THE CFIDS ASSOCIATION OF AMERICA, INC.

FINANCIAL STATEMENTS

Year Ended December 31, 2012

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

THE CFIDS ASSOCIATION OF AMERICA, INC.

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

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

We have audited the accompanying financial statements of the CFIDS Association of America, Inc. (the "Association"), which comprise the statement of financial position as of December 31, 2012, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. As described in Note 1, the prior year summarized comparative information has been derived from the Association's 2011 financial statements, and in our report dated March 14, 2012, we expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2012, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cherry Bekaert LLP

Charlotte, North Carolina
March 1, 2013

THE CFIDS ASSOCIATION OF AMERICA, INC.
STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)

	December 31, 2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	December 31, 2011
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 874,000	$ 98,541	$ -	$ 972,541	$ 1,025,010
Contributions receivable, net	6,473	5,000	-	11,473	45,930
Other receivables	937	-	-	937	1,893
Inventories	515	-	-	515	706
Prepaid expenses	8,012	-	-	8,012	8,096
Total Current Assets	889,937	103,541	-	993,478	1,081,635
Property and equipment					
Office furniture and fixtures	77,292	-	-	77,292	77,642
Computers and related equipment	69,806	-	-	69,806	100,393
Leasehold improvements	29,259	-	-	29,259	25,872
	176,357	-	-	176,357	203,907
Less accumulated depreciation	(159,390)		-	(159,390)	(177,134)
Net property and equipment	16,967	-	-	16,967	26,773
Other Assets:					
Beneficial interest in assets held by others	-	7,946	5,400	13,346	12,031
Accumulated policy value of life insurance	-	12,500	-	12,500	13,149
Total Other Assets	-	20,446	5,400	25,846	25,180
Total Assets	$ 906,904	$ 123,987	$ 5,400	$ 1,036,291	$ 1,133,588
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable	$ 52,412	$ -	$ -	$ 52,412	$ 7,260
Accrued payroll expenses	23,436	-	-	23,436	21,438
Deferred revenue	3,162	-	-	3,152	-
Capital lease obligation - current	4,102	-	-	4,102	3,642
Total Current Liabilities	83,112	-	-	83,112	32,340
Other Liabilities:					
Capital lease obligation - noncurrent	17,256	-	-	17,256	21,358
Total Liabilities	100,368	-	-	100,368	53,698
Net Assets:					
Unrestricted					
Undesignated	620,705	-	-	620,705	811,675
Board designated	185,831	-	-	185,831	185,518
Total unrestricted	806,536	-	-	806,536	997,193
Temporarily restricted	-	123,987	-	123,987	77,297
Permanently restricted	-	-	5,400	5,400	5,400
Total Net Assets	806,536	123,987	5,400	935,923	1,079,890
Total Liabilities and Net Assets	$ 906,904	$ 123,987	$ 5,400	$ 1,036,291	$ 1,133,588

The accompanying notes to the financial statements are an integral part of this statement.

THE CFIDS ASSOCIATION OF AMERICA, INC.
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)

	Year Ended December 31, 2012				Year Ended
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	December 31, 2011
Support and Revenues:					
Public support:					
Contributions and grants	$ 942,848	$ 145,498	$ -	$ 1,088,346	$ 1,196,911
Revenues:					
Research subcontracts	12,357	-	-	12,357	14,671
Pharmaceutical contracts	-	-	-	-	5,605
Educational material sales	851	-	-	851	1,449
Interest and other	2,615	-	-	2,615	1,275
	15,823	-	-	15,823	23,000
Net assets released from restrictions	98,808	(98,808)	-	-	-
Total Support and Revenues	1,057,479	46,690	-	1,104,169	1,219,911
Expenses:					
Program services:					
Research	868,414	-	-	868,414	759,958
Communications	189,854	-	-	189,854	169,791
Supporting services:					
Management and general	45,201	-	-	45,201	58,276
Fund raising and development	144,667	-	-	144,667	131,620
Total Expenses	1,248,136	-	-	1,248,136	1,119,645
Loss on disposal of assets	-	-	-	-	2,401
Change in Net Assets	(190,657)	46,690	-	(143,967)	97,865
Net assets, beginning of year	997,193	77,297	5,400	1,079,890	982,025
Net assets, end of year	$ 806,536	$ 123,987	$ 5,400	$ 935,923	$ 1,079,890

The accompanying notes to the financial statements are an integral part of this statement.

