KPMG

THE ESTATE OF STEPHEN GIRARD, DECEASED

Financial Statements

June 30, 2019 and 2018

(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, 2019 and 2018, 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 – FASB basis.

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(b) to the financial statements – FASB basis; 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, 2019 and 2018, and the changes in its net assets – FASB basis and its cash flows – FASB basis for the years then ended, on the basis of accounting described in note 1(b).

Basis of Accounting

We draw attention to note 1(b) of the financial statements, which describes the basis of accounting. As described in note 9, the Board of Directors of City Trusts is an agency 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 another comprehensive basis of accounting. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in note 2(n) to the financial statements, the Estate adopted Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958), *Presentation of Financial Statements of Not-For-Profit Entities,* and ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

KPMG LLP

Philadelphia, Pennsylvania
October 31, 2019

THE ESTATE OF STEPHEN GIRARD, DECEASED

Statements of Net Assets – FASB Basis

June 30, 2019 and 2018

(In thousands)

Assets		2019	2018
Cash	$	1,195	1,169
Receivables, net		2,379	2,853
Prepaid and other assets		11,607	11,273
Investments		343,931	313,349
Assets held under indenture agreements		36,400	36,930
Property, plant and equipment, net		115,092	118,513
Total	$	510,604	484,087
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	3,641	958
Accrued expenses		2,416	3,223
Line of credit		2,193	11,728
Interest rate swap liability		24,207	20,202
Advance rents and other liabilities		77,618	77,944
Long-term debt		113,519	75,780
Total liabilities		223,594	189,835
Net assets – without donor restrictions		287,010	294,252
Total	$	510,604	484,087

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, 2019 and 2018

(In thousands)

		2019	2018
Operating revenue:			
Realized and unrealized investment gains	$	11,645	28,465
Income from investments, net		6,076	5,811
Real estate		21,788	24,748
Girardville area		1,846	1,872
Reimbursements under government grants		562	771
Contributions to Girard College		1,053	1,049
Other		163	318
Total operating revenue		43,133	63,034
Operating expenses:			
Girard College		21,416	20,544
Supporting services:			
Real estate and other expenses		20,015	19,977
Girardville area		523	536
Administration		1,277	1,399
Total operating expenses		43,231	42,456
Change in net assets from operating activities		(98)	20,578
Nonoperating activities:			
Loss on extinguishment of debt		(643)	—
Unrealized (loss) gain on interest rate swap		(4,005)	4,795
(Increase) decrease in pension benefit obligations		(2,496)	3,688
(Decrease) increase in net assets – without donor restrictions		(7,242)	29,061
Net assets – without donor restrictions, beginning of year		294,252	265,191
Net assets – without donor restrictions, end of year	$	287,010	294,252

See accompanying notes to financial statements – FASB basis.

THE ESTATE OF STEPHEN GIRARD, DECEASED

Statements of Cash Flows – FASB Basis

Years ended June 30, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	(7,242)	29,061
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		7,263	7,448
Loss on disposal of assets		92	—
Realized and unrealized investment gains		(11,645)	(28,465)
Unrealized loss (gain) on interest rate swap		4,005	(4,795)
Change in operating assets and liabilities:			
Receivables, net		474	65
Prepaid and other assets		(334)	(3,662)
Accounts payable and accrued expenses		(1,093)	521
Advance rents and other liabilities		(326)	(5,902)
Net cash used in operating activities		(8,806)	(5,729)
Cash flows from investing activities:			
Purchases of capital property, plant, and equipment		(2,518)	(3,604)
Proceeds from asset sales		1,585	—
Proceeds from sales of investments		12,281	2,500
Purchases of investments		(10,455)	(448)
Investments in joint ventures		(19,840)	(13,560)
Proceeds from joint ventures		9,606	13,463
Net cash used in investing activities		(9,341)	(1,649)
Cash flows from financing activities:			
Assets held under indenture agreements		(10,000)	—
Proceeds from line of credit		10,309	12,728
Payments on line of credit		(19,843)	(5,000)
Proceeds from new debt		55,000	—
Payments for debt issuance costs		(471)	—
Payments on long-term debt		(16,822)	(583)
Net cash provided by financing activities		18,173	7,145
Net increase (decrease) increase in cash		26	(233)
Cash, beginning of year		1,169	1,402
Cash, end of year	$	1,195	1,169
Supplemental disclosures of cash flow information:			
Interest paid	$	5,459	4,302
Change in accounts payable related to capital purchases		2,969	—

See accompanying notes to financial statements – FASB basis.

