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Technical Director
File Reference No. EITF-12B
FASB
401 Merritt 7
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## Dear Sir or Madam:

Thank you for the opportunity to comment on behalf of SIL International on the proposed accounting standard update for Not-for-Profit Entities concerning personnel services received from an affiliate for which the affiliate does not seek compensation.

## **SIL International Operations**

The Summer Institute of Linguistics, Inc. (dba SIL International) is a faith-based nonprofit organization committed to serving language communities worldwide as they build capacity for sustainable language development. SIL International does this primarily through research, translation, training and materials development. Founded in 1934, SIL International has grown from a small summer linguistics training program with two students to a staff of over 5,500 coming from over 60 countries. SIL's linguistic investigation exceeds 2,590 languages spoken by over 1.7 billion people in nearly 100 countries. The organization makes its services available to all, without regard to religious belief, political ideology, gender, race or ethno-linguistic background. Primary partners for funding and staff are organizations affiliated with the Wycliffe Global Alliance. This support is SIL International's primary source of revenue.

The issue in this proposed accounting standard update is a very significant to SIL International. The organization recognizes all personnel services received from Wycliffe Global Alliance member and partner organizations regardless of whether the criteria for contributed services in Subtopic 958-605 are met or not. It also measures those personnel services at the cost recognized by the Alliance member without attempting to measure a fair value separate from cost. As reported in SIL International's fiscal year 2011 financial statements (<a href="http://www.sil.org/sil/development/financials.htm">http://www.sil.org/sil/development/financials.htm</a>), \$84,767,000 (57%) of SIL International's \$147,751,000 total operating support and revenue consisted of the value of labor provided by the 5,500+ staff assigned to SIL International by Wycliffe Global Alliance member and partner organizations.

In addition to the personnel provided, Wycliffe Global Alliance partner organizations also provide SIL International with separate funding equal to 5% of the cost of each person. It is therefore easy for SIL International to mathematically compute the value of the personnel services received at the cost incurred by the Wycliffe Global Alliance member and partner organizations.

## **SIL International ASU Position**

SIL International is in favor of the proposed update provided additional guidance or clarification is made in the definition of an affiliated entity. Our specific concern is with the definition of "Control" used in the definition of Affiliate. Depending on the definition of "Control" the personnel services provided to SIL International by Wycliffe Global Alliance member and partner organizations may not qualify for the treatment described in this accounting update. That would result in the impossible situation of attempting to determine the fair market value of 5,500+ staff coming from over 60 countries and serving in over 100 countries worldwide.

Paragraph 9 in the Background Information and Basis for Conclusions in the Proposed Accounting Standards Update explains that the guidance given in Subtopic 958-810 Not-for-Profit Entities— Consolidation should be followed to determine what constitutes control in a not-for-profit environment. In that Subtopic, control is defined as "the direct or indirect ability to determine the direction of management and policies through ownership, contract, or otherwise." The Subtopic indicates that control may be evidenced in various ways, including through "contract" or "affiliation" agreement.

**SIL International recommends** that the definition of "Affiliate" used in this ASU be expanded to include control evidenced by contract or agreement for the provision of personnel services. While such control is not sufficient for consolidation, such control by agreement or contract for personnel services (governing and determining the allocation of personnel) is consistent with SIL International's relationships with the Wycliffe Global Alliance and with its member and partner organizations.

## Specific ASU Attributes Applied to the SIL International and Wycliffe Global Alliance Relationship:

While a partnership agreement exists between SIL International and the Wycliffe Global Alliance, based on their common vision, values, and historic foundations, they are distinct organizations. In no way does one organization control the other. They work together to accomplish similar purposes but with different roles. Wycliffe Global Alliance members and partners tend to raise the resources needed for the work. They then provide those resources to SIL International to carry out the work.

Although it believes control does not exist sufficient to require consolidation, SIL International does believe economic interest exists between itself, the Wycliffe Global Alliance, and the Alliance member and partner organizations. Therefore, as required by Subtopic 958-810 Not-for-Profit Entities— Consolidation, SIL International discloses the related party relationship between SIL International and Wycliffe Global Alliance member and partner organizations in its financial statements. This includes information about the amounts due to and due from, and support received from and provided to these organizations during the period.

