

**SOUTHWEST AUTISM
RESEARCH AND RESOURCE CENTER
Phoenix, Arizona**

**FINANCIAL STATEMENTS
December 31, 2012 and 2011**

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
 FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	5
Statements of Functional Expenses	7
Statements of Cash Flows	8
 Notes to Financial Statements	 9

INDEPENDENT AUDITORS' REPORT

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 (the Center), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets, 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 Center'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 Center'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, 2012 and 2011, 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.

CliftonLarsonAllen LLPA handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

Phoenix, Arizona
May 15, 2013

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,895,553	\$ 3,272,049
Current maturities of pledges receivable	1,339,767	687,087
Contract receivables, net	463,111	509,400
Other assets	<u>175,237</u>	<u>165,208</u>
Total current assets	4,873,668	4,633,744
 PLEDGES RECEIVABLE, net, less current maturities	 518,894	 273,632
 INVESTMENTS	 2,493,051	 2,302,368
 INVESTMENTS HELD BY THE ARIZONA COMMUNITY FOUNDATION	 268,153	 237,724
 PROPERTY AND EQUIPMENT, net	 <u>5,418,731</u>	 <u>5,222,410</u>
 TOTAL ASSETS	 <u>\$ 13,572,497</u>	 <u>\$ 12,669,878</u>

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES		
Accounts payable	\$ 110,510	\$ 213,232
Accrued expenses	344,624	309,885
Current portion of note payable	100,000	-
Deferred revenue	<u>88,001</u>	<u>68,020</u>
Total current liabilities	<u>643,135</u>	<u>591,137</u>
 LONG-TERM LIABILITIES		
Forgivable loan	106,305	106,305
Note payable	<u>-</u>	<u>100,000</u>
Total long-term liabilities	<u>106,305</u>	<u>206,305</u>
 TOTAL LIABILITIES	 <u>749,440</u>	 <u>797,442</u>
 NET ASSETS		
Unrestricted	7,226,289	6,335,607
Temporarily restricted	2,966,768	2,906,829
Permanently restricted	<u>2,630,000</u>	<u>2,630,000</u>
Total net assets	<u>12,823,057</u>	<u>11,872,436</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 13,572,497</u>	 <u>\$ 12,669,878</u>

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

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUES				
In-kind support	\$ 440,714	\$ -	\$ -	\$ 440,714
Grants, foundations and corporations	283,712	895,659	-	1,179,371
Individuals	41,586	46,274	-	87,860
Investment income	204,892	58,329	-	263,221
Contract revenue	2,899,451	-	-	2,899,451
Special events	1,152,153	808,142	-	1,960,295
Less cost of direct benefits to donor	(139,171)	-	-	(139,171)
Miscellaneous revenue	39,473	-	-	39,473
Net assets released from restrictions	<u>1,748,465</u>	<u>(1,748,465)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>6,671,275</u>	<u>59,939</u>	<u>-</u>	<u>6,731,214</u>
FUNCTIONAL EXPENSES				
Program services:				
Research	820,422	-	-	820,422
Community outreach	2,054,353	-	-	2,054,353
Vocational center	<u>855,706</u>	<u>-</u>	<u>-</u>	<u>855,706</u>
Total program services	<u>3,730,481</u>	<u>-</u>	<u>-</u>	<u>3,730,481</u>
Support services:				
Management and general	1,120,692	-	-	1,120,692
Fundraising	<u>609,127</u>	<u>-</u>	<u>-</u>	<u>609,127</u>
Total support services	<u>1,729,819</u>	<u>-</u>	<u>-</u>	<u>1,729,819</u>
Total functional expenses before depreciation	5,460,300	-	-	5,460,300
Depreciation	<u>320,293</u>	<u>-</u>	<u>-</u>	<u>320,293</u>
Total functional expenses	5,780,593	-	-	5,780,593
CHANGES IN NET ASSETS	890,682	59,939	-	950,621
NET ASSETS, BEGINNING OF YEAR	<u>6,335,607</u>	<u>2,906,829</u>	<u>2,630,000</u>	<u>11,872,436</u>
NET ASSETS, END OF YEAR	<u>\$ 7,226,289</u>	<u>\$ 2,966,768</u>	<u>\$ 2,630,000</u>	<u>\$ 12,823,057</u>

