

Buckner International and Subsidiaries

Consolidated Financial Report

December 31, 2021

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Independent Auditor's Report

To the Board of Trustees of
Buckner International and Subsidiaries

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Buckner International and its subsidiaries (collectively, Buckner), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Buckner International and its subsidiaries as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and in accordance with Government Auditing Standards issued by the Comptroller General of the United States (GAGAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Buckner, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Buckner's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Weaver and Tidwell, L.L.P.
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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Buckner's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Buckner's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
May 11, 2022

Buckner International and Subsidiaries

Consolidated Statements of Financial Position December 31, 2021 and 2020

	2021	2020
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 39,402,356	\$ 30,950,384
Investments	519,936,529	405,204,757
Board of trustees designated funds	20,995,043	-
Assets whose use is limited	13,068,104	21,576,856
Receivables, net	8,263,195	9,145,834
Pledges and bequests receivable, net	1,070,738	748,788
Inventories and supplies	222,001	193,195
Notes receivable	7,702,200	7,702,200
Prepaid expenses	599,023	317,748
Other assets	3,615,637	4,204,863
Revenue bond proceeds held by trustee	16,010,862	17,269,011
Real estate held for investment	1,406,731	1,747,011
Property and equipment, net	393,044,811	402,663,267
TOTAL ASSETS	\$ 1,025,337,230	\$ 901,723,914
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 1,812,756	\$ 1,766,848
Retainage payable	49,287	-
Accrued liabilities	9,636,968	10,716,785
Lines of credit	1,100,000	1,100,000
Revenue bonds payable, net	294,832,080	308,563,269
Notes payable	23,312,404	23,586,573
Resident deposits	2,301,441	2,106,745
Refundable fees	116,347,721	104,334,411
Deferred revenue from advance fees	17,596,960	16,191,143
Annuity and life income fund liability	5,120,358	4,841,622
Other	4,757,679	5,176,780
Total liabilities	476,867,654	478,384,176
NET ASSETS		
Without restrictions	393,556,732	281,504,561
With restrictions	154,912,844	141,835,177
Total net assets	548,469,576	423,339,738
TOTAL LIABILITIES AND NET ASSETS	\$ 1,025,337,230	\$ 901,723,914

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

Buckner International and Subsidiaries
Consolidated Statements of Activities
Years Ended December 31, 2021 and 2020

	2021			2020		
	Without Restrictions	With Restrictions	Total	Without Restrictions	With Restrictions	Total
REVENUES						
Client support and related income	\$ 92,376,899	\$ -	\$ 92,376,899	\$ 85,364,257	\$ -	\$ 85,364,257
Investment income	43,968,688	830,430	44,799,118	26,943,857	887,462	27,831,319
Contributions						
Baptist General Convention of Texas	370,427	-	370,427	386,263	-	386,263
Individual and business gifts	18,483,445	2,634,236	21,117,681	11,682,794	1,339,134	13,021,928
Bequests	2,756,361	-	2,756,361	1,452,979	-	1,452,979
Gain on sales of real estate held for investment	30,466	-	30,466	38,480	-	38,480
Other	11,206,672	-	11,206,672	3,749,136	-	3,749,136
Net assets released from restrictions	710,184	(710,184)	-	3,212,134	(3,212,134)	-
	<u>169,903,142</u>	<u>2,754,482</u>	<u>172,657,624</u>	<u>132,829,900</u>	<u>(985,538)</u>	<u>131,844,362</u>
EXPENSES						
Salaries and benefits	73,016,567	-	73,016,567	69,957,433	-	69,957,433
Supplies and direct expenses	26,391,604	-	26,391,604	25,603,380	-	25,603,380
Occupancy and insurance	18,955,628	-	18,955,628	16,172,071	-	16,172,071
Travel and transportation	1,098,332	-	1,098,332	875,481	-	875,481
Administration	11,981,268	-	11,981,268	11,377,863	-	11,377,863
Depreciation	14,492,632	-	14,492,632	13,793,271	-	13,793,271
Interest expense	17,853,036	-	17,853,036	18,545,254	-	18,545,254
Bad debt expense	322,983	-	322,983	246,612	-	246,612
	<u>164,112,050</u>	<u>-</u>	<u>164,112,050</u>	<u>156,571,365</u>	<u>-</u>	<u>156,571,365</u>
Change in net assets from operations	5,791,092	2,754,482	8,545,574	(23,741,465)	(985,538)	(24,727,003)
NONOPERATING ITEMS						
Net realized and unrealized gains (losses) on investments	104,515,734	9,774,052	114,289,786	18,588,371	(961,816)	17,626,555
Other, net	1,745,345	549,133	2,294,478	2,272,192	221,822	2,494,014
	<u>112,052,171</u>	<u>13,077,667</u>	<u>125,129,838</u>	<u>(2,880,902)</u>	<u>(1,725,532)</u>	<u>(4,606,434)</u>
NET ASSETS, beginning of year	<u>281,504,561</u>	<u>141,835,177</u>	<u>423,339,738</u>	<u>284,385,463</u>	<u>143,560,709</u>	<u>427,946,172</u>
NET ASSETS, end of year	<u>\$ 393,556,732</u>	<u>\$ 154,912,844</u>	<u>\$ 548,469,576</u>	<u>\$ 281,504,561</u>	<u>\$ 141,835,177</u>	<u>\$ 423,339,738</u>

