

**Audited Consolidated  
Financial Statements**

**SUMMER INSTITUTE OF  
LINGUISTICS, INC.**

September 30, 2010

## **INDEPENDENT AUDITORS' REPORT**

**Board of Directors  
Summer Institute of Linguistics, Inc.  
Dallas, Texas**

We have audited the accompanying consolidated statement of financial position of Summer Institute of Linguistics, Inc. and subsidiaries as of September 30, 2010, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the organizations' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the organization's 2009 consolidated financial statements and, in our report dated August 25, 2010, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organizations' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As disclosed in Note M, subsequent to the end of the year material deposits and loans receivable from a third party have been cancelled and were converted to a subordinate debt investment. The value of such investment is uncertain. It is at least reasonably possible that in the near future the value of this investment may change.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Summer Institute of Linguistics, Inc. and subsidiaries as of September 30, 2010, and the changes in their net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Capin Crouse LLP*

**Dallas, Texas**  
April 20, 2011

**Summer Institute of Linguistics, Inc.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**September 30, 2010**  
**(in thousands)**

With Comparative Totals for September 30, 2009

	2010	2009
<b>ASSETS</b>		
Cash	\$ 4,073	\$ 4,908
Investments – Note B	105,846	101,370
Accrued interest receivable	827	767
Accounts receivable	1,234	1,008
Notes receivable – Note C	2,244	2,289
Amounts due from staff and affiliated entities	975	1,673
Inventory	1,869	2,000
Property and equipment, net – Note E	41,166	41,124
Other assets	9,962	9,499
<b>TOTAL ASSETS</b>	<b>\$ 168,196</b>	<b>\$ 164,638</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 3,560	\$ 3,043
Amounts due to staff and affiliated entities	75,706	77,539
Notes payable	63	88
Long-term liabilities	1,207	1,290
<b>TOTAL LIABILITIES</b>	<b>80,536</b>	<b>81,960</b>
<b>NET ASSETS</b>		
<b>Unrestricted:</b>		
Equity in property and equipment	40,070	40,025
Board designated	15,089	11,625
Undesignated	16,143	13,841
<b>Total unrestricted</b>	<b>71,302</b>	<b>65,491</b>
Temporarily restricted	16,058	16,890
Permanently restricted	300	297
<b>TOTAL NET ASSETS</b>	<b>87,660</b>	<b>82,678</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 168,196</b>	<b>\$ 164,638</b>

See notes to consolidated financial statements.

**Summer Institute of Linguistics, Inc.**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2010**  
**(in thousands)**

With Comparative Totals for the Year Ended September 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
<b>SUPPORT AND REVENUE</b>					
Support from affiliates – Note F	\$ 91,107	\$ 24,927	\$ -	\$ 116,034	\$ 110,806
Contributions	3,053	2,939	3	5,995	4,348
Donated goods and services	1,750	114	-	1,864	2,199
Service income	16,452	-	-	16,452	16,774
Investment income – Note B	3,922	-	-	3,922	3,990
Net unrealized gain on investments	2,140	-	-	2,140	4,249
Gain on sale of fixed assets	676	-	-	676	77
Other	216	-	-	216	(34)
Net assets released from restrictions:					
Satisfaction of purpose restrictions	28,812	(28,812)	-	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>148,128</b>	<b>(832)</b>	<b>3</b>	<b>147,299</b>	<b>142,409</b>
<b>EXPENSES</b>					
<b>Program services:</b>					
Language development & training	131,143	-	-	131,143	128,292
<b>Total program services</b>	<b>131,143</b>	<b>-</b>	<b>-</b>	<b>131,143</b>	<b>128,292</b>
<b>Supporting services:</b>					
General and administrative	10,549	-	-	10,549	8,227
Fund-raising	625	-	-	625	686
<b>Total supporting services</b>	<b>11,174</b>	<b>-</b>	<b>-</b>	<b>11,174</b>	<b>8,913</b>
<b>TOTAL EXPENSES</b>	<b>142,317</b>	<b>-</b>	<b>-</b>	<b>142,317</b>	<b>137,205</b>
<b>CHANGE IN NET ASSETS</b>	<b>5,811</b>	<b>(832)</b>	<b>3</b>	<b>4,982</b>	<b>5,204</b>
Net assets at Beginning of Year	65,491	16,890	297	82,678	77,474
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 71,302</b>	<b>\$ 16,058</b>	<b>\$ 300</b>	<b>\$ 87,660</b>	<b>\$ 82,678</b>

See notes to consolidated financial statements.

