PHILADELPHIA GAS WORKS

(A Component Unit of the City of Philadelphia)

Basic Financial Statements and Supplementary Information

August 31, 2021 and 2020

(With Independent Auditors' Reports Thereon)

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

Table of Contents

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of Philadelphia Gas Works (the Company), a component unit of the City of Philadelphia, as of and for the years ended August 31, 2021 and 2020, 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 opinions on these financial statements based on our audits. We did not audit the financial statements of the Philadelphia Gas Works OPEB Trust (the Trust), which represent 100% of the fiduciary activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Trust as of and for the years ended December 31, 2020 and 2019 are based solely on the report of the other auditors. We conducted our audit 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 opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the Company as of August 31, 2021 and 2020 , and the respective changes in financial position and, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

Adoption of New Accounting Pronouncement

As discussed in note 1(u) to the basic financial statements, as of September 1, 2020, the Company adopted Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-17 and the required supplementary information related to net pension and OPEB obligations as listed in the table of contents on pages 91-94 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 and the other auditors 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Company's basic financial statements. The supplementary information on pages 86-89 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

Philadelphia, Pennsylvania
December 22, 2021

The narrative overview and analysis of the financial statements of Philadelphia Gas Works (the Company or PGW) for the years ended August 31, 2021 and 2020 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 basic financial statements and notes to basic financial statements.

Financial Highlights

- The Fiscal Year (FY) 2021 weather reflected a 5.7% warmer than normal winter. The FY 2021 period was 11.4% colder than the prior year and firm gas sales increased by 1.3 Billion Cubic Feet (Bcf). The Weather Normalization Adjustment (WNA) Clause, which was in effect from October 2020 through May 2021, resulted in heating customers receiving charges totaling $11.8 million. The FY 2020 weather reflected a 15.6% warmer than normal winter. The FY 2020 period was 16.1% warmer than the prior year and firm gas sales decreased by 4.2 Billion Cubic Feet (Bcf). The Weather Normalization Adjustment (WNA) Clause, which was in effect from October 2019 through May 2020, resulted in heating customers receiving charges totaling $10.8 million.
- PGW achieved 24-month collection rates of 96.1% in FY 2021, 96.6% in FY 2020, and 96.3% in FY 2019. For FY 2021, the collection rate is calculated by dividing the total gas receipts collected from September 1, 2019 through August 31, 2021 by the total gas billings that were applied to PGW customers' accounts from September 1, 2019 through August 31, 2021. The same methodology was utilized in FY 2020 and FY 2019.
- 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 2021, FY 2020, and FY 2019, 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 2021, FY 2020, and FY 2019 were $158.3 million, $172.3 million, and $124.1 million, respectively.
- At December 15, 2021 and December 15, 2020, $120.0 million was available from the commercial paper program. The cash balance on December 15, 2021 and on December 15, 2020 was $81.0 million and $107.1 million, respectively.
- The Company's FY 2021 Capital Budget was approved by the City Council of the City of Philadelphia in an amount not to exceed $147.5 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 2022 is expected to be $28.3 million. The total six-year cost of the CIMR Program is forecasted to be $180.2 million.
- On October 29, 2020, the City issued Gas Works Revenue Bonds, Sixteenth Series (1998 General Ordinance) in the par amount of $253.9 million. A portion of the proceeds from the sale of the Sixteenth Series Bonds were utilized to refund the Ninth Series Bonds. The Sixteenth 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 Sixteenth Series Bonds, with fixed interest rates that range from 4.0% to 5.0%, have maturity dates through 2050. This refunding transaction provided net present value debt service savings of $14.6 million utilizing an arbitrage yield of 2.11%. The savings as a percentage of refunded bonds was 25.61%.
- On February 28, 2020, 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 10.5%, in additional annual operating revenues based upon a twenty-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 August 26, 2020, PGW filed a Joint Petition for Partial Settlement (Settlement Agreement) in which all rate case parties joined or did not oppose except the Environmental Stakeholders group that is opposing PGW's rate increase request. The Settlement Agreement provided PGW with a general rate increase of $35.0 million in annual operating revenues in three increments: $10.0 million for service rendered on or after January 1, 2021; $10.0 million on for service rendered on or after July 1, 2021; and $15.0 million for service rendered on or after on January 1, 2022. 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 October 5, 2020, the ALJ's recommended approval of the Partial Settlement with the following modifications: (1) the start of the phased in rate increases be delayed by six months, beginning July of 2021; (2) PGW should not file a general rate increase any sooner than January 1, 2023, absent emergency relief, tariff changes or as authorized by Commission order or industry wide changes in regulatory policy which affect PGW's rates; and (3) no later than 90 days following entry of the Final Order in this matter, and biannually through 2022, PGW must meet with the Commission's Pipeline Safety Division to review PGW's increasing costs of pipeline replacement and to develop a plan to reduce pipeline replacement costs and leaks.

  On November 19, 2020, the PUC entered its Order and Opinion in the case, which granted the exceptions filed by the Commission's Bureau of Investigation and Enforcement (I&E), the Office of Consumer Advocate (OCA), the Office of Small Business Advocate (OSBA), the Philadelphia Industrial and Commercial Gas Users Group (PICGUG), and PGW; modified the ALJ's recommended decision regarding the settled and litigated issues; and approved the Joint Petition for Partial Settlement, in its entirety, without modification. The new rates approved by the Settlement Agreement were effective on January 1, 2021.

- In FY 2021, the Company adopted the provisions of Governmental Accounting Standards Board (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. For further information, see Note 1(u), New Accounting Pronouncements, of the Financial Statements.

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 balance sheets include all 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 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 *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)

		As of August 31		
		2021	**2020**	**2019**
Total gas revenues	$	624,750	571,793	664,084
Other revenues		21,997	13,144	20,644
Total operating revenues		646,747	584,937	684,728
Fuel expense		163,892	146,754	206,825
All other operating expenses		270,151	302,082	335,233
Total operating expenses		434,043	448,836	542,058
Operating income		212,704	136,101	142,670
Interest and other income		1,322	5,594	10,788
Total interest expense		(41,454)	(35,730)	(39,596)
Distribution to the City of Philadelphia		(18,000)	(18,000)	(18,000)
Excess of revenues over expenses		154,572	87,965	95,862
Net position, beginning of year		295,527	207,562	111,700
Net position, end of year	$	450,099	295,527	207,562

Operating Revenues

Operating revenues in FY 2021 were $646.7 million, an increase of $61.8 million, or 10.6%, from FY 2020. The increase resulted from higher Gas Cost Rates (GCR) driven by increased commodity prices and a 1.0 Bcf, or 1.3%, increase in natural gas sendout in FY 2021 when compared to FY 2020. Operating revenues in FY 2020 were $584.9 million, a decrease of $99.8 million, or 14.6%, from FY 2019. The decrease resulted from lower natural gas sendout, which was approximately 8.1% lower in FY 2020 when compared to FY 2019, and from a lower Gas Cost Rate (GCR) driven by decreased commodity prices.

Total sales volumes, including gas transportation deliveries, in FY 2021 increased by 1.2 Bcf, or 1.7%, to 71.5 Bcf from the FY 2020 sales volumes of 70.3 Bcf. In FY 2021, firm gas sales of 40.3 Bcf were 1.3 Bcf, or 3.3%, higher than FY 2020. Interruptible gas sales and the volume of natural gas transported for gas transportation customers approximated the FY 2020 level. Total sales volumes, including gas transportation deliveries, in FY 2020 decreased by 6.1 Bcf, or 8.0%, to 70.3 Bcf from the FY 2019 sales volumes of 76.4 Bcf. In FY 2020, firm gas sales of 39.0 Bcf were 4.2 Bcf, or 9.8%, lower than FY 2019 and interruptible gas sales approximated the FY 2019 level. The volume of natural gas transported for gas transportation customers decreased by 2.2 Bcf to 30.8 Bcf from the 33.0 Bcf level experienced in FY 2019.

Provision for Uncollectible Accounts – The provision for uncollectible accounts in FY 2021 totaled $16.3 million, a decrease of $27.8 million, or 63.0%, from FY 2020. In FY 2021, PGW established a regulatory asset for outstanding delinquent account balances in anticipation that it would recover losses relating to the COVID-19 pandemic. The losses are specifically associated with the PUC moratorium, beginning in March 2020, and ending in March 2021, on shutting off gas services to customers who otherwise would be eligible for shutoff. The provision for uncollectible accounts in FY 2020 totaled $44.1 million, an increase of $14.1 million, or 47.0%, from FY 2019. The increase in the provision for uncollectible accounts is due to the impact from the COVID-19 pandemic. From March 2020 through March 2021, PGW has followed the PUC moratorium on shutting off gas services to customers who otherwise would be eligible for shutoff.

In FY 2021 and FY 2020, the number of customers served by PGW was approximately 524,000 customers each period. The increase in the number of customers in both periods is primarily due to the impact from the COVID-19 pandemic. From March 2020 through March 2021, PGW has followed the PUC moratorium on shutting off gas services to customers who otherwise would be eligible for shutoff. The number of customers served by PGW at the end of FY 2019 was approximately 510,000, respectively. In FY 2021, there were approximately 25,000 Commercial accounts and 600 Industrial accounts, reflecting no change from the previous three fiscal years. The number of residential accounts in FY 2021 was approximately 498,300 customers, an increase of 500 customers from the FY 2020 level and 13,800 customers from the FY 2019 level.

Operating Expenses

Total operating expenses, including fuel costs, in FY 2021 were $434.0 million, a decrease of $14.8 million, or 3.3%, from FY 2020. The decrease for FY 2020 was mainly caused by decreased amortization of the unfunded actuarially determined pension and other postemployment benefit (OPEB) expenses. Total operating expenses, including fuel costs, in FY 2020 were $448.8 million, a decrease of $14.8 million, or 3.3%, from FY 2019. The decrease for FY 2020 was mainly caused by decreased amortization of the unfunded actuarially determined pension and other postemployment benefit (OPEB) expenses.

Cost of Fuel – The cost of natural gas utilized increased by $17.1 million, or 11.6%, to $163.9 million in FY 2021 compared with $146.8 million in FY 2020. The average commodity price per Thousand Cubic Feet (Mcf) increased by $0.24, or $10.3 million, and the volume of natural gas utilized increased by 0.3 Bcf, 0.7% or $0.7 million. The pipeline supplier refunds in FY 2021 were less than $0.1 million as compared to refunds of $14.9 million in FY 2020.

The cost of natural gas utilized decreased by $60.0 million, or 29.0%, to $146.8 million in FY 2020 compared with $206.8 million in FY 2019. The average commodity price per Thousand Cubic Feet (Mcf) decreased by $1.03, or $43.1 million, while the volume of gas utilized decreased by 4.2 Bcf, 9.2% or $13.2 million. The pipeline supplier refunds in FY 2020 were $14.9 million, as compared to less than $0.1 million in FY 2019, which were offset by an $11.1 million increase in pipeline demand charges.

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 on the balance sheets, 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 2021, FY 2020, and FY 2019 were $2.33, $2.09, and $3.12 per Mcf, respectively.

Other Operating Expenses – Expenditures for street operations, infrastructure improvements, and plant operations in FY 2021 were $102.1 million, a $1.0 million, or 1.0%, increase from the FY 2020 total of $101.1 million. The increase in FY 2021 was caused primarily by higher labor costs for field services and distribution. The FY 2020 total of $101.1 million was $1.2 million higher than the FY 2019 total of $99.9 million as a result of higher contract maintenance and material costs for gas processing.

Additionally, expenses of $94.5 million related to collection and account management, customer services, marketing, and the administrative area decreased by $2.9 million, or 3.0%, in FY 2021 primarily due to lower administrative expenses. This category increased by $2.4 million in FY 2020 compared to FY 2019 primarily due to lower administrative expenses.

Pension expense decreased by $22.6 million to ($3.1) million in FY 2021 as compared to FY 2020 due primarily to higher than anticipated earnings experienced during the period, which was slightly offset by changes in the assumed discount rate, demographics, and in the optional form actuarial equivalence conversion factors. Pension expense decreased by $10.8 million, or 35.6%, to $19.5 million in FY 2020 as compared to FY 2019 due primarily to a change in economic and demographic assumptions and a change to the most recently released mortality table as required by GASB.

OPEB expense decreased by $11.8 million to ($0.9) million in FY 2021 as compared to FY 2020 due primarily to higher than anticipated earnings experienced during the period and changes to demographic assumptions. OPEB expense decreased by $17.5 million, or 61.6%, in FY 2020 as compared to FY 2019 primarily due to updated per capita claim costs and a change to the most recently released mortality table as required by GASB.

Net Depreciation Expense – Net depreciation expense increased by $4.5 million in FY 2021 compared with FY 2020. Net depreciation expense decreased by $4.0 million in FY 2020 compared with FY 2019. The effective composite depreciation rates were 2.1% for FY 2021, FY 2020, and FY 2019. Cost of removal is charged to expense as incurred.

Interest and Other Income – Interest and other income in FY 2021 was $4.3 million lower than FY 2020, as a result of decreased earnings on restricted and unrestricted fund balances. Interest and other income in

(Continued)

FY 2020 was $5.2 million lower than FY 2019, as a result of decreased earnings on restricted and unrestricted fund balances.

Interest Expense – Total interest expense was $41.5 million in FY 2021, an increase of $5.8 million, or 16.2%, when compared with FY 2020. Interest on long-term debt was $4.9 million, or 11.2%, higher in FY 2021 when compared to FY 2020 reflecting the issuance of the Sixteenth Series Bonds in October 2020. Additionally, other interest expense increased by $1.3 million, reflecting an increase in the amortization of the bond premiums and increased bond issuance expenses related to the Sixteenth Series bonds. Total interest expense was $35.7 million in FY 2020, a decrease of $3.9 million, or 9.8%, when compared with FY 2019. Interest on long-term debt was $2.5 million, or 5.4%, lower in FY 2020 when compared to FY 2019. Interest expense was lower in FY 2020 due to the normal amortization of long-term debt.

Excess of Revenues over Expenses – In FY 2021, the Company's excess of revenues over expenses was $154.6 million, an increase of $66.6 million from FY 2020. This increase is primarily due to greater contribution margins resulting from a new base rate approved by the PUC in the Settlement Agreement, which became effective January 1, 2021 and July 1, 2021, and lower pension and OPEB expenses. In FY 2020, the Company's excess of revenues over expenses was $88.0 million, a decrease of $7.9 million from FY 2019. This decrease is primarily due to lower contribution margins of gas offset by lower pension and OPEB expenses.

