

**THE PULMONARY HYPERTENSION ASSOCIATION, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

**THE PULMONARY HYPERTENSION  
ASSOCIATION, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2008 AND 2007**

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## REPORT OF INDEPENDENT AUDITORS

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To the Board of Directors of  
The Pulmonary Hypertension Association, Inc.

We have audited the accompanying statements of financial position of The Pulmonary Hypertension Association, Inc. (the Association) as of December 31, 2008 and 2007 and the related statements of activities, of functional expenses and of cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Association's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Pulmonary Hypertension Association, Inc. as of December 31, 2008 and 2007 and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Calibre CPA Group, PLLC*

Washington, DC  
August 25, 2009

THE PULMONARY HYPERTENSION ASSOCIATION, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,708,594	\$ 2,062,736
Contributions receivable	6,805	101,540
Grant receivable	151,961	-
Other receivables	-	2,465
Accrued interest receivable	30,688	-
Prepaid expenses	28,418	36,119
Total current assets	<u>2,926,466</u>	<u>2,202,860</u>
RESTRICTED CASH	68,658	52,577
INVESTMENTS - at fair value	2,267,786	2,219,001
ENDOWED INVESTMENTS - at fair value	1,075,516	1,376,462
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET OF ACCUMULATED DEPRECIATION	85,652	82,274
OTHER ASSETS	84,045	55,909
Total assets	<u>\$ 6,508,123</u>	<u>\$ 5,989,083</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 69,728	\$ 299,473
Accrued payroll and payroll taxes	55,205	64,009
Grants payable - current portion	550,500	552,500
Total current liabilities	<u>675,433</u>	<u>915,982</u>
GRANTS PAYABLE - NON CURRENT PORTION	457,500	406,500
DEFERRED INCOME	-	250,000
DEFERRED RENT	84,512	86,309
Total liabilities	<u>1,217,445</u>	<u>1,658,791</u>
NET ASSETS		
Unrestricted		
Available for operations	3,568,030	2,104,259
Designated for equipment and leasehold improvements	85,652	82,274
Total unrestricted	<u>3,653,682</u>	<u>2,186,533</u>
Temporarily restricted	492,822	830,421
Permanently restricted	1,144,174	1,313,338
Total net assets	<u>5,290,678</u>	<u>4,330,292</u>
Total liabilities and net assets	<u>\$ 6,508,123</u>	<u>\$ 5,989,083</u>

See accompanying notes to financial statements.

THE PULMONARY HYPERTENSION ASSOCIATION, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008			2007				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT								
Contributions	\$ 3,723,299	\$ 95,775	\$ 250,000	\$ 4,069,074	\$ 3,513,175	\$ 79,055	\$ 1,250,000	\$ 4,842,230
Contributions - research	-	652,169	-	652,169	-	535,255	-	535,255
In-kind donations	15,912	29,393	-	45,305	23,343	24,352	-	47,695
Conference	1,166,429	-	-	1,166,429	-	-	-	-
Grants	248,704	-	-	248,704	102,370	-	-	102,370
Membership dues	236,423	-	-	236,423	183,972	-	-	183,972
Merchandise sales	55,428	-	-	55,428	65,611	-	-	65,611
Investment income (loss)	(205,318)	(38,416)	(419,164)	(662,898)	115,502	238,624	-	354,126
Other	14,673	-	-	14,673	8,109	-	-	8,109
Releases from restrictions	1,076,520	(1,076,520)	-	-	759,210	(759,210)	-	-
Total revenue and support	6,332,070	(337,599)	(169,164)	5,825,307	4,771,292	118,076	1,250,000	6,139,368
EXPENSES								
Program services	4,168,485	-	-	4,168,485	3,903,117	-	-	3,903,117
Management and general	374,361	-	-	374,361	318,869	-	-	318,869
Fund raising	322,075	-	-	322,075	299,799	-	-	299,799
Total expenses	4,864,921	-	-	4,864,921	4,521,785	-	-	4,521,785
CHANGE IN NET ASSETS	1,467,149	(337,599)	(169,164)	960,386	249,507	118,076	1,250,000	1,617,583
NET ASSETS								
Beginning of year	2,186,533	830,421	1,313,338	4,330,292	1,937,026	712,345	63,338	2,712,709
End of year	\$ 3,653,682	\$ 492,822	\$ 1,144,174	\$ 5,290,678	\$ 2,186,533	\$ 830,421	\$ 1,313,338	\$ 4,330,292

See accompanying notes to financial statements.