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

Buckner International and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 125,129,838	\$ (4,606,434)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	14,492,632	13,793,271
Bad debt expense	322,983	246,612
Amortization	(2,801,882)	(1,096,999)
Accretion expense and ARO revisions	34,543	35,543
Gain on sales of real estate held for investment	(30,466)	(38,480)
Gain on sale or disposal of facility assets	(2,294,481)	(2,494,013)
Net realized and unrealized gains on investments	(114,567,420)	(17,626,555)
Changes in operating assets and liabilities:		
Assets whose use is limited	16,776	4,098,966
Receivables	237,706	(2,454,391)
Inventories and supplies	(28,806)	36,884
Prepaid expenses	(281,275)	251,784
Other assets	589,226	823,360
Accounts payable	45,908	(6,493,564)
Accrued liabilities	(1,030,530)	2,441,076
Resident deposits	194,696	(238,845)
Refundable fees	12,013,310	12,090,202
Deferred revenue from advance fees	3,505,945	2,515,099
Annuity and life income fund liability	278,736	(156,578)
Other liabilities	(453,644)	(1,164,221)
Net cash provided by operating activities	35,373,795	(37,283)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(3,108,851)	(7,663,037)
Decrease in revenue bond proceeds held by trustee	1,427,772	6,553,989
Purchases of investments	(42,812,350)	(21,752,140)
Proceeds on sales or redemptions of investments	21,295,995	26,841,096
Proceeds from sale of property and equipment	529,156	348,951
Proceeds from sales of real estate held for investment	370,746	102,440
Net cash provided by (used in) investing activities	(22,297,532)	4,431,299
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from revenue bonds payable and notes payable	179,801	3,410,500
Payments on revenue bonds payable and short-term notes payable	(13,483,405)	(26,971,435)
Net cash used in financing activities	(13,303,604)	(23,560,935)
Net change in cash and cash equivalents	(227,341)	(19,166,919)
CASH AND CASH EQUIVALENTS, beginning of year	53,559,910	72,726,829
CASH AND CASH EQUIVALENTS, end of year	\$ 53,332,569	\$ 53,559,910
RECONCILIATION TO STATEMENT OF FINANCIAL POSITION:		
Cash and cash equivalents	\$ 39,402,356	\$ 30,950,384
Restricted cash included in assets whose use is limited	13,061,905	21,570,686
Restricted cash included in revenue bond proceeds held by trustee	868,308	1,038,840
Total cash and cash equivalents	\$ 53,332,569	\$ 53,559,910
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	\$ 17,822,669	\$ 18,654,045

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

Buckner International and Subsidiaries
Consolidated Statement of Functional Expenses
Year Ended December 31, 2021

	Ministry Activities						Total Ministry Activities	Supporting Activities		Total Supporting Activities	Total Expenses
	Foster Care and Adoption	Family Hope Centers	Family Pathways	Ministry Engagement	International Ministries	Senior Care Services		General and Administration	Fundraising		
Salaries and benefits	\$ 6,140,787	\$ 6,409,415	\$ 2,161,934	\$ 2,498,822	\$ 788,096	\$ 42,909,767	\$ 60,908,821	\$ 9,706,303	\$ 2,401,443	\$ 12,107,746	\$ 73,016,567
Supplies and direct expenses	4,139,216	959,216	771,523	1,137,509	3,607,690	13,590,482	24,205,636	5,862	2,180,106	2,185,968	26,391,604
Occupancy and insurance	1,256,242	1,396,803	1,059,237	611,224	172,477	12,156,857	16,652,840	2,106,773	196,015	2,302,788	18,955,628
Travel and transportation	200,387	166,192	33,658	103,513	16,027	383,792	903,569	141,179	53,584	194,763	1,098,332
Administration	394,955	486,200	205,261	239,353	115,404	5,851,200	7,292,373	3,055,051	1,633,844	4,688,895	11,981,268
Depreciation	116,275	637,778	898,426	256,352	-	12,357,002	14,265,833	226,799	-	226,799	14,492,632
Interest expense	232	232	182	259	-	17,636,449	17,637,354	215,682	-	215,682	17,853,036
Bad debt expense	-	-	-	-	-	322,983	322,983	-	-	-	322,983
TOTAL EXPENSES	<u>\$ 12,248,094</u>	<u>\$ 10,055,836</u>	<u>\$ 5,130,221</u>	<u>\$ 4,847,032</u>	<u>\$ 4,699,694</u>	<u>\$ 105,208,532</u>	<u>\$ 142,189,409</u>	<u>\$ 15,457,649</u>	<u>\$ 6,464,992</u>	<u>\$ 21,922,641</u>	<u>\$ 164,112,050</u>

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

Buckner International and Subsidiaries
 Consolidated Statement of Functional Expenses
 Year Ended December 31, 2020

	<u>Ministry Activities</u>						<u>Total Ministry Activities</u>	<u>Supporting Activities</u>		<u>Total Supporting Activities</u>	<u>Total Expenses</u>
	<u>Foster Care and Adoption</u>	<u>Family Hope Centers</u>	<u>Family Pathways</u>	<u>Ministry Engagement</u>	<u>International Ministries</u>	<u>Senior Care Services</u>		<u>General and Administration</u>	<u>Fundraising</u>		
Salaries and benefits	\$ 6,294,837	\$ 6,780,997	\$ 2,335,152	\$ 2,894,847	\$ 725,725	\$ 40,358,748	\$ 59,390,306	\$ 8,401,795	\$ 2,165,332	\$ 10,567,127	\$ 69,957,433
Supplies and direct expenses	4,398,139	898,938	822,163	851,392	3,716,908	12,080,050	22,767,590	34,943	2,800,847	2,835,790	25,603,380
Occupancy and insurance	1,108,881	1,167,318	913,862	515,553	72,497	10,234,650	14,012,761	2,123,608	35,702	2,159,310	16,172,071
Travel and transportation	179,405	138,159	36,764	95,266	32,710	266,125	748,429	95,560	31,492	127,052	875,481
Administration	419,729	520,164	219,157	337,693	118,827	5,587,299	7,202,869	3,109,220	1,065,774	4,174,994	11,377,863
Depreciation	115,663	619,735	917,235	257,402	-	11,628,727	13,538,762	254,509	-	254,509	13,793,271
Interest expense	-	-	-	-	-	18,352,798	18,352,798	192,456	-	192,456	18,545,254
Bad debt expense	-	-	-	-	-	246,612	246,612	-	-	-	246,612
TOTAL EXPENSES	<u>\$ 12,516,654</u>	<u>\$ 10,125,311</u>	<u>\$ 5,244,333</u>	<u>\$ 4,952,153</u>	<u>\$ 4,666,667</u>	<u>\$ 98,755,009</u>	<u>\$ 136,260,127</u>	<u>\$ 14,212,091</u>	<u>\$ 6,099,147</u>	<u>\$ 20,311,238</u>	<u>\$ 156,571,365</u>

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.

Buckner consolidates the following not-for-profit corporations:

- Buckner International
- Buckner Children and Family Services, Inc. (includes subsidiaries - Rio Grande Children's Home, and Rio Grande Children's Home Foundation Inc.) – collectively BCFS
- Buckner Retirement Services, Inc. (BRS), which includes subsidiaries Baptist Memorials Ministries (BMM) and Buckner Senior Living, Inc. (BSL), collectively, "BRS."
- Buckner Foundation, Inc. (Foundation)
- Buckner FHC-Bachman Lake (BBL)

On November 18, 2021, the Board of Trustees voted to merge MFHL Corporation (MFHL) into Buckner Children and Family Services (BCFS). The merger was effective as of December 13, 2021, and the assets of MFHL were merged with BCFS.