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

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUES				
In-kind support	\$ 434,429	\$ -	\$ -	\$ 434,429
Grants, foundations and corporations	230,519	513,733	-	744,252
Individuals	58,174	6,894	-	65,068
Investment income	7,221	-	-	7,221
Contract revenue	2,641,535	-	-	2,641,535
Special events	806,784	711,382	-	1,518,166
Less cost of direct benefits to donor	(123,960)	-	-	(123,960)
Miscellaneous revenue	17,095	-	-	17,095
Net assets released from restrictions	<u>3,151,770</u>	<u>(2,831,770)</u>	<u>(320,000)</u>	<u>-</u>
Total support and revenues	<u>7,223,567</u>	<u>(1,599,761)</u>	<u>(320,000)</u>	<u>5,303,806</u>
FUNCTIONAL EXPENSES				
Program services:				
Research	776,020	-	-	776,020
Community outreach	1,819,432	-	-	1,819,432
Vocational center	<u>699,502</u>	<u>-</u>	<u>-</u>	<u>699,502</u>
Total program services	<u>3,294,954</u>	<u>-</u>	<u>-</u>	<u>3,294,954</u>
Support services:				
Management and general	1,079,666	-	-	1,079,666
Fundraising	<u>620,949</u>	<u>-</u>	<u>-</u>	<u>620,949</u>
Total support services	<u>1,700,615</u>	<u>-</u>	<u>-</u>	<u>1,700,615</u>
Total functional expenses before depreciation	4,995,569	-	-	4,995,569
Depreciation	<u>291,335</u>	<u>-</u>	<u>-</u>	<u>291,335</u>
Total functional expenses	5,286,904	-	-	5,286,904
CHANGES IN NET ASSETS	1,936,663	(1,599,761)	(320,000)	16,902
NET ASSETS, BEGINNING OF YEAR	<u>4,398,944</u>	<u>4,506,590</u>	<u>2,950,000</u>	<u>11,855,534</u>
NET ASSETS, END OF YEAR	<u>\$ 6,335,607</u>	<u>\$ 2,906,829</u>	<u>\$ 2,630,000</u>	<u>\$ 11,872,436</u>

