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles." The independent auditor's report is presented as the first component of the financial section of this report and should be read in its entirety.

Management has provided a narrative to accompany the basic financial statements. This narrative is known as Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. This letter and the MD&A should be read in their entireties.

PROFILE OF PHILADELPHIA GAS WORKS

PGW, founded in 1836, began with just 46 lights along Second Street. Today, PGW brings vital energy to homes and businesses in every corner of the City. In fact, 510,000 customers rely on PGW 24 hours a day, 365 days a year to provide safe, reliable natural gas to affordably meet Philadelphia's energy demands. The approximately 78 billion cubic feet delivered by PGW annually helps ensure Philadelphians have the energy they need to care for their families and customers.

PGW's Mission is led by the men and women of PGW who maintain and improve PGW's 6,000+ mile distribution system, which consists of approximately 3,000 miles of gas mains and 3,000 miles of gas service lines. As the largest municipally-owned utility in the U.S., PGW is focused on enhancing the quality of life for all Philadelphians – in every Philadelphia neighborhood.

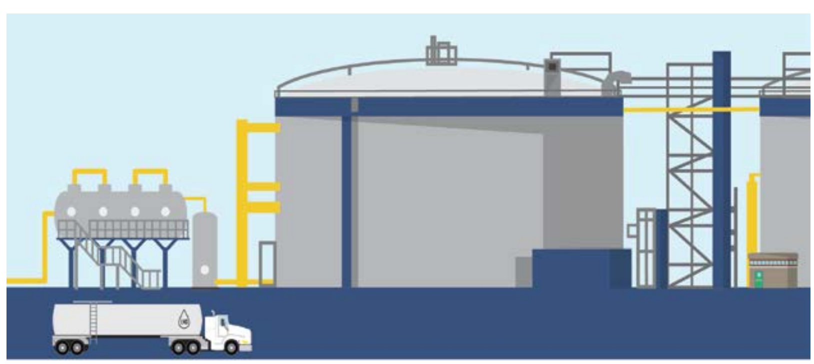
ENERGY FOR ALL OF US

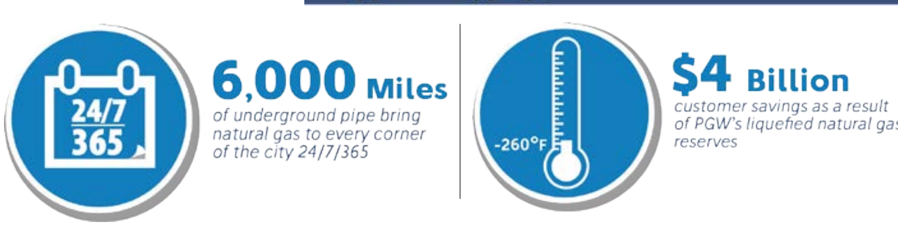
PGW recognizes the financial constraints and challenges our communities face, and we endeavor in all that we do to deliver affordable energy.

In FY 2019, Philadelphia City Council granted approval of the framework of a public-private-partnership (P3) at our Passyunk Liquefied Natural Gas (LNG) plant. Our project "partner", Passyunk Energy Center LLC, will market and sell LNG, opening the door to a potential new revenue stream to PGW. This revenue will be reinvested right back into the PGW.

LNG is not a new endeavor for PGW. We've been producing LNG for approximately 50 years. In that time, the use of LNG reserves at our Passyunk and Port Richmond facilities has saved our customers nearly $4 billion. That's real savings for PGW's customers.

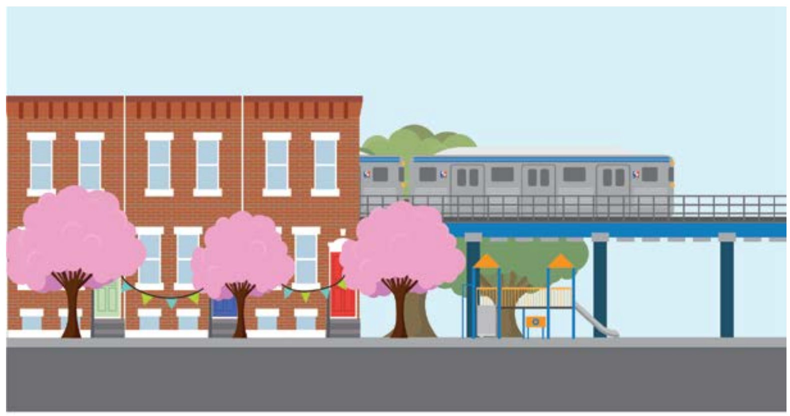
More and more people are turning to natural gas as their energy source. For the fifth consecutive year, PGW has seen an increase in its residential customer base. We're serving 10,000 more customers in FY 2019 than in FY 2014.





Every customer – whether they're new to the City or have been here many years – deserves the same opportunity and access to safe, reliable and affordable energy. PGW's infrastructure improvement program aims to remove all vintage pipe from the system and replace it with new state-of-the-art materials. This improvement program, in FY 2019 alone, accounted for the upgrading of over 34 miles of pipeline. PGW invests millions of dollars annually to maintain and modernize our system, and expects to continue to do so for years to come.

Upgrading our infrastructure has environmental benefits as well. PGW's infrastructure upgrades have reduced 78,000 metric tons of CO2e since 2005. That is equal to eliminating the emissions of approximately 9,000 homes, annually.

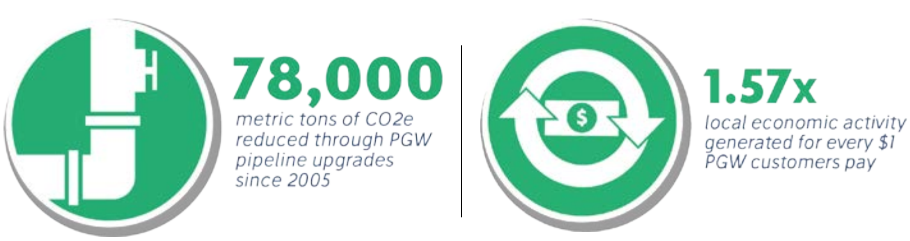


Right now, our communities are calling for businesses, including PGW, to have more sustainable practices. Building a more sustainable Philadelphia takes team work. As a result of PGW's partnerships with the Philadelphia Phillies and the Philadelphia Eagles, every home run hit by a Phillies' player, PGW plants a tree in a local neighborhood or watershed area. For every field goal made by the Eagles, PGW plants 10 trees in Neshaminy Park. After the 2019 playing seasons wrapped up, over 500 new trees in our area are or will be planted.

For customers looking for opportunities to save energy and reduce their carbon footprint at home, PGW partners with local agencies, public officials and community groups to offer weatherization workshops, energy efficiency tips and more. In FY 2019, we attended hundreds of events throughout the City, assisting and educating more than 25,000 customers on how to achieve greater energy efficiencies.

For large-scale customers who rely on fuel oil, coal or international fuel imports, use of natural gas leads to a cleaner future. Businesses are turning to PGW for technologies like Combined Heat & Power, natural gas conversions, and energy efficient incentives through our EnergySense Program. In April 2019, PGW EnergySense awarded $120,000 to National Real Estate at East Market in Center City for its retrofit work. EnergySense is the longest-running, voluntary demand-side management program for natural gas customers in Pennsylvania.

PGW recognizes that sustainability is fundamental to our daily operations, which is why we are committed to encouraging our customers and stakeholders in their own energy efficiency efforts.



ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PGW for its CAFR for the fiscal year ended August 31, 2018. This was the seventh straight year that PGW received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish a CAFR that satisfies both U.S. GAAP and legal requirements. The Certificate of Achievement is valid for a period of one year only. PGW believes that our current report continues to conform to the Certificate of Achievement program requirements and is submitting it to the GFOA for consideration for another certificate. This report for FY 2019 is PGW's eighth submission to the program. The preparation of the CAFR on a timely basis was made possible by the dedicated service of the entire staff of the Finance organization as well as various other departments within PGW. Each has my sincere appreciation for their valuable contributions.

On behalf of Philadelphia Gas Works, which has proudly served the needs of Philadelphia, its residents and its businesses since 1836, I am pleased to present PGW's CAFR, for the fiscal year ended August 31, 2019.

Respectfully submitted,

Joseph F. Golden, Jr.

Joseph F. Golden, Jr.
Executive Vice President and Acting Chief Financial Officer

February 27, 2020

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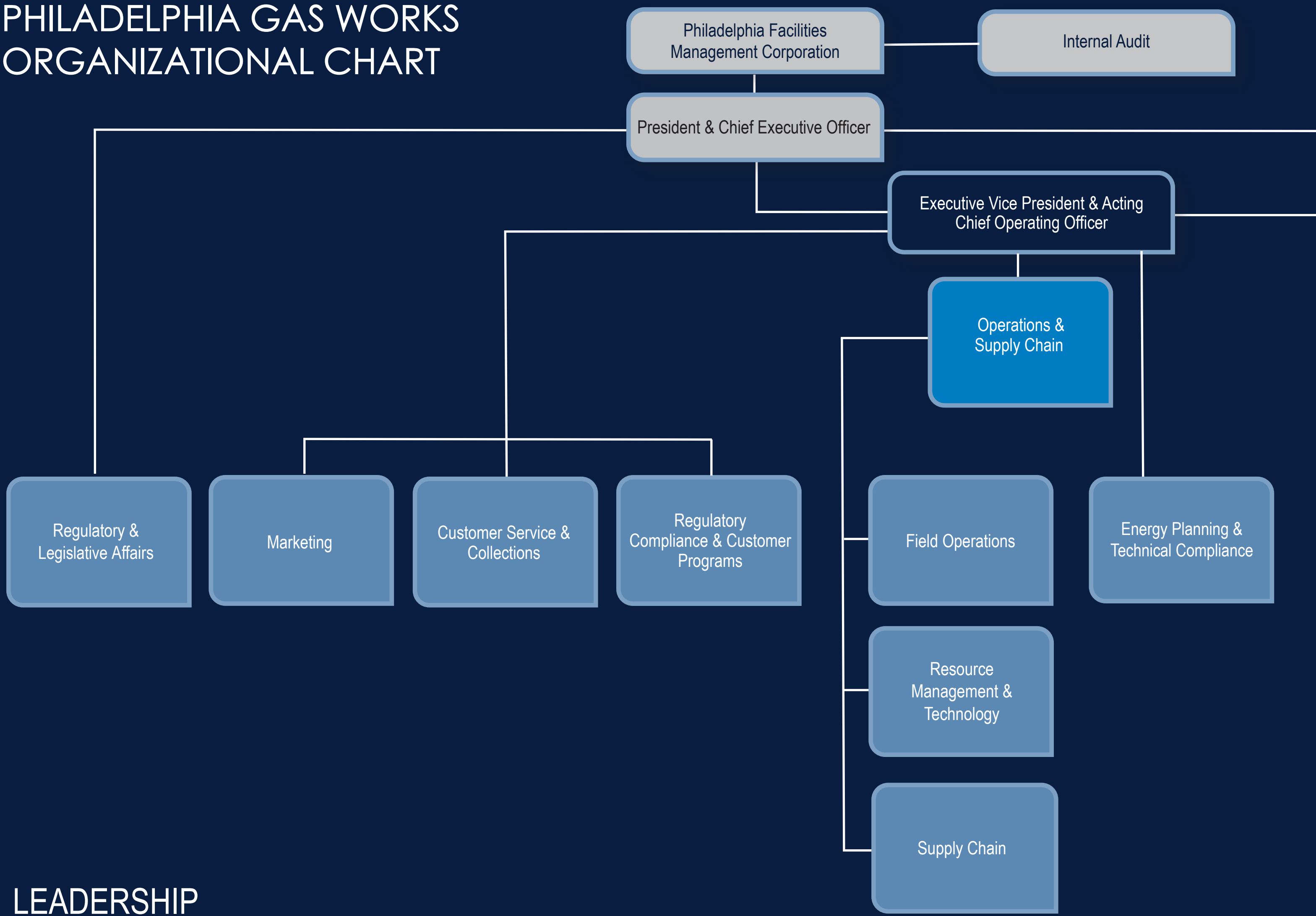
PHILADELPHIA GAS WORKS ORGANIZATIONAL CHART



LEADERSHIP

Craig E. White
President & Chief Executive Officer

Douglas A. Moser
Executive Vice President &
Acting Chief Operating Officer

Joseph F. Golden, Jr.
Executive Vice President &
Acting Chief Financial Officer

Charles J. Grant
Senior Vice President,
Human Resources, Labor &
Corporate Communications

Raquel N. Guzmán, Esquire
Senior Vice President,
Legal & General Counsel

Raymond M. Snyder
Senior Vice President,
Gas Management

Raymond J. Welte
Senior Vice President,
Operations &
Supply Chain

Eloise N. Young
Senior Vice President,
Strategic Planning &
Information Services

Denise Adamucci
Vice President,
Regulatory Compliance &
Customer Programs

Bernard L. Cummings
Vice President,
Customer Service & Collections

Kenneth S. Dybalski
Vice President,
Energy Planning &
Technical Compliance

Daniel M. Furtek
Vice President,
Resource Management &
Technology

William J. Gallagher
Vice President,
Budget & Strategic Development

Joseph R. Hawkinson
Vice President,
Field Operations

Daniel E. Leonard, Jr.
Controller

Anthony P. Mauro
Vice President,
Supply Chain

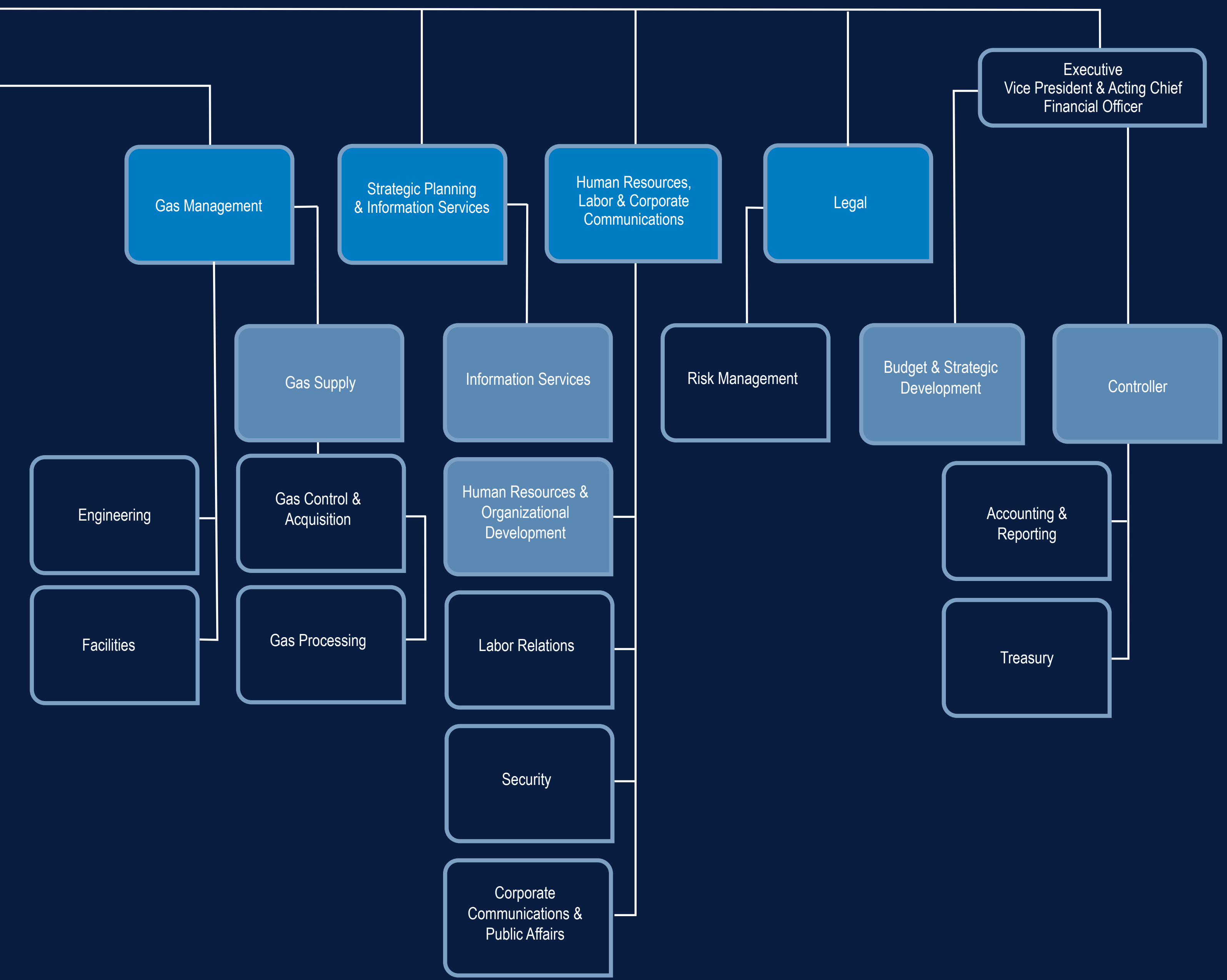
Gregory Stunder
Vice President,
Regulatory & Legislative
Affairs

Florian Teme
Vice President,
Marketing

Lorraine S. Webb
Vice President,
Human Resources &
Organizational
Development

Frank Weigert
Chief Information Officer
& Vice President,
Information Services

John C. Zuk
Vice President,
Gas Supply



BOARD OF DIRECTORS

Seth A. Shapiro

Chief Operating Officer,
The Goldenberg Group
Board Chairman
Audit/Finance Committee

Marian B. Tasco

Former Majority Leader,
Philadelphia City Council
Workforce Development
Committee

Catherine M. Paster

Former First Deputy
Director of Finance,
City of Philadelphia
Board Treasurer,
Audit/Finance Committee

James Engler, Esq.

Chief of Staff,
City of Philadelphia
Board Vice-Chair,
Workforce Development
Committee

Leigh Whitaker, Esq.

Director for City Relations,
University of Pennsylvania
Board Secretary
Chair, Workforce
Development Committee

Albert Mezzaroba, Esq.

Of Counsel, Genova Burns
Chair, Audit/Finance
Committee

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Philadelphia Gas Works

Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2018

Christopher P. Morrill

Executive Director/CEO

Safety is a habit and at the foundation of everything we do. In 2019, PGW was awarded the **System Operational Achievement Recognition Award** from the American Public Gas Association.

FINANCIAL SECTION

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Controller of the City of Philadelphia and Chairman and Members of the Philadelphia Facilities Management Corporation Philadelphia, Pennsylvania:

We have audited the accompanying financial statements of Philadelphia Gas Works (the Company), a component unit of the City of Philadelphia, as of and for the years ended August 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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, the financial position of Philadelphia Gas Works, as of August 31, 2019 and 2018, and the changes in its financial position, and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3-16 and the required supplementary information related to net pension and OPEB obligations as listed in the table of contents on pages 86-89 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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 audits 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 sufficient evidence to express an opinion or provide any assurance.

Other Information

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

Philadelphia, Pennsylvania
December 20, 2019

The narrative overview and analysis of the financial statements of Philadelphia Gas Works (the Company or PGW) for the years ended August 31, 2019 and 2018 have been prepared by PGW's management. The information presented here is unaudited and should be read in conjunction with additional information contained in PGW's financial statements.

Financial Highlights

- The Fiscal Year (FY) 2019 weather reflected a 1.0% colder than normal winter. The FY 2019 period was 0.2% colder than the prior year but firm gas sales decreased by 1.3 Billion Cubic Feet (Bcf). The Weather Normalization Adjustment (WNA) Clause, which was in effect from October 2018 through May 2019, resulted in heating customers receiving charges totaling $1.6 million. The FY 2018 reflected a 0.6% warmer than normal winter. However, the FY 2018 period was 12.2% colder than the prior year and firm gas sales increased by 4.5 Bcf from the prior year. The WNA Clause, which was in effect from October 2017 through May 2018, resulted in heating customers receiving credits totaling $3.8 million.
- PGW achieved 24-month collection rates of 96.3% in FY 2019, 95.4% in FY 2018, and 96.5% in FY 2017. For FY 2019, the collection rate is calculated by dividing the total gas receipts collected from September 1, 2017 through August 31, 2019 by the total gas billings that were applied to PGW customers' accounts from September 1, 2017 through August 31, 2019. The same methodology was utilized in FY 2018 and FY 2017.
- PGW continues to have various business initiatives that pertain to improving collections, productivity, and operational efficiencies throughout the Company. PGW, at the end of FY 2019, FY 2018, and FY 2017, had no Gas Works Revenue Capital Project Commercial Paper Notes (Capital Project Notes) or Gas Works Revenue Notes outstanding. The cash balances at the end of FY 2019 and FY 2018 were $124.1 million and $131.1 million, respectively. PGW had a cash balance of $88.5 million at the end of FY 2017.
- At December 05, 2019 and December 12, 2018, $120.0 million was available from the commercial paper program. The cash balance on December 05, 2019 and on December 12, 2018 was $80.3 million and $83.6 million, respectively.
- The Company's FY 2020 Capital Budget was approved by the City Council of the City of Philadelphia in an amount not to exceed $127.7 million and funding was provided to continue the implementation of an 18-mile Cast Iron Main Replacement (CIMR) Program. The CIMR Program cost for FY 2020 is expected to be $29.0 million. The total six-year cost of the CIMR Program is forecasted to be $185.1 million.
- In FY 2018, the Company retrospectively adopted a new required Other Postemployment Benefit (OPEB) standard, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), as of September 1, 2016. The adoption of this standard resulted in the following:
  - Recognition of a net OPEB liability for the single-employer Philadelphia Gas Works OPEB Plan (OPEB Plan) of $350.4 million at August 31, 2017, which increased to $378.9 million at August 31, 2018, and increased to $336.1 million at August 31, 2019.
  - Recognition of deferred inflows and outflows related to OPEB resulted in balances of $91.2 million and $81.0 million in deferred outflows and $69.9 million and $36.1 million of deferred inflows at August 31,

2019 and 2018, respectively. These deferred inflows and outflows of resources are related to differences between actual and expected investment returns, assumption changes, demographic factors, differences between expected and actual experience, and contributions made after the measurement date. GASB 75 requires changes in expected versus actual investment returns to be amortized as OPEB expense over five years and actuarial assumption changes and experience differences to be amortized as OPEB expense over the average working lifetime of all OPEB Plan participants. The impact of this amortization over time will be increased volatility in annual amounts recognized as OPEB expense compared to amounts recognized under prior accounting standards.

– A decrease in OPEB expense previously reported for the year ended August 31, 2017 of $8.8 million was reflected in the Statements of Revenues and Expenses and Changes in Net Position as a decrease in administrative and general from $88.9 million and an increase in other postemployment benefits expense from $7.4 million to $28.1 million.

– OPEB expense was $28.4 million and $32.9 million for the year ended August 31, 2019 and August 31, 2018, respectively.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction and overview of PGW's basic financial statements. PGW's financial statements comprise the following:

Financial statements provide both long-term and short-term information about PGW's overall financial condition, results of operations, and cash flows.

The notes to basic financial statements provide additional information that is essential to a full understanding of the data presented in PGW's financial statements. The notes can be found immediately following the basic financial statements.

The financial statements report information about PGW as a whole using accounting methods similar to those used by private sector business. The three statements presented are as follows:

The statements of revenues and expenses and changes in net position present revenues and expenses and their effects on the change in net position during the fiscal year. These changes in net position are recorded as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid.

The balance sheets include all of PGW's assets, liabilities, and deferred inflows and outflows of resources, with the difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources reported as net position. Over time, increases or decreases in net position are indicators of whether PGW's financial position is improving or deteriorating.

The statements of cash flows provide relevant information about the cash receipts and cash payments of an enterprise during a period and the impact on PGW's financial position.

Condensed Statements of Revenues and Expenses and Changes in Net Position

(Thousands of U.S. dollars)

		Years ended August 31		
		2019	**2018**	**2017 (a)**
Total gas revenues	$	664,084	628,254	588,414
Other revenues		20,644	19,245	17,797
Total operating revenues		684,728	647,499	606,211
Fuel expense		206,825	186,265	179,230
All other operating expenses		335,233	343,845	321,623
Total operating expenses		542,058	530,110	500,853
Operating income		142,670	117,389	105,358
Interest and other income		10,788	4,634	1,989
Total interest expense		(39,596)	(41,940)	(41,008)
Distribution to the City of Philadelphia		(18,000)	(18,000)	(18,000)
Excess of revenues over expenses		95,862	62,083	48,339
Net position, beginning of year		111,700	49,617	1,278
Net position, end of year	$	207,562	111,700	49,617

(a) As restated as a result of the implementation of GASB 75

Operating Revenues

Operating revenues in FY 2019 were $684.7 million, an increase of $37.2 million, or 5.7%, from FY 2018. The increase resulted from higher natural gas sendout, which was approximately 1.1% higher in FY 2019 when compared to FY 2018 and from a higher Gas Cost Rate (GCR) driven by increased commodity prices. Operating revenues in FY 2018 were $647.5 million, an increase of $41.3 million, or 6.8%, from FY 2017. The increase resulted from higher natural gas sendout, which was approximately 9.7% higher in FY 2018 when compared to FY 2017, and a base rate increase approved by the Pennsylvania Public Utility Commission (PUC) in the Settlement Agreement which became effective December 1, 2017.

Total sales volumes, including gas transportation deliveries, in FY 2019 increased by 0.5 Bcf, or 0.7%, to 76.4 Bcf from the FY 2018 sales volumes of 75.9 Bcf. In FY 2019, firm gas sales of 43.2 Bcf were 1.3 Bcf or 2.9% lower than FY 2018 and interruptible gas sales approximated the FY 2018 level. The volume of natural gas transported for gas transportation customers increased by 2.3 Bcf to 33.0 Bcf from the 30.7 Bcf level experienced in FY 2018. Total sales volumes, including gas transportation deliveries, in FY 2018 increased by 7.2 Bcf, or 10.5%, to 75.9 Bcf from the FY 2017 sales volumes of 68.7 Bcf. In FY 2018, firm gas sales of

44.5 Bcf were 4.5 Bcf or 11.4% higher than FY 2017 and interruptible gas sales approximated the FY 2017 level. The volume of natural gas transported for gas transportation customers increased by 2.0 Bcf to 30.7 Bcf from the 28.7 Bcf level experienced in FY 2017.

Total sales volumes, including gas transportation deliveries, in FY 2018 increased by 7.2 Bcf, or 10.5%, to 75.9 Bcf from the FY 2017 sales volumes of 68.7 Bcf. In FY 2018, firm gas sales of 44.5 Bcf were 4.5 Bcf or 11.4% higher than FY 2017 and interruptible gas sales approximated the FY 2017 level. The volume of natural gas transported for gas transportation customers increased by 2.0 Bcf to 30.7 Bcf from the 28.7 Bcf level experienced in FY 2017.

Provision for Uncollectible Accounts – The provision for uncollectible accounts in FY 2019 totaled $30.0 million, a decrease of $0.8 million or 2.6% from FY 2018. The provision for uncollectible accounts in FY 2018 totaled $30.8 million, an increase of $0.8 million or 2.7% from FY 2017. The decrease in the provision for uncollectible accounts in FY 2019 is mainly due to higher collection rates achieved in FY 2019. PGW is committed to continuing its collection efforts in an attempt to reduce outstanding delinquent account balances and to provide assistance to those customers who qualify for low-income grants and payment programs to help those customers maintain their gas service.

In FY 2019, the number of customers served by PGW increased from the previous year and was approximately 510,000 customers. The number of customers served by PGW at the end of FY 2018 and FY 2017 was approximately 508,000 and 505,000, respectively. There were approximately 25,000 Commercial accounts, reflecting no change from the previous two fiscal years. Industrial accounts were unchanged from the previous two fiscal years at approximately 700 customers. The number of residential accounts in FY 2019 increased to approximately 484,500 customers, an increase of 2,200 customers from the FY 2018 level, and 5,200 customers from the FY 2017 level.

Operating Expenses

Total operating expenses, including fuel costs, in FY 2019 were $542.1 million, an increase of $12.0 million or 2.3% from FY 2018. The increase for FY 2019 was mainly caused by increased natural gas utilization and increased depreciation expense. These increases were partially offset by decreased field operation expense, administrative and general, and amortization of the unfunded actuarially determined pension expense. Total operating expenses, including fuel costs, in FY 2018 were $530.1 million, an increase of $29.2 million or 5.8% from FY 2017. The increase for FY 2018 was mainly caused by increased natural gas utilization. These increases were partially offset by a decrease in the amortization of the unfunded actuarially determined pension expense.

Cost of Fuel – The cost of natural gas utilized increased by $20.5 million or 11.0% to $206.8 million in FY 2019 compared with $186.3 million in FY 2018. The average commodity price per Thousand Cubic Feet (Mcf) increased by $0.39 or $17.8 million, while the volume of gas utilized decreased by 1.1 Bcf, 2.3% or $3.0 million. The pipeline supplier refunds in FY 2019 and FY 2018 were less than $0.1 million but demand charges increased by $5.7 million compared to FY 2018.