The Board of Trustees of Buckner International serve as directors of BCFS, BRS, and the Foundation. The majority of the Board of Directors of BBL are appointed by the Board of Directors of BCFS, with the remaining Independent Directors elected by majority vote of the incumbent Directors. Buckner International and the related corporations are exempt from Federal income taxation under Section 501(c)(3) of the Internal Revenue Code.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

Buckner presents its financial statements in accordance with Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) 958 *Not-for-Profit Entities*. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net Assets Without Restrictions - Net assets that are not subject to donor-imposed stipulations. Restricted contributions received and released in the current year will be reported as activity within net asset without restrictions.
- Net Assets With Restrictions - Net assets with restrictions include 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 2021 and 2020, these assets are made up of a portion of cash and cash equivalents, investments, and pledges and bequests receivable. Net assets with restrictions also include 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 2021 and 2020, these assets are made up of a portion of cash and cash equivalents and investments.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

Revenues are reported as increases in net assets without restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restriction unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with restriction (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 net asset with restriction class, and a reclassification to net assets without restriction 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. 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 fundraising activity. There was no allowance for uncollectible contributions at December 31, 2021 and 2020.

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

- As increases (decreases) in net assets with restriction if the terms of the gift require that they be included in the principal of a permanent endowment fund;
- As increases (decreases) in net assets with restriction if the terms of the gift impose restrictions on their use;
- As increases (decreases) in net assets without restriction 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, which at times may exceed federally insured limits, with high credit quality financial institutions. 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.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

Assets Whose Use is Limited

Assets whose use is limited on the statement of financial position include cash restricted for debt service payments for revenue bonds payable, funds held for new markets tax program, refundable deposits held to reserve units at Buckner Senior Living, and entrance fees restricted for working capital and to retire short term debt. Revenue bond proceeds held by trustee on the statement of financial position include cash restricted for capital expenditures and construction interest. These amounts are presented as restricted cash and are included in the statement of cash flow.

Receivables and Notes Receivable

Receivables are primarily due from clients served and from government agencies. 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.

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 five to forty years. Buckner capitalizes items in excess of \$5,000 with a useful life of at least one year.

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. Bond issuance costs are reported in the 2021 and 2020 consolidated statements of financial position as direct deductions from the carrying amount of the related debt liability. Amortization of bond issuance costs after construction is complete is included within administration expense in the consolidated statements of activities.

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.

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.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

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.

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.

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

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 \$3,178,654 and \$2,399,263 for the years ended December 31, 2021 and 2020, respectively, and are included in administration expense on the accompanying consolidated statements of activities.

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 gains and losses on the disposal of property and equipment and realized and unrealized gains and losses on investments from the change in net assets from operations.

Use of Estimates

The preparation of the 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.

Reclassification

Certain accounts related 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

Subsequent Events

The date to which events occurring after December 31, 2021, 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 11, 2022, the date these consolidated financial statements were available to be issued.

COVID-19

COVID-19 continued to impact Buckner operationally and financially in 2021, particularly in Buckner Retirement Services, where occupancy has not returned to pre-pandemic levels and communities continued to incur COVID-19 related expenses during new variant surges. Buckner complied with all local, state, and federal orders and followed CDC recommended guidelines. Buckner received the following assistance available for not-for-profit organizations in 2021:

- Relief fund payments under the CARES act from the Department of Health and Human Services. These funds do not need to be repaid.
- Payroll Protection Program funds from the US Small Business Administration (SBA). The funds received were recorded as a liability, and payments were deferred until forgiven. All loans were forgiven by the SBA as of December 31, 2021, and were recorded as other operating revenue.
- Relief under Section 2302 of the CARES Act which provided that employers may defer the deposit and payment of the employer's portion of social security taxes through December 31, 2020. The first 50% of deferred taxes were repaid by December 31, 2021, and the remainder will be repaid by December 31, 2022.

Buckner will continue to evaluate government programs under the CARES Act if they become available. Buckner is unable to predict whether COVID-19 will affect the results of its operations for 2022. The operating results for the quarter ended March 31, 2022 were moderately impacted, with Buckner Retirement Services having the most impact. Although Buckner Retirement Services has seen its occupancy levels increase, they still have not recovered to pre-pandemic levels.

Note 3. Investments

Investments include amounts on the statement of financial position presented as Investments and Board of trustees designated funds. Investments consist of the following:

	December 31,	
	2021	2020
HighGround Endowment Fund	\$ 165,170,493	\$ 142,347,786
Equity securities - domestic	60,774,793	48,528,337
Equity securities - international	13,932,393	26,860,219
Corporate bonds	32,540,953	34,641,188
U.S. government agencies	3,749,322	2,589,453
Money market funds	9,049,624	4,161,431
Bond mutual funds	47,930,328	29,767,054
Mineral interests	182,304,581	97,007,915
Other	25,479,085	19,301,374
	\$ 540,931,572	\$ 405,204,757

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

The following summarizes investment return:

	Years Ended December 31,	
	2021	2020
Operating		
Dividend and interest income	\$ 44,799,118	\$ 27,831,319
Nonoperating		
Net realized and unrealized gain (loss) on investments	114,289,786	17,626,555
	<u>\$ 159,088,904</u>	<u>\$ 45,457,874</u>

Note 4. Receivables

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

	December 31,	
	2021	2020
Receivables, gross	\$ 8,885,195	\$ 9,667,642
Allowance for doubtful accounts	<u>(622,000)</u>	<u>(521,808)</u>
Receivables, net	<u>\$ 8,263,195</u>	<u>\$ 9,145,834</u>

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,	
	2021	2020
Pledges and bequests receivable, gross	\$ 1,077,666	\$ 750,631
Less unamortized discount at 1.52% and 0.93% at December 31, 2021 and 2020, respectively	<u>(6,928)</u>	<u>(1,843)</u>
Pledges and bequests receivable, net	<u>\$ 1,070,738</u>	<u>\$ 748,788</u>

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

The maturity of pledges and bequests receivable at December 31, 2021 is as follows:

Less than one year	\$	744,333
One to five years		<u>333,333</u>
	\$	<u><u>1,077,666</u></u>

Note 6. Note Receivable

During 2018, BCFS closed on a new markets tax credit (NMTC) arrangement resulting in a note receivable from Chase NMTC Buckner Investment Fund, LLC in the amount of \$7,702,200 with interest payable annually at 1.00%. Principal and interest payments of the note commenced in December 2018 with final payment due December 2051. As part of the arrangement, the note may be paid off early, wherein a significant portion of the debt may be forgiven through the utilization of the new markets tax credit. The note is collateralized by a security interest in the membership interests of the community development entity, DDF November, LLC. The note receivable originated with the issuance of certain debt instruments reflected in Note 10 to the consolidated financial statements. However, there is not a right of offset with these debt instruments.