**Summer Institute of Linguistics, Inc.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the Year Ended September 30, 2010**  
**(in thousands)**

With Comparative Totals for the Year Ended September 30, 2009

	2010	2009
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 4,982	\$ 5,204
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	2,947	3,412
Gain on sale of fixed assets	(676)	(77)
Net realized (gains) on sale of investments	(31)	(96)
Net unrealized (gains) on investments	(2,140)	(4,249)
Noncash contributions of stock, property and equipment	(412)	(542)
Contributions restricted for capital expenditures and long-term purposes	(1,684)	(1,581)
Changes in assets and liabilities:		
Accrued interest receivable	(60)	(103)
Accounts receivables	(226)	23
Amounts due from staff and affiliated entities	698	250
Inventory	131	266
Other assets	(97)	1,040
Accounts payable and accrued expenses	517	(161)
Amounts due to staff and affiliated entities	(1,833)	10,602
Long-term liabilities	(83)	327
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>2,033</b>	<b>14,316</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments	(37,743)	(45,922)
Proceeds from sale of investments	35,438	34,391
Purchase of property and equipment	(3,295)	(4,893)
Proceeds from sale of property and equipment	1,028	789
Issuance of notes receivable	(49)	(1,824)
Payments on notes receivable	94	87
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(4,527)</b>	<b>(17,372)</b>
<b>FINANCING ACTIVITIES</b>		
Payments on notes payable	(25)	(39)
Contributions restricted for capital expenditures and long-term purposes	1,684	1,581
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>1,659</b>	<b>1,541</b>
<b>NET DECREASE IN CASH</b>	(835)	(1,515)
Cash at Beginning of Year	4,908	6,423
<b>CASH AT END OF YEAR</b>	<b>\$ 4,073</b>	<b>\$ 4,908</b>

See notes to consolidated financial statements.

**SUMMER INSTITUTE OF LINGUISTICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

**NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**General:** 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 consolidated financial statements because they are financially and administratively independent of SIL.

**Principles of Consolidation:** The consolidated financial statements include SIL and its field offices, JAARS, Inc. (JAARS) and the International Museum of Cultures (IMC), because they are under the control of SIL.

- ❖ JAARS' purpose is to serve SIL, the Alliance and affiliated organizations by providing technical, logistical and personnel support. The financial statements include Word Access, Inc., because it is under the control of JAARS.
- ❖ The IMC operates a museum in Dallas, Texas that disseminates knowledge concerning the rich cultural diversity and creativity existing in today's world, with special reference to minority linguistic groups.

**SUMMER INSTITUTE OF LINGUISTICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

**NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Principles of Consolidation, continued:**

These consolidated financial statements include the activities and balances of SIL field offices located overseas. As of September 30, 2010, assets held overseas, including cash, accounts receivable, inventory and other assets, totaled \$9,262,000 and property and equipment, net of accumulated depreciation, amounted to \$26,547,000.

Significant transactions and balances between the organizations and offices have been eliminated for consolidated financial statement purposes.

**Basis of Presentation:** The consolidated financial statements of SIL have been prepared on the accrual basis of accounting in accordance with the Evangelical Joint Accounting Committee's "Accounting and Financial Reporting Guide for Christian Ministries" and the AICPA's "Audit and Accounting Guide For Not-for-Profit Organizations". The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash:** Cash consists primarily of checking accounts deposited with financial institutions. Certain accounts that meet the definition of cash, but are part of a larger pool of investments are included in investments. Deposits in excess of FDIC insurance limits (including cash held outside the U.S.) at September 30, 2010, were approximately \$7.7 million. SIL performs ongoing evaluations of the financial institutions to limit its concentration of credit risk exposure.

