

THE CFIDS ASSOCIATION OF AMERICA, INC.

Financial Statements

December 31, 2005

THE CFIDS ASSOCIATION OF AMERICA, INC.

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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, 2005, and the related statements of activities and changes in net assets, 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 2004 financial statements; and in our report dated April 6, 2005, 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, 2005, 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 14, 2006

The CFIDS Association of America, Inc.

Statement of Financial Position
December 31, 2005
(With Comparative Totals for December 31, 2004)

| | December 31, 2005 | | | Totals | December 31, 2004 |
|---|-------------------------|---------------------------|---------------------------|-------------------------|-------------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 887,207 | \$ 177,532 | \$ - | \$ 1,064,739 | \$ 1,274,095 |
| Contributions receivable, net | - | 190,000 | - | 190,000 | 35,000 |
| Government grants receivable | 199,251 | - | - | 199,251 | 80,940 |
| Other receivables | 3,647 | - | - | 3,647 | 3,498 |
| Inventories | 299 | - | - | 299 | 1,017 |
| Investments | 5,782 | 708 | 5,400 | 11,890 | 10,924 |
| Prepaid expenses | 12,757 | - | - | 12,757 | 12,722 |
| Total current assets | 1,108,943 | 368,240 | 5,400 | 1,482,583 | 1,418,196 |
| Property and equipment | | | | | |
| Office furniture and fixtures | 84,568 | - | - | 84,568 | 88,548 |
| Computers and related equipment | 100,483 | - | - | 100,483 | 113,543 |
| Leasehold improvements | 25,872 | - | - | 25,872 | 25,872 |
| | 210,923 | - | - | 210,923 | 227,963 |
| Less accumulated depreciation | (181,896) | - | - | (181,896) | (177,746) |
| Net property and equipment | 29,027 | - | - | 29,027 | 50,217 |
| Cash surrender value of life insurance | | | | | |
| | - | 15,262 | - | 15,262 | 16,144 |
| Total assets | \$ 1,137,970 | \$ 383,502 | \$ 5,400 | \$ 1,526,872 | \$ 1,484,557 |

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

| | December 31, 2005 | | | Totals | December 31, 2004 |
|--|---------------------|---------------------------|---------------------------|---------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| Liabilities and Net Assets | | | | | |
| Current liabilities | | | | | |
| Accounts payable | \$ 112,100 | \$ - | \$ - | \$ 112,100 | \$ 36,434 |
| Accrued payroll and payroll taxes withheld | 14,458 | - | - | 14,458 | 11,385 |
| Unearned dues revenue | 63,906 | - | - | 63,906 | 70,660 |
| Obligation under capital lease - current portion | 6,171 | - | - | 6,171 | 6,171 |
| Total current liabilities | 196,635 | - | - | 196,635 | 124,650 |
| Other liabilities | | | | | |
| Obligation under capital lease less current portion | 13,885 | - | - | 13,885 | 20,057 |
| Total liabilities | 210,520 | - | - | 210,520 | 144,707 |
| Net assets | | | | | |
| Unrestricted | | | | | |
| Undesignated | 751,009 | - | - | 751,009 | 665,920 |
| Designated | 176,441 | - | - | 176,441 | 172,204 |
| Total unrestricted | 927,450 | - | - | 927,450 | 838,124 |
| Temporarily restricted | - | 383,502 | - | 383,502 | 496,326 |
| Permanently restricted | - | - | 5,400 | 5,400 | 5,400 |
| Total net assets | 927,450 | 383,502 | 5,400 | 1,316,352 | 1,339,850 |
| Total liabilities and net assets | \$ 1,137,970 | \$ 383,502 | \$ 5,400 | \$ 1,526,872 | \$ 1,484,557 |

The CFIDS Association of America, Inc.