(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 (the Board) (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 comprises 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) Basis of Accounting

As described in note 11, the Board is an agency 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 is 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 - without donor restrictions, would be presented. Net position would include, in addition to without donor restrictions component, a component for net investment in capital assets.
- 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 instrument. 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 statements of changes in net assets – FASB basis.

- 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.
- Debt issuance costs, except any portion related to prepaid insurance costs, would be recognized as an expense in the period incurred, rather than capitalized and 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 revenue 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.

(c) Net Assets

In accordance with accounting standards promulgated by the FASB applicable to not-for-profit organizations, net assets and revenue, gains, and losses are classified as either without donor restrictions or with donor restrictions based on the existence or absence of donor-imposed restrictions as follows:

Without donor restrictions – Net assets not subject to donor-imposed stipulations.

With donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity (endowment funds). Donor-imposed restrictions are released when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. There are no net assets subject to donor-imposed restrictions.

(d) Receivables

Receivables include investment income and rent receivables. Rent receivable are net of an allowance for bad debts, which is estimated based upon the Estate's assessment of factors related to the collectibility 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

Investments are stated at fair value. At June 30, 2019 and 2018, 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. 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

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sales of such units, determined on the last-in, first-out method, are included in the statements of changes in net assets – FASB basis. 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 – FASB basis. 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 is allocated to the lending agent. The CLIF also is entitled to receive interest and dividends from securities on loan.

As of June 30, 2019 and 2018, the CLIF had loaned out certain securities, returnable on demand, with a market value of $158,372,000 and $158,223,000, respectively, to several financial institutions that have deposited collateral with respect to such securities of $161,825,000 and $161,943,000, respectively.

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

(f) Assets Held under Indenture Agreements

The Collateral Pledge and Security Agreement related to the Series of 2014 Refunding Bonds requires funds to be deposited with a trustee as security for outstanding debt obligations related to the Estate's associated interest rate swap agreement. Assets held under indenture agreements consist of cash equivalents and securities segregated for this purpose within the CLIF.

(g) Interest Rate Swap

The Estate's interest rate swap related to its debt is measured at fair value and is recognized as a liability in the statements of net assets – FASB basis. Changes in the fair value from year to year are recognized as non-operating activities in the statements of changes in net assets – FASB basis.

(h) Property, Plant, and Equipment

Property, plant, and equipment comprise land, equipment, real estate improved and acquired, 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.

(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.

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

Level 1: Quoted or published 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 or published 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 and corporate debt securities.

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.

The Estate measures its investments and interest rate swap related to its debt at fair value. 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.

(i) Collective Legal Investment Fund

At June 30, 2019 and 2018, the Estate's investments include shares owned in the CLIF, which invests 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, 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 2 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 (Level 2 inputs).

Private Equity Funds

Net asset value (NAV) provided by limited partnership investees are based on the NAV per share as reported by the investee as a practical expedient. NAV may differ from fair value as otherwise calculated. Such investments, which are measured at NAV per share as a practical expedient to fair value, have not been categorized in the fair value hierarchy table below.

(ii) Interest Rate Swap

The fair value of the Estate's interest rate swap related to its debt obligations 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.

(j) Revenue Recognition

Real estate revenue consists of rental income, which is based upon lease agreements with each respective tenant. Rental revenue for some leases is recognized when the rent is due from the tenant. However for longer term leases (typically greater than 5 years) rental revenue is recorded on a straight-line basis over the term of the respective lease. Rental payments received in advance are deferred until earned. All leases between the Estate and the tenants of the property are operating leases.

