THE CFIDS ASSOCIATION OF AMERICA, INC.

Financial Statements

December 31, 2006

THE CFIDS ASSOCIATION OF AMERICA, INC.

Contents

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, 2006, 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 2006 financial statements, and in our report dated April 14, 2006, 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, 2006, 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 23, 2007

The CFIDS Association of America, Inc.

Statement of Financial Position
December 31, 2006
(With Comparative Totals for December 31, 2005)

	December 31, 2006				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	December 31, 2005
Assets					
Current assets					
Cash and cash equivalents	$ 1,205,504	$ 308,299	$ -	$ 1,513,803	$ 1,064,739
Contributions receivable, net	-	13,000	-	13,000	190,000
Government grants receivable	332,948	-	-	332,948	199,251
Other receivables	9,983	-	-	9,983	3,647
Inventories	928	-	-	928	299
Investments	7,536	1,423	5,400	14,359	11,890
Prepaid expenses	16,313	-	-	16,313	12,757
Total current assets	1,573,212	322,722	5,400	1,901,334	1,482,583
Property and equipment					
Office furniture and fixtures	84,568	-	-	84,568	84,568
Computers and related equipment	90,593	-	-	90,593	100,483
Leasehold improvements	25,872	-	-	25,872	25,872
	201,033	-	-	201,033	210,923
Less accumulated depreciation	(182,985)	-	-	(182,985)	(181,896)
Net property and equipment	18,048	-	-	18,048	29,027
Cash surrender value of life insurance	-	14,366	-	14,366	15,262
Total assets	$ 1,591,260	$ 337,088	$ 5,400	$ 1,933,748	$ 1,526,872

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

	December 31, 2006				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	December 31, 2005
Liabilities and Net Assets					
Current liabilities					
Accounts payable	$ 209,388	$ -	$ -	$ 209,388	$ 112,100
Accrued payroll and payroll taxes withheld	15,011	-	-	15,011	14,458
Unearned dues revenue	69,789	-	-	69,789	63,906
Obligation under capital lease - current portion	6,171	-	-	6,171	6,171
Total current liabilities	300,359	-	-	300,359	196,635
Other liabilities					
Obligation under capital lease less current portion	7,714	-	-	7,714	13,885
Total liabilities	308,073	-	-	308,073	210,520
Net assets					
Unrestricted					
Undesignated	1,101,270	-		1,101,270	751,009
Designated	181,917	-		181,917	176,441
Total unrestricted	1,283,187	-	-	1,283,187	927,450
Temporarily restricted	-	337,088	-	337,088	383,502
Permanently restricted	-	-	5,400	5,400	5,400
Total net assets	1,283,187	337,088	5,400	1,625,675	1,316,352
Total liabilities and net assets	$ 1,591,260	$ 337,088	$ 5,400	$ 1,933,748	$ 1,526,872

The CFIDS Association of America, Inc.

Statements of Activities and Changes in Net Assets
Year Ended December 31, 2006
(With Comparative Totals for Year Ended December 31, 2005)

	Year Ended December 31, 2006				Year Ended December 31, 2005
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
Support and revenues					
Public support:					
Contributions and grants	$ 707,137	$ 155,366	$ -	$ 862,503	$ 883,601
Federal funds:					
Government grants	-	3,466,733	-	3,466,733	1,131,939
Revenues:					
Membership dues	152,191	-	-	152,191	149,137
Educational material sales	36,111	-	-	36,111	12,587
Interest and other	24,573	-	-	24,573	14,348
	212,875	-	-	212,875	176,072
Assets released from restrictions					
Satisfaction of donor restrictions	3,668,513	(3,668,513)	-	-	-
Total support and revenues	4,588,525	(46,414)	-	4,542,111	2,191,612
Expenses and losses					
Program services:					
Research	183,411	-	-	183,411	323,091
Public Policy	217,754	-	-	217,754	228,087
Education	3,483,687	-	-	3,483,687	1,382,860
Supporting services:					
Management and general	166,908	-	-	166,908	97,548
Fund raising and development	180,982	-	-	180,982	183,502
	4,232,742	-	-	4,232,742	2,215,088
Loss (gain) on assets disposed	45	-	-	45	22
Total expenses and losses	4,232,787	-	-	4,232,787	2,215,110
Change in net assets	355,738	(46,414)	-	309,323	(23,498)
Net assets					
Beginning of year	927,450	383,502	5,400	1,316,352	1,339,850
End of year	$ 1,283,187	$ 337,088	$ 5,400	$ 1,625,675	$ 1,316,352