Statements of Activities and Changes in Net Assets
Year Ended December 31, 2005
(With Comparative Totals for Year Ended December 31, 2004)

| | Year Ended December 31, 2005 | | | Totals | Year Ended December 31, 2004 |
|--|------------------------------|---------------------------|---------------------------|---------------------|------------------------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| Support and revenues | | | | | |
| Public support: | | | | | |
| Contributions and grants | \$ 615,471 | \$ 268,130 | \$ - | \$ 883,601 | \$ 1,162,193 |
| Federal funds: | | | | | |
| Government grants | - | 1,131,939 | - | 1,131,939 | 587,463 |
| Revenues: | | | | | |
| Membership dues | 149,137 | - | - | 149,137 | 162,231 |
| Educational material sales | 12,587 | - | - | 12,587 | 7,087 |
| Interest and other | 14,348 | - | - | 14,348 | 8,045 |
| | <u>176,072</u> | <u>-</u> | <u>-</u> | <u>176,072</u> | <u>177,363</u> |
| Assets released from restrictions | | | | | |
| Satisfaction of donor restrictions | 1,512,893 | (1,512,893) | - | - | - |
| Total support and revenues | <u>2,304,436</u> | <u>(112,824)</u> | <u>-</u> | <u>2,191,612</u> | <u>1,927,019</u> |
| Expenses and losses | | | | | |
| Program services: | | | | | |
| Research | 323,091 | - | - | 323,091 | 167,663 |
| Public Policy | 228,087 | - | - | 228,087 | 209,031 |
| Education | 1,382,860 | - | - | 1,382,860 | 869,290 |
| Supporting services: | | | | | |
| Management and general | 97,548 | - | - | 97,548 | 97,252 |
| Fund raising and development | 183,502 | - | - | 183,502 | 196,004 |
| | <u>2,215,088</u> | <u>-</u> | <u>-</u> | <u>2,215,088</u> | <u>1,539,240</u> |
| Loss (gain) on assets disposed | 22 | - | - | 22 | (774) |
| Total expenses and losses | <u>2,215,110</u> | <u>-</u> | <u>-</u> | <u>2,215,110</u> | <u>1,538,466</u> |
| Change in net assets | 89,326 | (112,824) | - | (23,498) | 388,553 |
| Net assets | | | | | |
| Beginning of year | 838,124 | 496,326 | 5,400 | 1,339,850 | 951,297 |
| End of year | <u>\$ 927,450</u> | <u>\$ 383,502</u> | <u>\$ 5,400</u> | <u>\$ 1,316,352</u> | <u>\$ 1,339,850</u> |

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, 2005
(With Comparative Totals for Year Ended December 31, 2004)

| | Year Ended December 31, 2005 | | | | | | Year Ended December 31, 2004 |
|---|------------------------------|-------------------|--------------------|------------------------------|-----------------------------------|--------------------|------------------------------------|
| | Program Services | | | Supporting Services | | | |
| | Research | Public Policy | Education | Management and General | Fundraising and Development | Totals | |
| Contract services | \$ 4,652 | \$ 145,283 | \$ 424,955 | \$ 5,912 | \$ 10,002 | \$ 590,804 | \$ 265,733 |
| Honoraria | - | - | 3,700 | - | - | 3,700 | 5,000 |
| Salaries | 43,802 | 44,549 | 510,514 | 55,675 | 70,367 | 724,907 | 625,323 |
| Payroll taxes | 6,463 | 6,573 | 23,134 | 8,215 | 10,382 | 54,767 | 44,438 |
| Printing and postage | 1,710 | 2,734 | 111,842 | 2,198 | 54,898 | 173,382 | 158,261 |
| Repairs and maintenance | 840 | 855 | 6,309 | 1,068 | 1,350 | 10,422 | 11,462 |
| Supplies | 1,144 | 1,163 | 6,159 | 1,454 | 1,837 | 11,757 | 16,533 |
| Educational materials/ cost of sales | - | - | 2,852 | - | - | 2,852 | 8,763 |
| Travel expenses | 1,918 | 8,201 | 32,391 | 1,406 | 2,050 | 45,966 | 62,397 |
| Exhibit Fees | - | - | 27,102 | - | - | 27,102 | 39,130 |
| Patient education seminars | - | - | 15,049 | - | - | 15,049 | - |
| Curriculum development meetings | - | - | - | - | - | - | 705 |
| Awareness and curriculum promotion | - | - | 53,429 | - | - | 53,429 | 43,466 |
| Event sponsorship | - | - | 40,700 | - | - | 40,700 | 21,075 |
| Event in-kind donations | - | - | - | - | - | - | 16,375 |
| Insurance | 538 | 547 | 1,926 | 684 | 864 | 4,559 | 4,504 |
| Telephone | 1,356 | 1,278 | 5,344 | 1,520 | 1,982 | 11,480 | 15,784 |
| Occupancy costs | 7,338 | 7,463 | 26,267 | 9,327 | 11,790 | 62,185 | 60,525 |
| Depreciation | 2,788 | 2,836 | 9,980 | 3,544 | 4,479 | 23,627 | 28,069 |
| Miscellaneous | 5,450 | 6,605 | 16,262 | 6,545 | 13,501 | 48,363 | 30,245 |
| Direct grants | 245,092 | - | 64,945 | - | - | 310,037 | 81,452 |
| Total expenses | \$ 323,091 | \$ 228,087 | \$1,382,860 | \$ 97,548 | \$ 183,502 | \$2,215,088 | \$1,539,240 |
| Management and general expenses | | | | | | \$ 97,548 | \$ 97,252 |
| Fundraising and development expenses | | | | | | 183,502 | 196,004 |
| Total management and general, and fundraising and development expenses | | | | | | \$ 281,050 | \$ 293,256 |
| Total support and revenue | | | | | | \$2,191,612 | \$1,927,019 |
| Supporting services ratio | | | | | | 12.82% | 15.22% |