There also exists a unique secondment agreement for each staff member whose personnel service is provided by a Wycliffe Global Alliance member or partner organization and received by SIL International. These secondment agreements define the legal, financial, supervision and reporting responsibilities of each organization. Each secondment agreement only addresses the control of an individual staff member's activities. It does not result in one organization controlling another.

Therefore, SIL International believes the Wycliffe Global Alliance, Alliance member and partner organizations, and the public supporting the work of Wycliffe organizations and SIL International would be better served if the proposed accounting standards update clarified that the word "control" included in the definition of Affiliate, includes not-for-profit organizations that meet the definition of an

economic interest as provided in Subtopic 958-810 and receive personnel services under the existence of a contract or agreement.

So in response to your specific questions, we provide the following responses:

**Question 1:** Do you agree that the scope of this proposed Update should be limited to the standalone financial statements of not-for-profit entities that receive personnel services from an affiliate, that is, a party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the recipient not-for-profit entity? If not, please explain why.

As explained above, our response is yes, assuming that the meaning and application of the Subtopic 958-810 definition of control is expanded to include the existence of a contract or agreement for personnel services along with economic interest. Without this clarification of the meaning of control, the relationship between SIL International and Wycliffe Global Alliance member and partner organizations may not be considered an affiliate relationship.

**Question 2:** Do you agree that a recipient not-for-profit entity should recognize all personnel services received from an affiliate that directly benefit the recipient not-for-profit entity (that is, are similar to personnel directly engaged by the recipient not-for-profit entity) but for which the affiliate does not seek compensation for the services provided? If not, please explain why.

Yes, we agree with this statement.

**Question 3:** Do you agree that a recipient not-for-profit entity should measure the personnel services received from an affiliate at the cost incurred by the affiliate? Furthermore, do you agree that, at a minimum, cost should include all direct personnel costs (for example, compensation and any payroll-related fringe benefits) incurred by the affiliate in providing the services to the recipient not-for-profit entity? If not, please explain why.

Yes, we agree with this statement.

**Question 4:** Do you agree that a recipient not-for-profit entity that presents a performance indicator (such as a not-for-profit business-oriented health care entity) should report the increase in net assets associated with personnel services received from an affiliate and for which the affiliate does not seek compensation as an equity transfer, regardless of whether those personnel services are received from a not-for-profit affiliate entity or a for-profit affiliate entity? If not, please explain why.

Not Applicable to SIL International. We do not present a performance indicator in our financial statements.

**Question 5:** For a recipient not-for-profit entity that does not present a performance indicator, do you agree that presentation guidance should not be prescribed for the increase in net assets associated with personnel services received from an affiliate other than prohibiting reporting as a contra-expense or a contra-asset? If not, please explain why.

Yes, we agree with this statement.

**Question 6:** Do you agree that, except for the related party disclosures in Subtopic 850-10, no other recurring disclosures should be required for a not-for-profit entity that receives personnel services from an affiliate? If not, please explain why.

Yes, we agree with this statement.

**Question 7:** Do you agree that a recipient not-for-profit entity should apply the proposed amendments prospectively? If not, please explain why.

Yes, we agree with this statement. Because we have the data and currently report the value of personnel services received according to the guidance in the proposed Accounting Standard Update, either method of application works for us.

**Question 8:** Do you agree that a recipient not-for-profit entity should be provided with an option to apply the proposed amendments under a modified retrospective approach in which all prior periods presented upon the date of adoption would be adjusted but no adjustment would be made to the beginning balance of net assets of the earliest period presented? If not, please explain why.

Yes, we agree with this statement.

**Question 9:** Do you agree that a recipient not-for-profit entity should be permitted to early adopt the proposed amendments? If not, please explain why.

Yes, we agree with this statement.

Question 10: How much time is needed to implement the proposed amendments? Please explain.

SIL International would need no additional time to implement the proposed amendment. It already has the information needed.

Thank you again for the opportunity to respond to this proposed Accounting Standards Update. Please do not hesitate to contact me if you have any questions about this response or wish to know more about how SIL International accounts for the personnel services it receives from Wycliffe Global Alliance member and partner organizations.

Sincerely yours,

David T. Cram, CPA Corporation Treasurer