

MUSTARD SEED (CALGARY) STREET MINISTRY SOCIETY

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

AUDITORS' REPORT

To the Members of
Mustard Seed (Calgary) Street Ministry Society

We have audited the consolidated statement of financial position of Mustard Seed (Calgary) Street Ministry Society as at March 31, 2007, and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In common with many non-profit organizations, the Society reports donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Society and we are unable to determine whether any adjustments for unrecorded revenues might be necessary to revenues, net revenue or fund balances.

In our opinion, except for the effect of any adjustments which might have been required had we been able to satisfy ourselves with respect to the completeness of revenue as referred to in the preceding paragraphs, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Society as at March 31, 2007 and the results of operations, changes in net assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
August 1, 2007

(originals signed)
Chartered Accountants

**MUSTARD SEED (CALGARY) STREET MINISTRY SOCIETY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
MARCH 31, 2007**

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents, notes 5 and 14	\$ 3,932,740	\$ 2,977,055
Accounts receivable, note 14	79,026	-
GST recoverable	90,668	71,275
Prepaid expenses and deposits, note 14	98,965	205,721
Inventory, note 14	40,065	-
	<u>4,241,464</u>	<u>3,254,051</u>
LONG-TERM INVESTMENTS		
Hedge funds, notes 4 and 6	290,000	290,000
Investments in GIC's	-	709,836
	<u>290,000</u>	<u>999,836</u>
PROPERTY AND EQUIPMENT , notes 7 and 14	<u>8,586,566</u>	<u>3,072,031</u>
RESTRICTED CASH , note 8	<u>99,824</u>	<u>86,612</u>
	<u>\$ 13,217,854</u>	<u>\$ 7,412,530</u>
LIABILITIES AND FUND BALANCES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities, note 14	\$ 524,973	\$ 347,015
Current portion of long-term debt, note 9	101,257	40,564
	<u>626,230</u>	<u>387,579</u>
LONG TERM DEBT , note 9	<u>1,942,057</u>	<u>680,819</u>
RESTRICTED AND DEFERRED CONTRIBUTIONS AND REVENUE , note 10		
Operating, note 14	592,470	576,305
Property and equipment	3,122,444	1,263,634
	<u>3,714,914</u>	<u>1,839,939</u>
FUND BALANCES		
Unrestricted funds	1,463,043	2,846,191
Internally restricted, note 13	688,307	570,989
Investment in property and equipment	4,783,303	1,087,013
	<u>6,934,653</u>	<u>4,504,193</u>
	<u>\$ 13,217,854</u>	<u>\$ 7,412,530</u>

See accompanying notes

On behalf of the Board:

Director (originals signed)

Director (originals signed)

**MUSTARD SEED (CALGARY) STREET MINISTRY SOCIETY
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2007**

	2007	2006
REVENUES		
Contributions		
Cash donations	\$ 8,428,892	\$ 6,175,156
Government funding, note 11	1,034,639	951,006
Gifts in kind	507,390	397,354
Seed winter shelter, note 17	1,345,068	-
Rental and other income	172,941	86,130
Interest	23,503	47,584
Amortization of deferred capital contribution	136,224	74,202
Mountain Aire Lodge operations, note 14	598,735	-
	<u>12,247,392</u>	<u>7,731,432</u>
EXPENDITURES, note 12		
Programs		
Community funded	4,386,701	3,916,676
Government funded, note 11	1,034,639	951,006
Gifts in kind	507,390	397,354
Seed Winter Shelter, note 17	1,295,067	-
Mountain Aire Lodge, note 14	638,606	-
Resource development	460,388	480,536
Administration	462,585	314,346
Facility and technology	756,296	335,117
Amortization	275,260	248,703
	<u>9,816,932</u>	<u>6,643,738</u>
NET REVENUE	<u>\$ 2,430,460</u>	<u>\$ 1,087,694</u>

See accompanying notes

**MUSTARD SEED (CALGARY) STREET MINISTRY SOCIETY
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2007**

	Unrestricted Funds	Internally Restricted (Note 13)	Investment in Property and Equipment	2007 Total	2006 Total
Balance, beginning of the year	\$ 2,846,191	\$ 570,989	\$ 1,087,013	\$ 4,504,193	\$ 3,416,499
Net revenue	2,430,460	-	-	2,430,460	1,087,694
Transfer to internally restricted funds	(127,318)	127,318	-	-	-
Authorized withdrawals	10,000	(10,000)	-	-	-
Acquisition of property and equipment, note 14	(5,863,312)	-	5,863,312	-	-
Repayment of long-term debt	(40,563)	-	40,563	-	-
Restricted and deferred contributions of property and equipment	1,995,033	-	(1,995,033)	-	-
Amortization of restricted and deferred contributions of property and equipment	(136,224)	-	136,224	-	-
Amortization of property and equipment, note 14	348,776	-	(348,776)	-	-
Balance, end of the year	\$ 1,463,043	\$ 688,307	\$ 4,783,303	\$ 6,934,653	\$ 4,504,193