Condensed Balance Sheets

(Thousands of U.S. dollars)

		As of August 31	
Assets and Deferred Outflows of Resources	**2021**	**2020**	**2019**
Current assets:			
Accounts receivable (net of accumulated provision for uncollectible accounts of $113,164, $80,422, and $66,751 for 2021, 2020, and 2019, respectively)	$ 81,991	83,681	85,989
Restricted investment funds	96,340	2,736	71,345
Cash and cash equivalents, cash designated for capital expenditures, gas inventories, materials, and supplies and other current assets	224,563	237,458	193,979
Total current assets	402,894	323,875	351,313
Noncurrent assets:			
Utility plant, net	1,565,863	1,491,420	1,451,470
Unamortized bond insurance costs	784	233	258
Capital improvement fund	91,322	—	—

Condensed Balance Sheets

(Thousands of U.S. dollars)

Assets and Deferred Outflows of Resources		As of August 31 2021	2020	2019
Sinking fund, revenue bonds	$	107,684	102,824	106,509
Other assets		65,996	41,000	43,156
Total noncurrent assets		1,831,649	1,635,477	1,601,393
Total assets		2,234,543	1,959,352	1,952,706
Deferred outflows of resources:				
Accumulated fair value of hedging derivatives		9,117	13,888	10,332
Unamortized losses on bond refunding		27,487	31,947	36,776
Deferred outflows related to pension		24,575	24,408	14,421
Deferred outflows related to OPEB		71,721	61,198	91,175
Total deferred outflows		132,900	131,441	152,704
Total assets and deferred outflows of resources	$	2,367,443	2,090,793	2,105,410

Condensed Balance Sheets

(Thousands of U.S. dollars)

Net Position, Liabilities, and Deferred Inflows of Resources		As of August 31 2021	2020	2019
Net position:				
Net investment in capital assets	$	590,246	523,543	494,460
Restricted		110,424	105,560	109,220
Unrestricted		(250,571)	(333,576)	(396,118)
Total net position		450,099	295,527	207,562
Noncurrent liabilities:				
Long-term revenue bonds		1,122,609	936,721	999,474
Other noncurrent liabilities		51,681	63,395	65,482
Net pension liability		138,216	237,562	247,246
Net OPEB liability		201,588	248,209	336,079
Total noncurrent liabilities		1,514,094	1,485,887	1,648,281

Condensed Balance Sheets

(Thousands of U.S. dollars)

Net Position, Liabilities, and Deferred Inflows of Resources		As of August 31 2021	2020	2019
Current liabilities:				
Current portion of revenue bonds	$	65,417	63,103	62,946
Other current liabilities		140,253	126,605	98,517
Total current liabilities		205,670	189,708	161,463
Deferred inflows of resources:				
Deferred inflows related to gain on bond refunding		181	—	—
Deferred inflows related to pension		94,514	28,147	18,230
Deferred inflows related to OPEB		102,885	91,524	69,874
Total deferred inflows		197,580	119,671	88,104
Total net position, liabilities, and deferred inflows of resources	$	2,367,443	2,090,793	2,105,410

Assets

Accounts Receivable – In FY 2021, accounts receivable (net) of $82.0 million decreased by $1.7 million, or 2.0%, from FY 2020 due to an increase in the accumulated provision for uncollectible accounts during FY 2021. The accumulated provision for uncollectible accounts at August 31, 2021 reflects a balance of $113.2 million, an increase of $32.8 million compared to the $80.4 million balance in FY 2020. In FY 2020, accounts receivable (net) of $83.7 million decreased by $2.3 million, or 2.7%, from FY 2019 due to an increase in the accumulated provision for uncollectible accounts during FY 2020. The accumulated provision for uncollectible accounts at August 31, 2020 reflects a balance of $80.4 million, an increase of $13.6 million compared to the $66.8 million balance in FY 2019. The increase in the accumulated provision for uncollectible accounts in FY 2021 and FY 2020 is due to the impact from the COVID 19 pandemic. Beginning in March 2020 and ending in March 2021, PGW has followed the PUC moratorium on shutting off gas services to customers who otherwise would be eligible for shutoff. Net write-offs for FY 2021 were $11.4 million as compared to $30.4 million in FY 2020 and $29.6 million in FY 2019.

Cash and Cash Equivalents, Gas Inventories, Materials, and Supplies, and Other Current Assets – In FY 2021, cash and cash equivalents totaled $158.3 million, a decrease of $14.0 million from the FY 2020 total of $172.3 million. The decreased cash balance at the end of FY 2021 was primarily the result of higher-than-expected capital expenditures. In FY 2020, cash and cash equivalents totaled $172.3 million, an increase of $48.2 million from the FY 2019 total of $124.1 million. The increased cash balance at the end of FY 2020 was primarily the result of lower-than-expected capital expenditures and two natural pipeline refunds received prior to the end of the fiscal year. In FY 2021, gas inventories, materials, and supplies totaled $53.4 million, an increase of $6.7 million, or 14.3% from the FY 2020 total of $46.7 million. In FY 2021, gas storage totaled $40.8 million, an increase of $4.9 million, or 13.6%, when compared to FY 2020. The increase in gas inventory reflects an increase in the price per Mcf of gas stored in inventory. Actual volumes in storage as of August 31, 2021 were 14.7 Bcf, a 0.3 Bcf, or 2.1%, decrease when compared to FY 2020. In FY 2020, gas inventories, materials, and supplies totaled $46.7 million, a decrease of $5.0 million from the FY 2019 total of $51.7 million. In FY 2020, gas storage totaled $35.9 million, a decrease of $5.4 million, or 13.1%, when compared to FY 2019. 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, 2020 were 15.0 Bcf. Other current assets totaled $12.9 million in FY 2021, a decrease of $5.6 million from FY 2020. The decrease in other current assets in FY 2021 is primarily a result of a decrease in prepaid excess workers' compensation insurance, prepaid excess liability insurance, and accrued reimbursable, which was offset partially by an increase in prepaid software. Other current assets totaled $18.5 million in FY 2020, an increase of $0.4 million from FY 2019. The increase in other current assets in FY 2020 is primarily a result of an increase in prepaid excess liability insurance, prepaid software prepayments, and advanced engineering services, which was offset partially by 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. As of October 21, 2020, PGW funded the Capital Improvement Fund in the amount of $240.0 million. Subsequent to the deposit, PGW withdrew $55.0 million to finance various capital initiatives. The balances of the current portion of the Capital Improvement Fund at August 31, 2021, 2020, and 2019 were $93.6 million, $0.0 million, and $68.6 million, respectively. PGW withdrew $55.0 million, $69.4 million, and $45.0 million to finance various capital initiatives in FY 2021, FY 2020, and FY 2019, respectively. 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, 2021, 2020, and 2019, the trust account balances were $2.7 million each year.

Utility Plant and Other Noncurrent Assets – In FY 2021, 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 $1,831.6 million, an increase of $196.1 million from FY 2020. In FY 2020, 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 $1,635.5 million, an increase of $34.1 million from FY 2019. Utility plant, net, totaled $1,565.9 million in FY 2021, an increase of $74.5 million, or 5.0%, compared with the FY 2020 balance. Utility plant, net, totaled $1,491.4 million in FY 2020, an increase of $39.9 million, or 2.7%, compared with the FY 2019 balance. Capital expenditures for construction of distribution facilities, purchase of equipment, information technology enhancements, and other general improvements were $138.5 million in FY 2021 compared to $99.3 million in FY 2020 and $110.5 million in FY 2019. A portion of the proceeds from the sale of the Sixteenth 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. 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 which went into effect on February 1, 2016. In FY 2021 and FY 2020, the Company billed customers $34.6 million and $31.8 million, respectively, 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 and 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 decreased $9.2 million in FY 2021 from the FY 2020 total of $45.8 million. Deferred outflows decreased $1.3 million in FY 2020 from the FY 2019 total of $47.1 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 increased $0.2 million, or 0.8%, in FY 2021 from the FY 2020 total of $24.4 million. Deferred outflows of resources increased $10.0 million, or 69.4%, in FY 2020 from the FY 2019 total of $14.4 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 decreased $10.5 *million*, or 17.2%, in FY 2021 from the FY 2020 total of $61.2 *million*. Deferred outflows of resources relating to OPEB decreased $30.0 *million*, or 32.9%, in FY 2020 from the FY 2019 total of $91.2 *million*.

Liabilities

Long-Term Revenue Bonds – Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled $1,188.0 million as of August 31, 2021. This was $188.2 million more than the previous year and was a result of issuing the Sixteenth Series Bonds. This represents 72.5% of total capitalization as of August 31, 2021. Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled $999.8 million as of August 31, 2020. This was $62.6 million less than the previous year primarily as a result of scheduled principal payments. This represents 77.2% of total capitalization as of August 31, 2020. Long-term revenue bonds, including the current portion and unamortized discount and premium, totaled $1,062.4 million as of August 31, 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 as of August 31, 2019. 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 the 1998 Ordinance Bonds. At August 31, 2021, debt service coverage on Senior 1998 Ordinance Bonds was 2.7 times, compared to 2.20 and 2.33 times at August 31, 2020 and 2019, 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.

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 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 2021. 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 2021 and 2020, respectively. The commitment amount is $120.0 million under the current credit agreement. The expiration date of the credit agreement is June 30, 2022.

Other Current Liabilities – As of August 31, 2021, other current liabilities totaled $35.4 million, an increase of $4.3 million from FY 2020. The decrease in FY 2021 is primarily due to the over-recovery of GCR and surcharges, which was partially offset by a decrease in natural gas deferred refunds. As of August 31, 2020, and 2019, other current liabilities were $31.1 million and $6.2 million, respectfully. As of August 31, 2021, accounts payable totaled $79.9 million, an increase of $10.2 million, or 14.6%, compared with FY 2020 primarily due to an increase in general accounts payable and unbilled liabilities. As of August 31, 2020, accounts payable totaled $69.7 million, an increase of $2.2 million, or 3.3%, compared with FY 2019 primarily due to an increase in unbilled liabilities, which was partially offset by a decrease in general accounts payable and natural gas payable.

Other Noncurrent Liabilities – As of August 31, 2021, other noncurrent liabilities totaled $51.7 million, a decrease of $11.7 million compared to August 31, 2020. The decrease in FY 2021 is primarily due to the change in the value of the pollution remediation liabilities and the changes in the interest rate swaps. As of August 31, 2020, other noncurrent liabilities totaled $63.4 million, a decrease of $2.1 million compared to August 31, 2019. The decrease in FY 2020 is primarily due to the change in the value of the pollution remediation liabilities offset by the changes in the interest rate swaps.

Net OPEB Liability – The net OPEB obligation was $201.6 million as of August 31, 2021, a $46.6 million decrease from the $248.2 million obligation as of August 31, 2020. The net OPEB obligation was $248.2 million as of August 31, 2020, an $87.9 million decrease from the $336.1 million obligation as of August 31, 2019. The decreases in FY 2021 and FY 2020 were caused by changes in benefit, demographic, and economic assumptions.

Net Pension Liability – There was a decrease in the net pension liability of $99.4 million, or 41.8%, in FY 2021 as compared to FY 2020. The decrease was primarily due to the increase in the change of long term rate of return. The decrease in the net pension liability of $9.6 million, or 3.9%, in FY 2020 as compared to FY 2019 was primarily caused by changes in demographic and economic assumptions.

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 $66.4 million as of August 31, 2021 as compared to August 31, 2020 is primarily related to asset gain in FY 2021. The increase in deferred inflows of resources related to pension of $9.9 million as of August 31, 2020 as compared to August 31, 2019 is primarily related to changes in demographic and economic assumptions in FY 2020. There were $18.2 million in deferred inflows of resources related to pension at August 31, 2019.

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 related to OPEB as of August 31, 2021 were $102.9 million as compared to $91.5 million as of August 31, 2020. The increase in deferred inflows of resources related to OPEB of $11.4 million, or 12.5%, between FY 2021 and FY 2020 is primarily driven by benefit, demographic, and economic assumptions. There were $69.9 million in deferred inflows of resources related to OPEB at August 31, 2019. The increase in deferred inflows of resources related to OPEB of $21.6 million, or 30.9%, between FY 2020 and FY 2019 is primarily driven by benefit, demographic, and economic assumptions.

Net Position – At August 31, 2021, total net position totaled $450.1 million, an increase of $154.6 million compared to August 31, 2020. The increase in FY 2021 is due to an excess of revenues over expenses generated by PGW operations during FY 2021. As of August 31, 2021, unrestricted net position totaled negative $250.6 million, an increase of $83.0 million compared to August 31, 2020. At August 31, 2020, total net position totaled $295.5 million, an increase of $87.9 million compared to August 31, 2019. As of August 31, 2020, unrestricted net position totaled negative $333.6 million, an increase of $62.5 million compared to August 31, 2019. 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

Refunding, Defeasance, and Redeeming of Debt

On October 29, 2020, the City issued Gas Works Revenue Bonds, Sixteenth Series (1998 General Ordinance) in the par amount of $253.9 million. A portion of the proceeds from the sale of the Sixteenth Series Bonds were utilized to refund the Ninth Series Bonds. The Sixteenth 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 Sixteenth Series Bonds, with fixed interest rates that range from 4.0% to 5.0%, have maturity dates through 2050. This refunding transaction provided net present value debt service savings of $14.6 million utilizing an arbitrage yield of 2.11%. The savings as a percentage of refunded bonds was 25.61%.

Upcoming Accounting Standards

Effective for the Year Ending August 31, 2022

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. As originally scheduled, certain accounting and financial reporting provisions of GASB 87 would have taken effect for periods beginning after December 15, 2019 (the Company's fiscal year ending August 31, 2021). GASB 95 postpones the effective date of GASB 87 by eighteen months and the requirements of GASB 87 will now take effect for periods beginning after June 15, 2021 (the Company's fiscal year ending August 31, 2022). 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. As originally scheduled, certain accounting and financial reporting provisions of GASB 89 would have taken effect for periods beginning after December 15, 2019 (the Company's fiscal year ending August 31, 2021). GASB 95 postpones the effective date of GASB 89 by twelve months and the requirements of GASB 89 will now take effect for periods beginning after December 15, 2020 (the Company's fiscal year ending August 31, 2022). The Company is currently evaluating the impact of GASB 89 on its financial statements.

GASB Statement No. 92, *Omnibus 2020* (GASB 92), establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. As originally scheduled, certain accounting and financial reporting provisions of GASB 92 would have taken effect for periods beginning after June 15, 2020 (the Company's fiscal year ending August 31, 2021). GASB 95 postpones the effective date of GASB 92 by twelve months and the requirements of GASB 92 will now take effect for periods beginning after June 15, 2021 (the Company's fiscal year ending August 31, 2022). The Company is currently evaluating the impact of GASB 92 on its financial statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates* (GASB 93), establishes accounting and financial reporting requirements related to the replacement of interbank offered rates (IBORs) in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate IBOR—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either (a) changing the reference rate or (b) adding or changing fallback provisions related to the reference rate. As originally scheduled, certain accounting and financial reporting provisions of GASB 93 would have taken effect for periods beginning after June 15, 2020 (the Company's fiscal year ending August 31, 2021). GASB 95 postpones the effective date of GASB 93 by twelve months and the requirements of GASB 93 will now take effect for periods beginning after June 15, 2021 (the Company's fiscal year ending August 31, 2022). The Company is currently evaluating the impact of GASB 93 on its financial statements.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans (GASB 97)*, (1) increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigates costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement are effective for periods beginning after June 15, 2021 (the Company's fiscal year ending August 31, 2022). The Company is currently evaluating the impact of GASB 97 on its financial statements.

GASB Statement No. 98, *The Annual Comprehensive Financial Report* (GASB 98), establishes the term "annual comprehensive financial report" and its acronym "ACFR". That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years ending after December 15, 2021 (the Company's fiscal year ending August 31, 2022). The Company is currently evaluating the impact of GASB 98 on its financial statements.

Effective for the Year Ending August 31, 2023

GASB Statement No. 91, *Conduit Debt Obligation* (GASB 91), provides a single method of reporting conduit debt obligations by issuers and eliminates 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) 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, (the third party obligor or its agent, not the issuer, 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. 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. As originally scheduled, certain accounting and financial reporting provisions of GASB 91 would have taken effect for periods beginning after December 15, 2020 (the Company's fiscal year ending August 31, 2022). GASB 95 postpones the effective date of GASB 91 by twelve months and the requirements of GASB 91 will now take effect for periods beginning after December 15, 2021 (the Company's fiscal year ending August 31, 2023). The Company is currently evaluating the impact of GASB 91 on its financial statements.

