THE CFIDS ASSOCIATION OF AMERICA, INC.

Financial Statements

Year Ended December 31, 2010

THE CFIDS ASSOCIATION OF AMERICA, INC.

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CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Report of Independent Auditors

The Board of Directors
The CFIDS Association of America, Inc.
Charlotte, North Carolina

We have audited the accompanying statement of financial position of the CFIDS Association of America, Inc. (the "Association") as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. As described in Note 1, the prior year summarized comparative information has been derived from the Association's 2009 financial statements, and in our report dated May 27, 2010, we expressed an unqualified opinion on those financial statements.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 CFIDS Association of America, Inc. as of December 31, 2010, and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Cherry, Bekaert & Holland, L.L.P.

Charlotte, North Carolina
April 25, 2011

THE CFIDS ASSOCIATION OF AMERICA, INC.

Statement of Financial Position
December 31, 2010
(With Comparative Totals for December 31, 2009)

	December 31, 2010				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	December 31, 2009
Assets					
Current assets					
Cash and cash equivalents	$ 870,830	$ 35,696	$ -	$ 906,526	$ 1,144,835
Contribution receivable, net	-	53,762	-	53,762	27,264
Government grants receivable	-	-	-	-	56,834
Accounts receivable	23,753	-	-	23,753	-
Other receivables	1,946	-	-	1,946	1,667
Inventories	418	-	-	418	383
Beneficial interest	-	7,062	5,400	12,462	11,087
Prepaid expenses	11,148	-	-	11,148	8,090
Total current assets	908,095	96,520	5,400	1,010,015	1,250,160
Property and equipment, net	8,741	-	-	8,741	12,038
Accumulated policy value of life insurance	-	13,592	-	13,592	13,874
Total assets	$ 916,836	$ 110,112	$ 5,400	$ 1,032,348	$ 1,276,072
Liabilities and Net Assets					
Current liabilities					
Accounts payable	$ 18,407	$ -	$ -	$ 18,407	$ 11,398
Accrued payroll expenses	23,324	-	-	23,324	20,404
Capital lease obligation, current	7,365	-	-	7,365	7,365
Total current liabilities	49,096	-	-	49,096	39,167
Other liabilities					
Capital lease obligation, noncurrent	1,227	-	-	1,227	8,592
Total liabilities	50,323	-	-	50,323	47,759
Net assets					
Unrestricted					
Undesignated	681,661	-	-	681,661	639,744
Designated	184,852	-	-	184,852	184,294
Total unrestricted	866,513	-	-	866,513	824,038
Temporarily restricted	-	110,112	-	110,112	398,875
Permanently restricted	-	-	5,400	5,400	5,400
Total net assets	866,513	110,112	5,400	982,025	1,228,313
Total liabilities and net assets	$ 916,836	$ 110,112	$ 5,400	$ 1,032,348	$ 1,276,072

The accompanying notes are an integral part of these financial statements.

THE CFIDS ASSOCIATION OF AMERICA, INC.

Statement of Activities
Year Ended December 31, 2010
(With Comparative Totals for Year Ended December 31, 2009)

	Year Ended December 31, 2010				Year Ended December 31, 2009
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
Support and revenues					
Public support:					
Contributions and grants	$ 962,740	$ 139,405	$ -	$ 1,102,145	$ 859,859
Federal funds:					
Government grants	142,428	-	-	142,428	228,380
Revenues:					
Membership dues	-	-	-	-	62,172
Pharmaceutical contracts	77,855	-	-	77,855	-
Educational material sales	2,404	-	-	2,404	5,246
Change in beneficial interest	-	1,375	-	1,375	2,033
Interest and other	1,678	-	-	1,678	3,901
	81,937	1,375	-	83,312	73,352
Net assets released from restrictions	429,543	(429,543)	-	-	-
Total support and revenues	1,616,648	(288,763)	-	1,327,885	1,161,591
Expenses					
Program services:					
Research	940,419	-	-	940,419	727,778
Public Policy	253,585	-	-	253,585	197,781
Education	158,349	-	-	158,349	447,470
Supporting services:					
Management and general	72,916	-	-	72,916	108,827
Fund raising and development	148,904	-	-	148,904	119,029
Total expenses	1,574,173	-	-	1,574,173	1,600,885
Change in net assets	42,475	(288,763)	-	(246,288)	(439,294)
Net assets					
Beginning of year	824,038	398,875	5,400	1,228,313	1,667,607
End of year	$ 866,513	$ 110,112	$ 5,400	$ 982,025	$ 1,228,313

The accompanying notes are an integral part of these financial statements.

