

**SUMMER INSTITUTE OF  
LINGUISTICS, INC.**

**COMBINED FINANCIAL STATEMENTS**  
With Independent Auditors' Report

September 30, 2014 and 2013

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Table of Contents

|   | <u>Page</u> |
|---|-------------|
| Independent Auditors' Report              | 1           |
| Financial Statements                      |             |
| Combined Statements of Financial Position | 2           |
| Combined Statement of Activities - 2014   | 3           |
| Combined Statement of Activities - 2013   | 4           |
| Combined Statements of Cash Flows         | 5           |
| Notes to Combined Financial Statements    | 6           |

## **INDEPENDENT AUDITORS' REPORT**

Audit Committee  
of the Board of Directors  
Summer Institute of Linguistics, Inc.  
Dallas, Texas

We have audited the accompanying combined financial statements of Summer Institute of Linguistics, Inc., which comprise the combined statements of financial position as of September 30, 2014 and 2013, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

### ***Management's Responsibility for the Combined Financial Statements***

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Summer Institute of Linguistics, Inc. as of September 30, 2014 and 2013, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Capin Crouse LLP*

Dallas, Texas  
May 1, 2015

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Combined Statements of Financial Position

(in thousands of dollars)

|   | September 30,    |                  |
|---|------------------|------------------|
|   | 2014             | 2013             |
| <b>ASSETS:</b>  |                  |                  |
| Cash  | \$ 16,814        | \$ 18,892        |
| Investments (Note 3)  | 22,066           | 22,072           |
| Accounts receivable   | 1,831            | 1,431            |
| Notes receivable (Note 4)                                       | 234              | 252              |
| Amounts due from related entities (Note 7)                      | 1,187            | 1,461            |
| Inventory (Note 2)  | 2,570            | 2,067            |
| Property and equipment—net of accumulated depreciation (Note 5) | 41,218           | 43,867           |
| Other assets (Note 2)   | 4,590            | 7,970            |
|   | <u>\$ 90,510</u> | <u>\$ 98,012</u> |
| <b>Total Assets</b>   | <b>\$ 90,510</b> | <b>\$ 98,012</b> |
| <b>LIABILITIES AND NET ASSETS:</b>                              |                  |                  |
| <b>Liabilities:</b>   |                  |                  |
| Accounts payable and accrued expenses                           | \$ 4,864         | \$ 4,523         |
| Amounts due to staff and affiliated entities (Note 7)           | 10,714           | 12,419           |
| Other liabilities (Note 2)                                      | 966              | 994              |
| <b>Total liabilities</b>  | <b>16,544</b>    | <b>17,936</b>    |
| <b>Net assets:</b>  |                  |                  |
| <b>Unrestricted:</b>  |                  |                  |
| Equity in property and equipment—net                            | 40,252           | 42,915           |
| Board designated (Note 8)                                       | 10,640           | 10,810           |
| Undesignated  | 14,406           | 13,056           |
| <b>Total unrestricted</b>                                       | <b>65,298</b>    | <b>66,781</b>    |
| Temporarily restricted (Note 8)                                 | 8,406            | 12,968           |
| Permanently restricted (Note 9)                                 | 262              | 327              |
| <b>Total net assets</b>   | <b>73,966</b>    | <b>80,076</b>    |
| <b>Total Liabilities and Net Assets</b>                         | <b>\$ 90,510</b> | <b>\$ 98,012</b> |

See notes to combined financial statements

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Combined Statement of Activities

(in thousands of dollars)

Year Ended September 30, 2014

|   | Unrestricted   | Temporarily<br>Restricted | Permanently<br>Restricted | Total          |
|---|----------------|---------------------------|---------------------------|----------------|
| <b>OPERATING SUPPORT AND REVENUE:</b>                 |                |                           |                           |                |
| Support from affiliates (Note 7)                      | \$ 95,639      | \$ 20,278                 | \$ -                      | \$ 115,917     |
| Contributions   | 1,444          | 2,633                     | 1                         | 4,078          |
| Donated goods and services                            | 1,076          | 7                         | -                         | 1,083          |
| Program service revenue                               | 404            | -                         | -                         | 404            |
| Sales and service income, net (Note 2)                | 180            | -                         | -                         | 180            |
| Other   | 10             | -                         | -                         | 10             |
| Net assets released from restrictions:                |                |                           |                           |                |
| Satisfaction of program restrictions                  | 27,552         | (27,486)                  | (66)                      | -              |
| <b>Total operating support and revenue</b>            | <b>126,305</b> | <b>(4,568)</b>            | <b>(65)</b>               | <b>121,672</b> |
| <b>OPERATING EXPENSES:</b>                            |                |                           |                           |                |
| Program services:                                     |                |                           |                           |                |
| Language development and training                     | 116,463        | -                         | -                         | 116,463        |
| Supporting services:                                  |                |                           |                           |                |
| General and administrative                            | 8,449          | -                         | -                         | 8,449          |
| Fund-raising  | 526            | -                         | -                         | 526            |
| Total supporting services                             | 8,975          | -                         | -                         | 8,975          |
| <b>Total operating expenses</b>                       | <b>125,438</b> | <b>-</b>                  | <b>-</b>                  | <b>125,438</b> |
| <br>  |                |                           |                           |                |
| Change in net assets from operating activities        | 867            | (4,568)                   | (65)                      | (3,766)        |
| <br><b>NON-OPERATING ACTIVITIES</b>                   |                |                           |                           |                |
| Interest and dividends (Note 3)                       | 828            | 6                         | -                         | 834            |
| Loss on preferred debt (Note 2)                       | (3,053)        | -                         | -                         | (3,053)        |
| Net realized/unrealized gains on investments (Note 3) | (413)          | -                         | -                         | (413)          |
| Gain on sale of fixed assets                          | 288            | -                         | -                         | 288            |
| <br>  |                |                           |                           |                |
| Change in net assets from non-operating activities    | (2,350)        | 6                         | -                         | (2,344)        |
| <br>  |                |                           |                           |                |
| Change in Net Assets                                  | (1,483)        | (4,562)                   | (65)                      | (6,110)        |
| <br>  |                |                           |                           |                |
| Net Assets, Beginning of Year                         | 66,781         | 12,968                    | 327                       | 80,076         |
| <br>  |                |                           |                           |                |
| Net Assets, End of Year                               | \$ 65,298      | \$ 8,406                  | \$ 262                    | \$ 73,966      |