GASB Statement No. 94, *Public Private and Public Partnerships and Availability Payment Arrangements* (GASB 94), improves financial reporting by addressing issues related to public private and public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period, in an exchange or exchange like transaction. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period in an exchange or exchange like transaction. The requirements of this Statement are effective for periods beginning after June 15, 2022 (the Company's fiscal year ending August 31, 2023). The Company is currently evaluating the impact of GASB 94 on its financial statements.

GASB Statement No. 96, *Subscription Based Information Technology Arrangements* (GASB 96), provides guidance on the accounting and financial reporting for subscription based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right to use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for periods beginning after June 15, 2022 (the Company's fiscal year ending August 31, 2023). The Company is currently evaluating the impact of GASB 96 on its 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, 2021 and 2020

(Thousands of U.S. dollars)

Assets		**2021**	**2020**
Current assets:			
Cash, cash equivalents, and short-term investments	$	158,265	172,267
Accounts receivable (net of provision for uncollectible accounts of $113,164 and $80,422 for 2021 and 2020, respectively)		81,991	83,681
Gas inventories, materials, and supplies		53,373	46,706
Current portion of capital improvement fund		93,600	—
Workers' compensation escrow fund		2,740	2,736
Other current assets		12,925	18,485
Total current assets		402,894	323,875
Noncurrent assets:			
Utility plant, at original cost:			
In service		2,700,055	2,585,092
Under construction		105,321	86,349
Total		2,805,376	2,671,441
Less accumulated depreciation		1,239,513	1,180,021
Utility plant, net		1,565,863	1,491,420
Capital improvement fund		91,322	—
Sinking fund, revenue bonds		107,684	102,824
Unamortized bond insurance costs		784	233
Regulatory asset – environmental		27,572	33,758
Other noncurrent assets		38,424	7,242
Total noncurrent assets		1,831,649	1,635,477
Total assets		2,234,543	1,959,352
Deferred Outflows of Resources			
Accumulated fair value of hedging derivatives		9,117	13,888
Unamortized losses on bond refunding		27,487	31,947
Deferred outflows related to pension		24,575	24,408
Deferred outflows related to OPEB		71,721	61,198
Total deferred outflows of resources		132,900	131,441
Total assets and deferred outflows of resources	$	2,367,443	2,090,793

See accompanying notes to basic financial statements.

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

Balance Sheets

August 31, 2021 and 2020

(Thousands of U.S. dollars)

Liabilities		2021	2020
Current liabilities:			
Current portion of revenue bonds	$	65,417	63,103
Accounts payable		79,928	69,657
Current portion of long-term liabilities		5,552	6,463
Customer deposits		1,659	2,282
Other current liabilities		35,363	31,088
Accrued accounts:			
Interest, taxes, and wages		14,751	14,115
Distribution to the City		3,000	3,000
Total current liabilities		205,670	189,708
Noncurrent liabilities:			
Long-term revenue bonds		1,122,609	936,721
Other noncurrent liabilities		51,681	63,395
Net pension liability		138,216	237,562
Net OPEB liability		201,588	248,209
Total noncurrent liabilities		1,514,094	1,485,887
Total liabilities		1,719,764	1,675,595
Deferred Inflows of Resources			
Deferred inflows related to gain on bond refunding		181	—
Deferred inflows related to pension		94,514	28,147
Deferred inflows related to OPEB		102,885	91,524
Total deferred inflows of resources		197,580	119,671
Total liabilities and deferred inflows of resources		1,917,344	1,795,266
Net Position			
Net investment in capital assets		590,246	523,543
Restricted (debt service)		107,684	102,824
Restricted (workers' compensation)		2,740	2,736
Unrestricted		(250,571)	(333,576)
Total net position		450,099	295,527
Total liabilities, deferred inflows of resources, and net position	$	2,367,443	2,090,793

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, 2021 and 2020

(Thousands of U.S. dollars)

		2021	2020
Operating revenues:			
Gas revenues:			
Nonheating	$	23,122	21,599
Gas transport service		67,907	62,846
Heating		549,982	531,436
Provision for uncollectible accounts		(16,261)	(44,088)
Total gas revenues		624,750	571,793
Appliance and other revenues		6,019	6,190
Other operating revenues		15,978	6,954
Total operating revenues		646,747	584,937
Operating expenses:			
Natural gas		163,892	146,754
Gas processing		23,297	24,316
Field operations		79,901	76,865
Collection and account management		13,378	12,408
Customer services		13,903	13,686
Marketing		4,128	3,999
Administrative and general		62,030	67,355
Pensions		(3,146)	19,473
Other postemployment benefits		(902)	10,862
Taxes		8,894	8,957
Total operating expenses before depreciation		365,375	384,675
Depreciation		68,668	64,161
Total operating expenses		434,043	448,836
Operating income		212,704	136,101
Interest and other income		1,322	5,594
Income before interest expense		214,026	141,695
Interest expense:			
Long-term debt		48,475	43,552
Other		(4,608)	(5,962)
Allowance for funds used during construction		(2,413)	(1,860)
Total interest expense		41,454	35,730
Distribution to the City of Philadelphia		(18,000)	(18,000)
Excess of revenues over expenses		154,572	87,965
Net position, beginning of year		295,527	207,562
Net position, end of year	$	450,099	295,527

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, 2021 and 2020

(Thousands of U.S. dollars)

		2021	2020
Cash flows from operating activities:			
Receipts from customers	$	644,303	633,700
Payments to suppliers		(337,382)	(352,832)
Payments to employees		(134,589)	(130,485)
Claims paid		(1,845)	(2,091)
Other receipts		14,248	37,500
Net cash provided by operating activities		184,735	185,792
Cash flows from operating activities:			
Income (loss) from nonutility operations		113	(706)
Interest and fees		(1,409)	849
Distribution to the City of Philadelphia		(18,000)	(18,000)
Net cash provided by (used in) operating activities		(19,296)	(17,857)
Cash flows from investment activities:			
Sinking fund reserve deposits		(5,860)	(2,815)
Sinking fund reserve withdrawls		1,000	6,500
Capital improvement fund deposits		(240,004)	(725)
Capital improvement fund withdrawals		55,081	69,359
Interest income / capital gain from short-term investments		185	2,190
Interest income / capital gain on capital improvement fund		101	914
Interest income / capital gain on sinking fund		922	3,197
Net cash provided by (used in) investment activities		(188,575)	78,620
Cash flows from capital and related financing activities:			
Redemption, refunding or defeasance of long-term debt		(57,080)	—
Proceeds from long-term debt issued		253,925	—
Premium from long-term debt issued		53,408	—
Long-term debt issuance costs		(3,038)	—
Purchases of capital assets		(143,111)	(104,111)
Principal paid on long-term debt		(49,825)	(52,870)
Interest paid on long-term debt		(47,558)	(43,312)
Other		2,413	1,860
Net cash (used in) capital and related financing activities		9,134	(198,433)
Net increase (decrease) in cash and cash equivalents		(14,002)	48,122
Cash and cash equivalents at beginning of year		172,267	124,145
Cash and cash equivalents at end of year	$	158,265	172,267
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	212,704	136,101
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense		68,668	64,161
Provision for uncollectible accounts		16,261	44,088
Change in assets and liabilities:			
Receivables, net		(14,571)	(41,805)
Gas inventories, materials, and supplies		(6,667)	4,985
Other current assets		5,559	(342)
Other assets and deferred outflows of resources		(30,914)	18,590
Accounts payable		10,271	2,127
Customer deposits		(623)	(808)
Other current liabilities		3,365	25,060
Accrued accounts		635	1,709
Other liabilities, deferred inflows of resources, net OPEB and pension liabilities		(79,953)	(68,074)
Net cash provided by operating activities	$	184,735	185,792

See accompanying notes to basic financial statements.

PHILADELPHIA GAS WORKS OPEB TRUST
(A Fiduciary Fund of the Philadelphia Gas Works)

Statements of Fiduciary Net Position

Years ended December 31, 2020 and 2019

(Thousands of U.S. dollars)

		2020	2019
Assets:			
Cash and cash equivalents	$	75	79
Accrued interest income		102	78
Total cash and accrued income		177	157
Investments, at fair value:			
Mutual funds		292,581	233,857
Fixed income		13,364	11,406
Total investments		305,945	245,263
Total assets		306,122	245,420
Liabilities:			
Accrued expenses		18	32
Pending cash		25	27
Total liabilities		43	59
Net position held in trust for other postemployment benefits	$	306,079	245,361

See accompanying notes to basic financial statements.

PHILADELPHIA GAS WORKS OPEB TRUST
(A Fiduciary Fund of the Philadelphia Gas Works)

Statements of Revenues and Expenses and Changes in Net Position

Years ended December 31, 2020 and 2019

(Thousands of U.S. dollars)

		2020	2019
Additions:			
Contributions:			
Philadelphia Gas Works – contribution to OPEB Trust	$	18,500	18,500
Philadelphia Gas Works – benefits paid		27,636	28,845
Investment income:			
Interest and dividend income		4,706	4,837
Net appreciation in the fair value of investments		37,668	37,708
Less: Investment management expenses		(116)	(102)
Total investment income		42,258	42,443
Total additions		88,394	89,788
Deductions:			
Benefits paid		27,636	28,845
Administrative expenses and bank fees		40	37
Total deductions		27,676	28,882
Change in net assets		60,718	60,906
Net position held in trust for other postemployment benefits – beginning of year		245,361	184,455
Net position held in trust by plan for other postemployment benefits – end of year	$	306,079	245,361

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.

Philadelphia Gas Works' fiduciary activities are accounted for using the flow of economic resources measurement focus and accrual basis of accounting. Assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position are accounted for in a fiduciary fund with investments recorded at fair value and benefits paid directly from its general resources on a pay-as-you-go basis.

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

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, which among other things, provided for an unbundled tariff permitting customer choice of the commodity supplier. Under the Act, the PUC is required to follow the same ratemaking methodology and requirements that were previously applicable to the Philadelphia Gas Commission (PGC) when determining the Company's revenue requirements and approving overall rates and tariffs. 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.

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.

(b) Operating Budget

On May 6, 2021, PGW filed a proposed Fiscal Year (FY) 2022 Operating Budget with the PGC. The PGC Hearing Examiners conducted Informal Discovery (ID) sessions on May 19, 2021 and 26, 2021. On June 30, 2021 a public hearing was convened via Zoom, due to the COVID-19 pandemic and related government shutdown orders. On July 23, 2021, a recommended decision was rendered by the Hearing Examiners, which proposed adjustments to the Operating Budget as filed. On August 10, 2021, the PGC approved, with adjustments, PGW's FY 2022 Operating Budget. PGW filed a Compliance Budget with the PGC on August 19, 2021.

On April 22, 2020, PGW filed a proposed FY 2021 Operating Budget with the PGC. The PGC Hearing Examiners conducted ID sessions on May 18, 2020 and on June 8, 2020. On June 24, 2020 a public hearing was convened via Zoom, due to the COVID-19 pandemic and related government shutdown orders. On July 22, 2020, a recommended decision was rendered by the Hearing Examiners, which proposed adjustments to the Operating Budget as filed. On August 11, 2020, the PGC approved, with adjustments, PGW's FY 2021 Operating Budget. PGW filed a Compliance Budget with the PGC on August 20, 2020.

(c) Capital Budget

On January 4, 2021, PGW filed with the PGC its proposed FY 2022 Capital Budget in the amount of $150.3 million. After a due diligence review and related ID process on January 26, 2021, a public hearing was held on February 25, 2021. The PGC's review culminated in the endorsement at a public hearing on April 13, 2021 of an FY 2022 Capital Budget in an amount not to exceed $147.5 million. The endorsed budget was approved by City Council on June 17, 2021 and signed by the Mayor on July 15, 2021. On June 17, 2021, PGW filed a request to the PGC to amend the FY 2022 Capital Budget to reauthorize three projects in the FY 2020 Capital Budget to extend the two-year lifespan to complete the projects. On October 12, 2021, the PGC approved PGW's request to amend the FY 2022 Capital Budget for the reauthorization of the three projects in the FY 2020 Capital Budget. PGW is awaiting final approval by City Council and Mayor.

On January 2, 2020, PGW filed with the PGC its proposed FY 2021 Capital Budget in the amount of $283.6 million. After a due diligence review and related ID process on January 16, 2020, a public hearing was held on February 19, 2020. The PGC's review culminated in the endorsement at a public hearing on April 21, 2020 of an FY 2021 Capital Budget in an amount not to exceed $213.4 million. The endorsed budget was approved by City Council on June 18, 2020 and signed by the Mayor on June 26, 2020. Subsequent to its approval, PGW filed a request to the PGC to amend the FY 2021 Capital Budget to reauthorize seven projects in the FY 2019 Capital Budget to extend the two-year lifespan to complete the projects. Reauthorization request of seven projects in the amount of $3.4 million was approved by the City Council on June 17, 2021 and signed by the Mayor on July 15, 2021.

(d) Base Rates

On February 28, 2020, 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 10.5%, in additional annual operating revenues based upon a twenty-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 August 26, 2020, PGW filed a Joint Petition for Partial Settlement (Settlement Agreement) in which all rate case parties joined or did not oppose, except the Environmental Stakeholders group that opposed PGW's rate increase request. The Settlement Agreement provided PGW with a general rate increase of $35.0 million in annual operating revenues in three increments: $10.0 million for service rendered on or after January 1, 2021; $10.0 million for service rendered on or after July 1, 2021; and $15.0 million for service rendered on or after on January 1, 2022. 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 19, 2020, the PUC entered its Order and Opinion in the case, which granted the exceptions filed by the Commission's Bureau of Investigation and Enforcement (I&E), the Office of Consumer Advocate (OCA), the Office of Small Business Advocate (OSBA), the Philadelphia Industrial and Commercial Gas Users Group (PICGUG), and PGW; modified the Administrative Law Judge's (ALJ) recommended decision regarding the settled and litigated issues; and approved the Joint Petition for Partial Settlement, in its entirety, without modification. The new rates approved by the Settlement Agreement became effective on January 1, 2021.

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. 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.

(e) Weather Normalization Adjustment Clause

The Weather Normalization Adjustment (WNA) Clause was approved by the PUC. 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 adjustment is applied to customer invoices rendered during the period of October 1 through May 31 of each year for each billing cycle. The WNA Clause adjustment for the year ended August 31, 2021 and 2020 was an increase in billings of $11.8 million and $10.8 million, respectively.

(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 or 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, 2021, approximately $25.8 million was recorded in other current liabilities for the over recovery of the GCR and surcharges. At August 31, 2020, approximately $20.2 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, 2021	$	6.0100	1.1355
September 1, 2021		4.8745	1.3045
June 1, 2021		3.5700	0.1013
March 1, 2021		3.4687	(0.3797)
December 1, 2020		3.8484	0.4377
September 1, 2020		3.4107	(0.2017)
June 1, 2020		3.6124	(0.2885)
March 1, 2020		3.9009	(0.8166)
December 1, 2019		4.7175	0.1145
September 1, 2019		4.6030	4.6030

(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 in the balance sheets. The cost of property sold or retired is removed from the utility plant accounts and 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 $4.9 million and $5.1 million was charged to expense as incurred in FY 2021 and FY 2020, respectively, and is included in depreciation 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 2021 and FY 2020 was 2.1%. The composite rates are supported by a depreciation study of utility plant as of August 2020. The effective composite depreciation rates, as a percentage of cost, for FY 2021 were as follows:

Production plant	1.52 %
Transmission, distribution, and storage	1.96
General plant	3.37

The most recent depreciation study was completed in FY 2020 for the plant activity subsequent to the last depreciation study and through FY 2019. It is anticipated that PGW will complete the next depreciation study in FY 2025 for the plant activity subsequent to the last depreciation study and through FY 2024.

