

Buckner International and Subsidiaries

Consolidated Financial Report

December 31, 2017

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Independent Auditor's Report

To the Board of Trustees
Buckner International and Subsidiaries

We have audited the accompanying consolidated financial statements of Buckner International and Subsidiaries (collectively, Buckner), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

The Board of Trustees
Buckner International and Subsidiaries

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Buckner International and Subsidiaries as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
May 14, 2018

Buckner International and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 21,256,590	\$ 19,360,402
Investments	347,794,496	313,980,606
Assets whose use is limited	10,391,438	9,381,976
Receivables, net	6,255,145	6,455,360
Pledges and bequests receivable, net	361,426	1,867,298
Inventories and supplies	229,152	223,224
Notes receivable	21,256	27,966
Prepaid expenses	1,042,247	1,129,594
Other assets	5,859,929	4,376,642
Revenue bond proceeds held by trustee	206,275,058	51,736,900
Real estate held for investment	1,125,041	1,429,831
Property and equipment, net	235,919,014	177,437,076
	\$ 836,530,792	\$ 587,406,875
TOTAL ASSETS		
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 6,313,107	\$ 4,779,535
Accrued liabilities	5,539,969	5,381,334
Lines of credit	1,100,000	1,100,000
Short-term notes payable	852,725	976,513
Revenue bonds payable, net	385,733,932	150,446,269
Notes payable	8,142,819	25,312,969
Resident deposits	2,185,531	2,052,522
Refundable fees	24,708,848	23,800,191
Deferred revenue from advance fees	1,721,466	2,119,809
Annuity and life income fund liability	4,801,655	5,143,740
Other	2,307,310	1,973,651
	443,407,362	223,086,533
Total liabilities		
NET ASSETS		
Unrestricted	289,489,323	275,147,978
Temporarily restricted	12,991,681	10,648,336
Permanently restricted	90,642,426	78,524,028
	393,123,430	364,320,342
Total net assets		
	\$ 836,530,792	\$ 587,406,875
TOTAL LIABILITIES AND NET ASSETS		

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, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES								
Client support and related income	\$ 77,534,524	\$ -	\$ -	\$ 77,534,524	\$ 76,914,704	\$ -	\$ -	\$ 76,914,704
Investment income (loss)	24,942,352	(41,058)	374,476	25,275,770	22,442,151	(30,018)	76,383	22,488,516
Contributions								
Baptist General Convention of Texas	484,231	-	-	484,231	535,139	-	-	535,139
Individual and business gifts	12,259,835	1,479,445	558,267	14,297,547	17,566,690	466,150	166,654	18,199,494
Bequests	1,063,655	156,049	-	1,219,704	1,917,122	-	730,980	2,648,102
Gain on sales of real estate held for investment	511,806	-	-	511,806	1,089,442	-	-	1,089,442
Other	785,351	-	-	785,351	536,543	-	-	536,543
Net assets released from restrictions	1,312,793	(1,312,793)	-	-	2,076,074	(2,076,074)	-	-
Total revenues	118,894,547	281,643	932,743	120,108,933	123,077,865	(1,639,942)	974,017	122,411,940
EXPENSES								
Salaries and benefits	61,079,146	-	-	61,079,146	65,547,339	-	-	65,547,339
Supplies and direct expenses	25,110,909	-	-	25,110,909	27,590,471	-	-	27,590,471
Occupancy and insurance	12,835,197	-	-	12,835,197	13,295,708	-	-	13,295,708
Travel and transportation	2,544,379	-	-	2,544,379	2,898,975	-	-	2,898,975
Administration	9,397,438	61,006	-	9,458,444	9,229,109	61,405	-	9,290,514
Depreciation	7,994,019	-	-	7,994,019	8,051,540	-	-	8,051,540
Interest expense	4,387,909	-	-	4,387,909	5,058,884	-	-	5,058,884
Total expenses	123,348,997	61,006	-	123,410,003	131,672,026	61,405	-	131,733,431
CHANGE IN NET ASSETS FROM OPERATIONS	(4,454,450)	220,637	932,743	(3,301,070)	(8,594,161)	(1,701,347)	974,017	(9,321,491)
NONOPERATING ITEMS								
Net realized and unrealized gains (losses) on investments, and other investment income	18,709,985	1,268,130	11,839,802	31,817,917	7,920,850	6,632	(1,242,130)	6,685,352
Other, net	85,810	854,578	(654,147)	286,241	(2,618,540)	(118,227)	314,488	(2,422,279)
CHANGE IN NET ASSETS	14,341,345	2,343,345	12,118,398	28,803,088	(3,291,851)	(1,812,942)	46,375	(5,058,418)
NET ASSETS, BEGINNING OF YEAR	275,147,978	10,648,336	78,524,028	364,320,342	278,439,829	12,461,278	78,477,653	369,378,760
NET ASSETS, END OF YEAR	\$ 289,489,323	\$ 12,991,681	\$ 90,642,426	\$ 393,123,430	\$ 275,147,978	\$ 10,648,336	\$ 78,524,028	\$ 364,320,342

