



SARRRC

Southwest
Autism
Research &
Resource
Center

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER

Phoenix, Arizona

FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016



Henry+Horne

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Southwest Autism Research and Resource Center
Phoenix, Arizona

We have audited the accompanying financial statements of Southwest Autism Research and Resource Center (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 that 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 Southwest Autism Research and Resource Center as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Henry + Home, LLP

Tempe, Arizona
May 11, 2018

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016*</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,471,031	\$ 1,361,349
Promises to give, current portion, net of allowance for doubtful accounts	1,020,403	936,558
Contracts and insurance receivable, net of allowance for doubtful accounts	1,582,587	1,316,119
Prepaid expenses and other assets	<u>193,425</u>	<u>172,163</u>
TOTAL CURRENT ASSETS	4,267,446	3,786,189
PROMISES TO GIVE, net of current portion, unamortized discount and allowance for uncollectible promises	<u>345,942</u>	<u>226,906</u>
INVESTMENTS		
Endowments	3,279,312	2,907,532
Other	<u>2,035,610</u>	<u>2,153,986</u>
	<u>5,314,922</u>	<u>5,061,518</u>
PROPERTY AND EQUIPMENT, net	<u>4,434,951</u>	<u>4,698,631</u>
TOTAL ASSETS	<u>\$ 14,363,261</u>	<u>\$ 13,773,244</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 92,707	\$ 223,364
Accrued expenses	628,024	573,070
Deferred revenue	<u>200,041</u>	<u>163,023</u>
TOTAL CURRENT LIABILITIES	920,772	959,457
FORGIVABLE LOAN	<u>63,783</u>	<u>85,044</u>
TOTAL LIABILITIES	<u>984,555</u>	<u>1,044,501</u>
NET ASSETS		
Unrestricted		
Undesignated	8,978,411	8,180,235
Board designated	<u>46,874</u>	<u>-</u>
	9,025,285	8,180,235
Temporarily restricted	1,723,421	1,918,508
Permanently restricted	<u>2,630,000</u>	<u>2,630,000</u>
TOTAL NET ASSETS	<u>13,378,706</u>	<u>12,728,743</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,363,261</u>	<u>\$ 13,773,244</u>

**Reclassified to conform to current year presentation.*

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
 STATEMENTS OF ACTIVITIES
 Years Ended December 31, 2017 and 2016

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUES				
Contract revenue	\$ 7,253,893	\$ -	\$ -	\$ 7,253,893
Contributions - foundations and corporations	83,326	1,062,217	-	1,145,543
Contributions - individuals	91,040	108,617	-	199,657
Special events contributions	460,354	1,292,774	-	1,753,128
In-kind support	154,623	-	-	154,623
Miscellaneous revenue	25	-	-	25
Net assets released from restrictions	3,090,955	(3,090,955)	-	-
	<u>11,134,216</u>	<u>(627,347)</u>	<u>-</u>	<u>10,506,869</u>
Gross sales of food, beverage and merchandise	193,528	-	-	193,528
Cost of goods sold	(106,406)	-	-	(106,406)
	<u>87,122</u>	<u>-</u>	<u>-</u>	<u>87,122</u>
Special events revenue	-	-	-	-
Direct donor benefits	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>11,221,338</u>	<u>(627,347)</u>	<u>-</u>	<u>10,593,991</u>
EXPENSES				
Program Services				
Research	1,244,473	-	-	1,244,473
Clinical services	5,381,343	-	-	5,381,343
Social enterprise	388,522	-	-	388,522
Residential	589,142	-	-	589,142
	<u>7,603,480</u>	<u>-</u>	<u>-</u>	<u>7,603,480</u>
Support Services				
Management and general	1,984,006	-	-	1,984,006
Fundraising	1,123,129	-	-	1,123,129
	<u>3,107,135</u>	<u>-</u>	<u>-</u>	<u>3,107,135</u>
TOTAL EXPENSES	<u>10,710,615</u>	<u>-</u>	<u>-</u>	<u>10,710,615</u>
CHANGE IN NET ASSETS BEFORE INVESTMENT RETURN (LOSS)	<u>510,723</u>	<u>(627,347)</u>	<u>-</u>	<u>(116,624)</u>
INVESTMENT RETURN (LOSS)	334,327	432,260	-	766,587
CHANGE IN NET ASSETS	<u>845,050</u>	<u>(195,087)</u>	<u>-</u>	<u>649,963</u>
NET ASSETS, BEGINNING OF YEAR	<u>8,180,235</u>	<u>1,918,508</u>	<u>2,630,000</u>	<u>12,728,743</u>
NET ASSETS, END OF YEAR	<u>\$ 9,025,285</u>	<u>\$ 1,723,421</u>	<u>\$ 2,630,000</u>	<u>\$ 13,378,706</u>

