

BATTS, MORRISON, WALES & LEE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT


The Board of Directors
SIM USA, Inc.
Charlotte, North Carolina

We have audited the accompanying combined statement of financial position of SIM USA, Inc. ("the Mission") as of September 30, 2009, and the related combined statements of activities and cash flows for the year then ended. These combined financial statements are the responsibility of the Mission's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of SIM USA, Inc. as of September 30, 2009, the combined changes in its net assets and its combined cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The accompanying supplemental schedules of the statement of financial position and statement of activities for the Sudan Interior Mission, Inc. Segregated Gift Annuity Fund are presented for purposes of additional analysis and are not a required part of the basic combined financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.



BATTS, MORRISON, WALES & LEE, P.A.

Orlando, Florida
March 17, 2010

SIM USA, INC.
COMBINED STATEMENT OF FINANCIAL POSITION
September 30, 2009

ASSETS

ASSETS

Cash and cash equivalents	\$ 16,127
Deposits held by SIM International, Inc.	8,287,348
Investments	37,318,993
Property and equipment, net	6,087,406
Other assets	<u>379,941</u>

Total assets **\$ 52,089,815**

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 242,754
Missionary personal amounts held	917,976
Deferred compensation payable	1,020,861
Liabilities for annuities and trusts	<u>21,396,995</u>

Total liabilities **23,578,586**

NET ASSETS

Unrestricted net assets:	
Designated	7,806,758
Undesignated	<u>3,406,476</u>
Total unrestricted net assets	11,213,234
Temporarily restricted net assets	14,671,723
Permanently restricted net assets	<u>2,626,272</u>

Total net assets **28,511,229**

Total liabilities and net assets **\$ 52,089,815**

SIM USA, INC.
COMBINED STATEMENT OF ACTIVITIES
For The Year Ended September 30, 2009

CHANGE IN UNRESTRICTED NET ASSETS	
Public support and revenue:	
Rental and other revenue	\$ 753,233
Contributions	376,398
Net investment income	196,049
Change in value of annuities and trusts	<u>(587,190)</u>
Total public support and revenue	738,490
Net assets released from restrictions:	
Satisfaction of time and use restrictions	<u>36,832,052</u>
Total public support and revenue and net assets released from restrictions	<u>37,570,542</u>
Expenses:	
Program activities:	
Church growth and evangelism	10,657,162
Grants to other SIM ministries	6,845,187
Relief and rehabilitation	5,101,630
Education ministry	5,068,162
Service	2,150,146
Home ministry	1,866,380
Media ministry	<u>822,743</u>
Total program activities	<u>32,511,410</u>
Supporting activities:	
Management and general	4,948,542
Fundraising	<u>1,253,876</u>
Total supporting activities	<u>6,202,418</u>
Total expenses	<u>38,713,828</u>
Change in unrestricted net assets	<u>(1,143,286)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	
Contributions	37,249,096
Net investment losses	(135,624)
Change in value of annuities and trusts	(351,155)
Net assets released from time and use restrictions	<u>(36,832,052)</u>
Change in temporarily restricted net assets	<u>(69,735)</u>
CHANGE IN NET ASSETS	(1,213,021)
NET ASSETS - Beginning of year	<u>29,724,250</u>
NET ASSETS - End of year	<u>\$ 28,511,229</u>

The Accompanying Notes are an Integral
Part of These Combined Financial Statements

SIM USA, INC.
COMBINED STATEMENT OF CASH FLOWS
For The Year Ended September 30, 2009