See notes to combined financial statements

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Combined Statement of Activities

(in thousands of dollars)

Year Ended September 30, 2013

|  | Unrestricted   | Temporarily<br>Restricted | Permanently<br>Restricted | Total          |
|--|----------------|---------------------------|---------------------------|----------------|
| <b>OPERATING SUPPORT AND REVENUE:</b>                |                |                           |                           |                |
| Support from affiliates (Note 7)                     | \$ 95,000      | \$ 22,268                 | \$ 1                      | \$ 117,269     |
| Contributions  | 1,540          | 3,256                     | -                         | 4,796          |
| Donated goods and services                           | 1,285          | 96                        | -                         | 1,381          |
| Program service revenue                              | 211            | -                         | -                         | 211            |
| Sales and service income, net (Note 2)               | 156            | -                         | -                         | 156            |
| Other  | 32             | -                         | -                         | 32             |
| Net assets released from restrictions:               |                |                           |                           |                |
| Satisfaction of program restrictions                 | 24,681         | (24,681)                  | -                         | -              |
| <b>Total operating support and revenue</b>           | <b>122,905</b> | <b>939</b>                | <b>1</b>                  | <b>123,845</b> |
| <b>OPERATING EXPENSES:</b>                           |                |                           |                           |                |
| Program services:                                    |                |                           |                           |                |
| Language development and training                    | 116,294        | -                         | -                         | 116,294        |
| Supporting services:                                 |                |                           |                           |                |
| General and administrative                           | 8,144          | -                         | -                         | 8,144          |
| Fund-raising   | 662            | -                         | -                         | 662            |
| <b>Total supporting services</b>                     | <b>8,806</b>   | <b>-</b>                  | <b>-</b>                  | <b>8,806</b>   |
| <b>Total operating expenses</b>                      | <b>125,100</b> | <b>-</b>                  | <b>-</b>                  | <b>125,100</b> |
| <br>   |                |                           |                           |                |
| Change in net assets from operating activities       | (2,195)        | 939                       | 1                         | (1,255)        |
| <b>NON-OPERATING ACTIVITIES</b>                      |                |                           |                           |                |
| Interest and dividends (Note 3)                      | 830            | 9                         | -                         | 839            |
| Net realized/unrealized gain on investments (Note 3) | 825            | -                         | -                         | 825            |
| Grant to RIACII                                      | (4,200)        | -                         | -                         | (4,200)        |
| Loss on sale of fixed assets                         | (231)          | -                         | -                         | (231)          |
| <br>   |                |                           |                           |                |
| Change in net assets from non-operating activities   | (2,776)        | 9                         | -                         | (2,767)        |
| <br>   |                |                           |                           |                |
| Change in Net Assets                                 | (4,971)        | 948                       | 1                         | (4,022)        |
| <br>   |                |                           |                           |                |
| Net Assets, Beginning of Year                        | 71,752         | 12,020                    | 326                       | 84,098         |
| <br>   |                |                           |                           |                |
| Net Assets, End of Year                              | \$ 66,781      | \$ 12,968                 | \$ 327                    | \$ 80,076      |

See notes to combined financial statements

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Combined Statements of Cash Flows

(in thousands of dollars)

|  | Year Ended September 30, |            |
|--|--------------------------|------------|
|  | 2014                     | 2013       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                          |            |
| Change in net assets   | \$ (6,110)               | \$ (4,022) |
| Adjustments to reconcile change in net assets<br>to net cash used by operating activities: |                          |            |
| Depreciation   | 3,986                    | 3,964      |
| (Gain) loss on disposal of fixed assets  | (288)                    | 231        |
| Net realized loss (gain) on sale of investments  | 25                       | (176)      |
| Net unrealized loss (gain) on investments  | 388                      | (649)      |
| Loss on preferred debt   | 3,053                    | -          |
| Noncash contributions of property and equipment  | -                        | (451)      |
| Contributions restricted for capital expenditures  | (352)                    | (564)      |
| Contributions restricted for endowment   | (1)                      | (1)        |
| Changes in assets and liabilities:   |                          |            |
| Accrued interest receivable  | -                        | 730        |
| Accounts receivables   | (400)                    | 9          |
| Amounts due from staff and affiliated entities   | 274                      | 152        |
| Inventory  | (503)                    | (47)       |
| Other assets   | 327                      | 556        |
| Accounts payable and accrued expenses  | 341                      | (43)       |
| Amounts due to staff and affiliated entities   | (1,705)                  | (1,775)    |
| Net Cash Used by Operating Activities  | (965)                    | (2,086)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                          |            |
| Proceeds from sale of investments  | 127                      | 3,698      |
| Purchase of investments  | (534)                    | -          |
| Purchase of property and equipment   | (2,261)                  | (4,186)    |
| Proceeds from sale of property and equipment   | 1,212                    | 814        |
| Payments on notes receivable   | 18                       | 731        |
| Net Cash Provided (Used) by Investing Activities   | (1,438)                  | 1,057      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                          |            |
| Other liabilities  | (28)                     | (16)       |
| Contributions restricted for capital expenditures  | 352                      | 564        |
| Contributions restricted for endowment   | 1                        | 1          |
| Net Cash Provided by Financing Activities  | 325                      | 549        |
| Net Change in Cash   | (2,078)                  | (480)      |
| Cash, Beginning of Year  | 18,892                   | 19,372     |
| Cash, End of Year  | \$ 16,814                | \$ 18,892  |