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 28,803,088	\$ (5,058,418)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	7,994,019	8,051,540
Amortization	(863,684)	(974,965)
Charge for extinguishment of long-term debt	393,245	2,435,456
Recognition for closure of facility	(1,199,722)	-
Disposal of facility repositioning costs	681,799	-
Increase in accretion expense and ARO revisions	64,351	61,561
Gain on sales of real estate held for investment	(511,806)	(1,088,842)
Loss on sale or disposal of facility assets	(159,671)	-
Net realized and unrealized gains on investments	(31,817,917)	(6,685,352)
Changes in operating assets and liabilities:		
Assets whose use is limited	(721,099)	(3,168,033)
Receivables	1,719,985	1,340,932
Inventories and supplies	(5,928)	5,805
Prepaid expenses	940,072	1,262,221
Other assets	(1,583,462)	(1,082,128)
Accounts payable	1,533,572	2,851,501
Accrued liabilities	696,060	1,831,467
Resident deposits	133,010	31,104
Refundable fees	2,108,378	2,242,870
Deferred revenue from advance fees	229,756	329,037
Annuity and life income fund liability	(2,417)	11,657
Other liabilities	269,308	(129,395)
Net cash provided by operating activities	8,700,937	2,268,018
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(70,560,818)	(27,147,660)
Increase in revenue bond proceeds held by trustee	82,129,326	13,893,270
Purchases of investments	(19,426,504)	(3,850,354)
Proceeds on sales or redemptions of investments	16,248,114	12,642,016
Proceeds from sale of property and equipment	3,380,200	-
Proceeds from sales of real estate held for investment	816,596	2,220,801
Net cash provided by (used in) investing activities	12,586,914	(2,241,927)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from revenue bonds payable and notes payable	1,049,235	6,449,199
Payments on revenue bonds payable and short-term notes payable	(20,440,898)	(3,373,129)
Net cash provided by (used in) financing activities	(19,391,663)	3,076,070
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,896,188	3,102,161
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	19,360,402	16,258,241
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 21,256,590	\$ 19,360,402
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	\$ 12,777,209	\$ 5,494,051
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Financing of insurance contract	\$ 852,725	\$ 918,809
Funding and premium on 2016 revenue bonds	\$ 292,084,968	\$ 103,194,157
Refunding of 2007 revenue bonds	\$ 49,200,000	\$ 39,540,000
Bond issuance costs on revenue bonds	\$ 5,590,021	\$ 1,378,102
Proceeds from revenue bonds sent to escrow	\$ 247,207,900	\$ 64,590,102

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, 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. BRS is the sole member and approves the nomination and placement of the Board of Directors for BMM. The decision was made in early 2016 to close and sell the Woodlands campus in Burnet, Texas, a 44 unit independent living community. The process for closing the campus started in the Fall of 2016 and selling of the units is estimated to be completed in 2018.

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

Buckner consolidates the following not-for-profit corporations:

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

The Board of Trustees of Buckner serve as directors of Buckner Children and Family Services, Inc., Buckner Retirement Services, Inc., Buckner Adoption and Maternity Services, Inc., and Buckner Foundation, Inc. Buckner and the 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

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

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will never lapse thus requiring the funds to be retained permanently. Generally, the donors of these assets permit Buckner to use all or part of the income earned on related investments for general or specific purposes, including program support. In 2017 and 2016, these assets are made up of a portion of cash and cash equivalents and investments.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of Buckner and/or the passage of time to be used generally for capital expenditures and program support. In 2017 and 2016, these assets are made up of a portion of cash and cash equivalents, investments, and pledges and bequests receivable.
- 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. 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, 2017 and 2016.