(k) Contributions and Grants

Unconditional contributions, including unconditional promises to give and notification of a beneficial interest, and grants are recognized as revenue in the period received.

A contribution, gift or grant is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until they become unconditional, that is, when the barrier(s) in the agreement are overcome.

Unconditional contributions with no purpose or time restrictions are reported as revenue without donor restrictions.

Unconditional contributions and grants with donor-imposed restrictions that limit the use of the asset are reported as revenue with donor restrictions and are reclassified to net assets without donor restrictions when an expense is incurred that satisfies the donor-imposed restriction. However, for donor-restricted contributions and grants that were initially conditional, if donor-imposed restrictions are met in the same year that they become unconditional, the revenue is reported as revenue without donor restrictions on the statement of changes in net assets – FASB basis. Contributions restricted for the acquisition of plant and equipment are released from restriction when the asset is placed in service.

(l) Use of Estimates

The preparation of financial statements in conformity with the basis of accounting described in note 1(b) 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 revenue and expenses during the reporting period. Actual results may differ from those estimates and assumptions.

Significant estimates made in the preparation of these financial statements include the estimated fair value of alternative investments and interest rate swaps, and actuarial assumptions used to determine pension benefit obligations. Actual results could differ from those estimates.

(m) Asset Retirement Obligation

Substantially all of the Estate's asset retirement obligations represent estimated costs to remove asbestos within the Estate's properties. The following is a reconciliation of the Estate's remaining asset retirement obligation for the years ended June 30, 2019 and 2018 (in thousands):

Balance, June 30, 2017	$	954
Remediation		(1)
Accretion expense		59
Balance, June 30, 2018		1,012
Remediation		(3)
Accretion expense		62
Balance, June 30, 2019	$	1,071

The asset retirement obligation is recorded as a component of advance rents and other liabilities in the statements of net assets – FASB basis.

(n) Recently Adopted Accounting Standards

FASB Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*, revises the not-for-profit financial statement reporting model. ASU No. 2016-14 reduces the number of net asset classes from three to two: net assets without donor restrictions, previously reported as unrestricted net assets and net assets with donor restrictions, previously reported as temporarily and permanently restricted net assets. Additionally, the ASU increases the quantitative and qualitative disclosures regarding liquidity and availability of resources, and requires expenses to be reported by both natural and functional classification in one location. The Estate adopted ASU No. 2016-14 effective July 1, 2018 and applied the changes retrospectively. As a result of adopting this standard, certain prior year amounts were reclassified to conform to the presentation requirements of the standard.

ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Estate adopted ASU No. 2018-08 effective July 1, 2018 and applied the changes on a modified prospective basis to agreements that were not completed as of that date.

The adoption of these pronouncements did not significantly impact the Estate's results of operations or changes in net assets.

(o) Upcoming Accounting Pronouncements Not Yet Adopted

In February 2016, FASB issued ASU No. 2016-02, Topic 842*, Leases*. Topic 842 was developed to provide financial statement users with more information about an entity's leasing activities. This includes: (1) lessees will recognize all leases, including operating leases, with a term greater than 12 months on statement of net assets – FASB basis, and (2) lessees and lessors will disclose key information about their leasing transactions. The Estate is currently evaluating the impact of adopting this standard.

On March 10, 2017, the FASB issued ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The new guidance improves the presentation of net periodic pension cost and net period postretirement benefit cost. The Estate is currently evaluating the impact of adopting this standard.

(2) Liquidity and Availability of Resources

The Estate regularly monitors liquidity required to meet its operating needs and other contractual commitments while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Estate considers all expenditures related to its ongoing mission-related activities as well as the expenditures undertaken to support those activities to be general expenditures.

