

BUCKNER INTERNATIONAL AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2014

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT.....	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6
SUPPLEMENTARY INFORMATION	
INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION	28
Consolidating Statement of Financial Position.....	29
Consolidating Statement of Activities	30



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Buckner International

We have audited the accompanying consolidated financial statements of Buckner International and Subsidiaries (collectively, Buckner), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Buckner International and Subsidiaries

Page 2

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Buckner International and Subsidiaries as of December 31, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Weaver and Tidwell, L.L.P.
WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
May 15, 2015

BUCKNER INTERNATIONAL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 15,305,226	\$ 16,875,874
Investments	357,363,861	35,431,449
Assets whose use is limited	724,548	806,671
Receivables, net	7,688,680	4,959,635
Pledges and bequests receivable, net	2,232,509	1,710,557
Inventories and supplies	217,937	154,101
Notes receivable	139,715	36,864
Prepaid expenses	1,558,885	1,074,425
Due from related foundation	-	1,470,518
Other assets	1,978,808	885,227
Revenue bond proceeds held by trustee	9,306,104	8,597,948
Real estate held for investment	1,491,937	1,859,718
Property and equipment, net	154,113,235	149,454,104
Interest in net assets of related foundation	-	299,476,166
Bond issuance costs, net	1,165,526	1,216,626
Assets from discontinued operation	-	1,107,085
	\$ 553,286,971	\$ 525,116,968
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 1,838,225	\$ 1,679,866
Accrued liabilities	3,995,858	4,108,148
Lines of credit	1,446,851	1,266,040
Short-term notes payable	980,574	791,793
Revenue bonds payable, net	93,846,158	98,147,637
Notes payable	13,560,110	5,455,796
Resident deposits	2,017,230	1,908,299
Refundable fees	17,080,871	17,179,999
Deferred revenue from advance fees	2,816,715	3,312,575
Annuity and life income fund liability	5,608,885	385,085
Other	2,176,822	2,264,767
Liabilities from discontinued operation	-	318,013
	145,368,299	136,818,018
NET ASSETS		
Unrestricted	316,474,276	296,167,921
Temporarily restricted	12,020,093	12,188,946
Permanently restricted	79,424,303	79,942,083
	407,918,672	388,298,950
	\$ 553,286,971	\$ 525,116,968

The Notes to Consolidated Financial Statements
are an integral part of these statements.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES								
Client support and related income	\$ 78,295,911	\$ -	\$ -	\$ 78,295,911	\$ 74,896,639	\$ -	\$ -	\$ 74,896,639
Investment income	27,867,543	(5,336)	222,265	28,084,472	2,662,147	24,241	59,904	2,746,292
Distributions from related foundation	-	-	-	-	21,497,702	-	-	21,497,702
Contributions								
Baptist General Convention of Texas	631,594	-	-	631,594	710,498	-	-	710,498
Individual and business gifts	19,841,895	2,249,944	500,838	22,592,677	23,040,625	2,620,754	772,471	26,433,850
Bequests	180,592	-	202,037	382,629	1,670,846	-	-	1,670,846
Gain (loss) on sales of real estate held for investment	1,116,092	-	-	1,116,092	(7,484)	-	-	(7,484)
Other	647,229	-	-	647,229	637,633	-	-	637,633
Administrative fees	-	-	-	-	165,000	-	-	165,000
Net assets released from restrictions	2,331,079	(2,331,079)	-	-	2,657,435	(2,657,435)	-	-
Total revenues	130,911,935	(86,471)	925,140	131,750,604	127,931,041	(12,440)	832,375	128,750,976
EXPENSES								
Salaries and benefits	61,656,268	-	-	61,656,268	54,966,899	-	-	54,966,899
Supplies and direct expenses	27,250,258	-	-	27,250,258	29,019,688	-	-	29,019,688
Occupancy and insurance	12,206,268	-	-	12,206,268	12,326,369	-	-	12,326,369
Travel and transportation	3,803,486	-	-	3,803,486	3,838,577	-	-	3,838,577
Administration	9,082,818	61,004	-	9,143,822	9,722,347	61,004	-	9,783,351
Depreciation	7,637,852	-	-	7,637,852	7,190,505	-	-	7,190,505
Interest expense	5,171,015	-	-	5,171,015	4,934,406	-	-	4,934,406
Total expenses	126,807,965	61,004	-	126,868,969	121,998,791	61,004	-	122,059,795
CHANGE IN NET ASSETS FROM OPERATIONS	4,103,970	(147,475)	925,140	4,881,635	5,932,250	(73,444)	832,375	6,691,181
NONOPERATING ITEMS								
Net realized and unrealized gains (losses) on investments, and other investment income	17,066,397	(25,372)	(1,387,987)	15,653,038	329,608	1,378,814	1,391,232	3,099,654
Increase in interest in net assets of related foundation	-	-	-	-	62,774,761	164,176	6,783,221	69,722,158
Other, net	(294,940)	23,994	145,067	(125,879)	1,351,842	17,233	(572,355)	796,720
INCOME (LOSS) FROM CONTINUING OPERATIONS	20,875,427	(148,853)	(317,780)	20,408,794	70,388,461	1,486,779	8,434,473	80,309,713
INCOME (LOSS) FROM DISCONTINUED OPERATION	-	-	-	-	(83,720)	10,000	-	(73,720)
DISPOSAL OF ASSETS AND LIABILITIES FROM DISCONTINUED OPERATIONS	(569,072)	(20,000)	(200,000)	(789,072)	-	-	-	-
CHANGE IN NET ASSETS	20,306,355	(168,853)	(517,780)	19,619,722	70,304,741	1,496,779	8,434,473	80,235,993
NET ASSETS, BEGINNING OF YEAR	296,167,921	12,188,946	79,942,083	388,298,950	225,863,180	10,692,167	71,507,610	308,062,957
NET ASSETS, END OF YEAR	\$ 316,474,276	\$ 12,020,093	\$ 79,424,303	\$ 407,918,672	\$ 296,167,921	\$ 12,188,946	\$ 79,942,083	\$ 388,298,950