See accompanying notes.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
 STATEMENTS OF ACTIVITIES (Continued)
 Years Ended December 31, 2017 and 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUES				
Contract revenue	\$ 6,185,984	\$ -	\$ -	\$ 6,185,984
Contributions - foundations and corporations	501,786	647,745	-	1,149,531
Contributions - individuals	80,849	27,409	-	108,258
Special events contributions	778,610	569,060	-	1,347,670
In-kind support	367,974	-	-	367,974
Miscellaneous revenue	1,686	-	-	1,686
Net assets released from restrictions	2,107,106	(2,107,106)	-	-
	<u>10,023,995</u>	<u>(862,892)</u>	<u>-</u>	<u>9,161,103</u>
Gross sales of food, beverage and merchandise	128,669	-	-	128,669
Cost of goods sold	(48,146)	-	-	(48,146)
	<u>80,523</u>	<u>-</u>	<u>-</u>	<u>80,523</u>
Special events revenue	189,050	-	-	189,050
Direct donor benefits	(30,067)	-	-	(30,067)
	<u>158,983</u>	<u>-</u>	<u>-</u>	<u>158,983</u>
TOTAL SUPPORT AND REVENUES	<u>10,263,501</u>	<u>(862,892)</u>	<u>-</u>	<u>9,400,609</u>
EXPENSES				
Program Services				
Research	1,172,897	-	-	1,172,897
Clinical services	4,798,237	-	-	4,798,237
Social enterprise	308,293	-	-	308,293
Residential	456,229	-	-	456,229
	<u>6,735,656</u>	<u>-</u>	<u>-</u>	<u>6,735,656</u>
Support Services				
Management and general	1,746,319	-	-	1,746,319
Fundraising	1,168,109	-	-	1,168,109
	<u>2,914,428</u>	<u>-</u>	<u>-</u>	<u>2,914,428</u>
TOTAL EXPENSES	<u>9,650,084</u>	<u>-</u>	<u>-</u>	<u>9,650,084</u>
CHANGE IN NET ASSETS BEFORE INVESTMENT RETURN (LOSS)	<u>613,417</u>	<u>(862,892)</u>	<u>-</u>	<u>(249,475)</u>
INVESTMENT RETURN (LOSS)	180,768	198,699	-	379,467
CHANGE IN NET ASSETS	<u>794,185</u>	<u>(664,193)</u>	<u>-</u>	<u>129,992</u>
NET ASSETS, BEGINNING OF YEAR	<u>7,386,050</u>	<u>2,582,701</u>	<u>2,630,000</u>	<u>12,598,751</u>
NET ASSETS, END OF YEAR	<u>\$ 8,180,235</u>	<u>\$ 1,918,508</u>	<u>\$ 2,630,000</u>	<u>\$ 12,728,743</u>