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

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2012 and 2011

	2012						2011					
	Program Services			Support Services			Program Services			Support Services		
	Research	Community Outreach	Vocational Center	Management and General	Fund-raising	Total	Research	Community Outreach	Vocational Center	Management and General	Fund-raising	Total
Functional expenses:												
Salaries and fringe benefits	\$ 472,037	\$ 1,617,741	\$ 617,147	\$ 722,604	\$ 207,184	\$ 3,636,713	\$ 450,804	\$ 1,480,328	\$ 438,132	\$ 658,899	\$ 308,383	\$ 3,336,546
Contract labor	195,463	1,221	4,442	67	-	201,193	170,289	-	2,164	4,606	1,294	178,353
Professional services	3,000	65,645	14,454	29,515	65,945	178,559	2,000	98,650	40,397	37,984	34,116	213,147
Business and travel	5,516	102,506	22,623	2,280	5,103	138,028	13,827	67,187	14,278	13,307	8,946	117,545
Occupancy and communication	28,198	97,370	41,887	37,760	18,258	223,473	24,135	75,698	70,563	29,093	21,520	221,009
Postage, supplies, and printing	1,656	6,671	7,990	29,540	25,588	71,445	5,132	7,837	16,906	33,446	23,505	86,826
Marketing and subscriptions	2,394	5,917	12,142	3,218	2,516	26,187	1,153	339	831	3,118	2,987	8,428
Staff development	1,919	7,397	1,008	1,423	300	12,047	742	5,168	925	220	45	7,100
Program expenses	65,417	23,336	38,718	9,981	27,780	165,232	45,675	17,854	50,070	75	39,589	153,263
Other operational services	913	3,187	5,855	58,032	250	68,237	741	4,150	3,066	57,918	249	66,124
Insurance	34,262	-	-	28,960	1,059	64,281	37,221	-	-	36,500	1,059	74,780
Special events	-	10,377	200	-	-	10,577	-	-	412	-	-	412
Interest expense	-	-	4,000	45	-	4,045	-	-	17,516	-	-	17,516
Bad debt expense	-	25,466	-	153,149	76,625	255,240	-	150	-	35,501	47,702	83,353
Total functional expenses before in-kind and depreciation expenses	810,775	1,966,834	770,466	1,076,574	430,608	5,055,257	751,719	1,757,361	655,260	910,667	489,395	4,564,402
In-kind	9,647	87,519	85,240	44,118	178,519	405,043	24,301	62,071	44,242	168,999	131,554	431,167
Total functional expenses before depreciation	820,422	2,054,353	855,706	1,120,692	609,127	5,460,300	776,020	1,819,432	699,502	1,079,666	620,949	4,995,569
Depreciation	42,941	143,694	54,123	60,304	19,231	320,293	40,651	129,915	39,486	52,936	28,347	291,335
TOTAL FUNCTIONAL EXPENSES	\$ 863,363	\$ 2,198,047	\$ 909,829	\$ 1,180,996	\$ 628,358	\$ 5,780,593	\$ 816,671	\$ 1,949,347	\$ 738,988	\$ 1,132,602	\$ 649,296	\$ 5,286,904

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

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 950,621	\$ 16,902
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	320,293	291,335
Realized gain on investments	8,187	(51,706)
Unrealized (gain) loss on investments	(185,711)	163,077
Donated assets	(33,500)	(3,000)
Change in allowance for doubtful contract receivables	16,611	(14,031)
Change in allowance for doubtful pledges	108,721	(61,154)
Change in pledges receivable discount	-	(26,614)
Increase (decrease) in cash resulting from changes in:		
Pledges receivable	(1,006,663)	2,301,856
Contract receivables	29,678	(283,169)
Other assets	(10,029)	9,918
Accounts payable	(102,722)	158,934
Accrued expenses	34,739	28,938
Deferred revenue	19,981	13,712
	<u>150,206</u>	<u>2,544,998</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	215,586	764,275
Purchases of investments	(259,174)	(1,263,862)
Purchases of property and equipment	(483,114)	(251,281)
	<u>(526,702)</u>	<u>(750,868)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	-	(700,000)
Proceeds from forgivable loan	-	56,796
	<u>-</u>	<u>(643,204)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(376,496)	1,150,926
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,272,049</u>	<u>2,121,123</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,895,553</u>	<u>\$ 3,272,049</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 4,045</u>	<u>\$ 17,516</u>

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

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Programs

The Southwest Autism Research and Resource Center (the Center) is a not-for-profit Arizona corporation that conducts clinical, pharmaceutical and therapeutic research; provides services and programs to children and families; and provides training and workshops to professionals and paraprofessionals who work with children impacted by autism. The Center is supported primarily through donor contributions, grants and contracts.

Basis of Presentation

The Center prepares its financial statements in accordance with the American Institute of Certified Public Accountants Audit and Accounting Guide for Not-For-Profit Organizations (Audit Guide). Under the Audit Guide, the Center is required to report information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets as follows:

Unrestricted Net Assets

Unrestricted net assets are not subject to donor imposed stipulations and are those currently available at the discretion of the Board for use in the Center's operations, in accordance with its bylaws. Restricted net assets received and expended in the same year are classified as unrestricted.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those which are subject to donor-imposed stipulations that will be met by the Center and/or the passage of time.