THE CFIDS ASSOCIATION OF AMERICA, INC.

Statement of Functional Expenses
Year Ended December 31, 2010
(With Comparative Totals for Year Ended December 31, 2009)

	Year Ended December 31, 2010						
	Program Services			Supporting Services			
	Research	Public Policy	Education	Management and General	Fundraising and Development	Totals	Year Ended December 31, 2009
Contract services	$ 59,084	$ 193,169	$ 25,961	$ 15,835	$ 33,599	$ 327,648	$ 283,931
Salaries	393,376	41,179	87,935	41,991	73,998	638,479	608,020
Payroll taxes	20,917	4,118	8,081	4,199	7,400	44,715	47,022
Printing and postage	2,963	417	14,930	395	13,297	32,002	47,325
Repairs and maintenance	1,837	362	710	369	650	3,928	5,957
Supplies	2,232	381	979	388	784	4,764	5,282
Educational materials/ cost of sales	-	-	882	-	-	882	1,133
Travel expenses	19,251	5,235	2,002	1,043	3,577	31,108	47,620
Event and Exhibit fees	1,365	-	-	-	-	1,365	55,558
SolveCFS BioBank costs	142,001	-	-	-	-	142,001	-
Insurance	2,847	560	1,100	572	1,007	6,086	5,864
Telephone	2,944	559	795	367	740	5,405	7,547
Occupancy costs	28,575	5,625	11,039	5,736	10,109	61,084	63,810
Depreciation	3,162	623	1,222	635	1,119	6,761	10,605
Miscellaneous	6,984	1,357	2,713	1,386	2,624	15,064	21,830
Direct grants	252,881	-	-	-	-	252,881	389,381
Total expenses	$ 940,419	$ 253,585	$ 158,349	$ 72,916	$ 148,904	$ 1,574,173	$ 1,600,885
Management and general expenses						$ 72,916	$ 108,827
Fundraising and development expenses						148,904	119,029
Total management and general, and fundraising and development expenses						$ 221,820	$ 227,856
Total support and revenue						$ 1,327,885	$ 1,161,591
Supporting services ratio						16.70%	19.62%

THE CFIDS ASSOCIATION OF AMERICA, INC.

Statement of Cash Flows
Year Ended December 31, 2010
(With Comparative Totals For Year Ended December 31, 2009)

	Year Ended December 31, 2010	2009
Cash flows from operating activities		
Change in net assets	$ (246,288)	$ (439,294)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	6,760	10,605
Change in beneficial interest	(1,375)	(2,033)
In-kind contribution of investments	(182,665)	(9,110)
Accumulated policy value annuity insurance contract	282	151
(Increase) decrease in operating assets:		
Receivables	6,304	38,940
Inventories	(35)	(96)
Prepaid expenses	(3,058)	(318)
Increase (decrease) in operating liabilities:		
Accounts payable	7,009	(63,625)
Accrued payroll and payroll taxes withheld	2,920	2,421
Unearned dues revenues	-	(52,499)
Net cash used in operating activities	(410,146)	(514,858)
Cash flows from investing activities		
Purchases of property and equipment	(3,463)	-
Proceeds from sale of investments	182,665	11,650
Net cash provided by investing activities	179,202	11,650
Cash flows from financing activities		
Payments of capital lease	(7,365)	(7,365)
Net cash used in financing activities	(7,365)	(7,365)
Net decrease in cash and cash equivalents	(238,309)	(510,573)
Cash and cash equivalents		
Beginning of year	1,144,835	1,655,408
End of year	$ 906,526	$ 1,144,835

Note 1 – Organization and summary of significant accounting policies

Description of operations - The CFIDS Association of America, Inc. (the "Association") is a non-profit corporation whose purpose is to conquer chronic fatigue syndrome (CFS), also known as chronic fatigue and immune dysfunction syndrome (CFIDS). The Association works toward its mission for CFS to be widely understood, diagnosable, curable and preventable by using strategies to stimulate research aimed at the early detection, objective diagnosis and effective treatment of CFS through expanded public, private and commercial investment. Substantially all of the Association's revenue is derived from contributions from donors and other interested parties, grants from foundations, contracts from government agencies and pharmaceutical companies, and sales of educational materials.