Financial assets and liquidity resources available for general expenditures within one year at June 30, 2019 and 2018 are as follows (in thousands):

		2019	2018
Cash and cash equivalents	$	1,195	1,169
Receivables		2,379	2,853
Investments		343,931	313,349
Total financial assets		347,505	317,371
Less:			
Investments in joint ventures		(37,271)	(29,426)
Private equity investments not available within one year		(11,376)	(9,291)
Total financial resources available within one year	$	298,858	278,654

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of June 30, 2019. The Estate has a policy to structure its financial assets to be available as its general operating expenses, liabilities, and other obligations come due.

(3) Investments and Assets Held under Indenture Agreements

The following summarizes the Estate's investments as of June 30, 2019 and 2018 (in thousands):

		2019	2018
Investment in Collective Legal Investment Fund	$	296,446*	283,724*
Joint ventures		37,271	29,426
Money market funds		10,214	199
Total investments	$	343,931	313,349

* Amounts exclude $26,400,000 at June 30, 2019 and $36,930,000 at June 30, 2018 that are segregated within the CLIF to comply with the requirements of certain debt, line-of-credit, and swap agreements. Such amounts have been included in assets held under indenture agreements to reflect the restriction on their use.

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The composition of the Estate's investment return, net for the years ended June 30, 2019 and 2018 are as follows (in thousands):

		2019	2018
Net realized gain on sales of CLIF investments	$	7,662	2,505
Unrealized appreciation of CLIF investments		6,372	18,147
Dividend and interest income, net		6,064	5,794
Total CLIF income		20,098	26,446
Gain on sales of joint ventures		—	7,564
Share in joint ventures' operating income		(2,389)	249
Total joint venture (loss) income		(2,389)	7,813
Other income		12	17
Total investment income, net	$	17,721	34,276

(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 equity investment funds on a limited basis. As of June 30, 2019, 3.5% 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, 2019 and 2018, the Estate owned 59.23% and 59.61%, respectively, of the total units in the CLIF. The total investments of the CLIF at fair value as of June 30, 2019 and 2018 are as follows (in thousands):

		2019	2018
Short-term investments	$	11,471	17,176
Equities:			
U.S. common stocks		250,776	248,622
Exchange-traded funds		65,841	63,371
International equity mutual funds		34,654	34,377
Fixed income:			
U.S. government and agency obligations		47,556	41,597
Corporate debt securities		59,326	73,311
Asset-backed securities		14,145	1,742
Mutual funds		17,934	17,158
Global tactical asset allocation mutual funds		24,185	24,976
Private equity		19,206	15,586
Total investments in the CLIF	$	545,094	537,916

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.

The following table presents the CLIF's fair value hierarchy for assets held in the CLIF measured at fair value on a recurring basis and NAV as of June 30, 2019 (in thousands):

		Fair value measurements at June 30, 2019 using	
	Total	**Level 1**	**Level 2**
Short-term investments	$ 11,471	11,471	—
Equity securities:			
U.S. common stocks:			
Industrials	32,067	32,067	—
Consumer discretionary	29,876	29,876	—
Consumer staples	10,501	10,501	—
Energy	13,313	13,313	—
Financial	36,432	36,432	—
Materials	7,684	7,684	—
Information technology	52,938	52,938	—
Real estate	4,738	4,738	—
Utilities	5,455	5,455	—
Healthcare	31,466	31,466	—
Telecommunications and other	26,306	26,306	—
Total U.S. common stocks	250,776	250,776	—
Exchange-traded funds:			
S&P 500 Index SPDR	31,928	31,928	—
Select Sector SPDRs	33,913	33,913	—
Total exchange-traded funds	65,841	65,841	—
International equity mutual funds	34,654	34,654	—
Total equity securities	351,271	351,271	—
Fixed income:			
Debt securities issued by the United States Treasury and other U.S. government corporations and agencies	33,068	32,430	638
Debt securities issued by states of the United States and political subdivisions of the states	14,211	—	14,211
Debt securities issued by foreign governments	277	—	277
Corporate debt securities	59,326	—	59,326
Asset-backed securities	5,645	—	5,645
Residential mortgage-backed securities	817	—	817
Commercial mortgage-backed securities	7,683	—	7,683
Mutual funds	17,934	17,934	—
Total fixed income	138,961	50,364	88,597
Global tactical asset allocation mutual funds	24,185	24,185	—
Total	525,888	$ 437,291	88,597
Private equity funds reported at NAV	19,206		
Total investments in the CLIF	$ 545,094		