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.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

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.

Assets Whose Use is Limited

Assets whose use is limited consists of funds held for use for debt service payments for revenue bonds payable and for entrance fee deposits held for the development of a continuing care retirement community by Buckner Senior Living. Certain residents have deposited funds in an escrow account maintained for their benefit. The funds are refundable to the resident prior to their entrance.

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.

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.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, Buckner records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Buckner derecognizes ARO liabilities when the related obligations are settled.

Deferred Revenue

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

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. In 2016, Buckner adopted certain updated guidance in Subtopic 835-30, "Interest – Imputation of Interest," whereby bond issuance costs are reported in the 2017 and 2016 consolidated balance sheets as direct deductions from the carrying amount of the related debt liability. Bond issuance costs were previously reported as assets. Amortization of bond issuance costs after construction is complete is included within administration expense in the consolidated statements of activities.

Revenues

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

Investment income is recognized at the time it is earned.

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

Advertising

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

Expenses incurred related to advertising activities were \$1,091,113 and \$1,112,110 for the years ended December 31, 2017 and 2016, 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).

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

Deferred direct-response advertising costs of \$5,859,929 and \$4,376,642 were reported in other assets, in the consolidated statements of financial position as of December 31, 2017 and 2016, respectively.

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 and realized and unrealized gains and losses on investments.

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.

Reclassifications

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

Subsequent Events

The date to which events occurring after December 31, 2017, 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 14, 2018, the date these consolidated financial statements were available to be issued. At the April 20, 2018 meeting, the Board of Trustees of BI as the parent company of BAMS, approved and affirmed the dissolution of BAMS effective July 30, 2018. Assets, liabilities, and ministry programs previously contained within BAMS will be transferred and continued through BCFS.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Investments

Investments consist of the following:

	December 31,	
	2017	2016
HighGround Endowment Fund	\$ 183,129,291	\$ 160,770,375
Equity securities - domestic	59,580,157	52,526,691
Equity securities - international	7,573,751	10,420,232
Corporate bonds	3,274,309	3,577,777
U.S. government agencies	4,492,706	4,471,149
Money market funds	14,878,082	15,341,245
Bond mutual funds	18,655,036	15,716,979
Mineral interests	50,910,081	44,591,962
Other	5,301,083	6,564,196
	\$ 347,794,496	\$ 313,980,606

The following summarizes investment return:

	Years ended December 31,	
	2017	2016
Operating		
Dividend and interest income	\$ 25,275,770	\$ 22,488,516
Nonoperating		
Net realized and unrealized gain (loss) on investments	31,817,917	6,685,352
	\$ 57,093,687	\$ 29,173,868

Note 4. Receivables

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

	December 31,	
	2017	2016
Receivables, gross	\$ 6,695,049	\$ 6,838,012
Allowance for doubtful accounts	(439,904)	(382,652)
Receivables, net	\$ 6,255,145	\$ 6,455,360

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

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,	
	2017	2016
Pledges and bequests receivable, gross	\$ 364,054	\$ 1,875,246
Less unamortized discount at 2.40% and 2.45% at December 31, 2017 and 2016, respectively	(2,628)	(7,948)
Pledges and bequests receivable, net	\$ 361,426	\$ 1,867,298

The maturity of pledges and bequests receivable at December 31, 2017 is as follows:

Less than one year	\$ 251,926
One to five years	112,128
	\$ 364,054

Note 6. Property and Equipment

Property and equipment consists of the following:

	Estimated useful life	December 31,	
		2017	2016
Buildings	10 - 40 years	\$ 194,552,362	\$ 195,041,040
Furniture and equipment	5 - 10 years	17,663,632	17,307,099
Vehicles	5 years	2,022,226	2,026,752
Land improvements	5 - 20 years	14,642,490	15,408,964
Total		228,880,710	229,783,855
Less accumulated depreciation		(96,394,780)	(92,968,907)
		132,485,930	136,814,948
Projects-in-process		89,221,841	26,242,256
Land		14,211,243	14,379,872
Property and equipment, net		\$ 235,919,014	\$ 177,437,076