See accompanying notes.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2017

	Program Services			Program Services		Supporting Services			
	Research	Clinical Services	Social Enterprise	Residential Transition Academy	Total Program	Management and General	Fundraising	Direct Donor Benefits	Total
Salaries and wages	\$ 782,005	\$3,569,083	\$ 240,151	\$ 412,609	\$5,003,848	\$1,072,515	\$ 525,381	\$ -	\$ 6,601,744
Payroll taxes	57,123	273,201	18,214	30,686	379,224	73,294	37,679	-	490,197
Employee benefits	87,582	485,053	38,342	61,261	672,238	251,772	63,973	-	987,983
Total personnel costs	926,710	4,327,337	296,707	504,556	6,055,310	1,397,581	627,033	-	8,079,924
Contract labor	81,400	-	-	-	81,400	39,456	14,111	-	134,967
Professional services	20,088	167,245	17,993	-	205,326	95,681	100,000	-	401,007
Business and travel	9,052	127,856	1,610	9,117	147,635	28,080	18,963	-	194,678
Occupancy and communication	27,906	189,240	18,740	21,600	257,486	59,069	37,736	-	354,291
Postage, supplies, and printing	21,123	53,573	15,738	11,919	102,353	50,814	27,668	-	180,835
Marketing and subscriptions	3,723	62,933	1,265	3,611	71,532	30,487	15,396	-	117,415
Staff development	7,106	55,256	2,622	9,033	74,017	29,839	4,912	-	108,768
Program supplies and other expenses	35,453	28,907	14,898	278	79,536	34,729	19,525	-	133,790
Cost of goods sold	-	-	106,406	-	106,406	-	-	-	106,406
Other operational services	373	13,013	1,914	-	15,300	86,445	1,840	-	103,585
Insurance	23,871	-	-	-	23,871	59,397	1,045	-	84,313
Special events venue, meals, and supplies	-	-	-	-	-	-	193,019	-	193,019
Depreciation	55,875	252,939	17,035	29,028	354,877	72,150	37,682	-	464,709
Interest expense	-	-	-	-	-	298	-	-	298
Bad debt expense	31,793	103,044	-	-	134,837	(20)	24,199	-	159,016
	1,244,473	5,381,343	494,928	589,142	7,709,886	1,984,006	1,123,129	-	10,817,021
Cost of goods sold	-	-	(106,406)	-	(106,406)	-	-	-	(106,406)
Direct donor benefits	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	\$ 1,244,473	\$5,381,343	\$ 388,522	\$ 589,142	\$7,603,480	\$ 1,984,006	\$1,123,129	\$ -	\$10,710,615

See accompanying notes.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2016

	Program Services			Program Services		Supporting Services			
	Research	Clinical Services	Social Enterprise	Residential Transition Academy	Total Program	Management and General	Fundraising	Direct Donor Benefits	Total
Salaries and wages	\$ 720,651	\$3,139,070	\$ 190,941	\$ 321,690	\$4,372,352	\$ 971,252	\$ 467,708	\$ -	\$ 5,811,312
Payroll taxes	50,483	226,607	13,169	23,103	313,362	77,428	32,597	-	423,387
Employee benefits	73,510	425,653	36,832	48,593	584,588	213,559	49,610	-	847,757
Total personnel costs	844,644	3,791,330	240,942	393,386	5,270,302	1,262,239	549,915	-	7,082,456
Contract labor	135,771	113	346	-	136,230	42,005	26,394	-	204,629
Professional services	5,961	168,709	9,977	150	184,797	74,234	143,753	-	402,784
Business and travel	10,491	122,046	885	8,065	141,487	19,721	19,361	-	180,569
Occupancy and communication	29,871	179,099	12,788	16,715	238,473	33,241	35,506	-	307,220
Postage, supplies, and printing	11,780	38,045	3,385	1,602	54,812	43,942	37,507	-	136,261
Marketing and subscriptions	1,919	72,073	2,445	2,020	78,457	13,027	9,115	-	100,599
Staff development	4,461	61,827	1,606	5,988	73,882	25,506	4,428	-	103,816
Program supplies and other expenses	62,167	31,648	21,623	4,475	119,913	24,999	74,891	-	219,803
Cost of goods sold	-	-	48,146	-	48,146	-	-	-	48,146
Other operational services	1,721	7,706	472	550	10,449	91,752	4,293	-	106,494
Insurance	26,311	-	-	-	26,311	41,267	1,059	-	68,637
Special events venue, meals, and supplies	-	-	-	-	-	-	176,653	30,067	206,720
Depreciation	52,149	223,860	13,824	23,278	313,111	74,074	33,722	-	420,907
Interest expense	-	-	-	-	-	312	-	-	312
Bad debt expense	(14,349)	101,781	-	-	87,432	-	51,512	-	138,944
	1,172,897	4,798,237	356,439	456,229	6,783,802	1,746,319	1,168,109	30,067	9,728,297
Cost of goods sold	-	-	(48,146)	-	(48,146)	-	-	-	(48,146)
Direct donor benefits	-	-	-	-	-	-	-	(30,067)	(30,067)
TOTAL EXPENSES	\$ 1,172,897	\$4,798,237	\$ 308,293	\$ 456,229	\$6,735,656	\$ 1,746,319	\$1,168,109	\$ -	\$ 9,650,084