Note 7. Property and Equipment

Property and equipment consists of the following:

	Estimated Useful Life	December 31,	
		2021	2020
Buildings	10 - 40 years	\$ 457,397,913	\$ 458,527,228
Furniture and equipment	5 - 10 years	33,406,160	32,918,492
Vehicles	5 years	2,384,209	2,144,533
Land improvements	5 - 20 years	<u>16,465,282</u>	<u>16,280,834</u>
Total		509,653,564	509,871,087
Less accumulated depreciation		<u>(131,203,654)</u>	<u>(121,272,805)</u>
		378,449,910	388,598,282
Projects-in-process		547,011	12,101
Land		<u>14,047,890</u>	<u>14,052,884</u>
Property and equipment, net		<u><u>\$ 393,044,811</u></u>	<u><u>\$ 402,663,267</u></u>

Depreciation expense was \$14,492,632 and \$13,793,271 for the years ended December 31, 2021 and 2020, respectively.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. Accrued Liabilities

Accrued liabilities consist of the following:

	December 31,	
	2021	2020
Employee vacation and sick pay	\$ 481,836	\$ 767,761
Employee health benefits	1,063,000	1,063,000
Nonsubscriber occupational injury	100,000	100,000
Property taxes	900	527,728
Wages and payroll related	3,360,371	2,943,870
Interest on revenue bonds and notes payable	2,205,077	2,278,690
Professional and general liability insurance	100,000	100,000
Other	2,325,784	2,935,736
	\$ 9,636,968	\$ 10,716,785

Note 9. Debt

In October 2018, First Financial Bank, N.A., made two loans, Note A and Note B, to BMM through the Orchard Cultural Education Facilities Finance Corporation. The proceeds from the Notes were used by BMM to finance and refinance the construction, acquisition, renovation and equipping of independent living, assisted living, and skilled nursing facilities in San Angelo, Texas. Note A and Note B were both refinanced effective January 1, 2021, at an interest rate of 3.5% per annum. The outstanding principal amount of Note A on December 31, 2021, was \$7,323,483. The outstanding principal amount of Note B on December 31, 2021, was \$5,793,219. Total annual payments for Note A and Note B through September 2028 will be \$481,968 and \$370,122, respectively. Effective October 2028, the rate will be variable, but at no time will the interest rate be less than 3.5% per annum. Buckner Foundation, Inc. has entered into an account control agreement with First Financial Bank, N.A., in the amount of \$2,000,000 for the benefit of BMM related to the two notes.

In May 2017, BSL, through the Tarrant County Cultural Education Facilities Finance Corporation, issued \$232,345,000 of tax-exempt bonds, and is the sole obligated party on the issuance. The proceeds generated by the sale of the bonds were loaned to BSL to finance the development, marketing, construction, and equipping of a Life Plan Continuum Care Retirement Community located in Dallas, Texas. The outstanding principal amount of the Series 2017 Ventana bonds at December 31, 2021 is \$153,505,000. As of December 31, 2021, revenue bond proceeds of \$15,414,062 were being held by the trustee to be used for funding of capital expenditures and construction interest. Interest payments began November 2017 with principal payments not beginning until year 2019 and the total annual payments are approximately \$11,730,000 through November 15, 2052. As of December 31, 2021, the unamortized premium on the Series 2017 Ventana bonds is \$133,125. Buckner Foundation, Inc. has entered into a Liquidity Support Agreement with BSL and the Master Trustee in the amount of \$15,000,000 for the benefit of BSL related to the 2017 Bonds.

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Notes to Consolidated Financial Statements

In August 2017, BRS, through the Tarrant County Cultural Education Facilities Finance Corporation, issued \$52,485,000 of tax-exempt bonds, and is the sole obligated party on the issuance. The proceeds generated by the sale of the bonds were loaned to BRS to (1) finance a portion of the costs for improving and equipping a health care facility located in Houston, Texas and (2) refund \$49,200,000 which represents the remaining portion of the outstanding Tarrant County Cultural Education Facilities Finance Corporation Revenue Bonds, Series 2007. The outstanding principal amount of the Series 2017 bonds at December 31, 2021 is \$46,290,000. As of December 31, 2021, revenue bond proceeds of \$3,271 were being held by the trustee to be used for funding of capital expenditures and construction interest. Total principal and interest payments began November 2017 and the total annual payments are approximately \$3,790,000 through November 15, 2037 and \$1,745,000 from November 15, 2038 through November 15, 2046. As of December 31, 2021, the unamortized premium on the Series 2017 bonds is \$5,680,321.

In May 2016, BRS, through the Tarrant County Cultural Education Facilities Finance Corporation, issued \$89,260,000 of tax-exempt bonds, and is the sole obligated party on the issuance. The proceeds generated by the sale of the bonds were loaned to BRS to (1) finance the construction and expansion of certain retirement facilities located in Austin, Beaumont, and Longview, Texas and (2) to refund \$39,540,000 which represented a portion of the outstanding Tarrant County Cultural Education Facilities Finance Corporation Revenue Bonds, Series 2007. The outstanding principal amount of the Series 2016 bonds at December 31, 2021 is \$83,560,000. As of December 31, 2021, revenue bond proceeds of \$593,529 were being held by the trustee to be used for funding of capital expenditures and construction interest. Total principal and interest payments began November 2016 and the total annual payments are approximately \$5,350,000 through November 15, 2037 and \$7,800,000 from November 15, 2038 through November 15, 2046. As of December 31, 2021, the unamortized premium on the Series 2016 bonds is \$10,914,052.

BRS is required to maintain compliance with certain covenants as provided by the April 2016 Supplemental Indenture, the August 2017 Supplemental Indenture, and the original July 2007 Master Trust Indenture. Buckner Foundation, Inc. has entered into a Credit and Support Agreement with the Master Trustee for the benefit of BRS related to the 2017 Series and 2016 Series bonds.