Basis of accounting - The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Net assets and revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets are those currently available for use in the day-to-day operations of the Association and those resources invested in property and equipment. It is the policy of the Board of Directors to review its plans for future expansion and other future monetary requirements. From time-to-time, the Board of Directors will designate appropriate sums to assure adequate funds are available to assist in those estimated future monetary requirements. Such amounts are presented as designated net assets in the statement of financial position.

Temporarily restricted net assets are those subject to donor-imposed stipulations that may or will be met, either by acts of the Association and/or the passage of time. When a 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 are assets received from donors whose use by the Association is limited by permanent donor-imposed stipulations. The restrictions are for the donated assets to remain in perpetuity, and the Association does not have the right to invade the original principal. Generally, the donors of these assets permit the Association to use all of, or part of, the income earned on the related investments for general or specific purpose.

Revenue is reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Note 1 – Organization and summary of significant accounting policies (continued)

Basis of accounting (continued) - Contributions of assets other than cash are recorded at their estimated fair value. Contributions of cash and other assets are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted support

Revenue recognition - Revenues are recognized when earned. Amounts billed or collected in advance of being earned are recorded as deferred revenue.

Generally, federal and pharmaceutical contract funds made available to the Association are utilized to accomplish specific objectives of the funding organization and the Association. Such contracts contain specific criteria governing the expenditure of such funds. As a condition of the contracts, the Association agrees to utilize the funds in a manner as prescribed by the underlying contractual agreement. Accordingly, revenue is recognized as funds are expended.

Donated services and assets - The Association periodically receives donated services for certain functions and donated assets. The assets are stated at their fair value at time of donation. The Association did not receive any donated services during the year ended December 31, 2010.

Research grants - The Association awards grants for medical research projects in the field of CFS. To ensure that the most worthy and promising research projects are funded, the Association periodically convenes a Scientific Advisory Committee that advises the Association's Executive Committee of its Board of Directors. The Executive Committee, heavily weighing the recommendations of this advisory committee, makes all funding decisions. Members of the Scientific Advisory Committee include internationally respected researchers and clinicians. At December 31, 2010, the Association has approved grants of $20,833 that are available for disbursement in subsequent years. Awards are booked as payables upon completion of required documentation by research investigators and their sponsoring organization.

Cash equivalents - For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments with maturity of three months or less when purchased as cash equivalents.

Accounts receivable - Accounts receivable consist of trade accounts receivable and are stated at cost less an allowance for doubtful accounts. Management's determination of the allowance for doubtful accounts is based on an evaluation of the accounts receivable, past experience, current economic conditions, and other risks inherent in the accounts receivable portfolio. Charge-offs are determined on a case-by-case basis.

Contributions receivable - Management of the Association periodically evaluates its contributions receivable for collectibility and delinquent contribution receivables are written off when that amount is deemed to be uncollectible.

Inventories - Inventories, which consist of educational materials, are recorded at the lower of cost (first-in, first-out) or market.

Beneficial interest - The Association recognizes contribution revenue from assets donated to a recipient organization held for the sole benefit of the Association. At December 31, 2010, the Association has assets held by a recipient organization totaling $12,462 (see Note 5).

Note 1 – Organization and summary of significant accounting policies (continued)

Property and equipment - Property and equipment items are stated at cost or at fair value at the date of donation, if contributed. Expenditures for acquisitions, renewals and betterments are capitalized, whereas maintenance and repair costs are expensed as incurred. Depreciation is charged to expense over the estimated useful lives of the assets principally using accelerated methods. Estimated useful lives range as follows: office furniture and fixtures 5 - 7 years, computers and related equipment 3 - 7 years, and leasehold improvements 3 - 5 years.

Accumulated policy value of life insurance - The Association is the named beneficiary of a life insurance policy that covers a donor and his spouse. The policy has a face value of $1,000,000 and is payable to the Association upon the death of the donor and his spouse. The policy continues to decrease in value as the policy matures, at which time, an additional premium will be payable from the Association in order to maintain the policy. For the year ended December 31, 2010, the decrease in the accumulated policy value of life insurance was $282.

Tax status - The Association is a not-for-profit voluntary health agency, exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code and Sections 105-125 and 105-130.11(a)(3) of the General Statues of North Carolina. The Association has been designated as a "publicly supported" charity under Sections 509(a)(1) and 107(b)(1)(A)(vi) of the Internal Revenue Code.

