BUCKNER INTERNATIONAL AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2013

CONTENTS

weaver
Assurance • Tax • Advisory

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Buckner International

We have audited the accompanying consolidated financial statements of Buckner International and Subsidiaries (collectively, Buckner), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

AN INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL
WEAVER AND TIDWELL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS
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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, 2013 and 2012, 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.

Effect of Adopting New Accounting Standards

As discussed in Note 22, the Financial Accounting Standards Board issued revised accounting standards for health care entities. The new standards require continuing care retirement communities to recognize a liability for advance fees for amounts which were previously presented as deferred revenue and amortized into revenue over the life of the facility. Our opinion is not modified with respect to that matter.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
May 15, 2014

BUCKNER INTERNATIONAL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
ASSETS		
Cash and cash equivalents	$ 17,540,553	$ 12,577,147
Investments	35,431,449	31,562,360
Receivables, net	4,959,635	3,665,779
Pledges and bequests receivable, net	1,710,557	1,852,231
Inventories and supplies	154,101	133,909
Notes receivable	36,864	51,050
Prepaid expenses	1,074,425	1,546,880
Due from related foundation	1,470,518	256,303
Other assets	885,227	985,401
Revenue bond proceeds held by trustee	8,739,940	9,705,896
Real estate held for investment	1,859,718	1,872,218
Property and equipment, net	149,454,104	148,818,315
Interest in net assets of related foundation	299,476,166	229,754,008
Bond issuance costs, net	1,216,626	1,267,726
Assets from discontinued operation	1,107,085	1,305,906
TOTAL ASSETS	$ 525,116,968	$ 445,355,129
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 1,679,866	$ 1,011,931
Accrued liabilities	4,108,148	4,063,913
Lines of credit	1,266,040	1,642,903
Short-term notes payable	791,793	793,566
Revenue bonds payable, net	98,147,637	100,703,839
Notes payable	5,455,796	5,103,506
Resident deposits	1,908,299	1,789,272
Refundable fees	17,179,999	15,732,978
Deferred revenue from advance fees	3,312,575	3,294,166
Annuity and life income fund liability	385,085	413,663
Other	2,264,767	2,299,321
Liabilities from discontinued operation	318,013	443,114
Total liabilities	136,818,018	137,292,172
NET ASSETS		
Unrestricted	296,167,921	225,863,180
Temporarily restricted	12,188,946	10,692,167
Permanently restricted	79,942,083	71,507,610
Total net assets	388,298,950	308,062,957
TOTAL LIABILITIES AND NET ASSETS	$ 525,116,968	$ 445,355,129

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

BUCKNER INTERNATIONAL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES								
Client support and related income	$ 74,896,639	$ -	$ -	$ 74,896,639	$ 73,548,191	$ -	$ -	$ 73,548,191
Investment income	2,662,147	24,241	59,904	2,746,292	2,693,813	30,103	89,932	2,813,848
Distributions from related foundation	21,497,702	-	-	21,497,702	16,043,227	-	-	16,043,227
Contributions								
Baptist General Convention of Texas	710,498	-	-	710,498	723,413	-	-	723,413
Individual and business gifts	23,040,625	2,620,754	772,471	26,433,850	22,619,458	1,071,964	289,745	23,981,167
Bequests	1,670,846	-	-	1,670,846	1,269,846	-	200,000	1,469,846
Gain (loss) on sales of real estate held for investment	(7,484)	-	-	(7,484)	2,047,923	-	-	2,047,923
Other	637,633	-	-	637,633	454,477	-	200	454,677
Administrative fees	165,000	-	-	165,000	164,676	-	-	164,676
Net assets released from restrictions	2,657,435	(2,657,435)	-	-	2,785,004	(2,785,004)	-	-
Total revenues	127,931,041	(12,440)	832,375	128,750,976	122,350,028	(1,682,937)	579,877	121,246,968
EXPENSES								
Salaries and benefits	54,966,899	-	-	54,966,899	54,163,868	-	-	54,163,868
Supplies and direct expenses	29,019,688	-	-	29,019,688	29,655,675	-	-	29,655,675
Occupancy and insurance	12,326,369	-	-	12,326,369	12,087,748	-	-	12,087,748
Travel and transportation	3,838,577	-	-	3,838,577	3,928,705	-	-	3,928,705
Administration	9,722,347	61,004	-	9,783,351	9,996,520	61,005	-	10,057,525
Depreciation	7,190,505	-	-	7,190,505	7,166,218	-	-	7,166,218
Interest expense	4,934,406	-	-	4,934,406	5,265,181	-	-	5,265,181
Total expenses	121,998,791	61,004	-	122,059,795	122,263,915	61,005	-	122,324,920
CHANGE IN NET ASSETS FROM OPERATIONS	5,932,250	(73,444)	832,375	6,691,181	86,113	(1,743,942)	579,877	(1,077,952)
NONOPERATING ITEMS								
Net realized and unrealized gains on investments	329,608	1,378,814	1,391,232	3,099,654	1,158,879	693,274	847,869	2,700,022
Increase in interest in net assets of related foundation	62,774,761	164,176	6,783,221	69,722,158	29,601,215	904,921	4,050,076	34,556,212
Other, net	1,351,842	17,233	(572,355)	796,720	1,768,998	6,225	(280,179)	1,495,044
INCOME (LOSS) FROM CONTINUING OPERATIONS	70,388,461	1,486,779	8,434,473	80,309,713	32,615,205	(139,522)	5,197,643	37,673,326
INCOME (LOSS) FROM DISCONTINUED OPERATION	(83,720)	10,000	-	(73,720)	326,962	(21,664)	-	305,298
CHANGE IN NET ASSETS	70,304,741	1,496,779	8,434,473	80,235,993	32,942,167	(161,186)	5,197,643	37,978,624
NET ASSETS, BEGINNING OF YEAR, AS ADJUSTED	225,863,180	10,692,167	71,507,610	308,062,957	192,921,013	10,853,353	66,309,967	270,084,333
NET ASSETS, END OF YEAR	$ 296,167,921	$ 12,188,946	$ 79,942,083	$ 388,298,950	$ 225,863,180	$ 10,692,167	$ 71,507,610	$ 308,062,957