Depreciation expense was \$7,994,019 and \$8,051,540 for the years ended December 31, 2017 and 2016, respectively.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

Note 7. Accrued Liabilities

Accrued liabilities consist of the following:

	December 31,	
	2017	2016
Employee vacation and sick pay	\$ 742,865	\$ 716,539
Employee health benefits	1,175,096	1,078,621
Nonsubscriber occupational injury	100,000	100,000
Property taxes	166,783	229,857
Wages and payroll related	535,902	1,732,739
Interest on revenue bonds and notes payable	2,653,028	968,620
Professional and general liability insurance	100,000	400,000
Other	66,295	154,958
	<u>\$ 5,539,969</u>	<u>\$ 5,381,334</u>
Total	<u>\$ 5,539,969</u>	<u>\$ 5,381,334</u>

Note 8. Debt

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, 2017 is \$232,345,000. As of December 31, 2017, revenue bond proceeds of \$181,109,589 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, 2017, the unamortized premium on the Series 2017 Ventana bonds is \$150,645. 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.

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, 2017 is \$52,205,000. As of December 31, 2017, revenue bond proceeds of \$11,788,204 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, 2046. As of December 31, 2017, the unamortized premium on the Series 2017 bonds is \$6,984,802.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

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, 2017 is \$87,790,000. As of December 31, 2017, revenue bond proceeds of \$13,375,312 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, 2046. As of December 31, 2017, the unamortized premium on the Series 2016 bonds is \$13,049,761.

In 2007, BRS, through the Tarrant County Cultural Education Facilities Finance Corporation, issued \$104,755,000 of tax-exempt bonds, and was the sole obligated party on the issuance. The Series 2016 Bonds refunded \$39,540,000 in principal amount of the outstanding Series 2007 Bonds. The Series 2017 Bonds refunded \$49,200,000 in principal amount of the outstanding Series 2007 Bonds which represents the remaining principal amount outstanding. As of December 31, 2017, these bonds were paid off and are no longer outstanding under the indenture pursuant to which they were issued. These refundings resulted in a one-time special charge of \$393,245 and \$2,435,456 for years 2017 and 2016, respectively. These charges are reflected under "Other Changes in Unrestricted Net Assets" on the Consolidated Statements of Activities for years 2017 and 2016, respectively.

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 the 2016 Series bonds.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

A summary of debt is as follows:

	December 31,	
	2017	2016
Revenue bonds payable		
Series 2007 revenue bonds, interest rates of 5.00% to 5.25%, net of unamortized premium	\$ -	\$ 50,047,203
Less: bond issuance costs	-	(596,231)
	-	49,450,972
Series 2017 revenue bonds, interest rates of 2.25% to 5.00%, net of unamortized premium	59,189,802	-
Less: bond issuance costs	(908,092)	-
	58,281,710	-
Series 2017 Ventana bonds, interest rates of 4.00% to 6.75%, net of unamortized premium	232,495,645	-
Less: bond issuance costs	(4,593,620)	-
	227,902,025	-
Series 2016 revenue bonds, interest rates of 1.00% to 5.00%, net of unamortized premium	100,839,761	102,338,323
Less: bond issuance costs	(1,289,564)	(1,343,026)
	99,550,197	100,995,297
Lines of credit		
With JPMorgan Chase, variable interest rate currently at 2.27% expiring September 2018	1,100,000	1,100,000
Notes payable		
With FFIN San Angelo interest rate of 4.00%, expiring July 2041	5,306,262	5,436,900
With FFIN San Angelo interest rate of 4.00%, expiring April 2021	2,420,226	2,489,770
With FFIN San Angelo, variable interest rate currently at 4.75%, expiring September 2019	416,331	442,885
With FFIN San Angelo, interest rate of 4.25% expiring January 2017	-	2,000,000
With JPMorgan Chase, variable interest rate currently at 2.27% expired October 2017	-	14,943,414
Short-term notes payable		
Insurance contract notes, interest rates range from 4.01% to 5.95% expiring 2019	852,725	976,513
	\$ 395,829,476	\$ 177,835,751