THE CFIDS ASSOCIATION OF AMERICA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2012

(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)

	Year Ended December 31, 2012					
	Program Services		Supporting Services			
	Research	Communications	Management and General	Fundraising and Development	Totals	Year Ended December 31, 2011
Contract services	$ 43,410	$ 76,428	$ 4,878	$ 50,907	$ 175,623	$ 217,823
Salaries and benefits	396,440	69,204	27,160	44,168	536,972	616,065
Payroll taxes	24,429	8,294	3,255	5,295	41,273	46,587
Direct grants	235,121	-	-	-	235,121	13,003
Printing and postage	1,424	6,677	120	13,426	21,647	23,209
Repairs and maintenance	1,224	416	163	265	2,068	3,014
Supplies	2,077	626	246	443	3,392	4,595
Educational materials/ cost of sales	-	279	-	-	279	546
Travel expenses	55,350	5,032	645	13,137	74,164	46,300
Event expenses	17,040	-	-	640	17,680	10,415
SolveCFS BioBank costs	24,481	-	-	-	24,481	28,874
Insurance	4,410	1,497	588	956	7,451	6,295
Telephone	4,023	1,177	292	730	6,222	6,066
Occupancy costs	38,681	13,134	5,155	8,382	65,352	61,871
Depreciation	7,808	2,651	1,041	1,692	13,192	11,731
Miscellaneous	12,496	4,439	1,658	4,626	23,219	23,251
Total program and supporting services expenses	$ 868,414	$ 189,854	$ 45,201	$ 144,667	$ 1,248,136	$ 1,119,645

	2012	2011
Management and general expenses	$ 45,201	$ 58,276
Fundraising and development expenses	144,667	131,620
Total management and general, and fundraising and development expenses	$ 189,868	$ 189,896
Total support and revenue	$ 1,104,169	$ 1,219,911
Supporting services ratio	17.20%	15.57%

THE CFIDS ASSOCIATION OF AMERICA, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2012

(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011)

	Year Ended December 31, 2012	Year Ended December 31, 2011
Cash flows from operating activities		
Change in net assets	$ (143,967)	$ 97,865
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	13,192	11,731
Loss on disposal of assets	-	2,401
Change in beneficial interest in assets held by others	(1,315)	431
In-kind contribution of investments	(70,800)	(12,837)
Accumulated policy value of life insurance	649	443
Net changes in operating assets and liabilities:		
Contributions receivable	34,457	7,832
Other receivables	956	23,806
Inventories	191	(288)
Prepaid expenses	84	3,052
Accounts payable	45,152	(11,147)
Accrued payroll expenses	1,998	(1,886)
Deferred revenue	3,162	-
Net cash (used in) provided by operating activities	(116,240)	121,403
Cash flows from investing activities		
Purchases of property and equipment	(3,386)	(7,164)
Proceeds from sale of investments	70,800	12,837
Net cash provided by investing activities	67,413	5,673
Cash flows from financing activities		
Payments of capital lease	(3,642)	(8,592)
Net cash used in financing activities	(3,642)	(8,592)
Net (decrease) increase in cash and cash equivalents	(52,469)	118,484
Cash and cash equivalents		
Beginning of year	1,025,010	906,526
End of year	$ 972,541	$ 1,025,010

The accompanying notes to the financial statements are an integral part of this statement.

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 Universities, and sales of educational materials.

The Association's Board of Directors approved a new purpose statement to reflect a narrowed focus on research in 2009. The Association's public policy efforts were aligned 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, 2012.

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 revenues, 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 ensure adequate funds are available to assist in those estimated future monetary requirements. Such amounts are presented as unrestricted, 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 subject to donor-imposed stipulations that they be maintained permanently by the Association. 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. At December 31, 2012, the Association did not have any permanently restricted net assets.

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

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

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

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, 2012. The donated assets during the year ended December 31, 2012 totaled $70,800.

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 Board 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 Board include internationally respected researchers and clinicians. At December 31, 2012, the Association has approved grants of $225,366 that are available for disbursement in subsequent years. Awards are booked as payables upon completion of required documentation by research investigators and their sponsoring organization.

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

Contributions Receivable - Management of the Association periodically evaluates its contributions receivable for collectibility and delinquent contributions receivable 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.