The CFIDS Association of America, Inc.

Statement of Cash Flows Year Ended December 31, 2005 (With Comparative Totals For Year Ended December 31, 2004)

| | Year Ending December 31, | |
|--|--------------------------|---------------------|
| | 2005 | 2004 |
| Cash flows from operating activities | | |
| Change in net assets | \$ (23,498) | \$ 388,553 |
| Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities: | | |
| Depreciation | 23,627 | 28,069 |
| Loss (gain) on disposal of assets | 22 | (774) |
| Amortization of contributions receivable discount | - | (2,759) |
| In-kind contribution of investments | (22,314) | (10,045) |
| Reinvestment of investment earnings | (708) | (879) |
| Cash value annuity insurance contract | 882 | 646 |
| (Increase) decrease in operating assets: | | |
| Pledges and other receivables | (273,460) | 132,704 |
| Inventories | 718 | (275) |
| Prepaid expenses | (35) | (3,474) |
| Decrease in operating liabilities: | | |
| Accounts payable | 75,666 | (36,077) |
| Accrued payroll and payroll taxes withheld | 3,073 | (12,661) |
| Unearned dues revenues | (6,754) | (9,146) |
| Net cash provided (used) by operating activities | (222,781) | 473,882 |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (2,459) | (17,985) |
| Proceeds from disposal of asset | - | 1,000 |
| Proceeds from sale of investments | 22,056 | 3,183 |
| Net cash provided (used) in investing activities | 19,597 | (13,802) |
| Cash flows used in financing activities | | |
| Principal reduction of obligation under capital lease | (6,172) | (5,278) |
| Net increase (decrease) in cash and cash equivalents | (209,356) | 454,802 |
| Cash and cash equivalents | | |
| Beginning of year | 1,274,095 | 819,293 |
| End of year | \$ 1,064,739 | \$ 1,274,095 |
| Supplemental disclosure of cash flow information | | |
| Noncash transaction: | | |
| Issuance of capital lease for acquisition of equipment | \$ - | \$ 30,856 |

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

The CFIDS Association of America, Inc.

Notes to Financial Statements
Year Ended December 31, 2005

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 and immune dysfunction syndrome (CFIDS). The Association works toward its mission by building recognition of CFIDS as a serious widespread medical disorder; securing a meaningful response to CFIDS from the federal government; stimulating high quality CFIDS research; improving health care providers' abilities to detect, diagnose and manage CFIDS; and providing information to persons with CFIDS and enabling the CFIDS community to speak with a collective voice. Substantially all of the Association's revenue is derived from membership dues, contributions from members and other interested parties, grants from foundations and government agencies, and sales of educational materials.

Basis of accounting

The accompanying financial statements are prepared on the accrual basis of accounting.

Classes of net assets

The financial statements report amounts separately by net assets classification. A summary of these classifications 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 implied or explicitly stipulated by donors for purpose or timing.

Permanently restricted net assets – Net assets consisting of contributions 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.

Revenue recognition

Membership dues are recognized as revenue over the applicable membership period. The Association waives membership dues for individuals experiencing financial hardships. All contributions and private grants are recognized as revenue at the time the contributions are unconditionally promised.

