

# **Hydrocephalus Association**

## ***Report on Financial Statements***

***For the year ended December 31, 2013***

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# Hydrocephalus Association

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## Independent Auditor's Report

To the Board of Directors  
Hydrocephalus Association  
Bethesda, Maryland

### Report on the Financial Statements

We have audited the accompanying statement of financial position of Hydrocephalus Association (the "Association") as of December 31, 2013, and the related statement 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.

### 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 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 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. 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 of Hydrocephalus Association as of December 31, 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.

A handwritten signature in cursive script that reads 'Elliott Davis, LLC'.

Richmond, Virginia  
July 18, 2014

# Hydrocephalus Association

## Statement of Financial Position

As of December 31, 2013

### Assets

#### Current assets

Cash and cash equivalents	\$ 1,952,896
Receivables:	
Other receivable	392
Grants receivable, current portion	232,500
Prepaid expenses	50,769
Inventory	9,151
Total current assets	<u>2,245,708</u>

#### Investments

303,498

#### Property and equipment, net

39,528

#### Grants receivable, less current portion, net

171,217

#### Deposits

11,108

#### Total assets

\$ 2,771,059

### Liabilities and Net Assets

#### Current liabilities

Accounts payable and accrued expenses	\$ 238,649
Capital lease payable, current	2,713
Total current liabilities	<u>241,362</u>

#### Long term liabilities

Accrued rent expense	25,762
Capital lease payable, non-current	7,716
Total liabilities	<u>274,840</u>

#### Net assets

Unrestricted net assets	1,840,303
Temporarily restricted net assets	574,798
Permanently restricted net assets	81,118
Total net assets	<u>2,496,219</u>
Total net assets and liabilities	<u>\$ 2,771,059</u>

See Notes to Financial Statements

**Hydrocephalus Association****Statement of Activities****For the year ended December 31, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and revenue</b>				
Grants and contributions	\$ 1,004,492	\$ 1,400,688	\$ -	\$ 2,405,180
Special events (net of expenses of \$157,772)	1,032,234	-	-	1,032,234
Sale of books, publications and other items	5,605	-	-	5,605
Interest and dividends	5,502	-	-	5,502
Net investment gain (loss)	(7,675)	105	-	(7,570)
Other income, net	15,353	-	-	15,353
Net assets released from restrictions:				
Purpose accomplished	1,302,326	(1,302,326)	-	-
Total support and revenue	<u>3,357,837</u>	<u>98,467</u>	<u>-</u>	<u>3,456,304</u>
<b>Expenses</b>				
Program expenses:				
Research	1,120,776	-	-	1,120,776
Public support and education	282,200	-	-	282,200
Advocacy	41,721	-	-	41,721
Conferences	24,541	-	-	24,541
Total program expenses	<u>1,469,238</u>	<u>-</u>	<u>-</u>	<u>1,469,238</u>
Fundraising:				
Walks	315,737	-	-	315,737
Fund development	277,016	-	-	277,016
	<u>592,753</u>	<u>-</u>	<u>-</u>	<u>592,753</u>
Administration	355,546	-	-	355,546
Total expenses	<u>2,417,537</u>	<u>-</u>	<u>-</u>	<u>2,417,537</u>
<b>Change in net assets</b>	940,300	98,467	-	1,038,767
<b>Net assets at beginning of period</b>	900,003	476,331	81,118	1,457,452
<b>Net assets at end of period</b>	<u>\$ 1,840,303</u>	<u>\$ 574,798</u>	<u>\$ 81,118</u>	<u>\$ 2,496,219</u>