See accompanying notes.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 649,963	\$ 129,992
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	464,709	420,907
Donated property and equipment	-	(181,075)
Net realized/unrealized loss (gain) on investments	(653,624)	(279,117)
Forgiveness of debt	(21,261)	(21,261)
Changes in allowance for doubtful accounts for contracts and insurance receivable	148,035	43,614
Changes in allowance for doubtful accounts for promises to give	12,235	21,247
(Increase) decrease in:		
Contracts and insurance receivable	(414,503)	(540,020)
Promises to give	(215,116)	538,893
Prepaid expenses and other assets	(21,262)	(54,414)
Increase (decrease) in:		
Accounts payable	(130,657)	176,172
Accrued expenses	54,954	118,105
Deferred revenue	37,018	(7,272)
	<u>(89,509)</u>	<u>365,771</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(201,029)	(279,485)
Purchases of investments	(798,132)	(1,431,464)
Proceeds from sales of investments	1,198,352	1,475,137
	<u>199,191</u>	<u>(235,812)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	109,682	129,959
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,361,349</u>	<u>1,231,390</u>
END OF YEAR	<u>\$ 1,471,031</u>	<u>\$ 1,361,349</u>

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Southwest Autism Research and Resource Center ("the Center") is incorporated as a nonprofit corporation in the State of Arizona. Founded in 1997, the Center has a mission designed to advance research and provide a lifetime of support for individuals with autism and their families.

The Center provides several programs to further its mission, including but not limited to the following:

Research – Through the research program, the Center performs self-directed research, including genetic studies and pharmaceutical trials, and serves as a satellite site for national and international projects. The Center continues to excel as a top recruitment site for autism research studies that will help identify the causes and effective treatments for the disorder.

Clinical Services – The Center models and promotes best practices that enhance the quality of life for children and adults with autism spectrum disorders through outreach and education, empowering children, families, and professionals with information training, and programs. The Center provides research, individualized intervention, and educational experiences to children, teens, and adults with autism spectrum disorders. The Center also provides support services to parents, family members, typical peers and community members, as well as training and education to educational and medical professionals. The Center operates a Vocational & Life Skills Academy, established by the Center to maximize the independence, productivity, and quality of life of young adults and adults with autism and related developmental disorders.

Residential Transition Academy – The First Place AZ Transition Academy operated by the Center, is a two-year intensive and comprehensive community based state-of-the-art facility designed to transition young adults with autism to living independently in the community. Through a partnership with Foundation for Senior Living, First Place AZ and the Center, students live in their own apartments within a multi-generational apartment complex.

Social Enterprise – The social enterprise program is committed to creating sustainable businesses owned by the Center that increase community awareness and employment opportunities for adults with autism.

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Center considers all highly liquid debt instruments with an original maturity of three months or less at date of acquisition to be cash equivalents. Cash and money market funds held in accounts with stock brokerage firms are reported as investments instead of cash because they are considered to be part of the investment pool.

Contracts and Insurance Receivable

Contracts and insurance receivable consist of amounts due for contract services and insurance billings and are stated at the amount management expects to collect under the terms of the service contracts and agreements. Contracts and insurance receivable are carried at the outstanding balances less an allowance for doubtful accounts, if applicable. Management evaluates the collectability of its receivables based on a combination of factors, including an assessment of the current status of individual contracts and a historical percentage of uncollectible amounts. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance. The allowance for doubtful accounts was \$272,036 and \$124,001 for the years ended December 31, 2017 and 2016, respectively.