Permanently Restricted Net Assets

Permanently restricted net assets are those which represent permanent endowments where it is stipulated by donors that the principal remain in perpetuity and only the income is available as unrestricted or temporarily restricted, as per the endowment agreements.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of 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.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid financial instruments purchased with an original maturity of 3 months or less.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

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 contribution support. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Monies received pursuant to conditional promises are reflected as deferred revenue. The carrying amount of pledges receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts was \$238,214 and \$129,493 as of December 31, 2012 and 2011, respectively.

Contract Receivables

Contract receivables consist primarily of amounts due from various agencies and are unsecured. Contract receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based upon its assessment of the current status of individual balances. Account balances with invoices over ninety days old are considered delinquent. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction of accounts receivable. The allowance for doubtful accounts was \$31,582 and \$14,971 as of December 31, 2012 and 2011, respectively.

Investments

Investments, consisting primarily of bonds, money market and mutual funds with readily determinable market values and are measured at fair value as of year-end in the statements of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) are recognized in the statements of activities and changes in net assets. Endowed funds are managed by Wells Fargo Bank and the Arizona Community Foundation in accordance with the Center's Investment Policy Statement.

Property and Equipment

Property and equipment are initially recorded at cost. Donated property and equipment are recorded at fair value at the date of acquisition or donation. It is the Center's policy to capitalize expenditures for these items in excess of \$500. Lesser amounts are expensed. Depreciation of property and equipment is computed on a straight-line basis over estimated useful lives ranging from 3 to 30 years. Maintenance and repairs are charged to operations when incurred. Interest costs incurred during construction of the vocational building were capitalized.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

The Center reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate 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 undiscounted 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 carrying amount or fair value less costs to sell. Management does not believe that there were any long-lived asset impairments for the years ended December 31, 2012 and 2011.

Deferred Revenue

Income from exchange type grants is deferred and recognized as the related qualifying expenditures are incurred.

Donated Services and Assets

Marketable securities and other non-cash items donated to the Center are recorded as contributions at estimated fair market values as of the date of donation.

Donations of property and equipment are recorded at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted support.

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair market values in the period received. These contributions represent unrestricted support.

Contributions

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

Contract Revenue

Contract revenue consists of governmental reimbursements at contracted rates for various programs. Contract revenue is recognized when earned.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and support services benefited. The allocation methods used, aside from allocating direct costs, are based on square footage, full-time equivalents, and other appropriate methods, and are subject to a certain degree of estimation by management.

Income Taxes

The Center qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, there is no provision for federal and state income taxes. 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 under Section 509(a)(2). Income determined to be unrelated business taxable income (UBTI) would be taxable. The Center is also exempt from State of Arizona taxation.

The federal and state income tax returns of the Center for 2009, 2010, 2011 and 2012 are subject to examination by the Internal Revenue Service and state taxing authorities, generally for three years after they were filed.

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable consist of the following unconditional promises to give:

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 1,339,767	\$ 687,087
Receivable in two to five years	<u>777,273</u>	<u>423,290</u>
Total pledges receivable	2,117,040	1,110,377
Less unamortized discount	(20,165)	(20,165)
Less allowance for uncollectible pledges	<u>(238,214)</u>	<u>(129,493)</u>
Net pledges receivable	1,858,661	960,719
Less current portion	<u>(1,339,767)</u>	<u>(687,087)</u>
Noncurrent portion	<u>\$ 518,894</u>	<u>\$ 273,632</u>

The estimated cash flows for pledges receivable are discounted over a two through five-year collection period using a management determined discount rate ranging from 0.76% to 2.20%.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 3 – CONTRACT RECEIVABLES

Contract receivables at December 31 consisted of amounts from the following sources:

	<u>2012</u>	<u>2011</u>
Pharmaceutical trials	\$ 199,602	\$ 195,124
Insurance billings	160,840	151,809
Contract receivable	45,083	78,791
Fee for service	<u>89,168</u>	<u>98,647</u>
 Total	 494,693	 524,371
Less allowance for doubtful accounts	<u>(31,582)</u>	<u>(14,971)</u>
 Contract receivables, net	 <u><u>\$ 463,111</u></u>	 <u><u>\$ 509,400</u></u>

