

Financial Statements of

NSCAD UNIVERSITY

March 31, 2015



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INDEPENDENT AUDITOR'S REPORT

To the Board of Governors of NSCAD University

We have audited the accompanying financial statements of NSCAD University, which comprise the statement of financial position as at March 31, 2015 and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and 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 auditor's 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of NSCAD University as at March 31, 2015, and the results of its operations and its cash flows for the year ended March 31, 2015:

Chartered Accountants
Halifax, Nova Scotia
June 25, 2015

NSCAD UNIVERSITY

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NSCAD UNIVERSITY
Statement of Financial Position

As at March 31, 2015

	Unrestricted		Restricted				Total	
	Operating Fund		Endowment Fund		Capital Fund			Total
	2015	2014	2015	2014	2015	2014		
ASSETS								
Cash and cash equivalents	\$ 539,521	\$ 256,982	\$ 295,743	\$ 215,144	\$ -	\$ -	\$ 855,264	
Investments (Note 3)	4,333,861	5,410,484	6,772,864	6,463,167	3,036,194	-	14,142,919	
Accounts receivable (Note 4)	734,409	907,213	-	-	-	-	734,409	
Prepaid expenses (Note 6)	2,219,850	2,281,184	-	-	-	-	2,281,184	
Inventory	186,177	178,577	-	-	-	-	186,177	
Due from operating fund	-	-	119,370	70,629	-	-	1,084,673	
Due from capital fund	6,144,750	3,140,107	-	-	-	-	6,144,750	
	14,158,568	12,144,547	7,187,977	6,748,940	3,036,194	1,311,496	25,348,042	
Property and equipment (Note 5)								
Land	-	-	-	-	4,402,490	-	4,402,490	
Buildings	-	-	-	-	17,988,016	-	17,988,016	
Equipment	-	-	-	-	5,123,212	-	5,105,389	
Computer hardware	-	-	-	-	1,142,963	-	1,268,079	
Computer software	-	-	-	-	724,667	-	724,667	
Leasehold improvements	-	-	-	-	12,856,325	-	12,856,325	
	-	-	-	-	42,362,789	-	42,362,789	
Less: Accumulated amortization (Note 5)	-	-	-	-	12,807,123	-	12,807,123	
	-	-	-	-	29,555,666	-	29,555,666	
	\$ 14,158,568	\$ 12,144,547	\$ 7,187,977	\$ 6,748,940	\$ 32,591,860	\$ 30,180,945	\$ 54,903,708	

LIABILITIES AND FUND BALANCES

Bank indebtedness (Note 6)	\$ -	\$ -	\$ -	\$ -	\$ 7,124,977	\$ -	\$ 7,124,977
Accounts payable and accrued liabilities	2,941,880	2,262,204	-	-	-	-	2,941,880
Deferred revenue	700,668	716,629	174,227	155,114	3,524,747	965,303	5,198,781
Deferred capital contribution (Note 7)	-	-	-	-	8,598,871	-	8,598,871
Due to operating fund	-	-	-	-	6,144,750	-	6,144,750
Due to endowment fund	119,370	70,629	-	-	-	-	119,370
Due to research and special purpose fund	965,303	1,311,496	-	-	-	-	965,303
Current portion of long-term debt (Note 6)	-	-	-	-	742,506	-	742,506
	4,727,221	4,360,958	174,227	155,114	25,969,687	22,317,831	31,836,438
Long-term debt (Note 6)	-	-	-	-	5,452,786	6,195,290	5,452,786
	4,727,221	4,360,958	174,227	155,114	31,422,473	28,513,121	37,289,224
Fund balances	9,431,347	7,783,589	7,013,750	6,593,826	1,169,387	1,667,824	17,614,484
	\$ 14,158,568	\$ 12,144,547	\$ 7,187,977	\$ 6,748,940	\$ 32,591,860	\$ 30,180,945	\$ 54,903,708

Commitments (Note 9)