Buckner renegotiated the line of credit in December 2021 for \$1,950,000, which includes \$1,100,000 already drawn as of December 31, 2021, and \$850,000 for a Standby Letter of Credit. The Standby Letter of Credit was required for increased deductibles related to the 2022 property and casualty insurance renewal. No funds have been drawn against the \$850,000.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

A summary of debt is as follows:

	December 31,	
	2021	2020
Revenue bonds payable		
Series 2017 revenue bonds, interest rates of 2.25% to 5.00%, net of unamortized premium	\$ 52,600,321	\$ 54,346,218
Less: bond issuance costs	<u>(739,787)</u>	<u>(781,834)</u>
	51,860,534	53,564,384
Series 2017 Ventana bonds, interest rates of 4.00% to 6.75%, net of unamortized premium	153,638,125	164,192,505
Less: bond issuance costs	<u>(4,060,052)</u>	<u>(4,193,444)</u>
	149,578,073	159,999,061
Series 2016 revenue bonds, interest rates of 1.00% to 5.00%, net of unamortized premium	94,474,052	96,132,614
Less: bond issuance costs	<u>(1,080,579)</u>	<u>(1,132,790)</u>
	93,393,473	94,999,824
Lines of credit		
With JPMorgan Chase, variable interest rate currently at 1.599% expires December 2022	1,100,000	1,100,000
Notes payable		
With GM Financial, interest rate of 6.74% expiring April 2027	33,325	-
With FFIN San Angelo interest rate currently 3.5%, expires October 2043	7,323,483	7,546,655
Less: issuance costs	<u>(382,091)</u>	<u>(256,393)</u>
	6,941,392	7,290,262
With FFIN San Angelo interest rate currently 3.5%, expires October 2044	5,793,219	5,811,976
DDF November, LLC Loan A, interest accrued monthly, paid annually, at 1.19%, until December 1, 2025, principal and interest is due annually until maturity December 1, 2055	7,702,200	7,702,200
DDF November, LLC Loan B, interest accrued monthly, paid annually, at 1.19%, until December 1, 2025, principal and interest is due annually until maturity December 1, 2055	3,077,800	3,077,800
Less: issuance costs	<u>(235,532)</u>	<u>(295,665)</u>
	10,544,468	10,484,335
	<u>\$ 319,244,484</u>	<u>\$ 333,249,842</u>

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

Scheduled debt repayments on short-term notes payable, lines of credit and revenue bonds at December 31, 2021 are as follows:

Year Ending December 31,	Lines of Credit	Notes Payable	BRS Series 2017 Revenue Bonds	BRS Series 2017 Ventana Revenue Bonds	BRS Series 2016 Revenue Bonds	BRS Total Revenue Bonds	Total
2022	\$ 1,100,000	\$ 398,064	\$ 1,490,000	\$ 6,460,000	\$ 1,185,000	\$ 9,135,000	\$ 10,633,064
2023	-	412,154	1,565,000	-	1,245,000	2,810,000	3,222,154
2024	-	425,542	1,645,000	875,000	1,305,000	3,825,000	4,250,542
2025	-	441,829	1,720,000	1,945,000	1,370,000	5,035,000	5,476,829
2026	-	664,064	1,765,000	2,065,000	1,440,000	5,270,000	5,934,064
Thereafter	-	21,588,374	38,735,000	142,160,000	77,015,000	257,910,000	279,498,374
	1,100,000	23,930,027	46,920,000	153,505,000	83,560,000	283,985,000	309,015,027
Less: debt issuance costs	-	(617,623)	(739,787)	(4,060,052)	(1,080,579)	(5,880,418)	(6,498,041)
Add: amount representing premium	-	-	5,680,321	133,125	10,914,052	16,727,498	16,727,498
	<u>\$ 1,100,000</u>	<u>\$ 23,312,404</u>	<u>\$ 51,860,534</u>	<u>\$ 149,578,073</u>	<u>\$ 93,393,473</u>	<u>\$ 294,832,080</u>	<u>\$ 319,244,484</u>

Note 10. New Markets Tax Credit Arrangement

BCFS entered into new markets tax credit (NMTC) transactions during the year ended December 31, 2018 and created a new entity, Buckner FHC-Bachman Lake (BBL), as a result. The NMTC program was designed to make investment capital available to businesses in qualifying low-income communities, to create jobs and spur additional economic development. Privately managed investment institutions, or Community Development Entities (CDEs), make loans and capital investments in businesses in underserved areas. The NMTCs were allocated in this transaction pursuant to Section 45D of the IRC. Further detail of the transactions are described below and in Note 6.

Note Payable

BCFS and an unrelated third party lender (NMTC Investor) entered into the new markets tax credit transaction, where BCFS loaned \$7,702,200 and the NMTC Investor loaned \$3,517,800 to Chase NMTC Buckner Investment Fund, LLC during the year ended December 31, 2018. Chase NMTC Buckner Investment Fund, LLC then invested the funds into a CDE (DDF November, LLC), who separately loaned funds to BBL in the amount of \$10,780,000. This was accomplished through two different QLICI loans as noted below. The loans have subjected BCFS and BBL to certain restrictive covenants. Management believes they are in compliance with all covenants.

After the seven year NMTC period expires, it is anticipated that the NMTC Investor will exercise its put option to sell its ownership interest in Chase NMTC Buckner Investment Fund, LLC to BCFS for \$1,000. If the NMTC Investor does not exercise that put option, then the put and call agreement allows BCFS to exercise a call option to purchase the interest in Chase NMTC Buckner Investment Fund, LLC at an appraised fair value. The CDE will also distribute its assets to the Chase NMTC Buckner Investment Fund, LLC. After the exit transactions are completed, BCFS will be the holder of a portion of the NMTC Loan, and such loan will be eliminated for reporting purposes because such loan will be owed by the subsidiary to BCFS.

As of December 31, 2021, BBL was obligated on the DDF Notes Payable discussed in Note 9.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Retirement Plans

Buckner provides a defined contribution retirement plan (the Plan) for its employees. Employees hired before April 1, 2019, 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. Employees hired on or after April 1, 2019 are eligible to participate in the Plan upon joining Buckner. Buckner contributes 5% of an employee's base salary for employees who contribute at least 5% of their salary. Vesting occurs after three years of continuous service. Contributions to the Plan for the years ended December 31, 2021 and 2020 were \$2,210,936 and \$2,113,300, respectively.