The cost of natural gas utilized increased by $7.1 million or 4.0% to $186.3 million in FY 2018 compared with $179.2 million in FY 2017. The average commodity price per Mcf approximated the FY 2017 average commodity price; however, the volume of natural gas utilized increased by 3.7 Bcf, 8.4% or $10.0 million. The pipeline supplier refunds in FY 2018 and FY 2017 were less than $0.1 million but demand charges increased by $2.9 million compared to FY 2017. The cost of fuel includes all commodity charges and demand charges net of pipeline refunds.

Variations in the cost of purchased gas are passed through to customers under the GCR provision of PGW's rate schedules. Over recoveries or under recoveries of purchased gas costs are subtracted from or added to gas revenues and are included in other current assets or other current liabilities, thereby eliminating the effect that recovery of gas costs would otherwise have on net income.

The average natural gas commodity prices for utilized natural gas for FY 2019, FY 2018, and FY 2017 were $3.12, $2.73, and $2.73 per Mcf, respectively.

Other Operating Expenses – Expenditures for street operations, infrastructure improvements, and plant operations in FY 2019 were $99.9 million, an $8.8 million, or 8.1%, decrease from the FY 2018 total of $108.7 million. The decrease in FY 2019 was caused primarily by lower contract maintenance and material costs for distribution and field services. The FY 2018 total of $108.7 million was $12.9 million higher than the FY 2017 total of $95.8 million as a result of higher labor costs associated with the field operation departments.

Additionally, expenses of $99.9 million related to collection and account management, customer services, marketing, and the administrative area increased by $5.9 million or 6.3% in FY 2019 primarily due to higher administrative expenses. This category increased by $6.6 million in FY 2018 compared to FY 2017 primarily due to higher administrative expenses.

Pension expense decreased by $12.9 million or 29.9% to $30.3 million in FY 2019 as compared to FY 2018 due primarily to higher than anticipated earnings. Pension expense decreased by $11.6 million or 21.2% to $43.2 million in FY 2018 as compared to FY 2017 due to higher than anticipated earnings.

OPEB expense decreased by $4.5 million or 13.7% in FY 2019 as compared to FY 2018 primarily to higher than anticipated earnings. OPEB expense as determined in accordance with GASB 75 increased by $4.8 million, or 17.1%, in FY 2018 as compared to FY 2017. OPEB expense increased in FY 2018 primarily due to changes in the total OPEB liability related to assumption changes, actuarial experience recognized over the average working lifetime of the OPEB Plan's participants, and the difference between projected and actual investment earnings recognized over a closed five-year period.

Net Depreciation Expense – Net depreciation expense increased by $11.7 million in FY 2019 compared with FY 2018. Net depreciation expense increased by $8.9 million in FY 2018 compared with FY 2017. The effective composite depreciation rates were 2.1% for FY 2019 and FY 2018 and 2.2% for FY 2017. Cost of removal is charged to expense as incurred.

(Continued)

Interest and Other Income – Interest and other income in FY 2019 was $6.2 million higher than FY 2018, as a result of increased earnings on restricted and unrestricted fund balances. Interest and other income in FY 2018 was $2.6 million higher than FY 2017, as a result of increased earnings on higher restricted fund balances.

Interest Expense – Total interest expense was $39.6 million in FY 2019, a decrease of $2.3 million or 5.5% when compared with FY 2018. Interest on long-term debt was $2.3 million or 4.8% lower in FY 2019 when compared to 2018. Interest expense was lower in FY 2019 due to the normal amortization of long-term debt. Total interest expense was $41.9 million in FY 2018, an increase of $0.9 million or 2.2% when compared with FY 2017. Interest on long-term debt was $9.3 million or 23.8% higher in FY 2018 when compared to FY 2017 reflecting the full year effect of the issuance of the Fifteenth Series Bonds in August 2017. Offsetting this increase, other interest expense decreased by $4.7 million, primarily reflecting the amortization of the bond premium related to the Fifteenth Series Bonds. Also, a decrease in interest expense associated with PGW's commercial paper program resulting from lower borrowing costs coupled with decreasing outstanding balances offset the increase. Other interest costs further decreased by $3.8 million due primarily to the reduction of expenses for losses on reacquired debt and other variable bond fees.

Excess of Revenues over Expenses – In FY 2019, the Company's excess of revenues over expenses was $95.9 million, an increase of $33.8 million from FY 2018. This increase is primarily due to greater contribution margins of gas and lower pension and OPEB expenses. In FY 2018, the Company's excess of revenues over expenses was $62.1 million, an increase of $13.8 million from FY 2017. This increase is primarily due to greater contribution margins resulting from a base rate increase approved by the PUC in the Settlement Agreement which became effective December 1, 2017.

(Continued)

Condensed Balance Sheets

(Thousands of U.S. dollars)

	Years ended August 31		
Assets	**2019**	**2018**	**2017 (a)**
Current assets:			
Accounts receivable (net of accumulated provision for uncollectible accounts of $66,751, $66,327, and $65,124 for 2019, 2018, and 2017, respectively)	$ 85,989	82,611	82,028
Restricted investment funds	71,345	63,646	57,616
Cash and cash equivalents, cash designated for capital expenditures, gas inventories, materials, and supplies and other current assets	193,979	201,417	172,663
Total current assets	351,313	347,674	312,307
Noncurrent assets:			
Utility plant, net	1,451,470	1,403,956	1,338,115
Unamortized bond insurance costs	258	290	322
Capital improvement fund	—	50,815	110,000
Sinking fund, revenue bonds	106,509	103,255	102,202
Other assets	43,156	40,650	41,311
Total noncurrent assets	1,601,393	1,598,966	1,591,950
Total assets	1,952,706	1,946,640	1,904,257
Deferred Outflows of Resources			
Accumulated fair value of hedging derivatives	10,332	594	7,911
Unamortized losses on bond refunding	36,776	42,054	47,614
Deferred outflows related to pension	14,421	24,943	39,400
Deferred outflows related to OPEB	91,175	81,048	33,076
Total deferred outflows	152,704	148,639	128,001
Total assets and deferred outflows of resources	$ 2,105,410	2,095,279	2,032,258

(a) As restated as a result of the implementation of GASB 75.

Condensed Balance Sheets

(Thousands of U.S. dollars)

	Years ended August 31		
Net Position, Liabilities, and Deferred Inflows	**2019**	**2018**	**2017 (a)**
Net position:			
Net investment in capital assets	$ 494,460	432,354	375,366
Restricted	109,220	105,901	104,818
Unrestricted	(396,118)	(426,555)	(430,567)
Total net position	207,562	111,700	49,617
Noncurrent liabilities:			
Long-term revenue bonds	999,474	1,062,763	1,125,473
Other noncurrent liabilities	65,482	55,889	65,686
Net pension liability	247,246	261,261	261,945
Net OPEB liability	336,079	378,888	350,356
Total noncurrent liabilities	1,648,281	1,758,801	1,803,460
Current liabilities:			
Current portion of revenue bonds	62,946	62,709	49,890
Other current liabilities	98,517	112,669	86,096
Total current liabilities	161,463	175,378	135,986
Deferred inflows:			
Deferred inflows related to pension	18,230	13,266	12,275
Deferred inflows related to OPEB	69,874	36,134	30,920
Total deferred inflows	88,104	49,400	43,195
Total net position, liabilities, and deferred inflows	$ 2,105,410	2,095,279	2,032,258

(a) As restated as a result of the implementation of GASB 75.

(Continued)

Assets

Accounts Receivable – In FY 2019, accounts receivable (net) of $86.0 million increased by $3.4 million or 4.1%, from FY 2018 due to higher gas revenue during FY 2019, which resulted from increased sales and a higher GCR driven by increased commodity prices. In FY 2018, accounts receivable (net) of $82.6 million increased by $0.6 million or 0.7%, from FY 2017 due to higher gas billings during FY 2018, which resulted from increased sales and higher commodity prices for natural gas. The accumulated provision for uncollectible accounts at August 31, 2019 reflects a balance of $66.8 million, an increase of $0.5 million, compared to the $66.3 million balance in FY 2018. The balance was $65.1 million in FY 2017. Net write-offs for FY 2019 were $28.6 million as compared to $29.6 million and $39.2 million in FY 2018 and FY 2017, respectively.

Cash and Cash Equivalents, Gas Inventories, Materials, and Supplies, and Other Current Assets – In FY 2019, cash and cash equivalents totaled $124.1 million, a decrease of $7.0 million from the FY 2018 total of $131.1 million. The balance was $88.5 million in FY 2017. In FY 2019, gas inventories, materials, and supplies totaled $51.7 million, a decrease of $0.7 million from the FY 2018 total of $52.4 million. In FY 2019, gas storage totaled $41.3 million, a decrease of $0.4 million or 0.9% when compared to FY 2018. The decrease in gas inventory reflects a decrease in the price per Mcf of gas stored in inventory. Actual volumes in storage as of August 31, 2019 were 14.5 Bcf, identical to the prior year. In FY 2018, gas inventories, materials, and supplies totaled $52.4 million, a decrease of $3.0 million from the FY 2017 total of $55.4 million. In FY 2018, gas storage totaled $41.7 million, a decrease of $4.3 million or 9.3% when compared to FY 2017. The decrease in gas inventory reflects a decrease in volume stored, offset by an increase in the price per Mcf. Actual volumes in storage as of August 31, 2018 were 14.5 Bcf, a decrease of 2.2 Bcf or 12.8% compared to the prior year. Other current assets totaled $18.1 million in FY 2019, an increase of $0.1 million from FY 2018. Other current assets totaled $18.0 million FY 2018, an increase of $10.7 million from FY 2017. The decrease in other current assets in FY 2018 is a result of a decrease in the deferred GCR.

Restricted Investment Funds – Restricted Investment Funds include the current portion of the Capital Improvement Fund and the Workers' Compensation Escrow Fund. Restricted Investment Funds increased by $7.7 million in FY 2019 primarily due to the anticipated increase in the drawdown from the current portion of the Capital Improvement Fund in FY 2020. The balance of the current portion of the Capital Improvement Fund at August 31, 2019, 2018, and 2017 was $68.6 million, 61.0 million, and 55.0 million, respectively. On August 16, 2017, PGW deposited $190 million into the Capital Improvement Fund as proceeds from the sale of the City of Philadelphia Gas Works Revenue Bonds, Fifteenth Series. Subsequent to the deposit, PGW withdrew $45.0 million, $55.0 million, and $25.0 million to finance various capital initiatives in FY 2019, FY 2018, and FY 2017, respectively, and anticipates withdrawing $68.6 million in FY 2020. Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers' Compensation Self-Insurance policy, the Company has established and maintains a restricted trust account. As of August 31, 2019, 2018, and 2017, the trust account balances were $2.7 million, $2.6 million and $2.6 million, respectively.

Utility Plant and Other Noncurrent Assets – In FY 2019, noncurrent assets including utility plant, net, the long-term portion of the Capital Improvement Fund, the revenue bonds' Sinking Fund, and unamortized bond insurance costs totaled $1,601.4 million, an increase of $2.4 million from FY 2018. In FY 2018, noncurrent assets including utility plant, net, the long-term portion of the Capital Improvement Fund, the revenue bonds' Sinking Fund, and unamortized bond insurance costs totaled $1,599.0 million, an increase of $7.0 million from

FY 2017. Utility plant, net, totaled $1,451.5 million in FY 2019, an increase of $47.5 million or 3.4% compared with the FY 2018 balance. Utility plant, net, totaled $1,404.0 million in FY 2018, an increase of $65.9 million or 4.9% compared with the FY 2017 balance. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were $110.5 million in FY 2019 compared to $123.4 million in FY 2018 and $102.3 million in FY 2017. A portion of the proceeds from the sale of the Fifteenth Series Bonds was utilized to finance a portion of PGW's ongoing Capital Improvement Fund. The major capital expenditures are associated with PGW's gas supply infrastructure, namely, gas mains, and customer service lines, including capital expenditures for the Long-Term Infrastructure Improvement Plan. For additional information on the Company's capital assets, see note 1(g) *Utility Plant* of the basic financial statements.

In early 2012, Act 11 was enacted by the Pennsylvania Legislature. Act 11 permitted public utilities to file a request with the PUC for the implementation of a Distribution System Improvement Charge (DSIC). A DSIC permits natural gas distribution companies to recover the costs related to main and service replacement not already recovered in base rates. This legislation provides utility companies with a supplemental recovery mechanism for costs related to incremental/accelerated distribution system repair, improvement, and replacement. Act 11 permits gas utilities to recover 5.0% of their nongas revenues via the recovery mechanism and permits greater percentage increases if approved by the PUC. The Company started billing customers a DSIC surcharge as of July 1, 2013. In FY 2019, the Company billed customers $35.6 million for the DSIC surcharge. In FY 2018, the Company billed customers $41.8 million for the DSIC surcharge. The DSIC surcharge is fully reconcilable on a calendar-year basis. For additional information, see note 1(h) *Revenue Recognition* of the basic financial statements.

Deferred Outflows of Resources Related to Hedging Derivatives and Bond Refunding – Deferred outflows of resources represent amounts that will result in a reduction of net position in a subsequent period. Deferred outflows of resources include the accumulated fair value of hedging derivatives that will be recognized in the statement of revenues and expenses, changes in net position upon termination of the hedging relationship, and unamortized losses on bond refunding. Deferred outflows of resources related to hedging derivatives and bond refunding increased $4.4 million in FY 2019 from the FY 2018 total of $42.7 million. Deferred outflows decreased $12.8 million in FY 2018 from the FY 2017 total of $55.5 million.

Deferred Outflows of Resources Related to Pension – Deferred outflows of resources represent amounts that will result in a reduction of net position in a subsequent period. Deferred outflows of resources include increases in the pension liability that will be amortized into pension expense in future periods. Deferred outflows of resources relating to pension decreased $10.5 million or 42.2% in FY 2019 from the FY 2018 total of $24.9 million. Deferred outflows of resources decreased $14.5 million or 36.8% in FY 2018 from the FY 2017 total of $39.4 million.

Deferred Outflows of Resources Related to OPEB – Deferred outflows of resources represent amounts that will result in a reduction of net position in a subsequent period. Deferred outflows of resources include increases in the OPEB liability that will be amortized into OPEB expense in future periods. Deferred outflows of resources relating to OPEB increased $10.2 million or 12.6% in FY 2019 from the FY 2018 total of $81.0 million. Deferred outflows increased $47.9 million in FY 2018 from the FY 2017 restated total of $33.1 million primarily due to the recognition of deferred outflows of resources related to OPEB due to the implementation of GASB 75.

Liabilities

Long-Term Revenue Bonds – Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled $1,062.4 million in FY 2019. This was $63.1 million less than the previous year primarily as a result of scheduled principal payments. This represents 83.7% of total capitalization in FY 2019. Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled $1,125.5 million in FY 2018. This was $49.9 million less than the previous year primarily as a result of scheduled principal payments. Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled $1,175.4 million in FY 2017. This was $249.0 million greater than the previous year primarily as a result of issuing the Fifteenth Series Bonds. Long-term debt represented 95.9% of total capitalization in FY 2017. For additional information, see note 8, *Long-Term Debt and Other Liabilities* of the basic financial statements.

Debt Service Coverage Ratio and Ratings – PGW has a mandatory debt service coverage ratio of 1.50 times debt service on both the 1975 and 1998 Ordinance Bonds. At August 31, 2019, only Senior 1998 Ordinance Bonds were outstanding. At August 31, 2019, debt service coverage on Senior 1998 Ordinance Bonds was 2.33 times, compared to 2.35 and 2.71 times at August 31, 2018 and 2017, respectively. PGW's current bond ratings are "A3" from Moody's Investors Service (Moody's), "A" from Standard & Poor's Rating Service (S&P), and "BBB+" from Fitch Ratings.

Current Portion of Revenue Bonds and Notes Payable – Pursuant to the provisions of the City of Philadelphia Note Ordinances, PGW may sell short-term notes to either support working capital requirements or pay the costs of certain capital projects and other project costs. PGW may issue short-term notes in a principal amount, which, together with interest, may not exceed $150.0 million outstanding to support working capital requirements. PGW may also sell additional short-term notes in an aggregate principal amount, which may not exceed $120.0 million outstanding at any time to pay the costs of certain capital projects and other project costs. As of December 1, 2017, all notes are supported by a Note Purchase and Credit Agreement and a security interest in PGW's revenues. Prior to that, all notes were supported by two irrevocable letters of credit and a security interest in PGW's revenues. The note purchase agreement supporting PGW's combined commercial paper programs set the maximum level of outstanding notes plus interest at $120.0 million in FY 2019. The letters of credit supporting PGW's combined commercial paper programs set the maximum level of outstanding notes plus interest at $120.0 million in FY 2018 and FY 2017. There were no Capital Project Notes or Gas Works Revenue Notes outstanding at August 31, 2019, FY 2018, or FY 2017.

Other Current Liabilities – In FY 2019, other current liabilities totaled $6.2 million, a decrease of $9.0 million from FY 2018, due to a change in the deferred GCR. In FY 2018, the total was $15.2 million and $6.0 million in FY 2017. In FY 2019, accounts payable totaled $67.5 million, a decrease of $5.1 million or 7.0% compared with FY 2018 primarily due to a decrease in unbilled natural gas costs. In FY 2018, accounts payable totaled $72.6 million, an increase of $17.7 million or 32.2% compared with FY 2017 primarily due to an increase in unbilled natural gas costs.

Other Noncurrent Liabilities – In FY 2019, other noncurrent liabilities totaled $65.5 million, an increase of $9.6 million compared to FY 2018. The increase in FY 2019 is primarily due to the change in the value of the interest rate swaps and pollution remediation liabilities. In FY 2018, other noncurrent liabilities totaled

$55.9 million, a decrease of $9.8 million compared to FY 2017. The decrease in FY 2018 is primarily due to the change in the value of the interest rate swaps.

Net OPEB Liability – The net OPEB obligation was $336.1 million for the fiscal year ended August 31, 2019, a $42.8 million decrease from the $378.9 million obligation at August 31, 2018. The net OPEB obligation was $378.9 million for the fiscal year ended August 31, 2018, a $28.5 million increase from the $350.4 million obligation at August 31, 2017. The increase in FY 2018 and FY 2017 was caused by changes in assumptions.

Net Pension Liability – There was a decrease in the net pension liability of $14.1 million or 5.4% in FY 2019 as compared to FY 2018. The decrease in the net pension liability of $0.6 million or 0.2% in FY 2018 as compared to FY 2017 was primarily driven by higher than anticipated earnings in FY 2017.

Deferred Inflows of Resources Related to Pension – Deferred inflows of resources represent amounts that will result in an increase of net position in a subsequent period. Deferred inflows of resources represent the difference between actual and expected earnings on pension plan investments. The increase in deferred inflows of resources related to pension of $4.9 million in FY 2019 as compared to FY 2018 is primarily related to changes in investment performance in FY 2019. The increase in deferred inflows of resources related to pension of $1.0 million in FY 2018 as compared to FY 2017 is primarily related to changes in investment performance in FY 2018. There were $12.3 million in deferred inflows of resources related to pension at August 31, 2017.

Deferred Inflows of Resources Related to OPEB – Deferred inflows of resources represent amounts that will result in an increase of net position in a subsequent period. Deferred inflows of resources were recognized as a result of the implementation of GASB 75 and represent the difference between actual and expected earnings on OPEB plan investments. Deferred inflows of resources related to OPEB as of August 31, 2019 were $69.9 million as compared to $36.1 million as of August 31, 2018. The increase in deferred inflows of resources related to OPEB of $33.8 million or 93.6% between FY 2019 and FY 2018 is primarily driven by changes in investment performance. There were $30.9 million in deferred inflows of resources related to OPEB at August 31, 2017.

Net Position – In FY 2019, total net position totaled $207.6 million, an increase of $95.9 million compared to FY 2018. The increase in FY 2019 is due to an excess of revenues over expenses generated by PGW operations during FY 2019. In FY 2019, unrestricted net position totaled negative $396.1 million, an increase of $30.5 million compared to FY 2018. In FY 2018, total net position totaled $111.7 million, an increase of $62.1 million as compared to FY 2017. In FY 2018, unrestricted net position totaled negative $426.6 million, an increase of $4.0 million compared to FY 2017. This increase is primarily due to favorable changes in the Company's net pension liability. Due to the long-term nature of the Company's net pension and OPEB liability, the Company's negative unrestricted net position is not indicative of its near-term liquidity.

Other Financial Factors

Recent Rate Filings

On May 9, 2013, the PUC entered an order approving PGW's DSIC. The DSIC permitted PGW to recover reasonable and prudent costs incurred to repair, improve, or replace certain eligible distribution property that is part of the utility’s distribution system, in an amount up to 5.0% of distribution revenues. On September 1, 2015, PGW proposed an increase in the DSIC from 5.0% to 7.5% of distribution revenues and to levelize and annualize the DSIC. The PUC issued an Order and Opinion granting PGW’s request to increase its DSIC to 7.5% on January 28, 2016 (January 28 Order). The increase, from $22.0 million to $33.0 million per year, will generate approximately $11.0 million in additional revenue to fund PGW’s accelerated pipeline replacement program. The January 28 Order also permits PGW to levelize and annualize DSIC recovery, which will provide PGW with more predictable cash flow and may help mitigate overcollections and undercollections. PGW’s increased DSIC charge of 7.5% became effective on February 1, 2016.

On July 6, 2016, the PUC issued an Order and Opinion that permitted PGW to recover an additional $11.4 million in DSIC undercollections for the year ended December 31, 2015, over the course of two years. This results in a temporary increase in the DSIC of an additional $5.7 million a year for two years, for a total DSIC rate of 8.84%. PGW implemented the temporary increase on October 1, 2016. This temporary increase terminated on September 30, 2018. PGW will consider the effectiveness of the accelerated CIMR Program funded by the DSIC surcharge, evaluate the effect of the DSIC on customers, and assess PGW’s ability to effectively implement the level of accelerated pipeline replacement associated with the 7.5% DSIC (or higher levels) prior to requesting an increase in the DSIC.

On February 27, 2017, PGW filed for an increase in its distribution base rates with the PUC. The filing sought a general rate increase calculated to produce $70.0 million, or 11.6%, in additional annual operating revenues based upon a ten-year normal weather assumption. The filing also requested to increase the fixed customer charge component, as well as the volumetric delivery charge component of base rates.

On July 21, 2017, PGW filed a Joint Petition for Partial Settlement (Settlement Agreement) of the matter for settlement of all but two issues in the case (neither of which directly concerned PGW’s revenue request). The Settlement Agreement provided PGW with a general rate increase of $42.0 million in annual operating revenues calculated using a twenty-year normal weather assumption. PGW has determined the estimated pro forma revenue impact from the change from ten-year normal weather (less Heating Degree Days (HDDs)) to twenty-year normal weather (more HDDs) is approximately an additional $17.0 million per year over the forecast period. Settlement agreements with reduced revenue requirements are typical in PUC base rate proceedings and are the product of compromise between the parties’ diverse interests. The PUC has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding.

On November 8, 2017, the PUC entered its Order and Opinion in the case, which approved the Settlement Agreement without modification (and found in favor of PGW on the two nonsettled issues). Thereafter, PGW made its Compliance Tariff filing on November 14, 2017. The new rates approved by the PUC in the Settlement Agreement became effective on December 1, 2017.

Refunding, Defeasance, and Redeeming of Debt

On August 16, 2017, the City issued Gas Works Revenue Bonds, Fifteenth Series (1998 General Ordinance) in the par amount of $273.1 million. A portion of the proceeds from the sale of the Fifteenth Series Bonds were utilized to refund a portion of the Seventh Series Bonds and redeem the City's outstanding Capital Project Notes. The Fifteenth Series Bonds also contained new money debt issued to finance a portion of PGW's ongoing Capital Improvement Program, pay the costs of issuing the bonds, and provide a deposit to the Sinking Fund Reserve. The Fifteenth Series Bonds, with fixed interest rates that range from 2.0% to 5.0%, have maturity dates through 2047.

Upcoming Accounting Standards

GASB Statement No. 84, *Fiduciary Activities* (GASB 84) establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The requirements of this Statement will take effect for periods beginning after December 15, 2018 (the Company's fiscal year ending August 31, 2020). The Company is currently evaluating the impact of GASB 84 on its financial statements, and anticipates that certain pension and other postemployment benefit arrangements will be reported under the standard as fiduciary funds.

GASB Statement No. 90, *Majority Equity Interest* – an amendment of GASB Statements No. 14 and No. 61, will take effect for periods beginning after December 15, 2018 (the Company's fiscal year ended August 31, 2020). The primary objectives of GASB 90 are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. GASB 90 defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The Company is currently evaluating the impact of GASB 90 on its financial statements, and anticipates that the adoption of this statement will not have a material impact on the financial statements.

Contacting the Company's Financial Management

This financial report is designed to provide the citizens of Philadelphia, customers, investors, and creditors with a general overview of PGW's finances and to demonstrate PGW's accountability for the money it receives. If you have questions pertaining to this report or need additional financial information, please contact Philadelphia Gas Works, 800 W. Montgomery Avenue, Philadelphia, PA 19122 or on the Web at www.pgworks.com.

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Balance Sheets

August 31, 2019 and 2018

(Thousands of U.S. dollars)

Assets		**2019**	**2018**
Current assets:			
Cash, cash equivalents, and short term investments	$	124,145	131,051
Accounts receivable (net of provision for uncollectible accounts of $66,751 and $66,327 for 2019 and 2018, respectively)		85,989	82,611
Gas inventories, materials, and supplies		51,691	52,364
Current portion of capital improvement fund		68,634	61,000
Workers' compensation escrow fund		2,711	2,646
Other current assets		18,143	18,002
Total current assets		351,313	347,674
Noncurrent assets:			
Utility plant, at original cost:			
In service		2,486,973	2,394,302
Under construction		87,826	75,953
Total		2,574,799	2,470,255
Less accumulated depreciation		1,123,329	1,066,299
Utility plant, net		1,451,470	1,403,956
Capital improvement fund		—	50,815
Sinking fund, revenue bonds		106,509	103,255
Unamortized bond insurance costs		258	290
Regulatory asset – environmental		37,102	31,593
Other noncurrent assets		6,054	9,057
Total noncurrent assets		1,601,393	1,598,966
Total assets		1,952,706	1,946,640
Deferred Outflows of Resources			
Accumulated fair value of hedging derivatives		10,332	594
Unamortized losses on bond refunding		36,776	42,054
Deferred outflows related to pension		14,421	24,943
Deferred outflows related to OPEB		91,175	81,048
Total deferred outflows of resources		152,704	148,639
Total assets and deferred outflows of resources	$	2,105,410	2,095,279

See accompanying notes to basic financial statements.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Balance Sheets

August 31, 2019 and 2018

(Thousands of U.S. dollars)

Liabilities		**2019**	**2018**
Current liabilities:			
Current portion of revenue bonds	$	62,946	62,709
Accounts payable		67,530	72,620
Current portion of long-term liabilities		6,313	7,216
Customer deposits		3,090	2,644
Other current liabilities		6,178	15,220
Accrued accounts:			
Interest, taxes, and wages		12,406	11,969
Distribution to the City		3,000	3,000
Total current liabilities		161,463	175,378
Noncurrent liabilities:			
Long-term revenue bonds		999,474	1,062,763
Other noncurrent liabilities		65,482	55,889
Net pension liability		247,246	261,261
Net OPEB liability		336,079	378,888
Total noncurrent liabilities		1,648,281	1,758,801
Total liabilities		1,809,744	1,934,179
Deferred Inflows of Resources			
Deferred inflows related to pension		18,230	13,266
Deferred inflows related to OPEB		69,874	36,134
Total deferred inflows of resources		88,104	49,400
Total liabilities and deferred inflows of resources		1,897,848	1,983,579
Net Position			
Net investment in capital assets		494,460	432,354
Restricted (debt service)		106,509	103,255
Restricted (workers' compensation)		2,711	2,646
Unrestricted		(396,118)	(426,555)
Total net position		207,562	111,700
Total liabilities, deferred inflows of resources, and net position	$	2,105,410	2,095,279

See accompanying notes to basic financial statements.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Statements of Revenues and Expenses and Changes in Net Position

Years ended August 31, 2019 and 2018

(Thousands of U.S. dollars)

		2019	2018
Operating revenues:			
Gas revenues:			
Nonheating	$	25,065	23,492
Gas transport service		63,565	51,724
Heating		605,437	583,864
Provision for uncollectible accounts		(29,983)	(30,826)
Total gas revenues		664,084	628,254
Appliance and other revenues		7,908	8,121
Other operating revenues		12,736	11,124
Total operating revenues		684,728	647,499
Operating expenses:			
Natural gas		206,825	186,265
Gas processing		22,028	21,644
Field operations		79,341	88,105
Collection and account management		12,490	11,975
Customer services		13,983	13,904
Marketing		4,232	3,751
Administrative and general		67,649	63,206
Pensions		30,268	43,159
Other postemployment benefits		28,351	32,889
Taxes		8,705	8,758
Total operating expenses before depreciation		473,872	473,656
Depreciation		68,186	63,970
Less depreciation expense included in operating expenses above		—	7,516
Net depreciation		68,186	56,454
Total operating expenses		542,058	530,110
Operating income		142,670	117,389
Interest and other income		10,788	4,634
Income before interest expense		153,458	122,023
Interest expense:			
Long-term debt		46,136	48,351
Other		(5,245)	(5,058)
Allowance for funds used during construction		(1,295)	(1,353)
Total interest expense		39,596	41,940
Distribution to the City of Philadelphia		(18,000)	(18,000)
Excess of revenues over expenses		95,862	62,083
Net position, beginning of year		111,700	49,617
Net position, end of year	$	207,562	111,700

See accompanying notes to basic financial statements.

PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Statements of Cash Flows

Years ended August 31, 2019 and 2018

(Thousands of U.S. dollars)

		2019	2018
Cash flows from operating activities:			
Receipts from customers	$	686,300	686,200
Payments to suppliers		(397,440)	(364,326)
Payments to employees		(127,621)	(129,266)
Claims paid		(2,922)	(3,223)
Other receipts		15,100	22,900
Net cash provided by operating activities		173,417	212,285
Cash flows from noncapital financing activities:			
Income (loss) from nonutility operations		6,150	(602)
Interest and fees		(216)	98
Distribution to the City of Philadelphia		(18,000)	(18,000)
Net cash used in noncapital financing activities		(12,066)	(18,504)
Cash flows from investment activities			
Sinking fund reserve deposits		(3,254)	(1,053)
Capital improvement fund deposits		(1,819)	(1,815)
Capital improvement fund withdrawals		45,000	55,000
Interest income / capital gain from short-term investments		1,964	1,410
Interest income / capital gain on capital improvement fund		1,094	2,351
Interest income / capital gain on sinking fund		1,579	1,476
Net cash provided by investment activities		44,564	57,369
Cash flows from capital and related financing activities:			
Purchases of capital assets		(115,699)	(122,297)
Principal paid on long-term debt		(51,820)	(38,425)
Interest paid on long-term debt		(46,597)	(49,265)
Other		1,295	1,353
Net cash (used in) capital and related financing activities		(212,821)	(208,634)
Net (decrease) in cash and cash equivalents		(6,906)	42,516
Cash and cash equivalents at beginning of year		131,051	88,535
Cash and cash equivalents at end of year	$	124,145	131,051
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	142,670	117,389
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense		68,186	56,454
Provision for uncollectible accounts		29,983	30,826
Change in assets and liabilities:			
Receivables, net		(33,425)	(31,439)
Gas inventories, materials, and supplies		673	3,050
Other current assets		(141)	10,795
Other assets and deferred outflows of resources		(11,850)	(25,618)
Accounts payable		(5,090)	17,699
Customer deposits		446	(742)
Other current liabilities		(9,945)	10,603
Accrued accounts		437	(987)
Other liabilities, deferred inflows of resources, net OPEB and pension liabilities		(8,527)	24,255
Net cash provided by operating activities	$	173,417	212,285

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

The accounting methods employed by the Philadelphia Gas Works (the Company or PGW) are in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and are in conformity with City of Philadelphia (the City) reporting requirements.

As described in note 2, the Company is accounted for as a component unit of the City, and consequently follows accounting principles promulgated by the Governmental Accounting Standards Board (GASB) as they apply to business type activities. Under the Regulated Operations guidance within GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), assets or liabilities may be created by certain actions of regulatory bodies.

The principal accounting policies within this framework are described as follows:

(a) Regulation

Prior to July 1, 2000, the Company was under the regulatory jurisdiction of the Philadelphia Gas Commission (PGC). The PGC had the authority to set the Company's rates and tariffs. The PGC also approved the Company's annual Operating Budget and reviewed the Company's Capital Budget prior to approval by the City Council of the City (City Council).

Effective July 1, 2000, and pursuant to the passage of the Pennsylvania Natural Gas Choice and Competition Act (the Act), the Company came under the regulatory jurisdiction of the Pennsylvania Public Utility Commission (PUC). Under the PUC's jurisdiction, the Company filed a restructuring plan on July 1, 2002, which among other things, provided for an unbundled tariff permitting customer choice of the commodity supplier by September 1, 2003. Under the Act, the PUC is required to follow the "same ratemaking methodology and requirements" that were previously applicable to the PGC when determining the Company's revenue requirements and approving overall rates and charges. The PGC continues to approve the Company's Operating Budget and review its Capital Budget. The Company's Capital Budget must be approved by City Council.

The Company, as of September 1, 2003, is operating under its Restructuring Compliance Tariff. The Restructuring Compliance Tariff Rates are designed to maintain revenue neutrality and the Tariff Rules and Regulations are designed to comport with the Pennsylvania Public Utility Code. For additional information related to PGW's tariff and base rates, see note 1(d) *Base Rates*.

(b) Operating Budget

On February 15, 2019, PGW filed a proposed Fiscal Year (FY) 2020 Operating Budget with the PGC. The PGC Hearing Examiners conducted Informal Discovery (ID) sessions on May 9, 2019 and on May 15, 2019 and a public hearing was convened by the Hearing Examiners to address PGW's Operating Budget on June 13, 2019. On July 11, 2019, a recommended decision was rendered by the Hearing Examiners, which proposed adjustments to the Operating Budget as filed. On August 13, 2019, the PGC approved, with adjustments, PGW's FY 2020 Operating Budget. PGW filed a Compliance Budget with the PGC on August 26, 2019.

On June 29, 2018, PGW filed a proposed FY 2019 Operating Budget with the PGC. The PGC Hearing Examiners conducted ID sessions in July and August 2018. On August 28, 2018, a public hearing was convened by the Hearing Examiners to address PGW's Operating Budget. On September 28, 2018, a recommended decision was rendered by the Hearing Examiners, which proposed adjustments to the Operating Budget as filed. On November 14, 2018, the PGC approved, with adjustments, PGW's FY 2019 Operating Budget. PGW filed a Compliance Budget with the PGC on October 26, 2018.

On July 14, 2017, PGW filed a modified FY 2018 Operating Budget with supporting documentation, reflecting updated estimated actual data for FY 2018. The original FY 2018 Operating Budget information was basically unchanged.

On May 26, 2017, PGW filed a proposed FY 2018 Operating Budget. After appropriate discovery and hearings, the PGC approved the FY 2018 Operating Budget on November 14, 2017.

(c) Capital Budget

On January 2, 2019, PGW filed with the PGC its proposed FY 2020 Capital Budget in the amount of $149.7 million. After a due diligence review and related ID process in January 2019, a public hearing was held on February 20, 2019. The PGC's review culminated in deliberations taken at a public meeting held on April 9, 2019 whereby the PGC endorsed an FY 2020 Capital Budget in an amount not to exceed $127.7 million. The endorsed budget was approved by City Council on June 20, 2019 and signed by the Mayor on June 24, 2019.

On May 8, 2019 and August 6, 2019, PGW submitted proposed reauthorization requests related to the Gas Processing Department to the PGC. The requests, upon approval, will increase the FY 2020 Capital Budget by $1.3 million or an amount not to exceed $129.0 million.

On November 1, 2018, PGW submitted proposed amendments that would increase the FY 2018 and FY 2019 Capital Budgets by $4.7 million and $4.7 million, respectively. The PGC's review culminated in deliberations taken at a public meeting held on December 18, 2018 whereby the PGC endorsed an FY 2018 Capital Budget in an amount not to exceed $119.1 million and an FY 2019 Capital Budget in an amount not to exceed $139.2 million. The endorsed budgets were approved by City Council on June 20, 2019 and signed by the Mayor on July 24, 2019.

On January 2, 2018, PGW filed with the PGC its proposed FY 2019 Capital Budget in the amount of $155.9 million. After a due diligence review and related ID process in January and February 2018, a public hearing was held on February 27, 2018. The PGC's review culminated in deliberations taken at a public meeting held on April 24, 2018 whereby the PGC endorsed an FY 2019 Capital Budget in an amount not to exceed $134.5 million. The endorsed budget was approved by City Council on June 14, 2018 and signed by the Mayor on June 21, 2018.

On January 3, 2017, PGW filed with the PGC its proposed FY 2018 Capital Budget in the amount of $115.1 million. After a due diligence review and related ID process in January and February 2017, a public hearing was held on February 21, 2017. The PGC's review culminated in deliberations taken at a public meeting held on April 25, 2017 whereby the PGC endorsed an FY 2018 Capital Budget in an amount not to exceed $114.4 million. The endorsed budget was approved by City Council on June 15, 2017 and signed by the Mayor on June 21, 2017.

(d) Base Rates

On February 27, 2017, PGW filed for an increase in its distribution base rates with the PUC. The filing sought a general rate increase calculated to produce $70.0 million, or 11.6%, in additional annual operating revenues based upon a ten year normal weather assumption. The filing also requested to increase the fixed monthly customer charge component, as well as the volumetric delivery charge component of base rates.

On July 21, 2017, PGW filed a Joint Petition for Partial Settlement (Settlement Agreement) of the matter for settlement of all but two issues in the case (neither of which directly concerned PGW's revenue request). The Settlement Agreement provided PGW with a general rate increase of $42.0 million in annual operating revenues calculated using a twenty year normal weather assumption. PGW has determined the estimated pro forma revenue impact from the change from ten year normal weather (less Heating Degree Days (HDDs)) to twenty year normal weather (more HDDs) is approximately an additional $17.0 million per year over the forecast period. Settlement agreements with reduced revenue requirements are typical in PUC base rate proceedings and are the product of compromise between the parties' diverse interests. The PUC has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding.

On November 8, 2017, the PUC entered its Order and Opinion in the case, which approved the Settlement Agreement without modification and found in favor of PGW on the two nonsettled issues. Thereafter, PGW made its Compliance Tariff filing on November 14, 2017. The new rates approved by the Settlement Agreement became effective on December 1, 2017.

In FY 2015, the PUC approved the Company's Gas Cost Rate (GCR) settlement petition, which included a provision allowing for the continued recovery of PGW's Other Postemployment Benefits (OPEB) Rider. The OPEB recovery remains at $16.0 million annually. PGW continues to deposit this $16.0 million plus an additional $2.5 million annual contribution into the OPEB Trust for an annual total of $18.5 million. Additionally, PGW's petition to continue the Demand Side Management Program was decided by the PUC in November 2016 and was revised and approved.

On December 18, 2009, PGW submitted a base rate filing with the PUC (1) to maintain the $60.0 million base rate increase that the PUC granted in 2008 and (2) to fund PGW's OPEB liability in the amount of $42.5 million. PGW also moved to consolidate the Company's Demand Side Management Program, an energy efficiency and conservation plan, into the base rate filing. On May 19, 2010, PGW, along with all active parties to the proceeding, submitted a Petition for Proposed Settlement of the proceeding (the Settlement) and the PUC approved the Settlement on July 29, 2010. Under the Settlement, PGW was permitted to maintain virtually all of the extraordinary base rate relief, received an incremental rate increase of $16.0 million annually related to OPEB, and was required to fund $18.5 million of the OPEB liability in each of the fiscal years 2011 through 2015. The new rates were effective September 1, 2010. The Settlement also permitted the implementation of the Demand Side Management Program.

(e) Weather Normalization Adjustment Clause

The Weather Normalization Adjustment (WNA) Clause was approved by PUC Order dated August 8, 2002. The purpose of the WNA Clause is to neutralize the impact of weather on the Company's revenues. This allows the Company to achieve the recovery of appropriate costs as authorized by the PUC. The WNA Clause results in neither a rate increase nor a rate decrease, but acts as a billing adjustment. The main benefits of the WNA Clause are the stabilization of cash flow and the reduction of the need for short-term borrowing from year to year. The WNA Clause is applied to customer invoices rendered during the period of October 1 through May 31 of each year for each billing cycle. The adjustment for the year ended August 31, 2019 was an increase in billings of $1.6 million. The WNA Clause resulted in a decrease in billings of $3.8 million for the year ended August 31, 2018.

(f) Gas Cost Rate

The Company's single greatest operating expense is the cost of natural gas. The rate charged to the Company's customers to recover these costs is called the GCR. The GCR reflects the increases or decreases in natural gas costs and other applicable GCR costs. This GCR mechanism provides the flexibility to rapidly reflect current conditions without the time delay inherent in full base rate alteration. The intent is to achieve an annual balance between the costs incurred for fuel and their pass through to customers.

At the end of the fiscal year, costs recovered through the GCR and surcharges are compared to the actual cost of fuel and other applicable costs. Customers are then credited or charged for the over recovery or under recovery of costs. The GCR and surcharges charge/credit may be updated quarterly or in the subsequent fiscal year to reflect the under recovery or over recovery. Changes in the GCR impact the reported amounts of gas revenues but do not affect operating income or net income because they are passed through to the customer without markup. At August 31, 2019, approximately $2.3 million was recorded in other current assets for the under recovery of the GCR and surcharges. At August 31, 2018, approximately $9.2 million was recorded in other current liabilities for the over recovery of the GCR and surcharges. The GCR comprises the purchased gas costs plus the gas adjustment charge minus the interruptible revenue credit.

GCR Effective Dates and Rates

(Amounts in U.S. dollars)

Effective date	GCR rate per Mcf*	Change
December 1, 2019	$ 4.7175	0.1145
September 1, 2019	4.6030	0.3306
June 1, 2019	4.2724	(0.6055)
March 1, 2019	4.8779	0.4056
December 1, 2018	4.4723	0.6090
September 1, 2018	3.8633	0.2423
June 1, 2018	3.6210	(0.2647)
March 1, 2018	3.8857	(0.8056)
December 1, 2017	4.6913	0.5390
September 1, 2017	4.1523	(0.4463)

* Mcf – thousand cubic feet

(g) Utility Plant

Utility plant is stated at original cost. The cost of additions, replacements, and betterments of units of property is capitalized and included in the utility plant accounts. The cost of property sold or retired is removed from the utility plant accounts and charged to accumulated depreciation. Normal repairs, maintenance, the cost of minor property items, and expenses associated with retirements are charged to operating expenses as incurred.

In a previous rate order, the PGC disallowed the accrual of the net negative salvage component in depreciation. Cost of removal in the amounts of $5.7 million and $6.4 million was charged to expense as incurred in FY 2019 and FY 2018, respectively, and is included in depreciation expense in the statements of revenues and expenses and changes in net position. Depreciation is calculated on an asset-by-asset basis on the estimated useful lives of plant and equipment on a straight-line method. The composite rate for both FY 2019 and FY 2018 was 2.1%. The composite rates are supported by a depreciation study of utility plant as of August 2014. The effective composite depreciation rates, as a percentage of cost, for FY 2019 were as follows:

Production plant	1.65 %
Transmission, distribution, and storage	2.00
General plant	3.26

The most recent depreciation study was completed in FY 2015 for the plant activity subsequent to the last depreciation study and through FY 2014. It is anticipated that PGW will complete the next depreciation study in FY 2020 for the plant activity subsequent to the last depreciation study and through FY 2019.

Allowance for Funds Used During Construction (AFUDC) is an estimate of the cost of funds used for construction purposes. The AFUDC, as calculated on borrowed funds, reduces interest expense. The AFUDC rate applied to construction work in progress was 4.80% and 4.59% in FY 2019 and FY 2018, respectively.

The following is a summary of utility plant activity for the fiscal years ended August 31, 2019 and 2018 (thousands of U.S. dollars):

	August 31, 2019			
	Beginning balance	Additions and transfers	Retirements and transfers	Ending balance
Capital assets not being depreciated:				
Land	$ 5,595	—	—	5,595
Under construction	75,953	110,543	(98,670)	87,826
Total capital assets not being depreciated	81,548	110,543	(98,670)	93,421
Other capital assets:				
Distribution and collection systems	1,846,188	84,660	(5,630)	1,925,218
Buildings and equipment	542,519	14,012	(371)	556,160
Total other capital assets	2,388,707	98,672	(6,001)	2,481,378
Less accumulate depreciation for:				
Distribution and collection systems	(863,262)	(38,438)	(3,690)	(905,390)
Buildings and equipment	(203,037)	(14,034)	(868)	(217,939)
Total accumulated depreciation	(1,066,299)	(52,472)	(4,558)	(1,123,329)
Utility plant, net	$ 1,403,956	156,743	(109,229)	1,451,470

* Cost of removal of approximately $5.7 million was charged to expense as incurred in FY 2019 and is not included in accumulated depreciation.

		August 31, 2018		
	Beginning balance	Additions and transfers	Retirements and transfers	Ending balance
Capital assets not being depreciated:				
Land	$ 5,595	—	—	5,595
Under construction	105,393	124,329	(153,769)	75,953
Total capital assets not being depreciated	110,988	124,329	(153,769)	81,548
Other capital assets:				
Distribution and collection systems	1,724,227	126,158	(4,197)	1,846,188
Buildings and equipment	514,909	27,610	—	542,519
Total other capital assets	2,239,136	153,768	(4,197)	2,388,707
Less accumulate depreciation for:				
Distribution and collection systems	(822,462)	(36,913)	(3,887)	(863,262)
Buildings and equipment	(189,547)	(13,188)	(302)	(203,037)
Total accumulated depreciation	(1,012,009)	(50,101)	(4,189)	(1,066,299)
Utility plant, net	$ 1,338,115	227,996	(162,155)	1,403,956

* Cost of removal of approximately $6.4 million was charged to expense as incurred in FY 2018 and is not included in accumulated depreciation.

(h) Revenue Recognition

The Company is primarily a natural gas distribution company. Operating revenues include revenues from the sale of natural gas to residential, commercial, and industrial heating and nonheating customers. The Company also provides natural gas transportation service. Appliance and other revenues primarily consist of revenue from the Company's parts and labor repair program. Revenue from this program is recognized on a monthly basis for the life of the individual parts and labor plans. Additional revenue is generated from collection fees, reconnection charges, and bulk liquefied natural gas sales contracts. Other operating revenues primarily consist of finance charges assessed on delinquent accounts.

In early 2012, Act 11 was enacted by the Pennsylvania Legislature, which permitted public utilities to file a request with the PUC for the implementation of a Distribution System Improvement Charge (DSIC). A DSIC permits natural gas distribution companies to recover the costs related to main and service replacement not already recovered in base rates. This legislation provides utility companies with a supplemental recovery mechanism for costs related to incremental/accelerated distribution system repair, improvement, and replacement. Act 11 permits gas utilities to recover 5.0% of their nongas revenues via the recovery mechanism and permits greater percentage increases if the PUC approves. The Company started billing customers a DSIC surcharge as of July 1, 2013. In FY 2019, the Company billed customers $35.6 million for the DSIC surcharge. In FY 2018, the Company billed customers $41.8 million for the DSIC surcharge. The DSIC surcharge is fully reconcilable on a calendar year basis and at the fiscal year end; the over billed or under billed amount is recorded as an adjustment to revenue.

The Company bills customers for the cost of natural gas and the related costs incurred through the processing, distribution, and delivery of natural gas to residential, commercial, and industrial heating and nonheating customers.

Revenues include amounts related to gas that has been used by customers but has not yet been billed. Revenues are recognized as gas is distributed. Estimated revenues from gas distributed and unbilled, less estimated uncollectible amounts are accrued and included in operating revenues and were $4.9 million and $4.6 million for the years ended August 31, 2019 and 2018, respectively.

(i) Operating Expenses

The Company recognizes costs incurred as part of the Company's regular business activities on the statements of revenues and expenses and changes in net position as operating expenses. These costs include distribution, marketing, gas processing, and other similar costs.

Costs incurred that do not involve normal business operations are recognized as nonoperating expenses.

(j) Provision for Uncollectible Accounts

The Company estimates its accumulated provision for uncollectible accounts based on a financial analysis and a collectibility study performed as of the fiscal year end. The methodology used in performing the collectibility study has been reviewed by the PGC. For FY 2019 and FY 2018, management has provided an accumulated provision for uncollectible accounts in excess of the collectibility study results based on its analysis of historical aging data. The actual results of the Company's collection efforts could differ significantly from the Company's estimate.

Due to the seasonal nature of the business, the Company carries credit balances in accounts receivable primarily as a result of prepayment by budget customers. Credit balances of $15.9 million and $16.8 million in FY 2019 and FY 2018, respectively, have been reclassified to accounts payable.

(k) Gas Inventories, Materials, and Supplies

Gas inventories, materials, and supplies, consisting primarily of fuel stock, gas stored to meet peak demand requirements, and spare parts, are stated at average cost at August 31, 2019 and 2018, as follows (thousands of U.S. dollars):

		2019	2018
Gas inventory	$	41,263	41,652
Material and supplies		10,428	10,712
Total	$	51,691	52,364

(l) Unamortized Bond Insurance Costs, Debt Discount, and Premium

Discounts or premiums and bond insurance costs arising from the sale of revenue bonds are amortized using the interest method over the term of the related bond issue. Other costs of bond issuance are expensed as incurred.

(m) Unamortized Losses on Bond Refunding

Losses on bond refunding are recorded as deferred outflows of resources and amortized, using the interest method, to interest expense over the shorter of the life of the refunding bond issue or the remaining original amortization period.

(n) Pensions and Postemployment Benefits

As described in note 10, the City sponsors a single employer defined benefit pension plan, the Philadelphia Gas Works Pension Plan (the Pension Plan), to provide pension benefits for certain current and former PGW employees. As described in note 11, PGW sponsors a single employer defined benefit healthcare plan, the Philadelphia Gas Works OPEB Plan (the OPEB Plan), to provide postemployment healthcare and life insurance benefits to substantially all current and former PGW employees.

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB 27* (GASB 68), and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), for purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the Pension and OPEB Plans, and the Pension and OPEB Plans expense, information about the fiduciary net position of the Pension Plan and OPEB Plan, and additions to/deductions from the Pension and OPEB Plans' fiduciary net position are determined on the same basis as they are reported by the Pension and OPEB Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. With the exception of deferred outflows of resources related to employer contributions made after the measurement date, deferred inflows and outflows of resources related to the Pension and OPEB Plans are amortized over a closed five-year period or the average remaining service life of employees in the plan. Deferred outflows of resources related to employer contributions made after the measurement date will be recognized as a reduction of the net liability in the next fiscal year.

(o) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the financial statement measurement date. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 – quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 – quoted prices other than those included within Level 1 and other inputs that are observable for an asset or liability, either directly or indirectly.
- Level 3 – pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity or involvement.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3. When the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level that is significant to the entire measurement.

The categorization of a financial instrument within the hierarchy is based upon pricing transparency and is not necessarily an indication of the Company's perceived risk of that instrument.

The following is a description of the valuation methodologies used for investments measured at fair value:

- U.S. government obligations – The fair value of government obligations are based on institutional bond quotes and evaluations based on various market and industry inputs and are primarily considered Level 1 inputs.
- U.S. government agencies and instrumentalities – The fair value of debt instruments of U.S. government agencies and instrumentalities is based on prices or yields of similar bonds, which is a Level 2 input.
- Corporate obligations – The fair value of corporate bonds are based on institutional bond quotes and evaluations based on various market and industry inputs and are primarily considered Level 2 inputs.
- Foreign issues – The fair value of foreign bonds are based on institutional bond quotes and evaluations based on various market and industry inputs and are primarily considered Level 2 inputs.

(p) Cash and Cash Equivalents

For the purpose of reporting cash and cash equivalents, all highly liquid investments with original maturities of three months or less are considered cash equivalents, except those held for long-term purposes in the Sinking Fund Reserve, Workers' Compensation Escrow Fund, and Capital Improvement Fund as described in note 3.

(q) Reserve for Injuries and Damages

The Company is principally insured through insurance carriers. However, the Company is required to cover settlement of claims, which are excluded under the provisions of such insurance policies. An estimated liability has been established, in accordance with PGC regulations, for settlements to be paid by the Company in the next fiscal year as described in note 14.

Estimated losses from claims for occurrences not covered by insurance, which will not be paid in the next fiscal year, have been accrued. Such liabilities have been established based upon Company history and consultation with counsel. Such expenses are expected to be recovered through future rates. Reductions to the reserve are made as claims are settled.

(r) Segment Information

All of the Company's assets and operations are employed in only one segment, local transportation, and distribution of natural gas in the City.

(s) Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the Company's financial statements include the accumulated provision for uncollectible accounts, the fair value of interest rate swap agreements, the self-insurance liability, and the valuation of net pension and OPEB liabilities.

(t) Pollution Remediation

The Company estimates its pollution remediation obligations using the effective cash flow method, in which measurement is based on the outlays expected to be incurred as a sum of probability weighted amounts in a range of possible estimated amounts. The Company's liability is based on a combination of internal and external cost estimates for the specific remediation activities agreed to as part of Pennsylvania Act 2, Land Recycling and Environmental Remediation Standards Act of 1995 and Pennsylvania Act 32, Storage Tank and Spill Prevention Act of 1989.

Estimated site liabilities are determined based upon existing remediation laws and technologies, specific site consultants' engineering studies, or by extrapolating experience with environmental issues at comparable sites. Estimates may change substantially as additional information becomes available regarding the level of contamination at specific sites, available remediation methods, and changes in price, technology, proposed land use, or applicable regulations.

(u) Pronouncements Effective in the Current Year

GASB Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83) addresses accounting and financial reporting for certain asset retirement obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. The requirements of this Statement were effective for periods beginning after June 15, 2018 (the Company's fiscal year ended August 31, 2019). The adoption of GASB 83 did not have a material impact on the financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88) improves consistency in accounting and financial reporting related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt. This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. The requirements of this Statement were effective for periods beginning after June 15, 2018 (the Company's fiscal year ended August 31, 2019). The adoption of GASB 88 did not have a material impact on the financial statements.

(v) Pronouncements Effective in Future Years

(i) Effective for the Year Ending August 31, 2020

GASB Statement No. 84, *Fiduciary Activities* (GASB 84) establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The requirements of this Statement will take effect for periods beginning after December 15, 2018 (the Company's fiscal year ending August 31, 2020). The Company is currently evaluating the impact of GASB 84 on its financial statements, and anticipates that certain pension and other postemployment benefit arrangements will be reported under the standard as fiduciary funds.

GASB Statement No. 90, *Majority Equity Interest* – an amendment of GASB Statements No. 14 and No. 61, will take effect for periods beginning after December 15, 2018 (the Company's fiscal year ended August 31, 2020). The primary objectives of GASB 90 are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. GASB 90 defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The Company is currently evaluating the impact of GASB 90 on its financial statements, and anticipates that the adoption of this statement will not have a material impact on the financial statements.

(Continued)

(ii) Effective for the Year Ending August 31, 2021

GASB Statement No. 87, *Leases* (GASB 87) requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The requirements of this Statement will take effect for periods beginning after December 15, 2019 (the Company's fiscal year ending August 31, 2021). The Company is currently evaluating the impact of GASB 87 on its financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89) establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement will take effect for periods beginning after December 15, 2019 (the Company's fiscal year ending August 31, 2021). The Company is currently evaluating the impact of GASB 89 on its financial statements.

(iii) Effective for the Year Ending August 31, 2022

GASB Statement No. 91, *Conduit Debt Obligations* (GASB 91) will take effect for financial statements starting with periods beginning after December 15, 2020 (the Company's fiscal year ending August 31, 2022). The primary objectives of GASB 91 are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. Under this statement, a conduit obligation is defined as a debt instrument where (1) at least three parties involved, (2) the issuer and the third party obligor are not within the same financial reporting entity, (3) the debt obligation is a not parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer, (4) the third party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance, (5) the third party obligor, not the issuer, is primary obligated for the payment of all amounts associated with the debt obligation (debt service payments). GASB 91 requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The Company is currently evaluating the impact of GASB 91 on its financial statements.

(2) Ownership and Management and Related-Party Transactions and Balances

The Company is accounted for as a component unit of the City. As of January 1, 1973, under the terms of a two year agreement automatically extended for successive two year periods unless canceled upon 90 days' notice by the City, the Company is being managed by the Philadelphia Facilities Management Corporation (PFMC). The agreement, as amended, provides for reimbursement to PFMC of actual costs incurred in managing the Company, not to exceed a total of the prior fiscal year's maximum amount adjusted to reflect the percentage change in the Consumer Price Index for All Urban Consumers (CPI-U) All Items Index, Philadelphia, Pennsylvania, United States Department of Labor, Bureau of Labor Statistics, as most recently published and available to the Director of Finance of the City on March 1 of each such fiscal year. In FY 2019 and FY 2018, the applicable maximum amount was calculated to be $1.3 million and $1.2 million, respectively. The agreement requires the Company to make annual payments of $18.0 million to the City. In FY 2019 and FY 2018, the Company made the annual payment of $18.0 million to the City.