APPROVED BY THE BOARD

..... Governor

..... Governor

NSCAD UNIVERSITY
Statement of Operations
For the year ended March 31, 2015

	Unrestricted		Restricted		Total 2015	Total 2014
	Operating 2015	Endowment 2015	Capital 2015	Research and Special Purpose 2015		
Revenues						
Government grants						
Unrestricted	\$ 8,505,793	\$ -	\$ -	\$ -	\$ 8,505,793	\$ 8,425,142
Restricted	1,919,000	-	322,986	-	2,241,986	2,226,304
Student academic fees	6,103,816	-	-	-	6,103,816	5,951,138
Other government grants	594,781	-	-	325,459	920,240	1,453,219
Contributions received	53,036	206,931	350,023	180,591	790,581	908,145
Ancillary enterprises	749,233	-	-	-	749,233	780,445
Rent	525,602	-	-	-	525,602	552,270
Research grants	-	-	-	345,821	345,821	357,461
Unrealized gain on investments	-	232,448	-	-	232,448	267,205
Investment income	17,381	184,477	-	-	201,858	290,540
Miscellaneous	173,957	-	-	14,164	188,121	120,827
	18,642,599	623,856	673,009	866,035	20,805,499	21,332,696
Expenses						
Academic						
Salaries	8,773,586	-	-	-	8,773,586	8,726,725
Operating	462,717	-	-	37,404	500,121	494,733
Facilities operation	2,422,238	-	-	97,203	2,519,441	2,608,623
Administration	2,183,939	-	-	280,260	2,464,199	2,737,096
Service departments	1,498,850	-	-	105,347	1,604,197	1,634,440
Amortization of property and equipment	-	-	1,171,446	-	1,171,446	1,385,354
Ancillary enterprises	843,862	-	-	-	843,862	921,009
Interest	594,915	-	-	-	594,915	775,958
Research expenditures	-	-	-	345,821	345,821	357,461
Scholarships	-	315,079	-	-	315,079	278,358
Rent	214,734	-	-	-	214,734	217,427
	16,994,841	315,079	1,171,446	866,035	19,347,401	20,137,184
Excess (deficiency) of revenue over expenses	\$ 1,647,758	\$ 308,777	\$ (498,437)	\$ -	\$ 1,458,098	\$ 1,195,512

NSCAD UNIVERSITY
Statement of Changes in Fund Balances
For the year ended March 31, 2015

	Unrestricted		Restricted		Total
	Operating	Endowment	Capital	Research and Special Purpose	
Fund balances, March 31, 2013	\$ 6,893,309	\$ 6,001,228	\$ 1,709,866	\$ -	\$ 14,604,403
Excess (deficiency) of revenue over expenses	1,526,641	347,274	(678,403)	-	1,195,512
Capital contributions to endowment fund	-	245,324	-	-	245,324
Mortgage principal payments	(636,361)	-	636,361	-	-
Change in fund balances	890,280	592,598	(42,042)	-	1,440,836
Fund balances, March 31, 2014	\$ 7,783,589	\$ 6,593,826	\$ 1,667,824	\$ -	\$ 16,045,239
Excess (deficiency) of revenue over expenses	1,647,758	308,777	(498,437)	-	1,458,098
Capital contributions to endowment fund	-	111,147	-	-	111,147
Change in fund balances	1,647,758	419,924	(498,437)	-	1,569,245
Fund balances, March 31, 2015	\$ 9,431,347	\$ 7,013,750	\$ 1,169,387	\$ -	\$ 17,614,484

NSCAD UNIVERSITY
Statement of Cash Flows
For the year ended March 31, 2015

	2015	2014
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Operating activities		
Excess of revenue over expenses	\$ 1,458,098	\$ 1,195,512
Items not affecting cash		
Amortization of property and equipment	1,171,446	1,385,354
Amortization of deferred capital grants and deferred capital contributions	(673,009)	(706,951)
Unrealized gain on endowment investments	(232,448)	(267,205)
Changes in non-cash working capital items (Note 12)	563,173	(8,350,399)
	<u>2,287,260</u>	<u>(6,743,689)</u>
Investing activities		
Purchase of property and equipment	(546,167)	(635,844)
Capital contributions – endowment fund	111,147	245,324
Net change in endowment investments	(77,249)	(85,830)
Capital grants and deferred capital contributions received	3,309,301	377,757
Net change in restricted capital investments	(3,036,194)	-
	<u>(239,162)</u>	<u>(98,593)</u>
Financing activity		
Mortgage and lease principal payments and change in bank indebtedness	(2,731,583)	(1,159,373)
	<u>(2,731,583)</u>	<u>(1,159,373)</u>
Net (decrease) increase in cash and operational investments	(683,485)	(8,001,655)
Cash and operating fund investments, beginning of year	5,852,610	13,854,265
Cash and operating fund investments, end of year	<u>5,169,125</u>	<u>5,852,610</u>
CASH AND OPERATING FUND INVESTMENTS are comprised of:		
Cash and cash equivalents	835,264	442,126
Operating fund investments	4,333,861	5,410,484
	<u>\$ 5,169,125</u>	<u>\$ 5,852,610</u>

NSCAD UNIVERSITY

Notes to the Financial Statements

March 31, 2015

1. THE UNIVERSITY

Nova Scotia College of Art and Design, operating as NSCAD University (the "University"), is located in Halifax and offers degrees in fine arts and design both at undergraduate and graduate levels. The University receives its principal funding from the Province of Nova Scotia through recommendations of the Nova Scotia Council on Higher Education. The University is a registered charity and, as such, is exempt from payment of income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Canadian generally accepted accounting principles using Canadian accounting standards for not-for-profit organizations in Part III of the CICA Handbook.

