THE CFIDS ASSOCIATION OF AMERICA, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2011

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, 2011, 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 2010 financial statements, and in our report dated April 25, 2011, 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, 2011, 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
March 14, 2012

THE CFIDS ASSOCIATION OF AMERICA, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)

	December 31, 2011				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	December 31, 2010
Assets					
Current assets					
Cash and cash equivalents	$ 967,493	$ 57,517	$ -	$ 1,025,010	$ 906,526
Contributions receivable	45,930	-	-	45,930	53,762
Pharmaceutical contract receivable	-	-	-	-	23,753
Other receivables	1,893	-	-	1,893	1,946
Inventories	706	-	-	706	418
Beneficial interest	-	6,631	5,400	12,031	12,462
Prepaid expenses	8,096	-	-	8,096	11,148
Total current assets	1,024,118	64,148	5,400	1,093,666	1,010,015
Property and equipment					
Office furniture and fixtures	77,642	-	-	77,642	89,466
Computers and related equipment	100,393	-	-	100,393	91,389
Leasehold improvements	25,872	-	-	25,872	25,872
	203,907	-	-	203,907	206,727
Less accumulated depreciation	(177,134)		-	(177,134)	(197,986)
Net property and equipment	26,773	-	-	26,773	8,741
Accumulated policy value of life insurance	-	13,149	-	13,149	13,592
Total assets	$ 1,050,891	$ 77,297	$ 5,400	$ 1,133,588	$ 1,032,348
Liabilities and Net Assets					
Current liabilities					
Accounts payable	$ 7,260	$ -	$ -	$ 7,260	$ 18,407
Accrued payroll expenses	21,438	-	-	21,438	23,324
Capital lease obligation, current	3,642	-	-	3,642	7,365
Total current liabilities	32,340	-	-	32,340	49,096
Other liabilities					
Capital lease obligation, noncurrent	21,358	-	-	21,358	1,227
Total liabilities	53,698	-	-	53,698	50,323
Net assets					
Unrestricted					
Undesignated	811,675	-	-	811,675	681,661
Designated	185,518	-	-	185,518	184,852
Total unrestricted	997,193	-	-	997,193	866,513
Temporarily restricted	-	77,297	-	77,297	110,112
Permanently restricted	-	-	5,400	5,400	5,400
Total net assets	997,193	77,297	5,400	1,079,890	982,025
Total liabilities and net assets	$ 1,050,891	$ 77,297	$ 5,400	$ 1,133,588	$ 1,032,348

THE CFIDS ASSOCIATION OF AMERICA, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)

	Year Ended December 31, 2011				Year Ended December 31, 2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
Support and revenues					
Public support:					
Contributions and grants	$ 1,089,380	$ 107,532	$ -	$ 1,196,911	$ 1,102,145
Federal funds:					
Government grants	-	-	-	-	142,428
Revenues:					
Pharmaceutical contracts	5,605	-	-	5,605	77,855
Research subcontracts	14,671	-	-	14,671	-
Educational material sales	1,449	-	-	1,449	2,404
Interest and other	1,275	-	-	1,275	3,053
	23,000	-	-	23,000	83,312
Net assets released from restrictions	140,348	(140,348)	-	-	-
Total support and revenues	1,252,728	(32,816)	-	1,219,911	1,327,885
Expenses					
Program services:					
Research	759,958	-	-	759,958	940,419
Public Policy	-	-	-	-	253,585
Communications	169,791	-	-	169,791	158,349
Supporting services:					
Management and general	58,276	-	-	58,276	72,916
Fund-raising and development	131,620	-	-	131,620	148,904
Total program and supporting services expenses	1,119,645	-	-	1,119,645	1,574,173
Loss on assets disposed	2,401	-	-	2,401	-
Change in net assets	130,680	(32,816)	-	97,865	(246,288)
Net assets					
Beginning of year	866,513	110,112	5,400	982,025	1,228,313
End of year	$ 997,193	$ 77,297	$ 5,400	$ 1,079,890	$ 982,025

THE CFIDS ASSOCIATION OF AMERICA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)