The Company engages in various other transactions with the City. The Company provides gas service to the City. Operating revenues include $7.4 million and $7.6 million in FY 2019 and FY 2018, respectively, relating to sales to the City. Net amounts receivable from the City were $0.6 million and $0.5 million at August 31, 2019 and 2018, respectively. Water and sewer services and licenses are purchased from the City. Such purchases totaled $1.7 million and $1.6 million in FY 2019 and FY 2018, respectively. Water and sewer services and licenses are purchased from the City. Such purchases totaled $1.7 million and $1.6 million in FY 2019 and FY 2018, respectively.

Certain activities of the PGC are paid for by the Company. Such payments totaled $0.8 million and $0.7 million in FY 2019 and FY 2018, respectively.

(3) Cash and Cash Equivalents, and Investments

(a) Cash and Cash Equivalents, and Short-Term Investments

Cash and cash equivalents consist primarily of bank deposits, money market accounts, and investments purchased through various brokerage relationships. Bank balances of such deposits, accounts, and investments at August 31, 2019 and August 31, 2018 were $123.8 million and $131.0 million, respectively. Book balances of such deposits and accounts at August 31, 2019 and August 31, 2018 were $124.1 million and $131.1 million, respectively. Short-term investments with a carrying amount (at fair value) of $107.3 million and $121.5 million at August 30, 2019 and August 31, 2018, respectively, are included in the balances presented above. Federal depository insurance on these balances at August 31, 2019 and August 31, 2018 was $0.5 million and $0.8 million, respectively. The remaining balances are not insured. Investments are primarily in money market accounts, U.S. Treasury bills, U.S. government agencies and instrumentalities, and corporate obligations (short-term investments).

The highest balance of short-term investments during FY 2019 and FY 2018 was $194.2 million and $154.1 million, respectively.

The following is a schedule that details the Company's short-term investments (thousands of U.S. dollars):

		August 31, 2019		
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:				
U.S. Treasury bills	$ 30,983	0.0377	*	*
U.S. Treasury notes	11,007	0.1857	*	*
Total U.S. government obligations	41,990			
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	14,958	0.1842	*	*
Federal Home Loan Bank bonds	19,970	0.0825	Aaa/AA+	Moody's/S&P
Total U.S. government agencies and instrumentalities	34,928			
Total fair value of U.S. government securities	76,918			
Cash and cash equivalents:				
Agricultural Bank CP	2,999	—	*	*
Agricultural Bank CP	2,676	—	*	*
China Construction CP	4,992	—	*	*
First Adu Dhabi Bank CP	4,999	—	*	*
Korea Development Bank CP	4,492	—	*	*
Industrial Com Bank CP	4,993	—	*	*
Total cash and cash equivalents	25,151			
Other:				
Federal Fund 30 – Mutual Fund	5,256	—	*	*
Total fair value of investments, including cash deposits	$ 107,325			
Portfolio weighted modified duration				

* The credit of this investment is unrated.

	August 31, 2018			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:				
U.S. Treasury bills	$ 4,945	0.4944	*	*
U.S. Treasury notes	38,013	0.3901	*	*
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	3,245	0.0889	*	*
Federal Home Loan Bank bonds	38,953	0.1024	Aaa/AA+	Moody's/S&P
Total U.S. government agencies and instrumentalities	42,198			
Total fair value of U.S. government securities	85,156			
Corporate obligations:				
Apple Incorporated	1,496	1.0333	Aa1/AA+	Moody's/S&P
Total corporate obligations	1,496			
Foreign issues:				
Rabobank Nederland NY	601	0.3722	Aa3/A+	Moody's/S&P
Total foreign issues	601			
Cash and cash equivalents:				
Agricultural Bank CP	2,488	—	*	*
Cdp Financial INC CP	3,795	—	*	*
Commercial Bank Qatar C P	2,982	—	*	*
Dnb Bank Asa C P	499	—	*	*
Koch Industries Inc C P	3,795	—	*	*
Korea Development Bk C P	2,483	—	*	*
Liberty ST Funding L C P	1,350	—	*	*
Mountcliff C P	1,799	—	*	*
Mufg Bank Ltd Ny Bran C P	4,736	—	*	*
National Secs Clearing C P	949	—	*	*
Sumitomo Mtsu Bkg Corp C P	749	—	*	*
Victory Receivables Cp C P	1,600	—	*	*

	August 31, 2018			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:				
First American Government Obligations Fund Class Z	$ 1,723	—	*	*
Total cash and cash equivalents	28,948			
Other:				
Federal Fund 30 Mutual Fund	5,256	—	*	*
Total fair value of investments, including cash deposits	$ 121,457			
Portfolio weighted modified duration				

* The credit of this investment is unrated.

The following table is a schedule that details the fair value hierarchy of the Company's short-term investments (thousands of U.S. dollars):

	August 31, 2019			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
U.S. government obligations:				
U.S. Treasury bills	$ 30,983	30,983	—	—
U.S. Treasury notes	11,007	11,007	—	—
Total U.S. government obligations	41,990	41,990	—	—
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	14,958	—	14,958	—
Federal Home Loan Bank Bonds	19,970	—	19,970	—
Total U.S. government agencies and instrumentalities	34,928	—	34,928	—
Total fair value of U.S. government securities	76,918	41,990	34,928	—

Investment type		August 31, 2019 Total fair value	Level 1	Level 2	Level 3
Cash and cash equivalents:					
Agricultural Bank CP	$	2,999	2,999	—	—
Agricultural Bank CP		2,676	2,676	—	—
China Construction CP		4,992	4,992	—	—
First Adu Dhabi Bank CP		4,999	4,999	—	—
Korea Development Bank CP		4,492	4,492	—	—
Industrial Com Bank CP		4,993	4,993	—	—
Total cash and cash equivalents		25,151	25,151	—	—
Other:					
Federal Fund 30 Mutual Fund		5,256	5,256	—	—
Total fair value of investments, including cash deposits	$	107,325	72,397	34,928	—

Investment type		August 31, 2018 Total fair value	Level 1	Level 2	Level 3
U.S. government obligations:					
U.S. Treasury bills	$	4,945	4,945	—	—
U.S. Treasury notes		38,013	38,013	—	—
Total U.S. government obligations		42,958	42,958	—	—
U.S. government agencies and instrumentalities:					
Federal Home Loan Mortgage Corporation medium term notes		3,245	—	3,245	—
Federal Home Loan Bank Bonds		38,953	—	38,953	—
Total U.S. government agencies and instrumentalities		42,198	—	42,198	—
Total fair value of U.S. government securities		85,156	42,958	42,198	—
Corporate obligations:					
Apple Incorporated		1,496	—	1,496	—
Foreign issues:					
Radobank Nederland NY		601	—	601	—

	August 31, 2018			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents:				
Agricultural Bank CP	$ 2,488	2,488	—	—
Cdp Financial INC CP	3,795	3,795	—	—
Commercial Bank Qatar C P	2,982	2,982	—	—
Dnb Bank Asa C P	499	499	—	—
Koch Industries Inc C P	3,795	3,795	—	—
Korea Development Bk C P	2,483	2,483	—	—
Liberty ST Funding L C P	1,350	1,350	—	—
Mountcliff C P	1,799	1,799	—	—
Mufg Bank Ltd Ny Bran C P	4,736	4,736	—	—
National Secs Clearing C P	949	949	—	—
Sumitomo Mtsu Bkg Corp C P	749	749	—	—
Victory Receivables Cp C P	1,600	1,600	—	—
Money market:				
First American Government Obligations Fund Class Z	1,723	1,723	—	—
Total cash and cash equivalents	28,948	28,948	—	—
Other:				
Federal Fund 30 Mutual Fund	5,256	5,256	—	—
Total fair value of investments, including cash deposits	$ 121,457	77,162	44,295	—

(b) Sinking Fund Reserve, Workers’ Compensation Escrow Fund, and Capital Improvement Fund

The investments in the Company’s Sinking Fund Reserve, Capital Improvement Fund and Workers’ Compensation Escrow Fund consist primarily of U.S. Treasury and government agency obligations, corporate obligations, and money market accounts. These investments are maintained by the City or in the Company’s name by its agent.

The Sinking Fund Reserve is required by bond ordinance to hold an amount equal to the greatest amount of debt service required by bonds secured by the Sinking Fund Reserve in any fiscal year. The balance of the Company’s Sinking Fund Reserve at August 31, 2019 and 2018 was $106.5 million and $103.3 million, respectively. Interest income on these funds, to the extent not drawn, is reflected as an increase and approximated $2.0 million in FY 2019 and $1.0 million in FY 2018.

The balance in the Capital Improvement Fund at August 31, 2019 and 2018 was $68.6 million and $111.8 million, respectively. PGW withdrew $45.0 million during FY 2019 and $55.0 million FY 2018 to finance various capital projects. Interest income on these funds, to the extent not drawn, is reflected as an increase and approximated $1.6 million in FY 2019 and $1.8 million in FY 2018.

Investments are recorded at fair value except for certain money market funds recorded at amortized cost. The adjustment to the market value for the Sinking Fund Reserve and the Capital Improvement Fund resulted in a gain of $1.2 million and $0.2 million in FY 2019 and FY 2018, respectively.

Pursuant to the Pennsylvania Department of Labor and Industry Bureau of Workers' Compensation Self-Insurance policy, the Company has established and maintained a restricted trust account. As of August 31, 2019 and 2018, the trust account balances were $2.7 million and $2.6 million, respectively.

The following tables are schedules that detail the Company's investments in the Sinking Fund Reserve (thousands of U.S. dollars):

	August 31, 2019			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:				
U.S. Treasury notes	$ 39,940	1.0367	Aaa/N/A	Moody's/S&P
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	4,032	0.6222	Aaa/AA+	Moody's/S&P
Federal National Mortgage Association	5,097	0.3960	Aaa/AA+	Moody's/S&P
Federal Home Loan Bank bonds	13,920	1.5922	Aaa/AA+	Moody's/S&P
Federal Farm Credit Banks	5,234	1.0932	Aaa/AA+	Moody's/S&P
Total U.S. government agencies and instrumentalities	28,283			
Total fair value of U.S. government securities	68,223			
Corporate obligations:				
Apple Incorporated	1,992	0.5371	Aa1/AA+	Moody's/S&P
Chevron Corporation	2,022	0.4836	Aa2/AA	Moody's/S&P
Exxon Mobil Corporation	2,018	0.1458	Aaa/AA+	Moody's/S&P
Exxon Mobil Corporation	1,119	0.2351	Aaa/AA+	Moody's/S&P
Total corporate obligations	7,151			
Foreign issues:				
Bank of Montreal MTN	1,288	0.1811	Aa2/A+	Moody's/S&P
Bank of Nova Scotia	1,011	0.1191	Aa2/A+	Moody's/S&P
Canadian Imperial Bank	1,417	0.1751	Aa2/A+	Moody's/S&P
Royal Bank of Canada MTN	2,022	0.0888	Aa2/AA-	Moody's/S&P
Shell International	2,838	0.1403	Aa2/AA-	Moody's/S&P
Toronto Dominion MTN	1,927	0.2157	Aa1/AA-	Moody's/S&P
Toronto Dominion MTN	1,012	0.0686	Aa1/AA-	Moody's/S&P
Total foreign issues	11,515			

	August 31, 2019			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Cash and cash equivalents:				
BNP Paribas Finance Inc. CP	$ 2,467	0.0850	*	*
Cooperatieve Central CP	1,993	0.0183	*	*
Credit Agricole Crpin CP	2,975	0.0640	*	*
JP Morgan Securities CP	1,996	0.0117	*	*
MUFG Bank LTD NY Bran CP	2,984	0.0411	*	*
Natixis NY CP	2,491	0.0229	*	*
Swedbank AB CP	1,978	0.0557		
Toyota Motor Credit Company CP	2,467	0.0853	*	*
Money market:				
First American Government Obligations Fund Class Z	269	—	*	*
Total cash and cash equivalents	19,620			
Other	—	—	*	*
Total fair value of investments, including cash deposits	$ 106,509			
Portfolio weighted modified duration				

* The credit of this investment is unrated.

	August 31, 2018			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:				
U.S. Treasury notes	$ 44,999	1.0652		
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	8,739	0.9583	Aaa/AA+	Moody’s/S&P
Federal National Mortgage Association	2,210	1.2083	Aaa/AA+	Moody’s/S&P
Federal Home Loan Bank bonds	17,132	0.8738	Aaa/AA+	Moody’s/S&P
Total U.S. government agencies and instrumentalities	28,081			
Total fair value of U.S. government securities	73,080			

Investment type		August 31, 2018			
		Fair value	Weighted average maturity (years)	Credit rating	Rating agency
Corporate obligations:					
Chevron Corporation	$	1,999	0.1243	Aa2/AA-	Moody’s/S&P
Apple Incorporated		1,998	0.2596	Aa1/AA+	Moody’s/S&P
Microsoft Corporation		1,983	0.2340	Aaa/AAA	Moody’s/S&P
Exxon Mobil Corporation		1,975	0.3765	Aaa/AA+	Moody’s/S&P
Total corporate obligations		7,955			
Cash and cash equivalents:					
American Honda Finance Corporation CP		1,985	—	*	*
Bank of Montreal CP		1,985	—	*	*
Bank of Tokyo Mitsubishi CP		1,970	—	*	*
BNP Paribas Finance Inc. CP		1,970	—	*	*
Cooperative Centrale CP		1,984	—	*	*
Credit Agricole Crpin CP		1,988	—	*	*
Dexia Credit Local CP		1,978			
ING US Funding LLC CP		1,984	—	*	*
JP Morgan Securities CP		1,965	—	*	*
Natixis NY CP		1,979	—	*	*
Toyota Motor Credit Company CP		1,985	—	*	*
Money market:					
First American Government Obligations Fund Class Z		447	—	*	*
Total cash and cash equivalents		22,220			
Other		—	—	*	*
Total fair value of investments, including cash deposits	$	103,255			
Portfolio weighted modified duration					

* The credit of this investment is unrated.

The following is a schedule that details the Company’s investments in the Workers’ Compensation Escrow Fund (thousands of U.S. dollars):

	August 31, 2019				
Investment type		**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:					
Fidelity Government Portfolio – Class I	$	2,711	—	Aaa/AAA	Moody’s/S&P
Total fair value of investments including cash deposits	$	2,711			
Portfolio weighted modified duration					

* The credit of this investment is unrated.

	August 31, 2018				
Investment type		**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:					
U.S. Treasury notes	$	2,589	0.3750		
Money market:					
Fidelity Government Portfolio – Class I		57	—	Aaa/AAA	Moody’s/S&P
Total fair value of investments including cash deposits	$	2,646			
Portfolio weighted modified duration					

* The credit of this investment is unrated.

The following tables are schedules that detail the Company's investments in the Capital Improvement Fund (thousands of U.S. dollars):

	August 31, 2019			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:				
U.S. Treasury bills	$ 11,923	0.3501		
U.S. Treasury notes	47,497	0.2627	Aaa/N/A	Moody's/S&P
Total U.S. government obligations	59,420			
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	100	0.0889	Aaa/AA+	Moody's/S&P
Total fair value of U.S. government securities	59,520			
Corporate obligations:				
Apple Incorporated	1,599	0.0801	Aa1/AA+	Moody's/S&P
Chevron Corporation	150	0.0188	Aa2/AA	Moody's/S&P
Institute for Advanced Study	300	0.0125	Aaa/AAA	Moody's/S&P
Walmart Stores, Inc.	1,999	0.0535	Aa2/AA	Moody's/S&P
Total corporate obligations	4,048			
Foreign issues:				
Toronto MTN	500	0.0780	Aa1/AA-	Moody's/S&P
Toronto Dominion MTN	461	0.5025	Aa1/AA-	Moody's/S&P
Total foreign issues	961			
Municipal issues:				
Pennsylvania ST Hsg Fin Agy Sf Mtge	145	0.0095	Aa2/AA+	Moody's/S&P
Pennsylvania ST Hsg Fin Agy Sf Mtge	125	0.0557	Aa2/AA+	Moody's/S&P
Pennsylvania ST Turnpike Commission	750	0.1436	Aaa/N/A	Moody's/S&P
University of Pittsburg PA Commonwealth	300	0.0095	Aa1/AA+	Moody's/S&P
Total municipal issues	1,320			
Cash and cash equivalents:				
Export Development Corporation CP	998	—	*	*
Salt River Project CP	200	—	*	*
Sentara VA CP	1,500	—	*	*
Money market:				
First American Government Obligations Fund Class Z	87	—	*	*
Total cash and cash equivalents	2,785			
Total fair value of investments including cash deposits	$ 68,634			
Portfolio weighted modified duration				

* The credit of this investment is unrated.

Investment type		Fair value	Weighted average maturity (years)	Credit rating	Rating agency
		August 31, 2018			
U.S. government obligations:					
U.S. Treasury notes	$	46,308	0.8537		
U.S. government agencies and instrumentalities:					
Federal Home Loan Mortgage Corporation medium term notes		6,060	0.8512	Aaa/AA+	Moody's/S&P
Federal National Mortgage Association		5,489	0.5713	Aaa/AA+	Moody's/S&P
Federal Home Loan Bank bonds		2,987	0.4352	Aaa/AA+	Moody's/S&P
Total U.S. government agencies and instrumentalities		14,536			
Total fair value of U.S. government securities		60,844			
Corporate obligations:					
Apple Incorporated		2,893	0.0203	Aa1/AA+	Moody's/S&P
Berkshire Hathaway Financial		2,783	0.0311	Aa2/AA	Moody's/S&P
Chevron Corporation		2,800	0.0532	Aa2/AA-	Moody's/S&P
Emory University		1,500	0.0307	Aa2/AA	Moody's/S&P
Exxon Mobil Corporation		1,995	0.0408	Aaa/AA+	Moody's/S&P
Institute for Advanced Study		805	0.0170	Aaa/AAA	Moody's/S&P
Johns Hopkins University		591	0.0150	Aa2/AA	Moody's/S&P
Johnson & Johnson		1,275	0.0347	Aaa/AAA	Moody's/S&P
Microsoft Corporation		2,974	0.0960	Aaa/AAA	Moody's/S&P
New York University		292	0.0099	Aa2/AA-	Moody's/S&P
Northwestern University		50	0.0019	Aaa/AAA	Moody's/S&P
Princeton University		1,597	0.0622	Aaa/AAA	Moody's/S&P
Stanford University		840	0.0342	Aaa/AAA	Moody's/S&P
Walmart Stores, Inc.		2,749	0.1289	Aa2/AA	Moody's/S&P
Yale University		1,449	0.0709	Aaa/AAA	Moody's/S&P
Total corporate obligations		24,593			
Municipal issues:					
Chester County PA Ref		1,916	0.3718	Aaa/AAA	Moody's/S&P
Montgomery County PA Ser B		116	0.0303	Aaa/N/A	Moody's/S&P
Pennsylvania ST Turnpike Commission		744	0.2553	Aaa/N/A	Moody's/S&P
University of Pittsburgh PA Of The Cmwlth		297	0.0847	Aa1/AA+	Moody's/S&P
Westmoreland County PA Txbl Ser B		578	0.0400	Aa2/N/A	Moody's/S&P
Total municipal issues		3,651			

(Continued)

	August 31, 2018			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Cash and cash equivalents:				
American Honda Financial CP	$ 2,287	—	*	*
Credit Agricole Corporation CP	1,995	—	*	*
Export Development Corporation CP	2,997	—	*	*
Nestle Finance Intl LTD CP	1,258	—	*	*
Paccar Financial Corporation CP	995	—	*	*
Prudential Funding LLC CP	995	—	*	*
Salt River Project CP	995	—	*	*
State of Ohio Hospital CP	1,991	—	*	*
Swedbank AB CP	2,979	—	*	*
Toyota Motor Credit Company CP	1,983	—	*	*
Money market:				
First American Government Obligations Fund Class Z	2,252	—	*	*
Total cash and cash equivalents	20,727			
Other:				
University of Pittsburgh PA CP	2,000	0.0076	*	*
Total fair value of investments including cash deposits	$ 111,815			
Portfolio weighted modified duration				

* The credit of this investment is unrated.

The following tables are schedules that detail the fair value hierarchy of the Company's investments in the Sinking Fund Reserve (thousands of U.S. dollars):

	August 31, 2019			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
U.S. government obligations:				
U.S. Treasury notes	$ 39,940	39,940	—	—
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	4,032	—	4,032	—
Federal National Mortgage Association	5,097	—	5,097	—
Federal Home Loan Bank bonds	13,920	—	13,920	—
Federal Farm Credit banks	5,234	—	5,234	—
Total U.S. government agencies and instrumentalities	28,283	—	28,283	—
Total fair value of U.S. government securities	68,223	39,940	28,283	—
Corporate obligations:				
Apple Incorporated	1,992	—	1,992	—
Chevron Corporation	2,022	—	2,022	—
Exxon Mobil Corporation	2,018	—	2,018	—
Exxon Mobil Corporation	1,119	—	1,119	—
Total corporate obligations	7,151	—	7,151	—
Foreign issues:				
Bank of Montreal MTN	1,288	—	1,288	—
Bank of Nova Scotia	1,011	—	1,011	—
Canadian Imperial Bank	1,417	—	1,417	—
Royal Bank of Canada MTN	2,022	—	2,022	—
Shell International	2,838	—	2,838	—
Toronto Domion MTN	1,927	—	1,927	—
Toronto Domion MTN	1,012	—	1,012	—
Total foreign issues	11,515	—	11,515	—

		August 31, 2019			
Investment type		**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents:					
BNP Paribas Finance Inc. CP	$	2,467	2,467	—	—
Cooperative Centrale CP		1,993	1,993	—	—
Credit Agricole Crpin CP		2,975	2,975	—	—
JP Morgan Securities CP		1,996	1,996	—	—
MUFG Bank LTD NY Bran CP		2,984	2,984	—	—
Natixis NY CP		2,491	2,491	—	—
Swedbank AB CP		1,978	1,978	—	—
Toyota Motor Credit Company CP		2,467	2,467	—	—
Money market:					
First American Government Obligations Fund Class Z		269	269	—	—
Total cash and cash equivalents		19,620	19,620	—	—
Total fair value of investments, including cash deposits	$	106,509	59,560	46,949	—

		August 31, 2018			
Investment type		**Total fair value**	**Level 1**	**Level 2**	**Level 3**
U.S. government obligations:					
U.S. Treasury notes	$	44,999	44,999	—	—
U.S. government agencies and instrumentalities:					
Federal Home Loan Mortgage Corporation medium term notes		8,739	—	8,739	—
Federal National Mortgage Association		2,210	—	2,210	—
Federal Home Loan Bank bonds		17,132	—	17,132	—
Total U.S. government agencies and instrumentalities		28,081	—	28,081	—
Total fair value of U.S. government securities		73,080	44,999	28,081	—

	August 31, 2018			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Corporate obligations:				
Chevron Corporation	$ 1,999	—	1,999	—
Apple Incorporated	1,998	—	1,998	—
Microsoft Corporation	1,983	—	1,983	—
Exxon Mobil Corporation	1,975	—	1,975	—
Total corporate obligations	7,955	—	7,955	—
Cash and cash equivalents:				
American Honda Finance Corporation CP	1,985	1,985	—	—
Bank of Montreal CP	1,985	1,985	—	—
Bank of Tokyo Mitsubishi CP	1,970	1,970	—	—
BNP Paribas Finance Inc. CP	1,970	1,970	—	—
Cooperative Centrale CP	1,984	1,984	—	—
Credit Agricole Crpin CP	1,988	1,988	—	—
Dexia Credit Local CP	1,978	1,978	—	—
ING US Funding LLC CP	1,984	1,984	—	—
JP Morgan Securities CP	1,965	1,965	—	—
Natixis NY CP	1,979	1,979	—	—
Toyota Motor Credit Company CP	1,985	1,985	—	—
Money market:				
First American Government Obligations Fund Class Z	447	447	—	—
Total cash and cash equivalents	22,220	22,220	—	—
Total fair value of investments, including cash deposits	$ 103,255	67,219	36,036	—

The following tables are schedules that detail the fair value hierarchy of the Company's investments in the Workers' Compensation Escrow Fund (thousands of U.S. dollars):

Investment type		August 31, 2019 Total fair value	Level 1	Level 2	Level 3
Money market:					
Fidelity Government Portfolio – Class I		2,711	2,711	—	—
Total fair value of investments, including cash deposits	$	2,711	2,711	—	—

Investment type		August 31, 2018 Total fair value	Level 1	Level 2	Level 3
U.S. government obligations:					
U.S. Treasury notes	$	2,589	2,589	—	—
Money market:					
Fidelity Government Portfolio – Class I		57	57	—	—
Total fair value of investments, including cash deposits	$	2,646	2,646	—	—

The following table is a schedule that details the fair value hierarchy of the Company's investments in the Capital Improvement Fund (thousands of U.S. dollars):

	August 31, 2019			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
U.S. government obligations:				
U.S. Treasury bills	$ 11,923	11,923	—	—
U.S. Treasury notes	47,497	47,497	—	—
Total U.S. government obligations	59,420	59,420	—	—
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	100	—	100	—
Total fair value of U.S. government securities	59,520	59,420	100	—
Corporate obligations:				
Apple Incorporated	1,599	—	1,599	—
Chevron Corporation	150	—	150	—
Institute Advance Study	300	—	300	—
Walmart Stores Incorporated	1,999	—	1,999	—
Total corporate obligations	4,048	—	4,048	—
Foreign issues:				
Toronto MTN	500	—	500	—
Toronto Dominion MTN	461	—	461	—
Total foreign issues	961	—	961	—
Municipal Issues:				
Pennsylvania ST Hsg Fin Agy Sf Mtge	145	—	145	—
Pennsylvania ST Hsg Fin Agy Sf Mtge	125	—	125	—
Pennsylvania ST Turnpike Commission	750	—	750	—
University of Pittsburg PA	300	—	300	—
Total foreign obligations	1,320	—	1,320	—

	August 31, 2019			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents:				
Export Development Corporation CP	$ 998	998	—	—
Salt River Project CP	200	200	—	—
Sentara VA CP	1,500	1,500	—	—
Money market:				
First American Government Obligations Fund Class Z	87	87	—	—
Total cash and cash equivalents	2,785	2,785	—	—
Total fair value of investments, including cash deposits	$ 68,634	62,205	6,429	—

	August 31, 2018			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
U.S. government obligations:				
U.S. Treasury notes	$ 46,308	46,308	—	—
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	6,060	—	6,060	—
Federal National Mortgage Association	5,489	—	5,489	—
Federal Home Loan Bank bonds	2,987	—	2,987	—
Total U.S. government agencies and instrumentalities	14,536	—	14,536	—
Total fair value of U.S. government securities	60,844	46,308	14,536	—
Corporate obligations:				
Apple Incorporated	2,893	—	2,893	—
Berkshire Hathaway Financial	2,783	—	2,783	—
Chevron Corporation	2,800	—	2,800	—
Emory University	1,500	—	1,500	—
Exxon Mobil Corporation	1,995	—	1,995	—
Institute for Advanced Study	805	—	805	—
Johns Hopkins University	591	—	591	—
Johnson & Johnson	1,275	—	1,275	—

	August 31, 2018			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Microsoft Corporation	$ 2,974	—	2,974	—
New York University	292	—	292	—
Northwestern University	50	—	50	—
Princeton University	1,597	—	1,597	—
Stanford University	840	—	840	—
Walmart Stores, Inc.	2,749	—	2,749	—
Yale University	1,449	—	1,449	—
Total corporate obligations	24,593	—	24,593	—
Municipal issues:				
Chester County PA Ref	1,916	—	1,916	—
Montgomery County PA Ser B	116	—	116	—
Pennsylvania ST Turnpike Commission	744	—	744	—
University of Pittsburgh PA Of The Cmwlth	297	—	297	—
Westmoreland County PA Txbl Ser B	578	—	578	—
Total municipal issues	3,651	—	3,651	—
Cash and cash equivalents:				
American Honda Financial CP	2,287	2,287	—	—
Credit Agricole Corporation CP	1,995	1,995	—	—
Export Development Corporation CP	2,997	2,997	—	—
Nestle Finance Intl LTD CP	1,258	1,258	—	—
Paccar Financial Corporation CP	995	995	—	—
Prudential Funding LLC CP	995	995	—	—
Salt River Project CP	995	995	—	—
State of Ohio Hospital CP	1,991	1,991	—	—
Swedbank AB CP	2,979	2,979	—	—
Toyota Motor Credit Company CP	1,983	1,983	—	—
Money market:				
First American Government Obligations Fund Class Z	2,252	2,252	—	—
Total cash and cash equivalents	20,727	20,727	—	—
Miscellaneous:				
University of Pittsburgh PA CP	2,000	—	2,000	—
Total fair value of investments, including cash deposits	$ 111,815	67,035	44,780	—

(c) Interest Rate Risk

It is the policy of the City to diversify its investment portfolios. Portfolio diversification is employed as a way to control risk. Investments shall be diversified as to maturities, and as to kind of investments to minimize the risk of loss, which might result from over concentration of assets in a specific maturity, in a specific kind of a security, or from a specific issuer or industry.

