



THE ESTATE OF STEPHEN GIRARD, DECEASED

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

THE ESTATE OF STEPHEN GIRARD, DECEASED

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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors of City Trusts
Philadelphia, Pennsylvania:

We have audited the accompanying financial statements of The Estate of Stephen Girard, Deceased (the Estate), which comprise the statements of net assets – FASB basis as of June 30, 2014 and 2013, and the related statements of changes in net assets – FASB basis and cash flows – FASB basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in note 1(c); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position – FASB basis of the Estate of Stephen Girard, Deceased, as of June 30, 2014 and 2013, 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(c).



Basis of Accounting

We draw attention to note 1(c) of the financial statements, which describes the basis of accounting. As described in note 9, 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). The financial statements are prepared in accordance with the standards promulgated by the Financial Accounting Standards Board (FASB), which collectively represent an other comprehensive basis of accounting. Our opinion is not modified with respect to this matter.

KPMG LLP

Philadelphia, Pennsylvania
October 28, 2014

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Statements of Net Assets – FASB Basis

June 30, 2014 and 2013

(In thousands)

Assets	2014	2013
Cash	\$ 2,499	2,769
Receivables, net	2,462	2,577
Prepaid and other assets	9,142	10,385
Investments	271,844	244,765
Note receivable	3,500	—
Assets held under indenture agreements	25,725	22,218
Property, plant, and equipment, net	141,408	146,930
Total	<u>\$ 456,580</u>	<u>429,644</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,678	1,112
Accrued expenses	3,471	3,299
Interest rate swap liability	21,625	21,525
Advance rents and other liabilities	88,729	91,268
Long-term debt less unamortized discount	78,223	78,721
Total liabilities	<u>193,726</u>	<u>195,925</u>
Net assets – unrestricted	<u>262,854</u>	<u>233,719</u>
Total	<u>\$ 456,580</u>	<u>429,644</u>

See accompanying notes to financial statements – FASB basis.

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Statements of Changes in Net Assets – FASB Basis

Years ended June 30, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Revenues:		
Realized and unrealized investment gains	\$ 38,026	22,717
Income from investments	5,785	6,890
Real estate	24,945	26,304
Girardville area	2,411	2,650
Reimbursements under government programs and other income	1,072	1,146
Contributions to Girard College	636	854
Total revenues	<u>72,875</u>	<u>60,561</u>
Expenses:		
Girard College	20,083	20,860
Management of Girard Estate:		
Real estate	17,363	18,040
Girardville area	622	615
Administration	1,658	1,647
Interest expense	4,619	4,780
Other	47	45
Total expenses	<u>44,392</u>	<u>45,987</u>
Unrealized loss (gain) on interest rate swaps	100	(9,282)
Decrease to pension benefit obligation	(752)	(4,694)
Increase in net assets	29,135	28,550
Net assets, beginning of year	<u>233,719</u>	<u>205,169</u>
Net assets, end of year	<u>\$ 262,854</u>	<u>233,719</u>

See accompanying notes to financial statements – FASB basis.

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Statements of Cash Flows – FASB Basis

Years ended June 30, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 29,135	28,550
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	7,705	7,553
Realized and unrealized investment gains	(38,026)	(22,717)
Change in operating assets and liabilities:		
Rent and other receivables	115	467
Girardville area	1,214	(638)
Accounts payable	566	(70)
Accrued expenses and swap liability	272	(8,753)
Advance rents and other liabilities	(2,539)	(6,485)
Net cash used in operating activities	<u>(1,558)</u>	<u>(2,093)</u>
Cash flows from financing activities:		
Assets held under indenture agreements	(906)	193
Payments on long-term debt	(498)	(479)
Net cash used in financing activities	<u>(1,404)</u>	<u>(286)</u>
Cash flows from investing activities:		
Property additions	(2,154)	(1,791)
Proceeds from sales of investments	4,500	6,001
Purchases of investments	(752)	(2,042)
Investments in joint ventures	—	(1,513)
Issuance of note receivable	(3,500)	—
Proceeds from joint ventures	4,598	1,382
Purchases of short-term investments	—	(882)
Sales of short-term investments	—	1,601
Net cash provided by investing activities	<u>2,692</u>	<u>2,756</u>
Net (decrease) increase in cash	(270)	377
Cash, beginning of year	<u>2,769</u>	<u>2,392</u>
Cash, end of year	\$ <u>2,499</u>	<u>2,769</u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ 3,867	3,845

See accompanying notes to financial statements – FASB basis.

