



THE ESTATE OF STEPHEN GIRARD, DECEASED

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

THE ESTATE OF STEPHEN GIRARD, DECEASED

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KPMG LLP
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Independent Auditors' Report

The Board of Directors of City Trusts:

We have audited the accompanying statements of net assets – FASB basis of The Estate of Stephen Girard, Deceased (the Estate) as of June 30, 2011 and 2010, and the related statements of changes in net assets – FASB basis and of cash flows – FASB basis for the years then ended. These basic financial statements are the responsibility of the Estate's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Estate's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 1, these financial statements were prepared in accordance with the standards promulgated by the Financial Accounting Standards Board (FASB), which collectively represent a comprehensive basis of accounting other than generally accepted accounting principles for governmental entities, which are promulgated by the Governmental Accounting Standards Board.

In our opinion, such financial statements present fairly, in all material respects, the financial position – FASB basis of the Estate of Stephen Girard, Deceased, as of June 30, 2011 and 2010, and the changes in its financial position – FASB basis and its cash flows – FASB basis for the years then ended, on the basis of accounting described in note 1.

KPMG LLP

October 25, 2011

THE ESTATE OF STEPHEN GIRARD, DECEASED

Statements of Net Assets – FASB Basis

June 30, 2011 and 2010

(In thousands)

Assets	2011	2010
Cash	\$ 3,146	1,621
Receivables, net	3,956	3,399
Prepaid and other assets	10,218	9,888
Investments	311,277	264,534
Assets held under indenture agreements	27,913	30,538
Property, plant, and equipment, net	158,945	176,858
Total	<u>\$ 515,455</u>	<u>486,838</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,238	812
Accrued expenses	3,606	5,025
Swap liability	22,279	24,452
Advance rents and other liabilities	91,936	97,973
Long-term debt less unamortized discount	151,134	154,645
Total liabilities	270,193	282,907
Net assets – unrestricted	245,262	203,931
Total	<u>\$ 515,455</u>	<u>486,838</u>

See accompanying notes to financial statements – FASB basis.

THE ESTATE OF STEPHEN GIRARD, DECEASED

Statements of Changes in Net Assets – FASB Basis

Years ended June 30, 2011 and 2010

(In thousands)

	<u>2011</u>	<u>2010</u>
Revenues:		
Realized and unrealized investment gains	\$ 61,420	26,338
Income from investments	5,947	4,781
Real estate	28,535	27,628
Unrealized gain on interest rate swaps	2,173	—
Gain on asset sales	308	—
Reimbursements under government programs and other income	1,931	1,963
Contributions to Girard College	870	527
Other	2,163	1,785
	<u>103,347</u>	<u>63,022</u>
Total revenues		
Expenses:		
Girard College	24,766	25,511
Management of Girard Estate:		
Real estate	19,213	20,016
Unrealized loss on interest rate swaps	—	4,777
Interest expense	9,086	8,826
Other	2,408	2,881
	<u>55,473</u>	<u>62,011</u>
Total expenses		
Asset impairment	10,668	—
(Decrease) increase to pension benefit obligation	<u>(4,125)</u>	<u>1,972</u>
Increase (decrease) in net assets	41,331	(961)
Net assets, beginning of year	<u>203,931</u>	<u>204,892</u>
Net assets, end of year	\$ <u><u>245,262</u></u>	\$ <u><u>203,931</u></u>

See accompanying notes to financial statements – FASB basis.

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Statements of Cash Flows – FASB Basis

Years ended June 30, 2011 and 2010

(In thousands)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 41,331	(960)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	10,080	9,125
Asset impairment	10,668	—
(Gain) loss on asset sales	(308)	37
Realized and unrealized investment gains	(61,420)	(26,338)
Change in operating assets and liabilities:		
(Increase) decrease in receivables	(557)	1,116
Increase in prepaid and other assets	(426)	(1,411)
Increase (decrease) in accounts payable	426	(488)
(Decrease) increase in accrued expenses and swap liability	(3,592)	5,648
Decrease in advance rents and other liabilities	(6,037)	(317)
Net cash used in operating activities	<u>(9,835)</u>	<u>(13,588)</u>
Cash flows from financing activities:		
Increase in assets held under indenture agreements	452	1,714
Payments on long-term debt	(3,529)	(3,337)
Net cash used in financing activities	<u>(3,077)</u>	<u>(1,623)</u>
Cash flows from investing activities:		
Property additions	(2,747)	(1,524)
Proceeds from asset sales	330	250
Proceeds from sales of investments	20,101	26,550
Purchases of CLIF/REIT shares	(15,005)	(3,593)
Investments in joint ventures	(4,080)	(8,617)
Proceeds from joint ventures	40,910	254
Purchases of short-term investments	(36,072)	(250)
Sales of short-term investments	11,000	1,650
Net cash provided by investing activities	<u>14,437</u>	<u>14,720</u>
Net increase (decrease) in cash	1,525	(491)
Cash, beginning of year	<u>1,621</u>	<u>2,112</u>
Cash, end of year	\$ <u><u>3,146</u></u>	\$ <u><u>1,621</u></u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ 8,686	8,879

See accompanying notes to financial statements – FASB basis.

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Notes to Financial Statements

June 30, 2011 and 2010

(1) The Estate and Summary of Significant Accounting Policies

(a) *The Estate*

Upon his death in 1831, Stephen Girard bequeathed cash and real estate to the City of Philadelphia for the primary purpose of establishing a boarding school for orphans (Girard College). The City of Philadelphia serves as Trustee under the will of Stephen Girard, deceased, acting by the Board of Directors of City Trusts (hereinafter referred to as the Girard Estate or the Estate) and retains ownership of the assets and obligations of the Estate which it administers for the benefit of the Estate. The Estate is comprised of personal property and real estate, principally acquired properties and improvements thereto in Philadelphia and throughout the Commonwealth of Pennsylvania (the Commonwealth) and anthracite coal lands in Schuylkill, Columbia and Northumberland counties in the Commonwealth. The primary operations of the Estate include the funding and operation of Girard College. The funding is derived primarily from the Estate's investment portfolio, real estate assets and anthracite coal assets.

