

BUCKNER INTERNATIONAL AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2010

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT.....	1
FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position.....	2
Consolidated Statements of Activities	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5
SUPPLEMENTARY INFORMATION	
INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION	29
Consolidating Statement of Financial Position.....	30
Consolidating Statement of Activities	31



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Buckner International

We have audited the accompanying consolidated statements of financial position of Buckner International and Subsidiaries (collectively, Buckner) as of December 31, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Buckner's management. 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 as established by the American Institute of Certified Public Accountants. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Buckner International and Subsidiaries as of December 31, 2010 and 2009, and their consolidated statement of activities and cash flows for the years then ended, in conformity 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 13, 2011

BUCKNER INTERNATIONAL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 14,375,893	\$ 13,999,456
Investments	32,320,358	8,422,820
Receivables, net	3,716,272	2,653,421
Pledges and bequests receivable, net	6,001,856	6,557,168
Inventories and supplies	166,920	40,003
Notes receivable	59,433	16,839
Prepaid expenses	1,694,429	1,137,105
Due from related foundation	2,393,850	1,864,780
Other assets	1,535,332	823,934
Revenue bond proceeds held by trustee	9,627,269	26,772,428
Real estate held for investment	2,337,003	2,280,123
Property and equipment, net	144,684,844	101,912,405
Interest in net assets of related foundation	180,722,614	166,848,022
Bond issuance costs, net	1,370,066	1,421,155
TOTAL ASSETS	\$ 401,006,139	\$ 334,749,659
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 1,828,143	\$ 2,131,904
Accrued liabilities	4,938,692	3,944,745
Line of credit	1,292,450	95,000
Short-term notes payable	881,190	660,133
Revenue bonds payable, net	105,465,207	103,609,532
Note payable	543,110	100,760
Resident deposits	1,318,870	1,240,270
Refundable fees	9,550,103	1,243,800
Deferred revenue from advance fees	6,798,817	113,774
Annuity and life income fund liability	113,347	115,765
Other	4,522,587	3,688,233
Total liabilities	137,252,516	116,943,916
NET ASSETS		
Unrestricted	185,840,052	165,009,780
Temporarily restricted	19,440,268	9,126,798
Permanently restricted	58,473,303	43,669,165
Total net assets	263,753,623	217,805,743
TOTAL LIABILITIES AND NET ASSETS	\$ 401,006,139	\$ 334,749,659

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, 2010 AND 2009

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES								
Client support and related income	\$ 68,861,398	\$ -	\$ -	\$ 68,861,398	\$ 49,652,626	\$ -	\$ -	\$ 49,652,626
Investment income	2,407,733	19,352	-	2,427,085	1,053,380	7	-	1,053,387
Distributions from related foundation	10,458,235	-	-	10,458,235	11,483,301	-	-	11,483,301
Contributions								
Baptist General Convention of Texas	808,363	-	-	808,363	703,814	-	-	703,814
Individual and business gifts	16,304,021	291,983	81,390	16,677,394	14,562,524	6,264,307	1,365	20,828,196
Bequests	429,803	-	-	429,803	408,356	-	-	408,356
Gain (loss) on sales of real estate held for investment	(750)	-	-	(750)	2,878	(19,274)	-	(16,396)
Other	1,326,882	474	-	1,327,356	954,401	-	-	954,401
Net assets released from trustee designation	-	-	-	-	2,387,000	-	-	2,387,000
Net assets released from restrictions	2,179,446	(2,179,446)	-	-	1,743,315	(1,743,315)	-	-
Total revenue	102,775,131	(1,867,637)	81,390	100,988,884	82,951,595	4,501,725	1,365	87,454,685
EXPENSES								
Salaries and benefits	50,046,820	-	-	50,046,820	40,287,671	-	-	40,287,671
Supplies and direct expenses	20,615,942	-	-	20,615,942	18,214,481	-	-	18,214,481
Occupancy and insurance	12,540,379	-	-	12,540,379	7,882,774	-	-	7,882,774
Travel and transportation	3,883,934	-	-	3,883,934	4,283,821	-	-	4,283,821
Administration	8,066,370	5,008	-	8,071,378	7,573,006	-	-	7,573,006
Depreciation	6,315,799	-	-	6,315,799	4,024,128	-	-	4,024,128
Interest expense	3,835,401	-	-	3,835,401	3,691,620	-	-	3,691,620
Total expenses	105,304,645	5,008	-	105,309,653	85,957,501	-	-	85,957,501
CHANGE IN NET ASSETS FROM OPERATIONS	(2,529,514)	(1,872,645)	81,390	(4,320,769)	(3,005,906)	4,501,725	1,365	1,497,184
NONOPERATING ITEMS								
Net realized and unrealized gains on investments	936,696	1,316,422	35,060	2,288,178	345,215	-	51,791	397,006
Net assets released from trustee designation	-	-	-	-	(2,387,000)	-	-	(2,387,000)
Increase (decrease) in interest in net assets of related foundation	10,951,451	(6,015)	2,929,156	13,874,592	7,354,946	138,027	760,540	8,253,513
Other, net	1,793,716	224,846	(64,035)	1,954,527	1,244,829	-	(1,365)	1,243,464
CHANGE IN NET ASSETS	11,152,349	(337,392)	2,981,571	13,796,528	3,552,084	4,639,752	812,331	9,004,167
CONTRIBUTION OF NET ASSETS (DEFICIT OF NET ASSETS ASSUMED) OF NON-PROFIT ORGANIZATIONS	9,677,923	10,650,862	11,822,567	32,151,352	(1,157,943)	36,222	200,000	(921,721)
NET ASSETS, BEGINNING OF YEAR	165,009,780	9,126,798	43,669,165	217,805,743	162,615,639	4,450,824	42,656,834	209,723,297
NET ASSETS, END OF YEAR	\$ 185,840,052	\$ 19,440,268	\$ 58,473,303	\$ 263,753,623	\$ 165,009,780	\$ 9,126,798	\$ 43,669,165	\$ 217,805,743