**See Notes to Financial Statements**

**Hydrocephalus Association**  
**Statement of Functional Expenses**  
**For the year ended December 31, 2013**

	Program						Fundraising					
	Public		Advocacy	Conferences		Total Program	Fund Development	Walks	Total Fundraising	Administration	Total	
	Research	Support and Education		Hydrocephalus Conference	Research Conference							
Salaries	\$ 110,728	\$ 157,871	\$ 18,129	\$ 7,105	\$ 100	\$ 293,933	\$ 152,976	\$ 118,962	\$ 271,938	\$ 162,002	\$ 727,873	
Payroll taxes	8,226	11,880	1,389	495	5	21,996	11,130	8,440	19,570	11,941	53,507	
Employee benefits	14,302	25,709	1,620	1,037	4	42,671	29,563	889	30,452	18,431	91,554	
Professional services - accounting	-	-	-	-	-	-	-	-	-	43,972	43,972	
Professional services - technology	7,808	1,859	255	150	1	10,074	10,317	7,259	17,576	16,178	43,827	
Advertising	-	579	-	-	-	579	-	-	-	2,062	2,641	
Professional services - other	4,697	3,255	14,409	11,083	-	33,444	13,081	4,595	17,675	5,881	57,001	
Rent	50,337	11,178	1,653	967	5	64,139	10,973	12,507	23,480	14,070	101,689	
Expendable equipment	470	104	15	9	-	599	102	117	219	131	949	
Supplies	4,007	3,318	129	75	-	7,528	1,049	19,995	21,044	2,261	30,833	
Software	63	14	2	1	-	81	14	16	30	398	508	
Equipment repairs	126	28	4	2	-	161	51	31	82	35	278	
Equipment rental	277	61	9	5	-	352	60	3,059	3,119	626	4,096	
Insurance	2,221	493	73	43	-	2,830	484	552	1,036	2,111	5,976	
Telephone	1,636	2,143	54	31	-	3,864	357	526	883	2,644	7,391	
Postage	4,297	2,782	129	76	-	7,284	8,721	7,525	16,246	2,355	25,884	
Printing	19,410	7,177	359	210	1	27,157	12,042	8,350	20,392	9,167	56,715	
Out of town travel	10,707	4,956	1,564	2,632	-	19,860	18,424	40,145	58,569	39,244	117,672	
Local travel	146	494	210	1	-	850	149	1,432	1,581	398	2,829	
Food, meals & catering	16,753	17,846	439	177	2	35,217	1,196	3,769	4,965	5,858	46,040	
Conference registration	75	3,450	-	-	-	3,525	172	-	172	-	3,697	
Site expenses	3,328	4,783	73	44	-	8,228	(414)	7,210	6,796	623	15,646	
Employee education	69	15	2	2	-	88	409	17	426	4,319	4,834	
Scholarships	-	16,000	-	-	-	16,000	-	-	-	-	16,000	
Prize/award	-	294	-	-	-	294	282	-	282	-	575	
Grants to others	843,063	2,560	-	-	-	845,623	-	-	-	-	845,623	
Dues & subscriptions	2,018	398	789	34	-	3,239	391	445	836	2,734	6,808	
Taxes & other fees	1,594	354	52	31	-	2,032	2,968	396	3,364	1,966	7,361	
Bank charges	23	130	1	-	-	154	125	1,616	1,741	376	2,270	
Service charges	4,338	209	31	18	-	4,595	205	64,621	64,826	1,298	70,719	
Interest	1,011	249	33	19	-	1,313	220	266	487	283	2,082	
Depreciation expense	8,078	1,794	265	155	2	10,294	1,761	2,007	3,768	2,258	16,319	
Miscellaneous expense	970	215	32	19	-	1,236	211	990	1,202	1,927	4,364	
<b>Total expenses</b>	<b>\$ 1,120,776</b>	<b>\$ 282,200</b>	<b>\$ 41,721</b>	<b>\$ 24,421</b>	<b>\$ 120</b>	<b>\$ 1,469,238</b>	<b>\$ 277,016</b>	<b>\$ 315,737</b>	<b>\$ 592,753</b>	<b>\$ 355,546</b>	<b>\$ 2,417,537</b>	