The CFIDS Association of America, Inc.

Notes to Financial Statements (Continued)
Year Ended December 31, 2005

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

Revenue recognition (continued)

Generally, federal grant funds made available to the Association are utilized to accomplish specific objectives of the grantor and the Association. Such grants contain specific criteria governing the expenditure of such funds. As a condition of the grants, the Association agrees to utilize the funds in a manner as prescribed by the underlying grant 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 market value at time of donation. No amounts have been reflected in the financial statements for the services since they do not meet the criteria for recognition under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. The Association did, however, receive contributions of investments, valued at \$22,314, during the year ended December 31, 2005.

Research grants

The Association awards grants for medical research projects in the field of CFIDS. 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. Because these grants are contingent upon researchers submitting a claim for reimbursement, these grants are not recognized as expenditures until payment occurs. However, at December 31, 2005, the Association had approved grants of \$6,667 that are available for disbursement in subsequent years.

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.

Contributions receivable

Contributions, including unconditional promises, are recognized as revenues in the period received. Conditional promises 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 at the date of the contribution. Management of the Association periodically evaluates its contributions receivable for collectibility and delinquent contribution receivables are written off when that the amount is deemed to be uncollectible. At December 31, 2005, management considers \$20,000 of outstanding contributions to be uncollectible.

The CFIDS Association of America, Inc.

Notes to Financial Statements (Continued)
Year Ended December 31, 2005

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

Contributions receivable (continued)

Gifts of land, buildings and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Inventories

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

Investments

Investments are recorded in accordance with the provisions of SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values are valued in the statement of financial position at their fair value. Fair value is determined by reference to exchange or dealer-quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar investment securities. Changes in the fair value of securities are reflected as investment gains or losses in the accompanying statements of activities and changes in net assets.

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. When assets are retired or disposed of, the cost and accumulated depreciation thereon are removed from the accounts and any gains or loss are included in unrestricted revenue. These assets are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable.

Beneficial interest in trust

In accordance with Statement of Financial Accounting Standards No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, the Association recognizes contribution revenue from assets donated to a recipient organization held for the sole benefit of the Association. At December 31, 2005, the Association has assets held by recipient organizations totaling \$10,664. This balance is included in investments on the accompanying statement of financial position.

The CFIDS Association of America, Inc.

Notes to Financial Statements (Continued)
Year Ended December 31, 2005

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

Cash surrender 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, 2005, the decrease in the cash surrender value of life insurance was \$882.

Advertising expense

The Association expenses advertising costs as they are incurred. Total advertising costs related to provider education for the year ended December 31, 2005, were \$45,555.

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 Statutes 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.

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 contributions receivable and cash. The Association receives contributions from various entities and individuals located throughout the United States for various fund raising drives. Since these contributions are unsecured, the Association has no guarantee that these monies will be received. The Association places its cash with various financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures these balances for up to \$100,000. Periodically, the Association maintains cash balances in excess of the amount insured by the FDIC.

The CFIDS Association of America, Inc.

Notes to Financial Statements (Continued)
Year Ended December 31, 2005

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

Concentrations of credit risk (continued)

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, 2005, however, fifty-two percent (52%) of the Association's support and revenue is derived from its contracts with the Centers for Disease Control and Prevention (CDC).

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, 2004, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the prior year comparative totals in order to comply with the current year financial statement presentation. Such reclassifications had no effect on total net assets.

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.

Note 2 – Contributions receivable

Individual contributions receivable at December 31, 2005, are designated as follows: \$160,000 is restricted for CFIDS research grants; \$35,000 is restricted for use in Association public policy efforts; and \$15,000 is restricted for Association education efforts. The Association maintains an allowance for Contributions receivable of \$20,000. Unconditional promises are expected to be received in 2006.

The CFIDS Association of America, Inc.

Notes to Financial Statements (Continued)
Year Ended December 31, 2005

Note 3 – Grants

The Association was awarded a contract of federal funds from the CDC for the purpose of educating multidisciplinary health care providers about CFIDS to enable timely detection and management of the illness, ultimately resulting in improved care for CFIDS patients. The Association also has a contract with CDC to provide public awareness of the existence of CFIDS. The funds for both of these contracts are received by the Association on a reimbursement basis. At December 31, 2005, \$199,251 is in the government grants receivable.