Promises to Give

Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates as determined by management applicable to the years in which the promises are received. Amortization of the discounts is included in contributions. In circumstances where it is aware of a specific amount where there may be an inability to meet the financial obligation, and for balances for which a scheduled payment was not received in the prior year, the Center records a specific reserve to reduce the amounts recorded to what it believes will be collected. Promises are charged off against the allowance when they are deemed to be uncollectible.

Fair Value Measurements

A framework for measuring fair value has been established by the Accounting Standards Codification and provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Fair Value Measurements (Continued)

The three levels of the fair value hierarchy are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified term (contractual term), the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect the Center's own assumptions about the assumptions that market participants would use in pricing the assets (i.e. real estate valuations, broker quotes).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments

Investments are measured at fair value in the statements of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is recognized in the statements of activities.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Property and Equipment

Acquisitions of property and equipment in excess of \$2,500 are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation of buildings and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets.

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

Impairment of Long-Lived Assets

The Center reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present.

Endowment Funds

The Center's endowments consist of funds established to support a variety of charitable efforts of the Center. Its endowments consist of donor-restricted endowment funds and one board designated endowment fund. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Income from the endowment fund assets can be used to support general activities of the Center.

The Center follows Arizona's Management of Charitable Funds Act (MCFA) and its own governing documents. MCFA requires the preservation of endowment funds when a donor's intent is not expressed. MCFA directs the Center to spend an amount that is prudent, consistent with the purposes of the fund, relevant economic factors and the donor's intent that the fund continues in perpetuity.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Endowment Funds (Continued)

The Center classifies in permanently restricted funds (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Center's Board.

In accordance with MCFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) the Center's other resources, and (7) the Center's investment policies.

Return Objectives, Risk Parameters and Spending Policy. The Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by the endowments while also maintaining the purchasing power of those endowment assets over the long term. The endowment assets are invested in a manner that is intended to emphasize long-term capital appreciation with consideration for current income to provide liquidity as needed. The investment objective is to achieve a 4%-6% real rate of return over a market cycle (5 or more years). The annual spending target from the endowment is 4% of the three year average value of the fund. The annual spending range is 3% to 6% as approved by the board.

Revenue Recognition for Program Services

Program service revenues consist of fees earned for research trials and services provided to various clients for various programs as well as cost reimbursement governmental grants. Program service fees are recognized when services are rendered. Income from program services that is collected in advance is recorded as deferred revenue and recognized as the related qualifying expenditures are incurred or as services are performed.

Contributions

Contributions and grants, including promises to give, are received and recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Donated Services and Materials

Donated materials and other non-cash assets are recorded at fair value in the period received. Donated services are recorded at their estimated fair value if they create or enhance the Center's nonfinancial assets or require specialized skills that the Center would normally purchase if not provided by donation. No amounts have been reflected in the financial statements for certain donated volunteer services because they did not qualify for recording under the generally accepted accounting principle guidelines; however, a substantial number of volunteers have donated significant amounts of their time to the Center's program services and fundraising campaigns.

Functional Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the programs and supporting services benefited. Personnel costs are allocated based on actual employee activities, and indirect expenses are allocated based on the percentage of personnel costs in a particular program or area compared to total personnel costs for the Center.

Income Tax Status

Southwest Autism Research and Resource Center qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code ("the Code"), and accordingly, there is no provision for corporate income taxes in the accompanying financial statements. In addition, the Center qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable.

The Center follows accounting standards for uncertainty in income taxes, which require that tax positions initially need to be recognized in the financial statements when it is more likely-than-not that the positions will not be sustained upon examination by the tax authorities. As of December 31, 2017 and 2016, the Center had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Center recognizes interest and penalties associated with income tax in operating expenses. During the years ended December 31, 2017 and 2016, the Center did not have any income tax related interest and penalty expense.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Management's Use of 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 reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 consolidated financial statement presentation.