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Notes to Financial Statements – FASB Basis

June 30, 2014 and 2013

(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). Girard College, in continuous operation since 1848, is now a full scholarship boarding school for grades 1 through 12 situated on a 43 acre campus in Philadelphia for academically capable students from qualified families of limited financial resources. 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 in the general vicinity of Girardville, Pennsylvania. 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) *Petition to Orphans' Court of Philadelphia*

In June 2013, the Board of Directors of City Trusts (the Board) approved the following plan, subject to the approval of the Orphans' Court of Philadelphia, regarding the long-term sustainability of Girard College:

- 1) Girard College would temporarily convert its residential program to an extended day program beginning in the 2014-2015 academic year;
- 2) Girard College would temporarily suspend its operation of grades 9-11 beginning in the 2014-2015 academic year;
- 3) Girard College would temporarily suspend its operation of grade 12 beginning in the 2015-2016 academic year.

This plan was intended to be a temporary change and, subject to milestones established by the Board, the intent was to grow the school back to a residential academic program serving students from grades 1 through 12 as growth became sustainable. The plan did not involve any plan to close or relocate Girard College. The savings in staff and resources by temporarily suspending the five day residential program and the high school would enable Girard College to reduce its expenses, repair its buildings and replenish its investment endowment fund so that the income would be sufficient to maintain the school's operations in the future. The petition requesting approval of the operating plan was submitted to the Orphans' Court of Philadelphia on July 29, 2013.

In October 2013, the Board determined that for the benefit of the children and to end any uncertainties that existed for the students, parents, staff and faculty associated with the implementation of the planned transition for the 2014-2015 academic year, Girard College would continue to operate as a residential boarding school for students in grades 1 through 12 until the 2015-2016 academic year. Also, for the 2015-2016 academic year only, Girard College would offer a

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nonresidential, extended day academic program serving students in the 12th grade. An amended petition was submitted to Orphans' Court in October 2013. The Board presented its case to Orphans' Court in July 2014.

Subsequently, in August 2014, the Court denied the Board's Petition to temporarily suspend the residential and high school programs at Girard College. In September 2014, the Board filed a set of exceptions in the case, essentially asking the Court to reconsider its decision given the weight of the evidence presented during the hearing. Oral argument on the exceptions was set by the Court for October 30, 2014.

(c) *Basis of Accounting*

As described in note 9, 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.
- Net position, rather than net assets, would be presented. Net position would include, in addition to an unrestricted component, a component for net investment in capital assets.
- 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. For periods beginning after June 15, 2014, recorded obligations for retirement plans would be accounted for similar to pension obligations under FASB standards, with differences in the rate used to discount future pension benefits to their present value and the method used to attribute pension liabilities to specific periods. Additionally, information on funding progress for the plans would be required supplementary information.
- The Estate would be required to evaluate the effectiveness of its interest rate swaps as potential hedging derivative instruments. If deemed effective, changes in fair value of the swaps would be recorded as a deferred outflow of resources or a deferred inflow of resources rather than unrealized gain or loss on the statement of changes in net assets.
- 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.

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- Debt issuance costs, except any portion related to prepaid insurance costs, would be recognized as an expense in the period incurred, rather than amortized over the life of the related debt.
- 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;
 - 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.

(d) 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.

(e) 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.

(f) Investments

At June 30, 2014 and 2013, 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 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.

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

As of June 30, 2014 and 2013, the CLIF had loaned out certain securities, returnable on demand, with a market value of \$12,294,000 and \$44,681,000, respectively, to several financial institutions that have deposited collateral with respect to such securities of \$12,646,000 and \$45,648,000, respectively.

The Estate is the minority partner in several joint ventures which are accounted for on the equity method.

(g) *Assets Held Under Indenture Agreements*

The Series 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 2012 mortgage requires funds to be deposited into escrow for future tax payments. Assets held under indenture agreements consist of cash equivalents and securities segregated for this purpose within the CLIF.

(h) *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 7.

(i) *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.

Long-lived assets to be held and used are assessed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If circumstances indicate a long-lived asset is impaired, the asset value will be reduced to fair value. Fair value is determined

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through various valuation techniques including quoted market values and third-party independent appraisals, as considered necessary.