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

BUCKNER INTERNATIONAL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 80,235,993	$ 38,104,852
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss (income) on discontinued operations	73,720	(305,298)
Depreciation	7,190,505	7,166,218
Amortization	(414,804)	(505,100)
Increase (decrease) in accretion expense and ARO revisions	51,900	(69,664)
Loss (gain) on sales of real estate held for investment	7,484	(2,047,923)
Loss on sale or disposal of facility assets	418	1,423,296
Net realized and unrealized losses (gains) on investments	(3,099,654)	(2,700,021)
Noncash contribution of real estate held for investment	-	(831,325)
Changes in operating assets and liabilities:		
Receivables	(1,152,182)	1,855,718
Inventories and supplies	(20,192)	11,746
Prepaid expenses	1,264,248	755,764
Other assets	-	13,099
Due from related foundation	(1,214,215)	890,753
Interest in net assets of related foundation	(69,722,158)	(34,556,213)
Accounts payable	667,935	(158,519)
Accrued liabilities	44,235	446,470
Resident deposits	119,027	110,209
Refundable fees	1,477,868	372,273
Deferred revenue from advance fees	481,005	646,707
Annuity and life income fund liability	(28,578)	(17,677)
Other liabilities	(86,454)	101,289
Net cash provided by operating activities	15,876,101	10,706,654
CASH FLOWS FROM INVESTING ACTIVITIES		
Collection of notes receivable	14,186	2,367
Purchases of property and equipment	(7,826,712)	(10,373,747)
Purchases of investments	(797,182)	(1,750,122)
Proceeds on sales or redemptions of investments	993,703	564,257
Proceeds from sales of real estate held for investment	5,016	2,061,123
Proceeds from sales of property and equipment	-	351,093
Net cash used in investing activities	(7,610,989)	(9,145,029)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	352,290	4,850,000
Payments on revenue bonds payable and short-term notes payable	(3,653,996)	(3,237,655)
Net cash provided by (used in) financing activities	(3,301,706)	1,612,345
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,963,406	3,173,970
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,577,147	9,403,177
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 17,540,553	$ 12,577,147
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	$ 5,197,518	$ 5,277,524
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Financing of insurance contract	$ 791,793	$ 793,566

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

BUCKNER INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF OPERATIONS AND PRINCIPLES OF CONSOLIDATION

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

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

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

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

Buckner consolidates the following not-for-profit corporations:

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

The Board of Trustees of Buckner serve as directors of Buckner Children and Family Services, Inc., Buckner Retirement Services, Inc., and Buckner Adoption and Maternity Services, Inc. Buckner and the corporations are exempt from Federal income taxation under Section 501(c)(3) of the Internal Revenue Code. Buckner currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded. All significant intercompany accounts and transactions have been eliminated.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will never lapse thus requiring the funds to be retained permanently. Generally, the donors of these assets permit Buckner to use all or part of the income earned on related investments for general or specific purposes, including program support. These assets are made up of a portion of cash and cash equivalents, investments, and a portion of investments contained within the interest in net assets of related foundation.

- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of Buckner and/or the passage of time to be used generally for capital expenditures and program support. These assets are made up of a portion of cash and cash equivalents, investments, pledges and bequest receivable, and a portion of investments contained within the interest in net assets of related foundation.

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Restricted contributions received and released in the current year will be reported as unrestricted net asset activity.

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund-raising activity. There was no allowance for uncollectible contributions at December 31, 2013 and 2012.

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

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

Cash Equivalents

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

Investments

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

Receivables and Notes Receivable

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Inventories and Supplies

Inventories and supplies are recorded at cost.

Property and Equipment

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

Split-interest Agreements

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

Interest in Net Assets of Related Foundation

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

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

Bond Issuance Costs

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenues

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

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

Distributions from related foundation and contributions are recognized at fair value at the time gifts are received or unconditional promises to give are made. Grant revenues are recognized at the time grant requirements are met.

Interest Rate Swap Agreements

During 2007, BMM entered into an interest rate swap agreement to modify the interest characteristics of the outstanding debt related to its Series 2007 Bonds. This agreement involves the exchange of amounts based on variable interest rates for the amounts based on fixed interest rates over the life of the agreement without an exchange of the notional amount on which the payments are based. The differential to be paid or received, as interest rates change, is accrued and recognized in interest income (expense). The interest rate swap agreement converts essentially 100% of the variable rate debt amount to synthetic fixed rate debt.

Advertising

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

Expenses incurred related to advertising activities were $1,294,606 and $1,264,124 for the years ended December 31, 2013 and 2012, respectively, and are included in administration expense on the accompanying consolidated statements of activities.