The Notes to Consolidated Financial Statements
are an integral part of these statements.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 19,619,722	\$ 80,235,993
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on discontinued operations	-	73,720
Depreciation	7,637,852	7,190,505
Amortization	(581,281)	(414,804)
Increase in accretion expense and ARO revisions	56,341	51,900
Loss (gain) on sales of real estate held for investment	(1,116,092)	7,484
Loss on sale or disposal of facility assets	-	418
Net realized and unrealized (gains) on investments	(15,653,038)	(3,099,654)
Changes in operating assets and liabilities:		
Assets whose use is limited	82,123	(210,779)
Receivables	(3,353,848)	(1,152,182)
Inventories and supplies	(63,836)	(20,192)
Prepaid expenses	496,114	1,264,248
Other assets	(1,193,755)	-
Due from related foundation	-	(1,214,215)
Interest in net assets of related foundation	7,567,089	(69,722,158)
Assets from discontinued operations	1,107,085	-
Accounts payable	158,359	667,935
Accrued liabilities	(112,290)	44,235
Resident deposits	108,931	119,027
Refundable fees	(99,128)	1,477,868
Deferred revenue from advance fees	164,060	481,005
Annuity and life income fund liability	12,595	(28,578)
Liabilities from discontinued operations	(318,013)	-
Other liabilities	(144,286)	(86,454)
Net cash provided by operating activities	14,374,704	15,665,322
CASH FLOWS FROM INVESTING ACTIVITIES		
Collection of notes receivable	-	14,186
Purchases of property and equipment	(12,296,983)	(7,826,712)
Purchases of investments	(13,641,024)	(797,182)
Proceeds on sales or redemptions of investments	5,244,294	993,703
Proceeds from sales of real estate held for investment	1,483,873	5,016
Net cash used in investing activities	(19,209,840)	(7,610,989)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from revenue bonds payable and notes payable	8,480,353	352,290
Payments on revenue bonds payable and short-term notes payable	(5,215,865)	(3,653,996)
Net cash provided by (used in) financing activities	3,264,488	(3,301,706)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,570,648)	4,752,627
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	16,875,874	12,123,247
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 15,305,226	\$ 16,875,874
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	\$ 5,223,914	\$ 5,197,518
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Financing of insurance contract	\$ 980,574	\$ 791,793

The Notes to Consolidated Financial Statements are an integral part of these statements.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF OPERATIONS AND PRINCIPLES OF CONSOLIDATION

Buckner International (Buckner) is a Texas not-for-profit corporation that has been caring for families, needy children, and the elderly since 1879. One-fourth of Buckner's Board of Trustees is elected by the Baptist General Convention of Texas with the remaining three-fourths appointed by Buckner's Board of Trustees.

Effective January 1, 2009, Buckner Adoption and Maternity Services, Inc. (BAMS) entered into an affiliation agreement with Dillon International, Inc. (Dillon). Dillon is an Oklahoma based 501(c)(3) not-for-profit corporation specializing in international adoptions since 1972. Dillon's Board of Directors consists of four board members appointed by the co-founder of Dillon and four board members of Buckner. During 2013, BAMS and Dillon entered into a disaffiliation agreement effective January 1, 2014. The results of Dillon's operations have been presented as discontinued operations.

Effective January 1, 2010, Buckner Retirement Services, Inc. (BRS) acquired Baptist Memorials Ministries (BMM). BMM is a 501(c)(3) not-for-profit corporation that provides health care, housing and other related services to residents through the operation of a continuing care retirement community in San Angelo, Texas and an independent living community in Burnet, Texas. BRS is the sole member and approves the nomination and placement of the Board of Directors for BMM.

Buckner Senior Living, Inc. (BSL), a Texas not-for-profit corporation, was established on December 14, 2012 to develop and operate a continuing care retirement community to be located in Dallas, Texas in order to expand its affiliate's mission of providing quality housing, health care services and other programs to senior citizens. BRS is the sole member and elects the Board of Directors for BSL. BSL is exempt from Federal income taxation under 501(c)(3) of the Internal Revenue Code.

Buckner consolidates the following not-for-profit corporations:

- Buckner Children and Family Services, Inc. (includes subsidiaries - Rio Grande Children's Home, Rio Grande Children's Home Foundation Inc., and MFHL Corporation) – collectively BCFS
- BRS (includes subsidiaries BMM and BSL)
- BAMS
- Buckner Foundation, Inc. (Foundation)

The Board of Trustees of Buckner serve as directors of Buckner Children and Family Services, Inc., Buckner Retirement Services, Inc., and Buckner Adoption and Maternity Services, Inc. Buckner and the corporations are exempt from Federal income taxation under Section 501(c)(3) of the Internal Revenue Code.

Effective January 1, 2014, BCFS, BRS and BAMS each approve one-third (1/3) of the members of the Board of Trustees of the Foundation. Therefore, the Foundation is now consolidated with Buckner.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Buckner and changes therein are classified and reported as follows:

- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will never lapse thus requiring the funds to be retained permanently. Generally, the donors of these assets permit Buckner to use all or part of the income earned on related investments for general or specific purposes, including program support. In 2014, these assets are made up of a portion of cash and cash equivalents and investments. In 2013, these assets included a portion of investments contained within the interest in net assets of related foundation.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of Buckner and/or the passage of time to be used generally for capital expenditures and program support. In 2014, these assets are made up of a portion of cash and cash equivalents, investments, and pledges and bequests receivable. In 2013, these assets included a portion of investments contained within the interest in net assets of related foundation.
- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Restricted contributions received and released in the current year will be reported as unrestricted net asset activity.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporarily restricted net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions are recognized as revenues in the period when unconditional promises to give are received. Bequests are recognized when the court declares the will valid and the amount is reasonably estimable. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund-raising activity. There was no allowance for uncollectible contributions at December 31, 2014 and 2013.

Income and investment gains and losses of endowment and similar funds are reported as follows:

- As increases (decreases) in permanently restricted net assets if the terms of the gift require that they be included in the principal of a permanent endowment fund;
- As increases (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on their use;
- As increases (decreases) in unrestricted net assets in all other cases.

Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less. The carrying value of such instruments approximates fair value. Buckner places its cash, cash equivalents and investments with high credit quality financial institutions, which at times may exceed federally insured limits. Buckner has not experienced any losses on such accounts.

Investments

Investments in marketable securities are recorded at fair value based on quoted market prices when there is a readily available market price. Investment in real estate is held for sale and stated at the lower of cost or fair value. Net realized and unrealized gains (losses) in fair value of investments are reflected in the consolidated statements of activities.

Receivables and Notes Receivable

Receivables are primarily due from clients served and from government agencies. Notes receivable are due from clients served and from sales of real estate. Receivables are written off when they become uncollectible. The allowance for doubtful accounts is determined by management on the specific identification method after review of each receivable at year-end.

**BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Inventories and Supplies

Inventories and supplies are recorded at cost.