(j) ***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.

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 statements 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 in the paragraphs 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.

Collective Legal Investment Fund

At June 30, 2014 and 2013, the Estate's investments were invested in the CLIF. 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.

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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, if available (Level 1 inputs), or yields currently available on comparable securities (Level 2 inputs)

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 (Level 1 inputs). If such information is not available, debt is valued based on yields currently available on comparable securities for issuers with similar credit ratings (Level 2 inputs)

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. Such investments are classified as Level 3 in the hierarchy because the Estate's interests are not redeemable at or near the date of the statements of net assets. Net asset value may differ from fair value as otherwise calculated.

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 7 is based on a discounted cash flow model with Level 3 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.

Other Short-Term Assets and Liabilities

The fair value of cash, receivables, prepaid expenses, and accounts payable and accrued expenses approximates their respective carrying amounts because of the short-term nature of these items.

(k) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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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Notes to Financial Statements – FASB Basis

June 30, 2014 and 2013

(1) 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, 2014 and 2013 (in thousands):

Balance, June 30, 2012	\$	744
Accretion expense		45
Balance, June 30, 2013		789
Accretion expense		47
Balance, June 30, 2014	\$	836

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

(2) Investments and Assets Held Under Indenture Agreements

The following summarizes the Estate’s investments at fair value as of June 30, 2014 and 2013 (in thousands):

	2014	2013
3,065,786 and 3,111,742 Collective Legal Investment		
Fund units, respectively	\$ 254,539*	221,660*
Assets held by the Estate:		
Money market funds	194	194
Joint ventures	17,111	22,911
	\$ 271,844	244,765

* Amounts exclude \$24,125,000 at June 30, 2014 and \$21,525,000 at June 30, 2013 that are 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 (see note 2(d)).

The composition of the Estate’s investment returns for the years ended June 30, 2014 and 2013 are as follows (in thousands):

	2014	2013
Net realized gain on sales of investments	\$ 3,939	2,140
Net unrealized appreciation in fair value of investments	34,087	20,577
Income from investments, net	5,785	6,890
Total investment income	\$ 43,811	29,607

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Notes to Financial Statements – FASB Basis

June 30, 2014 and 2013

(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. The Board's investment policy does allow private investment funds on a limited basis. As of June 30, 2014, 2.3% 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.

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, 2014 and 2013, the Estate owned approximately 57.55% and 57.10%, respectively, of the total units in the CLIF. The total investments of the CLIF at fair value as of June 30, 2014 and 2013 are as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Short-term investments	\$ 12,252	23,188
Equities:		
Common stock	210,207	169,632
Exchange-traded funds	50,845	51,971
International equity mutual funds	46,348	40,097
Fixed income:		
U.S. government and agency obligations	31,651	33,066
Corporate and other bonds	87,316	74,607
Asset-backed securities	1,574	1,826
Global tactical asset allocation mutual funds	33,017	20,386
Private equity	10,999	11,148
Total investments in the CLIF	\$ <u>484,209</u>	<u>425,921</u>

The CLIF'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 transfers into or out of Level 1, Level 2 or Level 3 for the years ended June 30, 2014 or 2013.

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Notes to Financial Statements – FASB Basis

June 30, 2014 and 2013

The following table presents the CLIF’s fair value hierarchy for assets held in the CLIF measured at fair value on a recurring basis as of June 30, 2014 (in thousands):

	2014 Fair value	Fair value measurements at June 30, 2014 using		
		Level 1	Level 2	Level 3
Short-term investments	\$ 12,252	12,252	—	—
Marketable equity securities:				
U.S. common stocks:				
Industrials	29,534	29,534	—	—
Consumer discretionary	26,158	26,158	—	—
Consumer staples	10,852	10,852	—	—
Energy	20,213	20,213	—	—
Financial	32,587	32,587	—	—
Materials	9,789	9,789	—	—
Information technology	42,533	42,533	—	—
Utilities	2,805	2,805	—	—
Healthcare	29,333	29,333	—	—
Telecommunications and other	6,403	6,403	—	—
Total U.S. common stocks	210,207	210,207	—	—
Exchange traded funds:				
S&P 500 Index SPDR	36,032	36,032	—	—
Select Sector SPDRs	14,813	14,813	—	—
Total exchange traded funds	50,845	50,845	—	—
International equity mutual funds	46,348	46,348	—	—
Total marketable equity securities	\$ 307,400	307,400	—	—
Fixed income:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	29,312	26,263	3,049	—
Debt securities issued by states of the United States and political sub-divisions of the states	1,167	—	1,167	—