THE PULMONARY HYPERTENSION ASSOCIATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2008

	Program Services	Management and General	Fund Raising	Total
Salaries	\$ 867,080	\$ 211,679	\$ 178,243	\$ 1,257,002
Employee related expenses	172,429	42,355	32,562	247,346
	<u>1,039,509</u>	<u>254,034</u>	<u>210,805</u>	<u>1,504,348</u>
Conference meals, lodging and travel	462,452	-	-	462,452
Copying and printing	440,718	2,372	16,647	459,737
Credit card fees	53,730	8,222	6,924	68,876
Depreciation	46,416	11,334	9,542	67,292
Dues	22,190	4,246	3,575	30,011
Equipment	7,883	1,841	411	10,135
Insurance	6,271	1,532	1,289	9,092
Lobbying	37,711	-	-	37,711
Miscellaneous	24,710	1,610	322	26,642
Office rent	134,687	33,320	28,057	196,064
Payroll service	2,143	523	441	3,107
Postage	145,111	24,432	26,172	195,715
Professional fees	508,312	11,479	1,099	520,890
Repairs and maintenance	25,938	5,593	4,709	36,240
Research grants and expenses	548,500	-	-	548,500
Special events	216,736	-	-	216,736
Supplies	97,572	4,017	2,622	104,211
Telephone	78,964	3,107	7,606	89,677
Training	6,414	1,565	1,318	9,297
Travel	256,169	5,134	536	261,839
Web site fees	6,349	-	-	6,349
	<u>\$ 4,168,485</u>	<u>\$ 374,361</u>	<u>\$ 322,075</u>	<u>\$ 4,864,921</u>
Totals				

See accompanying notes to financial statements.

**THE PULMONARY HYPERTENSION ASSOCIATION, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2007

	Program Services	Management and General	Fund Raising	Total
Salary	\$ 831,469	\$ 112,373	\$ 125,375	\$ 1,069,217
Employee related expenses	182,429	22,306	25,869	230,604
	<u>1,013,898</u>	<u>134,679</u>	<u>151,244</u>	<u>1,299,821</u>
Conference meals, lodging and travel	277,907	-	-	277,907
Copying and printing	478,093	1,425	33,956	513,474
Credit card fees	12,454	-	-	12,454
Depreciation	44,781	5,820	6,343	56,944
Dues	9,051	1,243	3,756	14,050
Equipment	33,314	7,195	4,593	45,102
Insurance	11,287	769	519	12,575
Lobbying	39,012	-	-	39,012
Miscellaneous	74,706	21,089	6,363	102,158
Office rent	129,980	16,832	18,370	165,182
Payroll service	-	3,351	-	3,351
Postage	92,627	6,805	15,712	115,144
Professional fees	816,672	46,637	13,085	876,394
Public relations	-	50	-	50
Research grants and expenses	520,000	-	-	520,000
Special events	24,502	47,695	-	72,197
Supplies	68,376	3,155	10,590	82,121
Telephone	14,996	1,277	2,688	18,961
Training	7,093	19,790	4,217	31,100
Travel	222,068	1,057	28,363	251,488
Web site fees	12,300	-	-	12,300
	<u>3,903,117</u>	<u>318,869</u>	<u>299,799</u>	<u>4,521,785</u>
Totals	<u>\$ 3,903,117</u>	<u>\$ 318,869</u>	<u>\$ 299,799</u>	<u>\$ 4,521,785</u>

See accompanying notes to financial statements.

**THE PULMONARY HYPERTENSION ASSOCIATION, INC.**

**STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 960,386	\$ 1,617,583
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	67,292	56,944
Donation of stock	5,828	-
Realized and unrealized gain (loss) on investments	862,261	(137,643)
Reclassification of endowed contributions	(250,000)	(1,250,000)
Decrease (increase) in operating assets		
Contributions and other receivable	(54,761)	52,597
Interest receivable	-	6,578
Prepaid expenses	7,701	(9,521)
Restricted cash	(16,081)	10,761
Accrued interest receivable	(30,688)	-
Other assets	(28,136)	(9,707)
Increase (decrease) in operating liabilities		
Accounts payable	(229,745)	123,755
Accrued payroll and payroll taxes	(8,804)	19,626
Deferred income	(250,000)	250,000
Deferred rent	(1,797)	22,400
Grant payable	49,000	1,071
Net cash provided by operating activities	1,082,456	754,444
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment and leasehold improvements	(70,670)	(39,436)
Proceeds from sale of investments	3,652,010	1,967,733
Purchase of investments	(4,267,938)	(2,886,329)
Net cash used for investing activities	(686,598)	(958,032)
<b>Cash flows from financing activities</b>		
Endowment contributions	250,000	1,250,000
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	645,858	1,046,412
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	2,062,736	1,016,324
End of year	\$ 2,708,594	\$ 2,062,736

Supplemental Disclosure

During the year ended December 31, 2008, the Association received \$5,828 in donated securities.