(d) Credit Risk

The City has adopted an investment policy relating to the investments of the Company. Per the investment policy, the Company's allowable investments are as follows:

(1) Bonds or notes of the U.S. government.

(2) U.S. Treasury obligations, including separate trading of registered interest and principal securities; receipts indicating an undivided interest in such U.S. Treasury obligations; and stripped coupons held under book entry with the New York Federal Reserve Bank.

(3) Obligations of the following U.S. government sponsored agencies: Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Farm Credit System, Federal Home Loan Bank, Resolution Funding Corporation, and Tennessee Valley Authority.

(4) Collateralized banker's acceptances and certificate of deposit denominated in U.S. dollars and issued by a city code authorized depository certificate of deposit that must be secured by acceptable collateral with a total market value equal to 102.0% of the deposit.

(5) Commercial paper with a stated maturity of 270 days or less, which is rated P1 by Moody's or A1+ by Standard & Poor's (S&P). The senior long-term debt of the commercial paper issuer, or the entity providing an explicit guarantee, must be rated not lower than A2 by Moody's or A by S&P.

(6) Asset backed commercial paper (ABCP), which does not have a long-term rating, is an allowable investment if it meets the short-term rating requirements but is only allowed up to the ABCP sublimit.

(7) General obligation bonds of corporations rated Aa2 or better by Moody's or AA or better by S&P with a final maturity of two years or less.

(8) Collateralized mortgage obligations and pass through securities directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States and with a final maturity of two years or less, the rating must be no lower than Aa2 by Moody's or AA by S&P.

(9) Money market mutual funds, as defined by the Securities and Exchange Commission, such money market funds must have assets over $15.0 billion, have the highest rating from Moody's, S&P, and Fitch, and contain only government securities.

(10) Repurchase agreements that are fully collateralized in bonds or notes of the U.S. government pledged to the City and held in the City's name and deposited at the time the investment is made with an entity or a third party selected and approved by the City the market value of the collateral shall be at least 102.0% of the funds being disbursed.

(11) Obligations of the Commonwealth of Pennsylvania (the Commonwealth) or any municipality or other political subdivision of the Commonwealth with a final maturity of two years or less and a rating of at least AA by Moody's or S&P.

Authorized investments for Sinking Fund Portfolios are dictated by the First Class City Revenue Bond Act of the General Assembly of the Commonwealth of Pennsylvania, approved October 18, 1972. This also includes any investment vehicle permitted for any Commonwealth state agency.

The Company's investment policy provides for the following percentage limitations of authorized investments, valued at market:

	Percent of portfolio allowed	Percent of portfolio per issuer	Percent of outstanding securities per issuer
U.S. government	100	100	N/A
U.S. Treasury	100	100	N/A
U.S. agencies and instrumentalities	100	33	N/A
Banker's acceptances and certificates of deposit	15	3	3
Commercial paper	25	3	3
Corporate bonds	25	3	3
Collateralized mortgage obligations and pass-through securities	5	3	3
Commonwealth of PA and subdivisions of Commonwealth of PA	15	3	3
Money market mutual funds	25	10	3
Repurchase agreements	25	10	N/A

More than 84.8% of the Company's short-term investments as of August 31, 2019 are in the following: U.S. Treasury bills (28.9%), Commercial Paper (23.4%), Federal Home Loan Bank Bonds (18.6%), and Federal Home Loan Mortgage Corporation medium term notes (13.9%). These investments are in accordance with the investment policy.

(e) Custodial Credit Risk

The Company has selected, as custodial bank, a member of the Federal Reserve System, to hold its investments. Delivery of the applicable investment documents to the Company's custodian is required for all investments. For secured transactions, such as repurchase agreements, either the title to or a perfected security interest in the securities, along with any necessary transfer documents, must be transferred to the custodian. Such transactions will always use delivery versus payment procedures.

(4) Recoverable Costs

In compliance with orders issued by the PGC, the cost of projects that produce benefits over an extended period is recorded on the balance sheets as a recoverable cost in other assets. There is no return on the asset being charged to the customers. The unamortized costs included in other noncurrent assets were $0.4 million and $0.8 million as of August 31, 2019 and 2018, respectively. The unamortized costs included in other current assets were $0.4 million and $0.4 million as of August 31, 2019 and 2018, respectively.

In accordance with U.S. GAAP for regulated entities, the Company has recognized the long-term portion of its environmental remediation liability as a regulatory asset because based on available evidence it is probable that the previously incurred costs will be recovered through rates. In FY 2019, settlements by the Company's insurance carriers provided less than $0.1 million associated with environmental remediation costs. Environmental remediation costs of approximately $0.6 million in FY 2019 were offset by insurance settlements received in prior fiscal years, and the remainder was recorded on the Balance Sheets as a recoverable cost in other noncurrent assets. The Company estimates additional expenditures to be approximately $39.1 million.

(5) Deferred Compensation Plan

The Company offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Company employees with at least 30 days of service, permits them to defer a portion of their salary until future years. The Company provides an annual 10.0% matching contribution of applicable wages that immediately vests to the employee. The Company contributed $0.4 million in FY 2019 and $0.4 million in FY 2018. PGW's contributions are accounted for as part of administrative and general expenses.

(6) Notes Payable

Pursuant to the provisions of the City of Philadelphia Note Ordinances, PGW may issue short-term notes to either support working capital requirements or pay the costs of certain capital projects and other project costs. PGW may issue short-term notes in a principal amount, which, together with interest, may not exceed $150.0 million outstanding to support working capital requirements. PGW may also issue additional short-term notes in an aggregate principal amount, which may not exceed $120.0 million outstanding at any time to pay the costs of certain capital projects and other project costs. As of December 1, 2017, all notes are supported by a Note Purchase and Credit Agreement and a security interest in PGW's revenues. Prior to that, all notes were supported by two irrevocable letters of credit and a security interest in PGW's revenues. The Note Purchase and Credit Agreement supporting PGW's combined commercial paper programs set the maximum level of outstanding notes plus interest at $120.0 million in FY 2019 and FY 2018, respectively. The commitment amount is $120.0 million under the current credit agreement. The expiration date of the credit agreement is December 31, 2021.

There were no Gas Works Revenue Capital Project Commercial Paper Notes (Capital Project Notes) or Gas Works Revenue Notes outstanding at August 31, 2019 and 2018, respectively.

(7) GCR Tariff Reconciliation

During the fiscal year ended August 31, 2019, the Company's actual gas costs were higher than its billed gas costs by approximately $1.2 million. This amount was netted with other applicable costs and recorded in other current assets for FY 2019. Actual gas costs were $10.9 million lower than billed gas costs in FY 2018. This amount was netted with other applicable costs and recorded in other current assets for FY 2018.

Natural Gas Pipeline Supplier Refund

The Company received less than $0.1 million in refunds in FY 2019 and FY 2018, related to Federal Energy Regulatory Commission/Pipeline Rate Cases. This amount was utilized as a reduction in the cost of gas for reconciliation purposes in the calculation of the applicable GCR.

(8) Long-Term Debt and Other Liabilities

The following summary of long-term debt consists primarily of bonds issued by the City under agreements whereby the Company must reimburse the City for the principal and interest payments required by the bond ordinances for the fiscal years ended August 31, 2019 and 2018 (thousands of U.S. dollars):

		August 31, 2019			August 31, 2018		
		Current portion	Long-term	Total	Current portion	Long-term	Total
Revenue bonds	$	52,870	911,610	964,480	51,820	964,480	1,016,300
Unamortized discount		(4)	(56)	(60)	(4)	(60)	(64)
Unamortized premium		10,080	87,920	98,000	10,893	98,343	109,236
Total revenue bonds	$	62,946	999,474	1,062,420	62,709	1,062,763	1,125,472

The following is a summary of activity related to revenue bonds and other liabilities and the respective balances for the fiscal years ended August 31, 2019 and 2018 (thousands of U.S. dollars):

		Year ended August 31, 2019				
		Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds	$	1,016,300	—	(51,820)	964,480	52,870
Other liabilities:						
Claims and judgments	$	14,064	—	(4,504)	9,560	3,925
Environmental cleanup		34,244	4,877	—	39,121	2,388
Interest rate swap liability		14,796	8,318	—	23,114	—
Total other liabilities	$	63,104	13,195	(4,504)	71,795	6,313

	Year ended August 31, 2018				
	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds	$ 1,054,725	—	(38,425)	1,016,300	51,820
Other liabilities:					
Claims and judgments	$ 14,377	—	(313)	14,064	6,100
Environmental cleanup	33,605	639	—	34,244	1,116
Interest rate swap liability	23,533	—	(8,737)	14,796	—
Total other liabilities	$ 71,515	639	(9,050)	63,104	7,216

(a) Principal Maturities and Scheduled Interest and Swap Payments

Principal maturities and scheduled interest payments for revenue bonds and estimated payments on the interest rate swaps are as follows (thousands of U.S. dollars):

	Revenue bonds			
	Principal	Interest	Net swap amount	Total
Fiscal year ending August 31:				
2020	$ 52,870	41,921	2,717	97,508
2021	53,765	39,393	2,717	95,875
2022	54,820	36,750	2,717	94,287
2023	56,690	33,963	2,717	93,370
2024	58,195	31,571	2,717	92,483
2025–2029	255,435	127,540	5,824	388,799
2030–2034	158,495	83,867	—	242,362
2035–2039	153,210	47,934	—	201,144
2040–2044	73,995	22,244	—	96,239
2045–2048	47,005	4,777	—	51,782
Total	$ 964,480	469,960	19,409	1,453,849

This table assumes that there are no draws on letters of credit supporting variable rate debt issuances resulting in bank bonds. Bank bonds are subject to accelerated payment terms and increased interest rates. Variable rate debt issuances represent $152.8 million of the outstanding principal at August 31, 2019.

Future debt service is calculated using rates in effect at August 31, 2019 for variable rate bonds, which ranged from 1.30% to 1.40%. The variable rate received under the swaps is 70.0% of one-month London Interbank Offered Rate (LIBOR) until maturity, which was 1.59% at August 31, 2019.

(b) Bond Issuances – Refunding of Bonds and Defeasance of Bonds

1998 Ordinance Fifteenth Series Bonds

On August 16, 2017, the City issued Gas Works Revenue Bonds, Fifteenth Series (1998 General Ordinance) in the par amount of $273.1 million. A portion of the proceeds from the sale of the Fifteenth Series Bonds were utilized to refund a portion of the Seventh Series Bonds and redeem the City's outstanding Capital Project Notes. The Fifteenth Series Bonds also contained new money debt issued to finance a portion of PGW's ongoing Capital Improvement Program, pay the costs of issuing the bonds, and provide a deposit to the Sinking Fund Reserve. The Fifteenth Series Bonds, with fixed interest rates that range from 2.0% to 5.0%, have maturity dates through 2047. The loss on the refunding component was $0.3 million, which will be amortized over the life of the Fifteenth Series Bonds. This refunding transaction provided net present value debt service savings of $0.7 million utilizing an arbitrage yield of 2.98%. The savings as a percentage of refunded bonds was 10.11%.

As of August 31, 2019, the Company's Eighth Series variable rate debt was backed by letter of credit agreements, which expire on September 1, 2020 (Eighth Series C and D) or August 1, 2024 (Eighth Series B and E), respectively.

The Company's Fifth Series A-2 variable rate bonds are backed by an irrevocable letter of credit, which had an original stated expiration date of December 21, 2019. On April 22, 2019, this letter of credit was extended for a five-year term from the original stated expiration date resulting in a new stated expiration date of December 21, 2024.

In the event that the letter of credit agreements supporting the Eighth and Fifth Series bonds are not extended or replaced prior to their expiration dates, a mandatory tender of the then outstanding bonds will occur. If such mandatory tender results in draws on the letters of credit, the bonds will become bank bonds subject to accelerated payment terms and increased interest rates.

Interest rates and maturities of the outstanding revenue bonds are detailed as follows (thousands of U.S. dollars):

	Interest rates	Maturity date (fiscal year)		Balance outstanding August 31 2019	Balance outstanding August 31 2018
5th Series A-2	Variable *	2035	$	30,000	30,000
8th Series B	Variable **	2028		27,370	27,370
8th Series C	Variable **	2028		27,225	27,225
8th Series D	Variable **	2028		40,845	40,845
8th Series E	Variable **	2028		27,370	27,370
9th Series	2.00%–5.25%	2040		60,835	64,415
10th Series	3.00%–5.00%	2026		19,160	24,075
13th Series	3.00%–5.00%	2034		193,690	210,125
14th Series	2.00%–5.00%	2038		278,105	296,500
15th Series	2.00%–5.00%	2047		259,880	268,375
			$	964,480	1,016,300

* As of August 31, 2019, the LIBOR based rate was 1.34%.

** As of August 31, 2019, the LIBOR based rate ranged from 1.34% to 1.35%.

(c) *Debt Coverage and Sinking Fund Requirements*

Under the terms of both general ordinances, the City is required to maintain rates to allow the Company to satisfy 1975 and 1998 revenue bond debt coverage ratio requirements. Upon issuance of the Thirteenth Series Bonds, no debt under the 1975 General Ordinance remains outstanding.

Also provided by both general ordinances is the establishment of a Sinking Fund Reserve into which deposits are made in an amount equal to the maximum annual debt service requirement on the bonds of each respective general ordinance in any fiscal year.

Funds in the Sinking Fund Reserve are to be applied to the payment of debt service if, for any reason, other funds in the Sinking Fund, which operates as a debt service payment fund into which debt service payments are deposited as they come due, should be insufficient.

The revenue bonds are, and will be, equally and ratably collateralized by a security interest in all of the Company's project revenues, as defined in the general ordinances, and moneys in the Sinking Fund, including the Sinking Fund Reserve.

Portions of certain revenue bonds were issued as zero-coupon securities. Interest on these securities is accrued and compounded on the payment dates of the current interest bonds within the issue. The accrued interest in the amount of $8.1 million and $7.9 million in FY 2019 and FY 2018, respectively, is reported as a component of accrued accounts.

(d) Interest Rate Swap Agreements

Objective – In January 2006, the City entered into a fixed rate payor, floating rate receiver interest rate swap to create a synthetic fixed rate for the Sixth Series Bonds. The interest rate swap was used to hedge interest rate risk.

Terms – The swaps had an original termination date of August 1, 2031, which was subsequently amended to August 1, 2028. The swaps require the City to pay a fixed rate of 3.6745% and receive a variable rate equal to 70.0% of one-month LIBOR until maturity.

In August 2016, the underlying variable rate bonds maturing in FY 2017 through FY 2023 were refunded with fixed rate bonds and the related portions of the swaps, totaling $102.7 million in notional amount, were terminated. PGW made a termination payment of $13.9 million to fund this partial termination of the swaps which is included in unamortized loss on bond refunding on the Company's balance sheet.

As of August 31, 2019, the swaps had a notional amount of $122.8 million and the associated variable rate debt had a $122.8 million principal amount, broken down by series as follows:

- The Series B swap had a notional amount of $27.4 million and the associated variable rate bonds had a $27.4 million principal amount.
- The Series C swap had a notional amount of $27.2 million and the associated variable rate bonds had a $27.2 million principal amount.
- The Series D swap had a notional amount of $40.8 million and the associated variable rate bonds had a $40.8 million principal amount.
- The Series E swap had a notional amount of $27.4 million and the associated variable rate bonds had a $27.4 million principal amount.

The final maturity date for all swaps is on August 1, 2028.

Fair Value – As of August 31, 2019, the swaps had a combined negative fair value of approximately $23.1 million. The fair values of the interest rate swaps were estimated using the zero-coupon method and are classified as Level 2 within the fair value hierarchy as described in note 1. That method calculates the future net settlement payments required by the swap, assuming current forward rates are implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Risks – As of August 31, 2019, the City is not exposed to credit risk because the swaps had a negative fair value. Should interest rates change and the fair value of the swaps become positive, the City would be exposed to credit risk in the amount of the swaps' fair value. The swaps include a termination event additional to those in the standard ISDA master agreement based on credit ratings. The swaps may be terminated by the City if the rating of the counterparty falls below A3 or A – (Moody's/S&P), unless the counterparty has (i) assigned or transferred the swap to a party acceptable to the City; (ii) provided a credit support provider acceptable to the City whose obligations are pursuant to a credit support document acceptable to the City; or (iii) executed a credit support annex, in form and substance acceptable to the City, providing for the collateralization by the counterparty of its obligations under the swaps.

The swaps may be terminated by the counterparty if the rating on the City of Philadelphia Gas Works Revenue Bonds falls below Baa2 or BBB (Moody's/S&P). However, because the City's swap payments are insured by Assured Guaranty Municipal Corporation, as long as Assured Guaranty Municipal Corporation is rated at or above A2 or A (Moody's/S&P), the termination event based on the City's ratings is stayed. At the present time, the rating for Assured Guaranty Municipal Corporation is at A2/AA (Moody's/S&P).

The City is exposed to (i) basis risk, as reflected by the relationship between the rate payable on the bonds and 70.0% of one-month LIBOR received on the swap, and (ii) tax risk, a form of basis risk, where the City is exposed to a potential additional interest cost in the event that changes in the federal tax system or if marginal tax rates cause the rate paid on the outstanding bonds to be greater than the 70.0% of one-month LIBOR received on the swap.

The impact of the interest rate swaps on the financial statements for the years ended August 31, 2019 and 2018 is as follows (thousands of U.S. dollars):

		Interest rate swap liability	Deferred outflows of resources
Balance, August 31, 2018	$	14,796	594
Change in fair value through August 31, 2019		8,318	8,318
Amortization of terminated hedge		—	1,420
Balance, August 31, 2019	$	23,114	10,332

		Interest rate swap liability	Deferred outflows of resources
Balance, August 31, 2017	$	23,533	7,911
Change in fair value through August 31, 2018		(8,737)	(8,737)
Amortization of terminated hedge		—	1,420
Balance, August 31, 2018	$	14,796	594

Because the original hedging relationship was terminated when the Sixth Series Bonds were refunded by the Eighth Series Bonds in 2009, there is a difference between the interest rate swap liability and the related deferred outflows of resources. The difference is being amortized on a straight-line basis to expense over the life of the hedge.

The interest rate swap liability is included in other noncurrent liabilities on the balance sheets.

There are no collateral posting requirements associated with the swap agreements.

(9) Defeased Debt

Defeased debt of the Company (bonds issued by the Company payable from the proceeds of irrevocably pledged assets) at August 31, 2019 was as follows (thousands of U.S. dollars):

	Latest date maturing to	Interest rate		Bonds outstanding
9th Series	08/01/40	5.25 %	$	61,455
12th Series B	05/15/20	7.00		5,595
Total			$	67,050

The assets pledged, primarily noncallable U.S. government securities, had a market value of $69.2 million at August 31, 2019, bearing interest on face value from 1.25% to 5.88%. In FY 2019, the Fiscal Agent with respect to the Gas Works Revenue Bonds (Escrow Agent with respect to the Escrow Deposit Agreement), paid the maturing principal of the Defeased Bonds in the amount of $5.4 million in a manner consistent with the Notices of Defeasance for the 12th Series B Gas Works Revenue Bonds.

Defeased debt of the Company (bonds issued by the Company payable from the proceeds of irrevocably pledged assets) at August 31, 2018 was as follows (thousands of U.S. dollars):

	Latest date maturing to	Interest rate		Bonds outstanding
9th Series	08/01/40	5.25 %	$	61,455
12th Series B	05/15/20	7.00		10,910
Total			$	72,365

The assets pledged, primarily noncallable U.S. government securities, had a market value of $75.7 million at August 31, 2018, bearing interest on face value from 1.27% to 5.89%. In FY 2018, the Fiscal Agent with respect to the Gas Works Revenue Bonds (Escrow Agent with respect to the Escrow Deposit Agreement), paid the maturing principal of the Defeased Bonds in the amount of $224.1 million in a manner consistent with the Notices of Defeasance for the 7th Series, 10th Series, 12th Series B, 17th Series, and 19th Series Gas Works Revenue Bonds, respectively.

The investments held by the trustee and the defeased bonds are not recognized on the Company's balance sheets in accordance with the terms of the Indentures of Defeasance. The investments pledged for the redemption of the defeased debt have maturities and interest payments scheduled to coincide with the trustee cash requirements for debt service.

(10) Defined Benefit Pension Plan

(a) Plan Description

The Pension Plan provides pension benefits for all eligible employees of PGW and other eligible class employees of PFMC and PGC.

The Pension Plan provides for retirement payments for vested employees at age 65 or earlier under various options, which includes a disability pension provision, a preretirement spouse or domestic partner's death benefit, a reduced pension for early retirement, various reduced pension payments for the election of a survivor option, and a provision for retirement after 30 years of service without penalty for reduced age. In accordance with Resolutions of the PGC, Ordinances of City Council, and as prescribed by the City's Director of Finance, the Pension Plan is being funded with contributions by PGW to the Sinking Fund Commission of the City, which serves as the Trustee. Management believes that the Pension Plan is in compliance with all applicable laws.

(b) Benefits Provided

Normal Retirement Benefits: The Pension Plan provides retirement benefits as well as death and disability benefits. Retirement benefits vest after five 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 60.0% of the highest annual earnings during the last 10 years of credited service or
- 2.0% of total earnings received during the period of credited service plus 22.5% of the first $1,200 annual amount, applicable only to participants who were employees on or prior to March 24, 1967.

Death Benefits: Before retirement, the death beneficiary of deceased active participants or of deferred vested participants are entitled to vested benefits provided such participants died after having attained age 45 and completed at least 15 years of Credited Service and whose age plus years of credited service equals at least 65 or whom have completed at least 15 years (effective May 15, 2015 – formerly 20 years) of Credited Service regardless of age. The benefit is payable for the death beneficiary's remaining lifetime equal to the amount the participant would have received had the participant retired due to a disability on the day preceding his/her death and elected the 100% contingent annuitant option.

Disability Benefits: Disability benefits are the same as the Normal Retirement Benefits and are based on Final Average Compensation and Credited Service as of the date of disability.

Final Average Earnings are the employee's average pay, over the highest five years of the last 10 years of credited service. Employees with 15 years of credited service may retire at or after age 55 and receive a reduced retirement benefit. Employees with 30 years of service may retire without penalty for reduced age.

Except as noted in the following paragraph, covered employees are not required to contribute to the Pension Plan.

In December 2011, the Pension Plan was amended by Ordinance and a new deferred compensation plan was authorized by Ordinance as well. Newly hired employees have an irrevocable option to join either a new deferred compensation plan created in accordance with Internal Revenue Code Section 401 or the existing defined-benefit plan. The defined-contribution plan provides for an employer contribution equal to 5.5% of applicable wages. The defined-benefit plan provides for a newly hired employee contribution equal to 6.0% of applicable wages. The Ordinance did not affect the retirement benefits of active employees, current retirees and beneficiaries, or terminated employees entitled to benefits but not yet receiving them.

(c) Employees Covered by Benefit Terms

At June 30, 2019, the date of the most recent actuarial valuation, the Pension Plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	2,495
Participants:	
Vested	909
Nonvested	286
Total participants	1,195
Total membership	3,690

(d) Contributions

The Pension Plan funding policy provides for periodic employer contributions at actuarially determined amounts that are sufficient to accumulate assets to pay benefits when due considering employee contributions required for new hires after December 2011 who elect to participate in the Pension Plan. The employer contribution is determined using the Projected Unit Credit actuarial funding method. For the fiscal years ended August 31, 2019 and 2018, the actuarially determined employer contribution was $28.8 million and $28.4 million, respectively. PGW contributed the actuarially determined contribution in both fiscal years. Employee contributions were approximately $1.2 million in the plan year ended June 30, 2019 and approximately $1.1 million in the plan year ended June 30, 2018.

(e) Net Pension Liability

The Company's net pension liability as of August 31, 2019 and 2018 was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 and June 30, 2018, respectively.

The total pension liability was determined using the entry age normal actuarial method and the following actuarial assumptions:

	2019	2018
Inflation	2.00 %	2.00 %
Salary increases	4.50	4.50
Investment rate of return	7.30	7.30

Mortality rates: Mortality rates for FY 2018 were based on the RP-2014 mortality tables for males and females generationally projected with scale MP-2017. Mortality rates for FY 2019 were based on the RP-2014 mortality tables for males and females generationally projected with scale MP-2018.

Long-term rate of return: The long-term expected rate of return on Pension Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Pension Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class for FY 2019 are summarized in the following table:

Asset class	Minimum	Maximum	Target	Expected annual return
Domestic equity	35.0 %	55.0 %	45.0 %	8.8 %
International equity	10.0	30.0	20.0	8.8
Fixed income	25.0	45.0	35.0	5.2
Cash equivalents	—	10.0	—	—
			100.0 %	

Discount rate: The discount rate used to measure the total pension liability at June 30, 2019 and 2018 was 7.3%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Company contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee contributions. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, 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.

Changes in Net Pension Liability

(Thousands of U.S. dollars)

	Increase (decrease)		
	Total pension liability (a)	**Plan fiduciary net position (b)**	**Net pension liability (a)-(b)**
Balances at September 1, 2017	$ 783,471	521,526	261,945
Changes for the year:			
Service cost	6,103	—	6,103
Interest	55,718	—	55,718
Differences between expected and actual experience	15,706	—	15,706
Contributions – employer	—	29,143	(29,143)
Contributions – employee	—	1,078	(1,078)
Net investment income	—	44,310	(44,310)
Benefit payments, including refunds of employee contributions	(52,627)	(52,627)	—
Administrative expenses	—	(184)	184
Change in assumptions	(3,864)	—	(3,864)
Net changes	21,036	21,720	(684)
Balances at August 31, 2018	$ 804,507	543,246	261,261

Changes in Net Pension Liability

(Thousands of U.S. dollars)

		Increase (decrease)		
		Total pension liability (a)	**Plan fiduciary net position (b)**	**Net pension liability (a)-(b)**
Balances at September 1, 2018	$	804,507	543,246	261,261
Changes for the year:				
Service cost		6,554	—	6,554
Interest		57,241	—	57,241
Differences between expected and actual experience		(12,089)	—	(12,089)
Contributions – employer		—	28,570	(28,570)
Contributions – employee		—	1,249	(1,249)
Net investment income		—	34,260	(34,260)
Benefit payments, including refunds of employee contributions		(53,893)	(53,893)	—
Administrative expenses		—	(192)	192
Change in assumptions		(1,834)	—	(1,834)
Net changes		(4,021)	9,994	(14,015)
Balances at August 31, 2019	$	800,486	553,240	247,246

Sensitivity of the net pension liability to changes in the discount rate: The following table presents the net pension liability of the Company at June 30, 2019, calculated using the discount rate of 7.30%, as well as what the Company's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.30%) or one-percentage-point higher (8.30%) than the current rate:

		1% Decrease 6.30%	**Current discount rate 7.30%**	**1% Increase 8.30%**
			(Thousands of U.S. dollars)	
Net pension liability	$	338,357	247,246	171,192

The following table presents the net pension liability of the Company at June 30, 2018, calculated using the discount rate of 7.30%, as well as what the Company's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.30%) or one-percentage-point higher (8.30%) than the current rate:

		1% Decrease 6.30%	Current discount rate 7.30%	1% Increase 8.30%
		(Thousands of U.S. dollars)		
Net pension liability	$	354,026	261,261	183,912

Pension Plan's fiduciary net position: Detailed information about the Pension Plan's fiduciary net position is available in the separately issued Pension Plan financial report. Requests for additional information should be addressed to Chief Investment Officer, Philadelphia Board of Pensions and Retirements, 1500 John F. Kennedy Boulevard, Two Penn Center Plaza, 17th Floor, Philadelphia, PA 19102.