**Prior Year Summarized Information:** The consolidated financial statements include certain prior-year comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with SIL consolidated financial statements for the year ended September 30, 2009, from which the summarized information was derived. Certain amounts in the 2009 consolidated financial statements have been reclassified to conform to the 2010 presentation.

**Investments:** All investments are reported at fair value on the consolidated statement of financial position. Financial instruments that potentially subject SIL to credit risk consist principally of interest bearing bonds. Unrealized and realized gains and losses are included in support and revenue in the consolidated statement of activities. Investment income on the consolidated statement of activities consists primarily of interest. Premiums are amortized as a reduction in interest income over the remaining term to maturity or to the earliest call date if the security is callable. Discounts are accreted to interest income over the remaining term to maturity.

**SUMMER INSTITUTE OF LINGUISTICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

**NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Accounts Receivable:** Accounts receivable are primarily related to amounts due from mission organizations and other local organizations and individuals. Past collection experience has been that essentially 100% of receivables have been collected. Therefore, no allowance for doubtful accounts has been established.

**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. 66% of inventories are held at overseas locations.

SIL 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:** The IMC and JAARS operate museums on their campuses. The exhibits and collections at all three museums are acquired through purchases and contributions. The IMC capitalizes its exhibit and collection costs and as of September 30, 2010, had capitalized \$229,000 of exhibit and collection items.

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:

Building	10 to 40 years
Equipment	3 to 10 years
Furniture and fixtures	7 to 10 years

**Other Assets:** Other assets consist primarily of the following assets held by JAARS:

*Aircraft lease receivable:* 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 balance on the lease at September 30, 2010, was \$611,000.

**SUMMER INSTITUTE OF LINGUISTICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

**NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Other Assets, continued:**

*Beneficial interest in split-interest agreements:* At September 30, 2010, the Wycliffe Foundation holds charitable gift annuities in the amount of \$528,000 for JAARS. The amount represents the beneficial interest JAARS has in those charitable gift annuities.

*Quest aircraft advances:* These advances (\$4,450,000 at September 30, 2010) are deposits for aircraft being developed and constructed by Quest Aircraft Company, LLC and Quest Design, LLC, referred to jointly as Quest. JAARS received its second Kodiak in 2010. Subsequent to year end, Quest entered into a recapitalization and restructuring that resulted in these deposits being converted to preferred debt and the cancellation of current aircraft purchase contracts. (See Note M)

*Aircraft:* Other assets consists of \$1,293,000 for a Kodiak airplane received from Quest Aircraft Company, LLC and Quest Design, LLC in fulfillment of a portion of the advances made by JAARS. Subsequent to year end, the Kodiak airplane was transferred to the Papua New Guinea field and placed into service at that time.

The remaining \$3,080,000 balance is real estate held for sale, prepaid expenses and aviation parts and materials (see Inventory note above).

**Long-term Liabilities:** Long-term liabilities consists primarily of Asset Retirement Obligations (ARO) for SIL and JAARS, recorded on the basis of the provisions of FIN 47. As of September 30, 2010, the balances were \$371,000 and \$612,000, respectively, for SIL and JAARS. The remaining balance is other long-term deposits.

**Net Asset Categories:** The net assets of SIL are classified into net asset categories according to externally (donor) 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 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* have been contributed by donors with stipulations that they be invested in perpetuity with the income generally restricted for specific programs.

**SUMMER INSTITUTE OF LINGUISTICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

**NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**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. Service income represents amounts received from staff and affiliated entities for housing and other related services.

**Donated Goods and Services:** Donated goods and services are recorded at fair market value at the time of donation. 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.

**Allocation of Expenses:** The costs of providing program and supporting services are allocated and summarized on a functional basis in the consolidated statement 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, 2010, exchange gains of \$216,000 are included in other revenue.

