# Hearing Health Foundation

Financial Statements

September 30, 2013

O'CONNOR DAVIES

PKF

# Independent Auditors' Report

**Board of Directors**
**Hearing Health Foundation**

We have audited the accompanying financial statements of Hearing Health Foundation, which comprise the statement of financial position as of September 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

## *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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.

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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hearing Health Foundation, as of September 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited the Hearing Health Foundation's September 30, 2012, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 3, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

O'Connor Davies, LLP

March 6, 2014

**Hearing Health Foundation**

Statement of Financial Position
September 30, 2013
(with comparative amounts at September 30, 2012)

| | 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 2,179,499 | $ 1,707,929 |
| Advertising and other receivables | 50,080 | 49,445 |
| Pledges receivable, net | 2,537,815 | 148,177 |
| Prepaid expense and deposits | 29,310 | 59,575 |
| Investments | 1,144,024 | 1,115,793 |
| Property and equipment, net | 113,487 | 108,370 |
| Restricted cash and investments | 2,318,768 | 318,768 |
| | $ 8,372,983 | $ 3,508,057 |
| **LIABILITIES AND NET ASSETS** | | |
| Liabilities | | |
| Accounts payable and accrued expenses | $ 24,742 | $ 79,126 |
| Grants payable | 943,824 | 735,667 |
| Deferred revenue | 5,000 | - |
| Deferred rent expense | 3,950 | 7,263 |
| Total Liabilities | 977,516 | 822,056 |
| Net assets | | |
| Unrestricted | 1,107,376 | 1,228,437 |
| Temporarily restricted | 1,562,500 | 1,138,796 |
| Permanently restricted | 4,725,591 | 318,768 |
| Total Net Assets | 7,395,467 | 2,686,001 |
| | $ 8,372,983 | $ 3,508,057 |

See notes to financial statements

**Hearing Health Foundation**

Statement of Activities
Year Ended September 30, 2013
(with summarized totals for the year ended September 30, 2012)

| | 2013 | | | | 2012 |
|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Total |
| **SUPPORT AND REVENUE** | | | | | |
| Contributions | $ 882,012 | $ 1,732,681 | $ 4,406,823 | $ 7,021,516 | $ 1,713,830 |
| In-kind contributions | 2,161,618 | - | - | 2,161,618 | 5,316,307 |
| Special events, net of expenses of $139,125 and $83,995 for 2013 and 2012 | 669,509 | - | - | 669,509 | 76,338 |
| Publishing | 189,675 | - | - | 189,675 | 289,644 |
| Interest and dividends | 36,043 | 6,486 | - | 42,529 | 40,924 |
| Realized and unrealized (losses) gains on investments | (34,948) | (3,236) | - | (38,184) | 9,320 |
| Other income | 70,994 | - | - | 70,994 | 6,390 |
| Net assets released from restrictions | 1,312,227 | (1,312,227) | - | - | - |
| Total Support and Revenue | 5,287,130 | 423,704 | 4,406,823 | 10,117,657 | 7,452,753 |
| **EXPENSES** | | | | | |
| Program services | 4,488,765 | - | - | 4,488,765 | 7,460,351 |
| Management and general | 281,306 | - | - | 281,306 | 297,523 |
| Fundraising | 638,120 | - | - | 638,120 | 524,077 |
| Total Expenses | 5,408,191 | - | - | 5,408,191 | 8,281,951 |
| Change in Net Assets | (121,061) | 423,704 | 4,406,823 | 4,709,466 | (829,198) |
| **NET ASSETS** | | | | | |
| Beginning of year | 1,228,437 | 1,138,796 | 318,768 | 2,686,001 | 3,515,199 |
| End of year | $ 1,107,376 | $ 1,562,500 | $ 4,725,591 | $ 7,395,467 | $ 2,686,001 |