Property and Equipment

Property and equipment are carried at cost, if purchased. Donated property is recorded at fair market value at the donation date. Repairs and maintenance costs are expensed in the period incurred. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Useful lives range from two to forty years. Buckner capitalizes items in excess of \$5,000 with a useful life of at least one year.

Split-interest Agreements

Charitable remainder annuity trusts are recorded at fair value when received based on the present value of expected payments to be made under the agreement.

Interest in Net Assets of Related Foundation

In 2013, prior to the consolidation of Buckner and the Foundation, Buckner followed the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) guidance on transferring assets to a not-for-profit organization or charitable trust that raises or holds contributions for others. This guidance establishes standards for transactions in which a donor makes a contribution by transferring assets to a not-for-profit organization or charitable trust that accepts the assets from the donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both to a beneficiary that is specified by the donor.

The Codification also establishes guidance for transactions that take place in a similar manner but are not contributions because the transfers are revocable, repayable, or reciprocal. In accordance with the guidance, Buckner recorded its beneficial interest in the net assets of the Foundation as an interest in net assets of related foundation in the consolidated statements of financial position.

Bond Issuance Costs

Bond issuance costs are amortized over a period of thirty years consistent with the life of the bonds with a method which approximates the effective interest method. Amortization of bond issuance costs is included within administration expense in the consolidated statements of activities.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenues

Client support and related income is recognized at the time services are rendered and is reported at the estimated realizable amounts from residents, third-party payers, and others as services are rendered. Revenue under third-party payer arrangements (Medicaid and Medicare) is subject to audit and retroactive adjustment. Provisions for third-party payer settlements are provided in the period the related services are rendered.

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Investment income is recognized at the time it is earned.

Contributions are recognized at fair value at the time gifts are received or unconditional promises to give are made. Grant revenues are recognized at the time grant requirements are met.

Interest Rate Swap Agreements

During 2007, BMM entered into an interest rate swap agreement to modify the interest characteristics of the outstanding debt related to its Series 2007 Bonds. This agreement, which terminated in April 2014 when the bonds were paid off, involved the exchange of amounts based on variable interest rates for the amounts based on fixed interest rates over the life of the agreement without an exchange of the notional amount on which the payment was based. The differential to be paid or received, as interest rates changed, was accrued and recognized as income (expense). The interest rate swap agreement converted essentially 100% of the variable rate debt amount to synthetic fixed rate debt.

Advertising

Buckner expenses the costs of advertising as incurred, except the costs for direct-response advertising, which are capitalized and amortized over the expected period of future benefits.

Expenses incurred related to advertising activities were \$1,217,431 and \$1,294,606 for the years ended December 31, 2014 and 2013, respectively, and are included in administration expense on the accompanying consolidated statements of activities.

Direct-response advertising relates to costs of acquiring initial continuing-care contracts that are expected to be recovered from future contract revenues. These costs are amortized to expense on a straight-line basis over the average expected remaining lives of the residents under contract or the contract term, if shorter (actuarial studies typically provide a range of 12 to 14 years). Deferred direct-response advertising costs of \$785,053 and \$885,227 were reported in other assets, in Buckner's consolidated statements of financial position as of December 31, 2014 and 2013, respectively.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Change in Net Assets from Operations

Operations of Buckner include children and family services, retirement services, and international orphan care services. Buckner includes investment income and gains and losses on sales of real estate held for investment in the change in net assets from operations. Buckner excludes from the change in net assets from operations, gains and losses on sales of facilities, realized and unrealized gains and losses on investments, and, in 2013, the change in interest in net assets of related foundation, and transfers to the related foundation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Asset Retirement Obligations

Asset retirement obligations (ARO) are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, Buckner records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Buckner derecognizes ARO liabilities when the related obligations are settled.

Deferred Revenue

The right to occupy various living units is granted under life tenancy agreements under which the tenants pay a certain sum (entrance fee) which entitles them to live in the unit for life. Under this plan, upon death of, or termination by, the tenant and upon re-occupancy of the unit, the tenant or their estate receives a refund of the appropriate percent of the original entrance fee paid. The non-refundable portion of the entrance fee is recognized as revenue over the actuarial life expectancy of the resident. The refundable portion is recognized as a liability shown as refundable fees.

Reclassifications

Certain accounts relating to the prior period have been restated to conform to current year's presentation. The reclassifications have no effect on prior period change in net assets or total net assets.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events

The date to which events occurring after December 31, 2014, the date of the most recent consolidated statement of financial position, have been evaluated for possible adjustment to the consolidated financial statements or disclosure is May 15, 2015, the date these consolidated financial statements were available to be issued. During this period, there were no material recognizable subsequent events.

NOTE 3. INVESTMENTS

Investments consist of the following:

	December 31,	
	2014	2013
Balanced fund held by Baptist Foundation of Texas	\$ 116,580,183	\$ 27,507,508
Corporate bonds	5,598,897	641,999
U.S. government agencies	5,923,399	333,563
Money market funds	28,608,420	909,181
Equity securities - Domestic	89,496,625	5,046,942
Equity securities - International	7,840,763	339,729
Bond mutual funds	7,948,965	577,119
Mineral interests	62,768,418	-
Other	32,598,191	75,408
	<u>\$ 357,363,861</u>	<u>\$ 35,431,449</u>

The following summarizes investment return:

	Years ended December 31,	
	2014	2013
Operating		
Dividend and interest income	28,084,472	\$ 2,746,292
Nonoperating		
Net realized and unrealized gain on investments	15,653,038	3,099,654
	<u>\$ 43,737,510</u>	<u>\$ 5,845,946</u>

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. RECEIVABLES

Receivables are recorded net of the allowance for doubtful accounts as follows:

	December 31,	
	2014	2013
Receivables, gross	\$ 8,049,358	\$ 5,480,726
Allowance for doubtful accounts	(360,678)	(521,091)
Receivables, net	\$ 7,688,680	\$ 4,959,635

NOTE 5. PLEDGES AND BEQUESTS RECEIVABLE

Pledges and bequests receivable consist of unconditional promises to give that are time and/or purpose restricted. Pledges and bequests receivable, net, are summarized as follows:

	December 31,	
	2014	2013
Pledges and bequests receivable, gross	\$ 2,283,136	\$ 1,743,104
Less unamortized discount at 2.21% and 2.90% at December 31, 2014 and 2013, respectively	(50,627)	(32,547)
Pledges and bequests receivable, net	\$ 2,232,509	\$ 1,710,557

The maturity of pledges and bequests receivable at December 31, 2014 is as follows:

Less than one year	\$ 995,782
One to five years	1,287,354
	\$ 2,283,136

**BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Estimated useful life	December 31,	
		2014	2013
Buildings	10 - 40 years	\$ 184,167,064	\$ 181,326,066
Furniture and equipment	5 - 10 years	28,887,216	27,044,320
Vehicles	2 - 4 years	2,406,519	2,340,120
Land improvements	5 - 20 years	16,636,788	16,595,092
Total		232,097,587	227,305,598
Less accumulated depreciation		(102,263,377)	(94,983,355)
		129,834,210	132,322,243
Projects-in-process		10,233,393	3,086,227
Land		14,045,632	14,045,634
Property and equipment, net		<u>\$ 154,113,235</u>	<u>\$ 149,454,104</u>

Depreciation expense was \$7,637,852 and \$7,190,505 for the years ended December 31, 2014 and 2013, respectively.