See notes to combined financial statements

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Notes to Combined Financial Statements

September 30, 2014 and 2013

### 1. NATURE OF ORGANIZATION:

The Summer Institute of Linguistics, Inc. (SIL) is a Texas non-profit educational corporation. SIL seeks to carry out, and to encourage and train others to carry out, the following activities with the assistance and cooperation of governmental and private agencies engaged in similar activities:

- ❖ To train linguists.
- ❖ To sponsor such linguists in their study of languages, especially less known and unwritten languages.
- ❖ To make available the data gathered by linguists through publication or other means.
- ❖ To publish resource materials for persons engaged in linguistic research.
- ❖ To prepare literature, both by original composition and by translation into the languages studied.
- ❖ To promote literacy among the people who speak the languages studied.
- ❖ To train people to promote literacy, and prepare literature in their own languages.

SIL is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (Code) and comparable state law. It is classified as a publicly supported organization, which is not a private foundation under Section 509(a)(1) of the Code.

SIL's work is carried out primarily by over 4,000 individuals, many of whom are recruited and supported by organizations which participate in Wycliffe Bible Translators International, Inc. (dba Wycliffe Global Alliance). Organizations in the Wycliffe Global Alliance (the Alliance) contribute to the holistic transformation of all peoples through Bible translation and compassionate services. This support is SIL's primary source of revenue. The Alliance and its member organizations are not included in these combined financial statements because they are financially and administratively independent of SIL.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### PRINCIPLES OF COMBINATION

The combined financial statements of SIL include SIL, its field offices, and JAARS, Inc. (JAARS), because they are under the control of SIL. Significant transactions and balances between the organizations and offices have been eliminated for combined financial statement purposes.

JAARS, Inc. exists to make Bible translation and language development possible, especially in the most remote and difficult places on earth, by enabling locally-appropriate and sustainable solutions in transportation, technology, media and training.



# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Notes to Combined Financial Statements

September 30, 2014 and 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### PRINCIPLES OF COMBINATION, continued

These combined financial statements include the activities and balances of SIL field offices located overseas. As of September 30, 2014, assets held overseas, including cash, accounts receivable, inventory and other assets, totaled \$10,209,000 and property and equipment, net of accumulated depreciation, amounted to \$29,757,000. As of September 30, 2013, assets held overseas, including cash, accounts receivable, inventory and other assets, totaled \$9,473,000 and property and equipment, net of accumulated depreciation, amounted to \$31,677,000.

Related entities, not included in these combined financial statements due to their financial and administrative independence, are listed below:

- Wycliffe Bible Translators, Inc. (Wycliffe USA) is an interdenominational, nonprofit, missionary organization with the goal of forwarding, in every way possible, the translation of the Word of God into all those languages of the world where it is needed. Wycliffe USA controls and has an economic interest in Wycliffe Foundation (WF).
- Wycliffe Global Alliance (WGA) promotes the efforts of the Wycliffe Global Alliance Participating Organizations (45 member organizations and more than 60 partner organizations) as they engage the worldwide Church in providing resources for Bible translation and related ministry around the globe.
- The Wycliffe Seed Company Inc. (TSC), a California religious non-profit corporation, works with local translators and international prayer organizations as well as financial and prayer partners in a concentrated effort to make God's Word readily available for faster church planting, effective discipleship and greater community transformation. These partnerships ensure the Scriptures are translated accurately and provided in the most accessible forms for maximum impact in the local communities.
- RIA Charitable Investments Inc. (RIACII) exists to provide a pooled investment opportunity for Wycliffe Global Alliance member and associated partner organizations.
- Graduate Institute of Applied Linguistics (GIAL) is a graduate professional institute that provides training and research opportunities and equips students with the skills to train and serve others.
- SIL LEAD, Inc. exists to serve minority language communities and support the purposes and ends of SIL International. It does so through advocacy, educational programs, development programs and linking communities with humanitarian and other multi-sectoral forms of assistance.

#### BASIS OF ACCOUNTING

The combined financial statements of SIL have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

#### ESTIMATES

The preparation of combined financial statements in accordance 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, the disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Notes to Combined Financial Statements

September 30, 2014 and 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### CASH

Cash consists primarily of checking accounts deposited with financial institutions. Deposits in excess of FDIC insurance limits (including cash held outside the U.S.) at September 30, 2014 and 2013, were approximately \$16.3 and \$18.3 million, respectively. Due to the diverse locations and financial cycles of SIL, management does not believe there is significant unmitigated risk.

SIL operates a system that facilitates the financial interaction between SIL and organizations which are members of Wycliffe Global Alliance. As part of that system, SIL holds deposits from these organizations, which are included in cash, in the amounts of \$6.5 and \$7.9 million at September 30, 2014 and 2013, respectively.

#### INVESTMENTS

Investments in money market funds and the captive insurance company are reported at fair market value and other investments are carried at cost on the combined statements of financial position. Realized and unrealized gains and losses are included in non-operating activities in the combined statements of activities. Investment income consist primarily of interest.

