



CAPI

THE CANADIAN AGRI-FOOD
POLICY INSTITUTE

ANNUAL REPORT 2012-2013



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Mission

The Canadian Agri-Food Policy Institute (CAPI) is an independent, unbiased policy forum dedicated to the success of Canada's agriculture and agri-food sector. CAPI identifies emerging issues, promotes dialogue, presents new possibilities and advances alternative solutions in consultation with stakeholders across the diverse agriculture and agri-food value chain, with the help of academia, research institutes, governments and other sectors in Canada. CAPI is a catalyst.

Established as a not-for-profit corporation in 2004 by the federal government, CAPI is guided by a diverse Board of Directors and an Advisory Committee. Its offices are located in Ottawa.

By taking a longer-term perspective, CAPI fulfills its work according to its objectives and purpose. Its Charter indicates that CAPI will:

- Provide independent, unbiased and credible input to the Canadian agricultural policy debate and policy development process.
- Function as an agricultural policy forum focused on promoting dialogue by:
 - (a) gathering intelligence and sharing results;
 - (b) identifying emerging issues in the agricultural sector that should be coordinated and addressed on a national basis;
 - (c) bringing together a wide range of expertise and new voices to examine existing and emerging issues in the agricultural sector;
 - (d) discussing alternative solutions to issues before they become polarized;
 - (e) providing balance when polarization within the agricultural sector is unavoidable; and
 - (f) providing advice and a third-party perspective when agricultural policy decisions are made.

Contacting CAPI

For information on this report, or on the work that CAPI is conducting, please contact:

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Message from the Chair

As this is my first year as Chair of the Canadian Agri-Food Policy Institute, I want to first acknowledge my predecessor. Founding Chair Gaëtan Lussier concluded his term in June 2012. Gaëtan Lussier and the original members of the Board left the Institute in such a position that we are now able to make an even greater positive mark on the country's agri-food sector. We are catalyzing change thanks to the core ideas initially established in our 2011 *Destination* report (referenced later in this annual report).



Under Gaëtan Lussier's tenure last year, CAPI embarked on a major study of Canada's beef industry. Delivered in September 2012, the resulting report is proving to be a pivotal document in helping shift thinking among many in the beef sector. It documents the fact that Canada was becoming a net importer of beef from the United States and that the Americans were deriving a significant premium for processing Canadian cattle and beef and then exporting product back to Canada. The foregone opportunity to Canada was clearly evident and remains so. (Indeed, we are now a net importer of beef from the U.S.) *Canada's Beef Food System* addresses what is needed to develop a differentiated beef business in Canada and major players are responding to this market opportunity. CAPI's work has prompted many organizations to hold dialogues on what needs to be, and can be, done.

As CAPI continued to promote this report, the Institute began framing another major issue: the unprecedented and rising trade deficit in processed food. In 2011, the deficit reached \$6.3 billion. CAPI publicized that development in a report released in November 2012 and initiated a comprehensive research program that will conclude in the next fiscal year. While there are real challenges facing this sector, I am also heartened to see companies doing well in the marketplace. I am confident that we will isolate the drivers of success and identify the essential evidence needed to help this sector move forward.

As CAPI's work progresses, I want to thank my fellow Board members for their guidance and I appreciate the advice provided by the Board's two Vice-Chairs, Owen McAuley and Michel Saint-Pierre. I also value the input from our various members and advisors. Our honorary members, our voting members, our associate member and the representatives who sit on the Advisory Committee all provide important perspectives to shape the direction of CAPI's work.

Finally, I would like to thank David McInnes, President and CEO, and the CAPI team for helping me begin my first year as Chair and for advancing two major projects, among other work, during the year. CAPI is making inroads on major issues and we will build our success to enhance CAPI's impact. In doing so, we will continue to attract even greater interest and support among stakeholders in our work.

Ted Bilyea

A handwritten signature in black ink that reads "M.E. Bilyea". The signature is written in a cursive, flowing style.