NOTE 7. INTEREST IN NET ASSETS OF RELATED FOUNDATION

In 2013, Buckner had an economic interest in the Foundation and in accordance with Codification guidance, recorded its beneficial interest in the net assets of the Foundation as an interest in net assets of related foundation in the consolidated statements of financial position. Effective January 1, 2014, each subsidiary of Buckner approves one-third (1/3) of the members of the Board of Trustees of the Foundation, which resulted in Buckner consolidating the Foundation in the consolidated financial statements as of January 1, 2014.

Summarized financial data of the Foundation is as follows:

	December 31, 2013
Investment assets	\$ 270,483,793
Other assets	36,012,578
Annuity fund liabilities	5,211,204
Other liabilities	1,809,001
Net assets	299,476,166
Total revenues	61,161,626
Total expenses	4,820,741
Distributions and other	23,079,016
Net realized and unrealized gain on investments, and other investment income	36,460,289

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. INTEREST IN NET ASSETS OF RELATED FOUNDATION – CONTINUED

The fair value measurements, as defined in Note 16, for the financial instruments held by the Foundation as of December 31, 2013, consisted of the following:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
As of December 31, 2013:				
Investment assets	\$ 270,483,793	\$ 42,061,884	\$ 133,364,418	\$ 95,057,491
Annuity fund liabilities	(5,211,204)	-	-	(5,211,204)

NOTE 8. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Employee vacation and sick pay	\$ 620,805	\$ 681,357
Employee health benefits	630,000	736,077
Nonsubscriber occupational injury	100,000	100,000
Property taxes	242,118	241,333
Wages and payroll related	1,298,624	1,037,602
Interest on revenue bonds and notes payable	606,299	639,176
Professional and general liability insurance	400,000	400,000
Other	98,012	272,603
	<u>\$ 3,995,858</u>	<u>\$ 4,108,148</u>

NOTE 9. DEBT

In 2007, BRS, through the Tarrant County Cultural Education Facilities Finance Corporation (the Issuer), issued \$104,755,000 of tax-exempt bonds, and is the sole obligated party on the issuance. The proceeds generated by the sale of the bonds were loaned by the Issuer to BRS to (1) finance the construction and expansion of certain retirement facilities located in Austin, Longview, Beaumont, and Houston, Texas and (2) to refinance the Bell County Health Facilities Development Corporation Retirement Facility Revenue Bonds, Series 1998, (1998 Bonds). Semi-annual interest payments began November 15, 2007. Total principal and interest payments are approximately \$7,000,000 each year from November 15, 2008 through November 15, 2037. As of December 31, 2014 and 2013, the unamortized premium on the bonds was \$1,656,158 and \$1,728,793, respectively.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. DEBT – CONTINUED

The BRS Master Trust Indenture dated July 27, 2007 requires compliance with certain covenants. BRS is required to maintain a reserve fund to cover a year's debt service. BRS has entered into investment contracts with assets valued at \$9,306,104 and \$8,597,948 as of December 31, 2014 and 2013, respectively, which are recorded as a portion of revenue bond proceeds held by trustee in the consolidated statements of financial position. The obligations under the Master Trust Indenture are further secured by a Credit and Support Agreement dated July 27, 2007 with Buckner Foundation, Inc.

In 2007, BMM issued the Series 2007 Reagan County Health Facilities Development Corporation Revenue Bonds dated August 1, 2007. The bonds were paid off in April of 2014 through a refinancing with First Financial Bank with the issuance of commercial debt. The bonds were secured by the Baptist Foundation of Texas Endowment income, and the current commercial debt is also secured by this income.

A summary of debt is as follows:

	December 31,	
	2014	2013
Revenue bonds payable		
Series 2007 revenue bonds, interest rates of 5.00% to 5.25%, net of unamortized premium	\$ 93,846,158	\$ 95,988,793
Series 2007 revenue bonds, interest rates of 4.84%	-	2,158,844
Lines of credit		
With JPMorganChase, variable interest rate currently at 3.25% expiring September 2016	1,100,000	1,200,000
With Wells Fargo, variable interest rate currently at 5.00%	-	66,040
With FFIN San Angelo, variable interest rate currently at 4.25% expiring April 2015	46,851	-
With FFIN San Angelo, variable interest rate currently at 4.25% expiring April 2015	300,000	-
Notes payable		
With JPMorganChase, variable interest rate currently at 1.66% expiring October 2017	8,995,341	4,850,000
With FFIN San Angelo, interest rate of 4.00%, expiring April 2021	2,603,603	-
With FFIN San Angelo, variable interest rate currently at 2.75% expiring June 2016	63,075	159,615
With FFIN San Angelo, variable interest rate currently at 4.0% expiring September 2019	493,890	446,181
With FFIN San Angelo, interest rate of 3.75%, expiring October 2015	1,404,201	-
Short-term notes payable		
Insurance contract notes, interest rates range from 3.20% to 7.75% expiring 2015	980,574	791,793
	\$ 109,833,693	\$ 105,661,266

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. DEBT – CONTINUED

Scheduled debt repayments on short-term notes payable, lines of credit and revenue bonds at December 31, 2014 are as follows:

Year ending December 31,	Short-term Notes Payable	Lines of Credit	Notes Payable	Revenue Bonds	Total
2015	\$ 980,574	\$ 346,851	\$ 1,535,340	\$ 2,170,000	\$ 5,032,765
2016	-	1,100,000	84,956	2,280,000	3,464,956
2017	-	-	9,082,190	2,395,000	11,477,190
2018	-	-	88,586	2,515,000	2,603,586
2019	-	-	496,692	2,645,000	3,141,692
Thereafter	-	-	2,272,346	80,185,000	82,457,346
	980,574	1,446,851	13,560,110	92,190,000	108,177,535
Add amount representing premium	-	-	-	1,656,158	1,656,158
	<u>\$ 980,574</u>	<u>\$ 1,446,851</u>	<u>\$ 13,560,110</u>	<u>\$ 93,846,158</u>	<u>\$ 109,833,693</u>

NOTE 10. RETIREMENT PLANS

Buckner provides a defined contribution retirement plan (the Plan) for its employees. Employees are eligible to participate in the Plan after completing two years of eligible service. Buckner contributes 8% of an employee's base salary for employees who contribute at least 5% of their salary. Vesting occurs immediately upon entering the Plan. Contributions to the plans by Buckner for the years ended December 31, 2014 and 2013 were \$1,746,617 and \$1,481,605, respectively.