(f) Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended August 31, 2019 and 2018, the Company recognized pension expense of $30.3 million and $43.2 million, respectively. At August 31, 2019 and 2018, the Company reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources (thousands of U.S. dollars):

		August 31, 2019		August 31, 2018	
		Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	8,067	8,949	12,697	2,023
Changes of assumptions		—	5,039	6,119	6,726
Net difference between projected and actual earnings on pension plan investments		—	4,242	—	4,517
Contributions made after measurement date		6,354	—	6,127	—
Total	$	14,421	18,230	24,943	13,266

The $6.4 million reported as deferred outflows of resources related to employer contributions made after the measurement date as of June 30, 2019 will be recognized as a reduction of the net pension liability in the Company's FY 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (thousands of U.S. dollars):

Fiscal year:		
2020	$	(682)
2021		(6,799)
2022		(4,127)
2023		1,445

(g) Fair Value Measurements

The following table sets forth by level, within the fair value hierarchy described in note 1, the plan's assets at fair value as of June 30, 2019 (thousands of U.S. dollars):

		Level 1	Level 2	Level 3	Total
Corporate bonds	$	—	80,787	—	80,787
Common and preferred stock		346,141	25,897	2	372,040
U.S. government securities		44,028	29,290	—	73,318
Financial agreements		—	—	39	39
Asset backed securities		—	9,095	—	9,095
Municipal obligations		—	2,469	—	2,469
	$	390,169	147,538	41	537,748

The following table sets forth by level, within the fair value hierarchy described in note 1, the plan's assets at fair value as of June 30, 2018 (thousands of U.S. dollars):

		Level 1	Level 2	Level 3	Total
Corporate bonds	$	—	73,853	220	74,073
Common and preferred stock		353,535	11,411	2	364,948
U.S. government securities		38,897	33,392	—	72,289
Financial agreements		—	—	68	68
Asset backed securities		—	8,729	—	8,729
Bond mutual funds		2,954	—	—	2,954
Municipal obligations		—	3,391	—	3,391
	$	395,386	130,776	290	526,452

(Continued)

(11) Other Postemployment Benefits

(a) Plan Description

The Company sponsors a single-employer defined-benefit healthcare plan and provided postemployment healthcare and life insurance benefits to retirees and their beneficiaries and dependents in FY 2019 and FY 2018, respectively, in accordance with their retiree medical program.

The OPEB Plan comprises (1) the PGW OPEB Trust (the Trust), which is used to receive, hold, and disburse assets accumulated to pay for some of the postemployment benefits other than pensions provided by PGW to its eligible retired employees and other eligible beneficiaries and (2) OPEB expenses paid for directly by PGW out of its general resources rather than through the Trust. The Trust was established for the exclusive benefit of PGW's retired employees and other eligible beneficiaries designated under the plan. Management believes that the OPEB Plan is in compliance with all applicable laws.

(b) Benefits Provided

Medical Benefits: For pre-65 retirees, a choice of medical plans is offered through Independence Blue Cross including Personal Choice, Blue Cross Blue Shield with Major Medical, or Keystone HMO's. Employees who retire after December 1, 2001 are provided the Keystone 5 Plan at PGW's expense and they can buy up to a more expensive plan. Employees who retire on or after September 1, 2007 are provided the Keystone 10 Plan at PGW's expense, and they can buy up to a more expensive plan. Union employees who retire after August 31, 2011 are provided the Keystone 15 Plan at PGW's expense and can buy up to a more expensive plan. Management employees who retire after August 31, 2011 continue to receive the Keystone 10 as the base plan and can buy up to a more expensive plan.

Reinsurance provides specific stop-loss coverage of $0.3 million on pre-65 Medical and Prescription Drug claims.

Eligible pre-65 retirees who relocate outside of the Keystone coverage area may elect to participate in the PGW Retiree Health Reimbursement Arrangement (HRA). Under the HRA, the Keystone base plan premium-equivalent will be credited to a participant's HRA account and will be available to reimburse the participant for eligible medical insurance premiums.

Medicare eligible retirees are provided a fully insured Medicare Supplement Plan through Independence Blue Cross.

Opt-out benefits of $1,500 per year for single coverage and $3,000 per year for married coverage are available to eligible retirees. This benefit is not available to a married couple who both retired from PGW and who are eligible for Medicare benefits. Retirees can maintain prescription drug and dental coverage even if they opt out of medical coverage.

Prescription Drug Benefits: Employees who retired on or after April 15, 1976 and prior to December 1, 2001, are offered a Prescription Drug Plan that has been established specifically for retirees and is separate from the plan that is offered to active employees. The retiree Prescription plan consists of a

$2 copay for generic drugs, a $2 copay for brand name drugs when no generic drugs are available, and a $15 copay for brand name drugs when generic drugs are available. There are no deductibles and no lifetime maximums. Employees who retired prior to April 15, 1976 or on or after December 1, 2001 but before September 1, 2007 have a $5 copay for generics and a $10 copay for brand drugs. Employees who retire on or after September 1, 2007 have a $5 copay for generics and a $15 copay for brand drugs.

Effective, January 1, 2012, PGW moved Medicare eligible retirees into an Employee Group Waiver Plan arrangement. Covered drugs and copays remain the same. Prescription drug benefits are self-funded for all retirees.

Dental Benefits: For employees who retired after April 15, 1978, a basic dental plan is offered at no cost to the retiree. For employees who retired after June 1, 1984, an enhanced dental plan is offered. For eligible retirees who enroll in the enhanced dental plan, the retiree must pay the difference between the basic and enhanced plans. The dental plans were fully insured through August 31, 2016. Effective September 1, 2016, the dental benefits are self-funded.

Death Benefits: Nonunion employees are offered voluntary life insurance equal to two times their salary at retirement. At age 65, the life insurance benefit decreases by 5.0% per year for 15 years until the benefit equals 25.0% of the original life insurance benefit at age 65. PGW pays the cost of the first $75,000 of coverage. Retirees in this category pay $0.35 per $1,000 per month for coverage in excess of $75,000.

Union employees are offered voluntary life insurance equal to one times their salary at retirement. At retirement, the life insurance benefit decreases by 10.0% per year for 5 years until the benefit equals 50.0% of the original life insurance benefit at retirement. Retirees in this category pay $0.35 per $1,000 of coverage per month, PGW pays the balance.

Upon the death of an active employee prior to satisfying the requirements for Preretirement Spouse's Death Benefits, surviving spouses and dependents are entitled to receive 2 years of health coverage paid by PGW. Upon the death of an active employee on or after satisfying the requirements for Preretirement Spouse's Death Benefits, surviving spouses and dependents are entitled to receive health coverage for life (or for 5 years if hired on or after May 21, 2011 if Union or hired on or after December 21, 2011 if Nonunion) paid by PGW.

Contributions: The OPEB Plan pays the full cost of medical, basic dental, and prescription coverage for employees who retired prior to December 1, 2001. Employees who retire after December 1, 2001 are provided the Keystone 5/Keystone 10/Keystone 15 plan at PGW's expense and can buy up to a more expensive plan. Retirees also contribute toward enhanced dental plan and life insurance coverage as described above. PGW pays 100.0% of the cost for the prescription drug plan after drug copays.

(c) Participants Covered

At December 31, 2018, the date of the latest actuarial valuation, the OPEB Plan's combined membership consisted of the following:

	Number
Retirees	1,494
Beneficiaries	415
Active employees – Union	1,131
Active employees – Management	524
Total number of participants	3,564

(d) Contributions

Contributions to the OPEB Plan are the amounts received (additions) from PGW as sponsor of the Plan. These contributions include both amounts paid by PGW out of general resources to fund benefits on a pay-as-you-go basis, and contributions related to rate surcharges approved by the PUC in May 2010 and continued in July 2015. For the OPEB Plan year ended December 31, 2018, PGW contributed $28.7 million on a pay-as-you-go basis, $16.0 million resulting from rate surcharges, and $2.5 million of its resources. For the OPEB Plan year ended December 31, 2017, PGW contributed $29.7 million on a pay-as-you-go basis, $16.0 million resulting from rate surcharges, and $2.5 million of its resources.

(e) Net OPEB Liability

The Company's net OPEB liability as of August 31, 2019 and 2018 was measured as of December 31, 2018 and 2017, and the net OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 1, 2018 and 2017, respectively. The September 1, 2018 actuarial valuation was rolled forward to December 31, 2018 measurement date and the September 1, 2017 actuarial valuation was rolled forward to the December 31, 2017 measurement date.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and are subject to continual revision as actual amounts are compared to past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The total OPEB liability was determined using the entry age normal actuarial method and the following actuarial assumptions used to value the postemployment medical liabilities can be categorized into the following three groups:

- *Benefit assumptions:* the initial per capita cost rates for medical coverage, and the face amount of employer-paid life insurance.

- *Demographic assumptions:* including the probabilities of retiring, dying, terminating (without a benefit), becoming disabled, recovery from disability, election (participation rates) and coverage levels.
- *Economic assumptions:* the discount rate and health care cost trend rates.

Benefit assumptions:

- *Per capita claims:* Using actuarial standards, specifically ASOP6, the annual age specific per capital claims cost rate were projected at the following assumed trend rates for future years (whole U.S. dollars):

	Medical		
Age	**Existing retirees and dependents**	**Future retirees and dependents**	**Prescription drug**
<50	$ 6,622	6,602	2,804
50–54	8,050	8,025	3,099
55–59	10,070	10,040	3,877
60–64	12,130	12,094	4,670
65–69	2,219	2,108	3,446
70–74	2,535	2,408	3,936
75–79	2,826	2,684	4,387
80–84	3,058	2,905	4,748
85–90	3,182	3,022	4,941
90+	3,230	3,068	5,015

- *Life insurance:* The claims cost for life insurance is based on the actuarial present value of projected life insurance claims increased by 15.0% to reflect the cost of the insurance funding vehicle.
- *Morbidity:* The below healthcare cost for prescription drug coverage and pre-65 medical coverage reflects the following changes due to increased usage as a result of aging:

Age	Annual increase
55–59	4.00 %
60–64	3.50 %
65–69	3.00 %
70–74	2.50 %
75–79	2.00 %
80–84	1.00 %
85+	0.50 %

Demographic assumptions:

- *Mortality rates:* Mortality is assumed to follow the sex-distinct RP-2014 Employee, Healthy Annuitant and Disabled Retiree Mortality Tables (head-count weighted) projected with scale MP-2018.
- *Retirement rates:* Retirement rates applicable once an employee is eligible for retirement benefits vary by age and service with rates as follows:

Age	Service less than 30–years	Service at least 30–years
55–60	10.0 %	15.0 %
61	10.0 %	30.0 %
62–64	25.0 %	50.0 %
65–69	50.0 %	50.0 %
70+	100.0 %	100.0 %

- *Withdrawal rates:* Turnover rates applicable before an employee is eligible for retirement benefits vary by age and service with illustrative rates as follows:

	Years of service					
Age	0	1	2	3	4	5
20	23.2 %	17.4 %	14.4 %	11.6 %	8.8 %	5.8 %
25	18.8 %	14.0 %	11.8 %	9.4 %	7.0 %	4.6 %
30	14.8 %	11.0 %	9.2 %	7.4 %	5.6 %	3.6 %
35	11.2 %	8.4 %	7.0 %	5.6 %	4.2 %	2.8 %
40	8.8 %	6.6 %	5.6 %	4.4 %	3.4 %	2.2 %
45	7.2 %	5.4 %	4.6 %	3.6 %	2.8 %	1.8 %
50	5.2 %	3.8 %	3.2 %	2.6 %	2.0 %	1.2 %
55	— %	— %	— %	— %	— %	— %

- *Disability rates:* Disability rates vary by age with illustrative rates as follows:

Age	Percent expected to become disabled in the next year
30	0.16 %
35	0.07 %
40	0.11 %
45	0.22 %
50	0.46 %
55	1.02 %
60	1.62 %

Economic assumptions:

- *Long-term rate of return:* The long-term expected rate of return on OPEB Plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of OPEB Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by expected inflation. The target allocation for each major asset class as of December 31, 2018 is summarized in the following table:

Asset class	Minimum	Maximum	Target	Expected annual return
Domestic equity large cap	27.5 %	37.5 %	32.5 %	7.0 %
Domestic equity small cap	10.0	15.0	12.5	6.8
Emerging market equity	5.0	10.0	7.5	10.4
International equity	15.0	20.0	17.5	7.9
Fixed income	20.0	40.0	30.0	4.1
Commodities/Real Assets	—	10.0	—	—
Cash equivalents	—	5.0	—	—
			100.0 %	

- *Healthcare cost trend:*

Fiscal year beginning (September 1)	Healthcare cost trend rates			
	Medical (pre-65)	Medical (post-65)	Prescription	Dental
2018	6.0 %	4.5 %	8.5 %	4.0 %
2019	5.5	4.5	8.0	4.0
2020	5.0	4.5	7.5	4.0
2021	4.5	4.5	7.0	4.0
2022	4.5	4.5	6.5	4.0
2023	4.5	4.5	6.0	4.0
2024	4.5	4.5	5.5	4.0
2025	4.5	4.5	5.0	4.0
2026	4.5	4.5	4.5	4.0

- *Discount rate:* The discount rate used for determining the total OPEB liability is the long-term expected rate of return on plan investments of 7.30% as of December 31, 2018 and December 31, 2017 and 7.95% as of December 31, 2016 and 2015, which represents the long-term expected rate of return on Plan investments at the applicable measurement date.

Changes in Net OPEB Liability

(Thousands of U.S. dollars)

	Increase (decrease)		
	Total OPEB liability (a)	**Plan fiduciary net position (b)**	**Net OPEB liability (a)-(b)**
Balances at September 1, 2017	$ 489,979	139,623	350,356
Changes for the year:			
Service cost	5,180	—	5,180
Interest	38,182	—	38,182
Differences between expected and actual experience	(5,345)	—	(5,345)
Assumption changes	61,382	—	61,382
Benefit payments	(29,747)	—	(29,747)
Contributions-employer	—	48,247	(48,247)
Project investment return on year	—	11,834	(11,834)
Plan asset gain/(loss)	—	10,835	(10,835)
Benefit payments	—	(29,747)	29,747
Administrative expenses and bank fees	—	(49)	49
Net changes	69,652	41,120	28,532
Balances at August 31, 2018	$ 559,631	180,743	378,888

Changes in Net OPEB Liability

(Thousands of U.S. dollars)

		Increase (decrease)		
		Total OPEB liability (a)	Plan fiduciary net position (b)	Net OPEB liability (a)-(b)
Balances at September 1, 2018	$	559,631	180,743	378,888
Changes for the year:				
Service cost		6,268	—	6,268
Interest		40,262	—	40,262
Differences between expected			—	—
and actual experience		(64,606)	—	(64,606)
Assumption changes		7,707	—	7,707
Benefit Payments		(28,729)	—	(28,729)
Contributions-employer		—	47,229	(47,229)
Project investment return on year		—	13,868	(13,868)
Plan asset gain/(loss)		—	(28,622)	28,622
Benefit payments		—	(28,729)	28,729
Administrative expenses and bank fees		—	(35)	35
Net changes		(39,098)	3,711	(42,809)
Balances at August 31, 2019	$	520,533	184,454	336,079

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate: The following presents the Net OPEB liability of the Company, as well as what the Net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate:

		1% Decrease 6.30%	Current discount rate 7.30%	1% Increase 8.30%
			(Thousands of U.S. dollars)	
Net OPEB liability	$	281,338	336,078	402,473

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the Net OPEB liability of the Company, as well as what the Net OPEB liability would be if it

(Continued)

were calculated using healthcare cost trend rates are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates:

		1% Decrease 6.30%	Current healthcare cost trend rates 7.30%	1% Increase 8.30%
		(Thousands of U.S. dollars)		
Net OPEB liability	$	280,394	336,078	404,279

OPEB Plan's fiduciary net position: Detailed information about the OPEB Plan's fiduciary net position is available in the separately issued OPEB Plan financial report. Requests for additional information should be addressed to Administrator – PGW OPEB Trust, 800 W. Montgomery Avenue, Philadelphia, Pennsylvania 19122.

(f) OPEB Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to Other Postemployment Benefits

For the years ended August 31, 2019 and 2018, the Company recognized OPEB expense of $28.4 million and $32.9 million, respectively. At August 31, 2019 and 2018, the Company reported deferred outflows of resources and deferred inflow of resources related to other postemployment benefits from the following sources (thousands of U.S. dollars):

		August 31, 2019		August 31, 2018	
		Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	—	67,281	—	22,860
Changes of assumptions		42,995	2,593	49,106	3,889
Net difference between projected and actual earnings on OPEB plan investments		15,919	—	—	9,385
Contributions made after measurement date		32,262	—	31,942	—
Total	$	91,176	69,874	81,048	36,134

The $32.3 million and $31.9 reported as deferred outflows of resources related to employer contributions made after the measurement date as of December 31, 2018 and 2017, respectively, will be recognized as a reduction of the net OPEB liability in FY 2019 and FY 2018, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (thousands of U.S. dollars):

Fiscal year:		
2020	$	(4,345)
2021		(4,345)
2022		3,385
2023		(5,655)

(g) Fair Value Measurements

All investments of the OPEB Plan at both December 31, 2019 and 2018 are publicly traded mutual funds categorized in Level 1 of the fair value hierarchy.

(12) Defined Contribution Pension Plan

PGW contributes to a defined-contribution pension plan, for all employees hired after May 21, 2011 (Union) or December 8, 2011 (Nonunion) who elect not to contribute to the defined-benefit plan. The Defined Contribution Plan is administered by the PGW Investment Committee. Benefit terms, including contribution requirements, for the Defined Contribution Plan are established and may be amended by Ordinance of the City. For each employee in the Defined Contribution Plan, the Company is required to contribute annually 5.5% of applicable wages to an individual employee account. Employees are not required to make contributions to the plan. For the years ended August 31, 2019 and 2018, the Company recognized pension expense of $1.6 million and $1.5 million, respectively, for the Defined Contribution Plan.

Participants are immediately vested in Company contributions and earnings on Company contributions.

The Company had no accrued liabilities for contributions payable to the Defined Contribution Plan at August 31, 2019 and 2018.

The Defined Contribution Plan (DC) is a “tax-qualified” 401 (a) plan that is designed to comply with appropriate federal tax laws under the Internal Revenue Code (Tax Code). The DC Plan is a “defined contribution” plan as defined by the Tax Code. It is considered a “defined contribution” plan because the benefit consists of a defined contribution made by PGW for the benefit of the employee. The defined contribution is calculated as an amount equal to five and one half percent (5.5%) of the employee’s applicable wages. These amounts are deposited into an account for the benefit of the employee under the guidelines of the plan. The funds contributed by PGW to the plan immediately vest to the benefit of the employee. The Company contributed $1.6 million in FY 2019 and $1.5 million in FY 2018. PGW’s contributions are accounted for as part of administrative and general expenses.

(13) Pollution Remediation Obligation

The Company recorded an additional liability for pollution remediation obligations of $3.6 million and $0.7 million for FY 2019 and FY 2018, respectively. The pollution remediation liability is reflected in other noncurrent and current liabilities. In accordance with U.S. GAAP for regulated entities, the Company has also recognized the long-term portion of its environmental remediation liability as a regulatory asset because based on available evidence it is probable that the previously incurred costs will be recovered through rates.

The pollution remediation obligations at August 31, 2019 and 2018 were $39.1 million and $34.2 million, respectively, which reflect the provisions of GASB Statement No. 49*, Accounting and Financial Reporting for Pollution Remediation Obligations*.

(14) Risk Management

The Company is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. While self-insured for many risks, the Company purchases insurance coverage where appropriate. The Company's real and personal property is insured against the risk of loss or damage in the amount of $250.0 million, subject to a $0.3 million per accident deductible at the Richmond and Passyunk Plants and a $0.1 million per accident deductible at all other locations. There are separate sublimits for flood and earth movement at select locations. The Company's Property Insurance includes coverage for damage incurred from a terrorist attack. In addition, the Company maintains Blanket Crime, which is a form of Property Insurance.

The Company maintains $210.0 million in liability (including terrorism) coverage, insuring against the risk of damage to property, or injury to the public with a $1.0 million per occurrence self-insured retention.

The Company maintains statutory limits for Workers' Compensation (including terrorism) with a $0.5 million per occurrence self-insured retention.

The Company maintains a $30.0 million Public Officials Liability (Directors and Officers Liability) policy with a $0.5 million retention as well as a $60.0 million Fiduciary Liability policy with a $0.2 million self-insured retention.

The Company maintains $5.0 million in Environmental Liability coverage for liability arising from nonowned Disposal Sites subject to an each incident deductible of $0.1 million, as well as a $5.0 million Cyber (Privacy) Liability policy with a $0.3 million retention covering costs arising from a data or security breach. The Cyber policy limits were increased to $10.0 million with the policy renewal effective September 1, 2019.

The Company maintains a medical stop-loss insurance program for its self-insured healthcare plans. The coverage provides for a $0.3 million deductible per covered participant.

The Company has evaluated all open claims as of August 31, 2019 and has appropriately accrued for these claims on the balance sheets.

Claims and settlement activity for occurrences excluded under the provisions of insurance policies for injuries and damages are as follows (thousands of U.S. dollars):

		Beginning of year reserve	Current year claims and adjustments	Claims settled	End of year reserve	Current liability amount
Fiscal year ended August 31:						
2019	$	14,064	(1,582)	(2,922)	9,560	3,925
2018		14,377	2,910	(3,223)	14,064	6,100
2017		10,493	6,681	(2,797)	14,377	4,627

(15) Commitments and Contingencies

Commitments

Commitments for major construction and maintenance contracts were approximately $36.9 million and $41.2 million, as of August 31, 2019 and 2018, respectively.

The Company is committed under various noncancelable operating lease agreements to pay minimum annual rentals as follows (thousands of U.S. dollars):

2020	$	817
2021		460
2022		418

Rent expense for the fiscal years ended August 31, 2019 and 2018 amounted to $2.0 million and $1.9 million, respectively.

The Company, in the normal course of conducting business, has entered into long-term contracts for the supply of natural gas, firm transportation, and long-term firm gas storage service. The Company's cumulative obligations for demand charges for all of these services are approximately $7.0 million per month.

The Company has entered into seasonal contracts with suppliers providing the Company the ability to fix the price of the purchase of natural gas during the operating season of November through March. The Company also has seasonal contracts with suppliers providing the Company with the ability to fix the price of natural gas during the refill season of April through October.

The Company's amended FY 2020 Capital Budget was approved by City Council in the amount of $127.7 million. Within this approval, funding was provided to continue the implementation of an 18-mile CIMR Program. The cost for this program in FY 2020 is expected to be $29.0 million. The total six-year cost of the CIMR Program is forecasted to be $185.1 million. In addition to the 18-mile CIMR Program, the FY 2020 Capital Budget includes funding for an accelerated CIMR Program which PGW will include in its DSIC surcharge. This incremental program in FY 2020 is expected to cost $33.0 million. The total six-year cost of this incremental program is forecasted to be $198.0 million. The FY 2020 Capital Budget also

(Continued)

includes $3.8 million for the purchase of smartpoint devices for the Automatic Meter Infrastructure (AMI) units, which will replace the Automatic Meter Reading (AMR) devices. The total six-year cost of this program to replace AMR units is approximately $23.2 million.

Contingencies

The Company's material legal proceedings are as described below. The Company believes that it has valid defenses to these legal proceedings and intends to defend them vigorously. PGW records reserves for estimated losses from contingencies when information available indicates that a loss is probable and the amount of the loss, or range of loss, can be reasonably estimated. Management has assessed the following matters based on current information and made a judgment concerning their potential outcomes, considering the nature of the claim, the amount and nature of damages sought, and the probability of success. The Company is unable to predict the outcome of these legal proceedings or reasonably estimate the scope or amount of any associated costs and potential liabilities.

Philadelphia Gas Works, Petitioner v. Pennsylvania Public Utility Commission and SBG Management Services, et. al., Respondents, Pennsylvania Commonwealth Court Docket Nos. 1291 CD 2018, 1405 CD 2018 and 1404 CD 2018. These are an appeal by PGW dated October 19, 2018 from the Orders of the Pennsylvania Public Utility Commission issued (a) December 8, 2016, and the related Opinions and Orders denying reconsideration that were issued on May 18, 2018 and on August 23, 2018; (b) September 20, 2018; and (c) October 4, 2018.

Eight complaints were filed by landlords and by SBG Management Services, Inc. (collectively, SBG), the property management company that manages the day-to-day operations of certain residential properties owned by the landlords. The complaints which challenged amounts owned by SBG to PGW that, inter alia, were subject to late payment charges by PGW were divided into three groups by the Commission. The Commission's Regulations and PGW's Commission approved tariff authorizes PGW to charge interest (in the form of a late payment charge) at the rate of 1.5% per month on the overdue balance of a utility bill. In addition, if a customer does not pay for natural gas services provided by PGW, a municipal lien (which is created by operation of the Pennsylvania Municipal Claim and Tax Lien Law, 53 P.S. §§ 7101, et. seq. (MCTLL)) may be docketed with the appropriate local court. The Commission held that it lacks jurisdiction over unpaid amounts for natural gas service provided by PGW when a municipal lien is docketed under the MCTLL. Based upon that conclusion, the Commission determined that once a lien is docketed, PGW may not apply rules set forth in its Commission-approved tariff to the arrearage amount giving rise to the lien and may not show that arrearage amount on its monthly bills to nonpaying customers. The PUC assessed civil penalties in the total amount of approximately $0.1 million against PGW, ordered PGW to refund sums totaling approximately $1.0 million to the complainants, correct its practices in the assessment of late payment charges on unpaid balances, and modify the payment application sequence associated with partial payments. This would require PGW to make changes to PGW's billing system.

In response, PGW filed the present appeals with the Pennsylvania Commonwealth Court (at Docket Nos. 1291 CD 2018, 1404 CD 2018 and 1405 CD 2018) from the Commission's decision in each group of complaints. Oral argument before the Court took place on November 12, 2019. On December 9, 2019, the Court reversed the orders of the PUC, finding that: (i) the PUC committed an error of law in holding that it lacked jurisdiction over gas charges subject to docketed liens, (ii) the PUC committed an error of law in holding that PGW could not continue to impose late fees of 1.5% per month on delinquent accounts once the City dockets a lien, and (iii) the PUC erred in imposing penalties, ordering refunds of previously imposed late fees, and directing billing changes relating to charges subject to docketed liens. At this time, no appeal of the Court's decision has been taken by the other participants in the cases. PGW cannot predict, with any degree of certainty, the outcome of any potential appeal or the potential range of loss, however, the Company believes that there is a sound basis for the positions advanced by PGW and adopted by the Commonwealth Court.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Required Supplementary Information (Unaudited)

Schedule of Changes in Net Pension Liability and Related Ratios

(Thousands of U.S. dollars)

		Fiscal year ending					
		2019	2018	2017	2016	2015	2014
Total pension liability:							
Service cost	$	6,554	6,103	5,823	5,399	4,890	8,924
Interest cost		57,241	55,718	55,443	55,903	52,377	47,098
Changes in benefit terms		—	—	—	—	—	—
Differences between expected and actual experience		(12,089)	15,706	2,182	(8,840)	17,961	59,326
Changes in assumptions		(1,834)	(3,864)	(7,952)	26,748	44,876	—
Benefit payments		(53,893)	(52,627)	(51,376)	(50,447)	(46,917)	(42,913)
Net change in total pension liability		(4,021)	21,036	4,120	28,763	73,187	72,435
Total pension liability (beginning)		804,507	783,471	779,351	750,588	677,401	604,966
Total pension liability (ending)		800,486	804,507	783,471	779,351	750,588	677,401
Plan fiduciary net position:							
Contributions – employer		28,570	29,143	27,918	21,123	21,106	24,934
Contributions – employee		1,249	1,078	852	602	393	239
Net investment income		34,260	44,310	61,003	2,872	24,472	75,303
Benefit payments		(53,893)	(52,627)	(51,376)	(50,447)	(46,917)	(42,913)
Administrative expense		(192)	(184)	(129)	(1,611)	(1,480)	(732)
Net change in fiduciary net position		9,994	21,720	38,268	(27,461)	(2,426)	56,831
Plan fiduciary net position (beginning)		543,246	521,526	483,258	510,719	513,145	456,314
Plan fiduciary net position (ending)		553,240	543,246	521,526	483,258	510,719	513,145
Net pension liability (ending)	$	247,246	261,261	261,945	296,093	239,869	164,256
Net position as a percentage of pension liability		69.11 %	67.53 %	66.57 %	62.01 %	68.04 %	75.75 %
Covered payroll for the year ended June 30,	$	98,454	101,271	94,767	90,860	95,187	103,530
Net pension liability as a percentage of covered payroll		251.13 %	257.98 %	276.41 %	325.88 %	252.00 %	158.66 %

Notes to schedule:

The amounts presented in each fiscal year were determined as of the June 30 that occurred within the fiscal year
Historical information:
The Company has presented the information noted above for those years for which information is available.
Ten-year trend information will be presented prospectively
Changes in assumptions:
Investment Rate of Return: 7.30% in 2016-2019, 7.65% in 2015, 7.95% in 2014
Mortality Rates: Adopted RP-2014 static mortality table in FY 2016 generationally projected with scale MP-2015 in FY 2016, MP-2016 in FY 2017, MP-2017 in FY 2018, and MP-2018 in FY 2019; RP-2000 static mortality projected to the year of valuation prior to FY 2016

Unaudited – see accompanying independent auditors' report.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Required Supplementary Information (Unaudited)

Schedule of Pension Contributions

(Thousands of U.S. dollars)

Fiscal year ending		2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	$	28,797	28,395	29,260	26,476	21,526	24,385	23,673	23,802	22,936	23,099
Contributions made		28,797	28,395	29,260	26,476	21,526	24,385	23,673	23,802	22,936	23,099
Contribution deficiency/(excess)	$	—	—	—	—	—	—	—	—	—	—
Covered payroll for the year ended August 31,	$	99,494	97,431	91,176	87,416	91,579	99,606	101,968	102,279	102,279	102,103
Contributions as a percent of covered payroll		28.94 %	29.14 %	32.09 %	30.29 %	23.51 %	24.48 %	23.22 %	23.27 %	22.42 %	22.62 %

Notes to schedule:

Actuarial Valuation Date: July 1 for FY 2015-2018 and September 1 for prior periods
Methods and assumptions used to determine contributions:
Actuarial Cost Method: Projected Unit Credit
Asset Valuation Method: Assets smoothed over a five-year period beginning in FY 2016 and Market Value in FY 2015 and prior periods
Amortization Method: Contributions based on greater of 20-year level dollar open amortization method or 30-year level dollar closed amortization method
Salary Increases: 4.50%
General Inflation: 2.00%
Investment Rate of Return: 7.30% in FY 2019, 7.30% in FY 2016-2018, 7.65% in FY 2015
Mortality Rates: RP-2014 static mortality generationally projected with scale MP-2014 in FY 2015, MP-2015 in FY 2016, MP-2016 in FY 2017, MP-2017 in FY 2018 and MP-2018 in FY 2019
RP-2000 static mortality projected to the year of valuation for all periods prior to 2015

Unaudited – see accompanying independent auditors' report.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)

Required Supplementary Information (Unaudited)

Schedule of Changes in the Net OPEB Liability and Related Ratios

(Thousands of U.S. dollars)

		Fiscal year ending		
		2019	**2018**	**2017**
Total OPEB liability:				
Service cost	$	6,267	5,180	5,315
Interest cost		40,262	38,182	39,961
Differences between expected and actual experience		(64,606)	(5,345)	(30,973)
Changes in assumptions		7,708	61,382	(6,481)
Benefit payments		(28,729)	(29,747)	(30,370)
Net change in total OPEB liability		(39,098)	69,652	(22,548)
Total OPEB liability (beginning)		559,631	489,979	512,527
Total OPEB liability (ending)		520,533	559,631	489,979
Plan fiduciary net position:				
Contributions – employer		47,229	48,247	48,870
Investment income		(14,755)	22,669	10,710
Benefit payments		(28,729)	(29,747)	(30,370)
Administrative, investment management expenses and bank fees		(34)	(49)	(30)
Net change in plan fiduciary net position		3,711	41,120	29,180
Plan fiduciary net position (beginning)		180,743	139,623	110,443
Plan fiduciary net position (ending)		184,454	180,743	139,623
Net OPEB liability (ending)	$	336,079	378,888	350,356
Plan fiduciary net position as a percentage of the total OPEB liability		35.4 %	32.3 %	28.5 %
Covered employee payroll for the year ended December 31,		120,132	118,636	109,440
Net OPEB liability as a percentage of covered employee payroll		279.76 %	319.37 %	320.14 %

Notes to Schedule:

The amounts presented for each fiscal year were determined as of the calendar-year end that occurred within the fiscal year

Historical information:

The Company has presented the information noted above for those years for which information is available Ten-year trend information will be presented prospectively.