See Notes to Financial Statements

# Hydrocephalus Association

## Statement of Cash Flows

For the year ended December 31, 2013

### Operating activities:

Change in net assets	\$ 1,038,767
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	16,319
Net investment loss	7,570
Changes in accrual and deferred amounts:	
Other receivable	38,442
Grants receivable	(403,717)
Unconditional promises to give	76,500
Prepaid expenses	(39,009)
Inventories	7,374
Accounts payable and accrued expenses	86,645
Net cash provided by operating activities	<u>828,891</u>

### Investing activities:

Proceeds from sale of investments	1,148
Purchase of property and equipment	(3,230)
Net cash used in investing activities	<u>(2,082)</u>

### Financing activities:

Principal payments on capital leases	(6,413)
Net cash used for financing activities	<u>(6,413)</u>

**Net increase in cash and cash equivalents**

820,396

**Cash and cash equivalents at beginning of year**

1,132,500

**Cash and cash equivalents at end of year**

\$ 1,952,896

### Supplemental Disclosures

Interest paid during the year	<u>\$ 2,083</u>
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See Notes to Financial Statements

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## Hydrocephalus Association

### *Notes to Financial Statements*

*December 31, 2013*

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#### **Note 1. Nature of Activities and Summary of Significant Accounting Policies**

##### *Nature of activities:*

The Hydrocephalus Association (the "Association") was incorporated in 1986 as a nonprofit corporation under the laws of the State of California. Hydrocephalus is an abnormal accumulation of cerebrospinal fluid (CSF) within cavities of the brain called ventricles. The mission of the Association is to eliminate the challenges of hydrocephalus through research and by providing support, education and advocacy for families and professionals. During 2012, the Association moved their operations from San Francisco, California to Bethesda, Maryland.

##### *Basis of accounting:*

The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and, accordingly, reflect all significant receivables, payables and recognized revenues and support when earned and expenditures when they are incurred.

##### *Basis of presentation:*

The Association prepares its financial statements in accordance with the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC). The Association is required to report information regarding its financial position and activities according to three classes of net assets. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

*Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations.

*Temporarily restricted net assets* – Net assets subject to donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, earnings from endowed contributions and investments are restricted for specific purposes.

##### *Cash and cash equivalents:*

For the purpose of the statement of cash flows, cash and cash equivalents include demand deposit accounts and short term and highly liquid investments with an initial maturity of three months or less.

##### *Grants receivable:*

A present value factor is applied to multi-year grants to ascertain a present value of grants receivable. The accretion of discounted amounts is recorded as revenue in the year received.



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## Hydrocephalus Association

*Notes to Financial Statements*

*December 31, 2013*

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### **Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued**

Unconditional promises to give:

Unconditional promises to give are recognized as revenue when the donor commits to such a gift. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. There were no unconditional promises to give for the year ended December 31, 2013.

The Association uses the allowance method to account for uncollectible promises to give. The allowance is based on the current status of individual accounts and management's estimate of the collectability of the promises outstanding and historical experience.

Fair value of investments:

Investments are stated at fair value based on quoted prices in active markets for identical investments at year end. The Association uses a three-tier hierarchy established by the FASB ASC to prioritize the assumptions, referred to as inputs, used in valuation techniques to measure fair value. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1: Quoted prices in active markets for identical investments.
- Level 2: Other significant observable inputs (including quoted prices for similar investments in active markets, interest rates and yield curves, prepayment speeds, credit risks, etc.)
- Level 3: Significant unobservable inputs (including the Association's own assumptions in determining the fair value of investments).

Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments, is shown in the statement of activities under net investment gain (loss).

Donated assets:

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

# Hydrocephalus Association

## Notes to Financial Statements

December 31, 2013

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### Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

#### Inventory:

Inventory is stated at lower of cost or market and consists of books and resources.

#### Property and depreciation:

The Association capitalizes all expenditures in excess of \$1,000 for property and equipment with an extended useful life. Property is recorded at cost, or if donated, at fair market value on the date received. Major improvements are capitalized and depreciated; maintenance and repairs which do not significantly improve or extend the life of respective assets are expensed. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is reflected in other income in the statement of activities. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 4 years.