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 4.63% and 4.95% in FY 2021 and FY 2020, respectively.

The following is a summary of utility plant activity for the fiscal years ended August 31, 2021 and 2020 (thousands of U.S. dollars):

	August 31, 2021			
	Beginning balance	Additions and transfers	Retirements and transfers	Ending balance
Capital assets not being depreciated:				
Land	$ 5,595	—	—	5,595
Under construction	86,349	138,504	(119,532)	105,321
Total capital assets not being depreciated	91,944	138,504	(119,532)	110,916
Other capital assets:				
Distribution and collection systems	2,016,211	98,430	(4,569)	2,110,072
Buildings and equipment	563,286	21,102	—	584,388
Total other capital assets	2,579,497	119,532	(4,569)	2,694,460
Less accumulated depreciation for:				
Distribution and collection systems	(947,250)	(41,241)	(2,640)	(991,131)
Buildings and equipment	(232,771)	(14,962)	(649)	(248,382)
Total accumulated depreciation	(1,180,021)	(56,203)	(3,289)	(1,239,513)
Utility plant, net	$ 1,491,420	201,833	(127,390)	1,565,863

* Cost of removal of approximately $4.9 million was charged to depreciation as incurred in FY 2021 and is not included in accumulated depreciation.

		August 31, 2020			
		Beginning balance	Additions and transfers	Retirements and transfers	Ending balance
Capital assets not being depreciated:					
Land	$	5,595	—	—	5,595
Under construction		87,826	99,336	(100,813)	86,349
Total capital assets not being depreciated		93,421	99,336	(100,813)	91,944
Other capital assets:					
Distribution and collection systems		1,925,218	93,686	(2,693)	2,016,211
Buildings and equipment		556,160	7,126	—	563,286
Total other capital assets		2,481,378	100,812	(2,693)	2,579,497
Less accumulated depreciation for:					
Distribution and collection systems		(905,390)	(39,771)	(2,089)	(947,250)
Buildings and equipment		(217,939)	(14,329)	(503)	(232,771)
Total accumulated depreciation		(1,123,329)	(54,100)	(2,592)	(1,180,021)
Utility plant, net	$	1,451,470	146,048	(106,098)	1,491,420

* Cost of removal of approximately $5.1 million was charged to depreciation as incurred in FY 2020 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 non-heating customers. The Company also provides natural gas transportation services on behalf of outside natural gas providers. 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 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. 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 which went into effect on February 1, 2016. In FY 2021 and FY 2020, the Company billed customers $34.6 million and $31.8 million for the DSIC surcharge, respectively. The DSIC surcharge is fully reconcilable on a calendar year basis.

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 non-heating 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 on the statements of revenues and expenses and changes in net position and were $8.0 million and $7.8 million for the years ended August 31, 2021 and 2020, 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 field operations, 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. For FY 2021 and FY 2020, 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 $18.3 million and $17.2 million as of August 31, 2021 and 2020, respectively, have been reclassified to accounts payable.

Since March 2020, PGW has followed the PUC moratorium on shutting off gas services to customers who otherwise would be eligible for shutoff. PGW's management considers that it is likely that the impact of COVID-19 on PGW, its operations and financial position will continue to change as circumstances and events evolve. The duration, severity, and degree of the impact of COVID-19 is difficult to forecast due to the dynamic nature of the pandemic, including uncertainty about any potential "spikes" or "wave(s)" still to come in the disease and the potential public health impacts of the interplay of COVID-19 with annual influenza strains. To date the impact of COVID-19 to PGW has been minimal and PGW believes that it may be some time before it is able to determine the full long-term impact of COVID-19 on PGW's business operations.

(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, 2021 and 2020, as follows (thousands of U.S. dollars):

		2021	2020
Gas inventory	$	40,763	35,898
Material and supplies		12,610	10,808
Total	$	53,373	46,706

(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

Gains and losses on bond refunding are recorded as deferred inflows of resources and deferred outflows of resources, respectively, 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 and their beneficiaries. 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 and their beneficiaries.

In May 2010, the Pennsylvania Public Utility Commission (PUC) approved a surcharge proposed by PGW to fund its OPEB liability resulting in charges to customer bills of $16.0 million annually, and required PGW to use that $16.0 million and an additional $2.5 million of its resources to contribute $18.5 million to the Trust in each of the years 2011 through 2015. The Trust, which is irrevocable, was established on July 13, 2010 to receive these and other contributions from PGW. In July 2015, the PUC approved the continuance of the OPEB surcharge beyond August 31, 2015. The Trust is managed by five Trustees, consisting of the City of Philadelphia Director of Finance; the Chief Finance Officer of PGW; the Vice President of Human Resources of PGW; the Chair of the Finance Committee of the Philadelphia Facilities Management Corporation Board (PFMC), which serves as the Board of Directors for PGW; and the President of the Union, representing the majority of PGW's bargaining unit employees. The Trust exists to accumulate assets for the Plan, and the Trust does not independently have the capacity to raise funds. Responsibility for determining and funding the benefits rests with PGW management.

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 or 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 pension 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 government agencies and instrumentalities are based on institutional bond quotes and evaluations based on various market and industry inputs and are primarily considered Level 2 inputs.
- 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, Cash Equivalents, and Short-Term Investments

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.

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) Pollution Remediation

The Company estimates its pollution remediation obligation using the expected 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.

(t) 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.

(u) Pronouncements Effective in the Current Year

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. GASB 95 postponed the effective date of GASB 84 by twelve months and the requirements of GASB 84 will take effect for periods beginning after December 15, 2019 (the Company's fiscal year ending August 31, 2021). The Company has determined that the PGW OPEB Trust is a fiduciary fund of the Philadelphia Gas Works and a statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position has been included as part of PGW's basic financial statements. The Company has also determined that the PGW Pension Retirement Reserve Fund is a fiduciary fund of the City of Philadelphia.

GASB Statement No. 90, *Majority Equity Interest – an amendment of GASB Statements No. 14 and No. 61* (GASB 90), 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. GASB 95 postponed the effective date of GASB 90 by twelve months and the requirements of GASB 90 will take effect for periods beginning after December 15, 2019 (the Company's fiscal year ending August 31, 2021). The adoption of GASB 90 did not have an impact on the financial statements of the Philadelphia Gas Works.

(v) Pronouncements Effective in Future Years

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

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. As originally scheduled, certain accounting and financial reporting provisions of GASB 87 would have taken effect for periods beginning after December 15, 2019 (the Company's fiscal year ending August 31, 2021). GASB 95 postpones the effective date of GASB 87 by eighteen months and the requirements of GASB 87 will now take effect for periods beginning after June 15, 2021 (the Company's fiscal year ending August 31, 2022). 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. As originally scheduled, certain accounting and financial reporting provisions of GASB 89 would have taken effect for periods beginning after December 15, 2019 (the Company's fiscal year ending August 31, 2021). GASB 95 postpones the effective date of GASB 89 by twelve months and the requirements of GASB 89 will now take effect for periods beginning after December 15, 2020 (the Company's fiscal year ending August 31, 2022). The Company is currently evaluating the impact of GASB 89 on its financial statements.

GASB Statement No. 92, *Omnibus 2020* (GASB 92), establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. As originally scheduled, certain accounting and financial reporting provisions of GASB 92 would have taken effect for periods beginning after June 15, 2020 (the Company's fiscal year ending August 31, 2021). GASB 95 postpones the effective date of GASB 92 by twelve months and the requirements of GASB 92 will now take effect for periods beginning after June 15, 2021 (the Company's fiscal year ending August 31, 2022). The Company is currently evaluating the impact of GASB 92 on its financial statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates* (GASB 93), establishes accounting and financial reporting requirements related to the replacement of interbank offered rates (IBORs) in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate

IBOR—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either (a) changing the reference rate or (b) adding or changing fallback provisions related to the reference rate. As originally scheduled, certain accounting and financial reporting provisions of GASB 93 would have taken effect for periods beginning after June 15, 2020 (the Company's fiscal year ending August 31, 2021). GASB 95 postpones the effective date of GASB 93 by twelve months and the requirements of GASB 93 will now take effect for periods beginning after June 15, 2021 (the Company's fiscal year ending August 31, 2022). The Company is currently evaluating the impact of GASB 93 on its financial statements.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* (GASB 97), (1) increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigates costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement are effective for periods beginning after *June* 15, 2021 (the Company's fiscal year ending *August* 31, 2022). The Company is currently evaluating the impact of *GASB* 97 on its financial statements.

GASB Statement No. 98, *The Annual Comprehensive Financial Report* (GASB 98), establishes the term "annual comprehensive financial report" and its acronym "ACFR". That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years ending after December 15, 2021 (the Company's fiscal year ending August 31, 2022). The Company is currently evaluating the impact of GASB 98 on its financial statements.

(ii) Effective for the Year Ending August 31, 2023

GASB Statement No. 91, *Conduit Debt Obligation* (GASB 91), provides a single method of reporting conduit debt obligations by issuers and eliminates 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) 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, (the third party obligor or its agent, not the issuer, 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. 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. As originally scheduled, certain accounting and financial reporting provisions of GASB 91 would have taken effect for periods beginning after December 15, 2020 (the Company's fiscal year ending August 31, 2022). GASB 95 postpones the effective date of GASB 91 by twelve months and the requirements of GASB 91 will now take effect for periods beginning after December 15, 2021 (the Company's fiscal year ending August 31, 2023). The Company is currently evaluating the impact of GASB 91 on its financial statements.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94), improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period, in an exchange or exchange-like transaction. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period in an exchange or exchange-like transaction. The requirements of this Statement are effective for periods beginning after June 15, 2022 (the Company's fiscal year ending August 31, 2023). The Company is currently evaluating the impact of GASB 94 on its financial statements.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96), provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for periods beginning after June 15, 2022 (the Company's fiscal year ending August 31, 2023). The Company is currently evaluating the impact of GASB 96 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 2021 and FY 2020, the applicable maximum amount was calculated to be $1.3 million for both fiscal years. The agreement requires the Company to make annual payments of $18.0 million to the City. In FY 2021 and FY 2020, 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 $7.1 million and $7.7 million in FY 2021 and FY 2020, respectively, relating to sales to the City. Net amounts receivable from the City were $0.6 million and $0.5 million at August 31, 2021 and 2020, respectively. Water and sewer services and licenses are purchased from the City. Such purchases totaled $1.8 million and $1.5 million in FY 2021 and FY 2020, respectively.

Certain activities of the PGC are paid for by the Company. Such payments totaled $0.9 million in both FY 2021 and FY 2020.

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

(a) Cash, 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, 2021 and August 31, 2020 were $158.2 million and $172.1 million, respectively. Book balances of such deposits and accounts at August 31, 2021 and August 31, 2020 were $158.3 million and $172.3 million, respectively. Short-term investments with a carrying amount (at fair value) of $74.7 million and $141.2 million at August 31, 2021 and August 31, 2020, respectively, are included in the balances presented above. Federal depository insurance on these balances at August 31, 2021 and August 31, 2020 was $0.7 million and $0.6 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 2021 and FY 2020 was $225.0 million and $226.1 million, respectively.

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

		August 31, 2021			
Investment type		**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:					
U.S. Treasury bills	$	24,998	0.8786	*	*
U.S. government agencies and instrumentalities:					
Federal Home Loan Mortgage Corporation medium discount notes		5,000	0.1639	*	*
Total fair value of U.S. government securities		29,998			
Cash and cash equivalents:					
Bank China Ltd Hong Kong Brh CP		2,999	0.0175	*	*
DnbAsa Disc Coml paper 4 2 CP		3,999	0.0191	*	*
First Abu Dhabi Bk P J S C CP		3,000	0.0065	*	*
Ing US Funding LLC CP		2,999	0.0219	*	*
Kookmin Bk Ny Brh Disc Comml CP		2,998	0.0346	*	*
Korea Dev N Y Brh Disc Coml CP		3,999	0.0197	*	*
Lloyds Bk Corporate Mkts Plc CP		3,000	0.0072	*	*
Maybank Singapore Ltd Disc CP		3,499	0.0253	*	*
Societe Generale 4 A2 Disc CP		4,000	0.0160	*	*
Midfirst Bk Okla City CD		4,000	0.0025	*	*
Mizrahi Tefahot Bk Ltd CD		5,000	0.0147	*	*
Total cash and cash equivalents		39,493			
Other:					
Federal Fund 30 – Mutual Fund		5,256	—	*	*
Total fair value of investments, including cash deposits	$	74,747			
Portfolio weighted modified duration					

* The credit of this investment is unrated.

	August 31, 2020			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:				
U.S. Treasury bills	$ 41,988	—	*	*
Total U.S. government obligations	41,988			
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium discount notes	14,996	—	*	*
Federal National Mortgage Association	7,997	—	*	*
Federal Home Loan Bank bonds	28,993	—	*	*
Total U.S. government agencies and instrumentalities	51,986			
Total fair value of U.S. government securities	93,974			
Cash and cash equivalents:				
Agricultural Bank CP	4,999	—	*	*
Banco Del Esta De Chle CP	3,999	—	*	*
Banco Santander Sa CP	4,998	—	*	*
China Construction Bk CP	4,999	—	*	*
First Abu Dhabi Bank CP	5,496	—	*	*
Industrial Com Bnk Chn CP	5,499	—	*	*
Lloyds Bank Corporate CP	4,998	—	*	*
Malayan Banking Berhad CP	1,999	—	*	*
Sumitomo Mitsui Trst CP	5,000	—	*	*
Total cash and cash equivalents	41,987			
Other:				
Federal Fund 30 – Mutual Fund	5,256	—	*	*
Total fair value of investments, including cash deposits	$ 141,217			
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, 2021			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
U.S. government obligations:				
U.S. Treasury bills	$ 24,998	24,998	—	—
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium discount notes	5,000	—	5,000	—
Total fair value of U.S. government securities	29,998	24,998	5,000	—
Cash and cash equivalents:				
Bank China Ltd Hong Kong Brh CP	2,999	2,999	—	—
DnbAsa Disc Coml paper 4 2 CP	3,999	3,999	—	—
First Abu Dhabi Bk P J S C CP	3,000	3,000	—	—
Ing US Funding LLC CP	2,999	2,999	—	—
Kookmin Bk Ny Brh Disc Comml CP	2,998	2,998	—	—
Korea Dev N Y Brh Disc Coml CP	3,999	3,999	—	—
Lloyds Bk Corporate Mkts Plc CP	3,000	3,000	—	—
Maybank Singapore Ltd Disc CP	3,499	3,499	—	—
Societe Generale 4 A2 Disc CP	4,000	4,000	—	—
Midfirst Bk Okla City CD	4,000	4,000	—	—
Mizrahi Tefahot Bk Ltd CD	5,000	5,000	—	—
Total cash and cash equivalents	39,493	39,493	—	—
Other:				
Federal Fund 30 Mutual Fund	5,256	5,256	—	—
Total fair value of investments, including cash deposits	$ 74,747	69,747	5,000	—

	August 31, 2020			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
U.S. government obligations:				
U.S. Treasury bills	$ 41,988	41,988	—	—
Total U.S. government obligations	41,988	41,988	—	—
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium discount notes	14,996	—	14,996	—
Federal National Mortgage Association	7,997	—	7,997	—
Federal Home Loan Bank Bonds	28,993	—	28,993	—
Total U.S. government agencies and instrumentalities	51,986	—	51,986	—
Total fair value of U.S. government securities	93,974	41,988	51,986	—
Cash and cash equivalents:				
Agricultural Bank CP	4,999	4,999	—	—
Banco Del Esta De Chle C P	3,999	3,999	—	—
Banco Santander Sa C P	4,998	4,998	—	—
China Construction Bk C P	4,999	4,999	—	—
First Abu Dhabi Bank C P	5,496	5,496	—	—
Industrial Com Bnk Chn C P	5,499	5,499	—	—
Lloyds Bank Corporate C P	4,998	4,998	—	—
Malayan Banking Berhad C P	1,999	1,999	—	—
Sumitomo Mitsui Trst C P	5,000	5,000	—	—
Total cash and cash equivalents	41,987	41,987	—	—
Other:				
Federal Fund 30 Mutual Fund	5,256	5,256	—	—
Total fair value of investments, including cash deposits	$ 141,217	89,231	51,986	—

(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, municipal obligations, and money market accounts. These investments are maintained by the City or in the Company's name by its agent.