Chair

Message from the President & CEO

In 2012-2013, the Canadian Agri-Food Policy Institute was a catalyst of a national dialogue in a key agri-food sector. Our report, *Canada's Beef Food System*, focused on issues that were not on the beef sector's radar. It elevated the discussion on the need for supply chain players to come together to create opportunities. It attracted champions, such as the Alberta Livestock and Meat Agency, to pick up its work and initiate a series of follow-up dialogues with sector leaders on strategy, collaboration and competitiveness. While more needs to be done by sector players themselves, the beef report reaffirmed CAPI's role as a neutral body that conducts sound research on emerging issues facing the sector, brings leaders together and advances a dialogue on solutions and strategy.



Our efforts to define the challenges facing the processed food sector will emulate this approach to some degree. While not scheduled to conclude until the next fiscal year, this work has already demonstrated how CAPI can play a material role. It is bringing players to the table — some for the first time — to support and discuss the issue.

Our focus must remain on providing novel insights, supported by clear data and evidence, and on being a key forum for leaders to come together to address and advance policy and competitiveness issues.

The CAPI Board plays a vital role in supporting our work and helping us to sharpen our focus. Our former Chair, Gaëtan Lussier, left a legacy that has positioned our diverse Board of Directors well for the future. Our current Chair, Ted Bilyea, has provided exceptional guidance on our work program. We also rely on and appreciate the advice provided by our many partners and members.

Our work could not move forward without the incredible dedication of Daniel Yeon, Kim Kelly and Debbie Mantha. Their efforts are truly helping CAPI make a positive contribution to the agri-food sector.

David McInnes

A handwritten signature in black ink, appearing to read 'D. McInnes', with a period at the end.

President & Chief Executive Officer

The Year in Review

Activities during Fiscal Year 2012-2013

In fiscal year 2012-2013, CAPI's work was largely focused on examining the competitiveness of the country's beef sector. Its findings were published in September as *Canada's Beef Food System: A Roadmap for Dialogue on Strategy*.

The balance of the year was devoted to outreach on the beef report and investigation of another major issue of interest, the profitability and competitiveness of Canada's processed food sector. CAPI documented the deteriorating trade balance situation in this sector, one of Canada's largest manufacturing sectors. In November, it released *The State of Canada's Processed Food Sector: Trade Balance*. In the last quarter of the fiscal year, CAPI developed and launched a comprehensive research program to better understand the reasons for this rising trade deficit and to explore the policy and competitiveness implications of the situation and the broader impact of this deficit on the agri-food sector as a whole.

The year also marked the conclusion of CAPI's first three-year strategy, which began in 2009. This strategy was based on linking three broad themes: food and wellness, environmental sustainability and the economic viability of the agri-food sector. We developed an approach to considering agri-food issues through the lens of *systems thinking*.¹ Many issues facing the sector are highly complex and interconnected. Developments can affect entire supply chains, sectors and policy domains. CAPI developed the idea that any food strategy needs to harness these connections to manage change and create new opportunities. As well, we advanced the idea that strategy should be driven by "a destination" – a bold goal to galvanize action and alignment – and that industry must be a driver of strategic change. These ideas remain highly relevant, in our view, and, with the guidance of our Board of Directors, we retained this thinking as a foundation for developing our next three-year plan (to commence in 2013-2014).

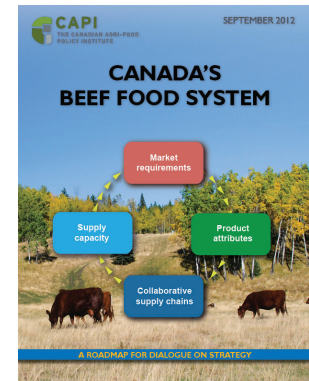
In fiscal year 2012-2013, a diverse number of stakeholders invited CAPI to present its systems and strategic thinking to a variety of conferences and audiences – testimony to the continuing interest in these concepts and their application.

Strategy should be driven by a "destination" and industry must be a driver of strategic change.