See notes to financial statements

**Hearing Health Foundation**

Statement of Functional Expenses
Year Ended September 30, 2013
(with summarized totals for the year ended September 30, 2012)

| | Program Services | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Research Grants | Magazine Management | Communication Education | Hearing Restoration Project | Total | Management and General | Fundraising | 2013 Total | 2012 Total |
| Salaries | $ 84,348 | $ 42,173 | $ 65,178 | $ - | $ 191,699 | $ 72,746 | $ 281,649 | $ 546,094 | $ 518,049 |
| Payroll taxes and benefits | 16,692 | 8,346 | 12,898 | - | 37,936 | 25,291 | 21,076 | 84,303 | 78,231 |
| Grants and allocations | 644,123 | - | - | 951,938 | 1,596,061 | - | - | 1,596,061 | 1,281,647 |
| Outreach | - | - | 2,129,849 | - | 2,129,849 | - | 210 | 2,130,059 | 5,352,132 |
| Consultants | 1,297 | 1,297 | 72,609 | - | 75,203 | 5,256 | 57,915 | 138,374 | 199,703 |
| Honoraria | 31,700 | - | - | 2,500 | 34,200 | - | - | 34,200 | 11,400 |
| Professional fees | - | - | - | - | - | 83,934 | - | 83,934 | 87,923 |
| Credit card fees | 1,391 | - | - | - | 1,391 | - | 11,740 | 13,131 | 3,554 |
| Database | - | - | - | - | - | - | 11,468 | 11,468 | 10,952 |
| Insurance | - | - | - | - | - | 6,202 | - | 6,202 | 5,663 |
| Marketing and promotional materials | 3,273 | 6,749 | 24,149 | 63 | 34,234 | 309 | 13,890 | 48,433 | 44,078 |
| Registrations and state filings | - | - | - | - | - | 889 | 15,108 | 15,997 | 14,178 |
| Website | 757 | 553 | 16,967 | - | 18,277 | 25 | 24 | 18,326 | 17,391 |
| Editorial, artwork and design | 100 | 76,058 | 5,235 | - | 81,393 | - | 2,575 | 83,968 | 121,246 |
| Dues and subscriptions | 145 | - | 460 | 550 | 1,155 | - | 889 | 2,044 | 11,429 |
| Computer expenses | 1,701 | 1,701 | 1,909 | 474 | 5,785 | 5,230 | 5,102 | 16,117 | 14,853 |
| Storage | - | - | - | - | - | 3,376 | - | 3,376 | 1,917 |
| Supplies | 1,062 | 974 | 1,000 | - | 3,036 | 3,127 | 2,948 | 9,111 | 10,079 |
| Telephone | 1,896 | 1,896 | 1,896 | - | 5,688 | 5,687 | 5,688 | 17,063 | 17,346 |
| Postage and shipping | 1,571 | 28,615 | 23,135 | - | 53,321 | 4,600 | 70,790 | 128,711 | 97,181 |
| Occupancy | 12,165 | 12,165 | 12,165 | - | 36,495 | 41,890 | 44,940 | 123,325 | 111,137 |
| Printing and reproduction | 952 | 76,385 | 7,638 | - | 84,975 | 1,572 | 71,139 | 157,686 | 154,781 |
| Travel | 4,909 | 1,675 | 21,321 | 13,155 | 41,060 | 783 | 4,866 | 46,709 | 38,852 |
| Conferences, conventions and meetings | 5,000 | - | - | - | 5,000 | - | - | 5,000 | 17,500 |
| Depreciation | - | 31,109 | - | - | 31,109 | 8,913 | 8,913 | 48,935 | 33,859 |
| Other expenses | 5,732 | 177 | 5,350 | 9,639 | 20,898 | 11,476 | 7,190 | 39,564 | 26,870 |
| | $ 818,814 | $ 289,873 | $ 2,401,759 | $ 978,319 | $ 4,488,765 | $ 281,306 | $ 638,120 | $ 5,408,191 | $ 8,281,951 |