Direct-response advertising relates to costs of acquiring initial continuing-care contracts that are expected to be recovered from future contract revenues. These costs are amortized to expense on a straight-line basis over the average expected remaining lives of the residents under contract or the contract term, if shorter (actuarial studies typically provide a range of 12 to 14 years). Deferred direct-response advertising costs of $885,227 and $985,401 were reported in other assets, in Buckner’s consolidated statements of financial position as of December 31, 2013 and 2012, respectively.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Change in Net Assets from Operations

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

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Asset Retirement Obligations

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

Deferred Revenue

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events

The date to which events occurring after December 31, 2013, the date of the most recent consolidated statement of financial position, have been evaluated for possible adjustment to the consolidated financial statements or disclosure is May 15, 2014, the date these consolidated financial statements were available to be issued. During this period, there were no material recognizable subsequent events.

NOTE 3. INVESTMENTS

Investments consist of the following:

	December 31,	
	2013	2012
Investments held by Baptist Foundation of Texas	$ 27,507,508	$ 24,353,289
Corporate bonds	641,999	782,266
U.S. government agencies	333,563	424,102
Money market funds	909,181	752,715
Equity securities - Domestic	5,046,942	4,667,615
Equity securities - International	339,729	179,211
Bond mutual funds	577,119	326,801
Other	75,408	76,361
	$ 35,431,449	$ 31,562,360

The following summarizes investment return:

	Years ended December 31,	
	2013	2012
Operating		
Dividend and interest income	$ 2,746,292	$ 2,813,848
Nonoperating		
Net realized and unrealized gain on investments	3,099,654	2,700,022
	$ 5,845,946	$ 5,513,870

Buckner includes investment fees as a reduction of dividend and interest income. Fees amounted to $23,186 and $24,303 for the years ended December 31, 2013 and 2012, respectively.

NOTE 4. RECEIVABLES

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

	December 31, 2013	December 31, 2012
Receivables, gross	$ 5,480,726	$ 4,104,649
Allowance for doubtful accounts	(521,091)	(438,870)
Receivables, net	$ 4,959,635	$ 3,665,779

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, 2013	December 31, 2012
Pledges and bequests receivable, gross	$ 1,743,104	$ 1,878,923
Less unamortized discount at 2.90% and 1.72% at December 31, 2013 and 2012, respectively	(32,547)	(26,692)
Pledges and bequests receivable, net	$ 1,710,557	$ 1,852,231

The maturity of pledges and bequests receivable at December 31, 2013 is as follows:

Less than one year	$ 1,167,993
One to five years	575,111
	$ 1,743,104

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Estimated useful life	December 31, 2013	December 31, 2012
Buildings	10 - 40 years	$ 181,326,066	$ 177,272,814
Furniture and equipment	5 - 10 years	27,044,320	26,924,124
Vehicles	2 - 4 years	2,340,120	2,252,478
Land improvements	5 - 20 years	16,595,092	16,348,045
Total		227,305,598	222,797,461
Less accumulated depreciation		(94,983,355)	(90,196,134)
		132,322,243	132,601,327
Projects-in-process		3,086,227	2,311,516
Land		14,045,634	13,905,472
Property and equipment, net		$ 149,454,104	$ 148,818,315

Depreciation expense was $7,190,505 and $7,166,218 for the years ended December 31, 2013 and 2012, respectively.

NOTE 7. INTEREST IN NET ASSETS OF RELATED FOUNDATION

The purpose of Buckner Foundation, Inc. (the Foundation) is to perform fundraising and asset management services as a supporting organization for the subsidiaries of Buckner. Buckner has an economic interest in the Foundation and in accordance with Codification guidance, Buckner records its beneficial interest in the net assets of the Foundation as an interest in net assets of related foundation in the consolidated statements of financial position. Effective January 1, 2014, the Board of Directors of the Foundation will be elected by the subsidiaries of Buckner and Buckner will consolidate the Foundation in its financial statements.

Summarized financial data of the Foundation is as follows:

	December 31, 2013	December 31, 2012
Investment assets	$ 270,483,793	$ 231,363,539
Other assets	36,012,578	3,889,221
Annuity fund liabilities	5,211,204	4,733,212
Other liabilities	1,809,001	765,540
Net assets	299,476,166	229,754,008
Total revenues	61,161,626	23,448,940
Total expenses	4,820,741	4,399,655
Distributions and other	23,079,016	18,149,673
Net realized and unrealized gain on investments	36,460,289	33,657,101

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

The fair value measurements, as defined in Note 16, for the financial instruments held by the Foundation as of December 31, 2013 and 2012, consisted of the following:

	Total	Level 1	Level 2	Level 3
As of December 31, 2013:				
Investment assets	$ 270,483,793	$ 42,061,884	$ 133,364,418	$ 95,057,491
Annuity fund liabilities	(5,211,204)	-	-	(5,211,204)
As of December 31, 2012:				
Investment assets	$ 231,363,539	$ 43,484,170	$ 107,659,067	$ 80,220,302
Annuity fund liabilities	(4,733,212)	-	-	(4,733,212)

NOTE 8. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	December 31,	
	2013	2012
Employee vacation and sick pay	$ 681,357	$ 843,100
Employee health benefits	736,077	592,562
Nonsubscriber occupational injury	100,000	100,000
Property taxes	241,333	214,178
Wages and payroll related	1,037,602	894,282
Interest on revenue bonds and notes payable	639,176	902,288
Professional and general liability insurance	400,000	400,000
Other	272,603	117,503
	$ 4,108,148	$ 4,063,913