1. See *Canada's Agri-Food Destination: A New Strategic Approach*, 2011, and its companion report *Update*, 2011, posted on the CAPI website.

Beef Food System Report

By publishing *Canada's Beef Food System: A Roadmap for Dialogue on Strategy*, CAPI catalyzed a much-needed dialogue on competitiveness and strategy in this important sector. CAPI established the evidence that Canada was becoming a net importer of beef from the United States and that much of the processing value-added economic activity was benefitting the U.S., not Canada. Eighty-plus interviews with sector stakeholders revealed that many felt that there was no long-term strategic plan in the sector, little alignment and a lack of leadership, given the number of voices representing interests across the sector.



To develop its work, CAPI conducted extensive outreach for this project, including three visits to the Beef Value Chain Roundtable and presentations to dozens of companies, industry conferences, and association board meetings all across the beef sector. CAPI's report declared that the sector was at a "tipping point" and presented stark choices for the sector to consider. The report resulted in widespread media coverage throughout the fall, and the Alberta Livestock and Meat Agency (ALMA) used the report in November 2012² and two additional summit meetings to initiate a new dialogue ("A Beef Food System Summit") among key leaders in the beef sector in western and eastern Canada.

The Canadian Agri-Food Policy Institute (CAPI) identified several areas of strategic importance for the industry in their September report. At the November 29 Beef Food System Summit, key industry leaders gathered to collaborate on how to move the Canadian beef industry forward [...]

Despite the complexities of unifying industry, there was a consensus that things need to change. More importantly, however, is the fact that the leaders in the beef industry view change as both possible and desirable.

**— Alberta Livestock and Meat Agency,
Information Bulletin**

Key beef players who participated in the ALMA summits have expressed interest in and support for CAPI's intention to focus on a Canadian strategy, such as Cargill and McDonald's Restaurants of Canada. At the ALMA summits, major players advanced the importance of having a "Canadian mandate" to increase sourcing of Canadian beef for the Canadian marketplace and as a basis for differentiating this supply from North American-sourced beef. While more work is required, having supply chain players better aligned around

common objectives (in this case a Canadian-differentiated supply strategy) represents a fundamental shift in thinking. In a media report on the first ALMA summit, a representative of McDonald's Canada was quoted as saying: "[The summit was] an important first step in this critical dialogue.... As it stands now, there is a lack of coherent, customer-focused Canadian beef selling proposition or strategy that all links in the supply chain buy into." The report noted that McDonald's is the largest purchaser of ground beef in the country.³

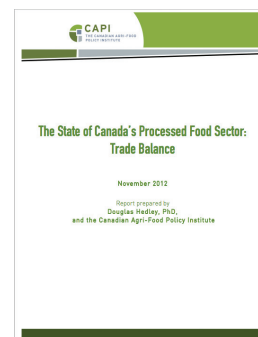
2. "Beef Industry Moves Toward A Shared Strategic Direction," *ALMA Information Bulletin*, December 2012.

3. "Beef Food Industry Summit brings key players together," Victoria Peterson, *The Manitoba Co-operator*, Jan. 31, 2013, page 18.

Processed Food Research Program

The State of Canada's Processed Food Sector: Trade Balance received widespread interest and support from associations representing this sector (see example in sidebar) and from the agriculture sector. The Canadian Federation of Agriculture noted in a press release on Nov. 22, "The CAPI study is the type of examination of key issues that must be done if we are going to ensure a viable food system now and into the future...."

With a negative trade balance of some \$6.3 billion, the substantial and rising deficit has major implications for the processing sector, not only as a major employer but also as a significant channel for agricultural output.