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, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 13,796,528	\$ 9,004,167
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	6,315,799	4,024,128
Amortization	(708,359)	(28,683)
Contributed cash from non-profit organization	8,370	88,249
Increase in accretion expense and ARO revisions	52,937	50,643
Gain on sales of real estate held for investment	-	16,396
Loss on disposal of facility assets	(3,440)	(20,865)
Net realized and unrealized gains on investments	(2,288,178)	(397,006)
Noncash contribution of real estate held for investment	(56,880)	-
Changes in operating assets and liabilities:		
Receivables	632,423	(4,950,750)
Inventories and supplies	(43,773)	(5,903)
Prepaid expenses	360,437	1,349,250
Other assets	(261,328)	(278,134)
Due from related foundation	(529,070)	(1,111,262)
Interest in net assets of related foundation	(13,874,592)	(8,253,513)
Accounts payable	(656,342)	(558,866)
Accrued liabilities	43,773	(992,916)
Resident deposits	78,600	375,171
Refundable fees	145,518	-
Deferred revenue from advance fees	775,218	-
Annuity and life income fund liability	(2,418)	(2,618)
Other liabilities	171,739	539,345
Net cash provided by (used in) operating activities	3,956,962	(1,153,167)
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayments (issuances) of notes receivable	(40,293)	28,900
Purchases of property and equipment	(19,827,912)	(20,261,619)
Decrease in revenue bond proceeds held by trustee	17,352,392	18,508,108
Purchases of investments	(443,731)	(221,228)
Proceeds on sales or redemptions of investments	1,663,828	1,275,139
Proceeds from sales of real estate held for investment	-	59,104
Proceeds from sales of property and equipment	3,440	20,865
Net cash used in investing activities	(1,292,276)	(590,731)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	1,049,124	-
Payments on revenue bonds payable and notes payable	(3,337,373)	(3,182,163)
Net cash used in financing activities	(2,288,249)	(3,182,163)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	376,437	(4,926,061)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13,999,456	18,925,517
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 14,375,893	\$ 13,999,456
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	\$ 3,833,980	\$ 3,686,262
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Financing of insurance contract	\$ 899,424	\$ 827,499
Contribution of net assets (deficit of net assets assumed) of non-profit organizations	\$ 32,151,352	\$ (921,721)

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. 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 consist of four board members of Dillon and four board members of Buckner.

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. Under the agreement, BRS is the sole member and approves the nomination and placement of the Board of Directors for BMM.

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)
- BRS (includes subsidiary BMM)
- Buckner Adoption and Maternity Services, Inc.
- Dillon International, Inc.

The Board of Trustees of Buckner serve as directors of these corporations, with the exception of Dillon and BMM as noted above. Buckner and the corporations are exempt from Federal income taxation under Section 501(c)(3) of the Internal Revenue Code. Buckner currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded. All significant intercompany accounts and transactions have been eliminated.

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.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

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. These assets are made up of a portion of cash and cash equivalents, investments, and 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. These assets are made up of a portion of cash and cash equivalents, investments, pledges and bequest receivable, and 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. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

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 at December 31, 2010 and 2009.

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.

The Board of Trustees had designated net assets that were released from designation and became available for operations as noted in the consolidated statements of activities for the year ended December 31, 2009.

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

Buckner follows 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 records 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 payors, and others as services are rendered. Revenue under third-party payor arrangements (Medicaid and Medicare) is subject to audit and retroactive adjustment. Provisions for third-party payor 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.