Date of Management's Review

In preparing these financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through May 11, 2018, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATION OF CREDIT RISK

Financial instruments that subject the Center to potential concentrations of credit risk consist principally of cash and cash equivalents, contracts and insurance receivable, and promises to give. The Center maintains its cash in bank accounts with financial institutions which at times may exceed federally insured limits. The Center has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

Gross promises to give include amounts from one donor which make up 23% and 28% of total gross promises to give at December 31, 2017 and 2016, respectively. Gross contracts receivable include amounts from three contractors which make up 19% of total gross contracts receivable at December 31, 2017, and amounts from two contractors which make up 26% of total gross contracts receivable at December 31, 2016. Concentrations of credit risk with respect to promises to give and contracts receivable are limited due to the collection history and relationships with these donors and contractors.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 PROMISES TO GIVE

Promises to give consist of the following unconditional promises to give at December 31:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 1,233,940	\$ 1,126,651
Receivable in two to five years	382,941	285,036
Receivable in more than five years	<u>10,422</u>	<u>500</u>
Total promises to give	1,627,303	1,412,187
Discount to present value	(25,603)	(25,603)
Allowance for uncollectible promises	<u>(235,355)</u>	<u>(223,120)</u>
Net promises to give	1,366,345	1,163,464
Current portion	<u>(1,020,403)</u>	<u>(936,558)</u>
Non-current portion	<u>\$ 345,942</u>	<u>\$ 226,906</u>

The estimated cash flows for promises to give were discounted over the collection period using a discount range of .76% to 2.2% as determined by management.

NOTE 4 INVESTMENTS

Investments consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Cash and money market	\$ 91,132	\$ 124,202
Fixed income funds	1,392,673	1,324,430
Equity funds	3,128,803	3,222,118
Preferred stock (other investments)	21,927	48,200
Real estate exchange traded funds	237,468	-
Commodities exchange traded notes	54,934	-
Arizona Community Foundation	<u>387,985</u>	<u>342,568</u>
Total investments	<u>\$ 5,314,922</u>	<u>\$ 5,061,518</u>

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 4 INVESTMENTS (Continued)

Investment return (loss) is summarized as follows for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 112,963	\$ 100,350
Realized gain - investments	89,152	20,532
Unrealized gain (loss) - investments	<u>564,472</u>	<u>258,585</u>
Investment return (loss)	<u>\$ 766,587</u>	<u>\$ 379,467</u>

NOTE 5 FAIR VALUE MEASUREMENTS

The following table presents assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money market	\$ 91,132	\$ -	\$ -	\$ 91,132
Fixed income funds	1,392,673	-	-	1,392,673
Equity funds	3,128,803	-	-	3,128,803
Preferred stock (other investments)	-	21,927	-	21,927
Real estate exchange traded funds	237,468	-	-	237,468
Commodities exchange traded notes	54,934	-	-	54,934
Arizona Community Foundation	<u>-</u>	<u>-</u>	<u>387,985</u>	<u>387,985</u>
Total assets at fair value	<u>\$ 4,905,010</u>	<u>\$ 21,927</u>	<u>\$ 387,985</u>	<u>\$5,314,922</u>

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 5 FAIR VALUE MEASUREMENTS (Continued)

The following table presents assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Cash and money market	\$ 124,202	\$ -	\$ -	\$ 124,202
Fixed income funds	1,324,430	-	-	1,324,430
Equity funds	3,222,118	-	-	3,222,118
Preferred stock (other investments)	-	48,200	-	48,200
Arizona Community Foundation	-	-	342,568	342,568
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets at fair value	<u>\$ 4,670,750</u>	<u>\$ 48,200</u>	<u>\$ 342,568</u>	<u>\$5,061,518</u>

Investments with readily determinable fair values are measured at fair value in the statement of financial position as determined by quoted market prices in active markets (Level 1). Investments in preferred stock are valued based on observable inputs, which include a yield based building block approach and call price of the preferred stock (Level 2). Investments in hedge funds and private equity funds with the Arizona Community Foundation (ACF) are valued based on unobservable inputs, which include the fair value of the underlying assets held by ACF and the Center's percentage interest in ACF's investments (Level 3).