Note 12. Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis on the Consolidated Statement of Functional Expenses. Salaries and related payroll expenses are recorded based on actual segregation of personnel by program or supporting services. Distribution of all other expenses is based on actual usage or management's estimate of usage applicable to various programs and supporting services benefitted.

Note 13. Leases

Buckner enters into non-cancelable operating lease agreements for office space in the normal course of business. The accounting for these leases follows the requirements of the New Lease Standard, which Buckner adopted as of January 1, 2019.

As of December 31, 2021, Buckner has leases for office space, which include the corporate support center facility and four locations for Buckner Children and Family Services. These leases are classified as operating lease agreements and have lease terms remaining ranging from 14 months to approximately 4 years.

The optional renewal period was considered for all leases, but Buckner does not consider any additional renewal periods to be reasonably certain of being exercised, as comparable locations could generally be identified within the same areas for comparable lease rates.

All leases include fixed rental payments, but some of leases also include variable rental payments. Buckner has a few leases in which separate payments are made to the lessor based on the lessor's utilities costs, capital improvement costs, property and casualty insurance costs and the property taxes assessed on the property, as well as a portion of the common area maintenance associated with the property. Buckner elected the practical expedient not to separate lease and nonlease components for all building leases.

During 2021 and 2020, Buckner recognized rent expense associated with leases as follows:

	<u>2021</u>	<u>2020</u>
Operating lease cost:		
Rent and lease expense	\$ 1,112,301	\$ 1,008,359

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

Amounts recognized as right-of-use (ROU) assets related to leases are included in Other Assets in the accompanying statement of financial position, while related lease liabilities are included in Other Liabilities. As of December 31, right-of-use assets and lease liabilities related to leases were as follows:

	2021	2020
Operating lease ROU assets	\$ 3,500,812	\$ 4,065,807
Operating lease liabilities	\$ 3,727,077	\$ 4,218,067

During the years ended December 31, 2021 and 2020, Buckner had the following cash and non-cash activities associated with our leases:

	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 1,107,136	\$ 978,927
Additions to ROU assets obtained from:		
New operating lease liabilities	\$ 98,810	\$ -

The future payments due under those leases as of December 31, 2021 is as follows:

Year ending December 31,	
2022	\$ 1,107,099
2023	1,130,253
2024	1,153,408
2025	514,763
2026	16,608
	\$ 3,922,131

As of December 31, 2021, the weighted-average remaining lease term for all operating leases is 3.4 years. Buckner elected the practical expedient for nonpublic business entities to use a risk-free rate for a period comparable to the lease term.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

Note 14. Asset Retirement Obligation

Asset retirement obligations (AROs) 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 AROs. The asset retirement obligation as of December 31, 2021 and 2020 was included in other liabilities.

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

	December 31,	
	2021	2020
Beginning balance	\$ 820,171	\$ 784,628
Accretion expense	37,154	35,543
Ending balance	<u>\$ 857,325</u>	<u>\$ 820,171</u>

Note 15. Net Assets

Included in net assets with restrictions is the accumulation of gifts to be invested in perpetuity. The income earned on these investments can be used for the general operation of the organization.

Net assets with restrictions are restricted for the following purposes or periods at December 31:

	December 31,	
	2021	2020
Original donor-restricted gift amount and amounts required to be retained by donor	\$ 128,773,849	\$ 118,281,499
Gift amounts restricted by purpose	2,844,629	2,506,857
Gifts and other amounts restricted by passage of time	23,294,366	21,046,821
	<u>\$ 154,912,844</u>	<u>\$ 141,835,177</u>

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

The sources of net assets released from 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,	
	2021	2020
Capital projects - children and family services	\$ 172,797	\$ 1,193,536
Program support - children and family services	337,387	928,073
Program support - retirement services	200,000	1,090,525
	\$ 710,184	\$ 3,212,134

Note 16. Related Party Transactions

In prior years, 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 and no such transactions took place in 2021 or 2020.

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.

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 International and Subsidiaries

Notes to Consolidated Financial Statements

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

Information related to the financial instruments measured at fair value on a recurring basis at December 31, 2021 and 2020 is as follows:

December 31, 2021				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
HighGround Endowment Fund	\$ 165,170,493	\$ -	\$ 165,170,493	\$ -
Equities - domestic	60,774,793	42,468,877	18,305,916	-
Equities - international	13,932,393	8,850,179	5,082,214	-
Corporate bonds	32,540,953	-	32,540,953	-
U.S. government agencies	3,749,322	-	3,749,322	-
Money market funds	9,049,624	-	9,049,624	-
Bond mutual funds	47,930,328	-	47,930,328	-
Mineral interests	182,304,581	-	-	182,304,581
Real estate / other	25,479,085	-	-	25,479,085
Pledges and bequests receivable	1,070,738	-	-	1,070,738
Revenue bond proceeds held by trustee	16,010,862	-	16,010,862	-
Annuity funds liabilities for investments held in trust	(5,120,358)	-	-	(5,120,358)
December 31, 2020				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
HighGround Endowment Fund	\$ 142,347,786	\$ -	\$ 142,347,786	\$ -
Equities - domestic	48,528,337	32,026,086	16,502,251	-
Equities - international	26,860,219	22,659,355	4,200,864	-
Corporate bonds	34,641,188	-	34,641,188	-
U.S. government agencies	2,589,453	-	2,589,453	-
Money market funds	4,161,431	-	4,161,431	-
Bond mutual funds	29,767,054	-	29,767,054	-
Mineral interests	97,007,915	-	-	97,007,915
Real estate / other	19,301,374	-	-	19,301,374
Pledges and bequests receivable	748,788	-	-	748,788
Revenue bond proceeds held by trustee	17,269,011	-	17,269,011	-
Annuity funds liabilities for investments held in trust	(4,841,622)	-	-	(4,841,622)

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

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:

HighGround Endowment Fund

HighGround Endowment 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.

Corporate 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.

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 3 is based on the discounted value of expected future cash flows. The fair value of annuity funds liabilities for investments held in trust reported as Level 3 is based on the discounted value of the future liability.