Fund accounting

The University maintains its accounts in accordance with the fund accounting method in order to ensure observance of restrictions, if any, placed on the resources made available to it.

The unrestricted Operating Fund accounts for those resources over which the University's Board of Governors has sole authority and which are expendable for any purpose in the fulfillment of the University's objectives.

The restricted funds, consisting of the Endowment Fund, the Capital Fund and the Research and Special Purpose Fund, account for those resources made available to the University by outside organizations and individuals, by way of grants, service contracts or gifts. These resources, although expendable in the course of normal operations, are restricted as to use by the outside party. These restricted funds also include expendable amounts restricted as to use by action of the University's Board of Governors.

The financial statements of the University are prepared using the deferral method with the multi-column format. The deferral method, which introduces the concept of deferring restricted revenues to future accounting periods, is a process of matching the restricted revenues with the related expenses regardless of when the revenues are received. Restricted revenues are recognized as revenue in the same accounting period as related expenses. Those restricted revenues for which the related expenses have not been incurred are reported as deferred income on the University's statement of financial position.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and subsequently measured at amortized cost, except for investments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the statement of operations.

Financial assets measured at amortized cost include cash, accounts receivable and due from capital/operating/research and special purpose funds.

Financial liabilities measured at amortized cost include bank indebtedness, accounts payable and accrued liabilities, long-term debt and due to operating/endowment/research and special purpose funds.

NSCAD UNIVERSITY
Notes to the Financial Statements
March 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest rate swap and hedge accounting

Certain derivative financial instruments held by the University are eligible for hedge accounting. To be eligible for hedge accounting, an instrument must meet certain criteria with respect to identification, designation and documentation. In addition, the critical terms of the derivative financial instrument must match the specific terms and conditions of the hedged item. The fair value of derivative instruments eligible and qualifying for hedge accounting is generally not recognized on the consolidated balance sheet. Gains and losses on such instruments are recognized in earnings in the same period as those of the hedged item.

The University has entered into an interest rate swap agreement with a chartered bank to reduce interest rate exposure associated with its long term debt (the mortgage). The agreement has the effect of converting the floating rate of interest to a fixed rate. The University does not use derivative financial instruments for trading or speculative purposes.

The University designated the interest rate swap as a cash flow hedge as at March 31, 2015 of a specifically identified debt instrument (the mortgage). The swap agreement is an effective hedge, both at maturity and over the term of the agreement since the term to maturity, the notional principal amount and the interest rate of the swap agreement all match the terms of the mortgage being hedged. The payments associated with the interest rate swap are recorded as interest expense.

In the event that the interest rate swap agreement is terminated or ceases to be effective in part or in whole prior to maturity any associated realized or unrealized gain or loss is recognized in income. In the event that the designated mortgage is extinguished or matures prior to the termination of the related interest rate swap agreement any realized or unrealized gain or loss is recognized in income.

Cash

Cash is comprised of cash and deposits and overdraft positions with financial institutions.

Investments

Investments include marketable securities, all of which are recorded at fair value, determined using closing price quotations in an active market. Settlement date accounting is used.

Inventory

Inventory consists of merchandise and supplies held for resale and are valued at the lower of cost and net realizable value. Cost is determined on a first in first out basis. Administrative and program supplies and library periodicals are not inventoried.

NSCAD UNIVERSITY
Notes to the Financial Statements
March 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are stated at cost in the Capital Fund.

Library book additions are not capitalized to the capital asset accounts.

Amortization is computed by the straight-line method over the estimated useful asset lives at the following rates:

Building	2%
Equipment	10%
Computer hardware	25%
Computer software	20%
Leasehold improvements	Term of lease

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Collection

The University's permanent collections of Historic Art (a portion of it is now on indefinite loan to the Art Gallery of Nova Scotia) and library books were not formed for commercial purposes and are not considered realizable assets. The value of these assets are not reflected in these financial statements.