The following is a reconciliation of beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended December 31, 2017 and 2016:

Balance, December 31, 2015	\$ 321,798
Interest income	3,155
Realized and unrealized gains	20,703
Investment fees	<u>(3,088)</u>
Balance, December 31, 2016	342,568
Interest income	6,738
Realized and unrealized gains	42,178
Investment fees	<u>(3,499)</u>
Balance, December 31, 2017	<u>\$ 387,985</u>

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 821,969	\$ 821,969
Buildings and improvements	5,566,474	5,528,825
Vehicles	76,041	76,041
Office furniture and equipment	<u>1,527,722</u>	<u>1,329,568</u>
	7,992,206	7,756,403
Accumulated depreciation	<u>(3,603,188)</u>	<u>(3,138,479)</u>
	4,389,018	4,617,924
Construction in progress	<u>45,933</u>	<u>80,707</u>
	<u><u>\$ 4,434,951</u></u>	<u><u>\$ 4,698,631</u></u>

Depreciation expense was \$464,709 and \$420,907 for the years ended December 31, 2017 and 2016, respectively.

NOTE 7 LINE OF CREDIT

In April 2014, the Center obtained a revolving line of credit with a financial institution which provides for maximum borrowings of \$900,000. The line of credit is payable upon demand and bears interest at the one month LIBOR rate plus 1.75%. The line of credit is collateralized by securities held by the Center and classified as investments. No borrowings occurred during the years ended December 31, 2017 and 2016.

NOTE 8 FORGIVABLE LOAN

During the year ended December 31, 2009, the Center executed a note payable in the amount available of \$140,000 with the City of Phoenix with \$63,783 and \$85,044 outstanding at December 31, 2017 and 2016, respectively. The loan carries an interest rate of zero percent. The loan is secured by a ten-year lien on real property. The loan is forgivable in amounts equal to 20% of the outstanding balance annually, beginning in June 2016, and is expected to be fully forgiven in June 2020.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 9 RESTRICTED NET ASSETS

Restricted net assets consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Temporarily restricted:		
Time restricted:		
Promises to give	\$ 404,948	\$ 744,075
Portion of endowment funds subject to time restriction under MCFA	602,438	277,532
Purpose restricted:		
Capital	2,445	50,517
Development	33,610	27,859
Programs	240,209	577,066
Research	96,302	104,959
Time and purpose restricted (promises to give):		
Social enterprise	-	25,000
Programs	343,469	111,500
Research	-	-
Total temporarily restricted	<u>\$ 1,723,421</u>	<u>\$ 1,918,508</u>
Permanently restricted:		
Donor restricted endowment funds	<u>\$ 2,630,000</u>	<u>\$ 2,630,000</u>

NOTE 10 ENDOWMENT FUNDS

Endowment funds are included in investments and investments held by Arizona Community Foundation.

Endowment net asset composition as of December 31, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment fund	\$ 46,874	\$ -	\$ -	\$ 46,874
Donor restricted endowment funds	-	602,438	2,630,000	3,232,438
	<u>\$ 46,874</u>	<u>\$ 602,438</u>	<u>\$ 2,630,000</u>	<u>\$ 3,279,312</u>

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 10 ENDOWMENT FUNDS (Continued)

Endowment funds composition as of December 31, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 277,532	\$2,630,000	\$2,907,532

Changes in endowment net assets for the years ended December 31, 2017 and 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, December 31, 2015	\$ -	\$ 182,900	\$2,630,000	\$2,812,900
Realized and unrealized gains	-	163,090	-	163,090
Interest income	-	57,523	-	57,523
Amounts appropriated for expenditures	-	(104,067)	-	(104,067)
Investment fees	-	(21,914)	-	(21,914)
Endowment funds, December 31, 2016	-	277,532	2,630,000	2,907,532
Board designated amount	46,874	-	-	46,874
Realized and unrealized gains	-	389,074	-	389,074
Interest income	-	66,700	-	66,700
Amounts appropriated for expenditures	-	(107,352)	-	(107,352)
Investment fees	-	(23,516)	-	(23,516)
Endowment funds, December 31, 2017	<u>\$ 46,874</u>	<u>\$ 602,438</u>	<u>\$2,630,000</u>	<u>\$3,279,312</u>