NOTE 9. DEBT

In 2007, BRS, through the Tarrant County Cultural Education Facilities Finance Corporation (the Issuer), issued $104,755,000 of tax-exempt bonds, and is the sole obligated party on the issuance. The proceeds generated by the sale of the bonds were loaned by the Issuer to BRS to (1) finance the construction and expansion of certain retirement facilities located in Austin, Longview, Beaumont, and Houston, Texas and (2) to refinance the Bell County Health Facilities Development Corporation Retirement Facility Revenue Bonds, Series 1998, (1998 Bonds). Semi-annual interest payments began November 15, 2007. Total principal and interest payments are approximately $7,000,000 each year from November 15, 2008 through November 15, 2037. As of December 31, 2013 and 2012, the unamortized premium on the bonds was $1,728,793 and $1,801,428, respectively.

NOTE 9. DEBT – CONTINUED

The BRS Master Trust Indenture dated July 27, 2007 requires compliance with certain covenants. BRS is required to maintain a reserve fund to cover a year's debt service. BRS has entered into investment contracts with assets valued at $8,739,940 and $9,705,896 as of December 31, 2013 and 2012, respectively, which are recorded as a portion of revenue bond proceeds held by trustee in the consolidated statements of financial position. The obligations under the Master Trust Indenture are further secured by a Credit and Support Agreement dated July 27, 2007 with Buckner Foundation, Inc.

In 2007, BMM issued the Series 2007 Reagan County Health Facilities Development Corporation Revenue Bonds dated August 1, 2007. The bonds mature July 17, 2017, with principal amounts ranging from $99,713 in 2007 to $153,738 in 2017. Quarterly interest payments are at 4.84%, and the bonds are secured by the Baptist Foundation of Texas Endowment income.

A summary of debt is as follows:

	December 31,	
	2013	2012
Revenue bonds payable		
Series 2007 revenue bonds, interest rates of 5.00% to 5.25%, net of unamortized premium	$ 95,988,793	$ 98,031,428
Series 2007 revenue bonds, interest rates of 4.84%	2,158,844	2,672,411
Lines of credit		
With JPMorganChase, variable interest rate currently at 1.96% expiring June 2014	1,200,000	1,300,000
With Wells Fargo, variable interest rate currently at 5.00% expiring March 2014	66,040	342,903
Notes payable		
With JPMorganChase, variable interest rate currently at 1.96% expiring October 2017	4,850,000	4,850,000
With FFIN San Angelo, variable interest rate currently at 2.75% expiring June 2016	159,615	253,506
With FFIN San Angelo, variable interest rate currently at 4.0% expiring September 2014	446,181	-
Short-term notes payable		
Insurance contract notes, interest rates range from 3.20% to 7.75% expiring 2014	791,793	793,566
	$ 105,661,266	$ 108,243,814

NOTE 9. DEBT – CONTINUED

Scheduled debt repayments on short-term notes payable, lines of credit and revenue bonds at December 31, 2013 are as follows:

Year ending December 31,	Short-term Notes Payable	Lines of Credit	Notes Payable	Revenue Bonds	Total
2014	$ 791,793	$ 1,266,040	$ 543,538	$ 2,608,879	$ 5,210,250
2015	-	-	62,258	2,735,438	2,797,696
2016	-	-	-	2,873,305	2,873,305
2017	-	-	4,850,000	2,856,222	7,706,222
2018	-	-	-	2,515,000	2,515,000
Thereafter	-	-	-	82,830,000	82,830,000
	791,793	1,266,040	5,455,796	96,418,844	103,932,473
Add amount representing premium	-	-	-	1,728,793	1,728,793
	$ 791,793	$ 1,266,040	$ 5,455,796	$ 98,147,637	$ 105,661,266

NOTE 10. RETIREMENT PLANS

Buckner provides a defined contribution retirement plan (the Plan) for its employees. Employees are eligible to participate in the Plan after completing two years of eligible service. Buckner contributes 8% of an employee's base salary for employees who contribute at least 5% of their salary. Vesting occurs immediately upon entering the Plan. Contributions to the plans by Buckner for the years ended December 31, 2013 and 2012 were $1,481,605 and $1,486,834, respectively.

NOTE 11. FUNCTIONAL ALLOCATION OF EXPENSES

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

	Years ended December 31, 2013	2012
General and administrative	$ 10,609,346	$ 10,114,104
Children and family services	44,920,827	46,661,397
Retirement and healthcare services	62,549,183	61,343,511
Adoption and maternity services	551,057	785,770
Development	3,429,382	3,420,138
Total expenses	$ 122,059,795	$ 122,324,920

NOTE 11. FUNCTIONAL ALLOCATION OF EXPENSES – CONTINUED

Buckner incurred $1,817,954 and $1,829,372 in expenses relating to fundraising activities during the years 2013 and 2012, respectively. These expenses are included in development expense above and were carried out within the Foundation for the benefit of Buckner.

NOTE 12. LEASES

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

Year ending December 31,		
2014	$	440,810
2015		650,785
2016		970,401
2017		898,562
2018		913,069
Thereafter		5,989,011
	$	9,862,638

Rent expense under all operating leases for the years ended December 31, 2013 and 2012 was $779,141 and $747,245, respectively. The cost of Buckner's lease for office space is accounted for by the straight-line method. The difference between the net cash requirements of the lease and the straight-line method is accrued within other liabilities on the consolidated statements of financial position.