See accompanying notes to financial statements.

**THE PULMONARY HYPERTENSION  
ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2008 AND 2007

**NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS**

The Pulmonary Hypertension Association, Inc. (the Association), a Florida nonprofit organization, provides fellowship and educational support to pulmonary hypertension patients, their families, physicians, researchers and the public at large.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Financial Statement Presentation** - The Association is required under generally accepted accounting principles to report 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.

**Basis of Accounting** - The financial statements of the Association have been prepared on the accrual basis of accounting and accordingly reflect all receivables, payables, and other assets and liabilities.

**Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles 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.

**Recognition of Donor Restrictions** - Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Income of restricted funds is recognized under FSP 117-1, as disclosed in Note 6.

**Cash and Cash Equivalents** - The Association considers all cash balances and highly liquid investments with an original maturity of three months or less to be cash equivalents.

**Restricted Cash** - The Association considers cash balances held in investment portfolio accounts under permanently restricted endowments as restricted cash.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributions and Grants Receivable** - All promises receivable are due within one year, and all amounts are considered fully collectible. Consequently, no provision for uncollectible promises has been made.

In addition, the Association has received conditional promises. The conditional promises as of December 31, 2008 totaled \$500,000 consisting of endowed funds to be received from United Therapeutics over the next two years.

**Membership Income** - Membership income is recognized as income in the period received.

**Investments** - Investments with readily determinable fair values are stated at their fair values in the statements of financial position. Other investments are carried at estimated fair value. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Investment income earned on temporarily and permanently restricted contributions is used for unrestricted programs of the Association, as indicated by the donors and approved by the Association Board.

During the year ended December 31, 2008, the Association adopted Statement of Financial Accounting Standards No. 157 *Fair Value Measurements*, for assets and liabilities at fair value on recurring basis during the period. This Statement requires quantitative disclosures about fair value measurements separately for each major category of assets and liabilities. This standard clarifies the definition of fair value for financial reporting, established a hierarchal disclosure framework for measuring fair value and requires additional disclosures about the use of fair value measurements.

The three levels of the fair value hierarchy under FAS 157, and its applicability to the Association's portfolio investments, are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to the security.

Level 3 – Pricing inputs are unobservable for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability. Level 3 includes private portfolio investments that are supported by little or no market activity.

All of the Association's investments are measured at fair value using Level 1 inputs. The adoption of FAS 157 did not have a material impact on the Association's financial statements.

**Equipment and Leasehold Improvements** - Equipment and leasehold improvements are stated at cost except for donated equipment which is recorded at fair market value at the date of gift. Depreciation is provided over the estimated useful lives of the assets on a straight line basis.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Donated Goods, Services and Facilities** - Donated goods and space are valued at their fair market value. Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services are provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

**Functional Allocation of Expenses** - The costs of providing programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

**Recharacterizations** – During the current year, the Association reviewed grant documentation and determined the previously recorded contribution pledge receivable that was fully reserved in the prior year should have been treated as a conditional promise receivable. The recharacterization had no effect on previously reported net assets or changes in net assets.

**Reclassifications** - Certain reclassifications have been made to the December 31, 2007 amounts to conform to the December 31, 2008 presentation.

**NOTE 3. INCOME TAX STATUS**

The Association is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Association's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Association qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

**NOTE 4. INVESTMENTS**

Investments and endowed investments at December 31 are summarized as follows:

	<u>2008</u>	<u>2007</u>
Corporate and government bonds	\$2,177,580	\$1,505,526
Common stock	1,104,996	1,951,376
Preferred stock	5,259	-
Certificates of deposit	-	54,958
Mutual funds	<u>55,467</u>	<u>83,603</u>
	<u>\$3,343,302</u>	<u>\$3,595,463</u>

**NOTE 4. INVESTMENTS (CONTINUED)**

Investment income is reported in the statement of activities as follows:

	<u>2008</u>	<u>2007</u>
Realized gain(loss) on investments	\$ (287,708)	\$ 6,310
Interest and dividend income	199,363	216,483
Unrealized gain on investments	<u>(574,553)</u>	<u>131,333</u>
	<u>\$ (662,898)</u>	<u>\$ 354,126</u>

Subsequent to year end, the credit and liquidity crisis in the United States and throughout the global financial system triggered significant events and substantial volatility in world financial markets and in the banking system that have had a significant negative impact on domestic and foreign financial markets. As a result, the Association's investment portfolio may incur significant fluctuations in fair values subsequent to year end. Because the values of the individual investments have and will likely continue to fluctuate in response to changing market conditions, the amount of actual losses that will be recognized in subsequent periods, if any, cannot be determined.