The following table presents the CLIF's fair value hierarchy for assets held in the CLIF measured at fair value on a recurring basis and NAV as of June 30, 2018 (in thousands):

	Total	Fair value measurements at June 30, 2018 using Level 1	Level 2
Short-term investments	$ 17,176	17,176	—
Equity securities:			
U.S. common stocks:			
Industrials	33,060	33,060	—
Consumer discretionary	35,127	35,127	—
Consumer staples	13,583	13,583	—
Energy	18,172	18,172	—
Financial	34,578	34,578	—
Materials	10,802	10,802	—
Information technology	59,194	59,194	—
Utilities	3,460	3,460	—
Healthcare	31,492	31,492	—
Telecommunications and other	9,154	9,154	—
Total U.S. common stocks	248,622	248,622	—
Exchange-traded funds:			
S&P 500 Index SPDR	29,562	29,562	—
Select Sector SPDRs	33,809	33,809	—
Total exchange-traded funds	63,371	63,371	—
International equity mutual funds	34,377	34,377	—
Total equity securities	346,370	346,370	—
Fixed income:			
Debt securities issued by the United States Treasury and other U.S. government corporations and agencies	40,814	40,650	164
Debt securities issued by states of the United States and political subdivisions of the states	516	—	516
Debt securities issued by foreign governments	267	—	267
Corporate debt securities	73,311	—	73,311
Asset-backed securities	1,362	—	1,362
Residential mortgage-backed securities	380	—	380
Mutual funds	17,158	17,158	—
Total fixed income	133,808	57,808	76,000
Global tactical asset allocation mutual funds	24,976	24,976	—
Total	522,330	$ 446,330	76,000
Private equity funds reported at NAV	15,586		
Total investments in the CLIF	$ 537,916		

(b) Joint Ventures

The Estate has invested in various joint ventures that own diversified real estate assets, including an office building leased as an automotive research facility, student housing, apartment complexes, a parking garage, and office/warehouse 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.

The following table summarizes the Estate's investments in joint ventures as of June 30, 2019 and 2018 (in thousands):

		2019	**2018**
Joint ventures, beginning balance	$	29,426	21,516
Additional investments		19,840	13,560
Proceeds from sales of joint ventures		—	(9,849)
Cash distributions		(3,856)	(3,384)
Return of capital		(5,750)	(230)
Gain on sales		—	7,564
Share in joint ventures		(2,389)	249
Joint ventures, ending balance	$	37,271	29,426

(4) Property, Plant and Equipment

Property, plant, and equipment of the Estate as of June 30, 2019 and 2018 are as follows (in thousands):

		2019	2018
Real estate operations:			
Land	$	26,563	27,187
Buildings and improvements		116,415	123,733
Tenant alterations		3,204	4,529
Equipment		518	529
Construction in progress		3,032	137
		149,732	156,115
Accumulated depreciation		(58,165)	(62,235)
		91,567	93,880
Coal operations:			
Equipment		308	302
		308	302
Accumulated depreciation		(266)	(262)
		42	40
Girard College operations:			
Building and building improvements		63,900	61,472
Equipment		2,206	1,920
Construction in progress		51	1,009
		66,157	64,401
Accumulated depreciation		(42,674)	(39,808)
		23,483	24,593
Total property, plant, and equipment, net	$	115,092	118,513

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 $7,231,000 and $7,431,000 in 2019 and 2018, respectively.