(b) *Basis of Accounting*

As described in note 8, the Board of Directors of City Trusts is an instrumentality of the Commonwealth of Pennsylvania and, as such, the Estate is subject to the accounting standards promulgated by the Governmental Accounting Standards Board (GASB). However, to prepare the financial statements and notes thereto, the Estate has chosen to follow accounting standards promulgated by the Financial Accounting Standards Board (FASB) applicable to not-for-profit organizations to reflect a presentation that is consistent with historical practices and that followed by other trusts. Estate management believes that the FASB format presents the results of its diversified educational, investment and real estate activities in a manner that is more meaningful to third parties and to the Board.

If the Estate's financial statements were prepared in accordance with GASB standards rather than FASB standards, the following significant differences would exist:

- Management's discussion and analysis would be required supplementary information.
- The Estate's recorded obligations for retirement plans would be based on the cumulative differences between annual required contributions and amounts funded rather than on the overall cumulative funded status of the plans, calculated as the difference between the actuarially determined annual projected benefit obligation and the fair value of plan assets. Additionally, information on funding progress for the plans would be required supplementary information.
- Gains and losses related to debt defeasance would be deferred and amortized over the life of the debt rather than recorded as gain or loss at the time of the defeasance.
- Additional disclosures would be provided regarding:
 - interest rate risk, credit risk, custodial credit risk and concentrations of credit risk related to the Estate's investments and the Estate's policies for managing such risks;

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- a description of the risks of loss to which the entity is exposed and the ways in which the risks of loss are managed;
 - pledged revenues under the Estate's debt agreements;
 - additions to and deductions from the Estate's capital assets and long-term debt and maturities of interest payments on long-term debt.
- Information about the classification of the Estate's assets and liabilities measured at fair value on a recurring basis in a hierarchy based on the nature of the inputs to fair value would not be provided.

(c) ***Net Assets***

In accordance with accounting standards promulgated by the FASB applicable to not-for-profit organizations, net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Temporarily and permanently restricted net assets are not significant, and therefore all net assets and changes therein are classified and reported as unrestricted net assets in the accompanying financial statements.

(d) ***Receivables***

Receivables include investment income receivable and accounts receivable. Accounts receivable are net of an allowance for bad debts which is estimated based upon the Estate's assessment of factors related to the collectability of such receivables. Actual losses may vary from current estimates. These estimates are reviewed periodically and if changes to such estimates are deemed necessary, they are recorded in the period in which they become reasonably estimable.

(e) ***Investments***

At June 30, 2011 and 2010, the Estate's investments were primarily invested in the Collective Legal Investment Fund (the CLIF), which is a pooled investment fund of the assets of all the trusts administered by the Board of Directors of City Trusts. Such investments are stated at fair value (see note 2). Units of the CLIF are normally purchased and sold based on the available cash and cash requirements of the Estate. Gains and losses from the sales of such units, determined on the last-in, first-out (LIFO) method, are included in the statements of changes in net assets. The change in the difference between aggregate market value and the cost of investments from the beginning to the end of the year is reflected in the statements of changes in net assets. Earnings from the CLIF are allocated based on units held.

The CLIF participates in a securities lending program as a means to generate incremental income. Through this program, the CLIF may lend its securities to qualified borrowers, through its lending agent, that meet certain guidelines as established by the Board. All borrowings are initially secured by collateral in an amount equal to at least 102% of the fair value of the securities loaned and are marked to market daily. Each business day, the amount of collateral is adjusted based on the prior day's closing fair value. The collateral is invested in cash and cash equivalents. Income from lending activity is determined by the amount of interest earned on the invested collateral, a portion of which

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is allocated to the lending agent. The CLIF also is entitled to receive interest and dividends from securities on loan.

As of June 30, 2011 and 2010, the CLIF had loaned out certain securities, returnable on demand, with a market value of \$76,391,000 and \$44,973,000, respectively, to several financial institutions that have deposited collateral with respect to such securities of \$78,753,000 and \$46,930,000, respectively.

The Estate also has investments in several Real Estate Investment Trusts which are carried at fair value and is the minority partner in several joint ventures which are accounted for on the equity method.

(f) *Assets Held Under Indenture Agreements*

The Series 1998, 1999, 2001 and 2002 bond indentures require funds to be deposited with a trustee as security for outstanding debt obligations related to the Estate's debt agreements, outstanding letters of credit and interest rate swap agreements. The 2002 mortgage requires funds to be deposited into escrow for future tax and insurance payments, future tenant improvements and other requirements. Assets held under indenture agreements consist of cash equivalents and securities segregated for this purpose within the CLIF.

(g) *Interest Rate Swaps*

The Estate's interest rate swaps related to its debt are measured at fair value and are recognized as assets or liabilities in the statements of net assets. See note 6.

(h) *Property, Plant and Equipment*

Property, plant and equipment are comprised of land, equipment and real estate improved and acquired for investment purposes, Girard College real property and facilities and construction-in-progress.

Expenditures for property, plant and equipment are recorded at cost. Improvements to buildings and Girard College capital assets are stated at cost less accumulated depreciation calculated on a straight-line basis over the estimated useful lives, ranging primarily from 5 to 35 years. Alterations for tenants are stated at cost less accumulated depreciation calculated on a straight-line basis over the terms of the respective leases. Equipment is stated at cost less accumulated depreciation calculated on a straight-line basis over the estimated useful lives, ranging primarily from 5 to 20 years.

Investments in real estate would be reduced to net realizable value if such amounts were determined to be less than depreciated cost.

(i) *Fair Value*

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

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There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market and U.S. Treasury securities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate-debt securities and alternative investments which can be liquidated at net asset value at the statement of net assets date.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes illiquid alternative investments such as private equity funds

The Estate measures its investments and interest rate swaps related to its debt at fair value in accordance with other accounting pronouncements. Additionally, the Estate discloses the fair value of the Estate's outstanding debt. The Estate's valuation methodology for each of these items is described below. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Investments

Collective Legal Investment Fund

At June 30, 2011 and 2010, the Estate's investments were invested in the Collective Legal Investment Fund (the CLIF), which is a pooled investment fund of the assets of all the trusts administered by the Board of Directors of City Trusts. Such investments are stated at fair value (see note 2). Within the CLIF the Estate owns shares which invest in the following types of securities:

Equity Securities

Securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded, they are categorized in Level 1 of the fair value hierarchy.