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, 2006
(With Comparative Totals for Year Ended December 31, 2005)

	Year Ended December 31, 2006						
	Program Services			Supporting Services			
	Research	Public Policy	Education	Management and General	Fundraising and Development	Totals	Year Ended December 31, 2005
Contract services	$ 3,623	$ 162,408	$ 909,133	$ 12,376	$ 22,601	$ 1,110,141	$ 590,804
Honoraria	-	-	-	-	-	-	3,700
Salaries	28,042	30,876	605,037	95,793	59,161	818,909	724,907
Payroll taxes	4,568	5,030	25,295	15,604	9,637	60,134	54,767
Printing and postage	2,390	3,297	150,420	5,185	63,383	224,675	173,382
Repairs and maintenance	571	628	15,981	1,950	1,204	20,334	10,422
Supplies	703	764	5,811	2,369	1,463	11,110	11,757
Educational materials/ cost of sales	-	-	5,240	-	-	5,240	2,852
Travel expenses	7,744	4,717	49,258	3,710	2,669	68,098	45,966
Exhibit Fees	-		57,835	-	-	57,835	27,102
Patient Education Seminars	-	-	23,827	-	-	23,827	15,049
Awareness and curriculum promotion	-	-	1,519,407	-	-	1,519,407	53,429
Event sponsorship	-	-	22,250	-	-	22,250	40,700
Insurance	424	467	2,349	1,450	896	5,586	4,559
Telephone	886	682	4,574	1,976	1,219	9,337	11,480
Occupancy costs	4,844	5,334	26,828	16,550	10,221	63,777	62,185
Depreciation	1,072	1,180	5,933	3,661	2,261	14,107	23,627
Miscellaneous	1,911	2,371	8,069	6,284	6,267	24,902	48,363
Direct grants	126,633	-	46,440	-	-	173,073	310,037
Total expenses	$ 183,411	$ 217,754	$ 3,483,687	$ 166,908	$ 180,982	$ 4,232,742	$ 2,215,088

Management and general expenses	$ 166,908	$ 97,548
Fundraising and development expenses	180,982	183,502
Total management and general, and fundraising and development expenses	$ 347,890	$ 281,050
Total support and revenue	$ 4,542,111	$ 2,191,612
Supporting services ratio	7.66%	12.82%

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

The CFIDS Association of America, Inc.

Statement of Cash Flows
Year Ended December 31, 2006
(With Comparative Totals For Year Ended December 31, 2005)

	Year Ending December 31, 2006	2005
Cash flows from operating activities		
Change in net assets	$ 309,323	$ (23,498)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	14,107	23,627
Loss (gain) on disposal of assets	45	22
Amortization of contributions receivable discount	-	-
In-kind contribution of investments	-	(22,314)
Reinvestment of investment earnings	-	(708)
Cash value annuity insurance contract	896	882
(Increase) decrease in operating assets:		
Pledges and other receivables	36,968	(273,460)
Inventories	(629)	718
Prepaid expenses	(3,556)	(35)
Decrease in operating liabilities:		
Accounts payable	97,288	75,666
Accrued payroll and payroll taxes withheld	553	3,073
Unearned dues revenues	5,883	(6,754)
Net cash provided by (used in) operating activities	460,878	(222,781)
Cash flows from investing activities		
Purchases of property and equipment	(3,173)	(2,459)
Proceeds from disposal of asset	-	-
Proceeds from sale of investments	(2,469)	22,056
Net cash provided by (used in) investing activities	(5,642)	19,597
Cash flows used in financing activities		
Principal reduction of obligation under capital lease	(6,171)	(6,172)
Net increase (decrease) in cash and cash equivalents	449,064	(209,356)
Cash and cash equivalents		
Beginning of year	1,064,739	1,274,095
End of year	$ 1,513,803	$ 1,064,739

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

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.