OPERATING CASH FLOWS	
Change in net assets	\$ (1,213,021)
Adjustments to reconcile change in net assets to operating cash flows:	
Depreciation	247,648
Net realized and unrealized investment losses	412,270
Change in other assets	36,599
Change in accounts payable and accrued expenses	(418,164)
Change in due to affiliates	(524,989)
Change in missionary personal amounts held	(4,470)
Change in deferred compensation payable	42,051
Change in liabilities for annuities and trusts	<u>(202,652)</u>
Operating cash flows	<u>(1,624,728)</u>
INVESTING CASH FLOWS	
Net redemptions of amounts invested with affiliated organization	1,262,202
Net proceeds from sales of investments	482,624
Purchases of and improvements to property and equipment	<u>(216,585)</u>
Investing cash flows	<u>1,528,241</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(96,487)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>112,614</u>
CASH AND CASH EQUIVALENTS - End of year	<u><u>\$ 16,127</u></u>

The Accompanying Notes are an Integral
Part of These Combined Financial Statements

SIM USA, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
September 30, 2009

NOTE A – NATURE OF ACTIVITIES

SIM USA, Inc. (“the Mission”) is a not-for-profit New Jersey corporation operating as a Christian missionary sending organization whose purpose is to glorify God by planting, strengthening, and partnering with churches around the world as it evangelizes the unreached, ministers to human need, disciples believers into churches, and equips churches to fulfill Christ's Commission. The Mission is headquartered in Charlotte, North Carolina and is supported primarily through public contributions.

The Mission is affiliated with certain other entities by virtue of commonality in the composition of the governing bodies. Consequently, the accompanying financial statements are presented as combined financial statements in conformity with U.S. generally accepted accounting principles. Such other entities have little or no financial activity, and include Sudan Interior Mission, a New York not-for-profit corporation; International Christian Fellowship, an Illinois not-for-profit corporation; and African Evangelical Fellowship, a New York not-for-profit corporation. All significant interorganization transactions and balances have been eliminated.

The Mission cooperates with other entities internationally pursuant to a joint ministry agreement. SIM International, Inc. (“SIM International”), a U.S. not-for-profit corporation based in Fort Mill, South Carolina, serves as a coordinating entity for the participant entities, facilitating financial transactions and other administrative activities. No control relationship or common control exists between the Mission and SIM International.

The Mission operates a retirement village in Sebring, Florida primarily for the benefit of its retired missionaries.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Restricted and unrestricted revenue and support

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

Temporarily restricted net assets

All contributions are received as donations to the Mission and not to specific individuals. Contributions which donors request to be used to support the ministry activities of specific missionaries or specific projects are under the full control of the Mission. In order to conservatively account for such contributions, the Mission recognizes them as temporarily restricted until they are expended for appropriate ministry purposes.

Split-interest gifts

For irrevocable split-interest arrangements such as charitable gift annuities and charitable remainder trusts and similar arrangements in which the Mission is trustee or custodian, the assets of such arrangements are reflected in the Mission's combined statements as further described in Note D. The carrying values of such investments conform to U.S. generally accepted accounting principles, which generally require that investment securities be carried at estimated fair value at all times and that other assets be carried at the estimated fair value of the assets on the date the assets are contributed, unadjusted for subsequent changes in value. Also, for arrangements in which the Mission is trustee or custodian, a liability is recognized for the estimated present value of benefits payable to other beneficiaries. For split-interest arrangements in which the Mission is not the trustee or custodian, the Mission recognizes an asset for the estimated present value of the Mission's benefits under the arrangements. For all irrevocable split-interest arrangements, regardless of whether or not the Mission acts as trustee or custodian, unrestricted or temporarily restricted contribution revenue is recognized for the estimated present value of the Mission's benefits under each such arrangement in the year the arrangement is established or in the year in which the Mission is provided sufficient information about the existence and nature of the arrangement. Periodic adjustments are made for changes in estimated present values using applicable mortality tables and discount rates. State law imposes certain restrictions on the manner in which charitable gift annuity assets may be invested.

SIM USA, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
September 30, 2009

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

The Mission considers investment instruments purchased or donated with original maturities of three months or less to be cash equivalents.

Property and equipment

Property and equipment are stated at cost, if purchased, or fair value on the date of donation, if donated. The Mission uses the straight-line method of depreciating assets over their respective estimated useful lives.