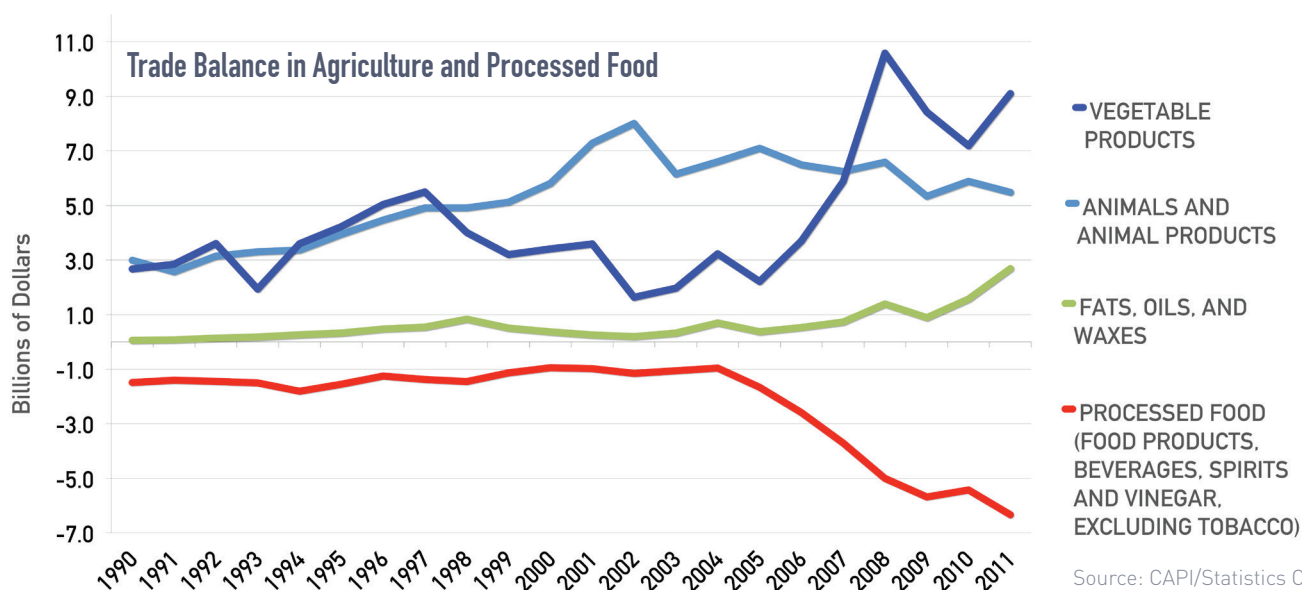


Action needed to ensure Canada's food manufacturing sector becomes the best in the world

Toronto, Nov. 19, 2012 — Food & Consumer Products of Canada (FCPC) is applauding the report released by the Canadian Agri-Food Policy Institute (CAPI) as it clearly lays out some of the serious challenges facing Canada's food and beverage manufacturing sector.

— FCPC press release

Following the release of the report, CAPI reached out to many stakeholders to seek their help identifying the research required to better understand what is happening across the sector and what is needed to improve performance. A comprehensive research program was developed and put into action toward the end of the fiscal year. An initial project (as part of that program) commenced in March, with several government departments providing guidance on how to better understand the trade deficit situation among the many sub-sectors that process food. The overall research program on processed food is expected to be completed in the next fiscal year.



Growing Forward 2

At a meeting in Whitehorse, Yukon, in September 2012, the federal, provincial, and territorial Ministers of Agriculture reached an agreement on the content of the Growing Forward 2 five-year policy framework for the sector. The agreement included changes to the money set aside for innovation and changes to the suite of Business Risk Management programs. Background material posted on AAFC's website (see sidebar) referenced CAPI's work as a source for supporting changes to such programming.⁴ (CAPI developed these ideas initially for its 2011 report *Canada's Agri-Food Destination*.)

Other reports by organizations such as ... CAPI each concluded that agricultural programs must work to improve competitiveness through innovation and trade and have provided valuable input towards the development of Growing Forward 2.

– Agriculture & Agri-Food Canada

CAPI was represented in Whitehorse and attended associated meetings at a food processing roundtable with industry and government stakeholders. This outreach attracted further attention to the deteriorating trade balance situation facing the processed food sector.

Communication & Outreach

CAPI's work attracts diverse interest from many types of organizations interested in food issues and strategic change. A number of examples are highlighted below over the course of the fiscal year.