NOTE 13. ASSET RETIREMENT OBLIGATION

Asset retirement obligations (ARO's) are recorded under the provisions of the Codification, accounting for asset retirement obligations and accounting for conditional asset retirement obligations, which requires the fair value of a liability related to the retirement of long-lived assets to be recorded at the time a legal obligation is incurred, if the liability can be reasonably estimated. Buckner has identified asbestos abatement that must be reported. It is currently appropriately managed by Buckner in accordance with current laws and regulations. However, it is possible that at some future date, renovations, demolition, or construction could occur that would require direct remediation of Buckner's ARO's. The asset retirement obligation as of December 31, 2013 and 2012 was included in other liabilities.

NOTE 13. ASSET RETIREMENT OBLIGATION – CONTINUED

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

	December 31,	
	2013	2012
Beginning balance	$ 1,189,836	$ 1,276,866
Accretion expense	51,900	57,843
Settlement of ARO obligations	-	(144,873)
Ending balance	$ 1,241,736	$ 1,189,836

NOTE 14. NET ASSETS RELEASED FROM RESTRICTIONS

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

	Years ended December 31,	
	2013	2012
Capital projects- children and family services	$ 1,424,023	$ -
Program support- children and family services	1,033,412	2,585,000
Program support- retirement services	200,000	200,004
	$ 2,657,435	$ 2,785,004

NOTE 15. RELATED PARTY TRANSACTIONS

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

NOTE 16. FAIR VALUE MEASUREMENTS

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

NOTE 16. FAIR VALUE MEASUREMENTS – CONTINUED

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

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

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

Level 1 inputs: Pricing inputs are quoted prices available in active markets for identical financial instruments as of the reporting date. As required, Buckner does not adjust the quoted price for these investments, even in situations where Buckner holds a large position and a sale could reasonably impact the quoted price.

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

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

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

NOTE 16. FAIR VALUE MEASUREMENTS – CONTINUED

Information related to the financial instruments measured at fair value on a recurring basis at December 31, 2013 and 2012 is as follows:

	December 31, 2013			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Equities - Domestic	$ 5,046,942	$ 3,946,694	$ 1,100,248	$ -
Equities - International	339,729	310,835	28,894	-
Corporate bonds	641,999	-	641,999	-
U.S. government agencies	333,563	-	333,563	-
Money market funds	909,181	-	909,181	-
Bond mutual funds	577,119	-	577,119	-
Real estate/other	75,408	-	-	75,408
Investments held by Baptist Foundation of Texas:				
Group investment funds	25,446,654	-	25,446,654	-
Real estate	515,641	-	-	515,641
Mineral interests	1,545,213	-	-	1,545,213
Pledges and bequests receivable	1,710,557	-	-	1,710,557
Revenue bond proceeds held by trustee	8,739,940	-	8,739,940	-
Interest rate swap agreement	(147,859)	-	(147,859)	-
Annuity funds liabilities for investments held in trust	(385,085)	-	-	(385,085)

	December 31, 2012			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Equities - Domestic	$ 4,667,615	$ 4,181,367	$ 486,248	$ -
Equities - International	179,211	157,417	21,794	-
Corporate bonds	782,266	-	782,266	-
U.S. government agencies	424,102	-	424,102	-
Money market funds	752,715	-	752,715	-
Bond mutual funds	326,801	-	326,801	-
Real estate/other	76,361	-	-	76,361
Investments held by Baptist Foundation of Texas:				
Group investment funds	22,524,547	-	22,524,547	-
Real estate	499,158	-	-	499,158
Mineral interests	1,329,584	-	-	1,329,584
Pledges and bequests receivable	1,852,231	-	-	1,852,231
Revenue bond proceeds held by trustee	9,705,896	-	9,705,896	-
Interest rate swap agreement	(237,562)	-	(237,562)	-
Annuity funds liabilities for investments held in trust	(413,663)	-	-	(413,663)

NOTE 16. FAIR VALUE MEASUREMENTS – CONTINUED

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

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

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

Group Investment Funds

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

Bonds

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

Money Market Funds

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

Fair values reported as level 3 consist of the following:

Investments in Mineral Interests

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

NOTE 16. FAIR VALUE MEASUREMENTS – CONTINUED

Investments in Mortgage Loans

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

Investments in Real Estate

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

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

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

	Real Estate	Mineral Interests	Pledges and Bequests Receivable	Annuity Funds Liabilities for Investments Held in Trust
December 31, 2011	$ 574,778	$ 786,192	$ 3,958,843	$ (431,340)
Distributions	-	-	(3,236,802)	-
Contributions	-	-	885,764	-
Net realized and unrealized change in investment valuation	741	543,392	244,426	17,677
December 31, 2012	575,519	1,329,584	1,852,231	(413,663)
Distributions	-	-	(1,167,502)	-
Contributions	-	-	1,121,595	-
Net realized and unrealized change in investment valuation	15,530	215,629	(95,767)	28,578
December 31, 2013	$ 591,049	$ 1,545,213	$ 1,710,557	$ (385,085)