(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 net pension liability of $861,000 and a net pension asset of $662,000 at June 30, 2019 and 2018, respectively, for the Estate's unfunded status. In the statements of net assets – FASB basis, the net pension asset is included as a component of prepaid and other assets while the net pension liability is included as a component of advance rents and other liabilities.

The following presents the projected funded status and accrued cost of the Plans for the year ended June 30, 2019 (in thousands):

		Contributory Plan	Non-Contributory Plan
Projected benefit obligations – June 30	$	(7,063)	(40,772)
Fair value of plan assets – June 30		6,790	40,184
Funded status	$	(273)	(588)
Accrued cost recognized in the Estate's statement of net assets	$	(273)	(588)
Accumulated benefit obligation		6,922	39,564
Benefit expense		90	(274)
Employer contribution		244	672
Plan participants' contribution		39	—
Benefits paid		364	1,699
Weighted average assumptions used to determine benefit obligation and net periodic benefit cost:			
Discount rate		3.49 %	3.46 %
Expected long-term return on plan assets		7.75	7.75
Rate of compensation increase		3.00	3.00

The following presents the projected funded status and accrued cost of the Plans for the year ended June 30, 2018 (in thousands):

		Contributory Plan	Non-Contributory Plan
Projected benefit obligations – June 30	$	(6,531)	(38,124)
Fair value of plan assets – June 30		6,507	38,810
Funded status	$	(24)	686
Accrued cost recognized in the Estate's statement of net assets	$	(24)	686
Accumulated benefit obligation		6,304	36,919
Benefit expense		127	338
Employer contribution		308	1,927
Plan participants' contribution		37	—
Benefits paid		371	1,537
Weighted average assumptions used to determine benefit obligation and net periodic benefit cost:			
Discount rate		4.14 %	4.14 %
Expected long-term return on plan assets		7.75	7.75
Rate of compensation increase		3.00	3.00

The components of net periodic benefit cost for the years ended June 30, 2019 and 2018 are as follows (in thousands):

		2019	2018
Amounts recognized in net assets but not yet recognized in net periodic benefit cost:			
Prior service costs	$	76	108
Net loss		11,634	8,929
Total amount recognized in net assets	$	11,710	9,037
Components of net periodic benefit cost:			
Service cost	$	1,021	1,149
Interest cost		1,803	1,705
Expected return on plan assets		(3,449)	(3,183)
Amortization of prior service cost		32	32
Recognized actuarial cost		409	762
Net periodic benefit cost	$	(184)	465

(Continued)

The Estate expects to contribute $215,000 and $605,000 to the Contributory and Non-Contributory Plans, respectively, in fiscal year 2019.

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

		Contributory Plan	Non-Contributory Plan
2020	$	406	1,902
2021		408	1,907
2022		394	1,957
2023		375	1,979
2024		368	2,030
Years 2025–2029		1,820	11,389
	$	3,771	21,164

The Plans' investments were held in the CLIF at June 30, 2019 and 2018.

	June 30, 2019		June 30, 2018	
	CLIF units held	Percentage of CLIF held	CLIF units held	Percentage of CLIF held
Contributory Plan	61,211	1.23 %	61,669	1.21 %
Non-Contributory Plan	363,694	7.36	366,538	7.17

(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 Internal Revenue Services (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 years 2019 and 2018 were set at 3% of eligible compensation and in the aggregate were $36,000 and $18,000, respectively.

(6) Line of Credit

The Estate entered into a secured revolving line of credit agreement with a bank, which provides that the Estate may borrow up to $15,000,000. Amounts outstanding under this line bear interest at the daily LIBOR plus 0.90%. If the average amount of the unused line is greater than 50% of the total available line, an unused fee equal to 0.15% on the average daily amount of the unused portion is due annually. The Estate is required to pledge as collateral certain marketable securities with an adjusted (as defined) market value at least equal to the monthly outstanding balance. Such collateral is held in the CLIF and presented as assets held under indenture agreements in the statements of net assets – FASB basis. In April 2019, the line was renewed by the bank for another year to April 2020 with a mutual option to renew by both parties annually.