RIA Charitable Investment Funds, Inc. (RIACII) operates as an investment pool available to certain Wycliffe Global Alliance member and associated partner organizations. Funds deposited with RIACII are invested in a variety of fixed income securities including U.S. Treasury issues, corporate bonds and mortgage backed bonds, which borrow and pay in U.S. dollars. The deposits are carried at the value of actual deposits made plus accrued interest. Deposits earned interest at the rate of 2.75% and 3% for the years ended September 30, 2014 and 2013, respectively. Interest income recorded in the combined statements of activities for 2014 and 2013 was \$834,000 and \$829,000, respectively. As of September 30, 2014 and 2013, RIACII reported total assets with a fair value of approximately \$75,362,000 and \$79,397,000, respectively, of which SIL holds \$19,723,000 (26%) and \$19,188,000 (24%), respectively. Credit risk is the failure of another party to perform in accordance with the contract terms. SIL is exposed to credit risk for the amount invested in the pool.

#### ACCOUNTS RECEIVABLE

Accounts receivable are primarily related to amounts due from mission organizations and other local organizations and individuals and an aircraft lease. In 2005, JAARS entered into a lease/purchase agreement with a related ministry for a Pilatus PC-6 aircraft. The total lease/purchase is for \$1,221,000 for a period of 10 years with no interest being charged to the related ministry. The remaining balances on the lease at September 30, 2014 and 2013, was \$122,000 and \$244,000, respectively. Past collection experience has been that essentially 100% of receivables have been collected. Therefore, no allowance for doubtful accounts has been established.

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Notes to Combined Financial Statements

September 30, 2014 and 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### INVENTORY

Inventory consists primarily of books, publications, construction materials, aviation and other parts, supplies and consumer goods that are held for sale. Inventory is stated at the lower of cost or market. Cost is determined using the weighted-average method, the retail method, or the first-in, first-out method, depending on the type of inventory. 64% and 68% of inventories are held at overseas locations as of September 30, 2014 and 2013, respectively.

The organization classifies certain aviation parts and materials with other assets. These items are maintained for future use as replacement parts because there are limited supply sources for such parts.

#### MUSEUMS AND COLLECTIONS

JAARS maintains collections in the Mexico-Cardenas Museum and the Museum of the Alphabet, which are both located on its campus. The exhibits and collections at the museums are acquired through purchases and contributions.

The museums at JAARS do not capitalize their exhibit and collection costs. They record purchases of collection items as decreases in unrestricted net assets in the year they are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. The JAARS museums record proceeds from the disposal of collection items as increases in the appropriate net asset classes.

#### PROPERTY AND EQUIPMENT

Property and equipment expenditures in excess of \$1,000 to \$5,000 are capitalized at cost. SIL allows its smaller offices to set a capitalization limit lower than \$5,000 based on office size and expected impact of larger purchases on the local financial statements. Depreciation is provided using the straight-line method over the estimated useful lives of the depreciable assets as follows:

|                      |                |
|----------------------|----------------|
| Buildings            | 10 to 40 years |
| Equipment            | 3 to 10 years  |
| Furniture & Fixtures | 7 to 10 years  |

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Notes to Combined Financial Statements

September 30, 2014 and 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### OTHER ASSETS

Other assets of \$3,264,000 and \$7,970,000 as of September 30, 2014 and 2013, respectively, consist of the following:

*Beneficial interest in split-interest agreements:* At September 30, 2014 and 2013, the Wycliffe Foundation holds charitable gift annuities in the amount of \$422,000 and \$416,000 for JAARS, respectively. The amount represents the beneficial interest JAARS has in those charitable gift annuities.

*Preferred debt agreement:* In 2011, Quest Aircraft Company (Quest), an airline manufacturer, entered into a recapitalization and restructuring that resulted in previously recorded notes receivable and aircraft advances being converted into a preferred debt with Quest Aircraft Company. Since 2011 the preferred debt has been valued at cost plus accrued interest at an annual interest rate of 2.33% and redeemable through discounts on airplane purchases. JAARS received and SIL-Papua New Guinea placed a fleet of four Kodiak 100s in service from 2008 to 2013, realizing total purchase discounts of \$1,214,000. During the years ended September 30, 2014 and 2013, an allowance for the accrued interest earned on the preferred debt was recorded in the amount of \$418,000 and \$300,000, respectively. On October 1, 2014, Quest was restructured again with preferred debt payoff no longer in the form of aircraft purchase discounts, but in the form of payments funded by dividends. In February 2015, Quest was sold to a foreign corporation and JAARS was offered a cash payout for its preferred debt holdings. The payout was received in April 2015 for approximately \$1,681,000. Consequently, the value of the preferred debt was reduced from \$4,735,000 to \$1,681,000 as of September 30, 2014. An allowance and loss on preferred debt of \$3,053,000 is included in non-operating activities on the statements of activities as of September 30, 2014.

*Aviation parts held for internal use (rather than those held for sale, which are included in Inventory):* \$1,240,000 and \$1,375,000 at September 30, 2014 and 2013, respectively.

*Prepaid expenses:* \$1,247,000 and \$1,200,000 at September 30, 2014 and 2013, respectively.

#### OTHER LIABILITIES

Other liabilities consists primarily of Asset Retirement Obligations (ARO) for SIL and JAARS. As of September 30, 2014, the balances were \$348,000 and \$618,000, respectively, for SIL and JAARS. As of September 30, 2013, the balances were \$334,000 and \$618,000, respectively, for SIL and JAARS. The JAARS ARO is fully depreciated as of September 30, 2014. The remaining balance is other long-term deposits.