The Association follows the Financial Accounting Standards Board ("FASB") guidance on accounting for uncertainty in income taxes. The Association's policy is to record a liability for any tax position taken that is beneficial to the Association, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes that the Association continues to satisfy the requirements of a tax-exempt organization at December 31, 2010. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined the Association had no uncertain income tax positions at December 31, 2010 and, accordingly, no liability has been accrued.

Conflict of interest - All members of the Association's Board of Directors, committees of the board, and advisory committees to the Association are governed by a conflict-of-interest policy. This policy precludes members from voting on motions with respect to which they may have a conflict of interest. Conflict of interest is deemed to exist if the member would directly benefit, personally or professionally, from a motion that has been made.

Concentrations of credit risk - Financial instruments, which potentially subject the Association to concentrations of credit risk, consist principally of cash and contributions receivable.

The Association places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers $250,000 for substantially all depository accounts. The Association may from time to time have amounts on deposit in excess of the insured limits. At December 31, 2010, the Association had approximately $587,000 of cash and cash equivalents in excess of these insured amounts.

Note 1 – Organization and summary of significant accounting policies (continued)

Concentrations of credit risk (continued) - The Association receives contributions from various entities and individuals located throughout the United States and foreign countries for various fund raising drives. Since these contributions are unsecured, the Association has no guarantee that these monies will be received. The Association, similar to other organizations of its nature and size, periodically receives large contributions and grants from a relatively small number of individuals and/or organizations. The continued support of large donors cannot be determined with certainty. No individual contribution represented more than twenty percent (20%) of public support for the year ended December 31, 2010.

Functional allocation of expenses - The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain joint costs have been allocated among the programs and supporting services benefited based upon estimated content, audience, and purpose of these expenditures. Total joint costs and respective allocations are as follows:

Research	$ 343,416
Public policy	67,598
Education	132,646
Management and general	68,921
Fundraising and development	121,472
	$ 734,053

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Prior year summarized 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 Association's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

Note 2 – Contribution receivable

Contribution receivable at December 31, 2010, is a bequest receivable of $53,762 earmarked for CFS research. This receivable is considered current and deemed collectible, so there is no allowance for uncollectible accounts as of December 31, 2010.

The Association receives contributions and promises to give from members of the Board of Directors and employees. Total contribution revenue recognized from Board members and employees in 2010 was $58,291. There are no contributions receivable from Board members or employees as of December 31, 2010.

Note 3 – Federal contracts

The Association was awarded a contract of federal funds from the Centers for Disease Control and Prevention (CDC) in 2002 for the purpose of educating multidisciplinary health care providers about CFS to enable timely detection and management of the illness, ultimately resulting in improved care for CFS patients. The contract's period of performance ended on December 31, 2007. The Association received a second CDC contract in 2004 to implement a multifaceted campaign delivering vital information about who is at risk for CFS, the symptoms of the illness, treatment and management options, the importance of seeking diagnosis and treatment, and the impact of CFS on both patients and family members. Through contract modifications, the period of performance was extended to April 30, 2010. Funds for both contracts were received by the Association on a reimbursement basis.

In August 2009 the CDC notified the Association of alleged overcharges related to application of indirect cost rates on the two federal contracts. A formal appeal of the contract disputes was filed before the Civilian Board of Contract Appeals (CBCA). In May 2010, negotiations with the CDC were finalized with executed settlements agreed to by both parties. In the 2002 Provider Education contract, the settlement directed the contract be closed out based on billings and payments to date with no further funds due from either party. There is no remaining liability or receivables under this contract. With regards to the 2004 Public Awareness Campaign contract, equitable adjustments were agreed to by the CDC and the Association, reflecting overcharges in 2004 – 2006 offset by under billings in 2007 – 2009. These over billings and under billings were generally the result of the Association submitting current invoices which were subject to after-the-fact adjustments from indirect cost rate determinations by the Department of Health and Human Services (DHHS). The resulting adjustment directed the CDC to pay the Association $149,931 with 10% held as a reserve and paid to the Association after determination by DHHS of the final indirect cost rate for 2009. The settlement explicitly stated that except for any adjustment using the final 2009 indirect cost rate, both parties declaim any further contractual obligations.

Motions were filed with and approved by the CBCA for dismissal of the pending appeals based on both contract settlements. For the year ended December 31, 2010, the Association recognized $142,428 in government grant revenues as a result of the CDC settlements. As of December 31, 2010, there was no receivable or payable between either party.