Note 4 - Investments

Investments are recorded at fair market value and include investments held in the Association's brokerage and beneficial interest account. The following is a summary of investments at December 31, 2005:

| | |
|-------------------|------------------|
| Equity securities | \$ 1,226 |
| Mutual funds | <u>10,664</u> |
| | <u>\$ 11,890</u> |

Note 5 – Capital leases

At December 31, 2005, property and equipment includes equipment under capital leases with a cost basis of \$30,856 and accumulated depreciation of \$16,045. Amortization of assets under capital lease 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, 2005.

| | |
|---|------------------|
| 2006 | \$ 6,171 |
| 2007 | 6,171 |
| 2008 | 6,171 |
| 2009 | <u>1,543</u> |
| | 20,056 |
| Less amount representing interest | <u>-</u> |
| Present value of net minimum lease payments | 20,056 |
| Current maturities | <u>(6,171)</u> |
| Noncurrent maturities | <u>\$ 13,885</u> |

The CFIDS Association of America, Inc.

Notes to Financial Statements (Continued)
Year Ended December 31, 2005

Note 6 – Net assets

Unrestricted, board designated

Unrestricted net assets designated by the Association's board of directors for cash reserve for future years at December 31, 2005 total \$176,441.

Temporarily restricted

Temporarily restricted net assets are available for the following purposes as of December 31, 2005:

| | |
|--------------------------|-------------------|
| Research activities | \$ 292,458 |
| Educational activities | 56,441 |
| Public policy activities | 18,633 |
| Other donor specified | 15,262 |
| Endowment earnings | <u>708</u> |
| | <u>\$ 383,502</u> |

Permanently restricted

Permanently restricted net asset is comprised of contributions made to the Association's endowment fund. These assets are held under an interest in a beneficial trust. At December 31, 2005, the principal balance of the endowment was \$5,400.

Note 7 – Net assets released from restrictions

Net assets were released from restrictions by incurring expenses satisfying the purpose during the year ended December 31, 2005, as follows:

| | |
|--|--------------------|
| Purpose restrictions accomplished: | |
| Government grants expended | \$1,132,482 |
| Research grants and related expenditures | 244,719 |
| Educational activities | 68,075 |
| Public policy activities | 66,555 |
| Donor specified | <u>1,062</u> |
| | <u>\$1,512,893</u> |

Note 8– Leases

The Association leases office space used in its operations under an operating lease that expires in June 2007. The lease initially provides for a monthly rental of \$4,348 and is subject to annual increases based upon the Consumer Price Index. The Association also leases office equipment under leases expiring in 2006.

The CFIDS Association of America, Inc.

Notes to Financial Statements (Continued)
Year Ended December 31, 2005

Note 8– Leases - continued

Future minimum lease commitments under the above operating leases are as follows at December 31, 2005:

| | |
|--------------------|------------------|
| Year ending | |
| <u>December 31</u> | |
| 2006 | 53,185 |
| 2007 | <u>23,914</u> |
| | <u>\$ 77,099</u> |

Rental expense incurred under operating leases was \$55,364 for the year ended December 31, 2005.

Note 9 – Financial instruments

SFAS No. 107, *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 were 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.

| | <u>Carrying</u> <u>Amount</u> | <u>Fair Value</u> |
|------------------------|----------------------------------|-------------------|
| Capital leases payable | \$ <u>20,057</u> | \$ <u>14,811</u> |

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. Included in this cafeteria plan is an election that can be made by employees to have a designated amount contributed into their 403(b) Plan accounts. The Association's 403(b) retirement plan covers substantially all employees meeting certain service and age requirements. This plan is a defined contribution plan with voluntary employee participation. During 2005, the Association made contributions into this plan amounting to \$10,281.

The CFIDS Association of America, Inc.

Notes to Financial Statements (Continued)
Year Ended December 31, 2005

Note 11 - 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 2005 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.

| | <u>Allowable</u> | <u>Actual</u> |
|---------------------|------------------|---------------|
| Direct lobbying | \$259,791 | \$ 34,013 |
| Grassroots lobbying | \$ 64,948 | \$ 4,500 |