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	2014	Fair value measurements		
		Fair value	at June 30, 2014 using	
		Level 1	Level 2	Level 3
Debt securities issued by foreign governments	\$ 1,172	—	1,172	—
Corporate debt securities	87,316	—	87,316	—
Residential mortgage-backed securities	43	—	43	—
Commercial mortgage-backed securities	1,531	—	1,531	—
Total fixed income	<u>120,541</u>	<u>26,263</u>	<u>94,278</u>	<u>—</u>
Global allocation fund	33,017	33,017	—	—
Private equity funds	10,999	—	—	10,999
Total investments in the CLIF	<u>\$ 484,209</u>	<u>378,932</u>	<u>94,278</u>	<u>10,999</u>

The following table presents the CLIF's fair value hierarchy for assets held in the CLIF measured at fair value on a recurring basis as of June 30, 2013 (in thousands):

	2013	Fair value measurements		
		Fair value	at June 30, 2013 using	
		Level 1	Level 2	Level 3
Short-term investments	\$ 23,188	23,188	—	—
Marketable equity securities:				
U.S. common stocks:				
Industrials	23,779	23,779	—	—
Consumer discretionary	25,923	25,923	—	—
Consumer staples	10,599	10,599	—	—
Energy	13,270	13,270	—	—
Financial	28,678	28,678	—	—
Materials	6,970	6,970	—	—
Information technology	28,498	28,498	—	—
Utilities	2,722	2,722	—	—
Healthcare	24,523	24,523	—	—
Telecommunications and other	4,670	4,670	—	—
Total U.S. common stocks	<u>169,632</u>	<u>169,632</u>	<u>—</u>	<u>—</u>

THE ESTATE OF STEPHEN GIRARD, DECEASED

Notes to Financial Statements – FASB Basis

June 30, 2014 and 2013

	2013 Fair value	Fair value measurements at June 30, 2013 using		
		Level 1	Level 2	Level 3
Exchange traded funds:				
S&P 500 Index SPDR	\$ 34,923	34,923	—	—
Select Sector SPDRs	17,048	17,048	—	—
Total exchange traded funds	51,971	51,971	—	—
International equity mutual funds	40,097	40,097	—	—
Total marketable equity securities	261,700	261,700	—	—
Fixed income:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	31,285	27,468	3,817	—
Debt securities issued by states of the United States and political sub-divisions of the states	1,166	—	1,166	—
Debt securities issued by foreign governments	615	—	615	—
Corporate debt securities	74,607	—	74,607	—
Residential mortgage-backed securities	677	—	677	—
Commercial mortgage-backed securities	1,149	—	1,149	—
Total fixed income	109,499	27,468	82,031	—
Global tactical asset allocation mutual funds	20,386	20,386	—	—
Private equity funds	11,148	—	—	11,148
Total investments in the CLIF	\$ 425,921	332,742	82,031	11,148

THE ESTATE OF STEPHEN GIRARD, DECEASED

Notes to Financial Statements – FASB Basis

June 30, 2014 and 2013

(b) *Joint Ventures*

The Estate has invested in various joint ventures which own diversified real estate assets including an office building leased as an automotive research facility, student housing, apartment complexes, strip malls, a parking garage and retail/office/industrial facilities for lease in several states. The Estate is entitled to preferred cumulative dividends and/or operational cash flow from net operating income. These investments are accounted for on the equity method and are valued at \$17,111,000 as of June 2014.

The following table summarizes the Estate's investments in joint ventures as of June 30, 2014 and 2013. All joint venture agreements are accounted for by the equity method of accounting (in thousands):

	<u>2014</u>	<u>2013</u>
Joint venture beginning balance	\$ 22,911	25,847
Additional investments	—	1,513
Dividends/cash receipts	(4,598)	(1,382)
Equity participation loss	<u>(1,202)</u>	<u>(3,067)</u>
Joint venture ending balance	<u>\$ 17,111</u>	<u>22,911</u>

(c) *Assets Held Under Indenture Agreements*

Assets held under indenture agreements were \$25,725,000 and \$22,218,000 at June 30, 2014 and 2013, respectively. Of these amounts, \$24,125,000 and \$21,525,000, respectively, were segregated within the CLIF while the remainder is held in cash and cash equivalents in separate accounts with trustees.