See accompanying notes

**MUSTARD SEED (CALGARY) STREET MINISTRY SOCIETY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2007**

	2007	2006
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Operating revenue		
Cash received from donors	\$ 11,673,521	\$ 6,647,539
Cash received from government funding	1,005,158	927,878
Interest received	25,607	37,748
Cash received from other operating sources	323,214	167,521
Mountain Aire Lodge sales	559,091	-
	<u>13,586,591</u>	<u>7,780,686</u>
Operating expenses		
Cash paid as salaries	(4,446,413)	(3,232,444)
Cash paid to suppliers	(3,170,001)	(2,737,068)
Cash paid to others	(135,462)	(92,345)
Cash paid for interest on long-term debt	(27,412)	(28,709)
Mountain Aire Lodge expenditures	(594,377)	-
	<u>(8,373,665)</u>	<u>(6,090,566)</u>
	<u>5,212,926</u>	<u>1,690,120</u>
FINANCING ACTIVITIES		
Long-term debt repayments	(40,563)	(39,137)
Withdrawal from Baptist Union long-term investment	750,000	-
	<u>709,437</u>	<u>(39,137)</u>
INVESTING ACTIVITIES		
Building renovations	(337,827)	-
Purchase of land, building, and improvements	(3,691,571)	-
Purchase of property and equipment	(162,680)	(393,150)
Proceeds on disposal of (investment in) long-term investments	709,836	(700,000)
Contributed stock	86,799	61,054
Mountain Aire Lodge purchase of land, buildings, property and equipment	(1,571,235)	-
	<u>(4,966,678)</u>	<u>(1,032,096)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	955,685	618,887
CASH AND CASH EQUIVALENTS		
Beginning of the year	2,977,055	2,358,168
End of the year	\$ 3,932,740	\$ 2,977,055

See accompanying notes

**MUSTARD SEED (CALGARY) STREET MINISTRY SOCIETY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007**

1. NATURE OF ORGANIZATION

Mission Statement:

Mustard Seed (Calgary) Street Ministry Society ("the Mustard Seed" or "the Society") is a non-profit, Christian humanitarian organization that responds compassionately to the needs of the inner-city's less fortunate through mobilizing and working with the church and the community.

Services provided for its clients (guests) include:

Basic services, including meals, food hampers, showers and clothing;
Emergency overnight accommodation, short-term stabilization and transitional housing;
Education programs, including career assessment, grade 12 equivalency (GED) preparation, high school courses, computer training, ESL, and university courses;
Recreation and leisure activities;
Spiritual support, Sunday services and Bible studies;
Employment preparation, including resume writing, employment and Internet job search.
Opportunities for employment and development away from the pressures of inner-city life, see note 14

The Mustard Seed accomplishes its mission through:

Mobilizing volunteers from church and community to care for the needs of the guests;
Community education through speaking presentations, tours of the Mustard Seed facilities and services, intensive multi-day training for youth and college students, assisting other agencies in Calgary and beyond in best practices;
Fundraising activities that include support from individuals, businesses, government, and other organizations;
Receiving donated goods from donors that provide much of the food, clothing, hygiene products, gift certificates and furniture (gifts-in-kind).

Changed lives of guests, volunteers, donors and the community are celebrated and are the primary focus of all programs.

The Mustard Seed is incorporated under the provisions of The Societies' Act of the Province of Alberta. As the Society is also registered as a charitable organization authorized to issue donation receipts for income tax purposes under the Income Tax Act, it is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Marketable Securities and Cash Equivalents

Marketable securities and cash equivalents are recorded at the lower of cost and fair market value. The cost of investments donated is determined by reference to closing market prices of the publicly traded investments on the date of the donation. Fair market value at the balance sheet date is determined on the basis of closing market prices. Any write-down in the cost of the investments is charged against income in the year incurred.

Government Funding

Government funding received for ongoing operations, including monthly mortgage payments, is credited to income in the period to which the funding relates. In the case where government funding is received and designated toward the purchase of a capital asset the funding is credited to income to match the amortization expense of the asset.