Distributions from related foundation and 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 involves 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 payments are based. The differential to be paid or received, as interest rates change, is accrued and recognized in interest income (expense). The interest rate swap agreement converts 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 \$835,010 and \$797,205 for the years ended December 31, 2010 and 2009, 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 \$1,185,750 and \$813,592 were reported in other assets, in Buckner's consolidated statements of financial position as of December 31, 2010 and 2009, 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, 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 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 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. Currently two basic types of tenancy agreements are offered: 1. Nonrefundable and 2. Refundable upon re-occupancy

1. Nonrefundable: Under this plan, income is recognized annually based on the life expectancy of residents using annual actuarial calculations. A pro-rated portion of the entrance fee is refundable to the resident contingent upon a new resident occupying the old resident's apartment (re-occupancy) should the agreement be voluntarily terminated. This refundable portion is subject to the discretion of management. In the event of death, there is no return to the estate.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Revenue – Continued

2. Refundable upon re-occupancy: 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 (upon re-occupancy) is amortized to revenue over the life expectancy of the building.

Subsequent Events

The date to which events occurring after December 31, 2010, 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 13, 2011, the date these consolidated financial statements were available to be issued. During this period, there were no material recognizable subsequent events.

NOTE 3. ACQUISITION OF BMM

On January 1, 2010, BRS entered into an agreement with BMM, whereby BRS became the sole member of BMM and approves the nomination and placement of the Board of Directors for BMM. In accordance with the Codification, the transaction is considered an acquisition of BMM by BRS due to BRS obtaining control of BMM. As a result of the acquisition, all assets acquired and liabilities assumed are required to be measured at fair value. No consideration was paid by BRS to BMM for the acquisition, therefore no goodwill was recognized from the acquisition and the excess of assets acquired over the liabilities assumed resulted in an inherent contribution to BRS. The contribution received by BRS is reported in the consolidated statement of activities to reflect the donor imposed restrictions in place prior to the acquisition.

The affiliation was agreed upon when the Board of Directors of BRS and the Board of Trustees of BMM determined that affiliating with each other would enable each entity to better achieve its purpose. BMM is not an obligated party to the 2007 BRS \$104,755,000 tax-exempt bonds issued through the Tarrant County Cultural Education Facilities Finance Corporation.

BRS's 2010 consolidated results of operations and cash flows include the operations of the acquisition from the date of the acquisition, January 1, 2010.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. ACQUISITION OF BMM – CONTINUED

The fair value of each major class of asset acquired and liability assumed is as follows:

	Acquisition date January 1, 2010
Cash	\$ 8,370
Investments	23,492,206
Receivables	1,139,962
Other assets	127,458
Property and equipment	29,260,326
Total assets acquired	<u>54,028,322</u>
Accounts payable	352,581
Accrued expenses	950,174
Short-term debt	1,273,221
Long-term debt	4,514,449
Refundable fees	8,243,539
Deferred revenue from advance fees	6,543,006
Total liabilities assumed	<u>21,876,970</u>
Contribution received in the acquisition of BMM	<u>\$ 32,151,352</u>

NOTE 4. INVESTMENTS

Investments consist of the following:

	December 31,	
	2010	2009
Investments held by Baptist Foundation of Texas	\$ 23,564,550	\$ -
Corporate bonds	1,438,665	1,138,158
U.S. government agencies	460,276	256,288
Money market funds	313,008	1,177,394
Equity securities	6,097,424	5,086,666
Bond mutual funds	376,433	666,313
Other	70,002	98,001
	<u>\$ 32,320,358</u>	<u>\$ 8,422,820</u>

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. INVESTMENTS – CONTINUED

The following summarizes investment return:

	Years ended December 31,	
	2010	2009
Operating		
Dividend and interest income	\$ 2,427,085	\$ 1,053,387
Nonoperating		
Net realized and unrealized gains (loss) on investments	2,288,178	397,006
	<u>\$ 4,715,263</u>	<u>\$ 1,450,393</u>

Buckner includes investment fees as a reduction of dividend and interest income. Fees amounted to \$13,955 and \$19,049 for the years ended December 31, 2010 and 2009, respectively.

NOTE 5. RECEIVABLES

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

	December 31,	
	2010	2009
Receivables, gross	\$ 4,243,031	\$ 2,832,315
Allowance for doubtful accounts	<u>(526,759)</u>	<u>(178,894)</u>
Receivables, net	<u>\$ 3,716,272</u>	<u>\$ 2,653,421</u>

NOTE 6. 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,	
	2010	2009
Pledges and bequests receivable, gross	\$ 6,125,420	\$ 6,803,715
Less unamortized discount at 3.30% and 3.26%	<u>(123,564)</u>	<u>(246,547)</u>
Pledges and bequests receivable, net	<u>\$ 6,001,856</u>	<u>\$ 6,557,168</u>

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. PLEDGES AND BEQUESTS RECEIVABLE – CONTINUED

The maturity of pledges and bequests receivable at December 31, 2010 is as follows:

Less than one year	\$ 3,343,413
One to five years	2,709,247
More than five years	<u>72,760</u>
	<u>\$ 6,125,420</u>