**NOTE 5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

	<u>2008</u>	<u>2007</u>
Equipment	\$396,037	\$331,810
Leasehold improvements	<u>19,472</u>	<u>11,408</u>
	415,509	343,218
Less accumulated depreciation	<u>(329,857)</u>	<u>(260,944)</u>
	<u>\$ 85,652</u>	<u>\$ 82,274</u>

**NOTE 6. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

The Association's investment funds consist various individual funds established for a variety of purposes. The Association's funds include both donor-restricted amounts as well as amounts for operating purposes. As required under generally accepted accounting principles, net assets associated with the investment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

During 2008, the Association adopted FASB Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures of All Endowment Funds I* ("FSP").

## NOTE 6. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

The Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of a donor-restricted fund, absent explicit donor stipulation to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to a permanent endowment, and (c) accumulations to a 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 donor-restricted funds 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 Association in a manner consistent with the standard of prudence prescribed by UPMIFA.

### Permanent Restrictions

The Association has received several contributions which must be invested in perpetuity, but for which the related earnings thereon are available to fund annual expenses.

In March of 2006, the Association entered into an agreement to establish the Barbara L. Smith Endowment Fund to provide scholarships for patients and caregivers to attend the Association's conferences and meetings. In February 2007, the Association entered into an agreement to establish the Oracle Endowment Fund to provide one Mentored Clinical Scientist Development Award. In March 2007, the Association entered into an agreement to establish the United Therapeutics Endowment Fund to provide financial support for the PHA Support Group Leadership Institute.

### Temporary Restrictions

The Association has also received numerous gifts whose use is restricted to the funding of scholarships and research. In most cases, earnings on the related investments are similarly restricted.

### Funds with deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor of UPMIFA requires the Association to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in permanently restricted net assets were \$419,164 for the year ending December 31, 2008. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of the permanently restricted contributions. There were no such deficiencies for the year ending December 31, 2007.

### Investment Income Allocation

Earnings on long-term investments in marketable securities, including all interest, dividends, realized and unrealized gains and losses are allocated among the Association's various funds on a pro-rata basis.

**NOTE 6. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)**

As of December 31, 2008, balances in the Association's funds, by net asset class, are as follows:

Fund	Permanently Restricted	Temporarily Restricted	Total
Research Fund	\$ -	\$ 347,687	\$ 347,687
J. Hendry Scholarship Fund	-	9,566	9,566
Medtronics Gift - SE Coordination	-	12,075	12,075
Medtronics Gift - Outreach	-	40,000	40,000
Dukart Fund	-	27,682	27,682
Scholarships	-	55,812	55,812
B. Smith Endowment	46,646	-	46,646
Oracle Endowment	731,732	-	731,732
United Therapeutics Endowment	365,796	-	365,796
	<u>\$ 1,144,174</u>	<u>\$ 492,822</u>	<u>\$ 1,636,996</u>

Permanently restricted endowment net assets as of January 1, 2008 were \$1,313,338. These were increased by additional contributions of \$250,000 and decreased by net depreciation in the value of investments of \$419,164 resulting in the balance as of December 31, 2008 of \$1,144,174.

**NOTE 7. OPERATING LEASE**

As of January 1, 2006, the Association entered into a 10 year operating lease for office space. Future minimum payments under the operating lease are as follows:

Year Ending December 31,	
2009	\$ 206,035
2010	214,555
2011	223,436
2012	232,693
2013	242,343
Thereafter	<u>560,928</u>
	<u>\$1,679,990</u>

Rent expense for the years ended December 31, 2008 and 2007 was \$196,064 and \$165,182, respectively.

**NOTE 8. GRANTS PAYABLE**

The Association has made the following unconditional promises to give for research grants as of December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Payable in less than one year	\$ 550,500	\$ 552,500
Payable in one to five years	<u>457,500</u>	<u>406,500</u>
	<u>\$1,008,000</u>	<u>\$ 959,000</u>

**NOTE 9. CONCENTRATION OF CASH**

The Association maintains its cash at a financial institution which at times may exceed the federally insured limits per the Federal Deposit Insurance Corporation. Total cash balances are insured by the FDIC up to \$250,000 per bank. The Association had cash balances on deposit with several banks at December 31, 2008 that exceeded the balances insured by the FDIC by approximately \$2,285,000. The Association has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk in cash and cash equivalents.