**MUSTARD SEED (CALGARY) STREET MINISTRY SOCIETY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Purchased property and equipment are recorded at cost. Contributed property and equipment are recorded at fair value at the date of the contribution. Amortization of property and equipment is recorded using the straight-line method over their estimated useful lives as follows:

Land and land lease, note 14	4 %
Buildings	4 %
Furniture and equipment	20 - 30 %
Vehicles	30 %
Software	30 %

Amortization on leasehold improvements is recorded over the term of the premises lease.

Revenue Recognition

The Society follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Restricted contributions towards the purchase of property and equipment are deferred and amortized to match the amortization of the property and equipment purchased. Unrestricted contributions are recognized as revenue when received.

The Board of Directors may set aside portions of unrestricted contributions for specified purposes on a periodic basis. Contributions to which these internally imposed restrictions apply are included in revenue and subsequently set aside as internally restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the accounts reported in the financial statements and accompanying notes. These estimates are subject to measurement uncertainty. Actual results could differ from and affect the results reported in these financial statements. Material estimates have been made by management when allocating payroll expenses to programs based on review of time reports and other supporting documents.

The purchase price of the Mountain Aire Lodge, note 14, has been allocated to the assets received as prescribed by the purchase agreement. A third party has conducted a valuation of the listed assets and management has accepted the independent result of estimate in the financial records.

Restrictions on Net Assets

By decision of the Board of Directors a separate operations contingency fund is set up for contingencies and emergencies that can be drawn upon in the event that contributions and cash balances are insufficient to cover monthly operating costs. Interest from the invested funds is used for current operations.

Basis of Consolidation

The consolidated financial statements include the accounts of the Society and the Seed Community of Change operating as Mountain Aire Lodge, note 14. The Society's interest in the net assets of the Seed Community of Change is 100%.

**MUSTARD SEED (CALGARY) STREET MINISTRY SOCIETY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. CONTRIBUTED GOODS AND SERVICES

Contributed goods included in the financial statements

The Society receives contributions of goods that have an independently determinable fair value. Such items have been recorded as revenue in the current year in the amount of \$507,390 (2006 - \$397,328).

Contributed goods and services excluded from the financial statements

Meals, food and clothing were donated in order to assist the Society with providing services to those in need.

Management's unaudited summary of these contributions in kind is as follows:

	2007 (Unaudited)	2006 (Unaudited)
Individual volunteers (total number)	11,679	11,817
Volunteer time (in hours)	154,898	151,999
Meals and groceries	\$ 871,250	\$ 697,098
Clothing, furniture and personal items	\$ 1,199,918	\$ 649,387

Because of the difficulty in determining their fair value, these goods and services have not otherwise been recognized in these financial statements.

4. FINANCIAL INSTRUMENTS

Components

The Society's financial instruments include cash and cash equivalents, accounts receivable, GST recoverable, long-term investments, accounts payable and accrued liabilities, and long-term debt.

Fair values

Unless otherwise noted, it is management's opinion that the Society is not exposed to significant credit, interest rate or currency risk arising from the financial instruments. The carrying amounts recorded in the financial statements for all financial instruments other than long-term investments, approximate their fair value due to the short-term maturity of these instruments.

Cash equivalents are carried at the lower of cost and market value. Fair market value for publicly traded securities is established based on closing market prices at the balance sheet date.

Long-term investments

The hedge funds included in long-term investments are carried at cost less any provisions for estimated permanent impairment in value. The fair value of the Hedge funds is not readily determinable because these investments are not publicly traded.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include bank balances, money market mutual funds, and guaranteed loans receivable from the Baptist Union, all of which are recorded at cost.

**MUSTARD SEED (CALGARY) STREET MINISTRY SOCIETY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007**

6. LONG-TERM INVESTMENTS

Management follows the policy of annually reviewing the carrying value of the investments to consider whether any permanent impairment in the value of the investments is likely to have occurred. As certain of the investments are accounted for as deferred contributions, any write-down reduces the carrying value of the long-term investment and deferred contributions.