In February 2018, the Estate issued a standby letter of credit under the line of credit agreement in the amount of $5,000,000 for financial obligations related to a commercial lease. The term of the letter was for one year in February 2018 and it was not renewed.

In June 2018, the line of credit agreement was amended increasing the borrowing limit to $25,000,000. The amendment also allowed the Estate to draw unsecured advances at its option under the line which, bear interest at the daily LIBOR rate plus 1.30%. At June 30, 2019, the Estate had outstanding borrowings of $2,193,000 under this line of which all were secured.

(7) Long-Term Debt

(a) 1101 Market Street Financing

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 in the office building located at 1101 Market Street in Philadelphia, Pennsylvania. Repayments of principal and interest began in July 2012 and were due monthly for 10 years up to and including June 2022.

In December 2018, the Estate refinanced the above note with an insurance company that issued a $55,000,000, 4.51% fixed rate, 16-year term, 25-year amortization note relating to the fee and leasehold interest in the office building located at 1101 Market Street in Philadelphia, Pennsylvania. As of June 30, 2019, $10,000,000 was held in escrow and will be released upon new tenancy in the building pursuant to the Estate's agreement with the lender. This escrow is included in the assets held under indenture agreements in the statements of net assets – FASB basis. Repayments began in February 2019 and are due monthly for 16 years up to and including January 2035. At that time, a significant portion of the principal will remain outstanding and will require refinancing or satisfaction.

(b) Series of 2014 Revenue Refunding Bonds

On December 1, 2014, The Philadelphia Authority for Industrial Development issued $59,200,000 of Tax-Exempt Revenue Bonds (Girard Estate Project) Series of 2014 Revenue Refunding Bonds (the 2014 Bonds) with a bank being the sole holder. The proceeds were used to refinance and redeem the Series of 2001 and Series of 2002 Bonds. The loan agreement is a general obligation of the Estate payable from the revenue of the Estate.

The bank, in its sole discretion, has the option within 90 days prior to and 90 days after the 10-year anniversary following the bond issuance date to declare the entire principal balance and accrued and unpaid interest of the 2014 Bonds payable in full. If exercised, payment on this call option would be due within 90 days of such written notification from the bank. The maturities table below assumes that this call option will not be exercised.

In connection with the issuance of the 2014 Bonds, the Estate entered into an interest rate swap contract in order to convert the variable interest rate for the 2014 Bonds to a synthetic fixed rate plus the applicable credit spread. The swap contract has a notional amount of $59,200,000 with a final maturity of June 1, 2032. The fair value of the rate swap at June 30, 2019 and 2018 was $24,207,000 and $20,202,000, respectively.

(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 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 2014 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 2014 Bonds from gross income for federal income tax purposes.

The debt covenants under the bond purchase and loan agreement require that the Estate maintain a ratio of market value of cash and investments without donor restrictions to funded debt equal to or greater than 1.50 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 Collateral Pledge and Security Agreement to the 2014 swap master agreement, the Estate is required to pledge as collateral certain marketable securities with an adjusted (as defined) market value equal to the monthly net fair value loss of the Estate's rate swap. Such collateral is held in the CLIF and presented as assets held under indenture agreements in the statements of net assets – FASB basis. 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 the bond covenant, swap agreement, line-of-credit agreement and mortgage note as of June 30, 2019 and 2018.