NOTE 7. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Estimated useful life	December 31,	
		2010	2009
Buildings	10 - 40 years	\$ 157,589,139	\$ 96,992,557
Furniture and equipment	5 - 10 years	23,835,618	17,009,069
Vehicles	2 - 4 years	1,324,918	1,503,033
Land improvements	5 - 20 years	<u>12,498,321</u>	<u>10,293,809</u>
Total		195,247,996	125,798,468
Less accumulated depreciation		<u>(59,589,038)</u>	<u>(53,396,682)</u>
		135,658,958	72,401,786
Projects-in-process		605,510	23,017,740
Land		<u>8,420,376</u>	<u>6,492,879</u>
Property and equipment, net		<u>\$ 144,684,844</u>	<u>\$ 101,912,405</u>

Buckner has properly applied capitalizing interest in accordance with the Codification guidance on capitalization of interest cost in situations involving certain tax-exempt borrowings for which all interest expense and interest incurred for tax-exempt borrowings while in the construction phase is charged to projects-in-process. Capitalized interest included in projects-in-process for the year ended December 31, 2010 was \$0. For the year ended December 31, 2009, Buckner recorded a net credit to projects-in-process of \$1,177,685.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. INTEREST IN NET ASSETS OF RELATED FOUNDATION

Prior to 2002, Buckner had both control and an economic interest in Buckner Foundation, Inc, (the Foundation) and, in accordance with the Codification guidance on the reporting of related entities by not-for-profit organizations, Buckner consolidated the Foundation in its financial statements. In 2002, the Foundation amended its by-laws whereby Buckner no longer has control of the Foundation but continues to have an economic interest. In accordance with Codification guidance, Buckner records 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.

Summarized financial data of the Foundation is as follows:

	December 31,	
	2010	2009
Investment assets	\$ 186,718,376	\$ 172,256,210
Other assets	1,873,917	1,504,063
Annuity fund liabilities	5,180,407	4,783,518
Other liabilities	2,689,272	2,128,733
Net assets	180,722,614	166,848,022
Total revenue	13,144,313	9,520,784
Total expenses	3,982,318	2,951,557
Distributions and other	11,586,710	11,895,384
Net realized and unrealized gains on investments	16,299,307	13,579,670

The fair value measurements, as defined in note 17, for the financial instruments held by the foundation as of December 31, 2010 and 2009, consisted of the following:

	Total	Level 1	Level 2	Level 3
As of December 31, 2010:				
Investment assets	\$ 186,718,376	\$ 49,694,669	\$ 116,941,975	\$ 20,081,732
Annuity fund liabilities	(5,180,407)	-	-	(5,180,407)
As of December 31, 2009:				
Investment assets	172,256,210	43,176,255	114,660,461	14,419,494
Annuity fund liabilities	(4,783,518)	-	-	(4,783,518)

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

NOTE 9. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	December 31,	
	2010	2009
Employee vacation and sick pay	\$ 912,299	\$ 420,659
Employee health benefits	523,802	355,916
Nonsubscriber occupational injury	100,000	100,000
Property taxes	164,224	149,795
Wages and payroll related	1,655,979	1,591,286
Interest on revenue bonds and notes payable	920,485	888,896
Professional and general liability insurance	400,000	400,000
Other	261,903	38,193
	\$ 4,938,692	\$ 3,944,745

NOTE 10. 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).

As of December 31, 2010 and 2009, revenue bond proceeds of \$2,082,491 and \$19,452,741, respectively, were being held by the trustee to be used for funding of capital expenditures and construction interest. 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, 2010 and 2009, the unamortized premium on the bonds was \$1,946,897 and \$2,019,532, respectively.

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 \$7,544,778 and \$7,319,687 as of December 31, 2010 and 2009, 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 the Foundation.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. DEBT – CONTINUED

In 2007, BMM issued the Series 2007 Reagan County Health Facilities Development Corporation Revenue Bonds dated August 1, 2007. The bonds mature July 17, 2017, with principal amounts ranging from \$99,713 in 2007 to \$153,738 in 2017. Quarterly interest payments are at 4.84%, and the bonds are secured by the Baptist Foundation Endowment income. In connection with this debt, BMM is required, among other things, to maintain certain financial conditions, such as maximum debt/fund ratio of 1:1, a cash flow to debt service ratio greater than 1.25:1 and a current ratio of greater than or equal to .85:1. During fiscal year 2010, BMM met all of these requirements.