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 $28,393, during the year ended December 31, 2006.

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, 2006, the Association had approved grants of $119,983 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, 2006, management considers $20,000 of outstanding contributions to be uncollectible.

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, 2006, the Association has assets held by recipient organizations totaling $12,087. This balance is included in investments on the accompanying statement of financial position.

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, 2006, the decrease in the cash surrender value of life insurance was $896.

Advertising expense

The Association expenses advertising costs as they are incurred. Advertising costs of $1,482,790 for the year ended December 31, 2006 were supported in full by two government contracts. Expenses related to the promotion of the health care provider continuing education curriculum in peer-reviewed medical journals totaled $23,939. On-line and print advertisements related to a public awareness campaign totaled $1,458,851 and included publications such as *Better Homes and Garden, Ladies Home Journal* and *People*.

Functional allocation of expenses

The costs of providing programs and other activities have been reported on a functional basis in the Statement of Activities. Directly identifiable costs have been allocated to the program or supporting service benefited. Indirect costs have been allocated based on management's estimate of resources used on behalf of the program or supporting service.

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.

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.

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

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 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, 2006, 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, 2005, from which the summarized information was derived.

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, 2006, are designated as follows: $3,000 is restricted for CFIDS research grants; $30,000 is restricted for use in Association public policy efforts. The Association maintains an allowance for Contributions receivable of $20,000. Unconditional promises are expected to be received in 2007.

Note 3 – Grants

The Association was awarded a contract of federal funds from the CDC in 2002 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 contract's period of performance ends on September 30, 2007. The Association received a second CDC contract in 2004 to implement a multifaceted campaign delivering vital information about who is at risk for CFIDS, the symptoms of the illness, treatment and management options, the importance of seeking diagnosis and treatment, and the impact of CFIDS on both patients and family members. Through contract modifications, the period of performance has been extended to September 22, 2009. Funds for both of these contracts are received by the Association on a reimbursement basis. At December 31, 2006, $332,947 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, 2006:

Equity securities	$ 2,272
Mutual funds	12,087
	$ 14,359

Note 5 – Capital leases

At December 31, 2006, property and equipment includes equipment under capital leases with a cost basis of $30,856 and accumulated depreciation of $21,970. 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, 2006.

2007	$ 6,171
2008	6,171
2009	1,543
	13,885
Less amount representing interest	-
Present value of net minimum lease payments	13,885
Current maturities	(6,171)
Noncurrent maturities	$ 7,714

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, 2006 total $181,917.

Temporarily restricted

Temporarily restricted net assets are available for the following purposes as of December 31, 2006:

Research activities	$ 279,315
Educational activities	31,959
Public policy activities	10,025
Other donor specified	14,366
Endowment earnings	1,423
	$ 337,088

Permanently restricted

Permanently restricted net assets are comprised of contributions made to the Association's endowment fund. These assets are held under an interest in a beneficial trust. At December 31, 2006, 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, 2006, as follows:

Purpose restrictions accomplished:	
Government grants expended	$3,466,734
Research grants and related expenditures	127,950
Educational activities	64,451
Public policy activities	9,198
Donor specified	180
	$3,668,513

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.

Note 8 – Leases – continued

Future minimum lease commitments under the above operating leases are as follows at December 31, 2006:

Year ending December 31, 2007	$ 26,656

Rental expense incurred under operating leases was $57,264 for the year ended December 31, 2006.

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.

	Carrying Amount	Fair Value
Capital leases payable	$ 13,885	$ 14,811

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 2006, the Association made contributions into this plan amounting to $18,059.

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 2006 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	$361,688	$ 39,605
Grassroots lobbying	$ 90,417	$ -

Note 12 – Related party transactions

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 2006 was $74,373 and the contributions receivable from Board members and employees was $10,000 at December 31, 2006.