Debt Securities

U.S. government securities are generally valued at the closing price reported in the active market in which the individual security is traded.

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Listed asset-backed securities are valued based on quoted market prices from the active market in which the instrument is principally traded and are categorized in Level 1 of the fair value hierarchy. If such quoted prices are not available, the fair value of the security is estimated based on models considering the estimated cash flows and expected yield. Such investments are categorized as Level 2 or Level 3 based on the extent inputs are observable and timely.

Other debt securities are valued at the closing price reported in the active market in which the security is traded, if available. If such information is not available, debt is valued based on yields currently available on comparable securities for issuers with similar credit ratings.

Private Equity Funds

Net asset values provided by limited partnership investees are based on estimates, appraisals, assumptions and methods that are reviewed by management. Management estimates the fair value of its limited partnership investments using the net asset value per share as reported by the investee as a practical expedient. Net asset value may differ from fair value as otherwise calculated.

Real Estate Investment Trusts

The Estate's real estate investment trusts (REITs) are marketable securities that are valued based on quoted market prices from the active market in which the instrument is publicly traded and are categorized in Level 1 of the fair value hierarchy.

Debt and Related Interest Rate Swaps

The fair value of the Estate's interest rate swaps related to its debt obligations as further discussed in note 5 is based on a discounted cash flow model with level 2 inputs including the value of the relevant market index upon which the swap is based.

The fair value of the Estate's variable rate long-term debt approximates its carrying value because these financial instruments bear interest rates which approximate current market rates for loans with similar maturities and credit quality.

(j) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 may differ from those estimates and assumptions.

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(k) Asset Retirement Obligation

Substantially all of the Estate's asset retirement obligations represent estimated costs to remove asbestos within the Estate properties. The following is a reconciliation of the Estate's remaining asset retirement obligation for the years ended June 30, 2011 and 2010 (in thousands):

Balance, June 30, 2009	\$	625
Settlement of obligation		—
Accretion expense		37
		<hr/>
Balance, June 30, 2010		662
Settlement of obligation		—
Accretion expense		40
		<hr/>
Balance, June 30, 2011	\$	<u>702</u>

The liability is recorded as a component of advance rents and other liabilities in the statements of net assets.

(l) New Accounting Pronouncement

In January 2010, the Financial Accounting Standards Board (FASB) issued ASU No. 2010-06, *Improving Disclosures About Fair Value Measurements*. This amends Accounting Standard Codification (ASC) 820 to require additional disclosures. Effective fiscal year 2010, ASU 2010-06 required disclosure of the amounts of significant transfers between Level 1 and Level 2 investments and the reasons for such transfers, the reasons for any transfers in or out of Level 3 investments and disclosure of the policy for determining when transfers among levels are recognized. ASU 2010-06 also clarified that disclosures should be provided for each class of inputs used in estimating Level 2 and Level 3 measurements. Effective in fiscal year 2011, ASU 2010-06 also requires that information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlement be provided on a gross basis. The adoption of ASU 2010-06 only required additional disclosures and did not have a material impact on the financial statements.

(m) Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

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(2) Investments and Assets Held Under Indenture Agreements

The following summarizes the Estate's investments as of June 30, 2011 and June 30, 2010 (in thousands):

	Fair Value at June 30, 2011	Fair Value at June 30, 2010
3,925,719 and 4,008,174 Collective Legal Investment		
Fund units	\$ 257,798*	215,329*
Assets held by the Estate:		
Real estate investment trusts	17,416	13,420
Joint ventures	10,965	35,765
Money market funds	25,098	20
	\$ 311,277	264,534

* Amounts exclude \$22,279,000 at June 30, 2011 and \$24,452,000 at June 30, 2010 that have been segregated within the CLIF to comply with the requirements of certain debt, letter of credit and swap agreements. Such amounts have been included in assets held under indenture agreements to reflect the restriction on their use.

The composition of the Estate's investment returns for the years ended June 30, 2011 and 2010 are as follows (in thousands):

	2011	2010
Net realized gain on sales of investments	\$ 18,700	891
Net unrealized appreciation in fair value of investments	42,720	25,447
Income from investments, net	5,947	4,781
Total investment income	\$ 67,367	31,119

(a) Collective Legal Investment Fund

The CLIF is a balanced portfolio composed primarily of equity, fixed income and short-term investment securities. It is intended to be more aggressive than income-oriented portfolios and less aggressive than equity-oriented portfolios. All asset classes, other than alternative investments, must have a readily ascertainable market value and must be readily marketable. In fiscal 2009 the Board modified its investment policy to allow private investment funds on a limited basis. As of June 30, 2011, 2% of the CLIF assets have been invested in this asset class.

The equity portfolio is well diversified to avoid undue exposure to any single economic sector, industry group or individual security.

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Risk, volatility and the possibility of loss in purchasing power are present to some degree in all types of investment vehicles. While high levels of risk are normally avoided, the assumption of risk is warranted and encouraged in order to allow the opportunity to achieve satisfactory long-term results consistent with objectives and fiduciary character of the CLIF. The volatility of returns are monitored and evaluated on a continuing basis.

At June 30, 2011 and 2010, the Estate owned approximately 61.71% and 61.97%, respectively, of the total units in the CLIF. The total investments of the CLIF at fair value as of June 30, 2011 and 2010 are as follows (in thousands):

	<u>2011</u>	<u>2010</u>
U.S. government and agency obligations	\$ 44,500	45,022
Corporate and other bonds	89,676	87,356
Asset-backed securities	3,221	4,824
International bonds	1,317	—
Common stocks	194,178	154,755
Exchange-traded funds	60,133	62,632
Mutual funds	20,305	—
International stocks	18,536	13,838
Private equity	7,168	4,030
Short-term investments	14,799	14,487
	<u>\$ 453,833</u>	<u>386,944</u>

The Estate's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no significant transfers into or out of level 1, level 2, or level 3 for the year ended June 30, 2011.