NOTE 11 RETIREMENT PLAN

The Center sponsors a 401(k) retirement plan ("the Plan") for its eligible employees. Under the terms of the Plan, employees may make voluntary contributions, subject to Internal Revenue Service limitations. The Center matches 50% of the employee contributions up to a maximum of 3% of eligible compensation subject to certain eligibility criteria as stated in the Plan document. The Center recorded contribution expense of \$155,803 and \$115,128 during the years ended December 31, 2017 and 2016, respectively.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 12 IN-KIND SUPPORT

In-kind support for the year ended December 31, 2017 is as follows:

	Program Services	Management and General	Fundraising	Total
Legal and professional fees	\$ -	\$ 30,605	\$ 67,387	\$ 97,992
Supplies and materials	28,934	12,499	15,198	56,631
	<u>\$ 28,934</u>	<u>\$ 43,104</u>	<u>\$ 82,585</u>	<u>\$ 154,623</u>

In-kind support for the year ended December 31, 2016 is as follows:

	Program Services	Management and General	Fundraising	Total
Advisory and public relations services	\$ -	\$ -	\$ 68,755	\$ 68,755
Legal and professional fees	9,560	23,640	3,560	36,760
Supplies and materials	12,372	-	69,012	81,384
	<u>\$ 21,932</u>	<u>\$ 23,640</u>	<u>\$ 141,327</u>	186,899
Capitalized property and equipment				<u>181,075</u>
Total in-kind support				<u>\$ 367,974</u>

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 13 JOINT COSTS

During the years ended December 31, 2017 and 2016, the Center produced a magazine that included requests for contributions, as well as program component. The costs of producing the Outreach magazine included joint costs during the years ended December 31, 2017 and 2016, respectively, which were allocated as follows:

	<u>2017</u>	<u>2016</u>
Clinical services program	\$ 18,765	\$ 19,411
Management & general	7,400	5,618
Fundraising	<u>1,321</u>	<u>1,533</u>
Total	<u>\$ 27,486</u>	<u>\$ 26,562</u>

NOTE 14 OPERATING LEASES

The Center leases office and building equipment under operating lease agreements that expire at various dates through March 2021. This includes a lease to provide a solar energy source to the Center for an agreed upon annual expense. Approximate minimum future payments under these non-cancelable operating leases as of December 31, 2017, are as follows:

<u>Years Ending December 31,</u>	
2018	\$ 68,000
2019	52,000
2020	29,000
2021	<u>5,000</u>
	<u>\$ 154,000</u>

Total rental expense under these leases and month-to-month office equipment leases was approximately \$77,000 and \$65,000 during the years ended December 31, 2017 and 2016, respectively.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 15 NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board has issued Accounting Standards Update (“ASU”) No.2016-14, *Not-For-Profit Entities: Presentation of Financial Statements of Not-For-Profit Entities*. This Standard is effective for years beginning after December 15, 2017. The Standard requires several changes to how not-for-profit entities report certain financial statement information including net asset classification, cash flows, underwater endowment funds, investment expenses, and other areas. In addition, the new guidance requires disclosures on the entity’s liquidity policy and quantitative disclosures that communicate the availability of financial assets to meet cash needs for general expenditures within one year of the Statement of Financial Position date. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

The Financial Accounting Standards Board has issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers. For nonpublic companies, this standard must be adopted for annual reporting periods beginning after December 15, 2018. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

The Financial Accounting Standards Board has issued Accounting Standards Update (“ASU”) No. 2016-02, Leases. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2019. The standard’s core principle is the recognition of lease assets and lease liabilities by lessees for substantially all leases, including those currently classified as operating leases. Under the ASU, a lessee will be required to recognize assets and liabilities for operating and finance leases with terms of more than 12 months. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.