Note 4 – Pharmaceutical contracts

In May 2010, the Association's Medical Research Advisory Committee approved an application from a pharmaceutical company for the transfer of clinical information and biological samples of CFS patients and healthy controls enrolled in the SolveCFS BioBank who met specific inclusion criteria. Samples and clinical information were shared with the pharmaceutical company with all personal identifiers removed to ensure privacy and confidentiality of BioBank participants. Contract funds are received by the Association on reimbursable basis and are calculated using a per sample cost. At December 31, 2010, there is an account receivable totaling $23,753 related to these contracts. This receivable is considered collectible, so there is no allowance for uncollectible accounts as of December 31, 2010.

Note 5 – Beneficial interest

The Association has recorded the fair value of a beneficial interest in assets held by another organization totaling $12,462, as of December 31, 2010. The beneficial interest is held at the Foundation for the Carolinas and is invested in pooled funds of primarily common stock equities, bonds and fixed income investments, which are subject to fluctuations in market values and expose the Association to a certain degree of interest and credit risk.

The underlying investments include fund managers that invest in private investment funds and alternative investments as part of the asset allocation, as an alternative investment strategy with the purpose of increasing the diversity of the holdings and being consistent with the overall investment objectives. These investments are not traded on an exchange, and accordingly, may not be as liquid as investments in marketable equity or debt securities. These investment funds may invest in other investment funds, equity or debt securities, which may or may not have readily available fair values, and foreign exchange or commodity forward contracts.

Management of the Association receives the estimate of fair value of these investments from the Foundation for the Carolinas and relies on various factors, processes and procedures to determine if the estimate of value is reasonable. However, information used by the Foundation for the Carolinas and by management is subject to change in the near term, and, accordingly, investment values and performance can be affected. The effect of these changes could be material to the financial statements.

Note 6 – Property and equipment

Net property and equipment consists of the following at December 31, 2010:

Office furniture and fixtures	$ 89,466
Computers and related equipment	91,389
Leasehold improvements	25,872
	206,727
Less accumulated depreciation	(197,986)
	$ 8,741

Note 7 – Capital leases

At December 31, 2010, property and equipment includes equipment under capital leases with a cost basis of $36,824 and accumulated depreciation of $30,461. Amortization of assets under capital leases is included in depreciation expense. The lease is interest free and interest has not been imputed as the amount is immaterial. The following is a schedule by year of future minimum lease payments under capital leases together with the present value of net minimum lease payments as of December 31, 2010:

2011	$ 7,365
2012	1,227
Present value of net minimum lease payments	8,592
Current maturities	(7,365)
Noncurrent maturities	$ 1,227

Note 8 – Net assets

Unrestricted net assets designated by the Association's Board of Directors for cash reserve for future years at December 31, 2010 total $184,852.

Temporarily restricted net assets are available for the following purposes as of December 31, 2010:

Research activities	$ 83,242
Other donor specified	13,592
Endowment	7,062
Education activities	6,216
	$ 110,112

Net assets were released from restrictions by incurring expenses satisfying the purpose during the year ended December 31, 2010 as follows:

Purpose restrictions accomplished:	
Research grants and related expenditures	$ 405,700
Public policy activities	15,701
Educational activities	7,860
Other donor specified	282
	$ 429,543

Permanently restricted net assets are comprised of contributions made to the Association's endowment fund (see Note 9).

Note 9 – Endowment fund

The Association's endowment consists of a beneficial interest in assets held by another organization (see Note 5) established to provide a method for funding of the Association to grow and allow the investment of these "endowed funds" for long-term projects. As required by GAAP, net assets associated with this endowment fund, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. As of December 31, 2010, there were no quasi-endowed funds, only donor restricted endowment funds.

Based upon its interpretation of current state laws governing endowments, the Association classifies the original fair value of donor-restricted endowed gifts as of the gift date as permanently restricted net assets. The remaining portion of donor-restricted endowment funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure under the annual spending policy. Amounts available for distribution from the fund are based upon a 4% spending plan using a twelve quarter rolling average of fund assets and is evaluated on an annual basis for prudence. No amounts were withdrawn from the fund in 2010.

Note 9 – Endowment fund (continued)

The funds are invested in the asset allocation strategy recommended by the Foundation for the Carolina's Investment Committee, long-term growth. This diverse mix of investments seeks to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to produce results that provide an average annual real rate of return, net of fees, equal to or greater than spending, administrative fees, and inflation (Consumer Price Index). Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, it relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Accordingly, the investment allocation guidelines are as follows: US equities 22% - 45%, international equities 18% - 27%, fixed income 16% - 24%, hedge funds 10% - 20%, private capital 8% - 12%, and cash/other 0% - 10%.