The balance in the Capital Improvement Fund at August 31, 2021 and 2020 was $184.9 million and $0.0 million, respectively. Of the 2021 balance, the Company is expected to utilize approximately $93.6 million in FY 2022. Interest income on these funds, to the extent not drawn, is reflected as an increase in the Capital Improvement Fund and approximated $0.1 million in FY 2021. There was no interest income on these funds in FY 2020.

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, 2021 and 2020 was $107.7 million and $102.8 million, respectively. Interest income on these funds, to the extent not drawn, is reflected as an increase in the Sinking Fund Reserve and approximated $0.9 million in FY 2021 and $3.2 million in FY 2020.

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 Capital Improvement Fund resulted in losses of $0.9 million and $0.4 million in FY 2021 and FY 2020, 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, 2021 and 2020, the trust account balances were $2.7 million.

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

	August 31, 2021			
Investment type	**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:				
U.S. Treasury notes	$ 48,366	1.3899	Aaa/N/A	Moody's/S&P
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	6,834	0.8109	Aaa/N/A	Moody's/S&P
Federal Home Loan Bank bonds	3,750	1.3573	Aaa/AA+	Moody's/S&P
Federal Farm Credit banks	18,960	0.7447	Aaa/AA+	Moody's/S&P
Total U.S. government agencies and instrumentalities	29,544			
Total fair value of U.S. government securities	77,910			

Investment type	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
	August 31, 2021			
Corporate obligations:				
Chevron Corporation	$ 719	0.2061	Aa2/AA-	Moody's/S&P
Chevron Corporation	410	0.0472	Aa2/AA-	Moody's/S&P
Cooperat Rabobank Ua Ny	1,556	0.4804	Aa2/A+	Moody's/S&P
Exxon Mobil Corp	1,724	0.5877	Aa2/AA-	Moody's/S&P
Total corporate obligations	4,409			
Foreign obligations:				
Shell International Fin	1,765	0.0333	Aa2/A+	Moody's/S&P
Cash and cash equivalents:				
Australia New Zealand Bkg CP	1,999	0.0371	*	*
Bank of Montreal CP	1,999	0.0364	*	*
Bnp Paribas New York Brh 3 A3 CP	1,998	0.0451	*	*
Citigroup Global Mkts Inc CP	500	0.0074	*	*
Credit Suisse First Boston N CP	1,999	0.0340	*	*
Ing US Fdg LLC CP	1,998	0.0595	*	*
MacQuarie Bank Limited CP	1,999	0.0359	*	*
Mizuho Bk Ltd New York Brh CP	1,999	0.0357	*	*
Skandinaviska Enskilda Banken CP	1,999	0.0381	*	*
Societe Generale 4 A2 Disc CP	1,999	0.0317	*	*
Sumitomo Mitsui Tr Bk Ltd Ny CP	1,000	0.0072	*	*
Swedbank Ab Disc Comi Paper CP	1,998	0.0544	*	*
Toyota Mtr Cr Corp CP	1,998	0.0565	*	*
Money market:				
First American Government Obligations Fund Class Z	115	—	*	*
Total cash and cash equivalents	23,600			
Total fair value of investments, including cash deposits	$ 107,684			
Portfolio weighted modified duration				

* The credit of this investment is unrated.

	August 31, 2020			
Investment type	Fair value	Weighted average maturity (years)	Credit rating	Rating agency
U.S. government obligations:				
U.S. Treasury notes	$ 22,663	0.8526	Aaa/N/A	Moody's/S&P
U.S. Treasury bonds	1,998	0.7083	N/A/N/A	Moody's/S&P
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	14,704	1.6546	Aaa/AA+	Moody's/S&P
Federal Home Loan Bank bonds	12,941	0.9160	Aaa/AA+	Moody's/S&P
Federal Farm Credit banks	22,557	1.5536	Aaa/AA+	Moody's/S&P
Total U.S. government agencies and instrumentalities	50,202			
Total fair value of U.S. government securities	74,863			
Corporate obligations:				
Apple Incorporated	2,025	0.2607	Aa1/AA+	Moody's/S&P
Exxon Mobil Corporation	1,121	0.0782	Aa1/AA+	Moody's/S&P
Chevron Corporation	2,035	0.2007	Aa2/AA	Moody's/S&P
Berkshire Hathaway Inc	1,019	0.0766	Aa2/AA	Moody's/S&P
Microsoft Corp	1,008	0.0245	Aaa/AAA	Moody's/S&P
Total corporate obligations	7,209			
Foreign issues:				
Bank of Montreal MTN	1,287	0.1223	Aa2/A+	Moody's/S&P
Bank of Nova Scotia	1,012	0.0552	Aa2/A+	Moody's/S&P
Canadian Imperial Bank	1,418	0.0918	Aa2/A+	Moody's/S&P
Toronto Dominion MTN	1,012	0.0448	Aa1/AA-	Moody's/S&P
Shell International Fin	1,791	0.2839	Aa2/AA-	Moody's/S&P
Total foreign issues	6,519			

Investment type		Fair value	Weighted average maturity (years)	Credit rating	Rating agency
		August 31, 2020			
Cash and cash equivalents:					
Abn Amro Funding USA CP	$	1,997	0.0869	*	*
Bank of Montreal CP		1,498	0.0756	*	*
Collateralized Cp V CP		1,997	0.1047	*	*
Credit Suisse Ag CP		1,997	0.1035	*	*
Dnb Bank Asa CP		1,997	0.0869	*	*
Mufg Bank Ltd Ny Bran CP		1,997	0.0952	*	*
Sumitomo Mutsui Trust CP		500	0.0066		
Toyota Crdt Canada Inc CP		1,998	0.0782	*	*
Money market:					
First American Government Obligations Fund Class Z		254	—	*	*
Total cash and cash equivalents		14,233			
Total fair value of investments, including cash deposits	$	102,824			
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, 2021				
Investment type		**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
U.S. government obligations:					
U.S. Treasury bills	$	145,916	0.2798	*	*
U.S. Treasury notes		20,137	0.3333	Aaa/N/A	Moody's/S&P
Total fair value of U.S. government securities		166,053			
Corporate obligations:					
John Hopkins Health System		1,557	1.7083	Aa2/AA	Moody's/S&P
Total corporate obligations		1,557			
Municipal issues:					
Franklin Park Boro Go Bonds 2021		220	0.0001	N/A/AA	Moody's/S&P
Univ of Pittburgh Pa Hgr Edu Ref		2,002	0.0107	Aa1/AA+	Moody's/S&P
Lehigh County PA Auth Wtr Rev Bonds		196	0.0043	N/A/AA	Moody's/S&P
Lower Merion Twp Pa Go Bonds 2015		102	0.0049	Aaa/AAA	Moody's/S&P
Pennsylvania Hsg Fin Agy Single		200	0.0151	Aa1/AA+	Moody's/S&P
Bucks Cnty Pa Go Bonds 2015		124	0.0120	Aaa/AAA	Moody's/S&P
Carlisle Boro Pa Go Bonds 2021		787	0.0882	Aa1/N/A	Moody's/S&P
Upper Allen Twp Pa Go Bonds 2021		345	0.0424	N/A/AA	Moody's/S&P
Franklin Park Boro Go Bonds 2021		200	0.0258	N/A/AA	Moody's/S&P
Pennsylvania Hsg Fin Agy Single		347	0.0483	Aa1/AA+	Moody's/S&P
North Wales Pa Wtr Auth Wtr Rev		925	0.1386	N/A/AA	Moody's/S&P
Dauphin Cnty Pa Taxable Go Bonds 2021		425	0.0659	N/A/AA	Moody's/S&P
Dauphin Cnty Pa Taxable Go Bonds 2015		651	0.1008	N/A/AA	Moody's/S&P
Kennett Pa Cons Sch Dist Go Bonds 2018		143	0.0266	N/A/AA	Moody's/S&P
Pennsylvania Hsg Fin Agy Single		268	0.0546	Aa1/AA+	Moody's/S&P
Carlisle Boro Pa Go Bonds 2021		866	0.2082	Aa1/N/A	Moody's/S&P
Total municipal issues		7,801			
Cash and cash equivalents:					
City of San Jose Ca CP		1,000	0.0067	*	*
Dallas Ft Worth Arpt Tx CP		2,000	0.0012	*	*
Long Island Pwr Auth Ny CP		2,000	0.0135	*	*
San Antonio Tx Elec Gas CP		2,500	0.0197	*	*
San Jose Calif Fing Auth Ca CP		2,000	0.0134	*	*
Money market:					
First American Government Obligations Fund Class Z		11	—	*	*
Total cash and cash equivalents		9,511			
Total fair value of investments including cash deposits	$	184,922			
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, 2021			
Investment type		**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:					
Fidelity Government Portfolio – Class I	$	2,740	—	Aaa/AAA	Moody's/S&P
Total fair value of investments including cash deposits	$	2,740			
Portfolio weighted modified duration					

* The credit of this investment is unrated.

		August 31, 2020			
Investment type		**Fair value**	**Weighted average maturity (years)**	**Credit rating**	**Rating agency**
Money market:					
Fidelity Government Portfolio – Class I	$	2,736	—	Aaa/AAA	Moody's/S&P
Total fair value of investments including cash deposits	$	2,736			
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, 2021			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
U.S. government obligations:				
U.S. Treasury notes	$ 48,366	48,366	—	—
U.S. government agencies and instrumentalities:				
Federal Home Loan Mortgage Corporation medium term notes	6,834	—	6,834	—
Federal Home Loan Bank bonds	3,750	—	3,750	—
Federal Farm Credit banks	18,960	—	18,960	—
Total U.S. government agencies and instrumentalities	29,544	—	29,544	—
Total fair value of U.S. government securities	77,910	48,366	29,544	—
Corporate obligations:				
Chevron Corporation	719	—	719	—
Chevron Corporation	410	—	410	—
Cooperat Rabobank Ua Ny	1,556	—	1,556	—
Exxon Mobil Corporation	1,724	—	1,724	—
Total corporate obligations	4,409	—	4,409	—
Foreign issues:				
Shell International Fin	1,765	—	1,765	—
Total foreign obligations	1,765	—	1,765	—
Cash and cash equivalents:				
Australia New Zealand Bkg CP	1,999	1,999	—	—
Bank of Montreal CP	1,999	1,999	—	—
Bnp Paribas New York Brh 3 A3 CP	1,998	1,998	—	—
Citigroup Global Mkts Inc CP	500	500	—	—
Credit Suisse First Boston N CP	1,999	1,999	—	—
Ing US Fdg LLC CP	1,998	1,998	—	—
MacQuarie Bank Limited CP	1,999	1,999	—	—
Mizuho Bk Ltd New York Brh CP	1,999	1,999	—	—
Skandinaviska Enskilda Banken CP	1,999	1,999	—	—
Societe Generale 4 A2 Disc CP	1,999	1,999	—	—
Sumitomo Mitsui Tr Bk Ltd Ny CP	1,000	1,000	—	—
Swedbank Ab Disc Comi Paper CP	1,998	1,998	—	—
Toyota Mtr Cr Corp CP	1,998	1,998	—	—

Investment type		August 31, 2021 Total fair value	Level 1	Level 2	Level 3
Money market:					
First American Government Obligations Fund Class Z	$	115	115	—	—
Total cash and cash equivalents		23,600	23,600	—	—
Total fair value of investments, including cash deposits	$	107,684	71,966	35,718	—

Investment type		August 31, 2020 Total fair value	Level 1	Level 2	Level 3
U.S. government obligations:					
U.S. Treasury notes	$	22,663	22,663	—	—
U.S. Treasury bonds		1,998	1,998	—	—
U.S. government agencies and instrumentalities:					
Federal Home Loan Mortgage Corporation medium term notes		14,704	—	14,704	—
Federal Home Loan Bank bonds		12,941	—	12,941	—
Federal Farm Credit banks		22,557	—	22,557	—
Total U.S. government agencies and instrumentalities		50,202	—	50,202	—
Total fair value of U.S. government securities		74,863	24,661	50,202	—
Corporate obligations:					
Apple Incorporated		2,025	—	2,025	—
Exxon Mobil Corporation		1,121	—	1,121	—
Chevron Corporation		2,035	—	2,035	—
Berkshire Hathaway Inc		1,019	—	1,019	—
Microsoft Corp		1,008	—	1,008	—
Total corporate obligations		7,209	—	7,209	—
Foreign issues:					
Bank of Montreal MTN		1,287	—	1,287	—
Bank of Nova Scotia		1,012	—	1,012	—
Canadian Imperial Bank		1,418	—	1,418	—
Toronto Domion MTN		1,012	—	1,012	—
Shell International Fin		1,791	—	1,791	—
Total foreign issues		6,519	—	6,519	—

(Continued)

Investment type		August 31, 2020 Total fair value	Level 1	Level 2	Level 3
Cash and cash equivalents:					
Abn Amro Funding USA CP	$	1,997	1,997	—	—
Bank of Montreal CP		1,498	1,498	—	—
Collateralized Cp V CP		1,997	1,997	—	—
Credit Suisse Ag CP		1,997	1,997	—	—
Dnb Bank Asa CP		1,997	1,997	—	—
Mufg Bank Ltd Ny Bran CP		1,997	1,997	—	—
Sumitomo Mutsui Trust CP		500	500	—	—
Toyota Crdt Canada Inc CP		1,998	1,998	—	—
Money market:					
First American Government Obligations Fund Class Z		254	254	—	—
Total cash and cash equivalents		14,233	14,233	—	—
Total fair value of investments, including cash deposits	$	102,824	38,894	63,930	—

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, 2021			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
U.S. government obligations:				
U.S. Treasury bills	$ 145,916	145,916	—	—
U.S. Treasury notes	20,137	20,137	—	—
Total fair value of U.S. government securities	166,053	166,053	—	—
Corporate obligations:				
John Hopkins Health System	1,557	—	1,557	—
Total corporate obligations	1,557	—	1,557	—
Municipal Issues:				
Franklin Park Boro Go Bonds 2021	220	—	220	—
Univ of Pittburgh Pa Hgr Edu Ref	2,002	—	2,002	—
Lehigh County PA Auth Wtr Rev Bonds	196	—	196	—
Lower Merion Twp Pa Go Bonds 2015	102	—	102	—
Pennsylvania Hsg Fin Agy Single	200	—	200	—
Bucks Cnty Pa Go Bonds 2015	124	—	124	—
Carlisle Boro Pa Go Bonds 2021	787	—	787	—
Upper Allen Twp Pa Go Bonds 2021	345	—	345	—
Franklin Park Boro Go Bonds 2021	200	—	200	—
Pennsylvania Hsg Fin Agy Single	347	—	347	—
North Wales Pa Wtr Auth Wtr Rev	925	—	925	—
Dauphin Cnty Pa Taxable Go Bonds 2021	425	—	425	—
Dauphin Cnty Pa Taxable Go Bonds 2015	651	—	651	—
Kennett Pa Cons Sch Dist Go Bonds 2018	143	—	143	—
Pennsylvania Hsg Fin Agy Single	268	—	268	—
Carlisle Boro Pa Go Bonds 2021	866	—	866	—
Total foreign obligations	7,801	—	7,801	—
Cash and cash equivalents:				
City of San Jose Ca CP	1,000	1,000	—	—
Dallas Ft Worth Arpt Tx CP	2,000	2,000	—	—
Long Island Pwr Auth Ny CP	2,000	2,000	—	—
San Antonio Tx Elec Gas CP	2,500	2,500	—	—
San Jose Calif Fing Auth Ca CP	2,000	2,000	—	—