Revenue recognition

The University follows the deferral method of accounting for revenue. Student academic fees and ancillary revenue are recognized when the services are provided or the goods are sold and collectability is reasonably assured. Rent revenue is recognized over the term of the lease as it becomes due and investment income is recognized when the University's right to receive payment has been established. Funding for expenditures is deferred and recognized as revenue in the year in which the related expenditure is incurred. Funding received for property and equipment is deferred and recognized as revenue on the same basis as the acquired property and equipment are amortized.

Use of accounting estimates

The preparation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, as well as revenue and expenses for the period then ended. Actual results could differ from those estimates. Significant accounts most subject to judgement and estimation include the amortization periods for property and equipment, allowance for doubtful accounts, deferred revenue, deferred capital contributions and accounts payable and accrued liabilities.

NSCAD UNIVERSITY
Notes to the Financial Statements
March 31, 2015

3. INVESTMENTS

The market value of all investments in the Endowment Fund at March 31, 2015 was \$6,772,864 (March 31, 2014 - \$6,463,167). The cost of all investments in the Endowment Fund at March 31, 2015 was \$6,070,501 (March 31, 2014 - \$6,067,926). The investments in the Endowment Fund are comprised of \$3,277,803 in fixed income investments and \$3,495,061 in equity investments (March 31, 2014 - \$3,169,941 and \$3,293,226 respectively).

4. ACCOUNTS RECEIVABLE

	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Student tuition and fees	\$ 155,730	\$ 227,628
Student accounts deemed uncollectible	218,296	142,453
Trade and other receivables	571,910	781,471
HST	92,213	48,915
	<u>1,038,149</u>	<u>1,200,467</u>
Less: allowance for doubtful accounts	<u>(303,740)</u>	<u>(293,254)</u>
	<u>\$ 734,409</u>	<u>\$ 907,213</u>

The March 31, 2015 allowance for doubtful accounts is made up of \$64,775 for student tuition and fees, \$218,296 for student accounts deemed uncollectible and \$20,669 for trade and other receivables (March 31, 2014 - \$125,346, \$142,453 and \$25,455 respectively).

5. PROPERTY AND EQUIPMENT

	<u>March 31, 2015</u>		<u>March 31, 2014</u>	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 4,402,490	\$ -	\$ 4,402,490	\$ -
Buildings	17,988,016	4,349,650	17,742,783	4,008,550
Equipment	5,123,212	4,080,709	5,105,389	3,957,959
Computer hardware	1,268,079	1,015,465	1,142,963	887,456
Computer software	724,667	658,582	724,667	577,789
Leasehold improvements	12,856,325	2,702,717	12,798,330	2,303,923
	<u>42,362,789</u>	<u>12,807,123</u>	<u>41,916,622</u>	<u>11,735,677</u>
Less: accumulated amortization	<u>12,807,123</u>		<u>11,735,677</u>	
Net book value	<u>\$ 29,555,666</u>		<u>\$ 30,180,945</u>	

Insurance on a replacement cost basis is carried on the building and contents of the University in the amount of \$85,909,147.

NSCAD UNIVERSITY
Notes to the Financial Statements
 March 31, 2015

6. BANK INDEBTEDNESS AND LONG-TERM DEBT

Bank indebtedness

The University has a \$750,000 line of credit with the Bank of Nova Scotia, bearing interest at the banks' prime lending rate. As of March 31, 2015, the outstanding balance was \$Nil (March 31, 2014 - \$Nil).

The University also has a \$10 million non-revolving demand loan repayable in 59 equal instalments of principal of \$41,667 plus interest, with the balance due June 30, 2019. As at March 31, 2015 the outstanding balance was \$7,124,977 (March 31, 2014 - \$7,624,981).

Subsequent to year end on April 16, 2015, the terms of the demand loan were renegotiated and the demand loan was converted to a reducing revolving term credit facility with an opening authorized amount of \$7,875,000. The authorized amount will reduce \$125,000 on June 30, 2015 and \$250,000 semi-annually thereafter, with a final payment of the principal being due December 31, 2019.

Long-term debt

The University has entered into an interest rate swap for an amount equal to the principal value of the loan with the Bank of Nova Scotia for a fixed rate of 6.69% with a termination date of February 28, 2022. The bank has the right to terminate the swap transaction in whole, on February 27, 2017. If the swap had been terminated as at March 31, 2015 the cost to NSCAD would have been \$1,092,488 (March 31, 2014 - \$1,105,602).