Missionary personal amounts held

Missionary personal amounts held represent assets owned by missionaries and held for their benefit by the Mission.

Deferred compensation payable

Deferred compensation payable represents amounts held as retirement funds for the benefit of certain missionaries.

Income taxes

The Mission is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code and from state income tax pursuant to state law. The Mission is further classified as a church, a religious order and a public charity and is not a private foundation for federal tax purposes. The Mission has not incurred unrelated business income taxes. As a result, no income tax provision or liability has been provided for in the accompanying combined financial statements. The Mission has not taken any material uncertain tax positions for which the associated tax benefits may not be recognized under accounting principles generally accepted in the United States of America.

Use of estimates

Management uses estimates and assumptions in preparing combined financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these combined financial statements include those used in estimating the fair value of investments, the useful lives of buildings and equipment, the allowance for self-insured benefit claims, and the liabilities for trusts, annuities and similar agreements. Actual results could differ from the estimates.

Subsequent events

The Mission has evaluated for possible financial reporting and disclosure subsequent events through March 17, 2010, the date as of which the combined financial statements were available to be issued.

NOTE C – CONCENTRATION OF CREDIT RISK

The Mission maintains its cash, cash equivalents and certificates of deposit in deposit accounts which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. The Mission has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash, cash equivalents and certificates of deposit.

Additionally, the Mission maintains a substantial portion of its liquid assets on deposit with SIM International. SIM International holds such assets in accounts that are commingled with assets of other entities who cooperate with it in carrying out international missionary activities. SIM International is not a regulated financial institution. The Mission does not control SIM International. As of September 30, 2009, the Mission had \$8,287,348 on deposit with SIM International.

SIM USA, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
September 30, 2009

NOTE D – INVESTMENTS

The Mission holds investments of various types both in its capacity as trustee or custodian and in its capacity as owner. Investments are carried at estimated fair value unless otherwise indicated below, with the exception of investments in non-publicly-traded securities that are not material to the combined financial statements, which may be carried at cost. (For financial reporting purposes, in the case of assets acquired by gift, the term “cost” refers to the estimated fair value as of the date the Mission received the assets.)

Investments as of September 30, 2009 were held for the following purposes or activities:

Investments held as trustee or in a similar capacity

• Investments held as trustee or in a similar capacity for revocable trusts or similar arrangements	\$ 17,137,109
• Investments held to satisfy charitable annuity obligations	4,113,041
• Investments held as trustee for charitable remainder trusts	1,262,363
• Investments held as trustee or in a similar capacity for other irrevocable trusts or similar arrangements	1,602,926

Investments subject to permanent donor restrictions

• Investments held for donor-restricted permanent endowments	2,626,272
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Investments held for other purposes

• Investments held for nonqualified deferred compensation plan	1,020,861
• Investments held for board-designated quasi-endowment	732,426
• Investments held for general operations	<u>8,823,995</u>

Total investments	<u>\$ 37,318,993</u>
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Investments as of September 30, 2009 included the following:

Restricted cash and cash equivalents	\$ 2,552,787
Direct equity securities	5,344,797
Direct debt securities	11,591,070
Mutual funds	12,018,922
Investments in privately held entities	3,785,444
Real estate (at cost)	<u>2,025,973</u>
Total investments	<u>\$ 37,318,993</u>

Investments in privately held entities are not liquid and include investments in hedge funds and limited partnership interests (“alternative investments”) and an 8% interest in a private insurance company owned by several not-for-profit organizations for the purpose of maintaining advantageous insurance coverage for worker compensation, general liability, property damage, and automobile damage and liability. The estimated fair value of the alternative investments as of September 30, 2009, was approximately \$3,481,000 and was determined from information provided by the investee or, in some cases, a third-party administrator and accepted by the Mission’s management. The estimated fair value of alternative investments included in the accompanying combined financial statements are subject to a high degree of uncertainty and the actual fair value could differ materially from the estimated fair value. Management of the Mission believes that the Mission’s alternative investments are carried at reasonable estimates of their fair value. The estimated fair value of the interest in the private insurance company as of September 30, 2009, was approximately \$304,000 and is based on the Mission’s pro rata percentage of the company’s reported stockholders’ equity.