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June 30, 2011 and 2010

The following table presents the CLIF's fair value hierarchy for assets held in the Collective Legal Investment Fund measured at fair value on a recurring basis as of June 30, 2011 (in thousands):

	2011 <u>Fair Value</u>	Fair Value Measurements at June 30, 2011 using:		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-Term Investments	\$ 14,799	\$ 14,799	\$ -	\$ -
Marketable equity securities				
U.S. common stocks				
Industrials	26,619	26,619	-	-
Consumer discretionary	21,690	21,690	-	-
Consumer staples	18,099	18,099	-	-
Energy	20,514	20,514	-	-
Financial	22,070	22,070	-	-
Materials	11,546	11,546	-	-
Information technology	37,002	37,002	-	-
Utilities	4,546	4,546	-	-
Healthcare	25,479	25,479	-	-
Telecommunications and other	6,613	6,613	-	-
Total U.S. common stocks	<u>194,178</u>	<u>194,178</u>	<u>-</u>	<u>-</u>
Mutual Funds				
Global Allocation Fund	6,667	6,667	-	-
Asset Strategy Fund	6,887	6,887	-	-
All Asset Fund	6,751	6,751	-	-
Total Mutual funds	<u>20,305</u>	<u>20,305</u>	<u>-</u>	<u>-</u>
International stocks				
European Union	6,792	6,792	-	-
Great Britain	4,001	4,001	-	-
Japan	2,845	2,845	-	-
Other	4,898	4,898	-	-
Total international stocks	<u>18,536</u>	<u>18,536</u>	<u>-</u>	<u>-</u>

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	2011	Fair Value Measurements at June 30, 2011 using:		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Exchange traded funds				
MCSI International Index	261	261	-	-
S&P 500 Index	28,730	28,730	-	-
Midcap Index	<u>31,142</u>	<u>31,142</u>	-	-
Total exchange traded funds	<u>60,133</u>	<u>60,133</u>	-	-
Total marketable equity securities	<u>293,152</u>	<u>293,152</u>	-	-
Fixed Income				
Debt securities issued by the U.S.				
Treasury and other U.S. government corporations and agencies	42,704	27,649	15,055	-
Debt securities issued by states of the United States and political sub- divisions of the states	1,796	-	1,796	-
Debt securities issued by foreign governments	1,317	-	1,317	-
Corporate debt securities	89,676	-	89,676	-
Residential mortgage-backed securities	1,287	-	1,287	-
Commercial mortgage-backed securities	1,263	-	1,263	-
Other asset-backed securities	<u>671</u>	-	<u>671</u>	-
Total fixed income	<u>138,714</u>	<u>27,649</u>	<u>111,065</u>	-
Private equity funds	<u>7,168</u>	-	-	<u>7,168</u>
Total investments in the CLIF	<u>\$ 453,833</u>	<u>335,600</u>	<u>111,065</u>	<u>7,168</u>

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The following table presents the CLIF's fair value hierarchy for assets held in the Collective Legal Investment Fund measured at fair value on a recurring basis as of June 30, 2010 (in thousands):

	2010	Fair Value Measurements at June 30, 2010 using:		
	Fair Value	Level 1	Level 2	Level 3
Short-Term Investments	\$ 14,487	\$ 14,487	\$ -	\$ -
Marketable equity securities				
U.S. common stocks				
Industrials	18,211	18,211	-	-
Consumer discretionary	11,976	11,976	-	-
Consumer staples	18,887	18,887	-	-
Energy	13,503	13,503	-	-
Financial	18,505	18,505	-	-
Materials	9,891	9,891	-	-
Information technology	29,099	29,099	-	-
Utilities	3,754	3,754	-	-
Healthcare	23,802	23,802	-	-
Telecommunications and other	7,127	7,127	-	-
Total U.S. common stocks	<u>154,755</u>	<u>154,755</u>	<u>-</u>	<u>-</u>
International stocks				
European Union	4,285	4,285	-	-
Great Britain	3,418	3,418	-	-
Japan	2,528	2,528	-	-
Other	3,607	3,607	-	-
Total international stocks	<u>13,838</u>	<u>13,838</u>	<u>-</u>	<u>-</u>

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	2010 Fair Value	Fair Value Measurements at June 30, 2010 using:		
		Level 1	Level 2	Level 3
Exchange traded funds				
MCSI International Index	368	368	-	-
Large Cap Value Index	11,976	11,976	-	-
S&P 500 Index	26,187	26,187	-	-
Midcap Index	24,101	24,101	-	-
Total exchange traded funds	<u>62,632</u>	<u>62,632</u>	<u>-</u>	<u>-</u>
 Total marketable equity securities	<u>231,225</u>	<u>231,225</u>	<u>-</u>	<u>-</u>
Fixed Income				
Debt securities issued by the U.S.				
Treasury and other U.S. government corporations and agencies	44,785	29,659	15,126	-
Debt securities issued by states of the United States and political sub- divisions of the states	237	-	237	-
Corporate debt securities	87,356	-	87,356	-
Residential mortgage-backed securities	3,061	-	3,061	-
Commercial mortgage-backed securities	872	-	872	-
Other asset-backed securities	891	-	891	-
Total fixed income	<u>137,202</u>	<u>29,659</u>	<u>107,543</u>	<u>-</u>
Private equity funds	4,030	-	-	4,030
Total investments in the CLIF	<u>\$ 386,944</u>	<u>275,371</u>	<u>107,543</u>	<u>4,030</u>

(b) Investments Held by the Estate Measured at Fair Value

The following table presents the Estate's fair value hierarchy for assets held by the Estate measured at fair value on a recurring basis as of June 30, 2011 (in thousands):

	Fair value 2011	Fair value measurements at June 30, 2011 using		
		Level 1	Level 2	Level 3
Money market funds	\$ 25,098	25,098	—	—
Real Estate Investment Trusts	17,416	17,416	—	—
	<u>\$ 42,514</u>	<u>42,514</u>	<u>—</u>	<u>—</u>

THE ESTATE OF STEPHEN GIRARD, DECEASED

Notes to Financial Statements

June 30, 2011 and 2010

The following table presents the Estate's fair value hierarchy for assets held by the Estate measured at fair value on a recurring basis as of June 30, 2010 (in thousands):

	<u>Fair value 2010</u>	<u>Fair value measurements at June 30, 2010 using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 20	20	—	—
Real Estate Investment Trusts	13,420	13,420	—	—
	<u>\$ 13,440</u>	<u>13,440</u>	<u>—</u>	<u>—</u>

(c) Joint Ventures

In fiscal year 2011, the Estate invested \$4,080,000 in a joint venture which will build and operate a parking garage in downtown Philadelphia. The Estate is entitled to preferred cumulative dividends and/or operational cash flow from net operating income. The parking garage is currently under construction and has not begun operations. This investment is accounted for on the equity method and is valued at \$4,080,000 as of June 2011. The remaining joint venture investments are accounted for on the equity method and are valued at \$6,885,000.