	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Bank of Nova Scotia, prime less 0.25% demand notes maturing February 2017, payments monthly for principal and interest	\$ 6,179,953	\$ 6,860,201
Halifax Port Authority, 0% loan maturing November 2015, payments monthly	15,339	38,347
Nova Scotia Strategic Opportunities Fund Incorporated 1.5% promissory note 5 year promissory note, 1.5%, due February 2015 principal balance due on maturity in February 2015	-	1,528,323
Long-term debt, end of year	<u>6,195,292</u>	<u>8,426,871</u>
Less: current portion of long-term debt	<u>742,506</u>	<u>2,231,581</u>
	<u>\$ 5,452,786</u>	<u>\$ 6,195,290</u>

NSCAD UNIVERSITY
Notes to the Financial Statements
 March 31, 2015

6. BANK INDEBTEDNESS AND LONG-TERM DEBT (continued)

Long-term debt (continued)

The minimum principal repayments due over the next five years are:

2016	\$ 743,000
2017	777,000
2018	831,000
2019	888,000
2020	950,000
	<u>\$ 4,189,000</u>

7. DEFERRED CAPITAL CONTRIBUTION

Deferred capital contribution represents the unamortized amount of externally funded portion of property and equipment, which will be recognized as income in the capital fund as those items of property and equipment are amortized.

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 5,796,415	\$ 6,174,537
Add: Donations and grants	3,152,479	21,525
	<u>8,948,894</u>	<u>6,196,062</u>
Less: Amortization	350,023	399,647
	<u>\$ 8,598,871</u>	<u>\$ 5,796,415</u>

8. PENSION

The University contributes on behalf of substantially all of its employees to a defined contribution pension plan (the "Plan"). The University charges income with the required contribution to the Plan on an annual basis. The employer's and employees' contributions for the year ended March 31, 2015 were \$711,164 (March 31, 2014 - \$672,167) and \$586,731 (March 31, 2014 - \$556,909) respectively.

9. COMMITMENTS

The University has leased 70,000 square feet of space at the Halifax Seaport from Halifax Port Authority, for a 40 year period ending August 31, 2045. The total base rent for 40 years is \$2.5 million. This amount has been recorded as prepaid rent for the purposes of financial reporting. Amortization of the prepaid rent commenced in September 2007 upon opening of the Port Campus. The unamortized balance as of March 31, 2015 is \$2,092,887 (March 31, 2014 - \$2,161,694).

NSCAD UNIVERSITY
Notes to the Financial Statements
March 31, 2015

10. FINANCIAL INSTRUMENTS

Financial risk refers to the impact on the University's cash flows due to fluctuations in interest rates and the credit quality of student receivables. The University manages its financial risks as follows:

Interest rate risk

Interest rate risk is minimized as the University uses interest rate swaps, as described in Note 6, to fix interest rates on its long-term debt.

Credit risk

The University performs a continuous evaluation of its accounts receivable and records an allowance for doubtful accounts as required. Management considers there is no significant credit risk as at March 31, 2015.

Fair value

The fair value of cash, bank indebtedness, accounts receivable, accounts payable and accrued liabilities and due to/from operating/capital/endowment/research and special purpose funds are approximately equal to their carrying values due to their short-term maturity. The fair value of long-term debt is described in Note 6. Investments are recorded at fair value.

Liquidity risk

The University's objective is to have sufficient liquidity to meet its liabilities when due. The University monitors its cash balances and cash flows generated from operations to meet its requirements.

Market risk

The University is subject to market risk with respect to its investments. The University manages this risk by maintaining a diversified portfolio.

11. CONTINGENT LIABILITY

On March 20, 2015 legal action commenced against NSCAD University in the Nova Scotia Court by a tenant in regards to a lease agreement. As at March 31, 2015 the likelihood and amount of any claim is unknown.

NSCAD UNIVERSITY
Notes to the Financial Statements
March 31, 2015

12. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	<u>2015</u>	<u>2014</u>
Accounts receivable	\$ 172,804	\$ 471,452
Prepaid expenses	61,334	99,176
Inventory	(7,600)	(12,121)
Due from operating fund	(48,741)	28,958
Due from capital fund	(3,004,643)	(740,348)
Accounts payable and accrued liabilities	679,676	12,867
Deferred revenue	(343,041)	(8,921,773)
Due to operating fund	3,004,643	740,348
Due to endowment fund	48,741	(28,958)
	<u>\$ 563,173</u>	<u>\$ (8,350,399)</u>