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, 2017 are as follows:

Year ending December 31,	Short-term Notes Payable	Lines of Credit	Notes Payable	BRS Series 2017 Revenue Bonds	BRS Series 2017 Ventana Bonds	BRS Series 2016 Revenue Bonds	BRS Total Revenue Bonds	Total
2018	\$ -	\$ 1,100,000	\$ 235,828	\$ 1,225,000	\$ -	\$ 1,000,000	\$ 2,225,000	\$ 3,560,828
2019	852,725	-	246,101	1,290,000	2,145,000	1,030,000	4,465,000	5,563,826
2020	-	-	255,371	1,350,000	64,910,000	1,075,000	67,335,000	67,590,371
2021	-	-	266,749	1,420,000	18,245,000	1,125,000	20,790,000	21,056,749
2022	-	-	277,733	1,490,000	-	1,185,000	2,675,000	2,952,733
Thereafter	-	-	6,861,037	45,430,000	147,045,000	82,375,000	274,850,000	281,711,037
	<u>852,725</u>	<u>1,100,000</u>	<u>8,142,819</u>	<u>52,205,000</u>	<u>232,345,000</u>	<u>87,790,000</u>	<u>372,340,000</u>	<u>382,435,544</u>
Less: bond issuance costs	-	-	-	(908,092)	(4,593,620)	(1,289,564)	(6,791,276)	(6,791,276)
Add: amount representing premium	-	-	-	6,984,802	150,645	13,049,761	20,185,208	20,185,208
	<u>\$ 852,725</u>	<u>\$ 1,100,000</u>	<u>\$ 8,142,819</u>	<u>\$ 58,281,710</u>	<u>\$ 227,902,025</u>	<u>\$ 99,550,197</u>	<u>\$ 385,733,932</u>	<u>\$ 395,829,476</u>

Note 9. Retirement Plans

Buckner provides a defined contribution retirement plan (the Plan) for its employees. Employees are eligible to participate in the Plan after completing two years of eligible service. Buckner contributes 8% of an employee's base salary for employees who contribute at least 5% of their salary. Vesting occurs immediately upon entering the Plan. Contributions to the Plan for the years ended December 31, 2017 and 2016 were \$1,904,367 and \$1,978,729, respectively.

Note 10. 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,	
	2017	2016
General and administrative	\$ 12,195,592	\$ 13,106,242
Children and family services	40,746,997	43,930,506
Retirement and healthcare services	64,455,449	67,559,458
Adoption and maternity services	544,037	1,048,678
Development	5,467,928	6,088,547
	<u>\$ 123,410,003</u>	<u>\$ 131,733,431</u>

Buckner incurred \$2,140,000 and \$2,074,255 in expenses relating to fundraising activities during the years 2017 and 2016, respectively. These expenses are included in development expense above and were carried out within Buckner International for the benefit of Buckner and its consolidating subsidiaries. Prior to April 1, 2016, these fundraising and development expenses were carried out within the Foundation.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Leases

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

Year ending December 31,	
2018	\$ 1,241,171
2019	1,127,053
2020	1,012,142
2021	982,452
2022	999,687
Thereafter	2,368,689
	\$ 7,731,194

Rent expense under all operating leases for the years ended December 31, 2017 and 2016 was \$1,213,197 and \$1,355,653, 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 12. 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, 2017 and 2016 was included in other liabilities.

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

	December 31,	
	2017	2016
Beginning balance	\$ 1,420,532	\$ 1,358,970
Accretion expense	64,350	61,562
Ending balance	\$ 1,484,882	\$ 1,420,532

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

Note 13. Net Assets

Permanently restricted net assets represent 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.

Temporarily restricted net assets consist of the following at December 31:

	December 31,	
	2017	2016
Unspent contributions for future periods	\$ 10,297,718	\$ 8,851,835
Capital projects	2,693,963	1,796,501
	\$ 12,991,681	\$ 10,648,336

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,	
	2017	2016
Capital projects - children and family services	\$ 374,146	\$ 1,140,325
Program support - children and family services	738,647	735,749
Program support - retirement services	200,000	200,000
	\$ 1,312,793	\$ 2,076,074

Note 14. 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 2017 or 2016.