	August 31, 2021			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Money market:				
First American Government Obligations Fund Class Z	$ 11	11	—	—
Total cash and cash equivalents	9,511	9,511	—	—
Total fair value of investments, including cash deposits	$ 184,922	175,564	9,358	—

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):

	August 31, 2021			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Money market:				
Fidelity Government Portfolio – Class I	$ 2,740	2,740	—	—
Total fair value of investments, including cash deposits	$ 2,740	2,740	—	—

	August 31, 2020			
Investment type	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Money market:				
Fidelity Government Portfolio – Class I	$ 2,736	2,736	—	—
Total fair value of investments, including cash deposits	$ 2,736	2,736	—	—

(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:

- Bonds or notes of the U.S. government.
- 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.
- Investments in U.S. treasury and U.S. agency floating rate securities are allowed. The maturity limitation is two years and ten days from the trade date.
- 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.
- Collateralized banker's acceptances and certificate of deposit denominated in U.S. dollars and issued by a city code authorized depository certificates of deposit that must be secured by acceptable collateral with a total market value equal to 102.0% of the deposit.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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

Approximately 93.0% of the Company's short-term investments as of August 31, 2021 are in the following: U.S. Treasury bills (33.4%), Commercial Paper (52.8%), and Federal Home Loan Bank Bonds (6.7%). 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 $0.5 million as of August 31, 2021 and 2020, respectively. The unamortized costs included in other current assets on the balance sheets were $0.2 million and $0.6 million as of August 31, 2021 and 2020, respectively.

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. Environmental remediation costs of approximately $0.6 million in FY 2021 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 $28.2 million.

The Company has recognized COVID-19 pandemic expenses as a regulatory asset because it is probable that the previously incurred costs will be recovered through rates. COVID-19 pandemic costs, provisions for uncollectible accounts, and waived reconnection and finance charges were approximately $30.3 million in FY 2021 and $2.2 million in FY 2020 and recorded on the balance sheets as a recoverable cost in other noncurrent assets.

(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, up to a maximum of $500, that immediately vests to the employee. The Company contributed $0.4 million each in FY 2021 and in FY 2020. PGW's contributions are accounted for as part of administrative and general expenses on the statements of revenues and expenses and changes in net positions.

(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 2021 and 2020, respectively. The commitment amount is $120.0 million under the current credit agreement. The expiration date of the credit agreement is June 30, 2022.

There were no Gas Works Revenue Capital Project Commercial Paper Notes (Capital Project Notes) or Gas Works Revenue Notes outstanding at August 31, 2021 and 2020. For additional information after period end, see note 16 Subsequent Events.

(7) GCR Tariff Reconciliation

During the fiscal year ended August 31, 2021, the Company's actual gas costs were lower than its billed gas costs by approximately $18.0 million. This amount was netted with other applicable costs and recorded in other current liabilities on the balance sheet at August 31, 2021. Actual gas costs were $28.7 million lower than billed gas costs in FY 2020. This amount was netted with other applicable costs and recorded in other current liabilities on the balance sheet at August 31, 2020.

Natural Gas Pipeline Supplier Refund

The Company received less than $0.1 million in refunds in FY 2021, related to Federal Energy Regulatory Commission/Pipeline Rate Cases. This amount was netted with other applicable costs and recorded in other current assets on the balance sheet at August 31, 2021.

The Company received refunds including interest in FY 2020 in the amount of $18.8 million related to Federal Energy Regulatory Commission/Pipeline Rate Cases. This amount was utilized i) as a reduction in the cost of gas for reconciliation purposes in the calculation of the applicable GCR; ii) as a credit to the Company's firm transportation suppliers, and iii) to establish a COVID-19 grant relief program.

(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, 2021 and 2020 (thousands of U.S. dollars):

		August 31, 2021			August 31, 2020		
		Current portion	Long-term	Total	Current portion	Long-term	Total
Revenue bonds	$	54,030	1,004,600	1,058,630	53,765	857,845	911,610
Unamortized discount		(4)	(48)	(52)	(4)	(52)	(56)
Unamortized premium		11,391	118,057	129,448	9,342	78,928	88,270
Total revenue bonds	$	65,417	1,122,609	1,188,026	63,103	936,721	999,824

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, 2021 and 2020 (thousands of U.S. dollars):

		Year ended August 31, 2021				
		Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds	$	911,610	253,925	(106,905)	1,058,630	54,030
Other liabilities:						
Claims and judgments	$	9,442	539	—	9,981	4,584
Environmental cleanup		35,166	—	(6,972)	28,194	968
Interest rate swap liability		25,250	—	(6,192)	19,058	—
Total other liabilities	$	69,858	539	(13,164)	57,233	5,552

	Year ended August 31, 2020				
	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue bonds	$ 964,480	—	(52,870)	911,610	53,765
Other liabilities:					
Claims and judgments	$ 9,560	—	(118)	9,442	5,435
Environmental cleanup	39,121	—	(3,955)	35,166	1,028
Interest rate swap liability	23,114	2,136	—	25,250	—
Total other liabilities	$ 71,795	2,136	(4,073)	69,858	6,463

(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:				
2022	$ 54,030	43,498	4,442	101,970
2023	56,485	40,751	4,442	101,678
2024	62,355	38,337	4,442	105,134
2025	57,925	36,230	3,675	97,830
2026	60,295	34,467	2,850	97,612
2027–2031	234,190	145,880	2,996	383,066
2032–2036	199,545	100,225	—	299,770
2037–2041	151,120	62,511	—	213,631
2042–2046	119,245	33,322	—	152,567
2047–2050	63,440	6,840	—	70,280
Total	$ 1,058,630	542,061	22,847	1,623,538

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, 2021.

Future debt service is calculated using rates in effect at August 31, 2021 for variable rate bonds, which ranged from 0.01% to 0.03%. The variable rate received under the swaps is 70% of one-month London Interbank Offered Rate (LIBOR) until maturity, which was 0.02% at August 31, 2021.

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

(i) 1998 Ordinance Fifteenth Series Bonds

On October 29, 2020, the City issued Gas Works Revenue Bonds, Sixteenth Series (1998 General Ordinance) in the par amount of $253.9 million. A portion of the proceeds from the sale of the Sixteenth Series Bonds were utilized to refund the Ninth Series Bonds. The Sixteenth 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 Sixteenth Series Bonds, with fixed interest rates that range from 4.0% to 5.0%, have maturity dates through 2050. This refunding transaction provided net present value debt service savings of $14.6 million utilizing an arbitrage yield of 2.11%. The savings as a percentage of refunded bonds was 25.61%.

The Company's Eighth Series variable rate debt, as of August 31, 2021, was backed by letter of credit agreements, which expire on September 1, 2022 (Eighth Series C), August 12, 2023 (Eighth Series D), or August 1, 2024 (Eighth Series B and E).

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 2021	Balance outstanding August 31 2020
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		—	57,080
10th Series	3.25%–5.00%	2026		10,865	14,750
13th Series	3.00%–5.00%	2034		158,340	177,970
14th Series	2.00%–5.00%	2038		231,885	253,565
15th Series	2.00%–5.00%	2047		250,810	255,435
16th Series A	4.00%–5.00%	2050		203,160	—
16th Series B	4.00%–5.00%	2040		50,760	—
			$	1,058,630	911,610

* As of August 31, 2021, the LIBOR based rate was 0.073%.

** As of August 31, 2021, the LIBOR based rate ranged from 0.054% to 0.087%.

(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 monies 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 $7.9 million and $7.6 million in FY 2021 and FY 2020, 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 pay or 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, 2021, 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, 2021, the swaps had a combined negative fair value of approximately $19.1 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, 2021, 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 International Swaps and Derivatives Association, Inc. 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 as of and for the years ended August 31, 2021 and 2020 is as follows (thousands of U.S. dollars):

		Interest rate swap liability	**Deferred outflows of resources**
Balance, August 31, 2020	$	25,250	13,888
Change in fair value through August 31, 2021		(6,192)	(6,192)
Amortization of terminated hedge		—	1,420
Balance, August 31, 2021	$	19,058	9,116

		Interest rate swap liability	**Deferred outflows of resources**
Balance, August 31, 2019	$	23,114	10,332
Change in fair value through August 31, 2020		2,136	2,136
Amortization of terminated hedge		—	1,420
Balance, August 31, 2020	$	25,250	13,888

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.

For additional information after period end, see note 16 Subsequent Events.

(9) Defeased Debt

At August 31, 2021, there were no remaining assets held by the trustee in pledge of the defeased bonds. For additional information after period end, see note 16 Subsequent Events.

In FY 2020, the Fiscal Agent with respect to the Gas Works Revenue Bonds (Escrow Agent with respect to the Escrow Deposit Agreement) paid the remaining maturing principal of the defeased bonds in the amount of $61.5 million and $5.6 million in a manner consistent with the Notices of Defeasance for the Ninth Series and Twelfth Series B Gas Works Revenue Bonds, respectively. At August 31, 2020, there were no remaining assets held by the trustee in pledge of defeased bonds.

(10) Defined Benefit Pension Plan

(a) Plan Description

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

The Pension Plan provides 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 thirty 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 ten 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 fifteen years of Credited Service and whose age plus years of credited service equals at least 65 or whom have completed at least fifteen years (effective May 15, 2015 –

formerly twenty 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 ten years of credited service. Employees with fifteen years of credited service may retire at or after age 55 and receive a reduced retirement benefit. Employees with thirty 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, 2021, 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	2,504
Participants:	
Vested	832
Nonvested	284
Total participants	1,116
Total membership	3,620

(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, 2021 and 2020, the actuarially determined employer contribution was $23.5 million and $26.8 million, respectively. For the fiscal years ended August 31, 2021 and 2020, PGW contributed $30.0 million and $29.2 million, respectively. The contributions for fiscal years ended August 31, 2021 and 2020 were based on the direction of the City of Philadelphia Director of Finance. Employee contributions were approximately $1.6 million and $1.5 million in the plan year ended June 30, 2021 and June 30, 2020, respectively.

(e) Net Pension Liability

The Company’s net pension liability as of August 31, 2021 and 2020 was measured as of June 30, 2021 and 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 and June 30, 2020, respectively.

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

	2021	**2020**
Inflation	2.00 %	2.00 %
Investment rate of return	7.00	7.30
Salary increases:		
Years of service		
—	8.86	8.86
1	8.59	8.59
2	8.31	8.31
3	8.04	8.04
4	7.77	7.77
5	7.49	7.49
6	7.22	7.22
7	6.94	6.94
8	6.67	6.67
9	6.39	6.39
10	6.12	6.12
11	5.84	5.84
12	5.57	5.57
13	5.29	5.29
14	5.02	5.02
15	4.74	4.74
16	4.54	4.54
17	4.33	4.33
18	4.12	4.12
19	3.91	3.91
20 or more	3.71	3.71

Mortality rates: Mortality rates for FY 2021 were based on the Pri-2012 mortality tables projected generationally from the central year using Scale MP-2020. The mortality rates for FY2021 reflect the Pri-2012 employees and healthy annuitants, disabled retiree, and contingent survivor mortality tables as appropriate projected generationally from the central year using Scale MP-2020 as published by the Society of Actuaries. Mortality rates for FY 2020 were based on the Pri-2012 mortality tables projected generationally from the central year using Scale MP-2020. Plan specific mortality data is not applied due to the size of the plan in producing credible mortality data.

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 2021 are summarized in the following table:

Asset class	Minimum	Maximum	Target	Expected annual return
Domestic equity	35.0 %	55.0 %	41.5 %	8.8 %
International equity	10.0	30.0	18.5	9.1
Fixed income	25.0	45.0	32.5	3.9
Alternatives	—	10.0	7.5	—
Cash equivalents	—	10.0	—	—
			100.0 %	

Discount rate: The discount rate used to measure the total pension liability at June 30, 2021 and 2020 was 7.0% and 7.3%, respectively. 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, 2020	$	780,793	543,231	237,562
Changes for the year:				
Service cost		7,178	—	7,178
Interest		55,454	—	55,454
Differences between expected and actual experience		2,057	—	2,057
Contributions – employer		—	29,728	(29,728)
Contributions – employee		—	1,607	(1,607)
Net investment income		—	155,841	(155,841)
Benefit payments, including refunds of employee contributions		(56,647)	(56,647)	—
Administrative expenses		—	(217)	217
Change in assumptions		22,924	—	22,924
Net changes		30,966	130,312	(99,346)
Balances at August 31, 2021	$	811,759	673,543	138,216

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, 2019	$	800,486	553,240	247,246
Changes for the year:				
Service cost		6,400	—	6,400
Interest		56,893	—	56,893
Differences between expected and actual experience		(3,034)	—	(3,034)
Contributions – employer		—	29,414	(29,414)
Contributions – employee		—	1,520	(1,520)
Net investment income		—	14,286	(14,286)
Benefit payments, including refunds of employee contributions		(55,061)	(55,061)	—
Administrative expenses		—	(168)	168
Change in assumptions		(24,891)	—	(24,891)
Net changes		(19,693)	(10,009)	(9,684)
Balances at August 31, 2020	$	780,793	543,231	237,562

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, 2021, calculated using the discount rate of 7.00%, 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 (6.00%) or one-percentage-point higher (8.00%) than the current rate:

		1% Decrease 6.00%	Current discount rate 7.00%	1% Increase 8.00%
			(Thousands of U.S. dollars)	
Net pension liability	$	225,022	138,216	64,759

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, 2021 and 2020, the Company recognized pension expense of ($3.1) million and $19.5 million, respectively. At August 31, 2021 and 2020, 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, 2021		August 31, 2020	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 1,493	4,111	3,499	8,047
Changes of assumptions	16,643	12,230	—	20,100
Net difference between projected and actual earnings on pension plan investments	—	78,173	14,742	—
Contributions made after measurement date	6,439	—	6,167	—
Total	$ 24,575	94,514	24,408	28,147

The $6.4 million reported as deferred outflows of resources related to employer contributions made after the measurement date as of June 30, 2021 will be recognized as a reduction of the net pension liability in the Company’s FY 2022. 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:	
2022	$ (22,451)
2023	(16,571)
2024	(13,932)
2025	(23,424)

(g) Fair Value Measurements

The following table sets forth by level, within the fair value hierarchy described in note 1(o), the plan's assets at fair value as of June 30, 2021 (thousands of U.S. dollars):

		Level 1	Level 2	Level 3	Total
Corporate bonds	$	—	74,356	—	74,356
Common and preferred stock		479,269	1	2	479,272
U.S. government securities		48,007	40,988	—	88,995
Financial agreements		—	10,656	—	10,656
Asset backed securities		839	—	—	839
Municipal obligations		—	498	—	498
	$	528,115	126,499	2	654,616

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, 2020 (thousands of U.S. dollars):

		Level 1	Level 2	Level 3	Total
Corporate bonds	$	—	81,814	—	81,814
Common and preferred stock		327,817	22,888	3	350,708
U.S. government securities		41,481	39,648	—	81,129
Financial agreements		—	—	—	—
Asset backed securities		—	7,506	—	7,506
Municipal obligations		—	1,201	—	1,201
	$	369,298	153,057	3	522,358

(11) Other Postemployment Benefits

(a) Plan Description

The Company sponsors a single-employer defined-benefit healthcare plan, which provides postemployment healthcare and life insurance benefits to retirees and their beneficiaries and dependents 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.