(3) **Note Receivable**

In November 2013, the Estate provided \$3,500,000 in mezzanine financing to a joint venture for the construction of a multi-story apartment building in Philadelphia, Pennsylvania. The note has a not to exceed term of 36 months with interest payable monthly. As part of the same transaction, the Estate provided, for a fee, a \$2,500,000 completion of construction letter of credit through a bank to support the primary construction loan. The bank required the Estate to post collateral equal to the face amount of the letter of credit.

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June 30, 2014 and 2013

(4) Property, Plant and Equipment

Property, plant and equipment of the Estate as of June 30, 2014 and 2013 is as follows (in thousands):

	2014	2013
Real estate operations:		
Land	\$ 29,169	30,491
Buildings and improvements	133,975	131,735
Tenant alterations	11,552	11,459
Equipment	168	194
	174,864	173,879
Accumulated depreciation	(62,267)	(57,883)
	112,597	115,996
Coal operations:		
Equipment	321	317
	321	317
Accumulated depreciation	(218)	(197)
	103	120
Girard College operations:		
Capital assets	57,667	63,026
Equipment	1,610	1,439
	59,277	64,465
Accumulated depreciation	(30,569)	(33,651)
	28,708	30,814
Total property, plant, and equipment, net	\$ 141,408	146,930

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 and Columbia counties in Pennsylvania. Subsequent improvements to buildings and real estate have been capitalized and depreciated.

The Estate recorded depreciation expense of \$7,676,000 and \$7,524,000 in 2014 and 2013, respectively.

THE ESTATE OF STEPHEN GIRARD, DECEASED

Notes to Financial Statements – FASB Basis

June 30, 2014 and 2013

(5) Retirement Plans

(a) Defined Benefit Plans

Nonunion employees of the Estate and Girard College hired prior to September 1, 2010 and certain union employees participate in the Board of Directors of City Trusts Girard Non-Contributory Retirement Plan (Non-Contributory Plan). Certain other union employees participate in the Board of Directors of City Trusts Contributory Retirement Plan (Contributory Plan). Contributions to the Contributory and Non-Contributory plans (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 \$5,126,000 and \$7,038,000 at June 30, 2014 and 2013, 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 2014 and 2013 totaled \$(752,000) and \$(4,694,000), 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, 2014 (in thousands):

	Contributory Plan	Non- Contributory Plan
Projected benefit obligations – June 30	\$ (5,923)	(34,240)
Fair value of plan assets – June 30	5,400	29,637
Funded status	\$ (523)	(4,603)
Accrued cost recognized in the Estate’s statement of net assets	\$ (523)	(4,603)
Accumulated benefit obligation	5,653	33,047
Benefit expense	210	933
Employer contribution	412	1,927
Plan participants’ contribution	40	—
Benefits paid	268	1,260
Weighted average assumptions used to determine benefit obligation and net periodic benefit cost:		
Discount rate	4.06%	4.16%
Expected long-term return on plan assets	8.00	8.00
Rate of compensation increase	3.00	3.00

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June 30, 2014 and 2013

The following presents the projected funded status and accrued cost of the Estate’s portion of the Plans for the year ended June 30, 2013 (in thousands):

	Contributory Plan	Non- Contributory Plan
	<u> </u>	<u> </u>
Projected benefit obligations – June 30	\$ (5,296)	(30,830)
Fair value of plan assets – June 30	4,460	24,628
Funded status	<u>\$ (836)</u>	<u>(6,202)</u>
Accrued cost recognized in the Estate’s statement of net assets	\$ (836)	(6,202)
Accumulated benefit obligation	5,026	29,786
Benefit expense	298	1,496
Employer contribution	411	1,902
Plan participants’ contribution	60	—
Benefits paid	261	1,084
Weighted average assumptions used to determine benefit obligation and net periodic benefit cost:		
Discount rate	4.58%	4.72%
Expected long-term return on plan assets	8.00	8.00
Rate of compensation increase	3.00	3.00

The components of net periodic benefit cost for the years ended June 30, 2014 and 2013 are as follows (in thousands):