A summary of debt is as follows:

	December 31,	
	2010	2009
Series 2007 revenue bonds, interest rates of 5.00% to 5.25%, net of unamortized premium	\$ 105,465,207	\$ 103,609,532
Lines of credit		
With financial institution, variable interest rate currently at 3.25% expiring June 2012	1,000,000	-
With financial institution, variable interest rate currently at 4.00% expiring November 2011	59,704	-
With financial institution, variable interest rate currently at 5.00% expiring August 2011	142,746	-
With financial institution, fixed interest rate of 5.00% expiring February 2011	90,000	95,000
Notes payable		
With financial institution, fixed interest rate of 6.50% expiring November 2013	28,769	-
With financial institution, variable interest rate currently at 2.75% expiring June 2016	433,581	-
With financial institution, fixed interest rate of 6.50% expiring July 2011	80,760	-
With financial institution, fixed interest rate of 6.25% expiring July 2011	-	100,760
Short-term notes payable		
Insurance contract notes, interest rate of 3.75% to 7.75% expiring 2011	881,190	660,133
	\$ 108,181,957	\$ 104,465,425

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. DEBT – CONTINUED

Scheduled debt repayments on short-term notes payable, line of credit and revenue bonds at December 31, 2010 are as follows:

Year ending December 31,	Short-term Notes Payable	Line of Credit	Notes Payable	Revenue Bonds	Total
2011	\$ 881,190	\$ 292,450	\$ 198,649	\$ 2,251,454	\$ 3,623,743
2012	-	1,000,000	91,708	2,364,445	3,456,153
2013	-	-	94,319	2,483,567	2,577,886
2014	-	-	96,976	2,608,879	2,705,855
2015	-	-	61,458	2,735,438	2,796,896
Thereafter	-	-	-	91,074,527	91,074,527
	881,190	1,292,450	543,110	103,518,310	106,235,060
Add amount representing premium	-	-	-	1,946,897	1,946,897
	<u>\$ 881,190</u>	<u>\$ 1,292,450</u>	<u>\$ 543,110</u>	<u>\$ 105,465,207</u>	<u>\$ 108,181,957</u>

NOTE 11. 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. BMM has a defined contribution pension plan covering substantially all employees. BMM matches up to 5% of an employee's base salary with full vesting after six years of participation in the Plan. Contributions to the plans by Buckner for the years ended December 31, 2010 and 2009 were \$1,318,942 and \$1,139,589, respectively.

NOTE 12. 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,	
	2010	2009
General and administrative	\$ 6,718,744	\$ 6,666,098
Children and family services	35,088,683	36,438,726
Retirement and healthcare services	56,134,593	35,236,704
Adoption and maternity services	3,950,560	4,232,541
Development	3,417,073	3,383,432
Total expenses	<u>\$ 105,309,653</u>	<u>\$ 85,957,501</u>

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

NOTE 12. FUNCTIONAL ALLOCATION OF EXPENSES – CONTINUED

Buckner incurred \$1,725,046 and \$1,100,000 in expenses relating to fundraising activities during the years 2010 and 2009, respectively. These expenses are included in development expense above and were carried out within the Foundation for the benefit of Buckner.

NOTE 13. LEASES

Buckner has a noncancelable operating lease agreement for its office space that expires March 2014. Future annual minimum lease payments due under this lease are as follows:

<u>Year ending December 31,</u>	
2011	\$ 433,812
2012	410,559
2013	414,855
2014	403,557
2015	94,498
	<u>\$ 1,757,281</u>

Rent expense under all operating leases for the years ended December 31, 2010 and 2009 was \$747,709 and \$556,631, 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 14. 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, 2010 and 2009 was included in other liabilities.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. ASSET RETIREMENT OBLIGATION – CONTINUED

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

	Years ended December 31,	
	2010	2009
Beginning balance	\$ 1,168,594	\$ 1,117,946
Accretion expense	52,937	50,648
Ending balance	<u>\$ 1,221,531</u>	<u>\$ 1,168,594</u>

NOTE 15. 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,	
	2010	2009
Capital projects- children and family services	\$ 1,000	\$ 63,000
Capital projects- retirement services	25,000	-
Program support- children and family services	1,953,446	1,680,315
Program support- retirement services	200,000	-
	<u>\$ 2,179,446</u>	<u>\$ 1,743,315</u>

NOTE 16. 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.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17. 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.

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. As required, Buckner does not adjust the quoted price for these investments, even in situations where Buckner holds a large position and a sale could reasonably impact the quoted price.

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.

The guidance applies prospectively as of the beginning of the fiscal year in which it is initially applied, with certain exceptions including financial instruments previously measured using a blockage factor.

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 17. FAIR VALUE MEASUREMENTS – CONTINUED

Information related to the financial instruments measured at fair value on a recurring basis at December 31, 2010 and 2009 is as follows:

	December 31, 2010			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments:				
Equity securities	\$ 6,097,424	\$ 6,097,424	\$ -	\$ -
Corporate bonds	1,438,665	-	1,438,665	-
U.S. government agencies	460,276	-	460,276	-
Money market funds	313,008	-	313,008	-
Bond mutual funds	376,433	-	376,433	-
Real estate	70,002	-	-	70,002
Investments held by Baptist Foundation of Texas:				
Group investment funds	22,493,070	-	22,493,070	-
Real estate	448,770	-	-	448,770
Mineral interests	622,710	-	-	622,710
Pledges and bequests receivable	6,001,856	-	-	6,001,856
Revenue bond proceeds held by trustee	9,627,269	-	9,627,269	-
Interest rate swap agreement	(346,834)	-	(346,834)	-
Annuity funds liabilities for investments held in trust	(278,642)	-	-	(278,642)