(Continued)

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 fifteen 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 five 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 and 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 two 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 five 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, or 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, 2020, the date of the latest actuarial valuation, the OPEB Plan's combined membership consisted of the following:

	Number
Retirees	1,468
Beneficiaries	400
Active employees – Union	1,107
Active employees – Management	513
Total number of participants	3,488

(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, 2020, PGW contributed $27.6 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, 2019, PGW contributed

$28.8 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, 2021 and 2020 was measured as of December 31, 2020 and 2019, and the OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2020 and 2019, respectively. The September 1, 2019 actuarial valuation was rolled forward to the December 31, 2019 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.

  The demographic assumptions were updated based upon the experience study completed in 2020 which reviewed experience data from 2014 to 2019.
- *Economic assumptions:* the discount rate and health care cost trend rates.

Benefit assumptions:

- *Per capita claims:* Using actuarial standards, specifically Actuarial Standard of Practice No. 6, *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions (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	$ 7,550	7,527	2,541
50–54	8,603	8,577	2,953
55–59	10,499	10,468	3,731
60–64	12,929	12,890	4,557
65–69	2,508	2,411	4,018
70–74	2,418	2,324	4,777
75–79	2,569	2,470	5,113
80–84	2,866	2,755	5,164
85+	3,127	3,007	4,989

- *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 or decreased usage as a result of aging:

Age	**Medical**	**Prescription drug**
50–54	4.20 %	5.10 %
55–59	4.00	4.20
60–64	4.60	4.30
65–69	(2.20)	5.10
70–74	0.90	1.90
75–79	1.90	0.50
80–84	3.00	(1.30)
85+	—	—

Demographic assumptions:

- *Mortality rates:* Mortality rates for FY 2020 were based on the Public Pension General (PUB-G) Employee, Healthy Annuitant and Disabled Retiree Mortality Tables (head-count weighted) projected with scale MP-2019. Mortality rates for FY 2021 is assumed to follow the sex-distinct, Pri-2012 Employee, Healthy Annuitant, and Disabled Retiree Mortality Tables projected with scale MP-2020.
- *Salary Scale:* Salary Scale is based on years of service as follows:

Years of service	Annual increase
0	8.86 %
1	8.59
2	8.31
3	8.04
4	7.77
5	7.49
6	7.22
7	6.94
8	6.67
9	6.39
10	6.12
11	5.84
12	5.57
13	5.29
14	5.02
15	4.74
16	4.54
17	4.33
18	4.12
19	3.91
20 or more	3.71

- *Retirement rates:* Retirement rates applicable once an employee is eligible for retirement benefits vary by age and service with rates as follows:

Age	Service < 30	Service > 30	Age	Service < 30	Service > 30
50	— %	15.00 %	61	10.00 %	15.00 %
51	—	15.00	62	10.00	40.00
52	—	15.00	63	10.00	25.00
53	—	15.00	64	10.00	25.00
54	—	15.00	65	20.00	25.00
55	5.00	15.00	66	20.00	40.00
56	5.00	15.00	67	20.00	40.00
57	10.00	15.00	68	20.00	40.00
58	10.00	15.00	69	20.00	40.00
59	10.00	15.00	70+	100.00	100.00
60	10.00	15.00			

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

Age	Service < 1 year	1 year of service	2 years of service	3 years of service	4 years of service	Service > 4 years
37 or Younger	25.00 %	15.00 %	12.00 %	10.00 %	7.00 %	3.00 %
38	23.00	15.00	12.00	9.00	6.60	2.80
39	21.00	15.00	12.00	8.00	6.20	2.60
40	19.00	15.00	12.00	7.00	5.80	2.40
41	17.00	15.00	12.00	6.00	5.40	2.20
42	15.00	15.00	12.00	5.00	5.00	2.00
43	14.00	14.00	10.60	4.60	4.60	2.00
44	13.00	13.00	9.20	4.20	4.20	2.00
45	12.00	12.00	7.80	3.80	3.80	2.00
46	11.00	11.00	6.40	3.40	3.40	2.00
47	10.00	10.00	5.00	3.00	3.00	2.00
48	10.00	10.00	5.00	2.80	2.80	2.00
49	10.00	10.00	5.00	2.60	2.60	2.00
50	10.00	10.00	5.00	2.40	2.40	2.00
51	10.00	10.00	5.00	2.20	2.20	2.00
52 or Older	10.00	10.00	5.00	2.00	2.00	2.00

- Participation rate: Participation assumes 100% of future retirees who meet the eligibility requirements will participate in the postemployment welfare plans upon retirement.

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

Age	Males	Females
27 and Younger	0.03 %	0.03 %
28	0.03	0.04
29	0.03	0.04
30	0.03	0.04
31	0.03	0.06
32	0.03	0.06
33	0.03	0.07
34	0.03	0.07
35	0.04	0.08
36	0.04	0.09
37	0.06	0.10
38	0.07	0.11
39	0.08	0.13
40	0.09	0.14
41	0.10	0.17
42	0.11	0.19
43	0.13	0.21
44	0.16	0.25
45	0.18	0.27
46	0.20	0.30
47	0.23	0.33
48	0.28	0.37
49	0.31	0.40
50	0.37	0.45
51	0.43	0.49
52	0.51	0.55
53	0.59	0.60
54	0.68	0.66
55	0.77	0.71
56	0.86	0.77
57	0.96	0.83
58	1.06	0.89
59	1.17	0.95
60	1.28	1.00
61	1.40	1.07
62	1.54	1.13
63	1.68	1.17
64	1.83	1.22
65 and Older	—	—

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, 2020 is summarized in the following table:

Asset class	Minimum	Maximum	Target	Expected annual return
Domestic equity large cap	27.5 %	37.5 %	32.5 %	9.5 %
Domestic equity small cap	10.0	15.0	12.5	8.3
Emerging market equity	5.0	10.0	7.5	7.2
International equity	15.0	20.0	17.5	6.5
Fixed income	20.0	40.0	30.0	2.1
Commodities/Real Assets	—	10.0	—	—
Cash equivalents	—	5.0	—	—
			100.0 %	

- *Inflation Rate:* 2.0%
- *Healthcare cost trend:*

The trend rates are based on the Society of Actuaries Getzen Healthcare Cost Trend Resources Model.

Fiscal year beginning (January 1)	Medical (Pre-65)	Medical (Post-65)	Prescription drugs	Dental
2021	5.60 %	4.50 %	6.30 %	4.00 %
2022	5.60	4.50	6.30	4.00
2023	5.60	4.50	6.30	4.00
2024	5.55	4.50	6.25	4.00
2025	5.55	4.50	6.20	4.00
2030	5.40	4.50	6.00	4.00
2040	5.40	4.50	6.00	4.00
2050	5.40	4.50	5.45	4.00
2060	5.05	4.50	5.20	4.00
2070	4.60	4.50	4.65	4.00
Ultimate	4.50	4.50	4.50	4.00

- *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, 2020, December 31, 2019, and December 31, 2018, 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, 2020	$	493,570	245,361	248,209
Changes for the year:				
Service cost		4,999	—	4,999
Interest		35,387	—	35,387
Differences between expected and actual experience		(30,648)	—	(30,648)
Assumption changes		31,995	—	31,995
Benefit Payments		(27,636)	—	(27,636)
Contributions-employer		—	46,136	(46,136)
Project investment return on year		—	18,585	(18,585)
Plan asset gain/(loss)		—	23,673	(23,673)
Benefit payments		—	(27,636)	27,636
Administrative expenses and bank fees		—	(40)	40
Net changes		14,097	60,718	(46,621)
Balances at August 31, 2021	$	507,667	306,079	201,588

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, 2019	$	520,533	184,454	336,079
Changes for the year:				
Service cost		5,867	—	5,867
Interest		37,374	—	37,374
Differences between expected and actual experience		(16,787)	—	(16,787)
Assumption changes		(24,572)	—	(24,572)
Benefit Payments		(28,845)	—	(28,845)
Contributions-employer		—	47,345	(47,345)
Project investment return on year		—	14,139	(14,139)
Plan asset gain/(loss)		—	28,305	(28,305)
Benefit payments		—	(28,845)	28,845
Administrative expenses and bank fees		—	(37)	37
Net changes		(26,963)	60,907	(87,870)
Balances at August 31, 2020	$	493,570	245,361	248,209

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate: The following presents the Net OPEB liability of the Company at December 31, 2020, 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	$	266,333	201,588	148,012

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the Net OPEB liability of the Company at December 31, 2020, as well as what the Net OPEB liability would be if it 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	Current healthcare cost trend rates	1% Increase
		(Thousands of U.S. dollars)	
Net OPEB liability	$ 148,286	201,588	266,488

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, 2021 and 2020, the Company recognized OPEB expense of $(0.9) million and $10.9 million, respectively. At August 31, 2021 and 2020, 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, 2021		August 31, 2020	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ —	61,502	—	60,527
Changes of assumptions	40,956	14,744	29,177	20,954
Net difference between projected and actual earnings on OPEB plan investments	—	26,639	—	10,043
Contributions made after measurement date	30,765	—	32,021	—
Total	$ 71,721	102,885	61,198	91,524

The $30.8 million and $32.0 million reported as deferred outflows of resources related to employer contributions made after the measurement date as of December 31, 2020 and 2019, respectively, will be recognized as a reduction of the net OPEB liability in FY 2021 and FY 2020, 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:		
2022	$	(15,013)
2023		(24,053)
2024		(18,398)
2025		(4,465)
2026		—
Thereafter		—

(g) Fair Value Measurements

The following table sets forth by level, within the fair value hierarchy described in note 1(o), the plan's assets at fair value as of December 31, 2020 (thousands of U.S. dollars):

		Level 1	Level 2	Level 3	Total
Bond mutual funds	$	292,581	—	—	292,581
U.S. government securities		9,768	3,596	—	13,364
	$	302,349	3,596	—	305,945

Mutual funds consist of open-end mutual funds that are registered with the SEC and are valued daily using quoted prices in active markets as provided by the pricing vendor for these securities (Level 1 inputs).

Fixed income consists of corporate bonds, U.S. Government and agency securities, and mortgage/asset backed securities. The fair values of these investments are determined using third-party pricing services using quoted prices in active markets (Level 1 inputs) or prices derived from observable market inputs such as benchmark curves, broker/dealer quotes, and other industry and economic factors (Level 2 inputs).

(h) Investment Policy

The Trust's investment policy in regard to the allocation of invested assets is defined in its Statement of Investment Guidelines (the Guidelines) developed in conjunction with the Trust's Board and its financial advisors. The long-term goals of the Guidelines are to manage the assets in a manner in the best of interest of participants, produce investment return that meets the actuarially assumed rate, and to produce consistent performance to protect against excessive volatility. There has not been any significant change in the Trust's investment policy during the reporting period.

The asset allocation strategy was as follows (as adjusted in February 2019):

	Target	Actual
Domestic equity large cap	32.5 %	32.3 %
Domestic equity small cap	12.5	13.4
Emerging market international equity	7.5	7.7
Developed market international equity	17.5	18.5
Fixed income	30.0	28.0
Cash and cash equivalents	—	0.1

(i) Rate of Return

For the years ended December 31, 2020 and 2019, the annual money-weighted rate of return on investments, net of investment expense, was 16.65% and 21.97%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(ii) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's.

(iii) Custodial Credit Risk

The assets of the Plan are held by the Trust.

Custodial credit risk is the risk that in the event of a bank failure, the Trust's deposits may not be returned to the Trust. The Trust held no cash and cash equivalents at December 31, 2020 and 2019, covered by federal deposit insurance.

Custodial credit risk for investments is the risk that, in the event of a failure to a counterparty to a transaction, the value of the investment or collateral securities that are in possession of an outside party may not be recovered. Investments are exposed to custodial credit risk if the securities are uninsured, are not held in the name of the Trust, or are held by either the counterparty or the counterparty's trust department or agent but not in the Trust's name. The Trust's investments are not exposed to custodial credit risk as they are held by the Trust's custodian in the name of the Trust.

(iv) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's.

(v) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of fixed income investments. The Trust's investment policy does not specifically address limitations on the maturities of investments.

(vi) Investment Concentration Risk

Investment concentration risk is the risk that the investment portfolio is disproportionately exposed to market changes in specific sectors or securities. As of December 31, 2020, the Trust held the following investments in excess of 5.0% of the fair value of the Trust's net position: DFA US Small Cap Fund, American Funds Europac Growth R6 Fund, Vanguard Total Stock Market Index Fund, and Baird Core Bond Fund. As of December 31, 2019, the Trust held the following investments in assets in excess of 5.0% of the fair value of the Trust's net position: DFA US Small Cap Fund, American Funds Europac Growth R6 Fund, MainStay MacKay High Yield Fund, Vanguard Total Stock Market Index Fund, Vanguard Total Bond Market Fund, and Baird Core Bond Fund.

(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 (DC) is administered by the PGW Investment Committee. Benefit terms, including contribution requirements, for the DC Plan are established and may be amended by Ordinance of the City. For each employee in the DC 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, 2021 and 2020, the Company recognized pension expense of $1.9 million and $1.7 million, respectively, related to contributions to the DC Plan.

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

The Company had no accrued liabilities for contributions payable to the DC Plan at August 31, 2021 and 2020.

The DC Plan 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 Company contributed $1.9 million and $1.7 million in FY 2021 and FY 2020, respectively. PGW's contributions are accounted for as part of administrative and general expenses in the statements of revenues and expense and changes in net position.

(13) Pollution Remediation Obligation

The pollution remediation obligations at August 31, 2021 and 2020 were $28.2 million and $35.2 million, respectively, which reflect the provisions of GASB Statement No. 49*, Accounting and Financial Reporting for Pollution Remediation Obligations*.

The Company recorded a reduction in the total liability for pollution remediation obligations of $7.0 million in FY 2021 and a reduction in the total liability for pollution obligations of $3.9 million in FY 2020. The pollution remediation liability is reflected in other noncurrent and current liabilities in the balance sheets. 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 regulatory asset is reflected in regulatory asset – environmental on the balance sheets.

(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 $0.35 million deductible per covered participant.

The Company has evaluated all open claims as of August 31, 2021 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:						
2021	$	9,442	2,384	(1,845)	9,981	4,584
2020		9,560	1,973	(2,091)	9,442	5,435
2019		14,064	(1,582)	(2,922)	9,560	3,925

(15) Commitments and Contingencies

Commitments

Commitments for major construction and maintenance contracts were approximately $84.0 million and $34.6 million, as of August 31, 2021 and 2020, respectively.

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

Fiscal year:		
2022	$	1,188
2023		799
2024		578
2025		65

Rent expense for the fiscal years ended August 31, 2021 and 2020 amounted to $1.7 million and $1.5 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 $5.6 million per month.