SIM USA, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
September 30, 2009

NOTE D – INVESTMENTS (Continued)

Net investment income (loss) reported in the combined statement of activities includes the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 395,691	\$ 77,004	\$ 472,695
Net losses on investments	<u>(199,642)</u>	<u>(212,628)</u>	<u>(412,270)</u>
Net investment income (loss)	<u>\$ 196,049</u>	<u>\$ (135,624)</u>	<u>\$ 60,425</u>

NOTE E – FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States (“GAAP”) define fair value as the price the Mission would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. GAAP also established a hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Following is a description of each of the three levels of input within the fair value hierarchy:

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (such as quoted prices for similar investments)

Level 3 – significant unobservable inputs

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Estimated fair value of certain assets measured on a recurring basis at September 30, 2009 are as follows:

	<u>Estimated Fair Value</u>	<u>Estimated Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash and cash equivalents	\$ 2,552,787	\$ 2,552,787	\$ —	\$ —
Direct equity securities	5,344,797	5,344,797	—	—
Direct debt securities	11,591,070	11,591,070	—	—
Mutual funds	12,018,922	12,018,922	—	—
Investments in privately held entities	3,785,444	—	—	3,785,444
Real estate	<u>2,025,973</u>	<u>—</u>	<u>2,025,973</u>	<u>—</u>
Total	<u>\$ 37,318,993</u>	<u>\$ 31,507,576</u>	<u>\$ 2,025,973</u>	<u>\$ 3,785,444</u>

Real estate is carried at cost, which management believes does not differ significantly from estimated fair value. The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining estimated fair value:

Balance, October 1, 2008	\$ 4,787,546
Net purchases/ (sales)	(390,098)
Net income/ (loss)	(430,346)
Net gain/ (loss)	<u>(181,658)</u>
Balance, September 30, 2009	<u>\$ 3,785,444</u>

SIM USA, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
September 30, 2009

NOTE F – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

<u>Category</u>	<u>Charlotte, North Carolina</u>	<u>Sebring, Florida</u>	<u>Total</u>
Land and land improvements	\$ 1,603,291	\$ 159,749	\$ 1,763,040
Buildings and building improvements	3,299,451	4,370,745	7,670,196
Furniture and equipment	883,855	36,194	920,049
Vehicles	111,800	—	111,800
Construction in progress	<u>11,638</u>	<u>—</u>	<u>11,638</u>
 Total property and equipment	 5,910,035	 4,566,688	 10,476,723
 Less: Accumulated depreciation	 <u>(2,037,227)</u>	 <u>(2,352,090)</u>	 <u>(4,389,317)</u>
 Net property and equipment	 <u>\$ 3,872,808</u>	 <u>\$ 2,214,598</u>	 <u>\$ 6,087,406</u>

Depreciation expense amounted to \$247,648 for the year ended September 30, 2009.

NOTE G – DESIGNATED NET ASSETS

Designated net assets consisted of the following:

Net investment in property and equipment	\$ 6,051,157
Quasi-endowments	732,426
State required annuity reserves	500,000
Annuity investment reserve	277,635
Equipment reserve	177,856
Private insurance reserve	54,368
Management reserve	<u>13,316</u>
 Total designated net assets	 <u>\$ 7,806,758</u>

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

Ministry funds	\$ 7,541,762
Future missionary support	4,190,133
Estimated future benefit of annuities and trusts	1,936,903
Projects	912,854
Theological education	<u>90,071</u>
 Total temporarily restricted net assets	 <u>\$ 14,671,723</u>

NOTE I – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of endowments wherein principal is required to be invested in perpetuity. Investment earnings are restricted primarily for theological education.