NOTE 11. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities on a functional basis are as follows:

	Years ended December 31,	
	2014	2013
General and administrative	\$ 11,119,731	\$ 10,609,346
Children and family services	42,333,227	44,920,827
Retirement and healthcare services	66,554,370	62,549,183
Adoption and maternity services	477,028	551,057
Development	6,384,613	3,429,382
Total expenses	<u>\$ 126,868,969</u>	<u>\$ 122,059,795</u>

**BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 11. FUNCTIONAL ALLOCATION OF EXPENSES – CONTINUED

Buckner incurred \$1,468,447 and \$1,817,954 in expenses relating to fundraising activities during the years 2014 and 2013, respectively. These expenses are included in development expense above and were carried out within the Foundation for the benefit of Buckner.

NOTE 12. LEASES

Buckner has noncancelable operating lease agreements for office space that expire during 2025. Future annual minimum lease payments due under those leases are as follows:

<u>Year ending December 31,</u>	
2015	\$ 856,146
2016	1,117,074
2017	1,048,300
2018	1,068,695
2019	991,793
Thereafter	<u>5,125,711</u>
	<u><u>\$ 10,207,719</u></u>

Rent expense under all operating leases for the years ended December 31, 2014 and 2013 was \$591,555 and \$779,141, respectively. The cost of Buckner's lease for office space is accounted for by the straight-line method. The difference between the net cash requirements of the lease and the straight-line method is accrued within other liabilities on the consolidated statements of financial position.

NOTE 13. ASSET RETIREMENT OBLIGATION

Asset retirement obligations (ARO's) are recorded under the provisions of the Codification, accounting for asset retirement obligations and accounting for conditional asset retirement obligations, which requires the fair value of a liability related to the retirement of long-lived assets to be recorded at the time a legal obligation is incurred, if the liability can be reasonably estimated. Buckner has identified asbestos abatement that must be reported. It is currently appropriately managed by Buckner in accordance with current laws and regulations. However, it is possible that at some future date, renovations, demolition, or construction could occur that would require direct remediation of Buckner's ARO's. The asset retirement obligation as of December 31, 2014 and 2013 was included in other liabilities.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. ASSET RETIREMENT OBLIGATION – CONTINUED

A reconciliation of the asset retirement obligation liability is as follows:

	December 31,	
	2014	2013
Beginning balance	\$ 1,243,736	\$ 1,191,836
Accretion expense	56,341	51,900
Ending balance	<u>\$ 1,300,077</u>	<u>\$ 1,243,736</u>

NOTE 14. NET ASSETS RELEASED FROM RESTRICTIONS

The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows:

	Years ended December 31,	
	2014	2013
Capital projects - children and family services	\$ 1,464,768	\$ 1,424,023
Capital projects - retirement services	39,048	-
Program support - children and family services	627,263	1,033,412
Program support - retirement services	200,000	200,000
	<u>\$ 2,331,079</u>	<u>\$ 2,657,435</u>

NOTE 15. RELATED PARTY TRANSACTIONS

Buckner has entered into transactions with its Board members on an occasional basis subject to and in compliance with the Buckner Policy on Conflict of Interest, including requiring approval of disinterested members of the Finance Committee of the Board. Such transactions are immaterial in amount.

NOTE 16. FAIR VALUE MEASUREMENTS

The Codification, accounting for fair value measurements and disclosures, established the framework for measuring fair value, which was effective for fiscal years beginning after November 15, 2007. The guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard provides a consistent definition of fair value which focuses on an exit price which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. FAIR VALUE MEASUREMENTS – CONTINUED

The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The hierarchy established by the Codification gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). As required, Buckner's financial instruments are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement.

The three levels of the fair value hierarchy, and its applicability to Buckner's financial instruments, are described below:

Level 1 inputs: Pricing inputs are quoted prices available in active markets for identical financial instruments as of the reporting date.

Level 2 inputs: Pricing inputs are quoted prices for similar financial instruments, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes financial instruments valued at quoted prices adjusted for legal or contractual restrictions specific to these financial instruments.

Level 3 inputs: Pricing inputs are unobservable for the financial instruments, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability.

Buckner determines the fair value of the financial instruments through application of the guidance established.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. FAIR VALUE MEASUREMENTS – CONTINUED

Information related to the financial instruments measured at fair value on a recurring basis at December 31, 2014 and 2013 is as follows:

	December 31, 2014			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Balanced fund held by Baptist Foundation of Texas	\$ 116,580,183	\$ -	\$ 116,580,183	\$ -
Equities - Domestic	89,496,625	36,294,414	53,202,211	-
Equities - International	7,840,763	5,940,195	1,900,568	-
Corporate bonds	5,598,897	-	5,598,897	-
U.S. government agencies	5,923,399	-	5,923,399	-
Money market funds	28,608,420	-	28,608,420	-
Bond mutual funds	7,948,965	-	7,948,965	-
Mineral interests	62,768,418	-	-	62,768,418
Real estate/other	32,598,191	-	15,571,913	17,026,278
Pledges and bequests receivable	2,232,509	-	-	2,232,509
Revenue bond proceeds held by trustee	9,306,104	-	9,306,104	-
Interest rate swap agreement	-	-	-	-
Annuity funds liabilities for investments held in trust	(5,608,885)	-	-	(5,608,885)
	December 31, 2013 (Foundation not consolidated)			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Balanced fund held by Baptist Foundation of Texas	\$ 25,446,654	\$ -	\$ 25,446,654	\$ -
Equities - Domestic	5,046,942	3,946,694	1,100,248	-
Equities - International	339,729	310,835	28,894	-
Corporate bonds	641,999	-	641,999	-
U.S. government agencies	333,563	-	333,563	-
Money market funds	909,181	-	909,181	-
Bond mutual funds	577,119	-	577,119	-
Mineral interests	1,545,213	-	-	1,545,213
Real estate/other	591,049	-	-	591,049
Pledges and bequests receivable	1,710,557	-	-	1,710,557
Revenue bond proceeds held by trustee	8,597,948	-	8,597,948	-
Interest rate swap agreement	(147,859)	-	(147,859)	-
Annuity funds liabilities for investments held in trust	(385,085)	-	-	(385,085)

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. FAIR VALUE MEASUREMENTS – CONTINUED

The following is a description of the valuation methodologies used to measure and disclose fair value financial instruments:

Investments reported as level 1 consist of equity securities which are determined by reference to quoted market prices for investments listed on an exchange or over-the-counter market.