**NOTE B – INVESTMENTS**

Included in investments is an investment pool owned and operated by SIL, which holds cash and investments of other affiliated entities for investment purposes (Note F). Interest is paid to these affiliated entities in proportion to the amount they have on deposit in the pool. The investment pool holds significant investments in the form of fixed-income securities. 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 of the investments. SIL has never sustained a loss on any investment due to nonperformance and does not anticipate any nonperformance, by the issuers of the securities.

The cost and market value of investments at September 30, 2010, are as follows (in thousands):

	<b>Cost</b>	<b>Market</b>
Investment pool:		
Cash	\$ 13,707	\$ 13,707
Bonds	85,164	89,150
Total investment pool	<u>98,871</u>	<u>102,857</u>
Other investments:		
Investment in captive insurance company	330	2,344
Certificates of deposit	157	157
Mutual funds	279	279
Bonds	209	209
	<u>\$ 99,846</u>	<u>\$ 105,846</u>

**SUMMER INSTITUTE OF LINGUISTICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

**NOTE B – INVESTMENTS, continued**

	<b>Cost</b>	<b>Market</b>
Investments to be held in perpetuity	\$ 300	\$ 300
Investments available for unrestricted and temporarily restricted purposes	99,546	105,546
	\$ 99,846	\$ 105,846

Investment income for the year ended September 30, 2010, consists of \$3,891,000 in interest and dividends plus \$31,000 in net realized gains. Also included in investment income is \$84,000 of interest income earned from sources other than the investments listed above.

SIL invests along with several unrelated nonprofit organizations, in Stewardship Holdings, Ltd (SHL), a captive insurance holding company. As of September 30, 2010, SIL's investment in SHL is \$2,344,000 and represents 10% of SHL. SIL accounts for this investment using the equity method because it closely approximates fair value and it has been determined that SIL has significant influence. SHL 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.

**NOTE C – NOTES RECEIVABLE**

Notes receivable at September 30, 2010, consist of the following (in thousands):

Unsecured note receivable from Elias Investments PTY LTD in Australia; principal payment of \$578,000 due June 1, 2013. This note is interest free. No imputed interest is recorded as it is not material to the consolidated financial statements.	\$ 578
Secured note receivable from SIL Educational Trust Registered Trustees of Nairobi, Kenya for land, building and equipment; principal and interest payments of \$5,968 per month at an interest rate of 6% through Oct 2011, Oct 31, 2011 interest adjusts to Treasury interest rate plus 1.5% with the loan maturing March 1, 2016.	331
Secured note receivable for land and buildings sold in Mexico from Ilesh, AC; principal and interest payments of \$1,200 per month at a starting interest rate of 8% that increases to 9% June 2011; loan matures May 2013.	225

**SUMMER INSTITUTE OF LINGUISTICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

**NOTE C – NOTES RECEIVABLE, continued**

Unsecured note receivable for a building sold in Hong Kong; principal and interest payments of \$1,000 per month at an interest rate of 10%; matures November 2013. 36

Unsecured note receivable for operations in partnering organization, Horizon; principal payments of \$2,325 per month with no interest; matures September 30, 2011. 28

Two-year financing arrangement with Quest Aircraft Company, LLC (manufacturer of the Kodiak airplane). Two \$500,000 notes were executed with maturity dates of Dec 1, 2010 and Mar 1, 2011. Interest rate accrues at the rate of 2% and will become payable at maturity date. Subsequent to year end, Quest entered into a recapitalization and restructuring resulting in the two notes receivable being converted into preferred debt. 1,046

	\$ 2,244
	1,046

**NOTE D – FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following disclosures of estimated fair value of financial instruments as of September 30, 2010, is made in accordance with the requirements of the Disclosure about Fair Value of Financial Instruments Topic of the FASB Accounting Standards Codification. The estimated fair value amounts have been determined by SIL using available market information and appropriate valuation methodologies.

SIL has a number of financial instruments, consisting of cash, accrued interest receivable, accounts receivable, notes receivable, notes payable and various marketable securities. 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, accrued interest receivable, accounts receivable, notes receivable and notes payable:** The carrying amounts approximate fair value due to the short-term maturity of these instruments.