The Company's FY 2022 Capital Budget was approved by City Council in the amount of $147.5 million. Within this approval, funding was provided to continue the implementation of an 18-mile CIMR Program. The cost for this program in FY 2022 is expected to be $28.3 million. The total six-year cost of the CIMR Program is forecasted to be $180.2 million. In addition to the 18-mile CIMR Program, the FY 2022 Capital Budget includes funding for an accelerated CIMR Program which PGW will include in its DSIC surcharge. This incremental program in FY 2022 is expected to cost $37.0 million. The total six-year cost of this incremental program is forecasted to be $222.0 million. The FY 2022 Capital Budget also includes $1.6 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 $3.2 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 PUC 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 to the PUC's determination, PGW filed timely appeals with the Pennsylvania Commonwealth Court from the PUC's decision in each group of complaints. Oral argument took place on November 12, 2019.

On December 9, 2019, the Pennsylvania Commonwealth Court reversed the orders of the PUC related to amounts owed by SBG Management Services, Inc. to PGW that, inter alia, were subject to late payment charges by PGW.[1] The Commonwealth Court found 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.

On January 8, 2020 SBG petitioned the Pennsylvania Supreme Court (PA Supreme Court") to reverse the decision of the Commonwealth Court. On June 23, 2020, the PA Supreme Court granted SBG's petition for appeal. On December 1, 2020, the parties presented oral arguments before the PA Supreme Court. On April 29, 2021, the PA Supreme Court reversed the order of the Commonwealth Court, and held that liens filed of record under Section 7106(b) of the Municipal Claims and Tax Lien Law (53 P.S. § 7106(b)) have the effect of judgments, and accordingly accrue interest at the "lawful rate" of post-judgment interest of 6% per annum. (See 42 Pa.C.S. §8101; 41 P.S. § 202)
(see https://casetext.com/case/phila-gas-works-v-pa-pub-util-commn-3).

On May 13, 2021 PGW filed an "Application for Reargument" with the PA Supreme Court. In its Application, PGW requested that the PA Supreme Court grant reargument on a number of grounds, including due to PGW's assertion that the determination of the interest rate on liens was not properly the subject of the appeal before the PA Supreme Court.

On June 15, 2021, Philadelphia Gas Works' Application for Reargument was granted in part by the PA Supreme Court. The case was remanded to the Commonwealth Court for consideration of any outstanding issues. (PGW's Application for Relief (including the request for reargument) was denied in all other respects.) On August 3, 2021, the Commonwealth Court issued an order establishing a Supplemental Briefing Schedule for the matter on remand, and also fixed the questions on remand.[2] The parties' briefs were filed in September/October of 2021. Oral argument is scheduled for February 2022 by the Commonwealth Court.

---

[1] PGW did not appeal the decision of the PUC regarding partial payment application. This matter was independently resolved per a settlement agreement reached with the Office of Consumer Advocate, and approved by the PUC on June 13, 2019, as part of a prior PGW's base rate case. Per the settlement, PGW agreed to modify its partial payment allocation practices so that no priority is given to the satisfaction of late payment charges.

[2] Questions on remand: 1. Whether the PA Supreme Court's opinion and order in Appeal of: SBG Management Services, 249 A.3d 963 (Pa. No. 14 EAP 2020, filed April 29, 2021), applies retroactively to the case at bar; 2. Whether the [Commission's] orders violate [PGW's] constitutional rights to due process by, without prior notice, announcing, applying and enforcing a new legal interpretation against [PGW] in the context of individual consumer complaints; 3. Whether substantial evidence of record supports the Commission's imposition of a civil penalty and whether the Commission abused its discretion and acted arbitrarily and capriciously in imposing penalties; 4. Whether the Commission's mandate for system-wide modifications is arbitrary and capricious and an abuse of the Commission's discretion; and 5. Whether a remand is appropriate to the Commission for a determination of [PGW]'s compliance with the mandate for system-wide modifications or for imposition of a new period in which [PGW] must comply.

*SBG Management Services, Inc. Et Al. v. City of Philadelphia c/o Philadelphia Gas Works***.** In a separate, but related matter to the SBG matter described above, various and several new SBG entities filed a Praecipe for Writ of Summons against "the City of Philadelphia c/o PGW" in the Philadelphia Court of Common Pleas on April 29, 2021, and docketed a complaint on August 24, 2021. The complaint sets forth a cause of action for "recoupment" (Count I), a claim for unjust enrichment (Count II), a cause of action for fraud (Count III), and a claim for violation of the UTPCPL (Count IV). Under SBG's view of the decision of the Pennsylvania Supreme Court (PGW v. PUC, 249 A.3d 963 (Pa. 2021)) in the above-described litigation, SBG is entitled to damages based on the amounts paid by them to satisfy the judgments (docketed municipal liens) against them for unpaid gas service. In their complaint, Plaintiffs allege they have incurred hundreds of millions of dollars in damages from PGW's billing practices since at least 2004 and are seeking a refund of late payment charges paid to PGW in excess of $10.2 million, as well as other substantial (including punitive and treble) damages, interest, costs, fees and penalties based upon allegations of unjust enrichment, fraud, and unfair trade practices arising from PGW's late payment charges. PGW filed its response to the complaint in September 2021, wherein it raised objections and defenses to all of the causes of action raised in the complaint. At this time PGW is awaiting the Court's ruling on PGW's preliminary objections filed with the Court on September 13, 2021. Those preliminary objections have been briefed by the parties, but have not been resolved by the Court.

(16) Subsequent Events

The Company has evaluated events and transactions that occurred between August 31, 2021 and December 22, 2021, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements and noted the following:

(a) Tenth Series Bonds (1998 Ordinance) Defeasance

On October 1, 2021, the Company accelerated payment of $10.9 million of principal for City of Philadelphia, Pennsylvania Gas Works Revenue Refunding Bonds, Tenth Series issued under the 1998 General Ordinance with internally generated funds. The Tenth Series Bonds were redeemed using PGW's cash and certain amounts released from the PGW Sinking Fund Reserve. For additional information related to defeasance, see note 9 Defeased Debt.

(b) New Gas Works Revenue Notes Ordinance

In September 2021, an Ordinance was introduced in City Council which extended the expiration date of the authority of the City to issue Gas Works Revenue Notes in a principal amount that, together with interest, may not exceed $150.0 million outstanding at any one time. The Ordinance was passed by City Council on October 14, 2021 and was signed by the Mayor on October 20, 2021. The expiration date of this Ordinance is October 20, 2026. For additional information see note 8 Long-Term Debt and Other Liabilities.

(c) Note Purchase and Credit Agreement Extension

The Company's notes are supported by a Note Purchase and Credit Agreement and a security interest in PGW's revenues. The stated expiration of the existing Note Purchase and Credit Agreement was extended on October 1, 2021 from December 1, 2021 to June 30, 2022. For additional information see note 6 Notes Payables.

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							
		2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability:									
Service cost	$	7,178	6,400	6,554	6,103	5,823	5,399	4,890	8,924
Interest cost		55,453	56,893	57,241	55,718	55,443	55,903	52,377	47,098
Differences between expected and actual experience		2,057	(3,034)	(12,089)	15,706	2,182	(8,840)	17,961	59,326
Changes in assumptions		22,924	(24,891)	(1,834)	(3,864)	(7,952)	26,748	44,876	—
Benefit payments		(56,647)	(55,061)	(53,893)	(52,627)	(51,376)	(50,447)	(46,917)	(42,913)
Net change in total pension liability		30,965	(19,693)	(4,021)	21,036	4,120	28,763	73,187	72,435
Total pension liability (beginning)		780,793	800,486	804,507	783,471	779,351	750,588	677,401	604,966
Total pension liability (ending)		811,758	780,793	800,486	804,507	783,471	779,351	750,588	677,401
Plan fiduciary net position:									
Contributions – employer		29,728	29,414	28,570	29,143	27,918	21,123	21,106	24,934
Contributions – employee		1,607	1,520	1,249	1,078	852	602	393	239
Net investment income		155,840	14,286	34,260	44,310	61,003	2,872	24,472	75,303
Benefit payments		(56,647)	(55,061)	(53,893)	(52,627)	(51,376)	(50,447)	(46,917)	(42,913)
Administrative expense		(217)	(168)	(192)	(184)	(129)	(1,611)	(1,480)	(732)
Net change in fiduciary net position		130,311	(10,009)	9,994	21,720	38,268	(27,461)	(2,426)	56,831
Plan fiduciary net position (beginning)		543,231	553,240	543,246	521,526	483,258	510,719	513,145	456,314
Plan fiduciary net position (ending)		673,542	543,231	553,240	543,246	521,526	483,258	510,719	513,145
Net pension liability (ending)	$	138,216	237,562	247,246	261,261	261,945	296,093	239,869	164,256
Net position as a percentage of total pension liability		82.97 %	69.57 %	69.11 %	67.53 %	66.57 %	62.01 %	68.04 %	75.75 %
Covered payroll for the year ended June 30,	$	97,959	95,934	98,454	101,271	94,767	90,860	95,187	103,530
Net pension liability as a percentage of covered payroll		141.10 %	247.63 %	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: 7.00% in 2021, 7.30% in 2016-2020, 7.65% in 2015 and 7.95% in 2014.
Mortality Rates Adopted:
PRI-2012 mortality tables projected generationally from the central year using Scale MP-2020 in FY 2020 and FY 2021.
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 2018.

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		2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Actuarially determined contribution	$	23,492	26,844	28,797	28,395	29,260	26,476	21,526	24,385	23,673	23,802
Contributions made		30,000	29,227	28,797	28,395	29,260	26,476	21,526	24,385	23,673	23,802
Contribution deficiency/(excess)	$	(6,508)	(2,383)	—	—	—	—	—	—	—	—
Covered payroll for the year ended August 31,	$	93,601	94,634	99,494	97,431	91,176	87,416	91,579	99,606	101,968	102,279
Contributions as a percent of covered payroll		32.05 %	30.88 %	28.94 %	29.14 %	32.09 %	30.29 %	23.51 %	24.48 %	23.22 %	23.27 %

Notes to schedule:

Actuarial Valuation Date: July 1 for FY 2015-2021 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:

Varies by participant years of service [see Note 10(e)].

4.5% in 2019 and prior periods

General Inflation: 2.00%

Investment Rate of Return: 7.00% in FY 2021, 7.30% in FY 2020-2016, 7.65% in FY 2015, and 7.95% in FY 2014 and prior.

Mortality Rates: Adopted RP-2014 static mortality table in FY 2016 generationally projected

PRI-2012 mortality tables projected generationally from the central year using Scale MP-2020 in FY 2020 and FY 2021.

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 2018.

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				
		2021	**2020**	**2019**	**2018**	**2017**
Total OPEB liability:						
Service cost	$	4,999	5,867	6,268	5,180	5,315
Interest cost		35,387	37,374	40,262	38,182	39,961
Differences between expected and actual experience		(30,648)	(16,787)	(64,606)	(5,345)	(30,973)
Changes in assumptions		31,995	(24,572)	7,707	61,382	(6,481)
Benefit payments		(27,636)	(28,845)	(28,729)	(29,747)	(30,370)
Net change in total OPEB liability		14,097	(26,963)	(39,098)	69,652	(22,548)
Total OPEB liability (beginning)		493,570	520,533	559,631	489,979	512,527
Total OPEB liability (ending)		507,667	493,570	520,533	559,631	489,979
Plan fiduciary net position						
Contributions – employer		46,136	47,345	47,229	48,247	48,870
Investment income		42,258	42,444	(14,754)	22,669	10,710
Benefit payments		(27,636)	(28,845)	(28,729)	(29,747)	(30,370)
Administrative, investment management expenses and bank fees		(40)	(37)	(35)	(49)	(30)
Net change in plan fiduciary net position		60,718	60,907	3,711	41,120	29,180
Plan fiduciary net position (beginning)		245,361	184,454	180,743	139,623	110,443
Plan fiduciary net position (ending)		306,079	245,361	184,454	180,743	139,623
Net OPEB liability (ending)	$	201,588	248,209	336,079	378,888	350,356
Plan fiduciary net position as a percentage of the total OPEB liability		60.3%	49.7%	35.4%	32.3%	28.5%
Covered employee payroll for the year ended December 31,	$	127,907	125,270	120,132	118,636	109,440
Net OPEB liability as a percentage of covered employee payroll		157.61%	198.14%	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:
Salary increase: ranges from 8.86% for new hires to 3.71% for employees with 20+ years of service.
Discount rate: 7.30% in 2021, in 2020, in 2019, in 2018, and in 2017; 7.95% in 2017.
Inflation Rate: 2.0% in 2021, in 2020, in 2019, in 2018, in 2017, and in 2016.
Mortality Rates:
Mortality is assumed to follow the sex-distinct, Pri-2012 Employee, Health Annuitant, and Disabled Retiree Mortality Tables projected with scale MP-2020.
Adopted the sex-distinct U.S. Public Pension General (PUB-G) Employee, Healthy Annuitant and Disabled Retiree in 2019.
Adopted the sex-distinct RP-2014 Employee, Healthy Annuitant and Disabled Retiree in 2018, 2017, and 2016.
Mortality Tables: (head-count weighted) projection with scale MP-2019 in 2019, MP-2018 in 2018, MP-2017 in 2017, and 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		2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Actuarially determined contribution	$	22,541	25,972	33,405	37,638	37,639	41,782	37,980	38,062	41,216	47,071
Contributions made		44,880	47,105	47,548	47,114	48,065	49,551	48,847	44,362	42,242	44,486
Contribution deficiency/(excess)	$	(22,339)	(21,133)	(14,143)	(9,476)	(10,426)	(7,769)	(10,867)	(6,300)	(1,026)	2,585
Covered employee payroll for the year ended August 31,		135,243	131,595	128,642	130,171	119,667	112,956	114,074	115,174	110,120	106,308
Contributions as a percent of covered employee payroll		33.18%	35.80%	36.96%	36.19%	40.17%	43.87%	42.82%	38.52%	38.36%	41.85%

Notes to schedule:
Actuarial Valuation Date: December 31, 2020 for 2021, September 1 (beginning of each fiscal year) in prior periods.
Methods ad assumptions used to determine contributions:
Actuarial Cost Method: Entry Age Normal Cost Method
Asset Valuation Method: Market Value
Per Capita Claims: ASOP Actuarial Standards
Salary Increases: Varies by participant years of service [see Note 11(e)] in FY 2021, 4.5% in FY 2015 through FY 2020; and 3.0% in prior periods.
General Inflation: 2.0% in FY 2021 and 2021 and 3.0% in prior period.
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 2021 through 2017, 7.95% in FY 2016 through FY 2013, 8.00% in FY 2012 and FY 2011, and 5% in prior periods.
Mortality Rates: Adopted:
The mortality tables and improvement projection scales were updated from PUB-2010 with projection scale MP-2019 to PRI-2012 with projection scale MP-2020 to reflect the latest mortality tables and improvement projection scales.
Sex-distinct U.S. Public Pension General (PUB-G) Employee, Healthy Annuitant and Disabled Retiree Mortality Tables (head-count weighted) projected with scale MP-2019 in FY 2020.
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 FY 2016, and MP-2014 in FY 2015.
2014 Static Annuitant and Non-Annuitant Mortality table as set forth in Treasury Regulation Section 1.430(h)(3)-1e in FY 2014.
2013 Static Annuitant and Non-Annuitant Mortality table as set forth in Treasury Regulation Section 1.430(h)(3)-1e in FY 2013.
2012 Static Annuitant and Non-Annuitant Mortality table as set forth in Treasury Regulation Section 1.430(h)(3)-1e in FY 2012.
RP2000 Combined Health Mortality Table in FY 2011 and prior years.

Unaudited – see accompanying independent auditors' report.