	December 31, 2009			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Equity securities	\$ 5,086,666	\$ 4,420,748	\$ 665,918	\$ -
Corporate bonds	1,138,158	-	1,138,158	-
U.S. government agencies	256,288	-	256,288	-
Money market funds	1,177,394	-	1,177,394	-
Bond mutual funds	666,313	-	666,313	-
Real estate	98,001	-	-	98,001
Pledges and bequests receivable	6,557,168	-	-	6,557,168
Revenue bond proceeds held by trustee	26,772,428	-	26,772,428	-

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.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17. FAIR VALUE MEASUREMENTS – CONTINUED

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

Group Investment Funds

Group investments fund 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.

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

Fair values reported as level 3 consist of the following:

Investments in Mineral Interests

Investments in mineral interests are valued by multiplying the most recent twelve months of royalty income, excluding bonus income, times a factor of four based on current industry methodology and recent market conditions.

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.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17. FAIR VALUE MEASUREMENTS – CONTINUED

Investments in Real Estate

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

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
January 1, 2009	\$ 98,001	\$ -	\$ 1,748,507	\$ -
Distributions	-	-	(1,355,593)	-
Contributions	-	-	6,260,505	-
Net realized and unrealized change in investment valuation	<u>-</u>	<u>-</u>	<u>(96,251)</u>	<u>-</u>
December 31, 2009	98,001	-	6,557,168	-
Distributions	-	-	(2,837,361)	-
Contributions	2	-	2,130,475	-
Contributions of net assets of non-profit corporation	441,531	471,480	26,917	(281,403)
Net realized and unrealized change in investment valuation	<u>(20,762)</u>	<u>151,230</u>	<u>124,657</u>	<u>2,761</u>
December 31, 2010	<u>\$ 518,772</u>	<u>\$ 622,710</u>	<u>\$ 6,001,856</u>	<u>\$ (278,642)</u>

NOTE 18. ENDOWMENTS HELD IN BUCKNER FOUNDATION

Buckner Foundation (BF)'s 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.

BF 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.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18. ENDOWMENTS HELD IN BUCKNER FOUNDATION – CONTINUED

As a result of this interpretation, BF 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 Buckner.

To satisfy its long-term rate of return objectives, BF 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). BF 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.

BF 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 BF Board taking into consideration current market conditions and average market value of the portfolio's investable assets over the previous periods. BF 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. Buckner 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. BF 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 Buckner and/or passage of time to be used generally for capital expenditures and program support.

Permanently Restricted Net Assets are restricted for Buckner'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>	
	2010	2009	2010	2009
Net assets	\$ 1,973,136	\$ 1,979,151	\$ 46,088,219	\$ 43,159,063

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18. ENDOWMENTS HELD IN BUCKNER FOUNDATION – CONTINUED

For the years ended December 31, 2010 and 2009, Buckner had the following endowment-related activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2008	\$ -	\$ 1,841,124	\$ 42,398,523	\$ 44,239,647
Investment return				
Investment income	-	-	115,810	115,810
Net realized/unrealized losses	-	435	285,783	286,218
Total investment return	-	435	401,593	402,028
Contributions to endowment	-	234,409	358,947	593,356
Amounts approved for expenditure	-	(96,817)	-	(96,817)
Endowment net assets, December 31, 2009	-	1,979,151	43,159,063	45,138,214
Investment return				
Investment income	-	-	149,415	149,415
Net realized/unrealized losses	-	410	1,905,328	1,905,738
Total investment return	-	410	2,054,743	2,055,153
Contributions to endowment	-	-	874,413	874,413
Amounts approved for expenditure	-	(6,425)	-	(6,425)
Endowment net assets, December 31, 2010	<u>\$ -</u>	<u>\$ 1,973,136</u>	<u>\$ 46,088,219</u>	<u>\$ 48,061,355</u>

NOTE 19. 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 \$2,000,000. The letter of credit is required by the insurance company for Buckner's professional and general liability insurance policies from prior years. The letter of credit is secured by certain investments within the related foundation. As of December 31, 2010 and 2009, no amounts are outstanding under the letter of credit.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19. COMMITMENTS AND CONTINGENCIES – CONTINUED

At December 31, 2010 and 2009, Buckner maintained a \$400,000 reserve for prior years' professional and general liability insurance. 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. At December 31, 2010 and 2009, Buckner has accrued \$523,802 and \$355,916, 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, 2010 and 2009, Buckner has accrued \$100,000 for the non-subscriber occupational injury plan.

NOTE 20. FEDERAL INCOME TAXES

The Codification has recently issued new guidance in accounting for uncertainties in income taxes which 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 new 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. Accordingly, Buckner has not recorded an income tax liability for uncertain tax benefits. For the year ended December 31, 2010, there were no interest or penalties recorded or included in the financial statements. As of December 31, 2010, Buckner's tax years 2007 through 2010 remain subject to examination.