Investments and revenue bond proceeds held by the trustee reported as level 2 consists of the following:

Balanced Fund held by Baptist Foundation of Texas

Balanced Fund held by Baptist Foundation of Texas is a public investment vehicle that is valued using the Net Asset Value (NAV) provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is classified within level 2 of the valuation hierarchy because the NAV's unit price is quoted on a private market, however the unit price is based on underlying investments which are traded on an observable active market.

Bonds

The fair value of sovereign government, municipal, and corporate bonds is generally based on using recently executed transactions, market price quotations, bond spreads or credit default swap spreads and quoted prices in active markets. When quoted prices are not available, fair value is determined based on a valuation model that uses inputs that include interest-rate yield curves, cross-currency-basis index spreads, and country credit spreads similar to the bond in terms of issuer, maturity and seniority.

Money Market Funds

The fair value of money market funds is estimated based on using recently executed transactions, market price quotations, bond spreads or credit default swap spreads and quoted prices in active markets.

Fair values reported as level 3 consist of the following:

Mineral Interests

Mineral interests are valued by reviewing the most recent twelve months of mineral income, excluding bonus income, and analyzing current industry methodology and recent market conditions.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. FAIR VALUE MEASUREMENTS – CONTINUED

Investments in Mortgage Loans

Investments in mortgage loans are valued by estimating the outstanding principal amounts, adjusted for any allowance for loan losses, with consideration of interest rates and significant change in credit risk.

Investments in Real Estate

Investments in real estate are valued based on appraisals, property tax values, and recent sales of comparative properties.

The fair value of pledges and bequests receivables reported as level three is based on the discounted value of expected future cash flows.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows:

	Real Estate	Mineral Interests	Pledges and Bequests Receivable	Annuity Funds Liabilities for Investments Held in Trust
December 31, 2012	\$ 575,519	\$ 1,329,584	\$ 1,852,231	\$ (413,663)
Distributions	-	-	(1,167,502)	-
Contributions	-	-	1,121,595	-
Net realized and unrealized change in investment valuation	<u>15,530</u>	<u>215,629</u>	<u>(95,767)</u>	<u>28,578</u>
December 31, 2013	591,049	1,545,213	1,710,557	(385,085)
Additions - Foundation	16,611,080	61,684,226	-	(5,142,103)
Distributions	-	-	(1,639,600)	-
Contributions	-	-	2,147,712	(100,000)
Net realized and unrealized change in investment valuation	<u>(175,851)</u>	<u>(461,021)</u>	<u>13,840</u>	<u>18,303</u>
December 31, 2014	<u>\$ 17,026,278</u>	<u>\$ 62,768,418</u>	<u>\$ 2,232,509</u>	<u>\$ (5,608,885)</u>

NOTE 17. ENDOWMENTS HELD IN FOUNDATION

Foundation endowments consist of individual, donor-restricted funds established for future program services and operation. As required by GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

**BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 17. ENDOWMENTS HELD IN FOUNDATION – CONTINUED

The Foundation has interpreted Texas' enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), addressed primarily by the Codification, accounting for not-for-profit entities, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations of income to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Unless stated otherwise in the gift instrument, the remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investments returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation of equities (US and non-US stocks), fixed income instruments, and a small allocation of alternative investments to achieve its long-term return objective within prudent risk constraints.

The Foundation has a policy of appropriating for distribution each year 5-6% of the endowment's investable asset value. The spending objective is determined annually by the Foundation Board taking into consideration current market conditions and average market value of the portfolio's investable assets over the previous periods. The Foundation and the Trustees recognize that the time horizon for the fund is very long-term, and the intent of the endowment is to remain in operation in perpetuity. The Foundation expects to grow the endowment at a rate equal to the nominal spending objective, the rate of inflation, and investments fees and expenses over the long-term. The Foundation will focus on total return without regard to whether that return is in the form of income or capital gains .

Temporarily Restricted Net Assets are restricted for donor imposed stipulations that may be met by actions of the Foundation and/or passage of time to be used generally for capital expenditures and program support.

Permanently Restricted Net Assets are restricted for the Foundation's permanent endowment. The income from the endowment will be used to fund future program services and operations.

	<u>Temporarily Restricted</u>		<u>Permanently Restricted</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net assets	\$ 2,968,720	\$ 3,021,401	\$ 57,977,879	\$ 58,381,982

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17. ENDOWMENTS HELD IN FOUNDATION – CONTINUED

For the years ended December 31, 2014 and 2013, the Foundation had the following endowment-related activities:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2012	\$ 2,857,225	\$ 51,598,761	\$ 54,455,986
Investment return			
Investment income	-	135,142	135,142
Net realized/unrealized gains (losses)	<u>77,248</u>	<u>5,414,751</u>	<u>5,491,999</u>
Total investment return	77,248	5,549,893	5,627,141
Contributions to endowment	<u>86,928</u>	<u>1,233,328</u>	<u>1,320,256</u>
Endowment net assets, December 31, 2013	3,021,401	58,381,982	61,403,383
Investment return			
Investment income	-	149,859	149,859
Net realized/unrealized gains (losses)	<u>(107,681)</u>	<u>(1,376,779)</u>	<u>(1,484,460)</u>
Total investment return	(107,681)	(1,226,920)	(1,334,601)
Contributions to endowment	<u>55,000</u>	<u>822,817</u>	<u>877,817</u>
Endowment net assets, December 31, 2014	<u>\$ 2,968,720</u>	<u>\$ 57,977,879</u>	<u>\$ 60,946,599</u>

NOTE 18. COMMITMENTS AND CONTINGENCIES

Buckner has been made aware of possible claims and, although the ultimate outcome of these matters is uncertain, management, based on consultation with outside legal counsel, is of the opinion that their resolution will not have a material adverse effect on Buckner's financial position, results of operations or cash flows.