#### Compensated absences:

It is the Association's policy to permit eligible employees to accumulate earned but unused vacation subject to certain limitations. All unused vacation pay is accrued when incurred and is recorded in accrued expenses in the statement of financial position.

#### Endowment funds:

The Association's endowment consists of approximately 7 individual funds established for the purposes described in Note 6.

The Association follows California State Uniform Prudent Management of Institutional Funds Act (UPMIFA). In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the purpose, duration, and preservation of the endowment fund; expected total return of investments; general economic conditions and the possible effect of inflation or deflation; other resources of the organization.

While UPMIFA does not require it unless the donor instrument contains an express provision, the Association generally requires the preservation of the fair value of the original gift, as of the gift date, donor-restricted endowment funds. Following this approach, the Association 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 the (c) accumulations to the permanent endowment made in accordance with the directions 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 organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

# Hydrocephalus Association

## Notes to Financial Statements

December 31, 2013

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### Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

#### Endowment funds, continued:

In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1. the duration and preservation of the fund
2. the purposes of the Association and the donor-restricted endowment fund
3. general economic conditions
4. the possible effect of inflation and deflation
5. the expected total return from income and the appreciation of investments
6. other resources of the Association
7. the investment policies of the Association

#### Return objectives and risk parameters:

The Association has investment and spending policies for endowment assets that attempt to conservatively yield returns within reasonable levels of risk. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to be conservative through low duration bond funds. The Association's expected rate of return is 1-2%.

#### Strategies employed for achieving objectives:

To satisfy its rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association targets a conservative low duration bond fund to achieve its return objectives.

#### Spending policy and how the investment objectives relate to spending policy:

The Association has a policy of appropriating for distribution each year the earnings on the endowment funds. In establishing the policy and the annual appropriation, the Association considered the expected return on its endowment. Accordingly, the Association expects the current spending policy to show no growth in the endowment as the total growth is appropriated annually for scholarships.

#### Revenue recognition:

Contributions are recognized as revenue when they are received or unconditionally pledged. Contributions and grants received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

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## Hydrocephalus Association

### *Notes to Financial Statements*

*December 31, 2013*

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#### **Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued**

##### *Income tax status:*

The Association is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as a charitable organization whereby only unrelated business income, if any, as defined by the Code, is subject to federal income tax. The Association is classified by the Internal Revenue Service as a Public Charity.

Generally accepted accounting principles (GAAP) prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be in a tax return. GAAP also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, and disclosure.

Management has evaluated the Association's tax positions and concluded that the Association has taken no uncertain tax positions that require adjustment to the financial statements for the year ended December 31, 2013. With few exceptions, the Association is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for the tax years prior to 2010.

##### *Expense allocation:*

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of functional expenses and statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

##### *Use of estimates:*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### *Subsequent events:*

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 18, 2014 the date the financial statements were available to be issued.

## Hydrocephalus Association

### Notes to Financial Statements

December 31, 2013

#### Note 2. Investments

At December 31, 2013, investments are stated at fair value and consist of corporate stocks and a low duration bond fund as follows:

	<u>December 31, 2013</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>
Corporate Stocks	\$ 1,036	\$ 1,036	\$ 4,593	\$ (3,557)
Low duration bond fund	<u>302,462</u>	<u>302,462</u>	<u>306,055</u>	<u>(3,593)</u>
Total Investments	<u>\$ 303,498</u>	<u>\$ 303,498</u>	<u>\$ 310,648</u>	<u>\$ (7,150)</u>

#### Note 3. Grants Receivable

Grants receivable include awards payable over terms of one or more years. A schedule of payments outstanding at December 31, 2013 follows:

Due within one year	\$ 232,500
Due within two-five years	<u>182,500</u>
	415,000
Less: unamortized discount at 2.15%	\$ (11,283)
Less: current portion	<u>(232,500)</u>
Net grants receivable, long-term	<u>\$ 171,217</u>