Beneficial Interest in Assets Held by Others - The Association recognizes contribution revenue from assets donated to a recipient organization held for the sole benefit of the Association. At December 31, 2012, the Association has assets held by recipient organizations totaling $13,346 as shown in the statement of financial position.

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

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

Tax Status - The Association is incorporated as a nonprofit voluntary health agency under the laws of the State of North Carolina. Further, the Association is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and qualifies as a public charity under Code Sections 509(a)(1) and 107(b)(1)(A)(vi).

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, 2012 and, accordingly, no liability has been accrued. Income tax returns filed prior to the year ended December 31, 2009, are no longer subject to audit by the taxing authority.

Conflict of Interest - All members of the Association's Board of Directors (the "Board"), 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. The Federal Deposit Insurance Corporation ("FDIC") covers $250,000 for substantially all depository accounts. In addition, the FDIC provided unlimited coverage for certain qualifying and participating non-interest bearing transaction accounts through December 31, 2012; however, effective January 1, 2013, the FDIC discontinued the additional unlimited coverage. The Association from time to time may have amounts on deposit in excess of the insured limits.

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, 2012.

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

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain joint costs have been allocated among the programs and supporting services benefited based upon estimated content, audience, and purpose of these expenditures.

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, 2011, from which the summarized information was derived.

Note 2—Contributions receivable

Contributions receivable at December 31, 2012 total $11,473, of which $6,473 is unrestricted and $5,000 is earmarked for research. These receivables are considered current and deemed collectible, so there is no allowance for uncollectible accounts as of December 31, 2012.

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 2012 was $82,900. There is no contributions receivable from Board members or employees as of December 31, 2012.

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 were received by the Association on reimbursable basis and were calculated using a per sample cost. Work on the contract ended in 2011 therefore no pharmaceutical contract funds were received in 2012 and there is no receivable at December 31, 2012.

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. For the year ended December 31, 2012, the Association received reimbursement funds totaling $12,357. There is no receivable at December 31, 2012.

Note 5—Beneficial interest in assets held by others

The Association has recorded the fair value of a beneficial interest in assets held by another organization totaling $13,346, as of December 31, 2012. 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, 2012, property and equipment includes equipment under capital leases with a cost basis of $25,000 and accumulated depreciation of $8,000. 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, 2012:

2013	$ 6,432
2014	6,432
2015	6,432
2016	6,432
2017	1,608
Present value of net minimum lease payments	27,336
Less amount representing interest	(5,978)
Total obligations under capital leases	21,358
Less current portion	(4,102)
Noncurrent portion	$ 17,256

Note 7—Net assets

Unrestricted net assets of $185,831 at December 31, 2012 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, 2012:

Donor specified	$ 91,768
Research activities	24,273
Endowment	7,946
	$ 123,987

Permanently restricted net assets are comprised of contributions made to the Association's endowment fund.

Net assets were released from restrictions by incurring expenses satisfying the purpose during the year ended December 31, 2012 as follows:

Purpose restrictions accomplished:	
Research grants and related expenditures	$ 78,706
Donor specified	20,066
Public policy activities	36
	$ 98,808

Note 8—Endowment fund

The Association's endowment consists of a beneficial interest in assets held by another organization 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, 2012, 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 a 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 2012.

Note 8—Endowment fund (Continued)

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

Changes in endowment net assets for the year ended December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	$ -	$ 6,631	$ 5,400	$ 12,031
Investment return:				
Investment income, net	-	58	-	58
Realized and unrealized gains	-	1,257	-	1,257
Total investment return	-	1,315	-	1,315
Ending balance	$ -	$ 7,946	$ 5,400	$ 13,346

Note 9—Operating leases

The Association leases office space used in its operations under an operating lease that expires in June 2013. 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 $29,653 as of December 31, 2012 for the year ending December 31, 2013.

Rental expense incurred under operating leases was $58,506 for the year ended December 31, 2012 and is reported in 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 2012, the Association made contributions into this plan amounting to $16,514. This expense is included in salaries and benefits on the accompanying statement of functional expenses and is allocated among all functional categories.

Note 11—Financial instruments

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

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

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

Note 12—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, 2012 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, 2012 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 in trust held by others of $13,346 at December 31, 2012 is considered subject to Level 3 valuation.

The changes in donor restricted endowment net assets present a reconciliation of the assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2012. 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. The 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, 2012:

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

Note 13—Subsequent events

The Association has evaluated subsequent events through March 1, 2013, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.