	2014	2013
	<u> </u>	<u> </u>
Amounts recognized in net assets but not yet recognized in net periodic benefit cost:		
Prior service costs	\$ 263	354
Net loss	7,748	8,374
Total amount recognized in net assets	<u>\$ 8,011</u>	<u>8,728</u>
Components of net periodic benefit cost:		
Service cost	\$ 1,276	1,393
Interest cost	1,659	1,484
Expected return on plan assets	(2,326)	(2,010)
Amortization of prior service cost	91	91
Recognized actuarial cost	443	836
Net periodic benefit cost	<u>\$ 1,143</u>	<u>1,794</u>

The Estate expects to contribute \$268,000 and \$1,188,000 to the Contributory and Non-Contributory Retirement Plans, respectively, in fiscal year 2015.

THE ESTATE OF STEPHEN GIRARD, DECEASED

Notes to Financial Statements – FASB Basis

June 30, 2014 and 2013

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

	Contributory Plan	Non- Contributory Plan
2015	\$ 305	1,473
2016	293	1,527
2017	294	1,550
2018	351	1,563
2019	351	1,607
Years 2020–2024	1,765	9,395
	<u>\$ 3,359</u>	<u>17,115</u>

The Plans' investments were held in the CLIF at June 30, 2014 and 2013. See note 2(a) for the allocation of assets within the CLIF.

	June 30, 2014		June 30, 2013	
	CLIF units held	Percentage of CLIF held	CLIF units held	Percentage of CLIF held
Contributory Plan	58,247	1.09%	55,843	1.02%
Non-Contributory Plan	323,699	6.08	309,551	5.68

(b) Defined Contribution Plan

Girard Estate and Girard College nonunion employees hired after August 31, 2010 participate in the Girard Estate/Girard College Retirement Plan, a 403(b) defined contribution retirement plan. Employees may choose to defer a portion of their compensation in accordance with IRS regulations. Employee contributions are immediately fully vested and are not subject to forfeiture for any reason. Eligible participants receive a discretionary annual employer contribution which is determined each year. The employer contributions for fiscal 2014 and 2013 were set at 3% of eligible compensation and in the aggregate were \$16,000 and \$4,000, respectively.

(6) Long-Term Debt

(a) 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

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Notes to Financial Statements – FASB Basis

June 30, 2014 and 2013

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 September 2012, has an expiration date of December 2014. 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, 2014 and 2013 was \$7,746,000 and \$7,683,000, respectively, and is recorded as a liability in the statements of net assets.

(b) *Aramark Tower Financing*

On April 9, 2002, the 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 Trustee 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 September 2012, has an expiration date of December 2014. 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.

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, 2014 and 2013 was \$13,879,000 and \$13,842,000, respectively, and is recorded as a liability in the statements of net assets.

In April 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 in June 2002 and were due monthly thereafter up to and including April 2012. Additionally, monthly escrow deposits were

THE ESTATE OF STEPHEN GIRARD, DECEASED

Notes to Financial Statements – FASB Basis

June 30, 2014 and 2013

due for real estate taxes, insurance premiums and capital repairs and replacements. In April 2012, the Estate satisfied the mortgage by making the final required balloon principal payment of approximately \$41,435,000, net of amounts already held by the escrow agent.

In May 2012, an insurance company issued a \$20,000,000, 3.95% fixed rate, 10-year term, 25-year amortization note as a partial refinancing of the fee and leasehold interest of the Aramark Tower. Repayments of principal and interest began in July 2012 and are due monthly for 10 years up to and including June 2022. At that time, a significant portion of the principal will remain outstanding and will require refinancing or satisfaction. Additionally, an escrow deposit is due monthly for real estate taxes.

(c) ***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 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 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 two rate swaps (2001 and 2002). Such collateral is held in the CLIF and presented as assets held under indenture agreements in the statements 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, 2014 and 2013.