NOTE 17. ENDOWMENTS HELD IN BUCKNER FOUNDATION

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

NOTE 17. ENDOWMENTS HELD IN BUCKNER FOUNDATION – CONTINUED

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

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

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

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

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

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

	Temporarily Restricted		Permanently Restricted	
	2013	2012	2013	2012
Net assets	$ 3,021,401	$ 2,857,225	$ 58,381,982	$ 51,598,761

NOTE 17. ENDOWMENTS HELD IN BUCKNER FOUNDATION – CONTINUED

For the years ended December 31, 2013 and 2012, Buckner had the following endowment-related activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2011	$ -	$ 1,952,304	$ 47,548,685	$ 49,500,989
Investment return				
Investment income	-	-	99,051	99,051
Net realized/unrealized gains (losses)	-	(317,770)	2,602,660	2,284,890
Total investment return	-	(317,770)	2,701,711	2,383,941
Contributions to endowment	-	1,224,953	1,348,365	2,573,318
Amounts approved for expenditure	-	(2,262)	-	(2,262)
Endowment net assets, December 31, 2012	-	2,857,225	51,598,761	54,455,986
Investment return				
Investment income	-	-	135,142	135,142
Net realized/unrealized gains (losses)	-	77,248	5,414,751	5,491,999
Total investment return	-	77,248	5,549,893	5,627,141
Contributions to endowment	-	86,928	1,233,328	1,320,256
Endowment net assets, December 31, 2013	$ -	$ 3,021,401	$ 58,381,982	$ 61,403,383

NOTE 18. COMMITMENTS AND CONTINGENCIES

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

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

Buckner maintains a standby letter of credit with a bank for $600,000. The letter of credit is required by the insurance company for Buckner's professional and general liability insurance policies from prior years. As of December 31, 2013 and 2012, no amounts are outstanding under the letter of credit. At December 31, 2013 and 2012, Buckner maintained a $400,000 reserve for prior years' professional and general liability insurance.

NOTE 18. COMMITMENTS AND CONTINGENCIES – CONTINUED

Buckner is partially insured for employee health benefits and its non-subscriber occupational injury plan. For employee health benefits, Buckner has a stop-loss limit of $125,000 per person per year and BMM has a stop-loss limit of $70,000 per person per year. At December 31, 2013 and 2012, Buckner has accrued $736,077 and $592,562, 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, 2013 and 2012, Buckner has accrued $100,000 for the non-subscriber occupational injury plan.

NOTE 19. FEDERAL INCOME TAXES

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

Tax positions taken related to Buckner's tax exempt status, unrelated business activities taxable income and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken would more likely than not be sustained by examination. Accordingly, Buckner has not recorded an income tax liability for uncertain tax benefits. For the year ended December 31, 2013, there were no interest or penalties recorded or included in the financial statements. As of December 31, 2013, Buckner's tax years 2010 and thereafter remain subject to examination.

NOTE 20. DERIVATIVE FINANCIAL INSTRUMENT

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, BMM entered into an interest rate swap agreement during 2007 to convert a portion of the 2007 Revenue Bonds to a fixed rate of interest. This agreement provides for BMM to receive interest from the counterparty at 66.49 percent of Prime Rate, and to pay interest to the counterparty based on a fixed rate of 4.84 percent. The notional value of the interest rate swap at December 31, 2013 and 2012 was $2,158,844 and $2,672,411, respectively. The interest rate swap agreement matures in July 2017.

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

NOTE 20. DERIVATIVE FINANCIAL INSTRUMENT – CONTINUED

The differences in the prime rate and fixed swap rate for the years ended December 31, 2013 and 2012 resulted in a realized gain of $89,703 and $85,668, respectively. The gain is included in interest expense on the accompanying consolidated statements of operations for the years ended December 31, 2013 and 2012. The market value of the swap as of December 31, 2013 and 2012 is $147,859 and $237,562, respectively, and is reported as another liability in the consolidated statements of financial position.

NOTE 21. DISCONTINUED OPERATIONS

On December 20, 2013, Buckner Adoption and Maternity Services, Inc. and Dillon International, Inc. entered into a disaffiliation agreement effective January 1, 2014. As a result, Buckner reported Dillon International, Inc.'s assets, liabilities, and changes in net assets as discontinued operations on the consolidated statements of financial position and consolidated statements of activities for all periods presented. The account balances as of December 31, 2013 and 2012 are as follows:

	2013	2012
Cash and cash equivalents	$ 571,812	$ 691,278
Investments	279,645	239,214
Other assets	255,628	375,414
Assets from discontinued operation	1,107,085	1,305,906
Current liabilities	318,013	443,114
Liabilities from discontinued operation	318,013	443,114
Revenues	2,979,997	3,368,169
Expenses	(3,156,728)	(3,051,295)
Nonoperating items	103,011	(11,576)
Income (loss) from discontinued operation	(73,720)	305,298

NOTE 22. ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2013, Buckner adopted FASB ASU No. 2012-01 Health Care Entities (Topic 954): Continuing Care Retirement Communities – Refundable Advance Fees (ASU No. 2012-01), which has resulted in the establishment of a liability for advance fees for amounts which were previously presented as deferred revenue and amortized into revenue over the life of the facility.