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Notes to Combined Financial Statements

September 30, 2014 and 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### NET ASSETS

The net assets of SIL are classified into net asset categories according to externally (donor or legal) imposed restrictions as follows:

*Unrestricted net assets* are those available for the general operations of SIL, funds designated for specific uses by the Board of Directors (including designations by the executive committees of overseas offices) and equity in property and equipment. Equity in property and equipment is reported net of related notes payable and asset retirement obligations.

*Temporarily restricted net assets* include gifts for projects for which donor-imposed restrictions have not been met, but for which the ultimate purpose of the proceeds is not permanently restricted.

*Permanently restricted net assets* include gifts that have been contributed by donors with stipulations that they be invested in perpetuity with the income generally restricted for specific programs.

#### REVENUE

Revenue is recognized when earned and support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of donated assets is transferred to the organization.

#### SALES AND SERVICE INCOME

SIL provides items for sales and services for use by staff whose work requires them to reside in remote locations and the local economy does not provide what is needed for either staff personal needs or work needs. This includes aviation services, housing and maintenance as well as more personal needs such as groceries or basic medical services. Sales and services income is presented net of expenses of \$15,793,000 and \$15,464,000 for the years ended September 30, 2014 and 2013, respectively. Since these sales and services are provided to assist our staff in accomplishing programs, there is no profit motive and these operations result in a very small net income margin which could easily slip into a loss position. In cases where staff used to provide these sales and services are staff assigned from Wycliffe Global Alliance partner organizations, the value of those staff are not included in the expenses netted against income, but are included in program services. See Note 7.

#### DONATED GOODS AND SERVICES

Donated goods and services are recorded at fair market value at the time of donation, according to the *Revenue Recognition* topic of the FASB ASC. Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by SIL. Donated goods and services does not include the value of labor contributed by affiliates. That labor is accounted for in accordance with ASU 2013-06 and is included in Support from Affiliates and discussed in Note 7.

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Notes to Combined Financial Statements

September 30, 2014 and 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### ALLOCATION OF EXPENSES

The costs of providing program and supporting services are allocated and summarized on a functional basis in the combined statements of activities. All expenses are recorded when incurred in accordance with the accrual basis of accounting.

#### FOREIGN CURRENCY TRANSLATION

SIL has offices in over 40 countries. The U.S. Dollar is the functional currency throughout the organization. Transactions made in other currencies are translated into U.S. Dollars at an average exchange rate during the month of the transaction. For the period ending September 30, 2014, exchange losses were \$71,000 and for the period ending September 30, 2013, exchange losses were \$106,000.

#### UNCERTAIN TAX POSITIONS

The combined financial statement effects of a tax position taken or expected to be taken are recognized in the combined financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the combined statements of activities. As of September 30, 2014, SIL had no uncertain tax positions that qualify for recognition or disclosure in the combined financial statements.

SIL files informational tax returns in the U.S. SIL is generally no longer subject to U.S. federal tax examinations by tax authorities for years before 2011.

#### RECLASSIFICATIONS

Certain amounts in the 2013 combined financial statements have been reclassified to conform to the 2014 presentation.

### 3. INVESTMENTS:

SIL's investments consist of the following (in thousands):

|  | September 30,    |                  |
|--|------------------|------------------|
|  | 2014             | 2013             |
| Investments as fair value:                     |                  |                  |
| Money market fund                              | \$ 4             | \$ 10            |
| Investment in captive insurance company*       | 2,319            | 2,707            |
|  | <u>2,323</u>     | <u>2,717</u>     |
| Investments at cost or estimated market value: |                  |                  |
| Deposits with RIA Charitable Investments, Inc. | 19,723           | 19,188           |
| Certificates of deposit                        | -                | 96               |
| Other  | 20               | 71               |
|  | <u>19,743</u>    | <u>19,355</u>    |
|  | <u>\$ 22,066</u> | <u>\$ 22,072</u> |

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Notes to Combined Financial Statements

September 30, 2014 and 2013

3. INVESTMENTS, continued:

SIL's investments consist of the following (in thousands):

|   | September 30,    |                  |
|---|------------------|------------------|
|   | 2014             | 2013             |
| Investments to be held in perpetuity  | \$ 262           | \$ 327           |
| Investments available for unrestricted<br>and temporarily restricted purposes | 21,804           | 21,745           |
|   | <u>\$ 22,066</u> | <u>\$ 22,072</u> |

\*SIL invests along with several unrelated nonprofit organizations, in Stewardship Insurance, Ltd (Stewardship), a captive insurance company. As of September 30, 2014, SIL's investment in Stewardship is \$2,319,000 (cost basis \$330,000) and represents 10% of Stewardship. As of September 30, 2013, SIL's investment in Stewardship was \$2,707,000 (cost basis \$330,000) and represented 10% of Stewardship. SIL accounts for this investment using the equity method because it closely approximates fair value. Stewardship insures claims relating to worker's compensation, general liability, auto liability, property and emergency medical evacuation. Claim experience is identified to each participating entity, and subsequent premiums are modified based on an entity's experience.