Changes in assumptions:

Discount rate: 7.30% in 2018 and in 2017, 7.95% in 2016

Mortality Rates: Adopted the sex-distinct RP-2014 Employee, Healthy Annuitant and Disabled Retiree Mortality Tables (head-count weighted) projection with scale MP-2018, MP-2017, MP-2015 in 2016

Unaudited – see accompanying independent auditors' report.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Required Supplementary Information (Unaudited)
Schedule of OPEB Contributions
(Thousands of U.S. dollars)

Fiscal year ending		2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	$	33,405	37,638	37,639	41,782	37,980	38,062	41,216	47,071	46,622	50,152
Contributions made		47,548	47,114	48,065	49,551	48,847	44,362	42,242	44,486	41,719	21,706
Contribution deficiency/(excess)	$	(14,143)	(9,476)	(10,426)	(7,769)	(10,867)	(6,300)	(1,026)	2,585	4,903	28,446
Covered employee payroll for the year ended August 31,		128,642	130,171	119,667	112,956	114,074	115,174	110,120	106,308	106,943	106,637
Contributions as a percent of covered employee payroll		36.96 %	36.19 %	40.17 %	43.87 %	42.82 %	38.52 %	38.36 %	41.85 %	39.01 %	20.36 %

Notes to schedule:
- Actuarial Valuation Date: September 1 (beginning of each fiscal year)
- Methods ad assumptions used to determine contributions:
  - Actuarial Cost Method: Entry Age Cost Method
  - Asset Valuation Method: Market Value
  - Per Capita Claims: ASOP Actuarial Standards
  - Salary Increases: 4.5% in FY 2015 through 2019, and 3.0% in prior periods
  - General Inflation: 3.0%
  - Participation Rates: Assumed 100.0% of future retirees who meet the eligibility requirements will participate in the OPEB plan. Current retirees who have opted out of coverage are assumed to continue to receive opt out payments in the future
  - Life Insurance: The claims cost for life insurance is based on the actuarial present value of projected life insurance claims increased by 15.0% to reflect the cost of the insurance funding vehicle.
  - Discount rate: 7.30% in FY 2019 through 2017, 7.95% in FY 2013 through FY 2016, 8.00% in FY 2011 and 2012, and 5.00% in prior periods
  - Mortality Rates: Adopted the sex-distinct RP-2014 Employee, Healthy Annuitant and Disabled Retiree Mortality tables (head-count weighted) projection with scale MP-2018 in FY 2019, MP-2017 in FY 2018, MP-2016 in FY 2017, MP-2015 in 2016, MP-2014 in FY 2015, and the 2014 Static Annuitant and Non-Annuitant Mortality table as set forth in Treasury Regulation Section 1.430(h)(3)-1(e) in FY 2014, the 2013 Static Annuitant and Non-Annuitant Mortality table as set forth in Treasury Regulation Section 1.430(h)(3)-1(e) in FY 2013, the 2012 Static Annuitant and Non-Annuitant Mortality table as set forth in Treasury Regulation Section 1.430(h)(3)-1(e) in FY 2012, and the RP2000 Combined Health Mortality Table in FY 2011 and prior years

Unaudited – see accompanying independent auditors' report.

PGW values the importance of giving back. In 2019, our employees **donated more than $95,000 to United Way of Greater Philadelphia and Southern New Jersey** to help break the cycle of poverty for families in our community.

STATISTICAL SECTION

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PHILADELPHIA GAS WORKS

Statistical Section

Description of Schedules

August 31, 2019

This section of the Company's comprehensive annual financial report presents comparative information in order to better understand the financial statements, note disclosures, and required supplementary information and to more fully comprehend the Company's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the Company's financial performance and well being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the Company's revenue.

Debt Capacity

These schedules present information to help the reader assess the affordability of the Company's current levels of outstanding debt and its ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Company's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the Company's financial report relates to the services the Company provides and the activities it performs.

Sources

Unless otherwise noted, the information in these schedules is derived from the audited financial statements for the relevant year.

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Balance Sheets
Fiscal Years 2010 through 2019
(Thousands of U.S. dollars)

Assets	**2019**	**2018**	**2017**
Current assets:			
Cash and cash equivalents	124,145	131,051	88,535
Cash designated for capital expenditures	-	-	-
Accounts receivable (net of provision for uncollectible accounts)	85,989	82,611	82,028
Gas inventories, materials, and supplies	51,691	52,364	55,414
Current portion of capital improvement fund	68,634	61,000	55,000
Workers' compensation escrow fund	2,711	2,646	2,616
Health insurance escrow fund	-	-	-
Other current assets	18,143	18,002	28,714
Total current assets	351,313	347,674	312,307
Non current assets			
Utility plant, at original cost:			
In service	2,486,973	2,394,302	2,244,731
Under construction	87,826	75,953	105,393
Total	2,574,799	2,470,255	2,350,124
Less accumulated depreciation	1,123,329	1,066,299	1,012,009
Utility plant, net	1,451,470	1,403,956	1,338,115
Unamortized bond issuance costs * (1)	258	290	322
Unamortized losses on reacquired debt	-	-	-
Capital improvement fund	-	50,815	110,000
Sinking fund, revenue bonds	106,509	103,255	102,202
City of Philadelphia	-	-	-
Regulatory asset - environmental	37,102	31,593	30,010
Other non current assets	6,054	9,057	11,301
Total non current assets	1,601,393	1,598,966	1,591,950
Total assets	1,952,706	1,946,640	1,904,257
Deferred outflows of resources (3)			
Accumulated fair value of hedging derivatives	10,332	594	7,911
Unamortized losses on bond refunding (1)	36,776	42,054	47,614
Deferred outflows related to pension (2)	14,421	24,943	39,400
Deferred outflows related to OPEB (4)	91,175	81,048	33,076
Total deferred outflows of resources	152,704	148,639	128,001
Total assets and deferred outflows of resources	2,105,410	2,095,279	2,032,258

* For Fiscal Years 2019, 2018, 2017, 2016, 2015, 2014, 2013 and 2012 this category includes only bond insurance costs.

(1) During FY 2013, the Company implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, that amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). This change was retroactive to FY 2012.

(2) During FY 2015, the Company implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27,* that improves accounting and financial reporting by state and local governments for pensions, and GASB Statement No. 71*, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68,* to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions.* This change was retroactive to FY 2014.

(3) During FY 2012, the Company implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Prior to implementation of this standard, net position was referred to as fund equity, and net investment in capital assets was referred to as excess (deficiency) of capital assets, net of related debt. This standard also established the financial reporting categories of deferred outflows of resources and deferred inflows of resources.

(4) During FY 2018, the Company implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for purposes of measuring the net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB Plans, and the OPEB Plans expense, information about the fiduciary net position of the OPEB Plan, and additions to/deductions from the OPEB Plans' fiduciary net position are determined on the same basis as they are reported by the OPEB Plans. This change was retroactive to FY 2017.

Source - PGW's Audited Financial Statements

2016	2015	2014	2013	2012	2011	2010
91,743	114,327	105,734	100,933	75,826	105,386	79,052
-	-	10,000	-	-	-	-
73,563	86,853	101,457	97,749	81,997	98,925	92,173
47,891	50,908	69,989	80,234	81,086	85,993	103,133
-	-	-	44,055	88,838	122,332	170,809
2,603	2,597	2,597	2,597	2,597	2,596	2,595
-	3,223	3,223	3,223	3,222	-	-
31,017	13,596	19,221	16,196	26,939	35,523	27,212
246,817	271,504	312,221	344,987	360,505	450,755	474,974
2,178,632	2,093,112	2,018,234	1,951,546	1,894,129	1,856,303	1,794,277
73,531	64,254	57,206	44,409	53,851	40,555	46,339
2,252,163	2,157,366	2,075,440	1,995,955	1,947,980	1,896,858	1,840,616
967,353	924,996	881,888	840,968	822,330	785,780	746,607
1,284,810	1,232,370	1,193,552	1,154,987	1,125,650	1,111,078	1,094,009
512	3,473	14,136	15,736	17,417	24,585	27,066
-	-	-	-	-	62,039	70,873
-	-	-	-	-	-	-
86,652	90,141	105,909	105,280	105,312	112,038	111,409
-	-	-	-	-	-	-
28,425	-	-	-	-	-	-
6,364	37,646	37,528	33,097	30,996	30,640	22,925
1,406,763	1,363,630	1,351,125	1,309,100	1,279,375	1,340,380	1,326,282
1,653,580	1,635,134	1,663,346	1,654,087	1,639,880	1,791,135	1,801,256
14,763	20,948	18,879	12,059	34,712	25,360	25,906
57,175	37,471	37,051	44,868	53,241	-	-
88,043	78,128	46,131	-	-	-	-
-	-	-	-	-	-	-
159,981	136,547	102,061	56,927	87,953	25,360	25,906
1,813,561	1,771,681	1,765,407	1,711,014	1,727,833	1,816,495	1,827,162

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Balance Sheets
Fiscal Years 2010 through 2019
(Thousands of U.S. dollars)

Fund Equity and Liabilities	**2019**	**2018**	**2017**
Current liabilities:			
Notes payable	-	-	-
Current portion of revenue bonds	62,946	62,709	49,890
Accounts payable	67,530	72,620	54,922
Current portion of long-term liabilities	6,313	7,216	5,828
Customer deposits	3,090	2,644	3,385
Other current liabilities	6,178	15,220	6,005
Accrued accounts:			
Interest, taxes, and wages	12,406	11,969	12,956
Distribution to the City	3,000	3,000	3,000
Total current liabilities	161,463	175,378	135,986
Non current liabilities:			
Long-term revenue bonds	999,474	1,062,763	1,125,473
Other non current liabilities (4)	65,482	55,889	65,686
Net pension liability (2)	247,246	261,261	261,945
Net OPEB liability (4)	336,079	378,888	350,356
Total non current liabilities	1,648,281	1,758,801	1,803,460
Total liabilities	1,809,744	1,934,179	1,939,446
Deferred Inflows of Resources (3)			
Deferred inflows related to pension (2)	18,230	13,266	12,275
Deferred inflows related to OPEB (4)	69,874	36,134	30,920
Total deferred inflows of resources	88,104	49,400	43,195
Total liabilities and deferred inflows of resources	1,897,848	1,983,579	1,982,641
Net position			
Excess (deficiency) of net investment in capital assets	494,460	432,354	375,366
Restricted (debt service and workers' compensation)	109,220	105,901	104,818
Unrestricted (1) (2) (4)	(396,118)	(426,555)	(430,567)
Total net position	207,562	111,700	49,617
Total liabilities, deferred inflows of resources, and net position	2,105,410	2,095,279	2,032,258

(1) During FY 2013, the Company implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* , that amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). This change was retroactive to FY 2012.

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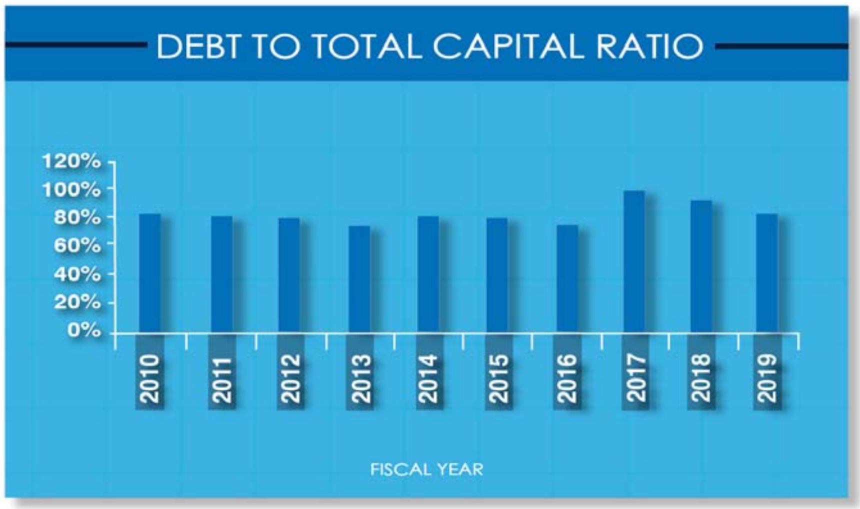
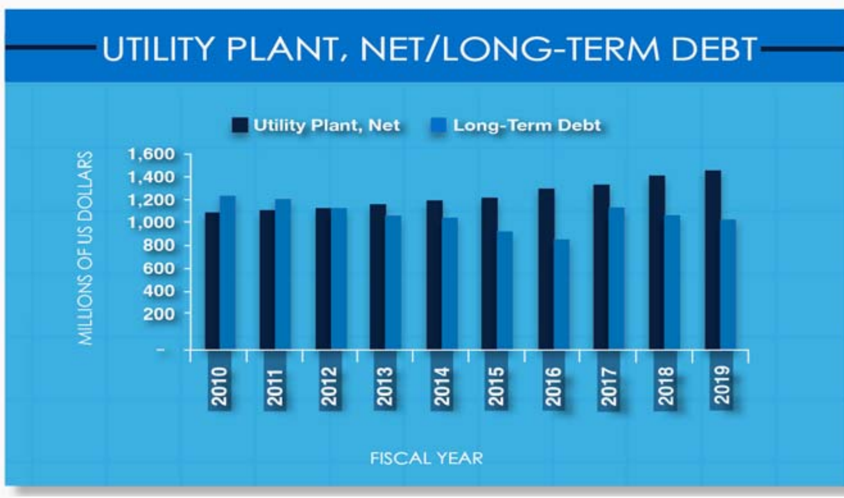
(4) During FY 2018, the Company implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* , for purposes of measuring the net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB Plans, and the OPEB Plans expense, information about the fiduciary net position of the OPEB Plan, and additions to/deductions from the OPEB Plans' fiduciary net position are determined on the same basis as they are reported by the OPEB Plans. This change was retroactive to FY 2017.

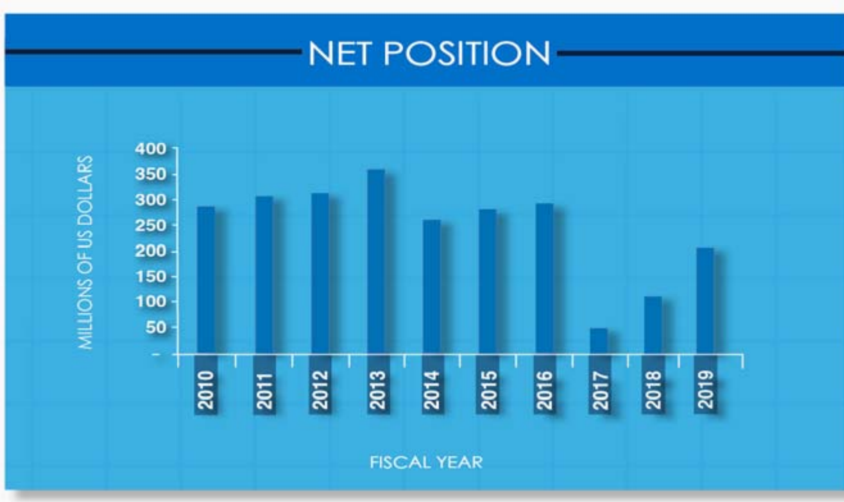
Source - PGW's Audited Financial Statements

	2016	2015	2014	2013	2012	2011	2010
	71,000	30,000	-	-	-	-	-
	44,803	43,030	53,227	52,406	30,545	50,549	42,537
	55,870	56,027	58,888	59,379	57,127	55,893	59,303
	6,808	-	-	-	-	-	-
	3,308	2,858	2,245	2,305	2,449	2,869	3,998
	6,983	14,091	19,321	9,107	10,265	12,098	12,185
	6,417	10,051	14,646	14,823	15,555	17,476	16,743
	3,000	3,000	3,000	3,000	3,000	3,000	3,000
	198,189	159,057	151,327	141,020	118,941	141,885	137,766
	881,620	914,719	980,749	1,033,976	1,086,502	1,166,992	1,224,987
	149,621	168,399	179,265	177,431	206,445	197,878	189,974
	296,093	239,869	164,256	-	-	-	-
	-	-	-	-	-	-	-
	1,327,334	1,322,987	1,324,270	1,211,407	1,292,947	1,364,870	1,414,961
	1,525,523	1,482,044	1,475,597	1,352,427	1,411,888	1,506,755	1,552,727
	-	11,653	31,808	-	-	-	-
	-	-	-	-	-	-	-
	-	11,653	31,808	-	-	-	-
	1,525,523	1,493,697	1,507,405	1,352,427	1,411,888	1,506,755	1,552,727
	415,561	274,621	159,576	112,660	97,442	15,869	(2,706)
	89,255	95,962	111,729	111,100	111,131	114,634	114,004
	(216,778)	(92,599)	(13,303)	134,827	107,372	179,237	163,137
	288,038	277,984	258,002	358,587	315,945	309,740	274,435
	1,813,561	1,771,681	1,765,407	1,711,014	1,727,833	1,816,495	1,827,162

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Debt to Capital Ratio, Utility Plant, Net/Long-Term Debt and Net Position
Fiscal Years 2010 through 2019







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PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Statements of Revenues and Expenses
Fiscal Years 2010 through 2019
(Thousands of U.S. dollars)

	2019	2018	2017
Operating revenues:			
Gas revenues:			
Nonheating	25,065	23,492	21,694
Gas transport service	63,565	51,724	44,370
Heating	605,437	583,864	552,342
Provision for uncollectible accounts (4)	(29,983)	(30,826)	(29,992)
Total gas revenues	664,084	628,254	588,414
Appliance and other revenues	7,908	8,121	8,199
Other operating revenues	12,736	11,124	9,598
Total operating revenues	684,728	647,499	606,211
Operating expenses:			
Natural gas	206,825	186,265	179,230
Gas processing	22,028	21,644	16,789
Field services	35,158	39,291	37,715
Distribution	42,665	47,762	41,318
Collection and account management	12,490	11,975	11,200
Provision for uncollectible accounts (4)	-	-	-
Customer services	13,983	13,904	13,230
Marketing	4,232	3,751	3,644
Administrative and general (3)	69,167	64,258	59,372
Pensions (2)	30,268	43,159	54,826
Other postemployment benefits (3)	28,351	32,889	28,062
Taxes	8,705	8,758	7,890
Total operating expenses before depreciation	473,872	473,656	453,276
Depreciation	68,186	63,970	54,347
Less depreciation expense included in operating expenses above	-	7,516	6,770
Net depreciation	68,186	56,454	47,577
Total operating expenses	542,058	530,110	500,853
Operating income	142,670	117,389	105,358
Interest and other income	10,788	4,634	1,989
Income before interest expense	153,458	122,023	107,347
Interest expense:			
Long-term debt	46,136	48,351	39,104
Other	(5,245)	(5,058)	3,312
Allowance for funds used during construction	(1,295)	(1,353)	(1,408)
Total interest expense	39,596	41,940	41,008
Excess of revenues over expenses prior to City Payment	113,862	80,083	66,339
Distribution to the City of Philadelphia	(18,000)	(18,000)	(18,000)
Grant back of distribution from the City of Philadelphia	-	-	-
Excess of revenues over expenses (2)	95,862	62,083	48,339
Net position, beginning of the year (1) (2) (3)	111,700	49,617	1,278
Net position, end of the year (2) (3)	207,562	111,700	49,617

(1) During FY 2013, the Company implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* , that amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). This change was retroactive to FY 2012.

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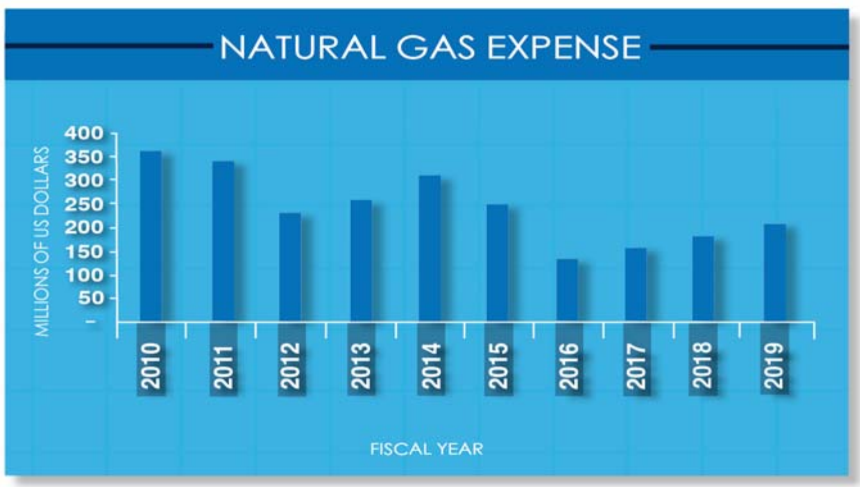
(4) For Fiscal Years 2018, 2017, and 2016 the Company reported provision for uncollectible accounts as a reduction of revenue as required by the GASB. Prior to FY 2016, the Company reported provision for uncollectible accounts as an expense.

Source - PGW's Audited Financial Statements

2016	2015	2014	2013	2012	2011	2010
21,873	30,753	39,610	35,262	37,054	51,437	51,343
41,008	39,588	41,217	37,078	29,324	28,700	26,860
509,467	605,686	655,311	602,814	562,009	669,131	664,139
(27,133)	-	-	-	-	-	-
545,215	676,027	736,138	675,154	628,387	749,268	742,342
7,961	8,727	8,317	8,333	8,240	8,400	8,959
10,928	12,493	14,681	9,984	8,356	8,611	7,931
564,104	697,247	759,136	693,471	644,983	766,279	759,232
146,524	252,169	304,051	255,501	233,713	330,932	354,004
17,948	18,180	19,637	17,592	15,640	16,097	14,952
36,277	36,874	37,577	34,926	33,883	33,950	34,026
37,173	38,629	36,929	30,259	27,750	27,990	23,426
10,913	11,192	11,273	11,297	11,491	11,765	15,266
-	34,833	38,848	39,971	36,702	36,027	35,000
12,432	12,262	11,187	11,102	11,946	12,532	13,030
3,671	6,956	7,783	6,789	6,664	4,378	3,900
99,652	93,347	85,872	78,206	81,161	76,850	71,620
62,336	43,748	27,214	23,614	23,972	22,597	24,633
9,929	6,726	11,228	16,492	20,119	22,472	27,269
7,521	7,823	7,687	7,220	7,122	7,135	6,990
444,376	562,739	599,286	532,969	510,163	602,725	624,116
51,679	49,371	47,428	45,912	45,045	43,629	43,168
6,231	5,584	5,771	4,870	4,870	4,714	4,690
45,448	43,787	41,657	41,042	40,175	38,915	38,478
489,824	606,526	640,943	574,011	550,338	641,640	662,594
74,280	90,721	118,193	119,460	94,645	124,639	96,638
1,393	3,784	3,597	1,147	4,659	4,348	5,301
75,673	94,505	121,790	120,607	99,304	128,987	101,939
40,296	45,756	48,261	49,655	53,012	57,225	52,527
8,443	11,548	9,380	10,740	16,824	18,884	18,986
(1,120)	(781)	(506)	(430)	(292)	(427)	(390)
47,619	56,523	57,135	59,965	69,544	75,682	71,123
28,054	37,982	64,655	60,642	29,760	53,305	30,816
(18,000)	(18,000)	(18,000)	(18,000)	(18,000)	(18,000)	(18,000)
-	-	-	-	-	-	18,000
10,054	19,982	46,655	42,642	11,760	35,305	30,816
277,984	258,002	211,347	315,945	304,185	274,435	243,619
288,038	277,984	258,002	358,587	315,945	309,740	274,435

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Operating Revenues, Natural Gas Expense, and
Excess of Revenues Over Expenses Prior to City Payment
Fiscal Years 2010 through 2019



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PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Average Number of Customers Billed by System
Fiscal Years 2010 through 2019

	2019	2018	2017	2016
Residential	484,300	482,300	479,300	476,300
Commercial	25,000	25,000	25,000	25,000
Industrial	700	700	700	700
Total	510,000	508,000	505,000	502,000

Source - PGW Records

2015	2014	2013	2012	2011	2010
475,300	474,300	475,300	477,300	477,300	476,200
25,000	25,000	25,000	25,000	25,000	25,000
700	700	700	700	700	800
501,000	500,000	501,000	503,000	503,000	502,000

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Operating Revenues
Fiscal Years 2010 through 2019
(Thousands of U.S. dollars)

	2019	2018	2017	2016
Firm non-heat	23,328	23,352	21,588	20,765
Interruptible gas sales	1,325	1,059	377	346
Billed non-heating	24,653	24,411	21,965	21,111
GCR non-heating adjustment	412	(919)	(271)	762
Total non-heating	25,065	23,492	21,694	21,873
Billed heating	592,730	612,556	527,191	454,852
GCR heating adjustment	11,040	(23,933)	(4,768)	17,424
Total billed heating	603,770	588,623	522,423	472,276
Weather normalization adjustment (WNA)	1,347	(3,848)	27,748	39,021
Total heating	605,117	584,775	550,171	511,297
Total gas sold	630,182	608,267	571,865	533,170
Firm transportation (FT) non-heat	5,328	5,063	4,559	4,518
FT heating	42,250	32,591	26,850	22,789
WNA - FT	249	42	1,846	2,458
Total heating FT	42,499	32,633	28,696	25,247
Total FT	47,827	37,696	33,255	29,765
Unbilled adjustment	320	(911)	2,171	(1,830)
GTS: transportation	1,161	1,144	1,171	1,231
GTS - customer/customer choice	12,664	11,566	8,938	8,784
GTS - supplier/customer choice	12	13	14	11
GTS - firm supplier	1,901	1,305	992	1,217
Total gas revenues	694,067	659,080	618,406	572,348