NOTE 4 – INVESTMENTS

Investments consist of the following:

	<u>2012</u>	<u>2011</u>
Money market	\$ 131,518	\$ 114,429
Fixed income	1,129,846	1,177,101
Equity mutual funds	728,089	549,653
Complementary strategies	269,400	-
Other	<u>234,198</u>	<u>461,185</u>
 Total investments	 <u><u>\$ 2,493,051</u></u>	 <u><u>\$ 2,302,368</u></u>

Investment return, which includes net realized and unrealized gains and losses that are included as part of the change in unrestricted and temporarily restricted net assets, consist of the following:

	<u>2012</u>	<u>2011</u>
Dividend and interest income	\$ 85,697	\$ 118,592
Unrealized gain (loss)	185,711	(163,077)
Realized gain (loss)	<u>(8,187)</u>	<u>51,706</u>
 Total	 <u><u>\$ 263,221</u></u>	 <u><u>\$ 7,221</u></u>

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 5 – FAIR VALUE MEASUREMENTS

In determining fair value, the Center uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

Fair value measurements establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Fair value measurement defines levels within the hierarchy based on the reliability of inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

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

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

A description of the valuation methodologies used for instruments measured at fair value and their classification in the valuation hierarchy follows:

Equity securities listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active, at the last transaction price before year-end. Such securities are classified within Level 1 of the valuation hierarchy.

Debt securities consisting of publicly traded bonds which are valued at the most recent price of the equivalent quoted yield for such securities, or those of comparable maturity, quality and type. Such debt securities are generally classified within Level 1 of the valuation hierarchy.

Private equity funds, limited partnerships and hedge funds are valued at fair value at their net asset values and these prices are not publicly quoted and are considered to fall within the Level 3 fair value hierarchy.

Investments

The Center invests in funds with Wells Fargo Bank. The fair value on these investments held by the Center is readily available and is based upon market value. These investments include cash, bonds and marketable securities. Such securities are classified within Level 1 of the valuation hierarchy.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 5 – FAIR VALUE MEASUREMENTS (CONTINUED)

The Center also invests in the Arizona Community Foundation, Inc. (ACF) Pool. The fair value of these investments is based on its investment percentage in the investment pool. The ACF Pool is invested in cash, bonds and other investments. This investment is classified within Level 3 of the valuation hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents assets measured at fair value by classification within the fair value hierarchy as of December 31, 2012:

	Fair Value Measurement Using			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity mutual funds:				
Large cap funds	\$ 357,512	\$ -	\$ -	\$ 357,512
Mid cap funds	101,700	-	-	101,700
Small cap funds	59,746	-	-	59,746
International developed equity	80,896	-	-	80,896
International emerging equity	<u>128,235</u>	<u>-</u>	<u>-</u>	<u>128,235</u>
Total equity mutual funds	<u>728,089</u>	<u>-</u>	<u>-</u>	<u>728,089</u>
Fixed income:				
Intermediate term bonds	529,860	-	-	529,860
High yield bonds	264,504	-	-	264,504
International developed markets bonds	241,606	-	-	241,606
International emerging markets bonds	<u>93,876</u>	<u>-</u>	<u>-</u>	<u>93,876</u>
Total fixed income	<u>1,129,846</u>	<u>-</u>	<u>-</u>	<u>1,129,846</u>
Complementary strategies:				
Hedge strategies – conservative	75,985	-	-	75,985
Hedge strategies – diversified	122,544	-	-	122,544
Hedge strategies – aggressive	<u>70,871</u>	<u>-</u>	<u>-</u>	<u>70,871</u>
Total other investments	<u>269,400</u>	<u>-</u>	<u>-</u>	<u>269,400</u>
Other investments:				
Global Public REITS	148,708	-	-	148,708
Commodities	85,490	-	-	85,490
Arizona Community Foundation	<u>-</u>	<u>-</u>	<u>268,153</u>	<u>268,153</u>
Total other investments	<u>234,198</u>	<u>-</u>	<u>268,153</u>	<u>502,351</u>
Total assets at fair value	<u>\$ 2,361,533</u>	<u>\$ -</u>	<u>\$ 268,153</u>	<u>\$ 2,629,686</u>