The Estate has additional joint venture investments with varying degrees of preferred cumulative returns from 6% to 15%. During the year the Estate sold or liquidated two joint venture projects with an original cost of \$28,930,000 and a June 30, 2010 value of \$25,766,000.

The following table summarizes the Estate's investments in joint ventures as of June 30, 2011 and 2010. All joint venture agreements are accounted for by the equity method of accounting (in thousands):

	<u>2011</u>	<u>2010</u>
Joint venture beginning balance	\$ 35,765	29,964
Additional investments	4,080	8,617
Dividends/cash receipts	(40,384)	(253)
Equity participation (loss)	11,504	(2,563)
Joint venture ending balance	<u>\$ 10,965</u>	<u>35,765</u>

(d) Assets Held Under Indenture Agreements

Assets held under indenture agreements were \$27,913,000 and \$30,538,000 at June 30, 2011 and 2010, respectively. Of these amounts, \$22,279,000 and \$24,452,000, respectively, were segregated within the CLIF while the remainder is held in cash and cash equivalents in separate accounts with trustees.

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Notes to Financial Statements

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(3) Property, Plant and Equipment

Property, plant and equipment of the Estate as of June 30, 2011 and 2010 is as follows (in thousands):

	2011	2010
Real estate operations:		
Land	\$ 31,038	31,386
Buildings and improvements	131,936	144,011
Tenant alterations	12,228	12,805
Equipment	202	281
	175,404	188,483
Accumulated depreciation	(51,137)	(48,878)
	124,267	139,605
Coal operations:		
Equipment	317	318
	317	318
Accumulated depreciation	(155)	(135)
	162	183
Girard College operations:		
Capital assets	63,534	65,005
Equipment	1,202	1,059
	64,736	66,064
Accumulated depreciation	(30,220)	(28,994)
	34,516	37,070
Total property, plant, and equipment, net	\$ 158,945	176,858

Land and other real estate received under the will of Stephen Girard after his death in 1831 have been assigned no value in the accounts of the Estate and represent various properties in Philadelphia, Schuylkill, Columbia and Northumberland counties in Pennsylvania. Subsequent improvements to buildings and real estate have been capitalized and depreciated.

The Estate recorded depreciation expense of \$9,984,000 and \$9,029,000 in 2011 and 2010, respectively.

In fiscal 2011 certain long-lived real estate assets, which are classified as being held and used, were identified as being impaired. An impairment loss was recognized when the future undiscounted cash flows of income producing office buildings multiplied by appropriate market capitalization rates were estimated to be less than the carrying values of such assets. As a result, the carrying values of the assets were reduced

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by \$10,668,000 to arrive at their fair values at June 30, 2011. This expense is shown as a separate line item in the Statements of Changes in Net Assets.

(4) Retirement Plans

Eligible employees of the Estate and Girard College are covered by either the Board of Directors of City Trusts Contributory Retirement Plan or the Board of Directors of City Trusts Non-Contributory Retirement Plan (the Plans). The financial statements of the Plans are reported upon separately. Contributions to the Plans provide for the payment of estimated normal cost and amortization of the unfunded prior service liability over a 25-year period.

The Estate recorded a liability of \$5,290,000 and \$9,508,000 at June 30, 2011 and 2010, respectively, for the Estate's unfunded status, which is included as a component of advance rents and other liabilities in the statements of net assets. The impact of recognizing the Estate's portion of the change in funded status of the Plans in fiscal 2011 and 2010 totaled \$(4,125,000) and \$1,972,000, respectively.

The following presents the projected funded status and accrued cost of the Estate's portion of the Plans for the year ended June 30, 2011 (in thousands):

	Contributory Plan	Non- Contributory Plan
Projected benefit obligations – June 30	\$ (4,480)	(24,932)
Fair value of plan assets – June 30	3,674	20,448
Funded status	\$ (806)	(4,484)
Accrued cost recognized in the Estate's statement of net assets	\$ (806)	(4,484)
Accumulated benefit obligation	4,245	24,043
Benefit expense	322	1,372
Employer contribution	320	1,277
Plan participants' contribution	70	—
Benefits paid	295	969
Weighted-average assumptions used to determine benefit obligation and net periodic benefit cost:		
Discount rate	5.41%	5.59%
Expected long-term return on plan assets	8.00	8.00
Rate of compensation increase	3.00	3.00

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Notes to Financial Statements

June 30, 2011 and 2010

The following presents the projected funded status and accrued cost of the Estate's portion of the Plans for the year ended June 30, 2010 (in thousands):

	Contributory Plan	Non- Contributory Plan
Projected benefit obligations – June 30	\$ (4,736)	(24,370)
Fair value of plan assets – June 30	3,005	16,593
Funded status	\$ (1,731)	(7,777)
Accrued cost recognized in the Estate's statement of net assets	\$ (1,731)	(7,777)
Accumulated benefit obligation	4,438	23,391
Benefit expense	295	1,411
Employer contribution	379	1,471
Plan participants' contribution	63	—
Benefits paid	309	914
Weighted-average assumptions used to determine benefit obligation and net periodic benefit cost:		
Discount rate	5.50%	5.50%
Expected long-term return on plan assets	8.00	8.00
Rate of compensation increase	3.00	3.00

The 8.0% expected rate of return on Plan assets has been employed for both Plans based on their investment in the CLIF for many years. It is a reasonable estimate based on (a) the CLIF's actual annual rates of return in the past and (b) reasonable expectations with regard to the future annual returns.

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June 30, 2011 and 2010

The components of net periodic benefit cost for the years ended June 30, 2011 and 2010 are as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Amounts recognized in net assets but not yet recognized in net periodic benefit cost:		
Prior service costs	\$ 558	670
Net loss	5,215	9,228
Total amount recognized in net assets	<u>\$ 5,773</u>	<u>9,898</u>
Components of net periodic benefit cost:		
Service cost	\$ 1,091	1,019
Interest cost	1,562	1,566
Expected return on plan assets	(1,591)	(1,383)
Amortization of prior service cost	113	118
Recognized actuarial cost	518	385
Net periodic benefit cost	<u>\$ 1,693</u>	<u>1,705</u>

The Estate expects to contribute \$264,000 and \$1,277,000 to the Contributory and Non-Contributory Retirement Plans, respectively, in fiscal year 2011.