	Year Ended December 31, 2011					
	Program Services		Supporting Services			
	Research	Communications	Management and General	Fund-raising and Development	Totals	Year Ended December 31, 2010
Contract services	$ 145,113	$ 47,745	$ 6,869	$ 18,096	$ 217,823	$ 327,648
Salaries and benefits	422,861	83,600	36,916	72,688	616,065	638,479
Payroll taxes	26,131	8,852	3,909	7,695	46,587	44,715
Printing and postage	7,865	5,480	240	9,624	23,209	32,002
Repairs and maintenance	1,691	573	252	498	3,014	3,928
Supplies	2,593	834	368	800	4,595	4,764
Educational materials/ cost of sales	-	546	-	-	546	882
Travel expenses	39,251	1,956	913	4,180	46,300	31,108
Event and exhibit fees	10,415	-	-	-	10,415	1,365
SolveCFS BioBank Costs	28,874	-	-	-	28,874	142,001
Insurance	3,531	1,196	528	1,040	6,295	6,086
Telephone	3,927	895	413	831	6,066	5,405
Occupancy costs	34,703	11,756	5,191	10,221	61,871	61,084
Depreciation	6,580	2,229	984	1,938	11,731	6,761
Miscellaneous	13,420	4,130	1,693	4,008	23,251	15,064
Direct grants	13,003	-	-	-	13,003	252,881
Total program and supporting services expenses	$ 759,958	$ 169,791	$ 58,276	$ 131,620	$ 1,119,645	$ 1,574,173
Management and general expenses					$ 58,276	$ 72,916
Fund-raising and development expenses					131,620	148,904
Total management and general, and fund-raising and development expenses					$ 189,896	$ 221,820
Total support and revenue					$ 1,219,911	$ 1,327,885
Supporting services ratio					15.57%	16.70%

THE CFIDS ASSOCIATION OF AMERICA, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)

	Year Ended December 31, 2011	Year Ended December 31, 2010
Cash flows from operating activities		
Change in net assets	$ 97,865	$ (246,288)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	11,731	6,761
Loss on disposal of assets	2,401	-
Change in beneficial interest	431	(1,375)
In-kind contribution of investments	(12,837)	(182,665)
Accumulated policy value annuity insurance contract	443	282
Decrease (increase) in operating assets:		
Pledges and other receivables	31,638	6,304
Inventories	(288)	(35)
Prepaid expenses	3,052	(3,058)
(Decrease) increase in operating liabilities:		
Accounts payable	(11,147)	7,009
Accrued payroll expenses	(1,886)	2,920
Net cash provided by (used in) operating activities	121,403	(410,145)
Cash flows from investing activities		
Purchases of property and equipment	(7,164)	(3,464)
Proceeds from sale of investments	12,837	182,665
Net cash provided by (used in) investing activities	5,673	179,201
Cash flows from financing activities		
Payments of capital lease	(8,592)	(7,365)
Net cash provided by (used in) financing activities	(8,592)	(7,365)
Net increase (decrease) in cash and cash equivalents	118,484	(238,309)
Cash and cash equivalents		
Beginning of year	906,526	1,144,835
End of year	$ 1,025,010	$ 906,526
Supplemental disclosure of cash flow information		
Equipment acquired through issuance of capital lease	$ 25,000	$ -

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, research contracts with pharmaceutical companies and universities, 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.

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

Basis of accounting (continued) - 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.

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, 2011.

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 Association's 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, 2011, the Association has no approved grants 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 - The Association considers all highly liquid debt instruments with maturity of three months or less when purchased as cash equivalents.

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. 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.

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

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

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, 2011, the Association has assets held by a recipient organization totaling $12,031. This balance is included as beneficial interest on the accompanying statement of financial position.

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 - 5 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, 2011, the decrease in the cash surrender value of life insurance was $443.

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 there are no such positions as of December 31, 2011 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 - The Association places its cash and cash equivalents on deposit with financial institutions in the United States of America. The Federal Deposit Insurance Corporation (FDIC) covers $250,000 for substantially all depository accounts and temporarily provides unlimited coverage through December 31, 2012 for certain qualifying and participating noninterest bearing transaction accounts. During the year, the Association from time to time may have had amounts on deposit in excess of the insured limits.

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, 2011.

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	$ 759,958
Communications	169,791
Management and general	58,276
Fund-raising and development	131,620
	$1,119,645

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, 2010, from which the summarized information was derived.

Note 2—Contributions receivable

Contributions receivable at December 31, 2011 are unrestricted gifts totaling $45,930. These receivables are considered current and deemed collectible, so there is no allowance for uncollectible accounts as of December 31, 2011.