Source - PGW Records

2015	2014	2013	2012	2011	2010
27,592	30,324	31,401	33,282	36,779	37,932
3,672	9,068	4,703	3,338	14,431	12,503
31,264	39,392	36,104	36,620	51,210	50,435
(511)	218	(841)	434	228	908
30,753	39,610	35,263	37,054	51,438	51,343
630,286	660,942	605,761	519,950	659,681	630,970
(12,124)	6,174	(12,407)	4,244	5,360	16,742
618,162	667,116	593,354	524,194	665,041	647,712
(10,372)	(11,810)	8,060	44,016	1,696	12,970
607,790	655,306	601,414	568,210	666,737	660,682
638,543	694,916	636,677	605,264	718,175	712,025
4,953	5,671	5,194	3,861	4,582	3,306
22,468	23,330	19,665	14,037	14,541	13,254
(374)	(488)	331	1,412	128	455
22,094	22,842	19,996	15,449	14,669	13,709
27,047	28,513	25,190	19,310	19,251	17,015
(2,105)	5	1,398	(6,201)	2,393	3,457
1,252	1,173	1,050	1,086	1,147	1,928
10,285	10,278	9,372	7,955	8,333	7,421
11	11	478	170	(790)	(105)
994	1,242	989	803	759	601
676,027	736,138	675,154	628,387	749,268	742,342

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Sales Volumes
Fiscal Years 2010 through 2019
(Sales in Mcf)*

	2019	2018	2017	2016
Firm non-heat	1,618,792	1,592,458	1,508,362	1,568,529
Interruptible gas sales	204,951	165,808	18,420	37,909
Billed non-heating	1,823,743	1,758,266	1,526,782	1,606,438
Total non-heating	1,823,743	1,758,266	1,526,782	1,606,438
Billed heating	41,603,356	42,925,738	38,464,325	36,115,312
Total billed heating	41,603,356	42,925,738	38,464,325	36,115,312
Total heating	41,603,356	42,925,738	38,464,325	36,115,312
Total gas sold	43,427,099	44,684,004	39,991,107	37,721,750
Firm transportation (FT) non-heat	708,321	664,696	640,312	667,248
FT heating	5,262,884	4,242,257	3,816,219	3,456,099
Total heating FT	5,262,884	4,242,257	3,816,219	3,456,099
Total FT	5,971,205	4,906,953	4,456,531	4,123,347
Unbilled adjustment	27,810	521,488	(7,071)	33,433
GTS: transportation	13,150,399	12,926,197	12,630,935	12,796,900
GTS - customer/customer choice	13,843,821	12,833,659	11,612,597	11,303,602
Utility Use	261,766	263,681	264,016	233,115
Unaccounted for gas	1,667,421	1,351,894	1,684,675	1,738,806
Total sendout	78,349,521	77,487,876	70,632,790	67,950,953
Unaccounted for gas as a % of total sendout	2.1%	1.7%	2.4%	2.6%

* Mcf = Thousand cubic feet

Source - PGW Records

2015	2014	2013	2012	2011	2010
1,912,025	1,955,220	2,003,583	2,148,736	2,218,768	2,186,030
514,110	1,096,381	890,383	192,058	1,004,185	1,049,318
2,426,135	3,051,601	2,893,966	2,340,794	3,222,953	3,235,348
2,426,135	3,051,601	2,893,966	2,340,794	3,222,953	3,235,348
46,504,401	46,577,983	42,741,706	36,196,469	45,795,915	42,604,640
46,504,401	46,577,983	42,741,706	36,196,469	45,795,915	42,604,640
46,504,401	46,577,983	42,741,706	36,196,469	45,795,915	42,604,640
48,930,536	49,629,584	45,635,672	38,537,263	49,018,868	45,839,988
764,344	795,971	701,712	542,271	629,683	456,675
3,529,555	3,291,193	2,725,563	1,941,019	2,038,726	1,848,085
3,529,555	3,291,193	2,725,563	1,941,019	2,038,726	1,848,085
4,293,899	4,087,164	3,427,275	2,483,290	2,668,409	2,304,760
19,916	95,656	62,646	(633,531)	204,694	276,161
13,166,995	12,069,664	10,708,926	11,429,993	12,024,712	12,390,748
12,837,207	13,201,076	12,346,548	10,459,723	10,581,753	8,440,368
343,324	350,974	410,193	394,574	465,505	632,040
2,445,717	1,051,828	1,492,946	2,067,268	2,563,662	2,097,817
82,037,594	80,485,946	74,084,206	64,738,580	77,527,603	71,981,882
3.0%	1.3%	2.0%	3.2%	3.3%	2.9%

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Gas Cost Rate
Fiscal Years 2010 through 2019
(U.S. dollars)

	2019	2018	2017	2016	2015
June 1	4.2724	3.6210	4.5986	3.2179	4.1721
March 1	4.8779	3.8857	4.9430	3.4946	4.7059
January 1	-	-	-	-	-
December 1	4.4723	4.6913	4.1577	3.6934	5.9976
September 1	3.8633	4.1523	4.2026	4.0724	5.8670

Shown in dollars per thousand cubic feet

Source - PGW Records

2014	2013	2012	2011	2010
6.5642	6.0709	4.7129	6.0930	6.5139
6.0016	6.3991	4.9783	6.5400	7.3455
-	-	-	-	-
5.4473	5.7323	6.1270	6.2753	7.2497
5.4259	5.2247	6.0594	6.9050	7.0900

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PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Ratios of Outstanding Debt by Type
Fiscal Years 2010 through 2019
(Thousands of U.S. dollars)

	Revenue Bonds	Ratio to Operating Revenue	Operating Revenue	Number of Customers	Debt per Customer (1)
2019	964,480	141%	684,728	510,000	1,891
2018	1,016,300	157%	647,499	508,000	2,001
2017	1,054,725	174%	606,211	505,000	2,089
2016	837,830	149%	564,104	502,000	1,669
2015	915,175	131%	697,247	501,000	1,827
2014	1,015,920	134%	759,136	500,000	2,032
2013	1,065,720	154%	693,471	501,000	2,127
2012	1,093,440	170%	644,983	503,000	2,174
2011	1,195,773	156%	766,279	503,000	2,377
2010	1,243,733	164%	759,232	502,000	2,478

(1) Per customer data in whole dollars

Source - PGW's Audited Financial Statements and PGW Records

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Debt Service
Through Fiscal Year 2047
(U.S. dollars)

Year	5th Series Variable	8th Series B	8th Series C	8th Series D	8th Series E
2020	459,000	1,035,188	1,018,814	1,540,755	1,032,451
2021	459,000	1,035,188	1,018,814	1,540,755	1,032,451
2022	459,000	1,035,188	1,018,814	1,540,755	1,032,451
2023	459,000	1,035,188	1,018,814	1,540,755	1,032,451
2024	459,000	5,755,188	5,713,814	8,585,755	5,752,451
2025	459,000	5,941,668	5,903,118	8,865,004	5,939,403
2026	459,000	6,004,343	5,963,762	8,958,694	6,002,587
2027	459,000	6,447,374	6,410,052	9,623,049	6,446,151
2028	459,000	6,476,009	6,437,204	9,656,003	6,475,385
2029	459,000	—	—	—	—
2030	459,000	—	—	—	—
2031	459,000	—	—	—	—
2032	459,000	—	—	—	—
2033	459,000	—	—	—	—
2034	459,000	—	—	—	—
2035	30,229,500	—	—	—	—
2036	—	—	—	—	—
2037	—	—	—	—	—
2038	—	—	—	—	—
2039	—	—	—	—	—
2040	—	—	—	—	—
2041	—	—	—	—	—
2042	—	—	—	—	—
2043	—	—	—	—	—
2044	—	—	—	—	—
2045	—	—	—	—	—
2046	—	—	—	—	—
2047	—	—	—	—	—
TOTAL	37,114,500	34,765,336	34,503,205	51,851,525	34,745,783

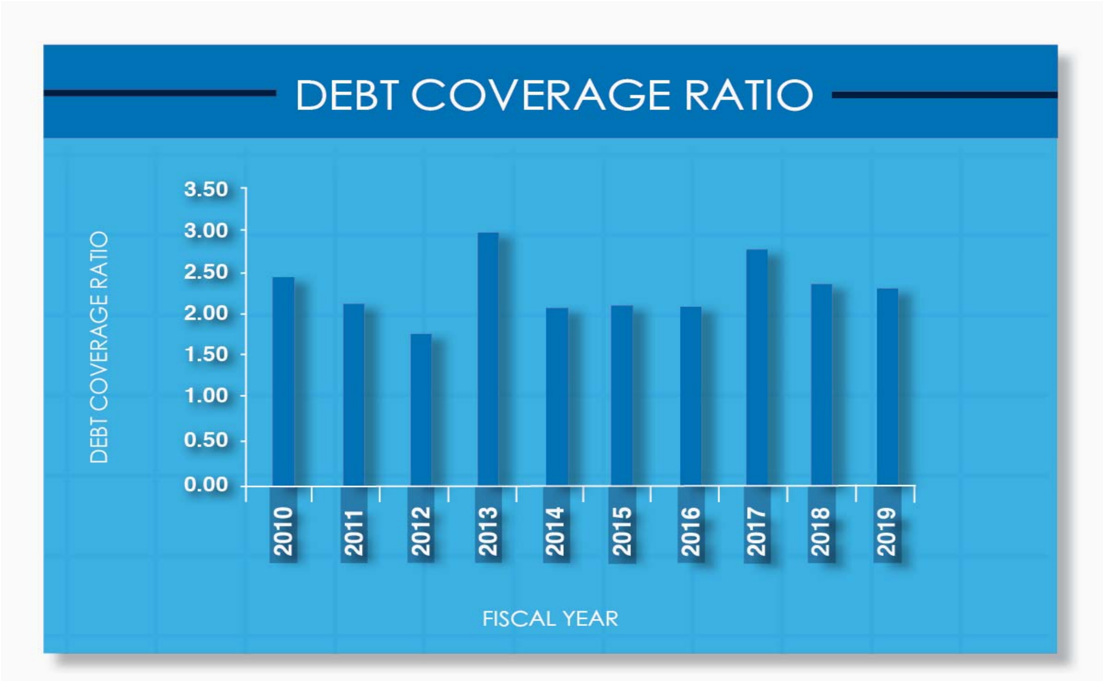
Source - PGW Records

9th Series	10th Series	13th Series	14th Series	15th Series	Total 1998 Ordinance
6,816,775	5,274,994	25,404,500	37,530,450	17,394,550	97,507,477
6,819,025	4,529,494	28,528,500	33,514,950	17,396,750	95,874,927
6,821,225	3,784,706	27,042,000	34,156,700	17,395,500	94,286,340
6,820,975	3,050,456	26,250,750	34,763,575	17,397,750	93,369,715
4,327,800	2,299,706	24,696,250	17,500,075	17,392,750	92,482,790
2,242,800	1,560,706	17,681,250	19,635,700	17,395,250	85,623,899
2,242,800	1,376,100	17,295,250	19,674,450	17,399,250	85,376,236
2,242,800	—	13,517,000	19,667,075	17,394,000	82,206,501
2,242,800	—	13,525,500	18,346,825	18,664,250	82,282,976
2,242,800	—	13,524,250	18,343,700	18,740,500	53,310,250
2,242,800	—	13,522,500	18,348,825	17,263,500	51,836,625
2,242,800	—	13,524,000	18,345,575	17,259,750	51,831,125
2,242,800	—	13,517,250	18,347,325	17,263,250	51,829,625
2,242,800	—	5,121,250	18,347,200	17,257,750	43,428,000
2,242,800	—	5,124,000	18,353,200	17,257,750	43,436,750
2,242,800	—	—	10,655,700	17,257,000	60,385,000
9,937,800	—	—	10,657,300	17,259,500	37,854,600
9,933,813	—	—	10,658,600	17,264,000	37,856,413
9,933,825	—	—	10,653,900	17,264,250	37,851,975
9,936,526	—	—	—	17,259,250	27,195,776
9,935,600	—	—	—	17,263,000	27,198,600
—	—	—	—	17,258,750	17,258,750
—	—	—	—	17,260,500	17,260,500
—	—	—	—	17,261,500	17,261,500
—	—	—	—	17,260,250	17,260,250
—	—	—	—	17,260,250	17,260,250
—	—	—	—	17,259,750	17,259,750
—	—	—	—	17,262,000	17,262,000
105,954,164	21,876,163	258,274,250	387,501,125	487,262,550	1,453,848,600

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Debt Service Coverage
Fiscal Years 2010 through 2019
(Thousands of U.S. dollars)

	2019	2018	2017
Funds Provided			
Total gas revenues	664,084	628,254	618,406
Other operating revenues	20,644	19,245	17,797
Total operating revenues	684,728	647,499	636,203
Other income increase restricted funds	10,788	4,634	1,087
City grant	-	-	-
AFUDC (Interest)	1,295	1,353	1,408
Total funds provided	696,811	653,486	638,698
Funds Applied			
Fuel costs	206,825	186,265	179,230
Other operating costs	335,233	343,845	360,467
Total operating expenses	542,058	530,110	539,697
Less: non-cash expenses	74,481	82,843	84,027
Total funds applied	467,577	447,267	455,670
Funds available to cover debt service	229,234	206,219	183,028
Funds available excluding lease costs	229,234	206,219	183,028
1975 ordinance bonds debt service	-	-	-
Debt service coverage 1975 bonds	-	-	-
Net available after prior debt service	229,234	206,219	183,028
Net available after prior capital leases	229,234	206,219	183,028
1998 ordinance bonds debt service	98,417	87,690	67,582
Debt service coverage 1998 bonds	2.33	2.35	2.71
Net available after 1998 debt service	130,817	118,529	115,446
1998 ordinance subordinate bond debt service	-	-	-
Debt service coverage subordinate bonds	-	-	-

Source - PGW's Audited Financial Statements and PGW Records



2016	2015	2014	2013	2012	2011	2010
572,348	676,027	736,138	675,154	628,387	749,268	742,342
18,889	21,220	22,998	18,317	16,596	17,011	16,890
591,237	697,247	759,136	693,471	644,983	766,279	759,232
1,416	10,836	4,079	196	8,311	12,550	3,035
-	-	-	-	-	-	18,000
1,120	781	506	430	292	427	390
593,773	708,864	763,721	694,097	653,586	779,256	780,657
146,524	252,169	304,051	255,501	233,713	330,932	354,004
370,433	354,357	336,892	318,510	316,625	310,708	308,590
516,957	606,526	640,943	574,011	550,338	641,640	662,594
89,059	74,535	53,039	48,103	47,619	48,479	71,029
427,898	531,991	587,904	525,908	502,719	593,161	591,565
165,875	176,873	175,817	168,189	150,867	186,095	189,092
165,875	176,873	175,817	168,189	150,867	186,095	189,092
-	26,904	28,592	30,163	31,754	30,691	30,101
-	6.57	6.15	5.58	4.75	6.06	6.28
165,875	149,969	147,225	138,026	119,113	155,404	158,991
165,875	149,969	147,225	138,026	119,113	155,404	158,991
77,867	70,139	69,749	47,668	67,874	72,274	65,095
2.13	2.14	2.11	2.90	1.75	2.15	2.44
88,008	79,830	77,476	90,358	51,239	83,130	93,896
-	-	-	-	-	1,988	1,986
-	-	-	-	-	41.82	47.28

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Demographic and Economic Statistics
Principal Employers
Current Calendar Year and Nine Years Ago

2018	2009
Albert Einstein Medical	Albert Einstein Medical
Children's Hospital of Philadelphia	Children's Hospital of Philadelphia
City of Philadelphia	City of Philadelphia
Comcast Cablevision of Willow Grove Inc	Hospital of the University of Pennsylvania
School District of Philadelphia	School District of Philadelphia
SEPTA	SEPTA
Temple University	Temple University
Thomas Jefferson University Hospitals	Thomas Jefferson University Hospitals
University Of Pennsylvania (College)	United States Postal Service
University Of Pennsylvania (Hospital)	University Of Pennsylvania

Listed Alphabetically
Source - City of Philadelphia

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Demographic and Economic Statistics
Calendar Years 2009 through 2018

Calendar Year	Population (1)	Personal Income (Thousands of U.S. Dollars) (2)	Per Capita Personal Income (U.S. Dollars)	Unemployment Rate (3)
2018	1,584,138	88,311,658	55,747	5.5%
2017	1,580,863	88,081,991	55,718	6.2%
2016	1,567,872	80,973,410	51,645	6.8%
2015	1,567,442	77,903,831	49,701	6.9%
2014	1,560,297	66,495,223	42,617	8.0%
2013	1,553,165	65,473,002	42,155	10.0%
2012	1,547,607	64,151,742	41,452	10.5%
2011	1,538,567	62,632,520	40,708	10.8%
2010	1,526,006	56,970,074	37,333	10.8%
2009	1,547,297	54,061,223	34,939	9.6%

Sources:
(1) US Census Bureau
(2) US Department of Commerce, Bureau of Economic Analysis
(3) US Department of Labor, Bureau of Labor Statistics

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Budgeted Full-Time Personnel by Department
Fiscal Years 2010 through 2019

Departments	2019	2018	2017
President & Chief Executive Officer	2	2	2
Chief Operating Officer	2	2	2
Chief Financial Officer	2	2	2
Gas processing	115	116	116
Field services	364	372	372
Distribution	483	486	486
Collection	28	29	29
Customer service	169	170	170
Marketing	32	32	32
Administrative and general	497	480	480
PGW Total	1,694	1,691	1,691
Personnel savings	(44)	(41)	(41)
Philadelphia Gas Commission	5	5	5
Grand Total	1,655	1,655	1,655

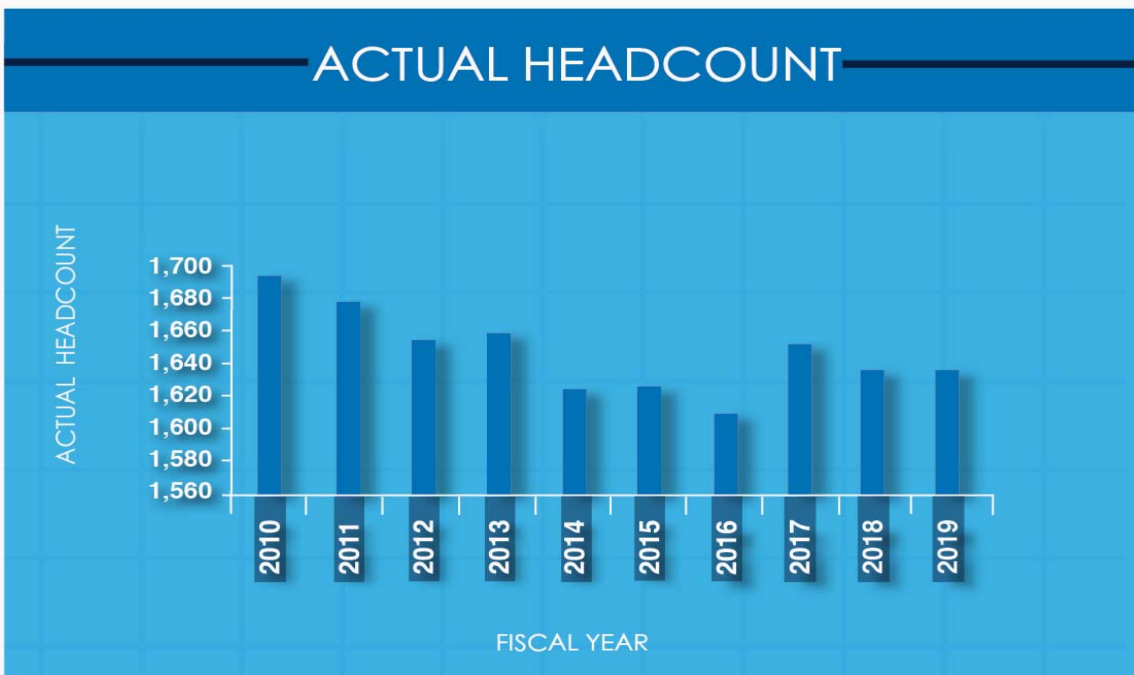
Source - PGW's Annual Operating Budget

2016	2015	2014	2013	2012	2011	2010
2	3	3	3	3	2	2
2	2	2	2	2	3	2
2	2	2	2	2	-	-
116	119	123	125	119	119	119
374	372	372	366	371	371	341
480	472	472	468	467	467	467
29	31	31	31	35	36	91
170	176	189	190	198	207	207
32	44	44	46	41	34	34
484	449	442	445	454	463	459
1,691	1,670	1,680	1,678	1,692	1,702	1,722
(31)	(42)	(40)	(38)	(37)	(32)	(42)
5	5	5	5	5	5	5
1,665	1,633	1,645	1,645	1,660	1,675	1,685

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Actual Full-Time Personnel by Department
Fiscal Years 2010 through 2019

Departments	2019	2018	2017
President & Chief Executive Officer	2	2	2
Chief Operating Officer	2	2	2
Chief Financial Officer	2	2	2
Gas processing	116	117	117
Field services	353	361	370
Distribution	474	474	486
Collection	27	27	26
Customer service	167	167	169
Marketing	25	27	27
Administrative and general	464	454	445
PGW Total	1,632	1,633	1,646
Philadelphia Gas Commission	6	5	5
Grand Total	1,638	1,638	1,651

Source - PGW Records



2016	2015	2014	2013	2012	2011	2010
2	3	3	3	3	3	2
2	3	2	2	3	2	2
2	2	2	2	1	1	-
116	115	121	121	122	118	120
362	365	364	370	360	362	357
473	477	475	474	468	475	466
25	27	30	31	34	36	57
157	171	143	154	158	167	170
27	33	38	41	38	32	31
440	426	441	456	464	475	480
1,606	1,622	1,619	1,654	1,651	1,671	1,685
5	5	5	5	3	4	4
1,611	1,627	1,624	1,659	1,654	1,675	1,689

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Operating Indicators
Fiscal Years 2010 through 2019

	2019	2018	2017	2016
Financial				
Debt service ratio (1975 Ordinance)	N/A	N/A	N/A	N/A
Debt service ratio (1998 Ordinance)	2.33	2.35	2.71	2.13
Debt to total capital ratio	83.7%	91.0%	95.9%	76.3%
Bad debt as a % of revenue	4.2%	4.5%	4.7%	4.6%
Bad debt reserve as a % of accounts receivable	43.7%	44.5%	44.3%	50.2%
Collection factor (receipts/billings)	96.3%	95.4%	96.5%	97.7%
Cash balance (Thousands of U.S. dollars)	124,145	131,051	88,535	91,743
Natural Gas (NG) storage (Thousands of U.S. dollars)	41,263	41,652	46,031	38,556
Payroll				
Total payroll (Thousands of U.S. dollars) (Includes Overtime)	128,107	129,688	119,182	112,556
Overtime (Thousands of U.S. dollars)	11,776	13,863	11,118	11,125
Overtime as a % of Total Payroll	9.2%	10.7%	9.3%	9.9%
Liquefied Natural Gas (LNG)				
LNG to storage (Mcf)*	2,180,597	1,868,481	2,331,475	2,233,463
LNG from storage (Mcf)	1,914,218	2,516,678	1,396,559	1,258,905
Net to (from) storage (Mcf)	266,379	(648,197)	934,916	974,558
Off-system sales contributed to GCR (Thousands of U.S. dollars)	-	-	175	125
Natural Gas Cost				
Gas utilized (Mcf)	46,127,914	47,226,345	43,557,457	40,301,447
Gas utilized (Thousands of U.S. dollars)	206,801	186,254	179,222	146,515
Cost per Mcf ($)	4.48	3.94	4.11	3.64
Natural Gas Sales Information				
Firm gas sold (Mcf)	43,222,148	44,518,196	39,972,687	37,683,841
Interruptible gas sold (Mcf)	204,951	165,808	18,420	37,909
Total gas sold (Mcf)	43,427,099	44,684,004	39,991,107	37,721,750
Transportation gas - GTS (Mcf)	32,965,425	30,666,809	28,700,063	28,223,849
Other (Mcf)	1,956,997	2,137,063	1,941,620	2,005,354
Total gas sendout (Mcf)	78,349,521	77,487,876	70,632,790	67,950,953
Unaccounted for gas as a % of total gas sendout	2.1%	1.7%	2.4%	2.6%
Transportation gas - GTS as a % of total gas sendout	42.1%	39.6%	40.6%	41.5%
Firm gas sold as a % of total gas sold	99.5%	99.6%	100.0%	99.9%
Degree Days				
Fiscal Year	3,995	3,986	3,552	3,356

* Mcf = Thousand cubic feet

Source - PGW Records

	2015	2014	2013	2012	2011	2010
	6.57	6.15	5.58	4.75	6.06	6.28
	2.14	2.11	2.90	1.75	2.15	2.44
	77.5%	80.0%	75.2%	78.0%	79.7%	82.2%
	5.0%	5.1%	5.8%	5.7%	4.7%	4.6%
	54.0%	51.4%	51.9%	54.4%	50.3%	52.9%
	97.1%	95.0%	91.9%	96.6%	95.1%	98.7%
	114,327	105,734	100,933	75,826	105,386	79,052
	40,791	60,089	70,638	73,086	78,579	96,097
	113,675	115,174	110,120	106,308	106,125	106,003
	11,824	13,629	9,495	7,948	9,700	8,494
	10.4%	11.8%	8.6%	7.5%	9.1%	8.0%
	2,043,392	1,821,935	1,677,268	1,422,440	1,286,742	1,354,605
	2,237,729	3,210,133	1,537,601	974,238	1,428,896	1,117,628
	(194,337)	(1,388,198)	139,667	448,202	(142,154)	236,977
	-	321	743	748	867	274
	50,562,653	52,961,786	50,178,147	43,017,936	55,023,503	51,820,468
	252,158	304,040	255,496	233,709	330,926	353,998
	4.99	5.74	5.09	5.43	6.01	6.83
	48,416,426	48,533,203	44,745,289	38,345,205	48,014,683	44,790,670
	514,110	1,096,381	890,383	192,058	1,004,185	1,049,318
	48,930,536	49,629,584	45,635,672	38,537,263	49,018,868	45,839,988
	30,298,101	29,357,904	26,482,749	24,373,006	25,274,874	23,135,876
	2,808,957	1,498,458	1,965,785	1,828,311	3,233,861	3,006,018
	82,037,594	80,485,946	74,084,206	64,738,580	77,527,603	71,981,882
	3.0%	2.0%	2.0%	3.2%	3.3%	2.9%
	36.9%	36.5%	35.7%	37.6%	32.6%	32.1%
	98.9%	97.8%	98.0%	99.5%	98.0%	97.7%
	4,444	4,405	3,889	3,037	4,005	3,730

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Capital Asset Information
Calendar Years 2010 through 2019

	2019	2018	2017	2016
Gas main (Miles)	3,042	3,041	3,039	3,020
Services (Miles)	2,889	2,891	2,868	2,865
Number of meters				
Residential/Small commercial	506,946	501,529	502,305	499,110
Large diaphragm	3,543	3,385	3,179	3,030
Rotary	10,210	10,653	10,076	10,034
Turbine	280	286	284	283
Total	520,979	515,853	515,844	512,457

Source - Gas Annual Report of PGW to the Pennsylvania Public Utility Commission

2015	2014	2013	2012	2011	2010
3,022	3,023	3,025	3,026	3,027	3,029
2,862	2,860	2,779	2,736	2,772	2,815
497,556	499,375	498,765	501,250	497,151	502,145
2,842	2,695	2,579	2,401	2,298	2,245
9,945	9,883	9,778	9,690	9,551	9,513
285	291	288	289	287	297
510,628	512,244	511,410	513,630	509,287	514,200

PHILADELPHIA GAS WORKS
(A Component Unit of the City of Philadelphia)
Ten Largest Customers
Current Fiscal Year and Nine Years Ago
(Thousands of U.S. dollars)

2019		2010	
Customer 1 (A)	3,604	Customer 1 (C)	6,584
Customer 2 (B)	2,942	Customer 2 (A)	4,648
Customer 3 (C)	2,659	Customer 3 (B)	4,017
Customer 4	2,515	Customer 4 (F)	2,623
Customer 5	2,214	Customer 5	2,176
Customer 6 (D)	1,694	Customer 6	2,048
Customer 7 (E)	1,162	Customer 7 (D)	1,811
Customer 8	1,050	Customer 8 (E)	1,522
Customer 9 (F)	1,030	Customer 9	992
Customer 10	922	Customer 10	796
Total	19,792	Total	27,217

Note - A letter designation indicates a repeat customer from the Fiscal Year 2010 list identified on the fiscal year 2019 list.

Source - PGW Records