The expected benefit payments from the Plans for the next 10 years are as follows (in thousands):

	<u>Contributory Plan</u>	<u>Non-Contributory Plan</u>
2012	\$ 265	1,100
2013	273	1,157
2014	268	1,345
2015	302	1,371
2016	298	1,414
Years 2017 – 2021	1,852	7,644
	<u>\$ 3,258</u>	<u>14,031</u>

The Plans' investments were held in the CLIF at June 30, 2011 and 2010. See note 2(a) for the allocation of assets within the CLIF.

	<u>June 30, 2011</u>		<u>June 30, 2010</u>	
	<u>CLIF units held</u>	<u>% of CLIF held</u>	<u>CLIF units held</u>	<u>% of CLIF held</u>
Contributory Plan	49,825	0.78%	48,878	0.76%
Non-Contributory Plan	282,540	4.44	273,661	4.23

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Notes to Financial Statements

June 30, 2011 and 2010

(5) Long-Term Debt

(a) *Coal Mining and Facilities Leasing Projects*

On May 24, 1999, the Washington County (Pennsylvania) Authority (the Authority) issued \$43,500,000 of Variable Rate Demand Revenue Bonds (Girard Estate Refunding Project), Series of 1999 (the 1999 Bonds). The proceeds were used to defease and advance refund the Industrial and Commercial Revenue Bonds (Girard Estate Coal Mining Project), Series of 1996 (the 1996 Bonds) and the Industrial and Commercial Revenue Bonds (Girard Estate Facilities Leasing Project), Series of 1997 (the 1997 Bonds) issued by the Philadelphia Authority for Industrial Development; to fund a debt service reserve fund; and for payment of costs and expenses of issuance of the 1999 Bonds. The 1999 Bonds are limited obligations of the Authority payable solely from revenues and payments to the Authority from the Estate under the loan agreement, certain funds pledged to and held by the trustee and from funds drawn on a letter of credit. The loan agreement is a limited obligation of the Estate. The obligations of the Estate under the loan agreement are secured by a pledge and assignment by the Estate to the Authority of the net project revenues. The project facilities include commercial office buildings, airplane hangars and related real estate and the Estate's coal reserves and related assets. The Estate originally entered into an irrevocable direct pay letter of credit (the credit facility) agreement with a bank for an initial amount of \$46,500,000 which after several extensions, the most recent occurring in May 2011, has an expiration date of June 2012. The credit facility allows the tender and paying agents of the 1999 Bonds to draw funds necessary to cover the debt service.

In connection with the issuance of the 1999 Bonds, the Estate entered into a swap contract in order to convert the variable interest rate on the 1999 Bonds to a synthetic fixed rate. The agreement commenced with a notional amount of \$43,500,000 and declines semi-annually until the termination of the agreement on June 1, 2027. In May 2009 the swap agreement was amended and restated at the current notional value and the same fixed rate. The new swap agreement allows, among other things, for an optional termination by the Estate upon ten days notice to the bank. At June 30, 2011 and 2010, the fair value of the swap was \$(5,101,000) and \$(5,718,000), respectively, and is recorded as a liability in accrued expenses. Amounts payable under this agreement are recognized as interest expense.

(b) *Girard College Project*

On November 25, 1998, the Authority issued Revenue Bonds (the Girard College Project), Series of 1998 (the 1998 Bonds). The par value of the 1998 Bonds was \$30,000,000 and the proceeds were used to fund the construction and renovation of dormitory buildings and other facilities on the campus of Girard College; to fund a debt service reserve fund and capitalized interest; and for payment of costs and expenses of issuance of the 1998 Bonds. The loan agreement is an unsecured obligation of the Estate payable from the unrestricted assets and unrestricted revenues of the Estate.

Pursuant to the 1998 indenture between Washington County Authority and First Union Bank, MBIA Insurance Corporation, as bond insurer, provided notice on November 25, 2008 that its rating had been downgraded to Baa1 by Moody's and to Aa by Standard & Poors. The indenture provides that, upon such event, the Estate must deliver to the Trustee for deposit into the Debt Service Reserve Fund cash or a replacement Debt Service Reserve Fund Surety in the approximate amount of

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\$1,965,000 within 31 days of such notification. The Estate complied with this requirement and the funds are included in assets held under indenture agreements in the statement of net assets.

(c) *Series of 2001 Variable Rate Demand Revenue Bonds*

On October 30, 2001, the Philadelphia Authority for Industrial Development (PAID) issued \$23,200,000 of Variable Rate Demand Revenue Bonds (Girard Estate Facilities Leasing Project), Series of 2001 (the 2001 Bonds), under a Trust Indenture dated October 15, 2001. The proceeds were used to fund the purchase of certain real estate assets, most of which are being leased to the Commonwealth of Pennsylvania, acting through its Department of General Services; to fund a debt service reserve fund; and for payment of costs and expenses of issuance of the 2001 Bonds. The 2001 Bonds are limited obligations of PAID, payable solely from the gross revenues of and payments to PAID by the Estate under the loan agreement, certain funds pledged to and held by the trustee and from funds drawn on a letter of credit. The loan agreement is a limited obligation of the Estate. The obligations of the Estate under the loan agreement are secured by a pledge and assignment by the Estate to PAID of the gross project revenues. The Estate entered into an irrevocable direct pay letter of credit (the credit facility) agreement with a bank for a total amount of \$23,459,000 which after several extensions, the most recent occurring in May 2011, has an expiration date of October 2012. The credit facility allows the paying agent and tender agent for the 2001 Bonds to draw funds necessary to cover the debt service and purchase of bonds subject to tender or redemption.

In connection with the issuance of the 2001 Bonds, the Estate entered into a swap contract in order to convert the variable interest rate on the 2001 Bonds to a synthetic fixed rate. In May 2009 the swap agreement was amended and restated at the current notional value and the same fixed rate. The new swap agreement allows, among other things, for an optional termination by the Estate upon ten days notice to the bank. The expiration date of the swap remains October 2031. The fair value of the rate swap at June 30, 2011 and 2010 was \$(6,015,000) and \$(6,576,000), respectively, and is recorded as a liability in accrued expenses. Amounts payable under this agreement are recognized as interest expense.