Investment income consists of the following (in thousands):

|                            | Year Ended September 30, |                 |
|----------------------------|--------------------------|-----------------|
|                            | 2014                     | 2013            |
| Interest and dividends     | \$ 834                   | \$ 839          |
| Net realized (loss) gain   | (25)                     | 176             |
| Net unrealized (loss) gain | (388)                    | 649             |
|                            | <u>\$ 421</u>            | <u>\$ 1,664</u> |

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Notes to Combined Financial Statements

September 30, 2014 and 2013

4. NOTES RECEIVABLE:

Notes receivable consist of the following (in thousands):

|   | September 30, |        |
|---|---------------|--------|
|   | 2014          | 2013   |
| Secured note receivable for land, building and equipment sold in Kenya from SIL Educational Trust Registered Trustees of Nairobi, Kenya; principal and interest payments of \$5,968 per month at an interest rate of 3%; loan was paid off in October 2014. | \$ 96         | \$ 159 |
| Secured note receivable for land and buildings sold in Mexico from Ibesh, AC; principal and interest payments of \$8,486 per month at an interest rate of 9%; loan matured in September 2014.   | -             | 44     |
| Unsecured note receivable for a building sold in Hong Kong from HKG Property; principal and interest payments of \$1,000 per month at an interest rate of 10%; loan was paid off in October 2013.   | -             | 1      |
| Secured note receivable for land and buildings sold in USA from Grace Place Properties, Inc.; principal and interest of \$970 per month at an interest rate of 3.75%; loan was paid off in January 2015.  | 38            | 48     |
| Unsecured line of credit with SIL LEAD for funding operations; principal and interest payments of \$8,458 per month at an interest rate of 2.75%; balance is due in September 2015.   | 100           | -      |
|   | \$ 234        | \$ 252 |



# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Notes to Combined Financial Statements

September 30, 2014 and 2013

5. PROPERTY AND EQUIPMENT :

Property and equipment at September 30, 2014, consist of the following (in thousands):

|                               | Domestic  | International | Total     |
|-------------------------------|-----------|---------------|-----------|
| Land and land improvements    | \$ 2,040  | \$ 2,865      | \$ 4,905  |
| Buildings                     | 21,913    | 32,261        | 54,174    |
| Furniture and equipment       | 8,117     | 4,725         | 12,842    |
| Vehicles                      | 269       | 3,326         | 3,595     |
| Aircraft                      | 2,483     | 8,796         | 11,279    |
| Utilities                     | 371       | 519           | 890       |
|                               | 35,193    | 52,492        | 87,685    |
| Less accumulated depreciation | (24,671)  | (23,457)      | (48,128)  |
|                               | 10,522    | 29,035        | 39,557    |
| Construction in progress      | 939       | 722           | 1,661     |
|                               | \$ 11,461 | \$ 29,757     | \$ 41,218 |

Property and equipment at September 30, 2013, consist of the following (in thousands):

|                               | Domestic  | International | Total     |
|-------------------------------|-----------|---------------|-----------|
| Land and land improvements    | \$ 2,046  | \$ 3,065      | \$ 5,111  |
| Buildings                     | 21,920    | 32,758        | 54,678    |
| Furniture and equipment       | 7,647     | 4,666         | 12,313    |
| Vehicles                      | 286       | 3,180         | 3,466     |
| Aircraft                      | 2,483     | 7,508         | 9,991     |
| Utilities                     | 371       | 552           | 923       |
|                               | 34,753    | 51,729        | 86,482    |
| Less accumulated depreciation | (23,426)  | (22,037)      | (45,463)  |
|                               | 11,327    | 29,692        | 41,019    |
| Construction in progress      | 863       | 1,985         | 2,848     |
|                               | \$ 12,190 | \$ 31,677     | \$ 43,867 |

SIL believes the above assets are properly stated as of September 30, 2014 and 2013, respectively. However, the political situation in many countries is subject to rapid change which could adversely affect the realizable value of the assets. In addition, the carrying value of assets may not be representative of the amount that would be realized should the assets be sold. For the years ended September 30, 2014 and 2013, 40% of the international property and equipment is in Papua New Guinea and 10% is in Australia.

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Notes to Combined Financial Statements

September 30, 2014 and 2013

6. OPERATING LEASES:

Many SIL offices lease property or have been granted the use of property by the local government. For most of those offices, the leases are on a month-to-month basis and the amounts are immaterial. Others have terms of one year or longer. In addition, JAARS has entered into several leases for equipment.

Future minimum rental payments that are required under the annual or long-term leases are presented below (in thousands):

| Year Ending September 30, |    |       |
|---------------------------|----|-------|
| 2015                      | \$ | 549   |
| 2016                      |    | 335   |
| 2017                      |    | 251   |
| 2018                      |    | 211   |
| 2019                      |    | 201   |
| Thereafter                |    | 460   |
|                           | \$ | 2,007 |

Total rental expense for the years ending September 30, 2014 and 2013, were \$2,100,000 and \$2,150,000, respectively.

7. TRANSACTIONS WITH RELATED ENTITIES:

SIL had investments with related entities as follows (in thousands):

|        | September 30, |           |
|--------|---------------|-----------|
|        | 2014          | 2013      |
| RIACII | \$ 19,723     | \$ 19,188 |

SIL had notes receivable with related entities as follows (in thousands):

|          | September 30, |      |
|----------|---------------|------|
|          | 2014          | 2013 |
| SIL LEAD | \$ 100        | \$ - |

SIL had amounts due from related entities as follows (in thousands):

|                                   | September 30, |          |
|-----------------------------------|---------------|----------|
|                                   | 2014          | 2013     |
| Staff                             | \$ 472        | \$ 471   |
| Wycliffe Global Alliance Partners | 713           | 808      |
| SIL LEAD                          | 2             | 182      |
|                                   | \$ 1,187      | \$ 1,461 |

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Notes to Combined Financial Statements

September 30, 2014 and 2013

7. TRANSACTIONS WITH RELATED ENTITIES, continued:

SIL had amounts due to related entities as follows (in thousands):

|   | September 30,    |                  |
|---|------------------|------------------|
|   | 2014             | 2013             |
| Staff   | \$ 3,819         | \$ 3,780         |
| Wycliffe Global Alliance Partners               | 367              | 788              |
| Wycliffe Global Alliance Partners cash deposits | 6,528            | 7,851            |
|   | <u>\$ 10,714</u> | <u>\$ 12,419</u> |