See notes to financial statements

**Hearing Health Foundation**

Statement of Cash Flows
Year Ended September 30, 2013
(with comparative amounts for the year ended September 30, 2012)

| | 2013 | 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets | $ 4,709,466 | $ (829,198) |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Donated securities | (978,603) | (330,961) |
| Realized and unrealized losses (gains) on investments | 38,184 | (9,320) |
| Depreciation | 48,935 | 33,859 |
| Amortization of rent allowance | (3,313) | (6,993) |
| Net changes in operating assets and liabilities | | |
| Advertising and other receivables | (635) | 8,560 |
| Pledges receivable | (2,389,638) | (9,327) |
| Prepaid expenses and deposits | 30,265 | 81,285 |
| Accounts payable and accrued expenses | (54,384) | 9,429 |
| Grants payable | 208,157 | 321,167 |
| Deferred revenue | 5,000 | (131,100) |
| Net Cash from Operating Activities | 1,613,434 | (862,599) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Restricted cash deposit | (2,000,000) | - |
| Purchase of property and equipment | (54,052) | (86,313) |
| Purchases of securities | (464,352) | (443,720) |
| Proceeds from sales of securities | 1,376,540 | 431,279 |
| Net Cash from Investing Activities | (1,141,864) | (98,754) |
| Net Change in Cash and Cash Equivalents | 471,570 | (961,353) |
| **CASH AND CASH EQUIVALENTS** | | |
| Beginning of year | 1,707,929 | 2,669,282 |
| End of year | $ 2,179,499 | $ 1,707,929 |
| **SUPPLEMENTAL CASH FLOW INFORMATION** | | |
| Unrelated business income taxes paid | $ 2,947 | $ 250 |

See notes to financial statements

**Hearing Health Foundation**

Notes to Financial Statements
September 30, 2013

## 1. Organization and Tax Status

Hearing Health Foundation, (the "Foundation") is a New York not-for-profit Corporation that furthers research in the causes, treatments and prevention of deafness and other hearing disorders. In 2011, the Foundation changed its name from Deafness Research Foundation to Hearing Health Foundation.

The Foundation is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and accordingly, is not subject to federal income taxes except on its net unrelated business income, which is generated from magazine advertisements.

## 2. Summary of Significant Accounting Policies

### *Basis of Presentation and Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

### *Cash and Cash Equivalents*

The Foundation considers all highly liquid investments, including money market funds with a maturity date of three months or less from the date of purchase, to be cash equivalents. For cash flow purposes, cash and cash equivalents do not include restricted amounts.

### *Fair Value Measurements*

The Foundation follows Financial Accounting Standards Board (FASB) guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

### *Contributions Receivable*

Unconditional promises to give are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

## 2. Summary of Significant Accounting Policies *(continued)*

### *Investment Valuation and Income Recognition*

Investments are recorded at fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the change in net assets.

### *Property and Equipment*

Property and equipment costing $500 or more with a projected useful life exceeding one year are capitalized. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, which range from 3 to 5 years.

### *Net Asset Presentation*

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets do not have donor-imposed restrictions. Temporarily restricted net assets are subject to donor restrictions that are expected to be satisfied by passage of time or actions of the Foundation. Permanently restricted net assets contain donor-imposed restrictions that stipulate that resource be maintained permanently, but permit the Foundation to use or expend part of or all of the income derived from the donated amounts for a specified purpose.

### *Contributions*

All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions. Marketable securities contributed are recorded at the fair value at the date of contribution. Conditional promises to give are not recognized until the conditions are substantially met.

### *In-Kind Contributions*

Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributed services that do not meet the above criteria are not recognized.

## 2. Summary of Significant Accounting Policies *(continued)*

### *Functional Expenses Allocations*

The costs of providing the various programs and other activities of the Foundation have been summarized on a functional basis in the accompanying statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management in accordance with grant provisions and/or other equitable basis.

### *Accounting for Uncertainty in Income Taxes*

The Foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Foundation had no uncertain tax positions that would require financial statement recognition. The Foundation is no longer subject to audits by the applicable taxing jurisdictions for periods prior to 2010.