#### Note 4. Property and Equipment

Property and equipment at December 31, 2013 consisted of:

Office furniture and equipment	\$ 71,166
Computer software	10,586
Accumulated depreciation	<u>(42,224)</u>
	<u>\$ 39,528</u>

#### Note 5. Capital Lease Obligation

In April 2011, the Association purchased a copier under a capital lease agreement expiring April 2016. The liability represents the present value of future minimum lease payments. The leased asset is amortized over its estimated productive life. Amortization of this asset under the capital lease is included in depreciation expense. The cost and accumulated depreciation of assets purchased under the capital lease amounts to \$19,750 and \$9,875, respectively at December 31, 2013.

## Hydrocephalus Association

### Notes to Financial Statements

December 31, 2013

#### Note 5. Capital Lease Obligation, Continued

Aggregate future minimum lease payments under capital lease obligation as of December 31, 2013 are approximated as follows:

2014	\$	5,541
2015		5,541
2016		<u>1,847</u>
Total future minimum lease payments		12,929
Less amount representing interest		<u>(2,500)</u>
Present value of future minimum lease payments	\$	<u>10,429</u>

#### Note 6. Restrictions of Net Assets

Temporarily restricted net assets were available for the following purposes at December 31, 2013:

Time restricted grants receivable	\$	353,717
Teens take charge program		141,321
Research		73,655
Walks		6,000
Scholarship		<u>105</u>
	\$	<u>574,798</u>

Permanently restricted net assets are endowments that must be invested in perpetuity, the investment return of which is restricted for scholarships. Permanently restricted net assets totaled \$81,118 at December 31, 2013.

#### Note 7. Concentration of Credit Risk

The Association maintains its cash accounts with three financial organizations which are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. The Association had approximately \$951,632 in excess of federally insured or other insured limits at December 31, 2013.

#### Note 8. Endowment Funds

Endowment net assets consisted of donor-restricted endowment funds totaling \$81,118, classified as permanently restricted net assets.

Changes in endowment net assets for the fiscal year ended December 31, 2013 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 81,118	\$ 81,118
Contributions	-	-	-
Net investment income	9	-	9
Net appreciation (depreciation)	96	-	96
Amounts appropriated for expenditure	<u>(105)</u>	<u>-</u>	<u>(105)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 81,118</u>	<u>\$ 81,118</u>

## Hydrocephalus Association

### Notes to Financial Statements

December 31, 2013

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#### Note 8. Endowment Funds, Continued

Earnings on the perpetual endowment funds are temporarily restricted to be used for academic scholarships as stipulated by donors.

Permanently restricted net assets consist of the portion of perpetual endowment funds that are required to be retained permanently either by explicit or donor stipulation or by UPMIFA.

#### Note 9. Retirement Plan

The Association has a contributory 403 (b) plan which is funded by voluntary participant salary deferrals and a 3% employer match. For the year ended December 31, 2013, matching contributions totaled \$12,059.

#### Note 10. Operating Leases

The Association recognizes rent expense on a straight-line basis over the term of the lease and, accordingly, records the difference between cash rent payments and the recognition of rent expense as an accrued rent liability.

The Association rented offices in San Francisco under a month-to-month lease agreement through July 31, 2012 for \$2,519 per month. During the second half of 2012, the Association moved to Bethesda, Maryland and entered into a non-cancelable lease agreement for the period October 1, 2012 through September 30, 2017. The base rent for each of the first five lease years is \$100,130 and is adjusted annually for inflation thereafter at a rate of 3%. Additionally, real estate taxes are to be paid by the association as additional rent. For the fiscal year ended December 31, 2013, rent expense was \$101,689.

A schedule of future lease commitments under the lease obligation is as follows:

2014	\$	103,907
2015		107,025
2016		110,235
2017		<u>84,523</u>
Total future minimum lease commitment	\$	<u>405,690</u>