7. PROPERTY AND EQUIPMENT

	2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land and land lease, note 14	\$ 3,218,517	\$ 4,694	\$ 3,213,823	\$ 444,230
Buildings	5,971,910	1,289,065	4,682,845	2,417,008
Furniture and equipment	1,124,681	892,169	232,512	88,620
Vehicles	337,727	125,035	212,692	54,286
Leasehold improvements	255,333	10,639	244,694	67,887
	\$ 10,908,168	\$ 2,321,602	\$ 8,586,566	\$ 3,072,031

During the year, amortization in the amount of \$348,776 (2006 - \$248,703) was charged to the Investment in Property and Equipment Fund including \$73,516 relating to amortization of assets held by the Seed Community of Change operating as the Mountain Aire Lodge program, note 14.

8. RESTRICTED CASH

Restricted cash consists of the following:

	2007			2006
	Step-Up Housing	Transitional Housing	Total	Total
Balance, beginning of the year	\$ 5,503	\$ 81,109	\$ 86,612	\$ 74,758
Contributions in the year	500	10,000	10,500	10,500
Interest earned	172	2,540	2,712	1,354
Net change in the year	672	12,540	13,212	11,854
Balance, end of the year	\$ 6,175	\$ 93,649	\$ 99,824	\$ 86,612

Pursuant to the terms of Project Operating Agreements entered into with the Department of Alberta Seniors Community Support ("ASCS") in 1994, the Society is required to annually set aside in separate bank accounts, amounts designated for the accumulation of a replacement reserve. A total of \$99,824 (2006 - \$86,612) including interest has been accumulated in these bank accounts in respect of the reserve. Use of funds accumulating in this reserve, including all interest earned, is subject to the approval of ASCS.

**MUSTARD SEED (CALGARY) STREET MINISTRY SOCIETY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9. LONG-TERM DEBT

	2007	2006
Mortgage assumed with respect to the purchase of land, building, and other improvements. Monthly payments of \$15,128 include principal and interest portions at 6% per annum, reviewed every 6 months, commencing September 15, 2007. The Society maintains the option to make lump-sum payments towards early retirement of the mortgage without incurring penalties.	\$ 1,362,615	\$ -
Mortgage to Canada Mortgage and Housing Corporation ("CMHC") payable in monthly installments of \$444, including interest at 4.33% per annum, to renewal date in September 2009.		
According to the terms of the Project Operating Agreement governing the Step-Up Housing Program, ABS is committed to provide a monthly subsidy (\$151), which covers a portion of the monthly mortgage payment (\$444). The amount of the subsidy is recalculated upon the renewal of the mortgage with CMHC.	\$ 50,384	\$ 53,473
Mortgage to CMHC, payable in monthly installments of \$5,221 including interest at 3.88% per annum, to renewal date in February 2010.		
According to the terms of the Project Operating Agreement governing the Transitional Housing Program, ABS will provide funding based on 100% of the mortgage principal and interest required, plus an amount to be used in providing the housing program. The amount of the subsidy is recalculated upon the renewal of the mortgage with CMHC.		
These latter two mortgages are secured by real property at 102 11th Ave SE , Calgary, Alberta, with a net book value of \$1,014,109.		
	630,315	667,910
	2,043,314	721,383
Less: portion due within one year	(101,257)	(40,564)
	\$ 1,942,057	\$ 680,819
Approximate principal repayments are as follows:		
2008		\$ 101,257
2009		155,775
2010		167,468
2011		180,099
2012		190,561
Thereafter		1,248,154
		\$ 2,043,314

**MUSTARD SEED (CALGARY) STREET MINISTRY SOCIETY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10. DEFERRED CONTRIBUTIONS

Deferred contributions represent restricted donations and other funds received and designated to be used for capital projects and specified operating costs. The change in deferred income for the year is summarized as follows:

Unrestricted funds (operating)

	2007	2006
Beginning Balance	\$ 576,305	\$ 437,251
Additions in the year	4,939	170,948
Less: Amounts included in revenue	(833)	(31,893)
Ending balance	\$ 580,411	\$ 576,305

Property and equipment

	2007	2006
Beginning Balance	\$ 1,263,634	\$ 974,181
Additions in the year	1,995,034	363,656
Less: Amounts included in revenue	(136,224)	(74,202)
Ending balance	\$ 3,122,444	\$ 1,263,634

The deferral method of accounting for contributions is intended to provide for the matching of contributions with the expenses to which they relate. Accordingly, deferred contributions amortized to revenue in respect of unrestricted funds have been included in the current year's contributions; amortization in the amount of \$136,224 (2006 - \$74,202) of deferred contributions in respect of property and equipment has been reported separately in the statement of operations.