SIM USA, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
September 30, 2009

NOTE I – PERMANENTLY RESTRICTED NET ASSETS (Continued)

The Mission preserves the estimated fair value of all original endowment gifts as of the gift date. Accordingly, the Mission classifies as “permanently restricted net assets” (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The Mission has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to supported programs while seeking to maintain the purchasing power of the endowment assets and to preserve the invested capital. The Mission seeks the advice of investment counsel, as well as management and certain committees of the Board, when determining amounts to be spent on supported programs. The Mission’s current spending policy is to distribute or utilize an amount at least equal to 5% of the value of the endowment funds.

NOTE J – ADVERTISING AND SIMILAR COSTS

The Mission incurred expenses of approximately \$448,000 during the year ended September 30, 2009 in connection with advertising and similar activities.

NOTE K – ALLOCATED COSTS OF JOINT-PURPOSE ACTIVITIES

During the year ended September 30, 2009, the Mission incurred costs in connection with activities that included both program and fundraising components. The total of such costs was \$2,111,000, of which \$1,672,000 was allocated to program expenses and \$439,000 was allocated to fundraising expenses.

NOTE L – SELF-INSURED EMPLOYEE BENEFIT PLAN

The Mission maintains a self-insured employee benefit plan covering certain employees for dental and vision costs and providing for certain limitations and restrictions on coverage. As of September 30, 2009, claims incurred but not paid or reported were not material to the combined financial statements.

NOTE M – RETIREMENT BENEFITS

The Mission provides certain retirement benefits on a funds-available basis to eligible missionary employees who have reached the Mission’s designated retirement age. The benefits paid are limited to funds available in the Mission’s retirement benefit fund, which is funded by donor contributions. Benefits paid may include a housing allowance, other housing benefits (including discounted housing at the Mission’s retirement village), certain medical payments, and other retirement compensation. Expenses associated with the plan for the year ended September 30, 2009 were approximately \$2,099,000.

The Mission also maintains a 403(b) retirement plan for the benefit of eligible employees. The Mission makes a small matching contribution to the plan annually, and also contributes specific amounts for the benefit of employees based on their duties and location of service. The Mission contributed approximately \$1,217,000 to the plan for the year ended September 30, 2009.

SUPPLEMENTAL SCHEDULES

SUDAN INTERIOR MISSION, INC.
SEGREGATED GIFT ANNUITY FUND
SUPPLEMENTAL STATEMENT OF FINANCIAL POSITION
September 30, 2009

ASSETS

ASSETS

Cash and cash equivalents	\$ 183,853
Investments	<u>3,929,188</u>

Total assets \$ 4,113,041

LIABILITIES AND UNRESTRICTED NET ASSETS

LIABILITIES

Annuity liabilities	<u>\$ 3,331,500</u>
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Total liabilities 3,331,500

UNRESTRICTED NET ASSETS

Other	281,541
Required minimum reserve/surplus – New York	333,150
Additional required reserves/surplus – Washington	<u>166,850</u>

Total unrestricted net assets 781,541

Total liabilities and unrestricted net assets \$ 4,113,041

SUDAN INTERIOR MISSION, INC.
SEGREGATED GIFT ANNUITY FUND
SUPPLEMENTAL STATEMENT OF ACTIVITIES
For The Year Ended September 30, 2009

Public support and revenue:	
New annuities	\$ 33,746
Interest and dividend income	124,674
Net losses on investments (including realized losses of \$388,577)	<u>(167,289)</u>
Total public support and revenue	<u>(8,869)</u>
Expenses:	
Payments to annuitants	520,455
Other	<u>25,850</u>
Total expenses	<u>546,305</u>
CHANGE IN NET ASSETS	(555,174)
NET ASSETS – Beginning of year	<u>1,336,715</u>
NET ASSETS – End of year	<u>\$ 781,541</u>