NOTE 21. 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. This agreement provides 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 notional value of the interest rate swap at December 31, 2010 was \$3,628,310. The interest rate swap agreement matures in July 2017.

BMM has not designated the swap as a hedging instrument, and as a result, changes in the fair market value of the swap are recorded as an adjustment to long-term liability – interest rate swap agreement in the accompanying balance sheets with the offset recorded to unrealized gain/loss on interest rate swap in the accompanying statements of operations.

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21. DERIVATIVE FINANCIAL INSTRUMENT – CONTINUED

The differences in the Prime Rate and fixed swap rate for the year ended December 31, 2010 resulted in a realized loss of \$221,739. The loss is included in interest expense on the accompanying consolidated statement of operations for the year ended December 31, 2010. The market value of the swap as of December 31, 2010 is \$346,834 and is reported as an other liability in the consolidated statements of financial position.



INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION

To the Board of Trustees
Buckner International

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole of Buckner International as of and for the year ended December 31, 2010, which are presented in the preceding section of this report. The supplementary consolidating statement of financial position and consolidating statement of activities included hereinafter are presented for purposes of additional analyses and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
May 13, 2011

**BUCKNER INTERNATIONAL
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS FOR 2009)**

	Buckner International	Buckner Children and Family Services, Inc.	Buckner Retirement Services, Inc.	Buckner Adoption and Maternity Services, Inc.	Dillon International, Inc.	Eliminations	2010 Consolidated Total	2009 Consolidated Total
ASSETS								
ASSETS								
Cash and cash equivalents	\$ 902,337	\$ 2,655,393	\$ 10,273,107	\$ 105,172	\$ 439,884	\$ -	\$ 14,375,893	\$ 13,999,456
Investments	11,912	3,323,112	28,741,618	250	243,466	-	32,320,358	8,422,820
Receivables, net	95,443	835,991	2,533,221	3,228	248,389	-	3,716,272	2,653,421
Pledges and bequests receivable, net	-	5,986,859	12,897	-	2,100	-	6,001,856	6,557,168
Inventories and supplies	-	-	166,920	-	-	-	166,920	40,003
Notes receivable	15,946	-	43,487	-	-	-	59,433	16,839
Prepaid expenses	375,193	533,119	768,710	1,200	16,207	-	1,694,429	1,137,105
Due from other companies, net	8,906,609	-	-	229,121	-	(6,741,880)	2,393,850	1,864,780
Other assets	-	-	1,535,332	-	-	-	1,535,332	823,934
Revenue bond proceeds held by trustee	-	-	9,627,269	-	-	-	9,627,269	26,772,428
Real estate held for investment	2,264,193	72,810	-	-	-	-	2,337,003	2,280,123
Property and equipment, net	751,056	26,964,249	117,075,656	18,349	15,496	(139,962)	144,684,844	101,912,405
Interest in net assets of related foundation	180,722,614	-	-	-	-	-	180,722,614	166,848,022
Bond issuance costs, net	-	-	1,370,066	-	-	-	1,370,066	1,421,155
TOTAL ASSETS	<u>\$ 194,045,303</u>	<u>\$ 40,371,533</u>	<u>\$ 172,148,283</u>	<u>\$ 357,320</u>	<u>\$ 965,542</u>	<u>\$ (6,881,842)</u>	<u>\$ 401,006,139</u>	<u>\$ 334,749,659</u>
LIABILITIES AND NET ASSETS								
LIABILITIES								
Accounts payable	\$ 348,133	\$ 207,023	\$ 993,296	\$ 5,229	274,462	\$ -	\$ 1,828,143	\$ 2,131,904
Accrued liabilities	368,331	960,977	3,491,851	19,868	97,665	-	4,938,692	3,944,745
Lines of credit	1,000,000	-	202,450	-	90,000	-	1,292,450	95,000
Short-term notes payable	881,190	-	-	-	-	-	881,190	660,133
Revenue bonds payable, net	-	-	105,465,207	-	-	-	105,465,207	103,609,532
Notes payable	-	80,760	462,350	-	-	-	543,110	100,760
Resident deposits	-	-	1,318,870	-	-	-	1,318,870	1,240,270
Refundable fees	-	-	9,550,103	-	-	-	9,550,103	1,243,800
Deferred revenue from advance fees	-	-	6,798,817	-	-	-	6,798,817	113,774
Annuity and life income fund liability	-	113,347	-	-	-	-	113,347	115,765
Other	243,608	976,671	3,082,058	-	220,250	-	4,522,587	3,688,233
Due to other companies, net	-	5,424,649	1,147,398	-	169,833	(6,741,880)	-	-
Total liabilities	<u>2,841,262</u>	<u>7,763,427</u>	<u>132,512,400</u>	<u>25,097</u>	<u>852,210</u>	<u>(6,741,880)</u>	<u>137,252,516</u>	<u>116,943,916</u>
NET ASSETS								
Unrestricted	143,081,382	27,170,465	15,536,604	309,895	(118,332)	(139,962)	185,840,052	165,009,780
Temporarily restricted	2,034,440	5,092,479	12,259,357	22,328	31,664	-	19,440,268	9,126,798
Permanently restricted	46,088,219	345,162	11,839,922	-	200,000	-	58,473,303	43,669,165
Total net assets	<u>191,204,041</u>	<u>32,608,106</u>	<u>39,635,883</u>	<u>332,223</u>	<u>113,332</u>	<u>(139,962)</u>	<u>263,753,623</u>	<u>217,805,743</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 194,045,303</u>	<u>\$ 40,371,533</u>	<u>\$ 172,148,283</u>	<u>\$ 357,320</u>	<u>\$ 965,542</u>	<u>\$ (6,881,842)</u>	<u>\$ 401,006,139</u>	<u>\$ 334,749,659</u>