Note 15. 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.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

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

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

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

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

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

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

Information related to the financial instruments measured at fair value on a recurring basis at December 31, 2017 and 2016 is as follows:

	December 31, 2017			
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	\$ 183,129,290	\$ -	\$ 183,129,290	\$ -
Equities - domestic	59,580,157	48,952,277	10,627,880	-
Equities - international	7,573,751	4,289,886	3,283,865	-
Corporate bonds	3,274,309	-	3,274,309	-
U.S. government agencies	4,492,706	-	4,492,706	-
Money market funds	14,878,082	-	14,878,082	-
Bond mutual funds	18,655,036	-	18,655,036	-
Mineral interests	50,910,081	-	-	50,910,081
Real estate / other	5,301,084	-	-	5,301,084
Pledges and bequests receivable	361,426	-	-	361,426
Revenue bond proceeds held by trustee	206,275,058	-	206,275,058	-
Annuity funds liabilities for investments held in trust	(4,801,655)	-	-	(4,801,655)

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2016

	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	\$ 160,770,375	\$ -	\$ 160,770,375	\$ -
Equities - domestic	52,526,691	43,912,550	8,614,141	-
Equities - international	10,420,232	6,194,281	4,225,951	-
Corporate bonds	3,577,777	-	3,577,777	-
U.S. government agencies	4,471,149	-	4,471,149	-
Money market funds	15,341,245	-	15,341,245	-
Bond mutual funds	15,716,979	41,730	15,675,249	-
Mineral interests	44,591,962	-	-	44,591,962
Real estate / other	6,564,196	-	14,167	6,550,029
Pledges and bequests receivable	1,867,298	-	-	1,867,298
Revenue bond proceeds held by trustee	51,736,900	-	51,736,900	-
Annuity funds liabilities for investments held in trust	(5,143,740)	-	-	(5,143,740)

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.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

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.

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, 2015	\$ 9,077,543	\$ 40,085,656	\$ 3,258,884	\$ (5,368,604)
Distributions	-	-	(2,990,376)	-
Contributions	-	-	1,598,790	-
Net realized and unrealized change in investment valuation	<u>(2,527,514)</u>	<u>4,506,306</u>	<u>-</u>	<u>224,864</u>
December 31, 2016	6,550,029	44,591,962	1,867,298	(5,143,740)
Distributions	-	-	(1,786,372)	-
Contributions	-	-	280,500	-
Net realized and unrealized change in investment valuation	<u>(1,248,945)</u>	<u>6,318,119</u>	<u>-</u>	<u>342,085</u>
December 31, 2017	<u>\$ 5,301,084</u>	<u>\$ 50,910,081</u>	<u>\$ 361,426</u>	<u>\$ (4,801,655)</u>

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

Note 16. Endowments Held in Foundation

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

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

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

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

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

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

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

	Temporarily Restricted		Permanently Restricted	
	2017	2016	2017	2016
Net assets	\$ 4,283,743	\$ 3,056,207	\$ 67,726,933	\$ 57,305,642

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

For the years ended December 31, 2017 and 2016, the Foundation had the following endowment-related activities:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2015	\$ 2,959,843	\$ 58,031,193	\$ 60,991,036
Investment return			
Investment income	-	40,240	40,240
Net realized/unrealized gains (losses)	(53,811)	(1,251,100)	(1,304,911)
Total investment return	(53,811)	(1,210,860)	(1,264,671)
Contributions to endowment	150,175	485,309	635,484
Endowment net assets, December 31, 2016	3,056,207	57,305,642	60,361,849
Investment return			
Investment income	-	318,081	318,081
Net realized/unrealized gains (losses)	77,677	10,232,701	10,310,378
Total investment return	77,677	10,550,782	10,628,459
Contributions to endowment/other	1,149,859	(129,491)	1,020,368
Endowment net assets, December 31, 2017	\$ 4,283,743	\$ 67,726,933	\$ 72,010,676

Note 17. 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, 2017 and 2016, no amounts are outstanding under the letter of credit. At December 31, 2017 and 2016, Buckner maintained a \$100,000 and \$400,000, respectively, reserve for prior years' professional and general liability insurance.