In accordance with FASB ASC Topic 250, Accounting Changes and Error Corrections, these consolidated financial statements present the adoption of ASU No. 2012-01 as a change in accounting principle, and accordingly, the 2012 financial statements have been adjusted as follows:

	December 31, 2012		
	As Previously Reported	Adjustment	As Adjusted
Unrestricted net assets, beginning of year	$ 194,124,263	$ (1,203,250)	$ 192,921,013
Unrestricted net assets, end of year	227,192,658	(1,329,478)	225,863,180
Total net assets, beginning of year	271,287,583	(1,203,250)	270,084,333
Total net assets, end of year	309,392,435	(1,329,478)	308,062,957
Refundable fees	10,372,955	5,360,023	15,732,978
Deferred revenue from advance fees	7,324,711	(4,030,545)	3,294,166
Total operating revenues	124,741,365	(126,228)	121,246,968
Change in net assets	38,104,852	(126,228)	37,978,624

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Trustees
Buckner International

We have audited the consolidated financial statements of Buckner International as of and for the year ended December 31, 2013 and 2012, and our report thereon dated May 15, 2014, which expressed an unmodified opinion on those consolidated financial statements, which included an emphasis of matter paragraph for adoption of a new accounting standard, appears on page 1. Our audit was performed for the purpose of forming an opinion on the consolidated financial statement as a whole. The supplementary consolidating statement of financial position and consolidating statements of activities included hereinafter are presented for purposes of additional analyses and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
May 15, 2014

AN INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL
WEAVER AND TIDWELL, L.L.P. CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS
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BUCKNER INTERNATIONAL
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

ASSETS	Buckner International	Buckner Children and Family Services, Inc.	Buckner Retirement Services, Inc.	Buckner Adoption and Maternity Services, Inc.	Dillon International	Eliminations	2013 Consolidated Total	Discontinued Operation Elimination	2013 Consolidated Total - Adjusted	2012 Consolidated Total
ASSETS										
Cash and cash equivalents	$ 661,415	$ 8,328,160	$ 8,412,025	$ 138,953	$ 571,812	$ -	$ 18,112,365	$ (571,812)	$ 17,540,553	$ 12,577,147
Investments	12,894	3,594,492	31,824,063	-	279,645	-	35,711,094	(279,645)	35,431,449	31,562,360
Receivables, net	660,676	1,407,669	2,833,204	58,086	168,662	-	5,128,297	(168,662)	4,959,635	3,665,779
Pledges and bequests receivable, net	-	1,700,508	10,049	-	-	-	1,710,557	-	1,710,557	1,852,231
Inventories and supplies	-	-	154,101	-	-	-	154,101	-	154,101	133,909
Notes receivable	-	-	36,864	-	-	-	36,864	-	36,864	51,050
Prepaid expenses	502,734	75,255	496,436	-	7,588	-	1,082,013	(7,588)	1,074,425	1,546,880
Due from other companies, net	9,919,416	-	-	-	77,479	(8,448,898)	1,547,997	(77,479)	1,470,518	256,303
Other assets	-	-	885,227	-	-	-	885,227	-	885,227	985,401
Revenue bond proceeds held by trustee	-	-	8,739,940	-	-	-	8,739,940	-	8,739,940	9,705,896
Real estate held for investment	1,802,838	56,880	-	-	-	-	1,859,718	-	1,859,718	1,872,218
Property and equipment, net	1,013,797	29,991,661	118,572,342	16,266	1,899	(139,962)	149,456,003	(1,899)	149,454,104	148,818,315
Interest in net assets of related foundation	299,476,166	-	-	-	-	-	299,476,166	-	299,476,166	229,754,008
Bond issuance costs, net	-	-	1,216,626	-	-	-	1,216,626	-	1,216,626	1,267,726
Assets from discontinued operation	-	-	-	-	-	-	-	1,107,085	1,107,085	1,305,906
TOTAL ASSETS	314,049,936	45,154,625	173,180,877	213,305	1,107,085	(8,588,860)	$ 525,116,968	-	$ 525,116,968	$ 445,355,129
LIABILITIES AND NET ASSETS										
LIABILITIES										
Accounts payable	$ 145,264	$ 474,129	$ 1,018,012	$ 42,461	$ 134,521	$ -	$ 1,814,387	$ (134,521)	$ 1,679,866	$ 1,011,931
Accrued liabilities	547,251	933,480	2,592,402	35,015	40,892	-	4,149,040	(40,892)	4,108,148	4,063,913
Lines of credit	1,200,000	-	66,040	-	-	-	1,266,040	-	1,266,040	1,642,903
Short-term notes payable	791,793	-	-	-	-	-	791,793	-	791,793	793,566
Revenue bonds payable, net	-	-	98,147,637	-	-	-	98,147,637	-	98,147,637	100,703,839
Notes payable	-	-	5,455,796	-	-	-	5,455,796	-	5,455,796	5,103,506
Resident deposits	-	-	1,908,299	-	-	-	1,908,299	-	1,908,299	1,789,272
Refundable fees	-	-	17,179,999	-	-	-	17,179,999	-	17,179,999	15,732,978
Deferred revenue from advance fees	-	-	3,312,575	-	-	-	3,312,575	-	3,312,575	3,294,166
Annuity and life income fund liability	-	100,372	284,713	-	-	-	385,085	-	385,085	413,663
Other	302,344	1,217,151	708,372	36,900	142,600	-	2,407,367	(142,600)	2,264,767	2,299,321
Due to other companies, net	-	6,990,987	1,426,252	31,659	-	(8,448,898)	-	-	-	-
Liabilities from discontinued operation	-	-	-	-	-	-	-	318,013	318,013	443,114
Total liabilities	2,986,652	9,716,119	132,100,097	146,035	318,013	(8,448,898)	136,818,018	-	136,818,018	137,292,172
NET ASSETS										
Unrestricted	249,654,901	31,928,835	14,110,133	44,942	569,072	(139,962)	296,167,921	-	296,167,921	225,884,844
Temporarily restricted	3,026,401	3,127,347	5,992,870	22,328	20,000	-	12,188,946	-	12,188,946	10,670,503
Permanently restricted	58,381,982	382,324	20,977,777	-	200,000	-	79,942,083	-	79,942,083	71,507,610
Total net assets	311,063,284	35,438,506	41,080,780	67,270	789,072	(139,962)	388,298,950	-	388,298,950	308,062,957
TOTAL LIABILITIES AND NET ASSETS	$ 314,049,936	$ 45,154,625	$ 173,180,877	$ 213,305	$ 1,107,085	$ (8,588,860)	$ 525,116,968	$ -	$ 525,116,968	$ 445,355,129