Canadian Partnership Against Cancer

In May 2012, CAPI was invited to address a workshop organized by the Canadian Partnership Against Cancer, "Healthy Outcomes Promoting Economic Success." This group was focused on how to advance public-private partnerships, notably to address cancer and chronic disease prevention. Being only one of a few food-related players at this event, CAPI addressed the trends facing the agri-food sector and the opportunities presented from the convergence of food and health issues.

Canadian Animal Health Institute

CAPI made a presentation to the annual meeting of the Canadian Animal Health Institute (CAHI) in June 2012. The trade association represents the manufacturers and distributors of animal medications in Canada. The "Veterinary Medicine 2020" conference attracted a diverse number of company and support sector representatives and presented CAPI with the opportunity to share its views about how food systems are changing and the implications for this sector.

4. "New Growing Forward Agreement Will Drive Innovation, Market Development and Long-term Growth in Canadian Agriculture," Press release, Agriculture and Agri-Food Canada, Sept. 14, 2012. See also "Backgrounder – Growing Forward 2: Sector Engagement."

Beef Research Outreach

CAPI conducted extensive outreach with hundreds of stakeholders on its emerging or draft work leading up to the completion of *Canada's Beef Food System* and following its release. CAPI held a webinar immediately upon its publication, developed an op-ed essay for inclusion in community newspapers across the country (posted on CAPI's website) and provided numerous media interviews. Media coverage either provided a factual overview of the report's content or was editorial in nature – and predominantly positive. CAPI continued to present the report's findings to stakeholders throughout the balance of the fiscal year; for instance, the report generated interest in the Abitibi-Témiscamingue region of Quebec where the report's findings were the subject of several industry meetings.⁵ Moreover, as noted earlier, the Alberta Livestock and Meat Agency used the report as a basis for holding three Beef Food System Summits with supply chain leaders to discuss and develop a new strategy for the sector.

Healthy Eating and Economic Opportunities: CPMA

Over the course of 2012, the Canadian Produce Marketing Association (CPMA), which represents some 700 members, actively applied CAPI's food systems model to develop its strategy. The CPMA initiative builds on CAPI's extensive work to promote greater collaboration across the health and agri-food sectors and create mutual opportunities. CAPI worked with the CPMA to hold a dialogue with its diverse stakeholders in January 2013. That session reflected systems thinking at work; representatives included a horticulture importer-exporter, a major grocery retailer, associations representing key supply chain segments, researchers, three levels of government, and national population health associations. The meeting resulted in broad support for the CPMA to advance a national dialogue on healthy eating with a focus on consumption of fresh fruit and vegetables. The CPMA will be holding a forum on the subject (a Health Summit) in June 2013 in conjunction with the Canadian Public Health Association.

Prince Edward Island AgriAlliance's Innovation Road Map

CAPI outlined drivers of strategic change at the Prince Edward Island AgriAlliance Agri-Insight Conference in Charlottetown in February 2013 as a basis for helping that province advance its Innovation Road Map for the Agriculture and Agri-Food Sector. That document reinforced key themes identified by CAPI, including the use of specific goals to galvanize players to achieve objectives, and emphasized the need for an effective innovation system to deliver results.

5. The outreach included presentations to a beef centre of excellence (Le crêneau d'excellence agriculture nordique axe sur la production bovine) and a beef producers' federation (La Fédération des producteurs bovins de la région Abitibi-Témiscamingue).

A Dialogue Session on Canada's Rising Trade Deficit in Processed Food

After producing *The State of Canada's Processed Food Sector: Trade Balance*, CAPI held a unique dialogue session with industry CEOs and the Bank of Canada in November. The Bank's interest in this work relates to the fact that the processed food sector is the largest manufacturing sector in the Canadian economy (by number of jobs and second to auto manufacturing in terms of GDP). This session helped CAPI develop elements of its research program and delve more deeply into the issues and opportunities facing this sector. Also, after releasing the report, CAPI engaged in a broad effort to reach out to processed food companies, their representative associations and other support sectors. Their feedback helped inform CAPI's research program, which began in the fiscal year (for conclusion in 2013-2014).