**Investments:** For investments in mutual funds, certificates of deposit, marketable equity securities and bonds, fair value is based on quoted market prices. For other securities held as investments, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

**SUMMER INSTITUTE OF LINGUISTICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

**NOTE D – FAIR VALUE OF FINANCIAL INSTRUMENTS, continued**

**Investments, continued:**

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

	<b>Carrying Amount</b>	<b>Fair Value</b>
Cash	\$ 4,073	\$ 4,073
Investments	105,846	105,846
Accrued interest receivable	827	827
Accounts receivable	1,234	1,234
Notes receivable	2,244	2,244
Notes payable	63	63

SIL has adopted the provisions of the Fair Value Measurements and Disclosure Topic of the Financial Standards Accounting Board (FASB) Accounting Standards Codification (ASC). These standards 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.

The fair values of investments are based on the framework established in the standards which establishes a three-level hierarchy for determining fair value. The valuations for each of these levels are determined as follows:

Level 1 - Quoted prices for identical instruments traded in active markets.

Level 2 - Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets or model-based valuations where significant assumptions are observable.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement 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 at September 30, 2010:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Certificate of deposit	\$ 157	\$ 157	\$ -
Bonds	89,359	19,556	69,803
Investment in captive insurance company	2,344	-	2,344
Mutual funds	279	279	-
Beneficial interest in split-interest agreements	528	-	528

**SUMMER INSTITUTE OF LINGUISTICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

**NOTE E – PROPERTY AND EQUIPMENT**

Property and equipment at September 30, 2010 (in thousands):

	Domestic	International	Total
Land and land improvements	\$ 2,059	\$ 3,142	\$ 5,201
Buildings	22,114	27,751	49,865
Furniture and equipment	6,079	4,488	10,567
Vehicles	271	2,907	3,178
Aircraft	1,299	6,323	7,622
Utilities	326	345	671
Exhibits and collections	229	-	229
	<u>32,377</u>	<u>44,956</u>	<u>77,333</u>
Less accumulated depreciation	19,566	19,645	39,211
	<u>12,811</u>	<u>25,311</u>	<u>38,122</u>
Construction in progress	1,808	1,236	3,044
	<u>\$ 14,619</u>	<u>\$ 26,547</u>	<u>\$ 41,166</u>

The political situation in many countries is subject to rapid change. SIL believes the above assets are properly stated as of September 30, 2010. However, subsequent changes could occur that would 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. 30% of the international property and equipment is in Papua New Guinea, 14% in Cameroon and 11% is in Australia. No other office has more than 10% of the international property and equipment.

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 office and warehouse space and equipment.

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

2011	\$ 518
2012	317
2013	239
2014	49
2015	43
Thereafter	187
	<u>\$ 1,353</u>

Total rent expense for the year ended September 30, 2010, was \$1,443,000.

**SUMMER INSTITUTE OF LINGUISTICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

**NOTE F – AMOUNTS DUE TO/FROM STAFF AND AFFILIATED ORGANIZATIONS**

As of September 30, 2010, SIL had amounts due to and from staff and affiliated organizations as follows (in thousands):

	<b>Due from</b>	<b>Due to</b>
Staff	\$ 581	\$ 4,358
Wycliffe Global Alliance partners	394	648
Wycliffe Global Alliance partners' deposits in investment pool	-	70,700
	<u>\$ 975</u>	<u>\$ 75,706</u>

During the year ended September 30, 2010, SIL received support from, and provided support and revenue to various affiliated organizations as follows (in thousands):

	<b>Received from</b>	<b>Provided to</b>
Wycliffe Global Alliance partners	<u>\$ 116,034</u>	<u>\$ 1,628</u>

Of the total amounts received from Wycliffe Global Alliance partner organizations during the year ended September 30, 2010, \$84,767,000 are non-cash contributions consisting of the value of labor by staff assigned to SIL and \$870,000 of donated skilled volunteer labor. In addition to the support and revenue provided from SIL to organizations in the Alliance, SIL also paid out \$2,711,000 in interest on Alliance organizations' deposits in the SIL investment pool during the year ended September 30, 2010.