(d) *Aramark Tower Financing*

On April 9, 2002, the Philadelphia Authority for Industrial Development (PAID) issued \$36,000,000 of Variable Rate Demand Revenue Bonds (Girard Estate Aramark Tower Acquisition Project), Series of 2002 (the 2002 Bonds), under a Trust Indenture dated April 1, 2002. The proceeds were used to fund a portion of the purchase of the fee and leasehold interest in the Aramark Tower; to fund a debt service reserve fund; and for payment of costs and expenses of issuance of the 2002 Bonds. The 2002 Bonds are limited obligations of PAID payable solely from the revenues of and payments to PAID by the Estate under the loan agreement, certain monies pledged to and held by the trustee and from funds drawn on a letter of credit. The loan agreement is a general obligation of the Estate payable from the unrestricted revenues of the Estate. The Estate entered into an irrevocable direct pay letter of credit (the credit facility) agreement with a bank for a total amount of \$36,402,000 which after several extensions, the most recent occurring in December 2009, has an expiration date of April 2013. The credit facility allows the paying agent and tender agent for the 2002 Bonds to draw funds as necessary to cover the debt service and purchase price of bonds subject to tender or redemption.

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In connection with the issuance of the 2002 Bonds, the Estate entered into a swap contract in order to convert the variable interest rate in the 2002 Bonds to a synthetic fixed rate. In May 2009 the swap agreement was amended and restated at the current notional value and the same fixed rate. The new swap agreement allows, among other things, for an optional termination by the Estate upon ten days notice to the bank. The swap contract expires in 2032. The fair value of the rate swap at June 30, 2011 and 2010 was \$(11,163,000) and \$(12,159,000), respectively, and is recorded as a liability in accrued expenses. Amounts payable under this agreement are recognized as interest expense.

On April 2, 2002, a bank issued a \$47,500,000, 6.86% fixed rate, 10-year term, 30-year amortization mortgage note. The proceeds were used to fund a portion of the purchase of the fee and leasehold interest of the Aramark Tower. Repayments of principal and interest began on June 1, 2002 and are due on the first day of each calendar month thereafter up to and including April 1, 2012. On this date, a significant portion of the principal will remain outstanding and will require refinancing or satisfaction. The Estate has identified certain of its investment assets to satisfy the mortgage if that option is selected in fiscal 2012. Additionally, monthly escrow deposits are due the first day of each calendar month for real estate taxes, insurance premiums and capital repairs and replacements.

(e) Debt Covenants

The Estate has covenanted that it will not lease, sell or otherwise dispose of all or a part of the project facilities of the facilities leasing projects to a person other than a governmental unit. In the event that the Commonwealth or any other lessee of all or a portion of the 1997, 2001 and 2002 project facilities assigns its rights as lessee to an assignee that is not a governmental unit, the Estate is required to take remedial action (if any) in order to maintain the exclusion of interest on the 1999, 2001 and 2002 Bonds from gross income for federal income tax purposes.

The debt covenants under the letter of credit agreements require that the Estate maintain a ratio of market value of unrestricted unencumbered marketable securities to total secured liabilities of 1.75 and/or a ratio of adjusted market value of unrestricted unencumbered marketable securities to total secured liabilities of 1.25 as those terms are defined in the agreement. Also, the Estate may not issue or incur any additional general obligation indebtedness without the prior written consent of the swap counterparty, which consent will not be unreasonably withheld.

Under the Credit Support Annex to the 2001 swap master agreement as amended as part of the 2002 master swap agreement, the Estate is required to pledge as collateral certain marketable securities with an adjusted (as defined) market value equal to the monthly combined net fair value loss of the Estate's three rate swaps (1999, 2001 and 2002). Such collateral is held in the CLIF and presented as assets held under indenture agreements in the statement of net assets. In addition the counterparty has a priority secured position, in the event of default, against the Estate's marketable securities.

The Estate was in compliance with all covenants under all Bonds, letter of credit agreements, swap agreements and mortgage note as of June 30, 2011 and 2010.

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Notes to Financial Statements

June 30, 2011 and 2010

Long-term debt consists of the following at June 30, 2011 (in thousands):

	Principal	Unamortized discount
1998 Bonds, interest payable semiannually, ranging from 4.55% to 5.00%, annual principal payments ranging from \$890,000 in fiscal 2011 to \$1,945,000 in fiscal 2028. The loan agreement is an unsecured general obligation of the Estate	\$ 22,900	320
1999 Bonds, interest payable semiannually, rate swapped to a fixed rate of 5.25% at June 30, 2011. Annual principal payments ranging from \$2,005,000 in fiscal 2011 to \$1,670,000 in fiscal 2027. The loan agreement is secured by a pledge and assignment of net project revenues	27,305	—
2001 Bonds, interest paid monthly, rate swapped to a fixed rate of 4.975% at June 30, 2011. No principal payments until maturity in 2031. The loan agreement is secured by a pledge and assignment of gross project revenues	23,200	—
2002 Bonds, interest paid monthly, swapped to a fixed rate of 5.305% at June 30, 2011. No principal payments until maturity in 2032. The loan agreement is a general obligation of the Estate	36,000	—
Mortgage payable, 6.86% fixed rate note, 10-year term to April 2012, 30-year amortization	42,049	—
	\$ 151,454	320

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Long-term debt consists of the following at June 30, 2010 (in thousands):

	Principal	Unamortized discount
1998 Bonds, interest payable semiannually, ranging from 4.55% to 5.00%, annual principal payments ranging from \$850,000 in fiscal 2011 to \$1,945,000 in fiscal 2028. The loan agreement is an unsecured general obligation of the Estate	\$ 23,750	338
1999 Bonds, interest payable semiannually, rate swapped to a fixed rate of 5.25% at June 30, 2010. Annual principal payments ranging from \$1,895,000 in fiscal 2011 to \$1,670,000 in fiscal 2027. The loan agreement is secured by a pledge and assignment of net project revenues	29,200	—
2001 Bonds, interest paid monthly, rate swapped to a fixed rate of 4.975% at June 30, 2010. No principal payments until maturity in 2031. The loan agreement is secured by a pledge and assignment of gross project revenues	23,200	—
2002 Bonds, interest paid monthly, swapped to a fixed rate of 5.305% at June 30, 2010. No principal payments until maturity in 2032. The loan agreement is a general obligation of the Estate	36,000	—
Mortgage payable, 6.86% fixed rate note, 10-year term to April 2012, 30-year amortization	42,833	—
	\$ 154,983	338

Maturities of the long-term debt outstanding are as follows (in thousands):

Years ended June 30:	
2012	\$ 44,944
2013	3,055
2014	3,225
2015	3,405
2016	3,595
Thereafter	93,230
	\$ 151,454

The 1999 Bonds, 2001 Bonds and 2002 Bonds have remarketing terms and direct pay letters of credit which could change the maturity dates of each of the Bonds to fiscal 2012, 2013 and 2013, respectively, based on the current expiration of the letters of credit.