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Notes to Consolidated Financial Statements

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

	Real estate / other	Mineral Interests	Pledges and Bequests Receivable	Annuity Funds Liabilities for Investments Held in Trust
December 31, 2019	\$ 18,771,930	\$ 100,658,745	\$ 1,099,653	\$ (4,845,984)
Distributions	-	-	(978,665)	-
Contributions	-	-	627,800	-
Net realized and unrealized change in investment valuation	<u>529,444</u>	<u>(3,650,830)</u>	<u>-</u>	<u>4,362</u>
December 31, 2020	19,301,374	97,007,915	748,788	(4,841,622)
Distributions	-	-	(704,050)	-
Contributions	-	-	1,026,000	-
Net realized and unrealized change in investment valuation	<u>6,177,711</u>	<u>85,296,666</u>	<u>-</u>	<u>(278,736)</u>
December 31, 2021	<u>\$ 25,479,085</u>	<u>\$ 182,304,581</u>	<u>\$ 1,070,738</u>	<u>\$ (5,120,358)</u>

Note 18. Restricted Assets 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.

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 is classified as net assets with restriction 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.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

The spending policy set by Buckner is 7%. The goal is to annually distribute approximately 5%-6%, net of inflows, of the fair market value of the Foundation's assets over the long term. 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.

Net assets with restrictions is made up of the following:

Net Assets with imposed restrictions that may be met by actions of the Foundation and/or passage of time to be used generally for capital expenditures and program support.

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

	Imposed Restrictions		Permanent Endowment	
	2021	2020	2021	2020
Net assets	\$ 16,160,109	\$ 15,875,387	\$ 100,069,158	\$ 94,240,648

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020, the Foundation had the following endowment-related activities:

	<u>Imposed Restrictions</u>	<u>Permanent Endowment</u>	<u>Total</u>
Endowment net assets, December 31, 2019	\$ 15,653,366	\$ 95,764,438	\$ 111,417,804
Investment return			
Investment income (loss)	(41,357)	885,989	844,632
Net realized/unrealized gains (losses)	<u>207,062</u>	<u>(2,655,102)</u>	<u>(2,448,040)</u>
Total investment return	165,705	(1,769,113)	(1,603,408)
Contributions to endowment	<u>56,316</u>	<u>245,323</u>	<u>301,639</u>
Endowment net assets, December 31, 2020	15,875,387	94,240,648	110,116,035
Investment return			
Investment income (loss)	(104,608)	808,679	704,071
Net realized/unrealized gains	<u>87,218</u>	<u>4,176,439</u>	<u>4,263,657</u>
Total investment return	(17,390)	4,985,118	4,967,728
Contributions to endowment/other	<u>302,112</u>	<u>843,392</u>	<u>1,145,504</u>
Endowment net assets, December 31, 2021	<u>\$ 16,160,109</u>	<u>\$ 100,069,158</u>	<u>\$ 116,229,267</u>

Note 19. Liquidity

Buckner has \$254.9 million of financial assets available within one year of the balance sheet date to meet the cash needs for general expenditures of the organization. Total financial assets were reduced by certain assets and netted out for determining the \$254.9 million of available liquid assets. The following assets were excluded: donor restrictions on cash and cash equivalents; donor restrictions on investments; non-liquid investments; investments set aside or available for financing obligations; and pledge receivables due more than one year from the balance sheet date. As part of its liquidity management, Buckner may invest in excess of daily requirements in various short-term investments, including money market accounts. Approximately \$206.1 million of the \$254.9 million is maintained within the Foundation for investments whose earnings benefit the Buckner ministries. The Foundation has entered into a Credit and Support Agreement for the benefit of BRS related to the approximate \$130.4 million of outstanding revenue bonds payable at December 31, 2021 and this contingent amount has not reduced nor was netted out of the \$254.9 million of financial assets noted above.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

Note 20. 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 letter of credit that is required by the insurance company for Buckner's professional and general liability insurance policies from prior years. As of December 31, 2021 and 2020, no amounts are outstanding under the letter of credit. At both December 31, 2021 and 2020, Buckner maintained a \$100,000 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 \$150,000 per person per year and BMM has a stop-loss limit of \$70,000 per person per year. At December 31, 2021 and 2020, Buckner has accrued \$1,063,000 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, 2021 and 2020, Buckner has accrued \$100,000 for the non-subscriber occupational injury plan.

Note 21. 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, 2021, there were no interest or penalties recorded or included in the financial statements. As of December 31, 2021, Buckner's tax years 2018 and thereafter remain subject to examination.

Supplementary Information



Independent Auditor's Report on Supplementary Information

To the Board of Trustees of
Buckner International and Subsidiaries

We have audited the consolidated financial statements of Buckner International and Subsidiaries (collectively, Buckner) as of and for the years ended December 31, 2021 and 2020, and our report thereon dated May 11, 2022, 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 11, 2022

Weaver and Tidwell, L.L.P.
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Buckner International and Subsidiaries
Consolidating Statement of Financial Position
December 31, 2021
(With Comparative Totals for 2020)