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 5 – FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents assets measured at fair value by classification within the fair value hierarchy as of December 31, 2011:

	<u>Fair Value Measurement Using</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity mutual funds:				
Large cap funds	\$ 240,973	\$ -	\$ -	\$ 240,973
Mid cap funds	83,230	-	-	83,230
Small cap funds	45,420	-	-	45,420
International funds	<u>180,030</u>	<u>-</u>	<u>-</u>	<u>180,030</u>
Total equity mutual funds	<u>549,653</u>	<u>-</u>	<u>-</u>	<u>549,653</u>
Fixed income:				
Corporate bonds	498,256	-	-	498,256
Bond Index ETF	307,760	-	-	307,760
Emerging markets bond fund	70,864	-	-	70,864
World bond fund	<u>300,221</u>	<u>-</u>	<u>-</u>	<u>300,221</u>
Total fixed income	<u>1,177,101</u>	<u>-</u>	<u>-</u>	<u>1,177,101</u>
Other investments:				
Commodities	70,944	-	-	70,944
Hedged funds	267,612	-	-	267,612
International real estate	122,629	-	-	122,629
Arizona Community Foundation	<u>-</u>	<u>-</u>	<u>237,724</u>	<u>237,724</u>
Total other investments	<u>461,185</u>	<u>-</u>	<u>237,724</u>	<u>698,909</u>
Total assets at fair value	<u>\$ 2,187,939</u>	<u>\$ -</u>	<u>\$ 237,724</u>	<u>\$ 2,425,663</u>

The following is a reconciliation of the 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 237,724	\$ 252,472
Realized and unrealized gains (losses)	<u>30,429</u>	<u>(14,748)</u>
Balance, end of year	<u>\$ 268,153</u>	<u>\$ 237,724</u>

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2012</u>	<u>2011</u>
Land	\$ 821,969	\$ 821,969
Buildings and improvements	5,492,037	4,897,798
Equipment	695,514	593,389
Vehicle	76,041	76,041
Construction in progress	<u>-</u>	<u>179,751</u>
Total	7,085,561	6,568,948
Less accumulated depreciation	<u>(1,666,830)</u>	<u>(1,346,538)</u>
Property and equipment, net of accumulated depreciation	<u>\$ 5,418,731</u>	<u>\$ 5,222,410</u>

Depreciation expense was \$320,293 and \$291,335 for the years ended December 31, 2012 and 2011, respectively.

NOTE 7 – NOTE PAYABLE

In 2008, the Center purchased a 10,000 square foot building for the Vocational and Life Skills Academy. The total purchase price of the building was \$1,550,000. The Center entered into a promissory note for \$800,000 with the seller on February 15, 2008, which was refinanced with a new lender on September 14, 2010. The Center used funds previously received and restricted for vocational purposes for the down payment. This note is payable in annual interest-only installments with the final payment of interest and principal due on September 14, 2013. The Center paid \$0 and \$700,000 in principal in 2012 and 2011, respectively. The note bears interest at 4.0%. The Vocational and Life Skills Academy became operational in 2009. Interest expense of \$4,045 and \$17,516 was charged to expense for the years ended December 31, 2012 and 2011, respectively. The outstanding balance on this loan was \$100,000 as of December 31, 2012 and 2011. This balance was paid off in January 2013.