Changes in endowment net assets for the year ended December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	$ -	$ 5,687	$ 5,400	$ 11,087
Investment return:				
Investment income, net	-	62	-	62
Realized/unrealized gains	-	1,313	-	1,313
Total investment return	-	1,375	-	1,375
Net assets released from restriction	-	-	-	-
Ending balance	$ -	$ 7,062	$ 5,400	$ 12,462

Note 10 – Operating leases

The Association leases office space used in its operations under an operating lease that expires in June 2011. The lease initially provides for a monthly rental of $4,500 and is subject to annual increases based upon the Consumer Price Index. The Association also leases storage space and office equipment under leases expiring through March 2012.

Future minimum lease commitments under the above operating leases are as follows at December 31, 2010:

Year ending December 31	
2011	$ 32,658
2012	2,690
	$ 35,348

Rental expense incurred under operating leases was $60,477 for the year ended December 31, 2010.

Note 11 – Benefit plan

The Association sponsors a cafeteria plan whereby employees may select from a list of available qualified benefits or additional wages up to ten percent (10%) of their annual gross compensation. Also offered to employees is a 403(b) retirement plan covering substantially all employees meeting certain service and age requirements. This plan is a defined contribution plan with voluntary employee participation. During 2010, the Association made contributions into this plan amounting to $9,373.

Note 12 – Limits on nontaxable lobbying expenditures

The Association is covered under Section 501(h) of the Internal Revenue Code that permits a limited amount of nontaxable lobbying expenditures based upon varying percentages of total exempt purpose expenditures. This code section also imposes a ceiling (upper limit) for lobbying expenditures, above which 501(c)(3) organizations may be subject to revocation of tax-exempt status. The ceiling amounts are 150 percent of nontaxable lobby expenditures computed over a four-year averaging period. Both the ceiling and nontaxable amounts apply to direct and grassroots lobbying expenditures. The nontaxable amounts and the actual amounts spent by the Association for 2010 are listed below. The majority of the Association's public policy expenses are incurred in its monitoring of federal agencies, not on lobbying for specific legislation.

	Allowable	Actual
Direct lobbying	$ 228,715	$ 59,512
Grassroots lobbying	$ 57,179	$ 4,500

Note 13 – Financial instruments

Guidance on disclosures about Fair Value of Financial Instruments requires disclosure of the fair value of all financial instruments, including both assets and liabilities recognized and not recognized in the statement of financial position, for which it is practicable to estimate fair value.

The following methods and assumptions are used by the Association in estimating the fair value of its financial instruments. Fair value approximates carrying value for the following financial instruments due to their short-term nature: cash and cash equivalents, investments, various receivables and accounts payable.

The fair value of capital lease payable is estimated by discounting future cash flows using interest rates available to the Association with similar terms and maturities.

	Carrying Amount	Fair Value
Capital leases payable	$ 8,592	$ 11,407

Note 14 – Fair value measurements of assets and liabilities

The Association utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Under the fair value guidance, the Association groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

> Level 1 – Financial instruments with unadjusted, quoted prices listed on active market exchanges for identical investments at the reporting date. The Association has no assets or liabilities at December 31, 2010 considered subject to Level 1 valuation.
>
> Level 2 – Financial instruments valued using pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable at the reporting date. Fair value is determined through use of models or other valuation methodologies. The Association has no assets or liabilities at December 31, 2010 subject to Level 2 valuation.
>
> Level 3 – Financial instruments that are not actively traded on a market exchange and require use of significant unobservable inputs in determining fair value. The inputs into the determination of fair value require significant judgment or estimation by the investment manager. The Association's beneficial interest of $12,462 at December 31, 2010 (see Note 5) is considered subject to Level 3 valuation.

The changes in donor restricted endowment net assets in Note 9 presents a reconciliation of the assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2010. The beneficial interest is considered by the Association to be a Level 3 asset because it represents interests held in pooled investment funds, which include private investment funds. As discussed in Note 5, Foundation for the Carolinas manages the administration of this trust and has determined the following approximate allocation of the underlying investments based on amounts at December 31, 2010:

Level 1	75%
Level 2	15%
Level 3	10%
	100%

Note 15 – Subsequent events

The Association has evaluated subsequent events through April 25, 2011, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.