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 2011 was $78,370. There is no contributions receivable from Board members or employees as of December 31, 2011.

Note 3—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 a reimbursable basis and are calculated using a per sample cost. During 2011, $5,605 of pharmaceutical contract funds was received, and there is no receivable at December 31, 2011.

Note 4—Research subcontracts

In July 2011, the Association entered into a subcontracting agreement with a university enabling its Scientific Director to perform work on a federally funded research contract through August 2013. In this capacity, the Scientific Director serves as a technical consultant in the planning of experiments, analysis of results and preparation of scientific publications. Associated costs were included in the university's initial application submitted for funding to the government agency. Reimbursement of costs is received on a quarterly basis. As of December 31, 2011, the Association received reimbursement funds totaling $14,671. There is no receivable at December 31, 2011.

Note 5—Beneficial interest in trust

The Association has recorded the fair value of a beneficial interest in assets held by another organization totaling $12,031, as of December 31, 2011. 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—Capital leases

At December 31, 2011, property and equipment includes equipment under capital leases with a cost basis of $25,000 and accumulated depreciation of $5,000. Amortization of assets under capital leases is included in depreciation expense. 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, 2011:

2012	$ 6,432
2013	6,432
2014	6,432
2015	6,432
2016	6,432
2017	1,608
Present value of net minimum lease payments	33,768
Less amount representing interest	(8,768)
Total obligations under capital leases	25,000
Less current portion	(3,642)
Long term portion	$ 21,358

Note 7—Net assets

Unrestricted net assets of $185,518 at December 31, 2011 are designated by the Association's Board of Directors as a reserve for operations.

Temporarily restricted net assets are available for the following purposes as of December 31, 2011:

Research activities	$ 52,517
Other donor specified	18,149
Endowment	6,631
	$ 77,297

Permanently restricted net assets are comprised of contributions made to the Association's endowment fund (see Note 5).

Net assets were released from restrictions by incurring expenses satisfying the purpose during the year ended December 31, 2011 as follows:

Purpose restrictions accomplished:	
Research grants and related expenditures	$ 133,258
Communications activities	6,216
Other donor specified	874
	$ 140,348

Note 8—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, 2011, there were no quasi-endowed funds, only donor restricted endowment funds.

Based upon its interpretation of the 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. Amount available for distribution from the fund is based upon 4.5% of the fund's average balance for the previous three years and is evaluated on an annual basis for prudence. No amounts were withdrawn from the fund in 2011.

The funds are invested in a long-term growth asset allocation strategy recommended by the Foundation for the Carolina's Investment Committee. 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, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	$ -	$ 7,062	$ 5,400	$ 12,462
Investment return:				
Investment income, net	-	20	-	20
Realized and unrealized gains	-	(451)	-	(451)
Total investment return	-	(431)	-	(431)
Net assets released from restriction	-	-	-	-
Ending balance	$ -	$ 6,631	$ 5,400	$ 12,031

Note 9—Operating lease

The Association leases office space used in its operations under an operating lease that expires in June 2012. The lease initially provides for a monthly rental of $4,500 and is subject to annual increases based upon the Consumer Price Index. The future minimum lease commitment under the above operating lease is $28,490 as of December 31, 2011 for the year ending December 31, 2012.

Rental expense incurred under the operating lease was $57,192 for the year ended December 31, 2011 and is reported as occupancy costs on the statement of functional expenses.

Note 10—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 2011, the Association made contributions into this plan amounting to $12,483. The expense is included in salaries and benefits on the accompanying statement of functional expenses and is allocated among all functional categories.

Note 11—Public policy expenditures

The Association's Board of Directors approved a new purpose statement to reflect a narrowed focus on research. The Association's public policy efforts in 2010 were aligned during the year ended December 31, 2011 to influence greater federal funding for CFS research, to affect federal funding priorities for objective diagnosis and effective treatment and to enhance the appeal of researching CFS through increased federal investment. There were no public policy expenditures during the year ended December 31, 2011.

Note 12—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.

Note 12—Financial instruments (continued)

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	$ 25,000	$ 25,000

Note 13—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, 2011 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, 2011 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 $12,031 at December 31, 2011 (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 2011. 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, 2011:

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

Note 14—Subsequent events

The Association has evaluated subsequent events through March 14, 2012, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.