(Continued)

Long-term debt consists of the following at June 30, 2019 and 2018:

	2019		2018	
	Principal	Unamortized issuance costs	Principal	Unamortized issuance costs
	(In thousands)		(In thousands)	
2014 Bonds, interest paid monthly, variable rate swapped to a fixed rate of 4.9035%, no principal payments until $23,200,000 in November 2031 and $36,000,000 in June 2032. The loan agreement is a general obligation of the Estate.	$ 59,200	225	59,200	242
Mortgage payable, 3.95% fixed rate note, 10-year term to June 2022, 25-year amortization	—	—	16,822	—
Mortgage payable, 4.51% fixed rate note, 16-year term to January 2035, 25-year amortization	55,000	456	—	—
	$ 114,200	681	76,022	242

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

Year ending June 30:	
2020	$ —
2021	—
2022	987
2023	2,446
2024	2,559
Thereafter	108,208
	$ 114,200

(8) Interest Rate Swap

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

Series	Effective date		Notional amount	Estate pays	Estate receives	Expiration date
2014 Bonds	December 1, 2014	$	59,200	4.9035% plus 69% of 30-day LIBOR	69% of 30-day LIBOR	June 1, 2032

The fair value of the interest rates swap is recorded in the financial statements as follows (in thousands):

	Statement of net assets classification	Location of gain (loss)		Fair value 2019	Fair value 2018	Loss 2019	Gain 2018
Interest rate swap agreement	Interest rate swap liability	Unrealized (loss) gain on interest rate swap	$	24,207	20,202	(4,005)	4,795

The following table presents the fair value hierarchy classification of the Estate's swap obligation as of June 30, 2019 with a comparative total for 2018 (in thousands):

			Fair value measurements at June 30, 2019 using			
		Fair value 2019	Level 1	Level 2	Level 3	Fair value 2018
Financial liabilities:						
Interest rate swap obligation	$	24,207	—	24,207	—	20,202

(9) Real Estate Leases

Tenant leases have various expiration dates ranging through fiscal year 2036. Minimum rentals on noncancelable operating leases at June 30, 2019, which represent future income to the Estate, are as follows (in thousands):

2020	$	9,186
2021		9,502
2022		8,643
2023		10,139
2024		10,832
Thereafter		175,934
	$	224,236

(Continued)

In December 2017, the Estate entered into a long-term lease agreement with a new tenant in its 1101 Market Street office building. The new lease is effective January 1, 2019 with rent and expected occupancy commencing during the first quarter of fiscal 2020 for approximately 238,000 square feet of office space. The tenant has also contractually committed to lease approximately 122,000 square feet of additional office space beginning on July 1, 2025. The lease for all 360,000 square feet runs until August 31, 2035. The lease contains renewal provisions.

In June 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 was recorded as unearned rental income and is included in advance rents and other liabilities in the statements of net assets – FASB basis. The unamortized balances at June 30, 2019 and 2018 were $75,537,000 and $76,737,000, 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.

(10) Expenses by Functional and Natural Classification

Expenses by natural and functional classification for the year ended June 30, 2019, with comparable totals for June 30, 2018, were as follows (in thousands):

		Supporting Services				
	Girard College	Real Estate/ other	Girardville	Administration	2019 Total	2018 Total
Salaries and benefits	$ 13,000	419	—	887	14,306	13,791
Supplies, services, and other	4,051	7,557	478	333	12,419	12,693
Insurance and utilities	1,499	2,242	36	7	3,784	4,212
Depreciation	2,866	4,338	9	50	7,263	7,458
Interest	—	5,459	—	—	5,459	4,302
Total operating expenses	$ 21,416	20,015	523	1,277	43,231	42,456
June 30, 2018 totals	$ 20,544	19,977	536	1,399	42,456	

Expenses are presented on the statement of changes in net assets by functional classification in alignment with the overall operations of the Estate. Natural expenses are accounted for on a direct cost basis to the operation or function upon which the expense is incurred.

(11) 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.

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, 2019 and 2018, 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.

(12) Commitments and Contingencies

The Estate is party to various claims and legal proceedings that 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.

Commitments related to construction-in-progress projects were approximately $3.1 million at June 30, 2019.

(13) Related-Party Transactions

The Estate has a written conflict of interest policy that requires, among other things, that no member of the Board 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.

(14) Subsequent Events

In connection with the preparation of the financial statements, the Estate evaluated subsequent events after the balance sheet date of June 30, 2019 through October 31, 2019, which was the date the financial statements were issued. No items were identified that required additional disclosure.