11. GOVERNMENT FUNDING

	2007	2006
Government funding is received from various sources for several of the Mustard Seed programs:		
Department of Alberta Seniors:		
Emergency Beds and Step Up	\$ 801,813	\$ 703,641
Private Non-Profit	199,376	224,237
Human Resources and Skills Development Canada for summer career placement	33,450	23,128
	\$ 1,034,639	\$ 951,006

**MUSTARD SEED (CALGARY) STREET MINISTRY SOCIETY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007**

12. CLASSIFICATION OF EXPENSES

	2007	2006
Salaries and benefits	\$ 4,105,376	\$ 3,457,678
Other costs excluding salaries and benefits		
Facility operations	582,257	501,056
Administration and technology	413,440	336,135
Interest on long-term debt	27,293	28,709
Amortization	275,260	248,703
Program including gifts-in-kind of \$507,390 (2006 - \$397,354)	1,253,492	1,068,542
Marketing, promotion, and community awareness	1,226,140	1,002,915
Seed Winter Shelter, note 17	1,295,068	-
Mountain Aire Lodge, note 14	638,606	-
	\$ 9,816,932	\$ 6,643,738

13. RESTRICTIONS ON NET ASSETS

	2007	2006
Operations contingency fund, beginning of the year	\$ 570,989	\$ 532,500
Additions during the year	127,318	60,105
Authorized withdrawals	(10,000)	(21,616)
Operations contingency fund, end of the year	\$ 688,307	\$ 570,989

14. SEED COMMUNITY OF CHANGE, OPERATING AS MOUNTAIN AIRE LODGE

In April 2006 the Society invested in the Seed Community of Change, a non-profit corporation, fully consolidated in these consolidated financial statements, operating as Mountain Aire Lodge. During the period the Society invested \$1,790,974 in the Seed Community of Change inclusive of the initial purchase cost of land and other assets of \$1,000,000.

Mountain Aire Lodge is considered a program of the Society for the purposes of these consolidated financial statements as it operates as a non-profit centre for community change. Qualifying Mustard Seed guests are given the opportunity to participate in the Mountain Aire Lodge program entailing life away from the pressures of the city, steady employment, and lodging. Mountain Aire Lodge operates as a campsite and lodge offering accommodation, food, and fuel to customers. During the first year of operations Mountain Aire Lodge incurred a deficit of \$39,871.

Because Mountain Aire Lodge is a non-profit unit that deals with unique operations relative to the primary services provided by the Society, new account balances have been added to the consolidated financial statements pertaining entirely to Mountain Aire Lodge operations.

**MUSTARD SEED (CALGARY) STREET MINISTRY SOCIETY
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 2007**

14. SEED COMMUNITY OF CHANGE, OPERATING AS MOUNTAIN AIRE LODGE (continued)

The following Mountain Aire Lodge balances have been integrated into the consolidated statement of financial position and consolidated statement of operations:

Cash and cash equivalents	\$ 84,454
Accounts receivable	51,703
Prepaid expenses and deposits	585
Inventory	40,065
Property and equipment	1,597,718
Accounts payable and accrued liabilities	11,363
Deferred (unrestricted) revenues	12,059

Included in the changes in net assets statement are:

Acquisition of property and equipment	1,671,235
Amortization of property and equipment	73,516

Included in land and land lease, note 7, is a land lease held with the Province of Alberta for areas occupied by Mountain Aire Lodge, Net book value \$ 107,976

15. FUNDRAISING ACTIVITIES

For the purpose of section 7(2) of the Charitable Fundraising Regulations the following amounts are disclosed:

Gross contributions received	\$ 9,970,921
Total direct expenses incurred for soliciting contributions	367,458
Remuneration to employees whose principal duties involve fund-raising	\$ 92,930

16. RETIREMENT PLAN

The Society matches eligible employee pension at a defined contribution rate of 6% of gross employee salary. The executives of the Society are eligible to participate in the pension plan. In addition, all full-time permanent staff who have been employed for two or more years are eligible to participate. There is no pension liability at the year end because the Society has matched contributions at the time of payroll remittance.

17. SEED WINTER SHELTER

During the year the Society was involved with a unique program reported separately in these consolidated financial statements as the Seed Winter Shelter (SWS). The SWS is not a continuing program as it was developed in response to a specific need for shelter under the conditions of a particularly cold winter during a housing crisis. The Society found generous support for the special program and received funds designated toward the SWS totaling \$1,470,166, \$125,000 of which has been deferred. Program expenses, inclusive of accrued charges, total \$1,479,750; the Society is not expecting a surplus from this one-time program and has made arrangements to cover the deficit with unrestricted funds.