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Long-term debt consists of the following at June 30, 2014 and 2013 (in thousands):

	2014	2013
2001 Bonds, interest paid monthly, variable rate swapped to a fixed rate of 4.975%, no principal payments until maturity in 2031. The loan agreement is secured by a pledge and assignment of gross project revenues	\$ 23,200	23,200
2002 Bonds, interest paid monthly, variable rate swapped to a fixed rate of 5.305%, no principal payments until maturity in 2032. The loan agreement is a general obligation of the Estate	36,000	36,000
Mortgage payable, 3.95% fixed rate note, 10-year term to June 2022, 25-year amortization	19,023	19,521
	\$ 78,223	78,721

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

Years ended June 30:		
2015	\$	518
2016		539
2017		561
2018		583
2019		607
Thereafter		75,415
	\$	78,223

The 2001 Bonds and 2002 Bonds had remarketing terms and irrevocable direct pay letters of credit which could change the maturity dates of each of the Bonds to fiscal 2015.

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 2001 and 2002 Bonds is a market rate based on the SIFMA Municipal Swap Index.

(7) 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
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

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The fair value of the interest rate swaps are recorded in the financial statements as follows (in thousands):

	<u>Balance sheet location</u>	<u>Location of gain/loss</u>	<u>Fair value 2014</u>	<u>Fair value 2013</u>	<u>(Loss) 2014</u>	<u>Gain 2013</u>
Interest rate swap agreements	Interest rate swap liability	Unrealized (loss) gain on interest rate swaps	\$ 21,625	21,525	(100)	9,282

The following table presents the fair value hierarchy classification of the Estate’s swap obligations as of June 30, 2014 with a comparative total for 2013 (in thousands):

	<u>Fair value 2014</u>	<u>Fair value measurements at June 30, 2014 using</u>			<u>Fair value 2013</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Financial liabilities:					
Interest rate swap obligations	\$ 21,625	—	—	21,625	21,525

(8) Real Estate Leases

Tenant leases have various expiration dates ranging through fiscal year 2021. Minimum rentals on noncancelable operating leases at June 30, 2014, which represent future income to the Estate, are as follows (in thousands):

2015	\$ 20,711
2016	18,087
2017	15,563
2018	14,455
2019	5,846
Thereafter	<u>79,292</u>
	<u>\$ 153,954</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 in either the 50th, 60th or 74th year of the lease. 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 net assets. The

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unamortized balances at June 30, 2014 and 2013 were \$81,537,000 and \$82,737,000, 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 passes 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. In September 2014, the ground lease covering the land and existing buildings fronting on Market, 11th and Chestnut Streets was divided into three separate ground leases, each of which was then assigned, with the Estate's consent, to an affiliate of the then-existing ground lessee.

(9) 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.

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. On October 30, 2013, the Pennsylvania Supreme Court issued a unanimous ruling in the Estate's appeal of the Decision in favor of the Estate, which reversed the Decision and order of the Commonwealth Court and reinstated the order of the trial court in concluding that the Estate is immune from local property taxation as part of the sovereignty of the Commonwealth of Pennsylvania.

U.S. generally accepted accounting principles require management to evaluate income 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, 2014, 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.

(10) Commitments and Contingencies

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.

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June 30, 2014 and 2013

(11) Related Party Transactions

In certain instances the Estate may purchase services from companies associated with certain Board members. These transactions are not material. The Estate has a written conflict of interest policy that requires, among other things, that no member of the Board of Directors can participate in any decision in which he or she (or an immediate family member) has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable and for the benefit of the Estate, and are in accordance with applicable conflict of interest laws.

(12) Subsequent Events

In connection with the preparation of the financial statements and in accordance with FASB ASC 855-10, *Subsequent Events*, the Estate evaluated subsequent events after the balance sheet date of June 30, 2014 through October 28, 2014, which was the date the financial statements were issued.

The Estate is proceeding with negotiations on a debt refinancing transaction regarding the Estate's Series of 2001 and Series of 2002 Bonds (see note 6) with a combined outstanding principal balance of \$59,200,000. These bonds would be redeemed through the issuance of Series of 2014 Refunding Bonds to be issued through the Philadelphia Authority for Industrial Development with a bank being the sole holder. In addition, the two interest rate swap agreements associated with the Series of 2001 and Series of 2002 Bonds, respectively, would be terminated and replaced with a new fixed-rate swap agreement with the bank as counterparty. The new bonds would not require a letter of credit. If this refinancing transaction does not close, the Estate has an offer in hand from the bank holder of the in place letters of credit supporting the Series of 2001 Bonds and the Series of 2002 Bonds to renew them beyond the current expiration dates in December 2014 for an additional period, at the Estate's option, from one to four years.