Buckner International and Subsidiaries

Notes to Consolidated Financial Statements

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, 2017 and 2016, Buckner has accrued \$1,175,096 and \$1,078,621, 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, 2017 and 2016, Buckner has accrued \$100,000 for the non-subscriber occupational injury plan.

Note 18. 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, 2017, there were no interest or penalties recorded or included in the financial statements. As of December 31, 2017, Buckner's tax years 2014 and thereafter remain subject to examination.

Supplementary Information



Independent Auditor's Report on Supplementary Information

To the Board of Trustees
Buckner International and Subsidiaries

We have audited the consolidated financial statements of Buckner International and Subsidiaries (collectively, Buckner) as of and for the year ended December 31, 2017 and 2016, and our report thereon dated May 14, 2018, 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 14, 2018

Buckner International and Subsidiaries
Consolidating Statement of Financial Position
December 31, 2017
(With Comparative Totals for 2016)

	Buckner International	Buckner Children and Family Services, Inc.	Buckner Retirement Services, Inc.	Buckner Adoption and Maternity Services, Inc.	Buckner Foundation	Eliminations	2017 Consolidated Total	2016 Consolidated Total
ASSETS								
Cash and cash equivalents	\$ 1,120,209	\$ 7,719,427	\$ 9,166,295	\$ 42,063	\$ 3,208,596	\$ -	\$ 21,256,590	\$ 19,360,402
Investments	-	4,773,665	29,202,123	-	313,818,708	-	347,794,496	313,980,606
Assets whose use is limited	-	-	10,391,438	-	-	-	10,391,438	9,381,976
Receivables, net	88,868	1,411,464	3,109,610	-	1,829,088	(183,885)	6,255,145	6,455,360
Pledges and bequests receivable, net	-	361,426	-	-	-	-	361,426	1,867,298
Inventories and supplies	-	-	229,152	-	-	-	229,152	223,224
Notes receivable	-	-	21,256	-	-	-	21,256	27,966
Prepaid expenses	480,484	30,046	531,717	-	-	-	1,042,247	1,129,594
Due from other companies, net	9,051,044	-	-	-	-	(9,051,044)	-	-
Other assets	-	-	5,859,929	-	-	-	5,859,929	4,376,642
Revenue bond proceeds held by trustee	-	-	206,275,058	-	-	-	206,275,058	51,736,900
Real estate held for investment	919,276	205,765	-	-	-	-	1,125,041	1,429,831
Property and equipment, net	1,081,038	38,172,505	196,790,471	13,487	1,475	(139,962)	235,919,014	177,437,076
TOTAL ASSETS	12,740,919	52,674,298	461,577,049	55,550	318,857,867	(9,374,891)	836,530,792	587,406,875
LIABILITIES AND NET ASSETS								
LIABILITIES								
Accounts payable	205,529	359,233	5,726,346	21,999	-	-	6,313,107	4,779,535
Accrued liabilities	489,616	863,065	4,131,925	43,210	12,153	-	5,539,969	5,381,334
Lines of credit	1,100,000	-	-	-	-	-	1,100,000	1,100,000
Short-term notes payable	852,725	-	-	-	-	-	852,725	976,513
Revenue bonds payable, net	-	-	385,733,932	-	-	-	385,733,932	150,446,269
Notes payable	-	-	8,142,819	-	-	-	8,142,819	25,312,969
Resident deposits	-	-	2,185,531	-	-	-	2,185,531	2,052,522
Refundable fees	-	-	24,708,848	-	-	-	24,708,848	23,800,191
Deferred revenue from advance fees	-	-	1,721,466	-	-	-	1,721,466	2,119,809
Annuity and life income fund liability	-	53,368	206,195	-	4,542,092	-	4,801,655	5,143,740
Other	651,667	1,244,369	583,159	12,000	-	(183,885)	2,307,310	1,973,651
Due to other companies, net	-	5,615,338	2,619,670	304,583	511,453	(9,051,044)	-	-
Total liabilities	3,299,537	8,135,373	435,759,891	381,792	5,065,698	(9,234,929)	443,407,362	223,086,533
NET ASSETS								
Unrestricted	9,441,382	40,119,144	(1,382,097)	(330,637)	241,781,493	(139,962)	289,489,323	275,147,978
Temporarily restricted	-	3,207,955	5,495,588	4,395	4,283,743	-	12,991,681	10,648,336
Permanently restricted	-	1,211,826	21,703,667	-	67,726,933	-	90,642,426	78,524,028
Total net assets	9,441,382	44,538,925	25,817,158	(326,242)	313,792,169	(139,962)	393,123,430	364,320,342
TOTAL LIABILITIES AND NET ASSETS	\$ 12,740,919	\$ 52,674,298	\$ 461,577,049	\$ 55,550	\$ 318,857,867	\$ (9,374,891)	\$ 836,530,792	\$ 587,406,875