CAPI-MaRS Joint Dialogue on Food, Health & Innovation

In February 2012, CAPI partnered with MaRS, an organization dedicated to supporting entrepreneurship and innovation to improve Canada's economic and social prosperity. As part of CAPI's processed food program, we held a dialogue session with representatives from food innovation, health research and other representatives to develop ideas to advance food and nutrition innovation. This session provided some early insights for our work that will unfold in the next fiscal year.

Nuffield Canada & Ontario's Outstanding Young Farmers

In conjunction with Nuffield Canada and Ontario's Outstanding Young Farmers, CAPI was invited to speak at the March 2013 Contemporary Scholars Conference. The Nuffield Agricultural Scholarship Program brings accomplished agri-food producers and professionals together from several countries to share ideas about farming, food and rural affairs. CAPI outlined issues and opportunities facing Canada's agri-food sector.

Canadian Water Network

CAPI spoke at the Canadian Water Network in March 2013. The event, *Connecting Water Resources 2013: Changing the Water Paradigm*, focused on the possibilities for changing the way stakeholders can improve water management, whether through innovation, collaboration, or policy. It brought together representatives from government, academia and the private sector. CAPI identified how systems thinking is transforming the way companies, governments and other players are responding to complex issues and opportunities facing the agri-food sector.

Governance

CAPI adheres to the terms and conditions established at its founding. The CAPI Charter (page 3) defines how the Institute will conduct its activities and remain accountable. As a matter of good governance, CAPI continues to monitor and upgrade current policies to ensure the transparency, integrity and clarity of its operating practices.

CAPI's Board of Directors has a broad background of expertise and experience from across the agriculture and agri-food sector, in public policy and government, and in research and business. The President reports to the Chair of the Board of Directors. In June 2012, Ted Bilyea became the Chair of the Board of Directors, replacing Gaëtan Lussier, who retired from the Board.

To assist CAPI's mandate as a catalyst of change, CAPI also created the new position of "honorary member" to recognize leaders in Canada's agri-food sector. In June 2012, four such members were appointed: Dr. Robert Church, Kenneth Knox, Gaëtan Lussier and Chuck Strahl.

CAPI's Advisory Committee, representing the diverse agri-food value chain, is completely independent from the Institute. It provides expert advice to the Board of Directors and the President on the policy research agenda and emerging future policy issues. Agriculture and Agri-Food Canada is an ex-officio member of the Advisory Committee. Derek Tallon, a producer from Saskatchewan, joined the Advisory Committee in the fiscal year.

CAPI's membership did not change during the fiscal year. In 2012-2013, CAPI had three Voting Members as represented by Alberta Agriculture and Rural Development, Farm Credit Canada and the Ontario Ministry of Agriculture and Food. CAPI also has one Associate Member, Quebec's Ministry of Agriculture, Fisheries and Food.

In compliance with the Funding Agreement between Her Majesty the Queen in Right of Canada represented by the Minister of Agriculture and Agri-Food (Minister) and the Canadian Agri-Food Policy Institute, CAPI completed its first formal interim performance evaluation review on June 22, 2010 (as reported in the *2010-2011 Annual Report*). Further performance evaluation reports are to be completed in 2015, 2020 and 2022.

Financial Review

The Funding Agreement between Her Majesty the Queen in Right of Canada represented by the Minister of Agriculture and Agri-Food (Minister) and the Canadian Agri-Food Policy Institute (CAPI) represents the major source of contribution to CAPI's activities. In 2007, CAPI entered into a long-term financing agreement with the Government of Canada, for which CAPI received an amount of \$15 million. As defined in the agreement, the total maximum financial support that may be drawn down for the eligible administrative costs and the eligible policy research costs of CAPI in any fiscal year shall not exceed \$1 million of the original \$15 million paid to CAPI by the Government plus any accumulated interest or income from the investment of the grant that may be available for draw down at any time. The following presents a summary of the financial statements of CAPI as at March 31, 2013.