### *Prior Year Summarized Comparative Information*

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements as of and for the year ended September 30, 2012, from which the summarized comparative information was derived.

### *Subsequent Events Evaluation by Management*

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through March 6, 2014.

## 3. Concentration of Credit Risk

The Foundation’s financial instruments that are potentially exposed to concentration of credit risk consist of cash and cash equivalents, receivables and investments. The Foundation places its cash, cash equivalents and investments with quality financial institutions. At times, cash balances may be in excess of the federally insured limits. The Foundation believes no significant concentration of credit risk exists with respect to its cash and cash equivalents and investments. Pledges receivable includes $2,406,823 due from a single donor which was received in October 2013.

## 4. Contributions Receivable

Unconditional pledges are included in the financial statements as contributions receivable and revenue, net after discounting at 3.25% to the present value of future cash flows. This discount is amortized and recognized as income in the statement of activities over the life of the pledge. Management expects unconditional promises at September 30, 2013 to be realized in the following periods:

| | |
|---|---|
| In one year or less | $ 2,528,130 |
| Between one and three years | 10,000 |
| | 2,538,130 |
| Discount | (315) |
| | $ 2,537,815 |

Management believes that contributions receivable are collectible and accordingly no provision for doubtful collection is deemed necessary.

## 5. Investments

The following are major categories of investments categorized by the fair value hierarchy as of September 30,:

| | 2013 | | | |
|---|---|---|---|---|
| Description | Level 1 | Level 2 | Total | 2012 |
| Mutual funds, short term | $ 938,025 | $ - | $ 938,025 | $ 807,261 |
| Corporate bonds | - | 205,999 | 205,999 | 308,532 |
| | $ 938,025 | $ 205,999 | $ 1,144,024 | $ 1,115,793 |

## 6. Property and Equipment

Property and equipment consists of the following at September 30:

| | 2013 | 2012 |
|---|---|---|
| Furniture and equipment | $ 49,374 | $ 47,205 |
| Grant application software | 95,194 | 43,311 |
| Website | 90,187 | 90,187 |
| | 234,755 | 180,703 |
| Accumulated depreciation | (121,268) | (72,333) |
| Property and equipment, net | $ 113,487 | $ 108,370 |

## 7. Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, are restricted for the following purposes:

| | 2013 | 2012 |
|---|---|---|
| Time restriction | $ 353,333 | $ 30,000 |
| Purpose restrictions: | | |
| Meniere's Disease | 189,168 | 239,168 |
| Tinnitus | - | 3,404 |
| Centurion | - | 7,456 |
| Hearst Endowed Otological Fellowship | 25,188 | 22,632 |
| C.H.E.A.R | 2,460 | 1,845 |
| The Livermore Fund | 80 | - |
| Todd M. Bader Research Grant | 125 | 25,125 |
| Hearing Restoration Project Equipment | 87,000 | - |
| Hearing Restoration Project | 905,146 | 809,166 |
| | $ 1,562,500 | $ 1,138,796 |

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

| | 2013 | 2012 |
|---|---|---|
| Time restriction | $ 10,000 | $ 10,000 |
| Purpose restrictions: | | |
| Todd M. Bader Research Grant | 25,000 | 25,000 |
| Equipment | - | 6,000 |
| Andy Groves Research on Stria | - | 42,327 |
| Hyperacusis Literature Review | - | 10,000 |
| Research grants | 238,048 | 43,370 |
| Hearing Restoration Project - Edge | - | 1,000 |
| Emerging Research grants | - | 500 |
| Cochlear Implants Research | - | 5,000 |
| Magazine management | - | 15 |
| Hair Cell Regeneration | - | 25 |
| Hearing Restoration Project | 978,319 | 740,920 |
| Meniere's Disease | 50,000 | - |
| Tinnitus | 3,404 | - |
| Centurion | 7,456 | - |
| | $ 1,312,227 | $ 884,157 |