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 \$106,305 outstanding at December 31, 2012 and 2011. 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 six years from the date of the certificate of completion and is expected to mature in 2021.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 9 – IN-KIND SUPPORT

In-kind support consists of the following:

	2012				
	<u>Property and Equipment</u>	<u>Research</u>	<u>Community Outreach, Vocational</u>	<u>Management and General, Fundraising</u>	<u>Total</u>
Advisory and public relations services	\$ -	\$ 2,447	\$ 155,082	\$ 182,136	\$ 339,665
Accounting and professional fees	-	7,200	19,848	40,501	67,549
Property and equipment	<u>33,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,500</u>
Total	<u>\$ 33,500</u>	<u>\$ 9,647</u>	<u>\$ 174,930</u>	<u>\$ 222,637</u>	<u>\$ 440,714</u>

	2011				
	<u>Property and Equipment</u>	<u>Research</u>	<u>Community Outreach, Vocational</u>	<u>Management and General, Fundraising</u>	<u>Total</u>
Advisory and public relations services	\$ -	\$ 21,697	\$ 94,922	\$ 268,349	\$ 384,968
Accounting and professional fees	-	2,604	11,391	32,466	46,461
Property and equipment	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000</u>
Total	<u>\$ 3,000</u>	<u>\$ 24,301</u>	<u>\$ 106,313</u>	<u>\$ 300,815</u>	<u>\$ 434,429</u>

Advisory and public relations services are provided in-kind by one of the founders who serves as a board member. Accounting and professional fees are primarily provided by other board members and officers, as well as additional volunteers.

NOTE 10 – REVENUE AND RECEIVABLE CONCENTRATION

The Center had approximately 33% of its contract receivables from two contractors at December 31, 2012. The Center had approximately 43% of its contract receivable from two contractors at December 31, 2011.

The Center received approximately 32% of its contribution revenue from two donors during the year ended December 31, 2012. Approximately 45% the pledge receivable balance is due from two donors as of December 31, 2012.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 11 – ARIZONA COMMUNITY FOUNDATION

The Center has funds held by the Arizona Community Foundation, Inc. (ACF). The amount held by ACF at December 31, 2012 and 2011, is recorded in the accompanying statements of financial position as endowment funds. The unrestricted earnings are reinvested into the fund as subject to the terms of the agreement when the funds were transferred to ACF by the Center.

NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2012</u>	<u>2011</u>
Capital	\$ 352,989	\$ 494,865
Development	34,337	7,733
Social enterprise	113,437	50,000
Program	400,548	213,145
Research	577,938	634,000
Vocational	279,464	474,137
Interest	78,100	19,771
Time restrictions	<u>1,129,955</u>	<u>1,013,178</u>
Total	<u>\$ 2,966,768</u>	<u>\$ 2,906,829</u>

Net assets of \$1,748,465 and \$2,831,770 were released from restriction during 2012 and 2011, respectively.

NOTE 13 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of funds for which the donors stipulate the principal is to be maintained in perpetuity. The earnings and net appreciation on these funds are unrestricted and temporarily restricted and are allocated for specific purposes by the Center's Board of Directors or in accordance with the donor agreement.

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. 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.

The Center obtained documentation from donors changing their restriction from permanently restricted to unrestricted in the amount of \$320,000 in the year ended December 31, 2011.

**SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 13 – PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Interpretation of Relevant Law

The Board of Directors of the Center have interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Consequently, the Center classifies permanently restricted net assets as:

- The original value of gifts donated to the permanent endowment, and
- The original value of subsequent gifts to the permanent endowment.

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 SPMIFA, 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 fund
2. The purpose of the Center and the donor-restricted endowment fund
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. Other resources of the Center
7. The investment policies of the Center

Return Objectives and Risk Parameters

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. The endowment assets are invested in accordance with the Center's Investment Policy Statement.