Report of the Independent Auditor on the Summary Financial Statements

To the Directors of the Canadian Agri-Food Policy Institute

The accompanying summary financial statements, which comprise the summary balance sheet as at March 31, 2013 and the summary statement of revenue and expenses and changes in net assets for the year then ended are derived from the audited financial statements of the Canadian Agri-Food Policy Institute for the year ended March 31, 2013. We expressed an unmodified audit opinion on those financial statements in our report dated May 31, 2013. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles applied in the preparation of the audited financial statements of the Institute. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of the Institute.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements. The summary balance sheet and the summary statement of revenue and expenses and changes in net assets are derived from the complete set of financial statements of the Institute. They meet the recognition and measurement principles of Canadian generally accepted accounting principles.

Auditor's Responsibility

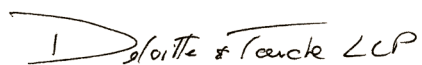
Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, "Engagements to Report on Summary Financial Statements."

Opinion

In our opinion, the summary balance sheet and summary statement of revenue and expenses and changes in net assets of the Institute for the year ended March 31, 2013 are a fair summary of those financial statements, in accordance with the established criteria stipulating that the summary financial statements are derived from the complete set of financial statements of the Institute and that they meet the recognition and measurement principles of Canadian generally accepted accounting principles.

Comparative Information

Without modifying our opinion, we draw attention to the fact that the Institute adopted Canadian accounting standards for not-for-profit organizations on April 1, 2012, with a transition date of April 1, 2011. These standards were applied retrospectively by management to comparative information in these financial statements, including the statements of financial position as at March 31, 2012 and April 1, 2011 and the statements of operations, changes in net assets and cash flows for the year ended March 31, 2012, and related disclosures. We were not engaged to report on the comparative information, and as such, it is unaudited.



Deloitte & Touche, Chartered Accountants, Licensed Public Accountants
May 31, 2013

SUMMARY STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN NET ASSETS

year ended March 31, 2013

	<u>2013</u>	<u>2012</u>
REVENUE		
Contributions		
Grant contributions	\$ 1,062,658	\$ 1,200,386
Initial contributions	7,301	8,751
Other contributions	103,666	198,007
Interest income	2,298	1,792
Other	8,333	-
Amortization of deferred contributions - capital assets	10,063	28,497
	1,194,319	1,437,433
EXPENSES		
Administration	210,560	250,021
Research Activities		
Communication and outreach	207,190	260,613
Projects	725,297	882,923
Institute activities	48,974	42,084
	1,192,021	1,435,641
EXCESS OF REVENUE OVER EXPENSES	2,298	1,792
NET ASSETS, BEGINNING OF YEAR	271,102	269,310
NET ASSETS, END OF YEAR	\$ 273,400	\$ 271,102

SUMMARY BALANCE SHEET

as at March 31, 2013

	<u>March 31, 2013</u>	<u>March 31, 2012</u>	<u>April 1, 2011</u>
ASSETS			
Cash	\$ 530,998	\$ 312,963	\$ 489,951
Accounts receivable	92,780	301,431	92,989
Prepaid expenses	10,267	12,023	32,315
Capital assets	5,368	11,251	37,690
Long-term investments	11,580,133	12,266,531	12,729,736
	\$ 12,219,546	\$ 12,904,199	\$ 13,382,681
LIABILITIES			
Accounts payable and accrued liabilities	130,619	\$ 109,655	\$ 124,868
Deferred contributions	230,026	245,660	221,077
Long-term deferred contributions	11,580,133	12,266,531	12,729,736
Deferred contribution - capital assets	5,368	11,251	37,690
	11,946,146	12,633,097	13,113,371
	273,400	271,102	269,310
NET ASSETS – UNRESTRICTED	\$ 12,219,546	\$ 12,904,199	\$ 13,382,681