Federal and other grants are subject to periodic review and assessment by the related federal and other agencies. Buckner believes matters related to these reviews will not have a material adverse effect on Buckner's financial position.

Buckner maintains a standby letter of credit with a bank for \$200,000. The letter of credit is required by the insurance company for Buckner's professional and general liability insurance policies from prior years. As of December 31, 2014 and 2013, no amounts are outstanding under the letter of credit. At December 31, 2014 and 2013, Buckner maintained a \$400,000 reserve for prior years' professional and general liability insurance.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18. COMMITMENTS AND CONTINGENCIES – CONTINUED

Buckner is partially insured for employee health benefits and its non-subscriber occupational injury plan. For employee health benefits, Buckner has a stop-loss limit of \$125,000 per person per year and BMM has a stop-loss limit of \$70,000 per person per year. At December 31, 2014 and 2013, Buckner has accrued \$630,000 and \$736,077, respectively, for employee health benefits. For the non-subscriber occupational injury plan, Buckner has a stop-loss limit of \$100,000 per incident per year. At December 31, 2014 and 2013, Buckner has accrued \$100,000 for the non-subscriber occupational injury plan.

NOTE 19. FEDERAL INCOME TAXES

The Codification guidance accounting for uncertainties in income taxes requires that Buckner recognize in its financial statements the financial effects of a tax position, if that position is more likely than not of being sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the tax position. The requirements also provide guidance on measurement, classification, interest and penalties and disclosure.

Tax positions taken related to Buckner's tax exempt status, unrelated business activities taxable income and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken would more likely than not be sustained by examination. For the year ended December 31, 2014, there were no interest or penalties recorded or included in the financial statements. As of December 31, 2014, Buckner's tax years 2011 and thereafter remain subject to examination.

NOTE 20. DERIVATIVE FINANCIAL INSTRUMENT

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, BMM entered into an interest rate swap agreement during 2007 to convert a portion of the 2007 Revenue Bonds to a fixed rate of interest. The bonds were paid off with the proceeds of a commercial loan issued by First Financial Bank in April 2014, thus terminating the agreement at that time. The agreement provided for BMM to receive interest from the counterparty at 66.49 percent of Prime Rate, and to pay interest to the counterparty based on a fixed rate of 4.84 percent. The interest rate swap at December 31, 2013 was \$2,158,844. The interest rate swap was terminated in April 2014.

BMM did not designate the swap as a hedging instrument, and as a result, changes in the fair market value of the swap were recorded as an adjustment to long-term liability – interest rate swap agreement in the accompanying consolidated statements of financial position with the offset recorded to interest expense in the accompanying statements of activities.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20. DERIVATIVE FINANCIAL INSTRUMENT – CONTINUED

The differences in the prime rate and fixed swap rate for the years ended December 31, 2014 and 2013 resulted in a realized gain of \$9,179 and \$89,703, respectively. The gain is included in interest expense on the accompanying consolidated statements of activities for the years ended December 31, 2014 and 2013. The market value of the swap as of December 31, 2013 was \$147,859, and is reported as an other liability in the consolidated statements of financial position.

NOTE 21. DISCONTINUED OPERATIONS

On December 20, 2013, Buckner Adoption and Maternity Services, Inc. and Dillon International, Inc. entered into a disaffiliation agreement effective January 1, 2014. As a result, Buckner reported Dillon International, Inc.'s assets, liabilities, and changes in net assets as discontinued operations on the consolidated statements of financial position and consolidated statements of activities for the period ended December 31, 2013.

	2013
Cash and cash equivalents	\$ 571,812
Investments	279,645
Other assets	255,628
Assets from discontinued operation	\$ 1,107,085
Current liabilities	318,013
Liabilities from discontinued operation	\$ 318,013
Revenues	\$ 2,979,997
Expenses	(3,156,728)
Nonoperating items	103,011
Income (loss) from discontinued operation	\$ (73,720)

SUPPLEMENTARY INFORMATION



INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION

To the Board of Trustees
Buckner International

We have audited the consolidated financial statements of Buckner International as of and for the year ended December 31, 2014 and 2013, and our report thereon dated May 15, 2015, which expressed an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statement as a whole. The supplementary consolidating statement of financial position and consolidating statements of activities included hereinafter are presented for purposes of additional analyses and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Weaver and Tidwell, L.L.P.
WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
May 15, 2015