**NOTE G – NOTES PAYABLE**

Notes payable at September 30, 2010, consist of the following (in thousands):

SIL U.S. capital lease payable in monthly principal and interest installments of \$2,682 for 53 months; matures February 1, 2013.	<u>\$ 63</u>
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Notes payable mature as follows:

2011	\$ 27
2012	27
2013	9
	<u>\$ 63</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE H – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at September 30, 2010, consist of the following (in thousands):

Aviation and aircraft support projects	\$ 6,905
Language and literacy support projects	8,447
Beneficial interest in charitable gift annuities	528
Logistical support projects	44
Strategic support initiative projects	134
	<u>\$ 16,058</u>

**NOTE I – COMMITMENTS AND CONTINGENCIES**

**Letters of Credit:** JAARS has 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 as of September 30, 2010, relating to the operations of the public utility. The second is in favor of the North Carolina Department of Environment, Health and Natural Resources in the amount of \$125,000, as of September 30, 2010, relating to the possible environmental impact of underground storage tanks on the JAARS property.

**Quest Aircraft Purchase Commitment:** As of September 30, 2007, JAARS had committed to purchase 10 Kodiak aircraft from Quest Aircraft Company. Of those aircraft, 7 are to be purchased at a special mission discount and 3 are to be purchased at full commercial price of approximately \$1.4 million. JAARS received it's second Kodiak in 2010. The delivery date of the aircraft is scheduled to continue through 2018 with 2 of the commercially purchased aircraft to be the first delivered. The total commitment at September 30, 2010, is approximately \$11.4 million, including planned upgrades. Deposits at Quest as of September 30, 2010, total \$4,450,025. (See Note M)

**Severance Liability:** As of September 30, 2010, SIL had accrued approximately \$1.5 million in severance liabilities. This amount is included in accounts payable and accrued expenses on the consolidated statement of financial position.

**NOTE J – ENDOWMENT FUNDS**

SIL's endowment assets consist of three individual permanently restricted funds established for a variety of purposes. As required by GAAP, 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 financial statements due to immateriality.

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***NOTE K – NEW ACCOUNTING PRONOUNCEMENTS***

On October 1, 2009, SIL adopted the new provisions of the Income Tax Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). These provisions clarify the accounting for uncertainty in tax positions and prescribe guidance related to the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The tax benefit from an uncertain tax position is only recognized in the statement of financial position if the tax position is more likely than not to be sustained upon an examination, based on the technical merits of the position. Interest and penalties, if any, are included in expenses in the statement of activities. As of September 30, 2010, SIL had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

***NOTE L – FUNCTIONAL RECLASSIFICATION***

During 2010, SIL reviewed its functional expense allocations and its interpretation of the definition of management and general expenses under financial accounting standards. Based on this review, certain field operating expenses were identified as program related that had been previously reported as management and general. Accordingly, reclassifications have been made to functional expenses during the year ended September 30, 2010, and related reclassifications have been made to the prior year comparative amounts.

***NOTE M - SUBSEQUENT EVENTS***

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

Subsequent to the end of the fiscal year Quest Aircraft Company entered into a recapitalization and restructuring plan which resulted in the conversion of JAARS advances and loans into a subordinated equity ownership in Quest, class B preferred debt. All previously existing contracts, loan agreements and understandings were cancelled as a result of this. The restructuring and recapitalization were completed in February 2011. Based on this agreement, JAARS received one share of class B preferred debt for each dollar of deposits and loans. Accordingly the fair value of the class B preferred debt is undetermined since there are various elements of the restructuring and recapitalization that have not been quantified. It is at least reasonably possible the fair value of the restructured investment could be less than the cost or book-value presented. JAARS may be required to re-negotiate agreements with Quest to purchase any additional aircraft. The class B preferred debt may be redeemable as a subsidy for the purchase of future Kodiak aircraft to the extent Quest has "free cash flow". This is anticipated to be at the discretion of Quest Aircraft Company.