	Buckner International	Buckner Children and Family Services, Inc.	Buckner Retirement Services, Inc.	Buckner FHC - Bachman Lake	Buckner Foundation	Eliminations	2021 Consolidated Total	2020 Consolidated Total
ASSETS								
ASSETS								
Cash and cash equivalents	\$ 2,859,789	\$ 19,994,420	\$ 14,506,263	\$ 1,000	\$ 2,040,884	\$ -	\$ 39,402,356	\$ 30,950,384
Investments	-	5,628,951	36,210,192	-	478,097,386	-	519,936,529	405,204,757
Board of trustees designated funds	-	-	-	-	20,995,043	-	20,995,043	-
Assets whose use is limited	-	-	12,769,557	298,547	-	-	13,068,104	21,576,856
Receivables, net	53,808	1,446,025	4,784,101	-	1,979,261	-	8,263,195	9,145,834
Pledges and bequests receivable, net	-	1,070,738	-	-	-	-	1,070,738	748,788
Inventories and supplies	3,645	-	218,356	-	-	-	222,001	193,195
Notes receivable	-	7,702,200	-	-	-	-	7,702,200	7,702,200
Prepaid expenses	2,954,998	51,915	1,681,298	-	-	(4,089,188)	599,023	317,748
Due from other companies, net	1,703,390	1,876,158	-	-	84,830	(3,664,378)	-	-
Other assets	2,932,285	568,528	114,824	-	-	-	3,615,637	4,204,863
Revenue bond proceeds held by trustee	-	-	16,010,862	-	-	-	16,010,862	17,269,011
Real estate held for investment	626,730	-	-	-	780,001	-	1,406,731	1,747,011
Property and equipment, net	994,712	34,633,022	346,882,379	10,534,698	-	-	393,044,811	402,663,267
TOTAL ASSETS	<u>12,129,357</u>	<u>72,971,957</u>	<u>433,177,832</u>	<u>10,834,245</u>	<u>503,977,405</u>	<u>(7,753,566)</u>	<u>1,025,337,230</u>	<u>901,723,914</u>
LIABILITIES AND NET ASSETS								
LIABILITIES								
Accounts payable	\$ 73,331	\$ 636,757	\$ 1,101,968	\$ -	\$ 700	\$ -	\$ 1,812,756	\$ 1,766,848
Retainage payable	-	49,287	-	-	-	-	49,287	-
Accrued liabilities	1,420,152	1,858,568	6,347,558	10,690	-	-	9,636,968	10,716,785
Lines of credit	1,100,000	-	-	-	-	-	1,100,000	1,100,000
Short-term notes payable	4,089,188	-	-	-	-	(4,089,188)	-	-
Revenue bonds payable, net	-	-	294,832,080	-	-	-	294,832,080	308,563,269
Notes payable	-	-	12,767,936	10,544,468	-	-	23,312,404	23,586,573
Resident deposits	-	-	2,301,441	-	-	-	2,301,441	2,106,745
Refundable fees	-	-	116,347,721	-	-	-	116,347,721	104,334,411
Deferred revenue from advance fees	-	-	17,596,960	-	-	-	17,596,960	16,191,143
Annuity and life income fund liability	-	35,341	27,330	-	5,057,687	-	5,120,358	4,841,622
Other	3,088,986	1,412,901	255,792	-	-	-	4,757,679	5,176,780
Due to other companies, net	-	-	3,652,748	11,630	-	(3,664,378)	-	-
Total liabilities	9,771,657	3,992,854	455,231,534	10,566,788	5,058,387	(7,753,566)	476,867,654	478,384,176
NET ASSETS								
Without restrictions	2,357,700	63,947,205	(55,705,381)	267,457	382,689,751	-	393,556,732	281,504,561
With restrictions	-	5,031,898	33,651,679	-	116,229,267	-	154,912,844	141,835,177
Total net assets	2,357,700	68,979,103	(22,053,702)	267,457	498,919,018	-	548,469,576	423,339,738
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,129,357</u>	<u>\$ 72,971,957</u>	<u>\$ 433,177,832</u>	<u>10,834,245</u>	<u>\$ 503,977,405</u>	<u>\$ (7,753,566)</u>	<u>\$ 1,025,337,230</u>	<u>\$ 901,723,914</u>

Buckner International and Subsidiaries

Consolidating Statement of Activities for the Year Ended December 31, 2021 (With Comparative Totals For 2020)

	Buckner International	Buckner Children and Family Services, Inc.	Buckner Retirement Services, Inc.	Buckner FHC - Bachman Lake	Buckner Foundation	Eliminations	2021 Consolidated Total	2020 Consolidated Total
REVENUES								
Client support and related income	\$ -	\$ 12,835,473	\$ 79,541,426	\$ -	\$ -	\$ -	\$ 92,376,899	\$ 85,364,257
Investment income	149,325	985,012	2,155,927	80	41,508,774	-	44,799,118	27,831,319
Distributions from related foundation	14,044,892	11,533,409	251,670	-	-	(25,829,971)	-	-
Contributions								
Baptist General Convention of Texas	-	220,823	149,604	-	-	-	370,427	386,263
Individual and business gifts	-	19,281,406	658,425	-	1,177,850	-	21,117,681	13,021,928
Bequests	557,936	1,755,300	417,281	-	25,844	-	2,756,361	1,452,979
Gain (loss) on sales of real estate held for investment	53,873	-	-	-	(23,407)	-	30,466	38,480
Other	39,201	2,235,682	8,877,104	-	54,685	-	11,206,672	3,749,136
Administrative fees	6,933,959	-	-	-	-	(6,933,959)	-	-
Total revenues	21,779,186	48,847,105	92,051,437	80	42,743,746	(32,763,930)	172,657,624	131,844,362
EXPENSES								
Salaries and benefits	11,817,488	18,081,121	43,117,958	-	-	-	73,016,567	69,957,433
Supplies and direct expenses	4,911	12,795,131	13,591,562	-	-	-	26,391,604	25,603,380
Occupancy and insurance	2,098,812	4,662,808	12,165,609	-	28,399	-	18,955,628	16,172,071
Travel and transportation	199,681	496,913	401,738	-	-	-	1,098,332	875,481
Administration	4,934,907	6,230,459	7,671,858	-	78,003	(6,933,959)	11,981,268	11,377,863
Depreciation	182,980	1,627,412	12,377,915	304,325	-	-	14,492,632	13,793,271
Interest expense	25,980	906	17,637,735	188,415	-	-	17,853,036	18,545,254
Bad debt expense	-	-	322,983	-	-	-	322,983	246,612
Total expenses	19,264,759	43,894,750	107,287,358	492,740	106,402	(6,933,959)	164,112,050	156,571,365
Change in assets from operations	2,514,427	4,952,355	(15,235,921)	(492,660)	42,637,344	(25,829,971)	8,545,574	(24,727,003)
NONOPERATING ITEMS								
Net realized and unrealized gains (losses) on investments	2,064	535,056	5,516,466	-	108,236,200	-	114,289,786	17,626,555
Distributions to related entities	-	-	-	-	(25,829,971)	25,829,971	-	-
Other, net	(3,187,526)	3,319,637	1,787,299	166,547	208,521	-	2,294,478	2,494,014
Change in net assets	(671,035)	8,807,048	(7,932,156)	(326,113)	125,252,094	-	125,129,838	(4,606,434)
NET ASSETS, beginning of year	<u>3,028,735</u>	<u>60,172,055</u>	<u>(14,121,546)</u>	<u>593,570</u>	<u>373,666,924</u>	<u>-</u>	<u>423,339,738</u>	<u>427,946,172</u>
NET ASSETS, end of year	<u>\$ 2,357,700</u>	<u>\$ 68,979,103</u>	<u>\$ (22,053,702)</u>	<u>\$ 267,457</u>	<u>\$ 498,919,018</u>	<u>\$ -</u>	<u>\$ 548,469,576</u>	<u>\$ 423,339,738</u>