**BUCKNER INTERNATIONAL
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS FOR 2009)**

	Buckner International	Buckner Children and Family Services, Inc.	Buckner Retirement Services, Inc.	Buckner Adoption and Maternity Services, Inc.	Dillon International, Inc.	Eliminations	2010 Consolidated Total	2009 Consolidated Total
REVENUES								
Client support and related income	\$ -	\$ 11,741,186	\$ 54,689,452	\$ 477,660	\$ 1,953,100	\$ -	\$ 68,861,398	\$ 49,652,626
Investment income	23,892	620,283	1,774,583	11	8,316	-	2,427,085	1,053,387
Distributions from related foundation	4,484,761	5,102,542	203,613	96,319	571,000	-	10,458,235	11,483,301
Contributions								
Baptist General Convention of Texas	-	535,972	192,191	80,200	-	-	808,363	703,814
Individual and business gifts	50,493	14,596,648	696,821	72,118	1,261,314	-	16,677,394	20,828,196
Bequests	34,610	208,571	186,622	-	-	-	429,803	408,356
Gain(loss) on sales of real estate held for investment	-	(750)	-	-	-	-	(750)	(16,396)
Other	13,134	396,379	768,625	-	36,678	-	1,214,816	836,082
Administrative fees	3,100,827	-	-	-	-	(2,988,287)	112,540	118,319
Net assets released from restriction	-	-	-	-	-	-	-	2,387,000
Total revenue	7,707,717	33,200,831	58,511,907	726,308	3,830,408	(2,988,287)	100,988,884	87,454,685
EXPENSES								
Salaries and benefits	4,289,778	14,147,489	29,967,612	134,799	1,507,142	-	50,046,820	40,287,671
Supplies and direct expenses	26,696	11,825,660	7,237,637	255,438	1,270,511	-	20,615,942	18,214,481
Occupancy and insurance	1,010,958	3,444,381	7,805,314	52,793	226,933	-	12,540,379	7,882,774
Travel and transportation	240,496	3,024,029	318,906	26,962	273,541	-	3,883,934	4,283,821
Administration	2,634,457	4,305,159	3,739,247	114,989	265,813	(2,988,287)	8,071,378	7,573,006
Depreciation	196,837	1,313,304	4,796,165	695	8,798	-	6,315,799	4,024,128
Interest expense	4,067	89	3,826,909	-	4,336	-	3,835,401	3,691,620
Total expenses	8,403,289	38,060,111	57,691,790	585,676	3,557,074	(2,988,287)	105,309,653	85,957,501
CHANGE IN NET ASSETS FROM OPERATIONS	(695,572)	(4,859,280)	820,117	140,632	273,334	-	(4,320,769)	1,497,184
NONOPERATING ITEMS								
Net realized and unrealized gains (losses) on investments	1,064	310,303	1,958,832	-	17,979	-	2,288,178	397,006
Net assets released from trustee designation	-	-	-	-	-	-	-	(2,387,000)
Increase (decrease) in interest in net assets of related foundation	13,874,592	-	-	-	-	-	13,874,592	8,253,513
Other, net	105,709	2,923,687	(815,032)	(33,026)	(226,811)	-	1,954,527	1,243,464
CHANGE IN NET ASSETS	13,285,793	(1,625,290)	1,963,917	107,606	64,502	-	13,796,528	9,004,167
CONTRIBUTION OF NET ASSETS (DEFICIT OF NET ASSETS ASSUMED) OF NON-PROFIT ORGANIZATIONS	-	-	32,151,352	-	-	-	32,151,352	(921,721)
NET ASSETS, BEGINNING OF YEAR	177,918,248	34,233,396	5,520,614	224,617	48,830	(139,962)	217,805,743	209,723,297
NET ASSETS, END OF YEAR	\$ 191,204,041	\$ 32,608,106	\$ 39,635,883	\$ 332,223	\$ 113,332	\$ (139,962)	\$ 263,753,623	\$ 217,805,743