BUCKNER INTERNATIONAL
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	Buckner International	Buckner Children and Family Services, Inc.	Buckner Retirement Services, Inc.	Buckner Adoption and Maternity Services, Inc.	Dillon International	Eliminations	2013 Consolidated Total	Discontinued Operation Elimination	2013 Consolidated Total - Adjusted	2012 Consolidated Total
REVENUES										
Client support and related income	$ -	$ 11,180,624	$ 63,642,285	$ 73,730	$ 1,276,275	$ -	$ 76,172,914	$ (1,276,275)	$ 74,896,639	$ 73,548,191
Investment income	64,233	545,499	2,143,750	-	9,508	(7,190)	2,755,800	(9,508)	2,746,292	2,813,848
Distributions from related foundation	7,125,000	13,793,785	206,734	372,183	713,000	-	22,210,702	(713,000)	21,497,702	16,043,227
Contributions										
Baptist General Convention of Texas	-	481,507	187,387	41,604	-	-	710,498	-	710,498	723,413
Individual and business gifts	21,827	25,649,818	698,115	64,090	898,622	-	27,332,472	(898,622)	26,433,850	23,981,167
Bequests	781,149	570,527	319,170	-	-	-	1,670,846	-	1,670,846	1,469,846
Gain (loss) on sales of real estate held for investment	(7,484)	-	-	-	-	-	(7,484)	-	(7,484)	2,047,923
Other	374,452	468,939	123,551	-	82,592	(329,309)	720,225	(82,592)	637,633	454,677
Administrative fees	4,237,739	-	-	-	-	(4,072,739)	165,000	-	165,000	164,676
Total revenues	12,596,916	52,690,699	67,320,992	551,607	2,979,997	(4,409,238)	131,730,973	(2,979,997)	128,750,976	121,246,968
EXPENSES										
Salaries and benefits	6,640,530	14,750,841	33,330,532	244,996	1,521,219	-	56,488,118	(1,521,219)	54,966,899	54,163,868
Supplies and direct expenses	30,663	20,474,510	8,354,557	159,958	873,018	-	29,892,706	(873,018)	29,019,688	29,655,675
Occupancy and insurance	1,142,927	3,852,137	7,295,509	38,857	216,917	(3,061)	12,543,286	(216,917)	12,326,369	12,087,748
Travel and transportation	295,108	2,880,856	624,561	45,242	252,048	(7,190)	4,090,625	(252,048)	3,838,577	3,928,705
Administration	3,862,665	5,167,234	5,044,522	107,917	289,784	(4,398,987)	10,073,135	(289,784)	9,783,351	10,057,525
Depreciation	175,727	1,330,531	5,683,552	695	3,742	-	7,194,247	(3,742)	7,190,505	7,166,218
Interest expense	113,026	-	4,821,380	-	-	-	4,934,406	-	4,934,406	5,265,181
Total expenses	12,260,646	48,456,109	65,154,613	597,665	3,156,728	(4,409,238)	125,216,523	(3,156,728)	122,059,795	122,324,920
CHANGE IN NET ASSETS FROM OPERATIONS	336,270	4,234,590	2,166,379	(46,058)	(176,731)	-	6,514,450	176,731	6,691,181	(1,077,952)
NONOPERATING ITEMS										
Net realized and unrealized gains (losses) on investments	(670)	507,746	2,592,578	-	31,837	-	3,131,491	(31,837)	3,099,654	2,700,022
Increase in interest in net assets of related foundation	69,722,158	-	-	-	-	-	69,722,158	-	69,722,158	34,556,212
Other, net	1,294,306	1,095,778	(1,512,215)	(81,149)	71,174	-	867,894	(71,174)	796,720	1,495,044
CHANGE IN NET ASSETS	71,352,064	5,838,114	3,246,742	(127,207)	(73,720)	-	80,235,993	73,720	80,309,713	37,673,326
CHANGE IN NET ASSETS FROM DISCONTINUED OPERATIONS - DILLON INTERNATIONAL	-	-	-	-	-	-	-	(73,720)	(73,720)	305,298
NET ASSETS, BEGINNING OF YEAR, AS ADJUSTED	239,711,220	29,600,392	37,834,038	194,477	862,792	(139,962)	308,062,957	-	308,062,957	270,084,333
NET ASSETS, END OF YEAR	$ 311,063,284	$ 35,438,506	$ 41,080,780	$ 67,270	$ 789,072	$ (139,962)	$ 388,298,950	$ -	$ 388,298,950	$ 308,062,957