## 8. Permanently Restricted Net Assets

Permanently restricted net assets at September 30 are restricted for the following purposes:

| | 2013 | 2012 |
|---|---|---|
| Hearst Endowed Otological Fellowship | $ 200,000 | $ 200,000 |
| C.H.E.A.R. | 118,768 | 118,768 |
| The Livermore Fund | 4,406,823 | - |
| | $ 4,725,591 | $ 318,768 |

The endowment corpus from the Hearst Foundation provides investment income to fund the Hearst Endowed Otologic Fellowship. The endowment corpus from C.H.E.A.R. Inc. provides investment income to fund the annual Children's Hearing Education and Research ("C.H.E.A.R.") Endowment Grant. The endowment corpus from The Livermore Fund provides investment income to fund research into the cause and cure of hearing problems, for helping the hard-of-hearing and deaf adjust to life, for helping their families adjust to them or for any combination of such purposes.

## 9. Endowments

### *Interpretation of Relevant Law*

The Board of Directors of the Foundation has interpreted New York Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by NYPMIFA.

### *Return Objectives and Risk Parameters*

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide capital preservation and total return. The overall rate of return objective of the portfolio shall be a reasonable "real" rate that is consistent with the risk levels.

## 9. Endowments *(continued)*

### *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate objectives within the established risk parameters the Foundation's assets are divided into two major asset classes consisting of cash and mutual funds.

### *Spending Policy*

Spending policy will be at the discretion of the Board of the Foundation as determined by the governing documents for the various restricted funds that make up the portfolio and applicable federal and state laws.

### *Changes in Endowment*

The changes in endowment funds for the year ended September 30, 2013 and 2012 are as follows:

| | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|
| Balance, October 1, 2011 | $ 13,418 | $ 318,768 | $ 332,186 |
| **2012** | | | |
| Interest and dividends | 5,527 | - | 5,527 |
| Unrealized appreciation | 4,265 | - | 4,265 |
| Balance, September 30, 2012 | 23,210 | 318,768 | 341,978 |
| **2013** | | | |
| Additions | - | 2,000,000 | 2,000,000 |
| Interest and dividends | 6,486 | - | 6,486 |
| Unrealized depreciation | (3,236) | - | (3,236) |
| Total investment return | 3,250 | 2,000,000 | 2,003,250 |
| Balance, September 30, 2013 | $ 26,460 | $ 2,318,768 | $ 2,345,228 |

Endowment funds at September 30 consist of the following:

| | 2013 | 2012 |
|---|---|---|
| Cash | $ 2,000,283 | $ 119,488 |
| Mutual Funds | 344,945 | 222,490 |
| | $ 2,345,228 | $ 341,978 |

Endowment funds consist of donor restricted funds.

## 10. In-Kind Contributions

During fiscal 2013, the Foundation received public service announcements, legal services and various other items at no cost. These amounts are reflected as revenue and expenses in the accompanying statement of activities. In-kind contributions consist of the following for the years ended September 30, :

| | 2013 | 2012 |
|---|---|---|
| Public service announcement | $ 2,129,849 | $ 5,286,788 |
| Legal | 31,769 | 21,832 |
| Other | - | 7,687 |
| | $ 2,161,618 | $ 5,316,307 |

## 11. Commitments

### *Lease Commitments*

In 2011, the Foundation entered into a lease agreement for office space which expires on March 31, 2018. The lease provides for one month of free rent and scheduled increases in base rent. Rent expense is charged to operations ratably over the term of the lease which results in deferred rent payable. The deferred rent is the cumulative rent expense charged to operations from inception of the lease in excess of required lease payments. Future minimum rental payments under this operating lease for each of the next five years and thereafter are as follows:

| | |
|---|---|
| 2014 | $ 117,157 |
| 2015 | 120,672 |
| 2016 | 124,292 |
| 2017 | 128,021 |
| 2018 | 64,956 |
| Total | $ 555,098 |

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