SIL received support from and provided support and revenue to related entities as follows (in thousands):

|   | Year Ended September 30, |            |
|---|--------------------------|------------|
|   | 2014                     | 2013       |
| Received support from Wycliffe Global Alliance Partners           | \$ 115,917               | \$ 117,269 |
| Provided support and revenue to Wycliffe Global Alliance Partners | \$ 1,295                 | \$ 727     |
| Service income from SIL LEAD                                      | \$ 109                   | \$ 110     |
| Grant to SIL LEAD   | \$ 120                   | \$ 120     |
| Grant to RIACII   | \$ -                     | \$ 4,200   |

Of the total amounts received from Wycliffe Global Alliance partner organizations during the year ended September 30, 2014, \$88,347,000 are non-cash contributions consisting of the value of labor of staff assigned to SIL and \$849,000 of donated skilled volunteer labor. Of these amounts, \$82,964,000 is included in program expenses and \$6,232,000 is included in general and administrative expenses.

Of the total amounts received from Wycliffe Global Alliance partner organizations during the year ended September 30, 2013, \$87,846,000 are non-cash contributions consisting of the value of labor of staff assigned to SIL and \$630,000 of donated skilled volunteer labor. Of these amounts, \$82,150,000 is included in program expenses and \$6,326,000 is included in general and administrative expenses. In addition to the support and revenue provided from SIL to organizations in the Alliance, SIL also paid out \$868,000 in interest on Alliance organizations' deposits in the SIL investment pool during the year ended of September 30, 2013 (up until March 1, 2013, and the pool was closed).

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Notes to Combined Financial Statements

September 30, 2014 and 2013

8. NET ASSETS:

Board designated net assets consist of the following (in thousands):

|                                      | September 30, |           |
|--------------------------------------|---------------|-----------|
|                                      | 2014          | 2013      |
| Repair/replacement funds             | \$ 3,845      | \$ 4,488  |
| Aviation overhaul funds              | 2,845         | 2,427     |
| Stewardship Insurance, LTD.          | 2,319         | 2,707     |
| International conference travel fund | 1,178         | 814       |
| Insurance reserves                   | 401           | 264       |
| Scholarships                         | 52            | 60        |
| Investments                          | -             | 50        |
|                                      | \$ 10,640     | \$ 10,810 |

Temporarily restricted net assets consist of the following (in thousands):

|   | September 30, |           |
|---|---------------|-----------|
|   | 2014          | 2013      |
| Language and literacy support projects                      | \$ 6,768      | \$ 6,719  |
| Aviation and aircraft support projects                      | 992           | 990       |
| Beneficial interest in charitable gift annuities            | 422           | 416       |
| Strategic support initiative projects                       | 152           | 231       |
| Logistical support projects                                 | 72            | 37        |
| Aircraft acquisition - treated as release from restriction* | -             | 4,575     |
|   | \$ 8,406      | \$ 12,968 |

\* During the period from 2004 to 2010, JAARS made advance payments and loans to Quest Aircraft Company for the delivery of Kodiak aircraft. The gifts received for the Kodiak/Fleet Renewal campaign were temporarily restricted donations for deposits on aircraft. These temporarily restricted funds were released from restriction only upon acceptance of aircraft. SIL-Papua New Guinea is successfully operating a fleet of four Kodiak 100s. JAARS does not foresee the need for additional aircraft and has closed the current Fleet Renewal (aircraft acquisition) campaign. Based on this decision, donors were notified of the end to the Fleet Renewal campaign and any remaining temporarily restricted net assets related to the campaign were released from restriction as of September 30, 2014.

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Notes to Combined Financial Statements

September 30, 2014 and 2013

8. NET ASSETS, continued:

*Minority interest:* SIL operates a school overseas in which partners hold a minority interest. SIL has a 66% interest in the school with minority interest of 34%. Included in SIL's net assets and change in net assets are the following (in thousands):

|                      | SIL Interest 66% |                 | Minority Interest 34% |               |
|----------------------|------------------|-----------------|-----------------------|---------------|
|                      | September 30,    |                 | September 30,         |               |
|                      | 2014             | 2013            | 2014                  | 2013          |
| Beginning net assets | \$ 1,227         | \$ 1,232        | \$ 621                | \$ 635        |
| Change in net assets | (38)             | (12)            | (19)                  | (6)           |
| Ending net assets    | <u>\$ 1,189</u>  | <u>\$ 1,220</u> | <u>\$ 602</u>         | <u>\$ 629</u> |

As of September 30, 2014 and 2013, \$8,000 and \$13,000, respectively, are included in temporarily restricted net assets.

9. ENDOWMENT FUNDS:

SIL's endowment assets consist of two individual permanently restricted funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The disclosures required by the *Reporting Endowment Funds* topic of the FASB ASC have not been included in these combined financial statements due to immateriality.

10. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS:

The following disclosure of estimated fair value of financial instruments is made in accordance with the *Financial Instruments* topic of the FASB ASC. The estimated fair value amounts have been determined by SIL using available market information and appropriate valuation methodologies.