Buckner International and Subsidiaries

Consolidating Statement of Activities for the Year Ended December 31, 2017 (With Comparative Totals For 2016)

	Buckner International	Buckner Children and Family Services, Inc.	Buckner Retirement Services, Inc.	Buckner Adoption and Maternity Services, Inc.	Buckner Foundation	Eliminations	2017 Consolidated Total	2016 Consolidated Total
REVENUES								
Client support and related income	\$ -	\$ 15,530,449	\$ 62,001,673	\$ 2,402	\$ -	\$ -	\$ 77,534,524	\$ 76,914,704
Investment income	155,276	598,557	2,085,948	2	22,435,987	-	25,275,770	22,488,516
Distributions from related foundation	11,449,622	10,336,673	240,633	582,838	-	(22,609,766)	-	-
Contributions								
Baptist General Convention of Texas	-	292,695	175,250	16,286	-	-	484,231	535,139
Individual and business gifts	3,429	13,627,662	268,133	87	398,236	-	14,297,547	18,199,494
Bequests	810,742	330,145	-	-	78,817	-	1,219,704	2,648,102
Gain on sales of real estate held for investment	511,806	-	-	-	-	-	511,806	1,089,442
Other	76,449	349,671	255,494	-	103,737	-	785,351	536,543
Administrative fees	6,172,000	-	-	-	-	(6,172,000)	-	-
Total revenues	19,179,324	41,065,852	65,027,131	601,615	23,016,777	(28,781,766)	120,108,933	122,411,940
EXPENSES								
Salaries and benefits	10,340,853	15,493,487	34,833,851	410,955	-	-	61,079,146	65,547,339
Supplies and direct expenses	4,531	16,180,012	8,894,554	31,812	-	-	25,110,909	27,590,471
Occupancy and insurance	1,667,135	3,827,971	7,316,204	11,734	12,153	-	12,835,197	13,295,708
Travel and transportation	342,026	1,750,050	424,192	28,111	-	-	2,544,379	2,898,975
Administration	4,993,608	5,841,039	4,630,433	102,758	62,606	(6,172,000)	9,458,444	9,290,514
Depreciation	208,187	1,598,033	6,185,138	695	1,966	-	7,994,019	8,051,540
Interest expense	30,457	377	4,357,075	-	-	-	4,387,909	5,058,884
Total expenses	17,586,797	44,690,969	66,641,447	586,065	76,725	(6,172,000)	123,410,003	131,733,431
CHANGE IN NET ASSETS FROM OPERATIONS	1,592,527	(3,625,117)	(1,614,316)	15,550	22,940,052	(22,609,766)	(3,301,070)	(9,321,491)
NONOPERATING ITEMS								
Net realized and unrealized gains (losses) on investments	-	468,679	345,029	-	31,004,209	-	31,817,917	6,685,352
Distributions to related entities	1,521,590	(210,000)	(1,521,590)	-	(22,399,766)	22,609,766	-	-
Other, net	(4,582,230)	3,513,021	244,449	(5,400)	1,116,401	-	286,241	(2,422,279)
CHANGE IN NET ASSETS	(1,468,113)	146,583	(2,546,428)	10,150	32,660,896	-	28,803,088	(5,058,418)
NET ASSETS, BEGINNING OF YEAR	10,909,495	44,392,342	28,363,586	(336,392)	281,131,273	(139,962)	364,320,342	369,378,760
NET ASSETS, END OF YEAR	\$ 9,441,382	\$ 44,538,925	\$ 25,817,158	\$ (326,242)	\$ 313,792,169	\$ (139,962)	\$ 393,123,430	\$ 364,320,342