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Based on borrowing rates currently available to the Estate for debt with similar terms and remaining maturities, the fair values of long-term debt are estimated to approximate their carrying values. The variable rate of the 1999, 2001 and 2002 Bonds is a market rate based on the SIFMA Municipal Swap Index.

(6) Interest Rate Swaps

The following is a summary of the Estate's interest rate swap agreements (in thousands):

Series	Effective date	Notional amount	Estate pays	Estate receives	Expiration date
1999 Bonds	5/24/1999	\$ 27,305	5.25%	SIFMA less 10bp	6/01/2027
2001 Bonds	10/30/2001	\$ 23,200	4.975%	SIFMA less 10bp	11/01/2031
2002 Bonds	4/9/2002	\$ 36,000	5.305%	SIFMA less 10bp	6/01/2032

The fair value of the interest rates swaps is recorded in the financial statements as follows:

	Balance sheet location	Location of gain/loss	Fair value 2011	Fair value 2010	Gain/(loss) 2011
Interest rate swap agreements	Interest rate swap liability	Unrealized gain on interest rate swaps	\$ 22,279	24,452	2,173

The following table presents the fair value hierarchy classification of the Estate's swap obligations as of June 30, 2011 with a comparative total for 2010 (in thousands):

	Fair value 2011	Fair value measurements at June 30, 2011 using			Fair value 2010
		Level 1	Level 2	Level 3	
Financial liabilities:					
Interest rate swap obligations	\$ 22,279	—	22,279	—	24,452
	\$ 22,279	—	22,279	—	24,452

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(7) Real Estate Leases

Tenant leases have various expiration dates ranging through fiscal year 2021. Minimum rentals on noncancelable operating leases at June 30, 2011, which represent future income to the Estate, are as follows (in thousands):

2012	\$	19,708
2013		19,498
2014		19,481
2015		18,027
2016		15,640
Thereafter		107,573
	\$	<u>199,927</u>

In 2007, the Estate entered into a long term ground lease with a lessee, in the form of two leases, for the land and existing buildings located in the City of Philadelphia, between Market and Chestnut Streets and between 11th and 12th Streets and received an up-front payment of \$90,000,000. In addition, the Estate will receive basic net rent, for each lease, of \$1 per year.

The leases are triple net leases with all income, expenses, taxes and liabilities transferring to the lessee for a term of 75 years. At the lessee's option the lease term can be extended for an additional term of 75 years for the then current market rate to be determined by binding arbitration. Title to the property remains with the Estate and, as a result, the lease is accounted for as an operating lease. The \$90,000,000 up-front payment at June 30, 2007 was recorded as unearned rental income and is included in advance rents and other liabilities in the statements of changes in net assets. The unamortized balances at June 30, 2011 and 2010 were \$85,037,000 and \$86,237,000, respectively. The lessee has been granted the right to perform property improvements up to and including the demolishing of current structures and the development of new properties. Title to new properties and improvements pass to the Estate at the end of the lease term. The leases do not contain bargain purchase options. In July 2008 the leases were assigned by the lessee, with the Estate's consent, to a third party.

(8) Tax Status

The City of Philadelphia, Trustee, Under the Will of Stephen Girard, Deceased, Acting by the Board of Directors of City Trusts, statutory agent for the City of Philadelphia, has been determined to be an agency of the Commonwealth of Pennsylvania and, as such, is exempt from federal income taxes.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Estate and recognize a tax liability (or asset) if the Estate has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Estate and has concluded that, as of June 30, 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Estate is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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(9) Commitments and Contingencies

The Commonwealth Court of Pennsylvania, on April 4, 2011, issued an opinion in *City of Philadelphia, Trustee Under the Will of Stephen Girard, Deceased, Acting by the Board of Directors of City Trusts v. Cumberland County Board of Assessment Appeals*, No. 1725, C.D. 2010 (the “Decision”), reversing a decision by the Court of Common Pleas of Cumberland County that certain investment property owned by the City of Philadelphia, Trustee under the Will of Stephen Girard, Deceased, Acting by the Board of Directors of City Trusts, was immune and exempt from taxation by the County and related taxing entities.

In reversing the trial court determination, the Commonwealth Court held that the Estate and Board of Directors of City Trust are not governmental agencies.

In light of the enabling statute and prior case law, the Board of Directors of City Trusts has filed an application for allowance of appeal of the Decision with the Commonwealth of Pennsylvania Supreme Court. If the Decision is not reversed on appeal, all or some portion of the Estate’s income may be declared taxable. Additionally, the Estate’s outstanding tax-exempt bonds could be declared taxable and a tax liability could be assessed against the holders of all or some portion of the bonds, which would trigger a mandatory redemption obligation with respect to the bonds.

While the Board of Directors of City Trusts is actively pursuing its appeal of the Decision, it is not possible to predict the outcome of the appeal. The financial impact of an unsuccessful appeal on the Estate is not reasonably estimable at this time.

The Estate is party to various claims and legal proceedings which arise in the normal course of business. Management, after consultation with legal counsel, does not believe that the resolution of these matters will have a material adverse effect on the Estate’s financial condition or results of operations.

(10) Subsequent Events

In connection with the preparation of the financial statements and in accordance with the recently issued FASB ASC 855-10, *Subsequent Events*, the Estate evaluated subsequent events after the balance sheet date of June 30, 2011 through October 25, 2011 which was the date the financial statements were issued