The estimated fair values of SIL's financial instruments are as follows (in thousands):

|  | September 30, 2014 |            | September 30, 2013 |            |
|--|--------------------|------------|--------------------|------------|
|  | Carrying Amount    | Fair Value | Carrying Amount    | Fair Value |
| Assets:  |                    |            |                    |            |
| Cash   | \$ 16,814          | \$ 16,814  | \$ 18,892          | \$ 18,892  |
| Investments  | 22,066             | 22,066     | 22,072             | 22,072     |
| Accounts receivable  | 1,831              | 1,831      | 1,429              | 1,429      |
| Notes receivable   | 234                | 234        | 252                | 252        |
| Other assets: beneficial interest in split-interest agreements | 422                | 422        | 416                | 416        |

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Notes to Combined Financial Statements

September 30, 2014 and 2013

10. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS, continued:

|  | September 30, 2014 |               | September 30, 2013 |               |
|--|--------------------|---------------|--------------------|---------------|
|  | Carrying<br>Amount | Fair<br>Value | Carrying<br>Amount | Fair<br>Value |
| Liabilities                              |                    |               |                    |               |
| Accounts payable and<br>accrued expenses | \$ 4,864           | \$ 4,864      | \$ 4,532           | \$ 4,532      |

SIL has a number of financial instruments, consisting of cash, accounts receivable, notes receivable, other assets and various investments. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

*Cash, accounts receivable and notes receivable*

The carrying amounts approximate fair value due to the short-term maturity of these instruments.

*Investments*

For investments in money market funds and certificates of deposit fair value is based on quoted market prices. For deposits with RIACII and other investments, fair value equals cost plus accrued interest. For the investment in captive insurance company, SIL accounts for this investment using the equity method because it closely approximates fair value.

*Other assets: beneficial interest in split-interest agreements*

The fair value is determined by calculating the present value of the future distributions expected to be received, using published life expectancy tables and an appropriate discount rate.

SIL follows the provisions of the *Fair Value Measurements and Disclosure* topic of the FASB ASC. These provisions define fair value, establish a framework for measuring fair value, and enhance disclosures about fair value measurements. Fair value is defined under the standards as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market between market participants on the measurement date.

SIL uses appropriate valuation techniques to determine fair value based on inputs available. When available, SIL measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. Level 1 inputs consist of unadjusted quoted market prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority.

Changes in methods and assumptions: None.

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Notes to Combined Financial Statements

September 30, 2014 and 2013

10. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS, continued:

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying combined statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall.

Fair values of assets measured on a recurring basis are as follows (in thousands):

|  | September 30, 2014 |         |          |
|--|--------------------|---------|----------|
|  | Total              | Level 1 | Level 2  |
| Investments:                                     |                    |         |          |
| Money market fund                                | \$ 4               | \$ 4    | \$ -     |
| Investment in captive insurance company          | 2,319              | -       | 2,319    |
|  | \$ 2,323           | \$ 4    | \$ 2,319 |
| Other assets:                                    |                    |         |          |
| Beneficial interest in split-interest agreements | \$ 422             | \$ -    | \$ 422   |
|  | \$ 422             | \$ -    | \$ 422   |
|  |                    |         |          |
|  | September 30, 2013 |         |          |
|  | Total              | Level 1 | Level 2  |
| Investments:                                     |                    |         |          |
| Money market fund                                | \$ 10              | \$ 10   | \$ -     |
| Investment in captive insurance company          | 2,707              | -       | 2,707    |
|  | \$ 2,717           | \$ 10   | \$ 2,707 |
| Other assets:                                    |                    |         |          |
| Beneficial interest in split-interest agreements | \$ 416             | \$ -    | \$ 416   |
|  | \$ 416             | \$ -    | \$ 416   |

11. EMPLOYEE RETIREMENT PLAN:

During 2011, SIL started a 403(b) retirement plan for qualifying US employees, meaning those employees who normally work more than 20 hours per week. Eligible employees may make deferral contributions up to limits set by law, which may be matched by employer contributions equal to 100% of the first 2.5% of compensation deferred. Employer matching contributions as of September 30, 2014 and 2013 were \$21,000 and \$15,000, respectively.

# SUMMER INSTITUTE OF LINGUISTICS, INC.

## Notes to Combined Financial Statements

September 30, 2014 and 2013

### 12. COMMITMENTS AND CONTINGENCIES:

#### LETTERS OF CREDIT

As of September 30, 2014 and 2013, JAARS had entered into two irrevocable letters of credit issued by the BB&T Bank. The first is in favor of the North Carolina Utilities Commission in the amount of \$10,000 relating to the operations of the public utility at JAARS. The second is in favor of the North Carolina Department of Environment, Health and Natural Resources in the amount of \$125,000 relating to the possible environmental impact of underground storage tanks on the JAARS property.

#### SEVERANCE LIABILITY

As of September 30, 2014 and 2013, SIL had accrued approximately \$2,033,000 and \$1,923,000, respectively, which is made up entirely of severance liabilities required by local laws in many countries around the world in which SIL employs local citizens as staff. This amount is included in accounts payable and accrued expenses on the combined statements of financial position.

### 13. SUBSEQUENT EVENTS:

Subsequent to year end and after the issuance of the JAARS Inc. financial statements on February 13, 2015, Quest was sold to a foreign corporation and JAARS was offered a cash payout for its preferred debt holdings. In April 2015, all necessary agreements were signed and JAARS received a payout of approximately \$1,681,000. This payout is a full redemption of the preferred debt. The value of the preferred debt included in Other assets (see Note 2) on the Combined Statements of Financial Position has been changed from the estimate as presented on the JAARS, Inc. financial statements of \$355,000 to equal the cash payout amount received of \$1,681,000. The corresponding Loss on preferred debt on the Combined Statement of Activities has also been changed by approximately \$1,326,000 from the loss as presented on the JAARS, Inc. financial statements of approximately \$4,379,000.

Subsequent events have been evaluated through the report date, which represents the date the combined financial statements were available to be issued. Subsequent events after that date have not been evaluated.