Endowment net asset composition by type of fund as of December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	<u>\$ 53,104</u>	<u>\$ 78,100</u>	<u>\$ 2,630,000</u>	<u>\$ 2,761,204</u>

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 13 – PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Return Objectives and Risk Parameters (Continued)

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (89,908)	\$ 19,771	\$ 2,630,000	\$ 2,559,863
Investment return:				
Net appreciation	143,012	-	-	143,012
Interest income	<u>-</u>	<u>58,329</u>	<u>-</u>	<u>58,329</u>
Total investment return	<u>143,012</u>	<u>58,329</u>	<u>-</u>	<u>201,341</u>
Endowment net assets, end of year	<u>\$ 53,104</u>	<u>\$ 78,100</u>	<u>\$ 2,630,000</u>	<u>\$ 2,761,204</u>

Endowment net asset composition by type of fund as of December 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	<u>\$ (89,908)</u>	<u>\$ 19,771</u>	<u>\$ 2,630,000</u>	<u>\$ 2,559,863</u>

Changes in endowment net asset for the year ended December 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (81,647)	\$ 19,771	\$ 2,950,000	\$ 2,888,124
Investment return:				
Net depreciation	<u>(8,261)</u>	<u>-</u>	<u>-</u>	<u>(8,261)</u>
Total investment return	<u>(8,261)</u>	<u>-</u>	<u>-</u>	<u>(8,261)</u>
Donor restrictions modified	<u>-</u>	<u>-</u>	<u>(320,000)</u>	<u>(320,000)</u>
Endowment net assets, end of year	<u>\$ (89,908)</u>	<u>\$ 19,771</u>	<u>\$ 2,630,000</u>	<u>\$ 2,559,863</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Center to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$89,908 as of December 31, 2011. These deficiencies resulted from unfavorable market fluctuations.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 14 – LEASE COMMITMENTS

The Center leases office equipment under operating leases. The leases expire through January 2016. Total lease expense was \$35,049 and \$30,251 for the years ended December 31, 2012 and 2011, respectively.

The following is a schedule, by year, of the future minimum lease payments under noncancelable operating leases as of December 31, 2012:

2013	\$ 28,600
2014	6,732
2015	6,732
2016	<u>176</u>
Total	<u>\$ 42,240</u>

NOTE 15 – RETIREMENT PLAN

The Center offers a 401(k) Retirement Savings Plan (the Plan) covering all employees who have completed one month of service. 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 \$51,767 and \$55,139 during the years ended December 31, 2012 and 2011, respectively.

NOTE 16 – CONCENTRATION OF CREDIT RISK

The Center maintains all of its cash with high-credit quality financial institutions. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured. As of December 31, 2012 and 2011, a portion of cash balances at financial institutions exceeded the balance insured by the FDIC.

NOTE 17 – RELATED PARTY TRANSACTIONS

One of the Center's founders, who previously served as a board member and is now an Emeritus board member, provided services to the Center during 2012 and 2011, and received paid compensation of \$193,046 and \$109,416, respectively. The paid compensation represents the fair market value for the types of services and research provided by the medical director to the Center.

During 2012 and 2011, the Center signed a contract with a not-for-profit organization to provide space to allow the Center to conduct a summer camp program. The Center's co-founder is a member of the not-for-profit's Board of Directors. The board member does not participate in decisions directly related to the Center.

SOUTHWEST AUTISM RESEARCH AND RESOURCE CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 17 – RELATED PARTY TRANSACTIONS (CONTINUED)

Beginning in 2006, the Center invested endowed funds with a community foundation. The Center's co-founder is a member of the community foundation's Board of Directors and does not participate in decisions directly related to the Center.

The Center's chairman of the Board of Directors and member of the Executive Committee is a partner in the law firm that the Center has used as legal counsel since 2001. Legal services provided by the board member to the Center are pro bono and reimbursable costs relate to paralegal work and filing and registration fees resulting from the pro bono work. During 2012 and 2011, these services were valued at approximately \$9,375 and \$7,200, respectively. This amount is recorded as in-kind revenue on the statement of activities and changes in net assets.

NOTE 18 – SUBSEQUENT EVENTS

Management evaluated subsequent events through May 15, 2013, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2012, but prior to May 15, 2013, that provided additional evidence about conditions that existed at December 31, 2012, have been recognized in the financial statements for the year ended December 31, 2012. Events or transactions that provided evidence about conditions that did not exist at December 31, 2012, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2012.

This information is an integral part of the accompanying financial statements.