BUCKNER INTERNATIONAL
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

	Buckner International	Buckner Children and Family Services, Inc.	Buckner Retirement Services, Inc.	Buckner Adoption and Maternity Services, Inc.	Buckner Foundation	Eliminations	2014 Consolidated Total	2013 Consolidated Total
ASSETS								
ASSETS								
Cash and cash equivalents	\$ 2,712,117	\$ 5,709,319	\$ 4,954,489	\$ 69,430	1,859,871	\$ -	\$ 15,305,226	\$ 16,875,874
Investments	-	3,739,234	31,400,715	-	322,223,912	-	357,363,861	35,431,449
Assets whose use is limited	-	-	724,548	-	-	-	724,548	806,671
Receivables, net	182,328	1,149,604	5,318,574	6,826	1,215,233	(183,885)	7,688,680	4,959,635
Pledges and bequests receivable, net	-	2,232,509	-	-	-	-	2,232,509	1,710,557
Inventories and supplies	-	-	217,937	-	-	-	217,937	154,101
Notes receivable	-	-	139,715	-	-	-	139,715	36,864
Prepaid expenses	460,962	460,136	637,787	-	-	-	1,558,885	1,074,425
Due from other companies, net	10,052,178	-	-	-	-	(10,052,178)	-	1,470,518
Other assets	-	-	1,978,808	-	-	-	1,978,808	885,227
Revenue bond proceeds held by trustee	-	-	9,306,104	-	-	-	9,306,104	8,597,948
Real estate held for investment	1,435,057	56,880	-	-	-	-	1,491,937	1,859,718
Property and equipment, net	1,387,643	31,661,256	121,175,983	15,571	12,744	(139,962)	154,113,235	149,454,104
Interest in net assets of related foundation	-	-	-	-	-	-	-	299,476,166
Bond issuance costs, net	-	-	1,165,526	-	-	-	1,165,526	1,216,626
Assets from discontinued operation	-	-	-	-	-	-	-	1,107,085
TOTAL ASSETS	16,230,285	45,008,938	177,020,186	91,827	325,311,760	(10,376,025)	\$ 553,286,971	\$ 525,116,968
LIABILITIES AND NET ASSETS								
LIABILITIES								
Accounts payable	\$ 157,331	\$ 340,015	\$ 1,267,395	\$ 31,909	\$ 41,575	\$ -	\$ 1,838,225	\$ 1,679,866
Accrued liabilities	396,453	817,023	2,644,956	40,915	96,511	-	3,995,858	4,108,148
Lines of credit	1,100,000	-	346,851	-	-	-	1,446,851	1,266,040
Short-term notes payable	980,574	-	-	-	-	-	980,574	791,793
Revenue bonds payable, net	-	-	93,846,158	-	-	-	93,846,158	98,147,637
Notes payable	-	-	13,560,110	-	-	-	13,560,110	5,455,796
Resident deposits	-	-	2,017,230	-	-	-	2,017,230	1,908,299
Refundable fees	-	-	17,080,871	-	-	-	17,080,871	17,179,999
Deferred revenue from advance fees	-	-	2,816,715	-	-	-	2,816,715	3,312,575
Annuity and life income fund liability	-	96,064	270,720	-	5,242,101	-	5,608,885	385,085
Other	338,298	1,260,928	586,747	37,763	136,971	(183,885)	2,176,822	2,264,767
Due to other companies, net	-	7,804,535	1,931,774	2,325	313,544	(10,052,178)	-	-
Liabilities from discontinued operation	-	-	-	-	-	-	-	318,013
Total liabilities	2,972,656	10,318,565	136,369,527	112,912	5,830,702	(10,236,063)	145,368,299	136,818,018
NET ASSETS								
Unrestricted	13,252,629	31,040,714	13,829,849	(43,413)	258,534,459	(139,962)	316,474,276	296,167,921
Temporarily restricted	5,000	3,240,260	5,783,785	22,328	2,968,720	-	12,020,093	12,188,946
Permanently restricted	-	409,399	21,037,025	-	57,977,879	-	79,424,303	79,942,083
Total net assets	13,257,629	34,690,373	40,650,659	(21,085)	319,481,058	(139,962)	407,918,672	388,298,950
TOTAL LIABILITIES AND NET ASSETS	\$ 16,230,285	\$ 45,008,938	\$ 177,020,186	\$ 91,827	\$ 325,311,760	\$ (10,376,025)	\$ 553,286,971	\$ 525,116,968

**BUCKNER INTERNATIONAL
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS FOR 2013)**

	Buckner International	Buckner Children and Family Services, Inc.	Buckner Retirement Services, Inc.	Buckner Adoption and Maternity Services, Inc.	Buckner Foundation	Eliminations	2014 Consolidated Total	2013 Consolidated Total
REVENUES								
Client support and related income	\$ -	\$ 12,360,009	\$ 65,932,918	\$ 2,984	\$ -	\$ -	\$ 78,295,911	\$ 74,896,639
Investment income	85,276	617,721	2,039,117	1	25,342,357	-	28,084,472	2,746,292
Distributions from related foundation	8,615,000	7,689,015	212,189	457,075	-	(16,973,279)	-	21,497,702
Contributions								
Baptist General Convention of Texas	-	433,806	175,231	22,557	-	-	631,594	710,498
Individual and business gifts	12,762	21,559,656	327,915	5,259	687,085	-	22,592,677	26,433,850
Bequests	134,498	46,094	-	-	202,037	-	382,629	1,670,846
Gain (loss) on sales of real estate held for investment	1,116,092	-	-	-	-	-	1,116,092	(7,484)
Other	54,661	340,536	252,032	-	-	-	647,229	637,633
Administrative fees	4,085,016	-	-	-	1,811,000	(5,896,016)	-	165,000
Total revenues	14,103,305	43,046,837	68,939,402	487,876	28,042,479	(22,869,295)	131,750,604	128,750,976
EXPENSES								
Salaries and benefits	7,541,162	14,575,864	35,503,927	280,258	3,755,057	-	61,656,268	54,966,899
Supplies and direct expenses	12,817	18,283,937	8,841,491	106,657	5,356	-	27,250,258	29,019,688
Occupancy and insurance	864,569	3,646,154	7,579,805	11,582	104,158	-	12,206,268	12,326,369
Travel and transportation	316,944	2,698,219	590,093	22,397	175,833	-	3,803,486	3,838,577
Administration	3,903,088	5,175,113	5,074,320	100,439	786,878	(5,896,016)	9,143,822	9,783,351
Depreciation	183,118	1,356,851	6,085,957	695	11,231	-	7,637,852	7,190,505
Interest expense	25,728	52	5,145,235	-	-	-	5,171,015	4,934,406
Total expenses	12,847,426	45,736,190	68,820,828	522,028	4,838,513	(5,896,016)	126,868,969	122,059,795
CHANGE IN NET ASSETS FROM OPERATIONS	1,255,879	(2,689,353)	118,574	(34,152)	23,203,966	(16,973,279)	4,881,635	6,691,181
NONOPERATING ITEMS								
Net realized and unrealized gains on investments	75	184,721	209,348	-	15,258,894	-	15,653,038	3,099,654
Increase in interest in net assets of related foundation	-	-	-	-	-	-	-	69,722,158
Distributions to related entities	700,000	-	(700,000)	-	(16,973,279)	16,973,279	-	-
Other, net	(285,443)	1,756,499	(58,043)	(54,203)	(1,484,689)	-	(125,879)	796,720
CHANGE IN NET ASSETS	1,670,511	(748,133)	(430,121)	(88,355)	20,004,892	-	20,408,794	80,309,713
CHANGE IN NET ASSETS FROM DISCONTINUED OPERATIONS- DILLON INTERNATIONAL	-	-	-	-	-	-	-	(73,720)
DISPOSAL OF ASSETS AND LIABILITIES FROM DISCONTINUED OPERATIONS	-	-	-	-	-	(789,072)	(789,072)	-
CHANGE IN CONSOLIDATION	(299,476,166)	-	-	-	299,476,166	-	-	-
NET ASSETS, BEGINNING OF YEAR	311,063,284	35,438,506	41,080,780	67,270	-	649,110	388,298,950	308,062,957
NET ASSETS, END OF YEAR	\$ 13,257,629	\$ 34,690,373	\$ 40,650,659	\$ (21,085)	\$ 319,481,058	\$ (139,962)	\$ 407,918,672	\$ 388,298,950